



2013/14 Annual Report of the Department of Public Enterprises

Presentation to Select Committee, 26 November 2014



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- About the Department
- Highlight of key compliance areas, achievements and challenges
- Financial Performance
- Program Performance against APP



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1. BACKGROUND TO THE DEPARTMENT



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About DPE

- DPE is the Shareholder Representative Department for Government with oversight responsibility for eight State Owned Companies (SOC)
- The SOC are Eskom, Denel, Safcol, Broadband Infraco, Alexkor, Transnet, South African Airways (SAA), and South African Express Airways (SAX).
- The Department is organised around three programmes, namely:
 - Programme 1: Administration
 - Programme 2: Legal and Governance
 - Programme 3: Portfolio Management and Strategic Partnerships



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- VISION:

- To drive investment, productivity and transformation in the Department's portfolio of State Owned Companies (SOC), their customers and suppliers so as to unlock growth, drive industrialisation, create jobs and develop skills.

- MISSION

- To provide decisive strategic direction to the SOC, so that their businesses are aligned with the national growth strategies arising out of the NGP

- KEY OUTCOMES

- - Unlock Economic Growth
- - Industrialisation
- - Transformation
- - Regional Development



DPE's strategy for the period under review was focused on the following 6 areas:

1. Maintain the robust shareholder oversight practices within the framework of shareholder management model that the Department has adopted
2. Stabilising and repositioning of our SOC looking at funding options
3. Recognition that State Owned Companies (SOC) are key instruments for a Developmental State with regards to:
 - Driving fixed investment (particularly in a counter cyclical manner) to unlock economic growth.
 - Leveraging procurements to support industrialisation; skills development; transformation and job creation.
4. Gearing up our shareholder oversight to lead in driving capital investment with emphasis on the Strategic Integrated Projects (SIPs)



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5. Capacity building to enhance Department's ability to execute its Strategic Plan

6. Creation of a supportive policy environment to support sustainability of SOC

The key enablers are:

- Institutional repositioning of the Department;
- A coherent policy and regulatory environment; and
- Effective strategic coordination across the whole of government



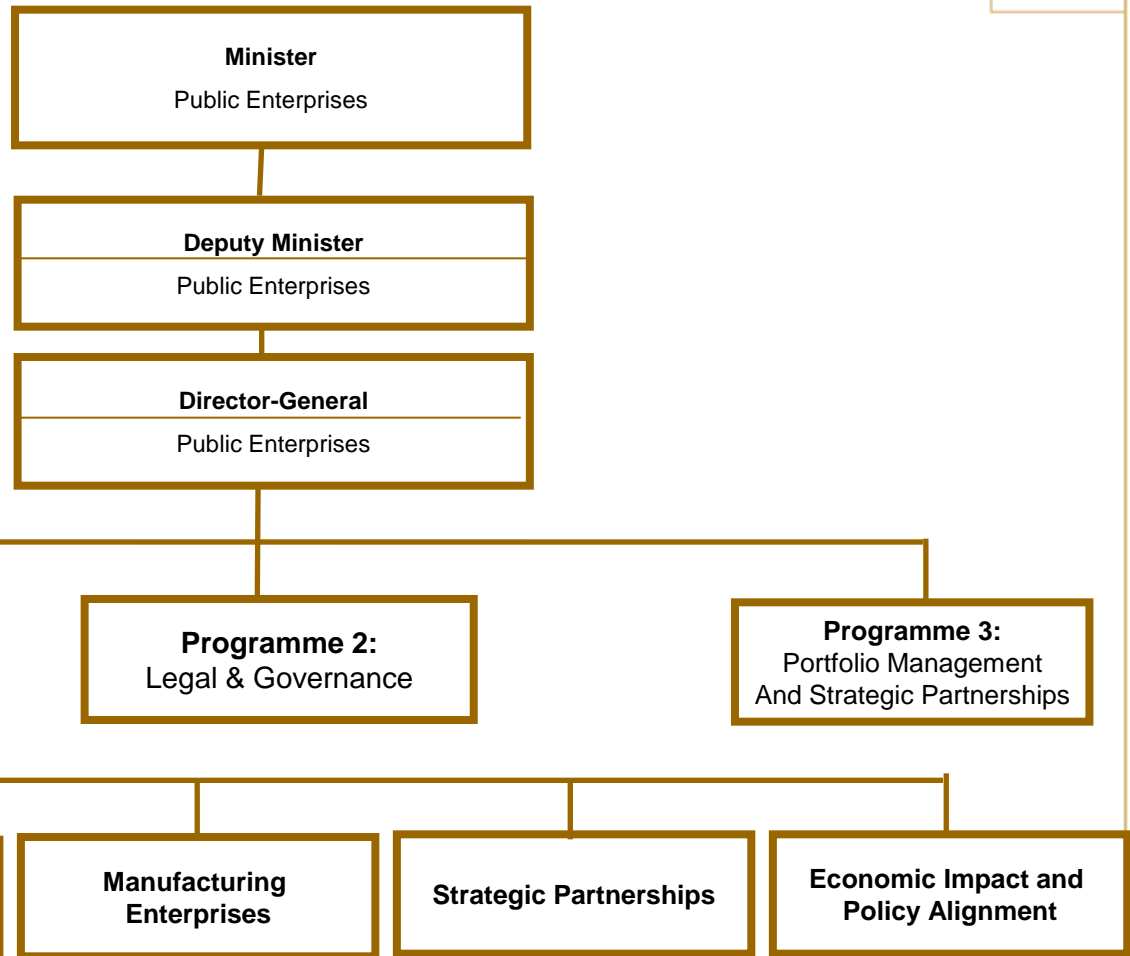
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Organisational Structure

