**Budgetary Review and Recommendation Report of the Portfolio Committee on Public Enterprises, dated 16 October 2013**

The Portfolio Committee on Public Enterprises (the Committee), having considered the performance and submission to National Treasury for the medium term period of the Department of Public Enterprises, reports as follows:

**1. Introduction**

**1.1. Mandate of Committee**

The mandate of the Committee is to consider legislation referred to it; exercise oversight over the Department and the eight state-owned companies (SOCs); consider international agreements referred to it; consider the budget vote of the Department of Public Enterprises; facilitate public participation in its processes; and to consider all other matters referred to it in terms of legislation and the rules of the National Assembly.

**1.2. Description of core functions of the Department**

The Department of Public Enterprises has a distinct mandate of shareholder management on behalf of the state. It has a responsibility to ensure that SOCs drive investment, productivity and transformation in the sectors within which they operate. The Department also seeks to unlock growth, drive industrialisation, create jobs and develop skills.

**1.3. Purpose of the BRR Report**

Section 77(3) of the Constitution stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. This constitutional provision gave birth to the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) which sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

The Money Bills Amendment Procedure and Related Matters Act therefore make it obligatory for Parliament to assess the Department’s budgetary needs and shortfalls vis-à-vis the Department’s operational efficiency and performance. This is done taking into consideration the fact that the Department has oversight responsibilities over eight state-owned companies, namely Alexkor, Broadband Infraco, Denel, Eskom, South African Airways (SAA), South African Express (SAX), South African Forestry SOC (SAFCOL) and Transnet.

**1.4. Method**

This report culminated from a very intense and thorough analysis and interaction with the Department and state-owned companies through briefings, oversight visits and interaction with relevant stakeholders. These included a briefing from the Department of Public Enterprises on its annual report, a briefing from the Office of the Auditor-General on the audit outcomes and a deliberation on the analysis done by the support staff on the performance of the Department in terms of its service delivery targets and financial performance. The report incorporates inputs from the Internal Audit Committee of the Department of Enterprises. However, in as much as these issues are raised by the Internal Audit Committee they have been sufficiently addressed in the Auditor General’s report.

**1.5. Outline of the contents of the Report**

The budgetary review and recommendation report of the Committee contains the following:

§  Overview of the key relevant policy focus areas.

§  Summary of previous key financial performance recommendations of the Committee.

§  Overview and assessment of financial performance.

§  Overview and assessment of service delivery performance.

§  Finance and service delivery performance assessment.

§  Committee observation and response.

§  Summary of reporting requests.

§  Committee recommendations.

**2. OVERVIEW OF THE KEY RELEVAN POLICY FOCUS AREAS**

There are no major policy changes in the environment within which the Department operates. However there has been a continuation of policy implementation based on articulations brought about by major policy development events.

Government is assertive in its role of a development state. In this regard it continues to ensure the integration, harmonisation and alignment of planning and implementation across all three spheres of government, and with the development finance institutions and state-owned companies, including through the development of coherent inter-sectoral plans at national level and the alignment of local implementation in terms of the Integrated Development Plans (IDPs) of metro, district and local municipalities.

There is a reaffirmation on how Government’s infrastructure programme will support the growth of supply sectors, unlock key bottlenecks in the economy and underpin structural transformation. The Strategic Infrastructure Projects (SIPs) indentified in the Presidential Infrastructure Coordinating Council (PICC) which state-owned companies are leading will have a catalytic impact on job creation, unlocking resources developing the poorest regions of our country and overcoming spatial inequalities.

The President’s State-of-Nation Address in 2013 highlighted the following key areas as they relate to infrastructure development and growing the economy:

§  Govern­ment spent R860 billion on infrastructure be­tween 2009 and the end of March 2013.

§  A target of 11 million for job creation is to be reached by 2030.

§  To improve the transportation of iron ore and open up the west coast of the country, rail capacity has been expanded through the delivery of 11 locomotives.

§  7 000 new fibre-optic cables laid by the private and public sec­tor in 2012. The plan is to achieve 100% broadband internet penetration by 2020.

§  Some 675 kilometres of electricity trans­mission lines have been laid to connect fast-growing economic centres and bring power to rural areas.

§  R47 billion value of contracts have been signed by Government in the renewable energy programme.

§  R800 million value of Government’s National Green Fund. Over R400 million worth of investments in green economy projects have already been approved.

In his budget vote the Minister of Finance emphasised that Government remains committed to a programme of large-scale infrastructure investment.

Over the next three years, R827 billion is planned to be spent by the fiscus and State-Owned Companies (SOCs) to build infrastructure. The financing for these projects is in place and is not affected by the spending cuts in the budget.

The fiscus has allocated just under R430 billion for schools, hospitals, clinics, dams, water and electricity distribution networks, electrification of over a million new homes, sanitation schemes, building more courtrooms and prisons, and improved bus, commuter rail and road links. Most of the spending falls under provinces and municipalities.

Eskom, Transnet and other SOCs fund a further R400 billion of projects. This will be financed both through own resources and additional borrowing over the next three years, supported by Treasury guarantees. This will pay for the ongoing building of power generation plants and new transmission lines, investment in rail, ports and pipelines, large new water transfer schemes, and various airport upgrades.

The National Development Plan (NDP) identifies infrastructure as the foundation for social and economic development. It identifies key points to realise this objective, critical among these are the following:

§  South Africa needs to maintain and expand its electricity, water, transport and telecommunications infrastructure in order to facilitate economic growth and social development goals. Given the government’s finances, private funding will need to be sourced for some of these investments.

§  The role and effectiveness of sector regulators needs to be reviewed. In addition to issuing licenses and setting tariffs, regulators need to place more emphasis on stimulating market competition and promoting affordable access to quality services. This will require capacity-building in regulatory institutions.

§  Policy planning and decision-making often requires trade-offs between competing national goals. For instance, the need to diversify South Africa's energy mix to include more renewable energy sources, which tend to be variable in terms of production, should be balanced against the need to provide a reliable, more affordable electricity supply.

The Department is responsible for realizing the desired objectives of the NDP as they relate to infrastructure development. There is a need for ensuring that appropriate skills are sourced by the department in order for the objectives of the NDP to be realized.

**2.1. Delivery agreement targets for 2012/13 and 2013/14 (Outcome-based approach)**

In its annual report the Department states that the Minister entered into the Performance Agreement with the President, which outlines his commitments to contribute to the achievement of these outcomes. The Minister of Public Enterprises’ performance agreement forms part of the Delivery Agreement on Outcome 6 which seeks to achieve an efficient, competitive and responsive economic infrastructure network. The SOCs reporting to the department have achieved these set targets in line with the outcome. These relate to:

**2.1.1. Ensuring reliable generation, distribution and transmission of electricity**

Eskom has continued to accelerate expenditure on its current build programme with 65 per cent of construction completed by the end of financial year at Medupi and 22 per cent completed at Kusile and Ingula, respectively. The delivery of Medupi Unit 6 continues to be a focal point and the full impact of the recent problems will be assessed and a recovery plan developed to meet the deadline which has now been shifted to mid-2014.

**2.1.2. Ensuring the maintenance and strategic expansion of our road and rail network, and operational efficiency, capacity and competitiveness of our sea ports**

Transnet has continued to implement the Market Demand Strategy (MDS) that increased its investment programme to over R300 billion over seven years which commenced in 2011. The MDS is crucial to aggressively drive volume growth and contribute towards the migration of freight from road to rail and improvement of capacity and efficiency of sea ports.

**2.1.3. Expanding access to information and communication technologies**

Broadband wholesale prices continued to decrease since the entry of Broadband Infraco into the market. Broadband Infraco remains resolute in its endeavour to expanding the availability and affordability of access to electronic communications including, but not limited to, underdeveloped and under serviced areas as outlined in the statutory mandate.

