



Annual Report 2005/2006



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA



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MINISTER'S FOREWORD	4
DIRECTOR GENERAL'S REPORT	6
1. INTRODUCTION	8
1.1 Our Vision	8
1.2 Our Mission	8
1.3 Our Mandate	8
2. STRATEGIC FRAMEWORK	9
2.1 Introduction	9
2.2 State Owned Enterprises	9
3. ORGANISATIONAL STRUCTURE OF THE DPE	10
4. THE MINISTRY	12
5. PROGRAMME 1: ADMINISTRATION	14
5.1 Planning, Monitoring and Evaluation	14
5.2 Human Resources	15
5.3 Communications	18
5.4 Information Management Unit	18
5.5 Corporate Services	18
5.6 Finance and Supply Chain Management	19
5.7 Internal Audit and Compliance	19
6. PROGRAMME 2: ANALYSIS AND RISK MANAGEMENT (ARM)	20
7. PROGRAMME 3: LEGAL, GOVERNANCE AND SECRETARIAT (LGS)	23
8. PROGRAMME 4: CORPORATE STRATEGY AND STRUCTURE (CSS)	28
9. JOINT PROJECT FACILITY (JPF)	32
9.1 Continental Investments	32
9.2 Energy and Pipelines	32
9.3 Human Resources and Capacity Building	33
9.4 Information and Communication Technologies	33
9.5 Property	33
10. PROGRAMME 5: CORPORATE FINANCE AND TRANSACTIONS UNIT	34
ANNUAL FINANCIAL STATEMENTS	
Report of the Accounting Officer	41
Report of the Auditor-General	50
Accounting Policies	51
Appropriation Statement	56
Notes to the Appropriation Statement	65
Statement of Financial Performance	66
Statement of Financial Position	67
Statement of Changes in Net Assets	68
Cash Flow Statement	68
Notes to the Annual Financial Statements	69
Disclosures Notes to the Annual Financial Statements	75
Annexures	78
APPENDIX A	87
ACRONYMS	102



MINISTER'S FOREWORD

The year 2005-2006 has been a busy one for the Department of Public Enterprises (DPE) and the State Owned Enterprises (SOE) reporting to it. In large measure this is due to the increased responsibility assigned to SOE in driving South Africa's development and the expectation that they play a significant role in advancing government's objectives as set out in the Accelerated and Shared Growth Initiative of South Africa. However there were also specific challenges that emerged during the course of the year. For Eskom the Koeberg incident was a really difficult time, as it regrettably was for the consumers and businesses in the Western Cape. For SAA the continuation of very high fuel prices continued to place pressure on their costs. Strike action at SAA and Transnet posed further difficulties and the protracted legal action at Alexkor moved to a negotiation phase with the Richtersveld Community. The Komatiland Forest deal hearing in the Competition Authorities made it difficult to give clear direction to Safcol.

Yet these challenges did not have entirely negative outcomes. In each case lessons have been learnt

and steps taken to meet similar challenges in the future. Dealing with a number of problems and difficulties at once forged new experience and resiliency within the DPE. Taken together the year of reportage was challenging, but has I believe strengthened the SOE and the DPE in dealing with the exciting times ahead.

There is also no doubt in my mind that we are making positive progress in all of the SOE. In the case of Denel the Board and the new CEO made remarkable progress in making some bold decisions on a new strategic approach to the location of Denel within the South African and global defence related industries. This is an exceptionally challenging situation and without the support of the National Treasury in the decision to recapitalise Denel we would have lost an important component of South Africa's manufacturing and advanced technology capacity. Each day poses a challenge as we strive to recast the role of the enterprise and move it to sustainability. The work load and emotional stress this place on the Board members is extreme and I have to salute those who have done so much.

I am pleased that in the Alexkor situation we have been able to engage in negotiations and I wish to pay tribute to some brave and far-sighted community leaders who had the courage to negotiate with government and who have shown great acumen and vision in protecting and advancing the interests of their community.

From this brief account of the events of the year it is I hope evident to the reader that there has been a great deal of work done and commitment shown by the Boards and Executives of the SOE. I would like to use this occasion to express my thanks to the Board members of the SOE who are fine role models for all who contribute something back to the society and economy that nurtures all of us. I have no doubt that more lucrative opportunities are open to our Board members but their dedication and commitment has been invaluable and a very sincere word of thanks.