- No changes on existing structure
- Focus on filling critical posts
- All DDG positions filled
- DG resigned on 30 August and ADG appointed by 01 September





2. HIGHLIGHT OF KEY COMPLIANCE AREAS, ACHIEVEMENTS AND CHALLENGES



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2.1 Key Departmental Compliance areas

- All accepted and approved invoices settled within 30 days
- Management accounts submitted to NT within stipulated deadlines
- Accurate Asset register maintained
- Annual HR Plan developed and submitted to DPSA within stipulated timelines
- All staff signed performance contracts and were assessed as per DPSA prescripts
- Vacancy rate reduced from 10% in the previous financial year to 1.8%
- Departmental Strategic Plan and APP developed and approved within stipulated timelines



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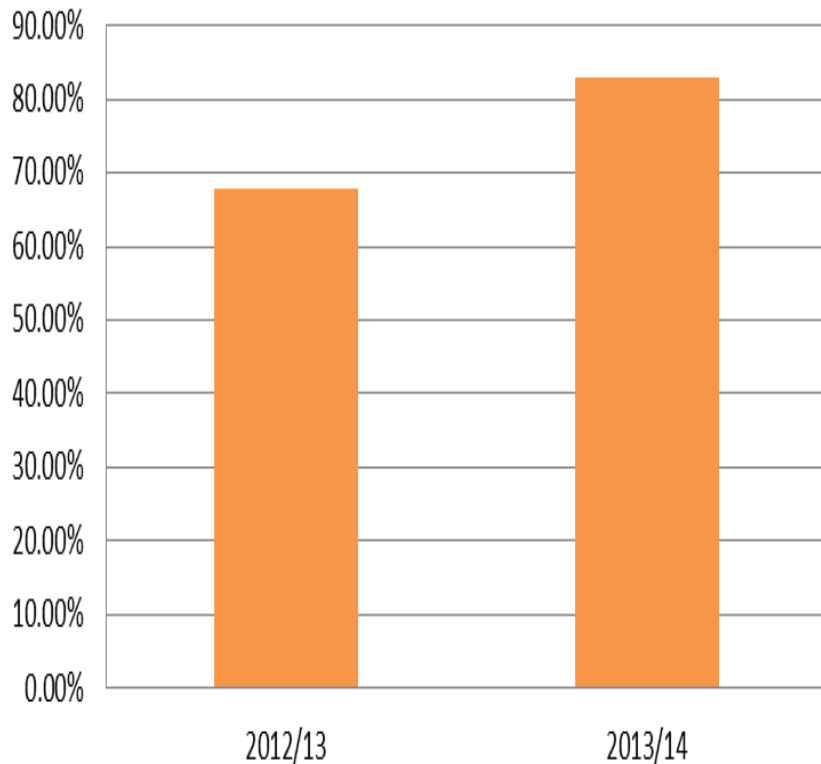
- A performance monitoring and evaluation policy was approved and implemented. This has resulted in improved management and oversight on performance information within the Department.
- Annual Report developed and approved within stipulated timelines
- 3 year Strategic and Operation Internal Audit Plan developed, approved and implemented (12 projects undertaken)
- The Audit Committee met as per statutory requirements, and continuously exercises oversight over the Department
- Talent Management strategy approved and being implemented