The Department also contributed to other outcomes and these include:

**2.1.4. Decent employment through inclusive growth**

Reindustrialisation of the economy is crucial to respond to the challenges of unemployment and accelerating growth. In this regard, the infrastructure spend by SOCs has been leveraged to enhance capabilities of existing industries and create new industrial capabilities to increase local content in the build programme. Further, the Department has worked with its SOCs to improve the participation of the previously disadvantaged in the value chains.

**2.1.5. Rural development**

Creation of dynamism in the rural economy that builds on the latent potential of rural economies is crucial for a vibrant, equitable, and sustainable rural communities and food security for all. DPE has two SOCs whose activities are primarily in rural areas of the country i.e. SAFCOL and Alexkor.

SAFCOL operations are located in the rural regions of Mpumalanga, Limpopo, Western Cape and Northern KwaZulu-Natal. In order to identify socio-economic intervention required for upliftment of the communities, the SOC has concluded social compacts with all the communities surrounding its eighteen plantations. The primary deliverable has been provision of classrooms, school administration blocks, and clinics. Since the 2009/10 financial year, when the social compacts were stared, SAFCOL has spent R21 million on initiatives flowing from the compact.

Alexkor, which is located in the Richtersveld region of Northern Cape Province, has completed the infrastructure upgrade of Alexandra Bay as part of the Deed of Settlement (DoS) obligations. The construction of road network stormwater and waste water treatment facilities, installation of water and electricity reticulation system and street lighting, are of the infrastructure programme carried out successfully. The programme has been undertaken at a cost of R142 million, which is part of a total allocation of   
R559 million for settling DoS obligations.

The contribution has direct impact on the improvement of lives in the communities in which the SOCs operate.  The Transnet Phelophepa Health Train takes health services to rural areas, as part of advancing the developmental objectives of government.  Eskom is currently building Medupi in Limpopo, Kusile in Mpumalanga and Ingula in Kwazulu Natal. These construction projects are creating jobs and providing skills for the rural communities in these areas.  Denel through its Dinaledi Schools Programme, sponsors, trains and develops young people from rural areas in mathematics and science.

**2.2. Overview of revised Strategic Plan and Annual Performance Plans including key changes from 2012/13 and 2013/14 Plans**

In the 2012/13 financial year, the Department reviewed and refined the targets in its annual performance plan and made sure that they adhere to the SMART principle.  The targets for the Energy and Broadband Enterprises were not changed but the Department did refine them to ensure that they are clear and in line with its strategic focus.

With regard to the sub-programme on Manufacturing Enterprise, during the revision of the annual performance plan, the target regarding approval of the investment in new mining was removed.

In the sub-programmes on Transport Enterprises, the complexity of the process to concession the branch lines to private operators and absence of an overarching rail policy, required the Department and Transnet to refine the existing model to address some of the challenges that has been identified. Given the absence of fiscal support for private operators, new mechanisms need to be explored to ensure the financial sustainability of the branch lines. The new process will be completed in the 2015/16 financial year.

The scale of the capital expenditure programme will require private sector involvement to augment the SOCs balance sheet. In this regard the Department has started to develop an overarching framework for private sector participation in the current build programme. The first draft will be completed in the 2013/14 financial year.

In the 2012/13 financial year, the Department has committed to complete the Africa Aviation Strategy. However, the need to review and streamline government assets in the in the aviation sector and define the strategy for the airlines meant that the Africa Aviation Strategy could not be completed. The objective to link South Africa to other fast growing African states has been incorporated into the Long Term-Term Turnaround Strategy (LTTS). The LTTS will be completed in the 2013/14 financial year.

In the sub programme on Economic Impact and Policy Alignment, in the 2012/13 APP, two indicators were included subject to the availability of resources to implement the project. As the project was not implemented, the indicators were eventually excluded from the Department’s plan for the year. They have been included in the 2013/14 financial year.

In the sub programme on Strategic Partnerships, there were no changes to the planned outputs. The launch of the SIPs, in particular SIP1 and 2, required the Department to design a new institutional structure to oversee their coordination. This work has been located under the Strategic Partnerships programme.

**2.3. Overview of key developments in the organisational and service delivery environments of Department for 2012/13 and 2013/14 MTEF cycle**

There are no changes on the existing structure. The focus 2012/13 was on filling critical posts. The department will continue to focus on the retention and attraction of critical skills in the senior echelons of its structure.

**2.4. Presidential Review Commission (PRC)**

The PRC identified four key areas that contribute towards a well run and successful SOE. The Department of Public Enterprises has a responsibility in the implementation of the recommendations of the PRC and in assessing these four areas:

**2.4.1. Strategy setting and portfolio**

* Clearly defined, communicated and consistent strategy for SOCs (including, definition, purpose, role, function and objectives).
* Creation and maintenance of a portfolio, which is reviewed periodically.

**2.4.2. Government and management**

* Government policies and practices that streamline points contact between regulators, agencies, Government and SOE.
* Appropriate legal frameworks to support and enable SOE performance.

**2.4.3. Standard monitoring methods**

* Clearly defined purpose of SOE, which needs to be linked to the monitoring criteria.
* Standardised monitoring and evaluation that are modelled on international best practice (this makes performance monitoring more effective).
* Derivation of economic and socio-political Key Performance Indicators (KPIs).

**2.4.4. Management and operations**

* High operational performance so that SOCs are able to meet economic and developmental objectives in a cost effective manner.
* SOCs to have sufficient operational independence distinctly articulated in the shareholder compact.
* Attraction and retention of skills and human resources.

The Department has a responsibility in making sure that the four areas raised in the PRC are addressed. Whilst the investigation of SOCs conducted by the PRC was not confined to SOCs within the Department’s portfolio, it is important for the Department to develop a mechanism in which these will find expression in their mandate. In this regard is the need for the Department to institutionalise the PRC recommendations. There is a need to for the Department to ensure that as part its Annual Performance Plan development process a mechanism should be spelt out on how it will contribute to the PRC recommendations. This process should be aligned to programme implementation within the department’s organisation structure.

**3. Summary of 2012/13 key financial and performance ( BRRRrecommendations of Committee)**

Based on the analysis of the department’s budget for the year 2012/13, the following recommendations were made:

**3.1. The Minister of Public Enterprises should:**

**3.1.1.**Ensure that emphasis is placed on monitoring that the SOCs’ implementation of Government’s policy objectives is realised, especially their outcomes as they have an impact on peoples’ lives.

**3.1.2.**Consider introducing the Shareholder Management Bill which will empower the department to carry out its oversight responsibilities over state-owned companies more effectively, especially in providing guidance on how to align SOCs’ strategic priorities with government policies.

**3.1.3.**Consider providing the Committee with shareholder compacts signed with state-owned companies in order to enhance the oversight role of the Committee.

**3.1.4.**Give urgent attention and intervention to SOCs such as South African  Airways, South African Express Airways and SAFCOL to ensure that they are stable and financially sustainable.

**3.1.5.**Ensure that measures are put in place to ensure that the care and maintenance of the PBMR complies with all relevant legislation and that the care and maintenance agreement is adhered to.

**3.1.6.**Ensure that measures are put in place to ensure that Infraco and Alexkor adhere to relevant legislation.

**3.2. The Minister of Finance should:**

3.2.1     Consider funding the remaining vacant critical posts in the Department of Public Enterprises. The departments’ budget must be able to meet its staff complement’s requirements of specialised skills in order to effectively oversee SOCs’ massive infrastructure programme. The staff complement of the department is less than 200. The department needs highly skilled specialists to monitor SOCs effectively (in their different sectors). In the words of the Minister of Public Enterprises, “It is imperative that the gap between the Department’s expanded oversight and management responsibilities and the resources available to it is progressively closed.”[[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftn1" \o ")In other words, the Department’s budget should correspond to the role or mandate it is expected to execute.