I believe that the management and human resource situation is strengthening all the time in the SOE and management and workers alike have to be congratulated for the way they are now meeting new and exciting challenges. We can of course do better and will do so but progress should be recognised and professionalism encouraged.

My department thus had to be reshaped in order to execute an effective shareholder management function and to address the situations that arise from the heightened level of activity. This entailed the redefinition of programmes, the reassignment of responsibilities and the appointment of appropriate, skilled personnel.

It also required the establishment of internal procedures and controls as well as introducing systems to increase SOE accountability without impeding upon their creativity and effectiveness. We have progressed significantly in this regard.

The Annual Report details the changes and activities in each of my department's key programmes. The departmental establishment is comprehensive, we have increased the capacity of the Boards, and dynamic, competent Chief Executive Officers are driving the SOE. Regulatory reform to strengthen governance systems is well underway. The essence of a solid foundation is emerging and I am confident that we are well positioned to contribute to the growth targets set between now and the year 2014.

I would like to make a special mention of the improvements that have been made in our work with the Portfolio and Select Committees. This relationship is very important to the exercise of the responsibilities that Parliament has in regard to the whole Public Sector. We will continue to work with the Chairpersons and their committees to further develop this relationship.

My thanks to the Director General and the Department officials who have made a real contribution to the achievements that we can claim in the year.



Alec Erwin
Minister of Public Enterprises



DIRECTOR GENERAL'S REPORT

State Owned Enterprises (SOE) are a vital instrument for government to shape the economic development trajectory of South Africa. Underlying this policy is an activist state, which, while recognising market demands, uses the resources at its disposal to address the basic needs of the people of South Africa and position the economy to compete globally. Returns in this context are therefore defined both financially and in terms of the SOE contribution to the overall development of the economy. This includes higher rates of economic growth, job creation and increased global competitiveness.

What then is the relevance of the Department of Public Enterprises (DPE)? The answer is two fold. First, at the most basic level, DPE is the department tasked with the oversight of seven SOE in which government via the Minister of Public Enterprises is a key shareholder. The SOE are Alexkor (diamond mine); Denel (arms manufacturer); Eskom (electrical energy); Pebble Bed Modular Reactor (nuclear energy); Safcol (forestry assets); South African Airways (aviation) and Transnet (pipelines, ports

and rail). These enterprises are primarily located in either key input industries (e.g. energy) or strategic sectors (e.g. defence).

The DPE's role in the shareholder management framework is to serve as an executive support to the Minister of Public Enterprises as the shareholder representative.

At the second level, however, the DPE must bring to bear, on the SOE, government's vision of and strategy for economic and social development. The issue for the DPE becomes not just about maximising shareholder value, but ensuring that the SOE play a catalytic role in the South African economy. Thus the essential challenge for the SOE is to run a successful sustainable business whilst optimising its contribution to the broader economy and to society. The DPE has to work to ensure that the appropriate balance between financial, economic competitiveness and developmental concerns is achieved without compromising the viability of the enterprise.

The DPE assesses SOE strategic plans to ensure that they are congruent with national development priorities and monitors performance against these priorities. In this view the key outcomes for SOE are:

- Investment in and delivery of infrastructure to support economic growth and crowd in private sector investment
- Globally competitive service delivery through operational efficiency
- Financial and commercial viability
- Compliance with governance and regulatory requirements
- Pricing philosophies that create competitive advantage
- Firm level practices, such as skills development and procurement, that enhance the competitiveness of the supplier industries to the SOE resulting in lower costs and improved service levels both from the SOE and in supplier industries
- The disposal of non-core assets in a manner that furthers government's economic and social objectives whilst protecting the balance sheets of SOE

This Annual Report of the DPE for 2005/06 reflects a breakdown of the work undertaken in this regard. To fulfil its own purpose, the DPE during the year under review has made significant progress in the following areas:

- Translating policy requirements into clear and coherent strategic business priorities
- Streamlining the governance system from the department to the SOE boards
- Strengthening alignment and cooperation between SOE and the department
- Creating an effective and efficient department.
- Quarterly SOE performance analyses have been implemented

As a result, in 2006 the DPE is an operationally efficient; institutionally sound organisation with a high proportion of staff suitably qualified and experienced to deliver quality service. This is all the more important because of the critical role played by the SOE in government's vision as defined in the Accelerated Shared Growth Initiative of South Africa (ASGISA).