- Reduction in the use of consultants by 38.5% compared to the previous financial year (29.8m in 12/13; R18.3m)
- Enterprise Risk Management approach implemented in line with National Treasury guidelines and prescripts.
- Strategic risk register and action plans approved and implemented
- Fraud detection and prevention mechanisms in place
- Minister and Deputy Minister's provincial engagements program implemented, with full participation of SOCs – refer to Annexure A for details
- Irregular expenditure amounting to R711 000 was incurred. Investigations in final stages and disciplinary processes to be implemented against those found to be negligent.
- Fruitless expenditure amounting to R530 000 was incurred mainly as a result of the cancellation of the SOC BRICS Summit. An investigation was undertaken and concluded that no DPE official acted negligently.



Overall Departmental Performance



- The Department achieved 83 percent of the targets for the 2013/14 financial year
- This reflects a 19 percent improvement in the Department's performance compared to 2012/13
- The Department further restored its clean audit opinion
- This has been a direct result on increased focus in the management of performance information and improvements in the performance contracting with SMS



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2.2 Key challenges experienced in the 2013/14

- The performance of the economy has had a profound impact on the SOC operational environment. The State's Airlines have been the most affected.
- The slower than expected economic performance resulting to lower volumes meant some of the targets by SOCs such as Transnet could not have been achieved .
- The creation of a supportive policy framework that promote effective functioning and financial sustainability of SOC remains a challenge
- The ability of the Department to attract and retain the critical capabilities required to execute the function
- Despite the abovementioned challenges, the Department performed well and achieved **CLEAN AUDIT OPINION** as well as received a good performance rating against the Annual Performance Plan at 83%



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3. FINANCIAL PERFORMANCE



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3.1 Departmental Expenditure Trends

The following table provides a summary of actual expenditure incurred vs budget per programme for the 2013/14 and 2012/13 financial years:

Programme	2013/2014			2012/2013		
	Final Appropriation	Actual Expenditure	(Over)/Under Expenditure	Final Appropriation	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	134 702	133 294	1 408	117 096	115 367	1 729
Legal and Governance	23 438	23 159	279	24 237	23 477	760
Portfolio Management and Strategic Partnerships	135 999	116 015	19 984	1 235 425	1 228 205	7 220
Total	294 139	272 468	21 671	1 376 758	1 367 049	9 709



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- 92.6% (R272 468 000) of allocation spent> The total allocation stood at R294 139 000.
- 7.4% (R21.7 million) underspending, mainly due to:
 - 1) Delays in filling of posts amounting to R3.8 million due to scarcity of specialist skills in some areas viz. funding specialists, environmental specialists; economic modelling experts etc.
 - 2) Goods and Services amounting to R17.6 million (17.4% of budget) which is due to delays in executing some projects because of capacity constraints; as well due to policy uncertainties and late start of some key projects.
- Rollovers from the 2013/14 Goods and Services budget requested for projects amounting to R5 million in order for them to be completed in the new financial year. This was not approved by National Treasury. Department is funding projects from current financial year allocations