**3.3. Department’s responses:**

3.3.1     There were no deviations in signing all shareholder compacts with all the SOCs. However, the Committee did not receive the shareholder compacts as requested.

3.3.2     Based on assessment of SAA and SAX’s short term funding requirements, a guarantee for R5.06 billion and R537 million were granted to SAA and SAX respectively.

3.3.3     The Cabinet memorandum outlining the implementation of care and maintenance of PBMR was not tabled in Cabinet as planned in 2013.

3.3.4     The Department could not achieve the target set on the Government Shareholder Management Model. There is no mention of the development of the Shareholder Management Bill by the Department. This process awaited articulations and guidance arising from the Presidential Review Committee (PRC) report.

**3.4. Minister of Finance’s response:**

3.4.1     Allocated funding for the creation of 12 posts to the Department.

**3.5. Minister of Public Enterprises’ responses:**

3.5.1     Introduced changes in the SOC investment planning framework based on the needs of the growing economy. This led to an investment 66% increase. SOCs under the Department invested under just under R90 billion in the economy.

3.5.2     Approved the appointment of boards of and CEOs SAA and SAX.

3.5.3     Introduced the Long Term Turnaround Strategy for airlines to bring stability to the airlines.

3.5.4     Approved the appointment of CEO of SAFCOL and Alexkor to bring stability in the leadership and management of these SOCs.

**3.6. 2013/14 Committee Budget Report**

The Committee was concerned with the instability in the boards of some state-owned companies. Hence, recommended that the board members of state-owned companies should undertake site visits in order to understand the conditions and challenges of workers, customers and other stakeholders, and most importantly to assess whether the projects are yielding the required developmental results. Furthermore, that all critical vacant executive positions in state-owned companies should be filled.

No assessment has been done as to whether these recommendations have been addressed by the Department.

**4. Overview and assessment of financial performance**

The Department spent 99.3 per cent of its budget in the 2012/13 financial year, and received an unqualified audit report.

**4.1. Table 1. Overview of Vote allocation and spending (2009/10 to 2014/15) R’million**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Programme (R'm) | 2009/10 | 2010/11 | 2011/12 | 2012/13 | | | 2013/14 | 2014/15 |
| Outcome | Outcome | Outcome | Main | Adjusted | Outcome | Estimate | Estimate |
| Administration | 79.2 | 88.2 | 108.6 | 104.4 | 108.5 | 115.3 | 127.1 | 135.2 |
| Legal and Governance | 16.6 | 14.7 | 19.5 | 26.9 | 26.2 | 23.5 | 23.8 | 26.1 |
| Portfolio Management and Strategic Partnerships | 3 887.5 | 437.2 | 218.0 | 1 117.7 | 1 242.0 | 1 228.2 | 85.9 | 98.5 |
| **Total** | **3 983.3** | **540.1** | **346.1** | **1 249.1** | **1 376.7** | **1 367.0** | **236.9** | **259.8** |

As seen in table 1 above, the department was allocated R1.2 billion for the 2012/13 financial year.  The budget allocation increased by R127.9 million during the Adjusted Estimates of National Expenditure (AENE), resulting in a total of R1.4 billion in voted funds.  The adjustment was mostly due to R118.3 million allocated for Denel for the seventh indemnity claim by Denel Saab Aerostructures under the indemnity agreement with government for the A400M contracts.  Roll-overs of R3.1 million for projects not completed in 2011/12 and virements of R3 million were also allowed in AENE.

Of the allocated budget of R1.4 billion, R1.4 million was spent, resulting in an amount of R9.7 million or 0.7 per cent not being spent.  Of the R9.7 million that was not spent, an amount of R7.9 million will be surrendered to the National Revenue Fund (NRF) and the balance of R1.8 million will be requested from National Treasury as rollovers for three projects to be completed in the 2013/14 financial year. The roll-over is to support a project within Protocol and Corporate Governance (R308 000), the Eskom Build programme (R675 000) and the position paper on Freight Rail Reform: Phase II (R775 000). The reason given for the under spend in the 2012/13 financial year, was due to posts not being filled due to scarcity of specialist skills in the market as well as some projects which were delayed until late in the financial year.

**4.2. Financial performance 2012/13**

By the end of the first quarter of the 2012/13 financial year, the Department spent.   
R36.3 million or 2.9 per cent of the R1.2 billion budget, where planned expenditure was R225.2 million – equivalent to 18 per cent of the total budget. The delay in spending was mainly due to the transfer payments to Alexkor not taking place, as the Department and Alexkor did not meet the funding conditions stipulated by National Treasury.  Spending on compensation of employees was also lower than planned due to vacant positions not being filled.

By the end of the second quarter, the Department had only spent R83.6 million or 6.1 per cent of the adjusted budget of R1.4 billion.  The reason for the delay in spending was the same as in the first quarter; the funding allocation conditions for the transfer were not met by the Department and Alexkor.

At the end of the third quarter, the Department spent R1 billion or 73 per cent of the total budget where planned expenditure was R973.4 million.  The Department was ahead of planned expenditure due to the full payment of R350 million to Alexkor being made in December 2012, where it was initially planned to be transferred in January 2013.

By the fourth quarter the Department spent R1.4 billion or 99.3 per cent of the total budget, as mentioned above.

At the end of the 2012/13 financial year virements amounting to R8.5 million were shifted from Programme 2 and 3 towards Programme 1 largely due to the establishment of two additional sub-programmes, Strategic Planning, Monitoring and Evaluation and Inter-governmental and International Relations as well as, among others, audit fees, office accommodation, alterations to office premises as well as furniture and equipment to accommodate the increased staff complement and travel costs for provincial engagements.  The virements do not exceed 8 per cent as specified by the PFMA, section 43 (2).

**Table 2. Programme Expenditure for 2012/13, R’million**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme (R'm)** | **2012/13** | | |
| **Final Appropriation** | **Actual Expenditure** | **Expenditure as % of Final Appropriation** |
| Programme 1: Administration | 117.1 | 115.4 | 98.5% |
| Programme 2: Legal and Governance | 24.2 | 23.5 | 96.9% |
| Programme 3: Portfolio Management Strategic Partnerships | 1 235.4 | 1 228.2 | 99.4% |
| **Total** | **1 376.7** | **1 367.0** | **99.3%** |

Expenditure in *Programme 1: Administration*amounted to R115.4 million or 98.5 per cent of the allocated programme budget of R117.1 million.  This is an increase on the R108.6 million spent in the previous financial year, mainly due to the establishment of the two additional sub-programmes, as mentioned above.  Under spending remained within the 2 per cent benchmark.

Expenditure in *Programme 2: Legal and Governance*amounted to R23.5 million or 96.9 per cent of the R24.2 million budget.  The unspent amount of 3.1 per cent of the allocated budget was due to a number of projects been delayed.  Expenditure improved from the R19.5 million spent in the previous financial year due to the strengthening of the Governance unit in respect of the Risk and Compliance components of the sub-programme.

Expenditure in *Programme 3: Portfolio Management and Strategic Partnerships*amounted to R1.2 billion or 99.4 per cent of the budgeted amount of R1 235.4 million.  The increase from the R218 million spent in the 2011/12 financial year is due to the payment for financial assets disbursed to Alexkor and Denel amounting to R1 billion, as well as R118.3 million allocated to Denel in respect of an indemnity claim to Denel/SAAB Aerostructures.

The department has succeeded in maintaining a clean audit opinion for the last seven financial years, with no additional matters highlighted in the last six financial year.  However, the auditor highlighted an additional matter for consideration by the department in the 2012/13 financial year.