This role amongst others involves massive investment in infrastructure over the next few years to improve the overall efficiency and competitiveness of the South African economy by removing all investment and maintenance backlogs and ensuring that future economic growth can be accommodated.

Efficient and globally cost competitive transport, telecommunications and energy infrastructure are vital for providing a foundation for competitive advantage for South African enterprises. This means that SOE cannot operate as in the past efficiency as market-orientated companies is vital to their sustainability as well as for providing a genuine competitive platform. Hence the emphasis in the DPE's oversight role on benchmarking against private sector performance both within South Africa and Internationally in appraisals of SOE performance. SOE must provide affordable competitive service at sustainable rates of return. In attaining economic efficiencies, the DPE's remit thus also extends to monitoring the roll-out of the capex programme and assisting SOE to remove bottlenecks.

In a move to enhance the effectiveness of the SOE and leverage the assets in these organisations, the DPE established the Joint Project Facility (JPF). The objective of the JPF is to leverage SOE assets in new and creative ways, to the benefit of both the SOE and the economy. Projects that have made significant progress are the ICT infrastructure project and the properties project.

Nonetheless, ambitious and sophisticated plans are all just words, unless they are given life by people. What this Annual Report of the DPE for 2005/06 reveals, above all, is the work of a competent, committed and energetic group of people at DPE. For all the work done this year, I thank all the people at DPE and look forward to another tough and exciting year. Minister Erwin remains a source of inspiration and his leadership continues to invigorate, the activist DPE.



Portia Molefe
Director-General



I. INTRODUCTION

I.1 OUR VISION

The Department of Public Enterprises (DPE) is the shareholder representative of government with respect to Transnet, Eskom, Denel, Safcol, Alexkor, South African Airways (SAA) and the soon to be established Pebble Bed Modular Reactor (PBMR) and their subsidiaries.

Our vision is to have State Owned Enterprises (SOE) that:

- Are efficiently managed, meeting domestic and international industry operational benchmarks
- Play a role in their industry that ensures an optimal allocation of responsibilities between the public and private sector
- Undertake investment programmes that provide the necessary capacity to accommodate faster economic growth
- Implement their investment programmes in such a manner that the national economy is strengthened in a sustainable way.

In order to attain this vision it is critical that the department develops a world-class shareholder management model that will enable strong coordination between the shareholder and the board.

I.2 OUR MISSION

Our mission as a department is to provide to SOE:

- Clear mandates
- Effective performance management
- Simple, understandable and implementable governance systems

I.3 OUR MANDATE

The mandate of the DPE is to ensure alignment between the SOE business strategies with Sector department policies and regulatory authorities, whilst ensuring that SOE are sustainable businesses that provide economic benefit to the country.

2.1 INTRODUCTION

The DPE has oversight responsibility for seven SOE that are classified as Schedule 2 entities in the Public Finance Management Act (PFMA), namely Transnet, Eskom, Denel, Safcol, Alexkor, SAA and PBMR which is currently a subsidiary of Eskom. [The PFMA regards subsidiaries of Schedule 2 entities as Schedule 2 entities in their own right - Schedule 2].

To give meaning to shareholder management by government, it is necessary to create a working definition of an SOE that clarifies the reasoning behind the state retaining ownership control of an enterprise and the role of the state as a shareholder of a special type.

Leveraging key input sectors

The South African government takes the view that the state has a role to play in the development of the economy. The intervention is informed firstly by the view that the state shapes the structure and output of the economy, and secondly by the political objective of attaining a prosperous, equitable and democratic society. The state can intervene in the economy either directly or through development agencies/public utilities or the economic actions of SOE. Given the mandate of the DPE, the focus of the strategy is on SOE.

The state constitutes an institutional capacity, in this case, to set the basic environment within which economic activity takes place. The global trading system continues to be unequal. Despite this, an economy that offers competitive manufacturing opportunities, is richly endowed with natural resources, provides cost competitive electricity, offers rapid logistics to key markets, low cost broadband and has relatively affordable skilled labour supply can become highly competitive and export orientated. This is South Africa's possibility.

2.2 STATE OWNED ENTERPRISES

SOE are primarily located either in key input industries or strategic sectors. The SOE are owned by the state, either as sole shareholder or as a

majority shareholder with decisive control of the enterprise.