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4. PROGRAM PERFORMANCE AGAINST ANNUAL PERFORMANCE PLAN AS APPROVED



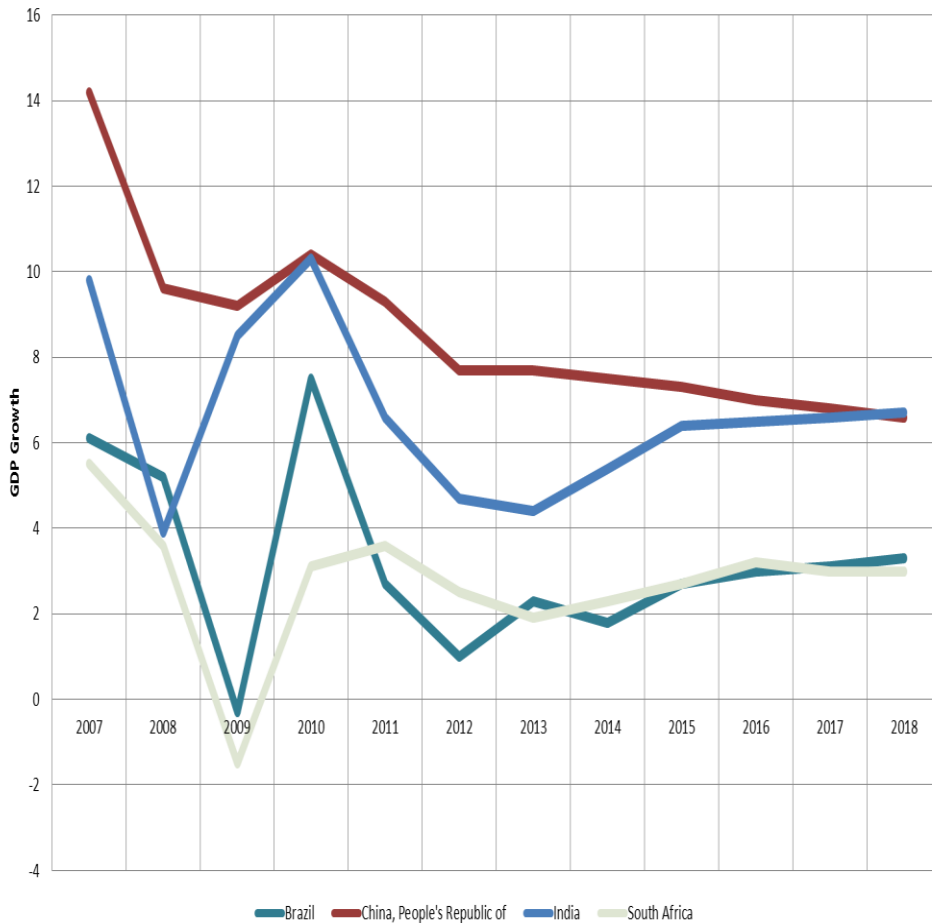
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4.1 Economic Performance - Economic Growth

BRICS Growth Post the 2007/8 Crisis



- Growth in the BRICS countries expected to remain feeble over the next 5 years
- Growth in China and India expected to remain way below the crisis levels
- This is also the case for South Africa and Brazil
- The IMF and National Treasury's projections shows that the economy will only grow by 3% by 2018/19
- The key focus is on changing this trend