**4.3. Auditor General Report**

The Auditor-General raised the following matter in the 2012/13 audit opinion:

**4.3.1. Compliance with laws and regulations as well as Internal Control**:

The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework and/or supported by full and proper records as required by section 40(1) (a) of the Public Finance Management Act. Material misstatements on key management personnel, impairments, investments and litigations were identified by the auditors in the submitted financial statement and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

The Department lost its clean audit status in the 2012/13 financial year as the Department received an unqualified audit opinion with the above findings.

The findings raised by the Auditor-General included the non-achievement of 32 per cent of its predetermined targets and material misstatements on key management personnel, impairments, investments and litigations. The Auditor-General stated that the Department’s internal controls needed to be strengthened.  These were corrected during the audit resulting in the financial statements receiving an unqualified audit opinion.  The Department has put corrective measures in place to address these short comings during the 2013/14 financial year.

A financial impact assessment of the Department was not undertaken and should be considered for the following financial year.

**4.4. Entities**

The Department’s overall objectives are to provide an effective shareholder management system and to support and promote economic efficiency within each of the state-owned companies (SOCs).  The performance of SOCs has been varied in the period under review.  It is also important to note that the economic environment under which SOCs operate has been negative.

The financial performance is evidenced by the service delivery done by the entities and enumerated in section 5.  Section 5 highlights the performance of the entities in relation to the financial performance.

**4.4.1. Alexkor**

Alexkor’s performance has been hampered by the implementation of the Deed of Settlement – in particular the court interdict intended to preserve the resources and attendant benefits on behalf of the Richtersveld Community. Subsequent to this, land mining activities were placed under care and maintenance as a result Alexkor posted losses for the 2011/12 financial year.  However, for the 2012/13 financial year, Alexkor has posted a R29.7 million profit compared to the R14 million loss posted in 2011/12.  Given problems with the land claim, Alexkor future has been highlighted. The Department will have to look at other mining opportunities for Alexkor to remain a going concern in the future.

Alexkor received an unqualified audit with findings regarding supply chain management, material misstatements to the financial statements and other material non-compliance.  The Auditor-General is of the view that these matters can be addressed during the 2013/14 financial year.

**4.4.2. Denel**

The challenges at Denel Aerostructures that led to a negative impact on the overall financial position of the Group are being contained. For the 2012/13 financial year, the Group posted a profit of R71 million, an increase of R30 million on the profit posted in 2011/12, an indication that Denel’s turnaround strategy is yielding the desired results. Denel received a clean audit opinion with no findings for the 2012/13 financial year.

**4.4.3. Broadband Infraco**

Broadband received an unqualified audit opinion for the 2012/13 financial year, an improvement on the qualified audit opinion received for the 2011/12 financial year.  However, the entity continued to post a loss of R181.1 million, an increase on the R95.2 million loss incurred in the previous financial year.  The loss was mainly due to loss of revenue of R156.2 million.

The audit opinion highlighted the following: the procurement system was not in line with the Preferential Procurement Policy Framework (PPPFA) and its regulations; and a reclassification of current liabilities and adjustments to property, plant and equipment was required during the audit. Proper controls are required to be put in place.

**4.4.4. SAFCOL**

SAFCOL reported an operating profit of R51 million (excluding the effect of the adjustment of plantation valuation), compared to a loss of R32 million in the 2011/12 financial year.  This is an indication of the efforts of the company to implement the turnaround strategy. The company’s future role in the industry has been in question due to the fact that 61 per cent of their forestry plantations are subject to land claims, a situation that is hampering the SOCs’ long term planning.  The Department has recently finalised the future role of SAFCOL in the forestry industry.  The plan is important for job creation in rural areas, as most of SAFCOL’s plantations are in the rural areas, which would address the government’s developmental mandate.  The plan for the role of SAFCOL in the industry will bring certainty and stability to the entity.

SAFCOL received a qualified audit opinion with findings with respect to their biological assets, abnormal losses, and capital profit and retirement fund reserves.  The Auditor-General is of the view that these matters can be addressed during the 2013/14 financial year.

**4.4.5. Eskom**

Eskom realised a group net profit of R5.2 billion for 2012/13, down from R13.2 billion in the 2011/12 financial year.  The 8 per cent average increase in electricity tariffs over five years allowed by the National Electricity Regulator of South Africa (NERSA) in February 2013 will have a huge impact on Eskom’s business going forward.  The 8 per cent average was much less than the 16 per cent requested to achieve cost-reflective pricing and to meet demands on the company.  Eskom is still in the process of assessing how best to use the revenue, while reconsidering the way to operate to optimise the revenue to accomplish all their goals.

Eskom received an unqualified audit opinion with findings on not 36 per cent of their predetermined objectives and non-compliance with the PPPFA.

**4.4.6. Transnet**

Transnet improved on their profit of R4.1 billion in 2011/12 by R200 million to a profit of R4.3 billion in the 2012/13 financial year.  This is impressive given that this was the first year in which the Market Demand Strategy was rolled out.  Transnet will focus on the implementation of the R307 billion Market Demand Strategy (MDS) in the coming years.

Transnet received an unqualified audit with findings on not achieving 47 per cent of their predetermined objectives and that no effective and appropriate steps were taken to prevent irregular and fruitless and wasteful expenditure.

**4.4.7. 4South African Express Airways**

South African Express Airways received a qualified audit opinion for 2010/11 before the airline’s financial statements for 2010/11 were withdrawn for being incorrectly stated.  The financial statements were restated and the audit was finalised in August 2012.  The airline reported a loss of R186 million for the 2010/11 financial year.  Due to the adverse opinion on the 2010/11 financial statements, the board failed to submit the 2011/12 financial statements on time to the Department.

When the 2011/12 financial statements were assessed, the airline received a disclaimer of opinion as the auditor was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.  The airline reported a loss of R313.9 million. The airline received a qualified audit opinion for the 2012/13 financial year, due to insufficient audit evidence with regards to inventories, taxation, irregular expenditure and aircraft structures. The airline reported a profit of R650 463. The 2011/12 and 2012/13 financial statements are yet to be considered to Parliament.  The Auditor-General stated that the entity is making progress in clearing these matters and is expecting a better audit outcome for the 2013/14 financial year.

A R539 million two-year guarantee was granted to SAX during 2013 to enable the company to raise funding pending the finalisation of its restated annual financial statements.

**4.4.8. South African Airways**

During 2011/12 the Department in conjunction with the airline formulated a turnaround strategy for the airline to implement pending approval from the stakeholder.  South African Airways’ (SAA) financial position has been a matter for concern as the airline’s weak balance sheet has proved to be inadequate for the airline to raise capital for its operations.  The Treasury gave the airline a R5 billion guarantee to raise capital to meet is credit obligations and the acquisition of a new fleet.  SAA has not yet submitted their annual report for 2012/13 to the Auditor-General for review.

The Department and SAA are in negotiations with the National Treasury on funding the recapitalisation of the airline as required by the turnaround strategy.

**4.5        Department of Public Enterprises’ financial performance for 2013/14**

The Department’s budget decreased from R1.4 billion in 2012/13 to R236.9 million in 2013/14, that is mainly as a result of a decrease in transfer payments and payments for financial assets to SOCs. The Department will use the R236.9 million in its oversight function of the SOCs, as no allocations has been made towards state owned companies in 2013/14.

First quarter expenditure of the Department shows that the Department has spent R44.8 million and 18.9 per cent of the budget.  The Department planned to spend R57.8 million or 24.4 per cent by the end of the first quarter, the delay in expenditure is mainly due to vacant posts and committed projects not being finalised. The lag is expected to be resolved during the AENE as the Department will be revising their drawings.