Unlike public utilities, SOE operate off their own balance sheets and are therefore subject to the pressures and disciplines of the capital markets. The benefit of this move is added operational dynamism and reduced SOE dependence on the fiscus. However this reliance on the capital markets places pressure on the government, being often the only shareholder, to exercise disciplined and prudent oversight of the SOE to ensure market confidence in these enterprises of a "special type".

There is growing pressure for SOE to be responsive to consumer needs and to drive South Africa's competitive advantage. Furthermore as production is dependent on logistics, energy and ICT, it is in these areas that economies chiefly compete. Therefore the providers of these services must be exceptionally responsive to market conditions. The essential challenge for SOE is to deliver a public good with attributes of private sector behaviour without 'cherry picking' only those areas of business that attract guaranteed short-term profits.

Policy, regulation and shareholder oversight

Policy departments are responsible for all sector policy and the regulation thereof. The general principle has been to separate policy development and regulation from the shareholder oversight of SOE to limit the risk of conflicts of interest or capture by the SOE. Shareholder management means that the department has to act in the general interest of the SOE, within the confines of policy or regulation.

In the event that the shareholder management and the policy responsibilities are in one department, the risk of conflicts of interest arises. It is essential that regulation and policy are set in the most unbiased fashion possible in the interests of the sector and the country, and not just of a single entity. This risk remains irrespective of sector, whether transport, a key input to the economy, or defence, a strategic sector.

3. ORGANISATIONAL STRUCTURE OF THE DPE

The DPE has been tasked with greater responsibility for achieving government's over arching objective of accelerated and shared economic growth and development. The DPE has therefore undergone an internal restructuring and staff recruitment programme.

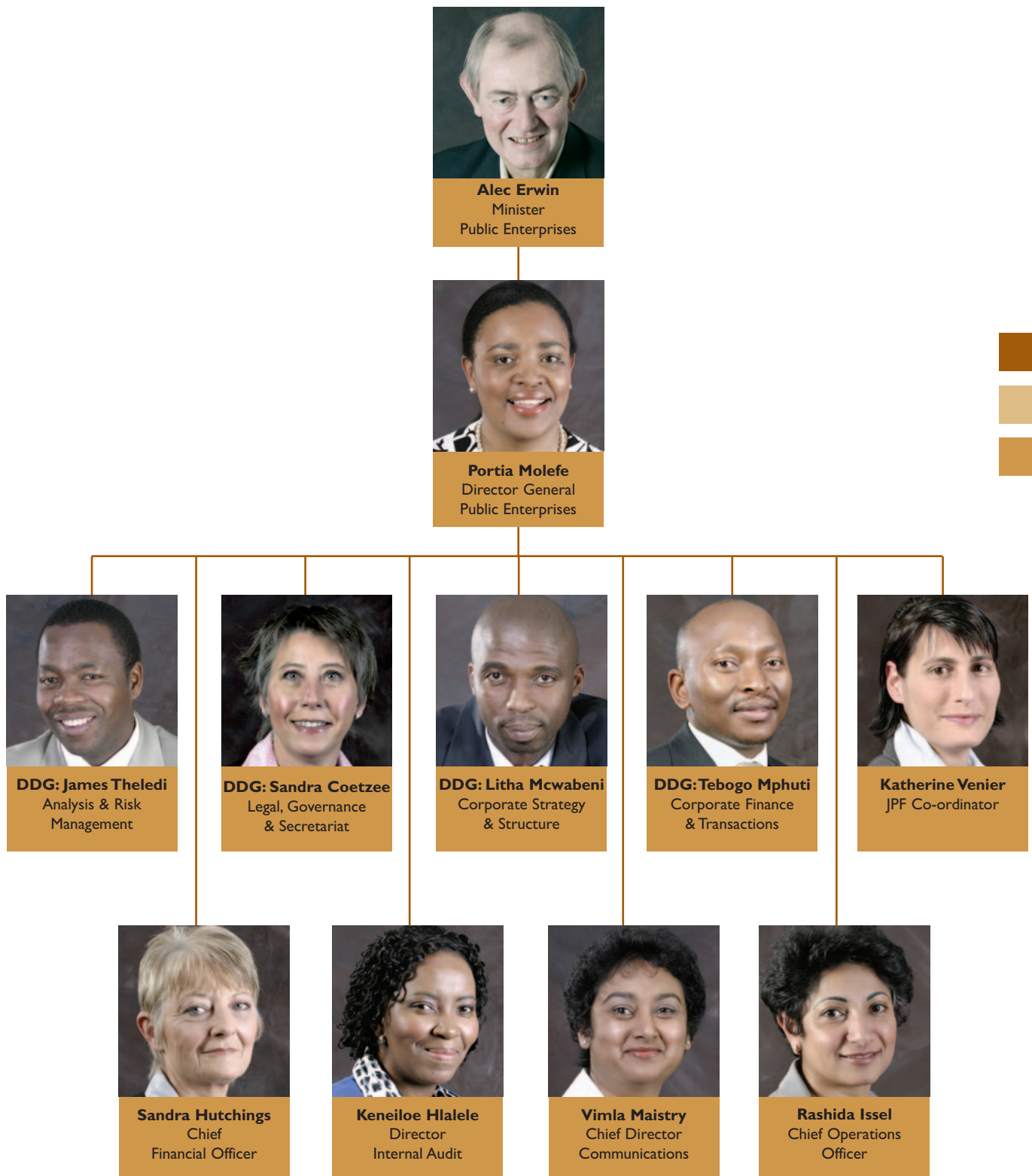
Table I below sets out the current five programmes of the DPE, which enable it to fulfill its mandate.

