**Report of the Standing Committee on Finance on the Oversight Visit to the Public Investment Corporation, dated 02 May 2023**

1. **INTRODUCTION AND BACKGROUND**
   1. The Standing Committee on Finance (SCOF/the Committee) undertook an oversight visit to the Public Investment Corporation (PIC)on 30 March 2023 in Gauteng. The main purpose of the visit was to get a briefing on its audit action plan as it had received an unqualified audit opinion with findings. There were material misstatements in the financial statements, key vacant positions, and lack of adequate financial controls.
   2. The Public Investment Corporation SOC Limited (PIC) is an asset management firm wholly owned by the government of the Republic of South Africa. It was established in 1911 as the Public Debt Commissioners, the PIC was corporatized on 1 April 2005 in accordance with the [Public Investment Corporation Act, 2004](https://www.pic.gov.za/DocPub/Public-Investment-Corporation-Act-2004.pdf). The PIC ranks amongst the best and successful asset management firms in the world and is by far the largest in Africa. Its clients are mostly public sector entities, which focus on provision of social security. Amongst these are the Government Employees Pension Fund, Unemployment Insurance Fund, Compensation Commissioner Fund, Compensation Commissioner Pension Fund and Associated Institutions Pension Fund.
   3. The Auditor General of South Africa (AGSA) briefed SCOF on 21 February 2023 about the audit outcomes of the finance portfolio. A decision was taken by the Committee to conduct an oversight visit to the National Treasury and all entities that had negative audit outcomes for 2021/22. The Committee conducted the same exercise last year with regards to the audit outcomes of 2020/21.
   4. The entities visited on 29 and 30 March 2023 were the National Treasury, Cooperative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), the Office of the Pension Funds Adjudicator (OPFA), Government Technical Advisory Centre (GTAC), Government Pensions Administration Agency (GPAA) and Public Investment Corporation (PIC).
2. **DELEGATION**

Parliamentary Delegation

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms W Alexander (DA), Mr F Shivambu (EFF) and Mr W Wessels (FF+). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Ms Cele-Ntshinka (Committee Assistant), Dr Z Hlophe (Content Advisor), and Ms A Manamela (Researcher).

National Treasury and PIC Delegation

2.2. The NT delegation comprised of: Mr E Godongwana (Minister of Finance), Ms L Mseme (Acting Chief Operations Officer), Mr L Batwa (Parliamentary Officer), Ms N Mahori (Parliamentary Officer), Mr K Bosoga (IT Support), and Mr M Khan (Director).

2.3. The PIC delegation comprised of: Dr D Masondo (Chairperson of the Board), Mr A Sithole (Chief Executive Officer), Mr D Botha (Head: Corporate Affairs), Mr K Rikhotso (Chief Investment Officer), Mr B Mavuka (Acting Chief Finance Officer),

AGSA Delegation

2.4. The Auditor-General delegation comprised of: Ms M Madondo (Senior Manager), Mr L Kuse (Senior Manager), Ms N Matanzima (Business Unit Leader), Ms K Naicker (Deputy Business Unit Leader), Ms A Whitfield (Senior Manager), and Mr M Jimmy (Acting Product Champion).

1. **OVERVIEW OF PIC ACTION PLAN FOR 2021/22 AUDIT OUTCOMES** 
   1. The PIC received an unqualified audit opinion with findings for 2021/22 financial year. According to AGSA, the prevalent instances of non-compliance are the material misstatements identified in the financial statements submitted by the PIC for auditing. AGSA said that the major contributor to such findings was that key positions at the PIC were vacant and there was a lack of adequate financial controls.

3.2. AGSA reported that the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by Section 40(1) of the Public Finance Management Act (PFMA). AGSA said that a material misstatement of the contingent liability disclosure note identified by the auditors in the submitted financial statements was corrected, resulting in the financial statements receiving an unqualified audit opinion.

1. **PIC AUDIT ACTION PLAN 2021/22**
   1. The reported that it had obtained an unqualified audit opinion with a finding on the non-disclosure of Value Added Tax (VAT) apportionment as a contingent liability. It further reported that it received no findings on irregular expenditure for the period ended 31 March 2022.
   2. The PIC highlighted that the period under review, there was no regression on the quality of submitted financial statements. It said that its management had implemented internal control for the preparation of its financial statements and had experienced improvements in complying with legislation on the prevention of irregular expenditure.
   3. The PIC submitted that the material finding on the non-disclosure of VAT apportionment was of a technical nature and was subsequently disclosed after lengthy deliberations with AGSA. The PIC reported that after this finding, it updated its annual financial statements based on AGSA’s recommendation. It reported that after updating its financial statements, it got a VAT ruling from SARS which vindicated its earlier reporting. The PIC stated that it was still awaiting further rulings from SARS concerning the outcomes of previous periods.
   4. The PIC reported that while annual financial statements were previously presented once a year and disclosure notes were prepared and received at the end of the year, it now is implementing controls to prepare and review disclosure notes during interim audit. It further reported that refresher training was in place to ensure that staff is up to date with all the changes in the International Financial Reporting Standards (IFRS). It reported further that a detailed assessment of the impact of the new accounting standards will have on the PIC’s annual financial statements will be conducted by year end.

1. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee notes the implementation of the action plan by the PIC and appreciates that despite technical disputes on the VAT treatment, the PIC and AGSA handled matters collegially.
   2. The Committee also notes that the PIC’s audit improved from the previous year where it had four findings, to only one in 2021/22. The Committee expects the PIC to achieve a clean audit in 2022/23.
   3. The Committee notes further that the PIC’s asset under management have now reached R2.548 trillion (2021/22), from R2.339 trillion the previous year.
   4. The Committee further engaged the PIC on several issues, that were unrelated to its audit action plan, regarding its role in ensuring that its asset management portfolio and investments robustly promote socio-economic transformation and that the PIC is not over-exposed to the big investee companies. The deliberations focussed on, among others, these following issues:
      1. the role of the PIC in ensuring social and economic transformation;
      2. the practical role of the PIC in alleviating the current electricity crisis;
      3. PIC portfolio exposure to Eskom, the sovereign, and state-owned companies;
      4. PIC exposure to its top five investees (in the context of the dangers of over-exposure) and whether such exposure is consistent with investment policies and regulatory prescripts governing pension funds. (The PIC noted that as one of the biggest funds in the continent, it could not avoid exposure to its base, which was characterised by deep market concentration);
      5. the details of the dispute between the PIC and Ayo Technologies and the details of the settlement agreement between these parties; and
      6. the extent to which the PIC was investing in unlisted investments, particularly of small and medium enterprises from disadvantaged communities;
   5. The Committee will engage the PIC and GEPF further on some of the issues raised above and awaits written responses from it on the questions raised during the engagement. The Committee will also conduct oversight in Q3 to some of the PICs unlisted investment projects.

The Standing Committee on Finance asks the National Assembly to adopt this Oversight Report.

Report to be considered.

The DA reserves its position.