The bulk of the expenditure came from Programme 1: Administration, specifically on compensation of employees.  An amount of R25.9 million or 57.8 per cent was spent on Administration from the overall budget. This was followed by expenditure of R12.4 million or 27.7 per cent by Programme 3: Portfolio Management and Strategic Partnerships, mostly on compensation of employees.  Programme 2: Legal and Governance only spent R6.5 million or 14.5 per cent of the budget.

By the end of the second quarter the Department spent R144.3 million or 36 per cent of the appropriated budget of R236.8 million.  Programme 1: Administration spent R52.1 million or 41 per cent of its programme budget by the second quarter, mostly spent on compensation of employees.  Programme 2: Legal and Governance spent R9.7 million or 40.8 per cent of its programme budget, with two thirds of the expenditure being on compensation of employees.  Programme 3: Portfolio Management and Strategic Partnerships spent R23.4 million or 27.2 per cent of its budget, again mostly on compensation of employees.  The Department has only spent 36 per cent of its budget half way through the financial year, which points to under expenditure. The Department states that expenditure is dependent on when projects are planned and finalised and therefore the percentage spent is not necessarily indicative of under spending.

Over the next two quarters, the Department needs to spend R151.6 million, having only spent R85.2million or 36 per cent by the second quarter. The performance of the department to spend this matter effectively will depend on the filling of posts and the implementation of projects.

During the Adjusted Estimates of National Expenditure (AENE) process for 2013/14 the Department requested additional funding from National Treasury amounting to R57.3 million for the eighth indemnity claim by Denel Aerostructures under the indemnity agreement of 2007 with the Government for the A400M contracts.  The Department reprioritised funding in certain areas of the allocated budget to accommodate the requirements within the various programmes. An amount of R3.9 million was reprioritised towards Programme 1: Administration from Programme 2: Legal and Governance   
(R1.5 million) and Programme 3: Portfolio Management and Strategic Partnerships   
(R2.4 million). The AENE is still to be presented to Parliament for approval.

**4.6        MTEF financial allocations for 2014/15**

**Table 3. Current Estimates for the 2014/15 R’million**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme Allocation (R'm)** | **2013/14** | **2014/15** | **Variance** | **Variance %** |
| Programme 1: Administration | 127.1 | 135.2 | 8.1 | 6.4% |
| Programme 2: Legal and Governance | 23.8 | 26.1 | 2.3 | 9.7% |
| Programme 3: Portfolio Management and Strategic Relationships | 85.9 | 98.5 | 12.6 | 14.7% |
| **Total** | **236.9** | **259.8** | **22.9** | **9.7%** |

As seen above in table 3, the projected allocation for the 2014/15 financial year amounts to R259.8 million, an R22.9 million or 9.7 per cent increase.  Programme 3: Portfolio Management and Strategic Relationships sees the biggest increase of 14.7 per cent from R85.9 million in 2013/14 to R98.5 million in 2014/15. Programme 1: Administration and Programme 2: Legal and Governance increases by 6.4 per cent and 9.7 per cent respectively.

This allocation is subject to confirmation and approval by the Minister of Finance during the National Budget in 2014.

**4.7        Concluding comments on financial performance**

The Department is financially sound as exhibited by achieving unqualified audit opinions for the last seven years, and keeping under spending within 2 per cent of the budget for six of those years.  However, actual expenditure tends to lag behind planned expenditure in the first two quarters of the year.  This is only corrected once the Adjustment Budget is tabled in November.  The standard reasons given for actual expenditure not meeting planned expenditure are vacant posts due to specialised skill requirements and delays in executing project. The Department should try to correct this trend by looking at its planning mechanisms.

Performance against expenditure is addressed in section 6 of the report, however, the Department will have to strengthen its oversight of Eskom and engage on the best way for Eskom to utilise the 8 per cent increase in electricity tariffs.  Implementation of the SAA and South African Express turnaround strategy has to be monitored to ensure the desired results by the shareholder.  Strengthening the balance sheet of Broadband Infraco should also be a focus in the current financial year.  The Department will have to maintain close oversight over Transnet’s implementation of the market demand strategy.  The future role’s of Alexkor and SAFCOL will have to be confirmed and continue to stabilise its long-term planning.  Denel will have to continue implementing the turnaround strategy to build on the progress they have made during 2012/13.

The Department must provide the appropriate support to the SOCs to overcome the audit findings of 2012/13 in preparation for the 2013/14 financial audit.  Correction measures and plans need to be put to place to address the audit findings.

**5. Overview and assessment of service delivery performance**

**5.1. Service delivery performance for 2012/13**

The Department of Public Enterprises is not a direct service delivery department, but provides a distinct mandate of shareholder on behalf of the state. The Medium Term Strategic Framework identifies ten (10) priorities of government. In order to achieve these 10 priorities of government, twelve (12) areas of impact/outcomes have been identified by the Presidency’s Department of Performance Monitoring and Evaluation (DPME). The Department of Public Enterprises is responsible for Outcome 6 in line with the delivery agreement signed between the Minister and the President. The outcome relates to the following:

·         to ensuring reliable generation, distribution and transmission of electricity,

·         maintenance and strategic expansion of road and rail network and operational efficiency, capacity and competitiveness of sea ports

·         Expand access to information and communication technologies

·         Decent employment through inclusive growth

The department indirectly contributed to outcomes on:

·         Decent employment through inclusive growth, and

·         Rural development

These outcomes contribute to targets based on economic growth, employment creation, infrastructure development, and rural development.

In response to the above outcomes, the Minister of Public Enterprises announced a new vision for the Department, namely to leverage State-Owned Companies (SOCs) to catalyse investment, industrialisation and transformation in the broader economy. The SOCs continue to make contributions to communities in which they operate to support government’s transformation agenda. These investments range from contributions to sustainable human settlements and the development of schools in communities. This demonstrates that the Department considers priorities of government critical by going beyond its mandate.

The Department provides oversight to eight SOCs, this has resulted in the rate of investment increasing significantly in the last financial year. In the 2012/13 the Department’s portfolio invested just under R90 billion – an increase of 66% from three years ago. The Department advanced national transformation objectives. Eskom’s total procurement spend for the 2012/13 financial year was about R120 billion, of which total spend on BBBEE- complaint companies was R103.4 billion – 86, 3 per cent against the target of 70 per cent. BBBEE spend on Transnet stood at R58 billion or 87 per cent of total procurement spend.

In October 2012, the Department convened a transformation dialogue as the first step in the development of a transformation framework and guidelines for SOCs. Over the last year, Denel returned an audited profit of R71 million, displaying marked improvement in its financial performance, as evidenced in the clean audit opinion received for the 2012/13 financial year, highlighted in paragraph 4.4.2 of the report. The Department stabilised leadership of South African Airways (SAA) and South African Express (SAX) at both board and CEO level. The Long Term Turnaround Strategy (LTTS) of SAA has been signed of by the Minister and a summarised version of the LTTS was presented to the Portfolio Committee.  This strategy sets the course for SAA’s long term stability, sustainability and profitability. SAX has presented their 2010/11 financials to the Committee. The appointment of the CFO and the filling of critical posts in the finance division will ensure SAX meets its future reporting requirements. SAX will present its 2011/12 and 2012/13 financial statements to the Committee, which is highlighted in paragraph 4.4.7 of this report.

The Department engaged communities and strengthened its relations with South African communities. SOCs are strategic drivers of special development programmes that are meant to change the socio-economic landscape of South Africa in particular the revival of rural economy. The Department has made progress to coordinate the socio-economic contribution of SOCs even though that it is at an institutional level for now.  It has established a forum where managers of SOCs Corporate Social Investment functions and CEOs of SOCs foundations can redirect and maximise the developmental impact of SOCs in communities. The Department is pursuing partnerships with further education and training (FET) colleges which will see SOCs supporting these institutions with funding, teaching material and technical equipment. Through Eskom and Transnet, the Department continues to sign memorandums of understanding with individual FET colleges to affirm their commitment to expand their engineering skills base.