TABLE I: THE DPE PROGRAMMES

Programme	Responsibility
1. Administration	Enabling the effective and efficient service delivery of the whole of the DPE, so that the department meets its strategic objectives.
2. Analysis and Risk Management	Analyse and monitor the financial, operational and socioeconomic performance of SOE to ensure compliance with the Corporate Plans and Shareholder Compacts and actively mitigate key risks flowing from the SOE activities.
3. Legal, Governance and Secretariat	Analysis of the legal and regulatory framework in which SOE operate to optimise compliance, effectiveness and transparency of service delivery, and for overall monitoring and implementation of transactions and governance in SOE.
4. Corporate Strategy and Structure	Defining and implementing industry structures, public/private service delivery and SOE strategies that will optimise overall industry efficiency. The Joint Project Facility (JPF) was established by the CEO Forum in 2005, and is mandated to facilitate the development of projects that enhance the value of an industry and/or capabilities of the SOE to the benefit both of those SOE and the economy as a whole.
5. Corporate Finance and Transactions	Successful execution of government-led transactions through efficient and effective financial and project management within the recommended timeframes.

3. ORGANISATIONAL STRUCTURE OF THE DPE

The Organogram is set out below. This is followed by details for each of the Programmes, and their associated targeted outputs and achievements for the financial year under review:



Filled Posts: 124
Vacancies: 33



4. THE MINISTRY

PURPOSE

The mandate of the Minister is to provide political oversight and leadership to state-owned enterprises to maximise their positive impact on growth and development. His role as executive authority in the department is to ensure that it, as managed by the Director-General, delivers on its vision and mission.

The purpose of the Ministry is to support the Minister to realise his mandate and exercise his role. The support is provided through five main functional areas:

- **Administration:** administrative support to the Minister and the staff of the Minister's office
- **Advisory support:** technical and policy support for the Minister
- **Public relations and media liaison:** managing and coordinating the Ministry's public relations function

- **Parliamentary services:** coordinate the department's and state-owned enterprises' interactions with Parliament
- **Cabinet services:** ensure high-quality and timeous responses to Cabinet requests.

OFFICIAL ENGAGEMENTS

The administrative, advisory and public relations functions primarily facilitate the Minister's effective participation in official engagements. These engagements are linked to the Minister's political and executive obligations.

Effective interaction with key stakeholders of the DPE is an essential component of the Department's work programme, as indeed it is for any other public or private sector institution. It assists to engender social consensus around policies and secure co-operation around important programmes. Where appropriate, the Minister plays a pivotal role in such interactions, as part of the official engagements for the year.



Political responsibilities of the Minister include the attendance at activities of the governing party, and serving as the political champion for the Urban Renewal Programme (URP) in the Inanda, Ntuzuma and KwaMashu (INK) areas. The Minister worked closely with the city manager of e-Thekwini, Mr. Mike Sutcliffe, and local councillors, and conducted site visits to the different URP projects during the year under review.

Media

Overall, the past year was a success in terms of media relations. The key communication message was the department's infrastructural investment plan.