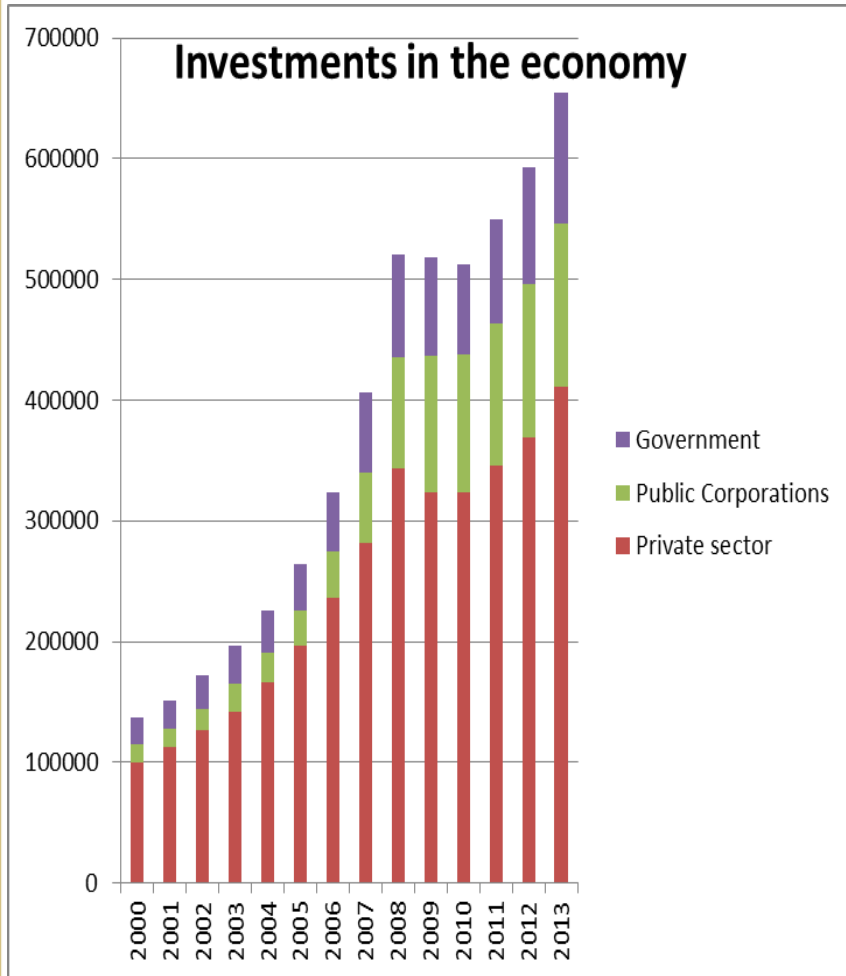


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4.2 Economic Context: Investments



- Growth in investment by the state (government and public corporations) shows government's commitment to an investment driven growth path
- Driving investments in the economy is crucial to expand the economy's capacity and promoting efficiencies
- Delivery of the current infrastructure investment (build) programme is crucial to:
 - Support the economic recovery
 - Develop new industrial capabilities critical for rebuilding our manufacturing sector



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4.3 Summary on the shareholder function

- The Department largely delivered on all the shareholder management functions including:
 - Signing of shareholder compacts (only the shareholder compact of SAFCOL was not approved as the company and the Department were engaging on the company's new strategy)
 - Delivery of strategic intent statements to SOC boards through AGM address by the Minister to set out the expectations of the Shareholder
 - Quarterly financial reviews



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4.4 Targets not achieved

- **Programme 1**

- Irregular expenditure amounting to R711 000 was incurred in the period under review against . Disciplinary processes are in progress as well as others under investigation.
- Fruitless expenditure amounting to R530 000 was incurred as a result of the cancellation of the SOC BRICS Summit and an investigation concluded that no official had acted negligently.
- Conclusion of the ICT Governance structures – the delays in the conclusion of the independent ICT review affected the finalisation of the Governance structures

- **Programme 2**

- Position paper on Eskom and Transnet copper theft challenges still requires further engagement with key stakeholders. A multi-departmental task team has been established in this regard

- **Programme 3**

- **Manufacturing Enterprise:** Cabinet postponed the consideration of the recommendation on the future role of SAFCOL to the new Financial Year
- **Transport Enterprises:** multiple branch lines operators, assessment of the logistics costs in the economy and implementation of the full NCPM system
- **Economic Impact and Policy Alignment:** transformation framework deferred to 2014/15 for alignment with current Transformation Framework and Guidelines
- **Strategic Partnership:** Business plans for SIPs and private Sector Participation (PSP) framework



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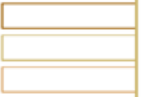
Programme 1: Administration



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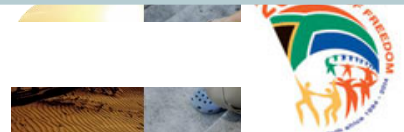


Targeted output 2013/14

- Transversal systems
- Reporting PFMA s40(4)(c)(i)(ii)(iii)
Submission of monthly management reports to Executive Authority, Director-General and Treasury by due dates

Achievements 2013/14

- Successful processing of transactions (MTEF, ENE and financial statements submitted as per required deadlines)
- The Department complied with this requirement all reports were delivered on time





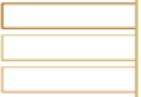
Targeted output 2013/14

- Talent management
- 10 percent vacancy rate

Achievements 2013/14

- Talent management framework has been developed to respond to the capacity and retention challenges
- By 2013/14 Financial Year, the vacancy rate was at 1.8% compared to 11.9% in 2012/13 financial year





Targeted output 2013/14

- Performance monitoring and evaluation policy

Achievements 2013/14

- New performance monitoring policy developed to guide the institutionalisation of the outcomes based planning and monitoring within the Department
- The policy also creates a framework for aligning individual performance to organisational performance





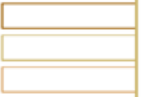
Programme 2: Legal and Governance



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Targeted output 2013/14

- Winding up of Aventura
- SOC Board and Executive Remuneration Guidelines

Achievements 2013/14

- Appointment of the liquidator by the Master of the High Court on 14 March 2013.
- Remuneration guidelines presented to Cabinet and Cabinet suggested extension of the consultations to SOC under other government departments.