**5.2. Annual Performance Plan: Total number of targets for 2012/13 and total number achieved**

In spite of many achievements, of the 81 planned targets the Department was not able to achieve 26 of the set targets. This represents 32% (>20%) of planned targets that were not achieved during the year. This was as a result of the Department not considering relevant systems and evidential requirements during the annual strategic planning process.

**5.3. Performance per Programme**

**5.3.1. Programme 1: Administration**

**Purpose:**Provides strategic management, direction and administrative support to the Department, which enables the Department to meet its strategic objectives.

Reporting of performance information in the annual report is a concern as it is brief and vague, and in no way aligned to the performance management information format presented in the Annual Performance Plan, therefore it is impossible to link the two documents in order to assess actual service delivery. This is evidenced in the fact that in the APP the Department gives a table of what it plans to achieve in the Administration programme. In the annual report the Department does not report on this table, but only gives an overview of what was achieved. The APP and Annual Report should be similar in presentation. Thus the achievements in the Administration programme in the annual report cannot be linked back to the APP.

**5.3.2. Programme 2: Legal and Governance**

**Purpose:**Provide legal services and corporate governance systems, as well as facilitates the implementation of all legal aspects of transactions that are strategically important to the Department and SOC, and ensures alignment with Government’s strategic intent by, among others, monitoring the state owned companies’ indicators.

Aventura is in the final stages of being wound up. A liquidator has been appointed by the Master of the High Court on 14 March 2013 and the company is currently placed under liquidation.  As at 5 March 2013, 1 000 of the 5 847 beneficiaries of the Diabo Share Trust had been paid out.  The Department has extended the contract with the Service Provider with three months to pay the remaining beneficiaries. The trust is expected to be wound up in the 2013/14 financial year.

Of the targets not achieved, the Shareholder Management Model was not approved as well as the Governance Toolbox and Audit and the Transformation Charter: Procurement of Professional Legal Services.  The Shareholder Management Model was not approved by the shareholder as the matter was held in abeyance due to the SOC Presidential Review Committee.  Ministerial approval of the Governance Toolbox and Audit was not achieved as the Toolkit would require legislative changes which necessitated alignment with government processes. This would require internal consultation with internal governance structures as well as the Governance and Risk Forum and the Chairperson’s Forum.  These targets have been moved to the 2013/14 financial year.

Not all targets can be related back to the Annual Performance Plan, the Department is deficient in reporting on all targets as set in the Annual Performance Plan.

**5.3.3. Programme 3: Portfolio Management and Strategic Partnerships**

**Purpose:**To align the corporate strategies of the SOC with Government’s strategic intent, and monitor and benchmark their financial and operational performance and capital investment plans.  To align shareholder oversight with Government’s overarching economic, social and environmental policies, and build focused strategic partnerships between SOC, strategic customers, suppliers and financial institutions.

*Sub-programme – Energy and Broadband Enterprises*includes Eskom, Pebble Bed Modular Reactor (PBMR) and Broadband Infraco.  The Department continuously engaged the company on the financing of its build programme and in the fourth quarter Eskom secured 80 per cent of the funding required for the build programme up to 2017.  The Department commissioned an independent review of the build programme to assess the current status and propose measures to enhance oversight. The study will be completed in the first quarter of 2013/14 financial year and will inform the Department’s future build programme oversight strategy.  The Department has also appointed a service provider to evaluate Eskom’s build programme practices and assist the Department with improving its monitoring framework.   The improved framework will be completed in the second quarter of the 2013/14 financial year.

*Sub-programme – Manufacturing Enterprises*includes Denel, Alexkor and South African Forestry Company (SAFCOL).  During 2012/13 the Department completed a turnaround plan for Denel and obtained Cabinet approval including the funding plan.  Of the 26 targets reported on, 8 targets or 31 per cent of targets were not achieved.

Some targets not achieved are as follows: the assessment of the impact of the current strategic equity partnerships on Denel’s sustainability; a status update to Cabinet on progress with the 2008 Denel end-state Cabinet recommendations was not given; development of evaluation framework and funding model to guide investment decisions for new mining ventures and downstream beneficiation initiatives; the outstanding assets was not transferred to the Richtersveld Community as the delay in the completion of the infrastructure upgrade impacted on the timing of the handover.  The township will be handed over during the 2013/14 financial year.  The assessment of the viability of the existing custom-cut processing plants and the Timbadola sawmill for SAFCOL was not assessed. The transfer of minority shares transferred to the Department of Rural Development and Land Reform (DRDLR) was not achieved. The Department should review its predetermined objectives and ensure that they adhere to the SMART principle.

*Sub-programme – Transport Enterprises*includes South African Airways (SAA), South African Express (SAX) and Transnet.  The targets set in respect of SAA and SAX was not achieved due to the need to maintain the airlines as a going concern and the development of turnaround plans. Of the 15 targets set in this sub-programme for 2012/13, 9 targets were not achieved or 60 per cent of targets.

Some of the targets not achieved included: SAA and SAX shareholder compacts not being signed; SAX annual report not assessed; SAX corporate plan was not assessed; and commercialisation of Transnet branch lines and proposals for a licensed operator for the Ngqura container terminal was not issued.

**5.4. Key reported achievements**

The Department has continued to increase its capacity through the filling of vacant posts. It has also gained approval for additional posts from the National Treasury. In the 2012/13 financial year, 47 new appointments were made in the Department, with most appointments at the senior management level. The additional post approved by the National Treasury has resulted in an increased vacancy rate, otherwise without additional post the vacancy rate could have remained at 10%.

The Department has continued to strengthen its systems to ensure a sound supply chain environment. There are successes of the systems and institutionalisation of 100% adherence to the PFMA. The Department continues to spend in line with appropriate allocations.

The key achievements of the Department includes the development of the new SOC Remuneration and Incentive Standards for Non-Executive Directors; Executive Directors and Prescribed Officers; winding up of Diabo Share Trust and Aventura.

The Department granted Eskom approval to enter into power purchase agreements with 28 renewable energy independent power producers (IPPs), which will generate a combined 1415.5MW. Broadband Infraco’s funding requirement for its CAPEX has been defined and submitted to National Treasury. The Department oversaw the timely commissioning of the West African Cable System (WACS) which will facilitate international connectivity by linking Africa with Europe through the United Kingdom.  Broadband Infraco suffered a loss in the 2012/13 financial year due to a decline in revenue from Neotel, as stated in paragraph 4.4.3 of the report.

The Department continued to monitor and oversee the execution of the activities linked to the Deed of Settlement (DoS) for Alexkor. The performance of the PSJV between Alexkor and Richtersveld Mining Company is monitored on quarterly basis.

The Department monitored and had oversight on the development and Cabinet approval of the turnaround plan for Denel. The main objective was to address weakness identified in Denel Aerostructures. The SOC’s funding plan has been developed and approved by the shareholder. Denel’s financial and operational performance has shown positive signs.

The Department conducted consultations with key policy departments on the future role of SAFCOL. As a result of these consultations a draft strategy has been developed.

The Department’s oversight responsibilities intensified as Transnet ramped up its capital programme from R110 billion to R307 billion through the introduction of the MDS, while still recording a profit of R4.3 million for the 2012/13 financial year as stated in paragraph 4.4.6 in this report. The Department was instrumental in setting out the parameters for the development of the SAA’s long term turnaround strategy that was submitted to the Minister and subsequently presented to the Committee. The Department has moved swiftly to address the deficiencies in corporate governance within the SOCs.

The Department hosted youth engagement in partnerships with the Provincial Departments of Economic Development in KwaZulu-Natal, the Free State and Eastern Cape Governments’ during October and November 2012. The DPE held a Supplier Development, Localisation and Transformation Summit on 14 and 15 March 2013. This summit was attended by Eskom and Transnet suppliers, customers and other key stakeholders.

**5.5. Key reported challenges**

Eskom’s Medupi Power Station construction has be characterised by various project management risks. These risks range from poor workmanship from service providers and labour unrests resulting in project delays.  The challenges highlighted have resulted in the escalation of the cost of construction to the power station from R91 billion to   
R105 billion.  This may have a knock-on effect on the future tariff application of Eskom, affecting consumers negatively.

Broadband Infraco does not have an I-ECS license and this has hampered on its competitiveness. The matter relating to the licence has not yet been addressed by the Department of Communications. This has been a long outstanding issue that the Department has not resolved successfully.

Denel Pretoria Metal Pressings (PMP) continues to operate under capacity constraints due to market conditions and slow demand for their products. Denel PMP will require support from the South African National Defence Force (SANDF) and South African Police Service (SAPS) in order to improve on their competitiveness, this will require Inter-Ministerial Collaboration.

SAFCOL operates in areas where 61 per cent of their forestry plantations are subject to land claims, a situation that is hampering the SOCs long term planning. In the interim, SAFCOL is positioning itself as preferred development partner for claimant communities to ensure the land is not lost to other forms of agriculture.

SAA has posted losses in the past year however the introduction of the Long Term Turnaround Strategy is intended to address various challenges faced by the airline. SAX has stabilised its board and management including its finance division. SAX has faced challenges in the past relating to lack of information relating to its financial situation. This has led to disputes with auditors and delays in reporting to the Portfolio Committee. Transnet faces challenges imposed by the economic environment. This challenge might have an impact on the rate at which the SOC invests in the economy.

**5.6. Other service delivery performance findings**

The Committee has undertaken oversight visits in the 2012/13 and 2013/14 financial years to the following state-owned companies: Denel Pretoria Pressings Metal, Denel Overberg Test Range, Transnet Port of Durban, Port of Cape Town, Port of Saldanha, Transnet Rail Engineering in Saltriver and Koedoespoort, South African Airways and South African Express Airways. The Department has done well in appointing competent board and brought stability in embattled state-owned companies. The board of SAA has successfully completed and tabled a turnaround strategy. South African Express Airways has broken even and has recorded a profit in 2012/13, which is an improvement from the 2010/11 financial statement debacle. Eskom and Transnet have achieved skills development and job creation targets through the build programmes. However there are governance problems at Medupi power station which have led to the labour unrest and delay in the progress of the project.

The Committee interacted with organised labour, local business and contractors during the visits. Some of the findings included lack of support and promotion of local business at the Port of Saldanha, fraudulent behaviour and under-performance by some contractors at the Medupi Power Station.

**5.7. Relevant external research assessing performance of the Department**

The Management Performance Assessment Tool (MPAT) is one of several initiatives to improve the performance and service delivery of national and provincial departments. MPAT is a structured, evidence-based approach to the assessment of management practices. [[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftn2" \o ")

In October 2010, Cabinet mandated the Department of Performance Monitoring and Evaluation (DPME) to lead the development and piloting of a management practice assessment tool, working collaboratively with the Department of Public Administration (DPSA), National Treasury and the Offices of the Premier. Independent bodies, namely, the Auditor-General of South Africa (AGSA) and the Office of the Public Service Commission also contributed to the development of MPAT. [[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftn3" \o ")The overall framework for MPAT 2012/13 has not changed from the previous year. MPAT covers the following four Key Performance Areas (KPAs):

·         Key Performance Area 1: Strategic Management

·         Key Performance Area 2: Governance and Accountability

·         Key Performance Area 3: Human Resource Management

·         Key Performance Area 4: Financial Management

Within these four KPAs there are 31 standards which are based on existing policies and regulations. Following an extensive review of the MPAT framework in 2012, some modifications were made to the standards to improve their clarity. New standards were added for expenditure management, health and wellness and the promotion of access to information.

MPAT identifies four progressive levels of management performance. Each management practice is assessed and scored against these four levels of performance. The table below illustrates the four levels.

**Table 4. Four levels of management performance**

|  |  |
| --- | --- |
| **Level** | **Description** |
| Level 1 | Department is non-compliant with legal/regulatory requirements |
| Level 2 | Department is partially compliant with legal/regulatory requirements |
| Level 3 | Department is fully compliant with legal/regulatory requirements |
| Level 4 | Department is fully compliant with legal/regulatory requirements and is doing things smartly |

**Source**: The Presidency (2013)

A department that scores at Level 1 or Level 2 for a standard is non-compliant with the minimum legal prescripts and is performing poorly in terms of its management practices in that management area.

On the other hand a department that scores at Level 3 is compliant with the legal prescripts in that management area, whilst a Level 4 department is compliant and operating smartly in terms of its management practices in that management area. In such cases, good practice case studies are developed and disseminated through learning networks.

**5.7.1. Performance results**

**As per the key performance areas, the Department of Public Enterprises scored as follows:**

· **Level 3**on Strategic Management. According to the DPME, the DPE is performing very well in terms of strategic planning. However, is on level one for integration of monitoring and evaluation in performance and strategic management.

· **Level 2**on Governance and Accountability. The Department is performing very badly on service delivery improvement.  This situation is not acceptable, given that improving service delivery is a priority of government. Moreover, the Department needs to work on its risk management and delegations.

· **Level 2**on Human Resource and Systems Management. The area of employee relations – management of disciplinary cases is concerning as the Department scored 1. Human Resource Practices and Administration scored a level one especially with regards to its management of diversity.

· **Level 3**on Financial Management. The Department scored well on Financial management areas however, there is still room for improvement.

This means that DPE is non-compliant with the minimum legal prescripts and is performing poorly in terms of its management practices in the two areas (Governance and Accountability and Human Resource and Systems Management).

The Department used external consultants to conduct studies in the following areas:

§  High-level retrospective of the Pebble Bed Modular Reactor Project.

§  Eskom’s Build Programme Practices.

§  National Corridor Performance Measurement.

§  Freight Rails Reforms Phase II.

§  SAA Diagnostic study.

§  DPE Transformation Dialogue.

§  SOC learner profile.

§  YEP strategy and action plan.

§  Manual on Promotion of Access to Information Act.

§  Remuneration Standards.

§  Corporate Governance Protocol.

§  Role profiles and performance management auditing.

§  Job evaluations.

§  Skills audit.

§  Employee survey.

§  Independent performance assessment of the Department.

§  Development and enhancement of Isibuko/Smarclient dashboard.

**5.8        Concluding comments on service delivery performance**

The Department of Public Enterprises provides oversight to eight SOCs. The context in which it manages performance depends on effective, efficient and value for money service provided by the SOCs. The Department’s role in oversight had been enhanced by the leadership and management of SOCs. The Department managed to fill critical posts at Deputy Director General and other critical posts at management level thereby enhancing its capacity to provide monitoring of SOCs. The Department managed to fulfil its mandate for 2013 to catalyse investment, industrialisation and transformation in the broader economy. In this regard it has managed to stabilise leadership of SOCs at the level of the board. The Department managed to provide its role of shareholder to SOCs by ensuring the financial sustainability of these entities. The Department fostered an environment in which SOCs become good corporate citizens through improvements in Corporate Social Investments made to South African communities.

The Department has to improve issues raised by the Auditor General especially as it relates to issues of non-compliance during the submission of financial statements. In this regard, the Department must improve on its internal control environment. The Department must create a framework of key reported challenges and improve its oversight of key infrastructure build projects. In addressing this, stronger project management capabilities should be developed within the Department. The Department should review its predetermined objectives and ensure that they adhere to the SMART principle.