Programme 3: Portfolio Management



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Energy and Broadband Enterprises



Targeted output 2013/14

- Implementation of the Care and Maintenance by PBMR
- Monitoring of the performance of the power system and system security

Achievements 2013/14

- Cabinet Memorandum to determine the future of PBMR company submitted to Cabinet.
- Eskom supported to procure additional levers to relieve the system, including the approval of PFMA applications that support the introduction of Independent Power Producers (IPPs) in the electricity industry.
- Eskom has since signed a total of 2 557 MW of IPPs, including the DOE Open Cycle Gas Turbine power purchase agreement on 31 March 2014



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Energy and Broadband Enterprises



Targeted output 2013/14

- Ensuring financial sustainability of Eskom and Infraco
- Assessment of the delivery of Eskom's capacity expansion programme

Achievements 2013/14

- Actively supported Eskom with its key stakeholder engagement in view of the MYPD 3 tariff determination including intensifying the interventions to address municipal debt.
- The study conducted to assess Eskom practices on the implementation of capacity expansion programme completed.



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Manufacturing Enterprises



Targeted output 2013/14

- Definition of Alexkor's role as a state-owned mining company

Achievements 2013/14

- The new Alexkor Strategy is complete and approved by the Shareholder.
- The strategy is focused on ensuring the sustainability of the company through diversification and maximising the commercial strength of the current operations.



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Manufacturing Enterprises

Targeted output 2013/14

- Monitoring of Denel's financial sustainability
- Review of the Rooivalk Programme:
 - Lessons learnt; and
 - Economic / Industrial Benefits
- Strategic Equity Partnerships
 - Lessons learnt;

Achievements 2013/14

- Quarterly assessment of Denel's financial sustainability undertaken and briefing submitted to the Executive Authority.
- Study commissioned and interim report was received.
- Study commissioned and interim report was received.



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Targeted output 2013/14

- Improvement in operational indicators

Achievements 2013/14

- Transnet moved 229.72 million tonnes per annum (mtpa) compared to 207.7 mtpa in the previous financial year.
- Transnet achieved 24 crane moves per hour at Durban Container terminal Pier 1 and 25 crane moves per hour in Pier 2 against target of 28 in Pier 1 and 30 in Pier 2.



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Targeted output 2013/14

- Delivery of the build (infrastructure investment) programme

Achievements 2013/14

- Transnet intensified its capital programme to R301 billion on the implementation of the Market Demand Strategy spending R32.5 billion in the 2013/14 financial year.
- This has played a role to improve capacity and efficiency of our logistics system





Targeted output 2013/14

- Financial sustainability of the SAA
- Airline fleet program

Achievements 2013/14

- Supported SAA to apply for R4.5 billion recapitalisation through MTEF process.
- SAA took delivery of 4 new A320s as part of the programme to modernise and re-fleet SAA



Strategic Partnerships



Targeted output 2013/14

- SOC Africa Investment Strategy

Achievements 2013/14

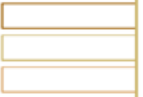
- Africa Strategy approved and launched. SOCs implementing a number of projects within the African continent.



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Targeted output 2013/14

- Fleet procurement implemented by SOC and continuous expansion of SOC Supplier development program (Eskom and Transnet)

Achievements 2013/14

- Fleet procurement implemented by SOC.
- MOU signed by DPE, DST, CSIR and DTI on the benchmarking research.
- SOC supplier development programme expanded for Eskom and Transnet.
- The Department established DPE-SOC procurement forum to share lessons learnt.



Economic Impact and Policy Alignment



Targeted output 2013/14

- Skills development
- Youth Empowerment Programme (YEP)

Achievements 2013/14

- SOC skills plan implemented to ensure support to NGP.
- Youth strategic priorities implemented and meeting with stakeholders were held.



Economic Impact and policy Alignment



Targeted output 2013/14

- Shareholder position on carbon tax
- Aviation Biofuels for SAA

Achievements 2013/14

- DPE position on carbon tax developed. SOC policy (Eskom, Transnet and SAA) deep dives conducted.
- Draft scoping report developed and the report collated and peer reviewed.