The findings of the MPAT assessment have also reinforced what was found by the Auditor-General with regards to Governance and Accountability. The Department has to ensure that it complies with the minimum standards and put corrective steps in place to improve this.  Human Resource and Systems Management also needs to be addressed.

**6. Finance and Service delivery performance assessment**

The Department of Public Enterprises has progressed well in terms of its finances in the 2012/13 financial year, spending 99.3 per cent of its budget, and receiving an unqualified audit opinion. However, the Department only achieved 68 per cent of its set targets with 26 of 81 targets not achieved. Although most of the targets have been shifted to future years, the delay in meeting targets could have severe consequences on the developmental goals of the SOCs.  By the Department not providing guiding frameworks for the SOCs to work within, they will continue to operate in an uncertain environment.

**7. KEY FINDINGS**

These were the key findings of the Committee:

**7.1. Technical issues**

The reporting of performance information in the annual report is a concern as it does not align to the performance management information format presented in the Annual Performance Plan. This is evidenced in the fact that in the APP the Department gives a table of what it plans to achieve in the Administration programme. In the annual report the Department does not report on this table, but only gives an overview of what was achieved. The APP and Annual Report should be similar in presentation. Thus the achievements in the Administration programme in the annual report cannot be linked back to the APP.

A financial impact assessment of the Department was not undertaken and should be considered for the following financial year.

**7.2. Governance and operational issues**

The Department has been able to stabilise boards of SOCs. Most of the policies relevant to SOCs reside in other policy Departments. The Department must in consultation with policy Departments develop a framework in which they are able to effectively contribute to the implementation of SOCs’ strategy and objectives.  In this regard a legal framework to support and enable SOCs’ performance should be developed.

The Department has relevant institutional policies to achieve its mandate and to obtain clean audit outcomes. However, the Department’s internal control environment should be significantly improved. In this regard the Department must improve on the issues raised by the Auditor General pointing to weaknesses.

**7.3. Service delivery performance**

The Department has contributed to the performance of SOCs but it could not achieve more than 68 per cent of its planned targets. The Department needs to improve its strategic planning capability. There is a need for the Department to set targets that are achievable. In this regards, evidence of the achievement of targets should be ready for presentation when required.  The Department must clarify its targets and deliverables in line with its vision and mission. These should be easy to institutionalise and should resonate within the organisational structure.

**7.4. Financial performance including funding proposals**

The Department needs to improve on Financial Management. There is no relationship between the spending and achievement of targets. This misalignment points to weakness in planning and performance management systems. The Department must allocate appropriate non-financial targets and demonstrate appropriate relationship with financial performance in line with the reporting requirements.

**8. Summary of reporting requests**

**Table 4. Summary of Reporting Requests**

|  |  |  |
| --- | --- | --- |
| **Reporting matter** | **Action required** | **Timeframe (Progress)** |
| Audit Finding:  Impairments not disclosed  Root Cause:  The controls implemented did not detect or prevent the material misstatements to the impairments in the AFS | Recommendation:  Financial statements should be prepared based on the correct figures and in accordance with the Departmental Financial Reporting Framework.  Impaired assets amount should be disclosed in the financial statements.  Action Plan:  Controls reviewed and additional measures put in place | Strengthened  controls  documented and approved and ready for implementation. |
| Audit Findings:  Key management personnel not valued accurately  Root Cause:  Human Error, misinterpretation of the Financial Manual Guidelines and lack of consultation with relevant stakeholders | Recommendation:  The responsible official should compare the Salary Key Personnel schedule prepared by HR with the PERSAL report to ensure that the amount disclosed in the annual financial statements is correctly disclosed. Furthermore the department should institute an internal process that that the process is reviewed and signed off at the appropriate level.  Action Plan:  Controls reviewed and additional measures put in place | Strengthened  controls  documented and approved and ready for implementation |
| Audit Finding:  Differences between third party confirmations and amounts disclosed in the financial statements (Broadband Infraco)  Root Cause:  The controls implemented did not detect or prevent the material misstatements to the investments in the AFS | Recommendation:  Financial statements should be prepared based on the correct figures to avoid errors in the financial statements in accordance with the Departmental Financial Reporting Framework.  Action Plan:  Controls reviewed and additional measures put in place | Strengthened  controls  documented and approved and ready for implementation. |
| Audit Finding:  Litigation not disclosed  Root Cause:  The controls implemented did not detect or prevent the material misstatements to the disclosure of contingent liabilities in the AFS. Lack of consultation with relevant unit | Recommendation:  Proper process should be implemented with criteria for including and removing contingencies (litigation) and adjust note 29 contingent liabilities with R4 686 638 000.  Also ensure alignment of the legal workflow to the business plan with regards to providing legal advice to internal clients.  Action Plan  Controls reviewed and additional measures put in place | Strengthened  controls  documented and approved and ready for implementation. |
| Audit Finding:  Contract register management  Audit finding:  Root Cause:  Poor controls – the management of contracts was fragmented – units entered into contracts without contract registers – lack of information sharing information with SCM | Recommendation:  A system of controls should be implemented to establish for proper record keeping of contract management.  Action Plan:  Department is in the process of implementing an automated contract management register. | Implementation is underway. |

**9. Recommendations**

**9.1.**The Committee recommended that the Minister of Finance should consider:

**9.1.1.**allocating the necessary resources to ensure the successful implementation of the South African Airways’ Long Term Turnaround Strategy;

**9.1.2.**allocating additional funding to capacitate the Department and address the human resource constraints that the Department still experience, considering the distinct shareholder management responsibility of the Department;

**9.1.3.**developing a framework for funding SOCs rural development programmes.

**9.1.4.**The Minister of Public Enterprises should:

**9.1.5.**review the annual performance plan of the Department to ensure that the pre-determined objectives are measurable and quantified;

**9.1.6.**ensure that there is a direct correlation and alignment between the annual performance plan and the annual reporting format;

**9.1.7.**capacitate the internal audit function in the Department to ensure an improved record keeping and compliance with the legislative framework;

**9.1.8.**consider introducing relevant systems as well as considering evidential requirements during the annual strategic planning process in order to ensure that all predetermined targets are achieved;

**9.1.9.**increase oversight over state-owned companies through robust and regular interaction with CEOs, Board Members, Audit Committees, regular visits to the construction sites of major infrastructure projects as well as to offices and sites of the entities;

**9.1.10.**ensure that emphasis is placed on monitoring that the SOCs’ implementation of Government’s policy objectives is realised, especially their outcomes as they have an impact on peoples’ lives;

**9.1.11.**consider introducing the Shareholder Management Bill which will empower the department to carry out its oversight responsibilities over state-owned companies more effectively, especially in providing guidance on how to align SOCs’ strategic priorities with government policies;

**9.1.12.**consider providing the Committee with shareholder compacts signed with state-owned companies in order to enhance the oversight role of the Committee;

**9.1.13.**consider institutionalisation of the recommendations of the Presidential Review Committee on SOCs;

**9.1.14.**ensure that there are improvements in integration, harmonisation and alignment of planning and implementation across all three spheres of government and state-owned companies;

**9.1.15.**ensure that the guiding frameworks for SOCs are completed timeously and implemented so as to provide a stable working environment. The Department should ensure that the SOCs comply with these frameworks.

**10.        Appreciation**

The Committee would like to express its gratitude to the management of the Department of Public Enterprises, the Office of the Auditor General, state-owned companies reporting to the Department of Public Enterprises and the parliamentary officials supporting the Committee for their hard work and co-operation during this process.

Report to be considered

[[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftnref1" \o ")Public Enterprises (2012)

[[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftnref2" \o ")The Presidency (2013)

[[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131022pcpubentreport.htm" \l "_ftnref3" \o ")Ibid