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ANNEXURE: RESPONSE TO THE 2013/14 AUDIT OUTCOMES



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Response to audited outcomes

AUDIT FINDINGS AND ROOT CAUSES	RECOMMENDATION & ACTION PLAN	PROGRESS
<p>1. <u>Audit Finding:</u> Performance information systems not integrated within existing management processes and systems</p> <p><u>Root Cause:</u> No document procedures ito identifying , collecting, collating, verifying, storing and reporting of performance information</p>	<p><u>Recommendation:</u> Management should ensure that documented and approved procedures are in place that directs the identification, collecting, collating, verification, storing and reporting of performance information for each performance indicator.</p> <p><u>Action Plan:</u> The documented standard operating procedures</p>	<p>Standard Operating Procedures developed</p>
<p>2. <u>Audit Findings:</u> Lack of segregation of duties</p> <p><u>Root Cause:</u> Management did not include segregation of duties as part of the policies and procedures in place for disposal of assets</p>	<p><u>Recommendation:</u> Clear segregation . Where a senior employee is involved in the approval process of disposals, second employee should be responsible for the actual disposal process. A member of internal audit could be invited to oversee the process in order to enhance the independence and transparency of the disposal</p> <p><u>Action Plan:</u> Management will in future arrange that the disposal of the assets be executed by another employee and that Internal audit will be requested to accompany that person when the disposal is carried out to enhance the independence and transparency of the process.</p>	<p>No disposals have taken place since this finding . As and when disposals are required to be carried out the recommendation and response in the Action plan will be adhered to.</p>



Response to audited outcomes

	AUDIT FINDINGS AND ROOTCAUSES	RECOMMENDATION & ACTION PLAN	PROGRESS
3.	<p><u>Audit Finding:</u> Lease Commitments: Inaccurate information disclosed in the Annual Financial Statements (AFS)</p> <p><u>Root Cause:</u> Lack of thorough review of the supporting lease commitment listing to the annual financial statements before submission for audit purposes</p>	<p><u>Recommendation:</u> Validity and accuracy of information captured. Monthly reconciliations Thorough review process</p> <p><u>Action Plan:</u> Review lease commitments is reviewed and updated on a monthly basis.</p>	<p>The lease commitments are currently being reviewed and verified and signed off by the D:SCM on a monthly basis. A formal checklist is being developed to ensure accountability at each level from inception to closure of lease contract.</p>
4.	<p><u>Audit Finding:</u> Commitments: Inaccurate information disclosed in the AFS</p> <p><u>Root Cause:</u> Lack of thorough review of the supporting commitment listing to the annual financial statements before submission for audit purposes</p>	<p><u>Recommendation:</u> Reconciliation of the contract value and the payments made monthly.</p> <p><u>Action Plan:</u> On a monthly basis, a reconciliation between the payments from BAS to the contract payments will be performed and follow up on discrepancies.</p>	<p>The contract register and commitments are currently being reviewed and verified and signed off by the D:SCM on a monthly basis. A formal checklist is being developed to ensure accountability at each level from inception to closure of contract.</p>



Response to audited outcomes

AUDIT FINDINGS AND ROOTCAUSES	RECOMMENDATION & ACTION PLAN	PROGRESS
<p>5. <u>Audit Finding:</u> Commitments: Inaccurate information disclosed in the AFS</p> <p><u>Root Cause:</u> Lack of thorough review of the supporting commitment listing to the annual financial statements before submission for audit purposes</p>	<p><u>Recommendation:</u> Each head of the units applicable should ensure that a reconciliation of the contract value and the payments made in respect to the contract is performed for each of the contracts entered into between the Department of Public Enterprises and the supplier. As well as, to provide the necessary supporting documentation in order to justify the amounts reconciled.</p> <p>Furthermore, the senior personnel member who has the full responsibility over the commitment listing, should ensure that a reconciliation with supporting documentation is provided to him/her, in order to update and reconcile the commitment listing on a monthly basis.</p> <p>Those involved in the review process should do so thoroughly , and in future also include evidence of this review through use of symbols, or tick marks completed by signing for accountability purposes</p> <p><u>Action Plan:</u> There will be monthly review of the commitments and contracts register to ensure the accuracy thereof from the source documents to the register and this will form part of the monthly CFO report signed by the responsible line manager.</p> <p>On a monthly basis, a reconciliation between the payments from BAS to the contract payments will be performed and follow up on discrepancies.</p>	<p>The contract register and commitments are currently being reviewed and verified and signed off by the D:SCM on a monthly basis.</p> <p>A formal checklist is being developed to ensure accountability at each level from inception to closure of contract.</p>



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