Two lunch meetings with editors were conducted and one-on-one interviews with journalists from the print and electronic media occurred throughout the year. The Minister participated in media briefings after the release of the annual reports of the SOE, namely Transnet, SAA, Denel, Safcol, and Alexkor. Media briefings also took place to address the transformation of Transnet and energy-related concerns. As the deputy chairperson of the Economic Cluster, the Minister further contributed to the Economic Cluster Media Briefings arranged by Government Communication and Information Services (GCIS).

PARLIAMENTARY SERVICES

Parliamentary Questions answered during the year under review are as follows:

Houses of Parliament	Written reply	Oral Reply	Total
National Assembly	130	29	159
National Council of Provinces	2	1	3
Total	132	30	162



5. PROGRAMME I: ADMINISTRATION

Overview

The Chief Operations Officer has a mandate to manage the provisioning of operational corporate support services to internal DPE customers in the following areas:

- Planning, Monitoring and Evaluation
- Human Resources
- Communications
- Information Management
- Corporate Services
- Finance and Supply Chain Management
- Internal Audit and Compliance.

Progress on each of these areas are reported here-under.

5.1 PLANNING, MONITORING AND EVALUATION

Purpose

To provide an environment that allows proper business planning and review in order to achieve departmental goals.

Targeted outputs

- To provide systems and infrastructure to direct and coordinate the planning and carrying out of projects.
- Develop business planning frameworks and processes to ensure the smooth running of operations.
- Ensure that the DPE's Medium-Term Strategic Framework (MTEF) is aligned with government's planning cycle.
- Reporting on the DPE's activities, annually and quarterly, timeously and accurately.

Achievements

- Dash-board project management system installed and training conducted
- Strategic planning workshop held and departmental key performance indicators identified and agreed upon
- Medium Term Strategic Framework amended and tabled in Parliament
- Reporting procedures tightened and all monthly, quarterly and annual reports submitted to the Audit Committee, National Treasury, ExCo and MANCO.

5.2 HUMAN RESOURCES

Purpose

As with most leading human resources (HR) systems, the purpose of the DPE's HR unit is to analyse skills needs appropriate to the DPE's work, recruit, select, and retain valued staff.

Targeted outputs

- Ensure that organisational structure is in line with the strategy
- Attract and retain staff and provide career/ succession planning
- Integrated performance management system and effective incentive/ reward policies

Achievements

- HR policies, processes and procedures were reviewed to enhance compliance
- Role profiles were developed and organisational structures updated.

- Strategic recruitment processes were refined to target scarce skills and talents.
- The DPE has finalised the “balanced scorecard” system and brought employment equity levels within national standards, exceeding expectations in the process.

Challenges

- Recruitment and appointment of persons with disabilities remains a challenge.

Statutory requirements (special programmes, performance management and employment equity)

As illustrated in the table below, the department exceeded its equity targets for race and gender representativity at all levels and for all occupational classes [refer to Appendix A].

5. PROGRAMME 1: ADMINISTRATION

TABLE 3: EQUITY TARGETS FOR 2005/2006

Race	Actual No. on 1 April 2005	Target set for 31 March 2006
African:		
Male	49	61
Female	63	63
Indian:		
Male	10	2
Female	24	2
Coloured:		
Male	2	7
Female	6	7
White:		
Male	3	7
Female	10	8
Employees with disabilities:	0	15
Total Staff	136	157

HUMAN RESOURCES MANAGEMENT

The retention and attraction of highly skilled and specialised staff remains a challenge due to limits set by Public Service remuneration policies. The DPE has performed satisfactorily in terms of Public Service Regulations and all relevant legislation applicable to the public service [refer to Appendix A for statistical data].

LABOUR RELATIONS AND JOB EVALUATION**Table 4: Labour Relations (Between 1/4/2005 - 31/3/2006)**

Subject matter	Total No. of employees involved	Progress
Dispute lodged with GPSSBC (Arbitration)	3	1 employee withdraw
		2 cases resolved
		3 referred for arbitration
Grievance	0	0
Misconduct	0	0

Table 5: Job Evaluation (Between 1/4/2005 - 31/3/2006)

Level/s	No. of evaluated posts	Progress/ Outcome
1- 5	0	0
6- 8	1	Remain the same level (7)
9-12	0	0
13-16	1	Remain the same level (13)
Total	2	

HUMAN RESOURCES DEVELOPMENT

The DPE's investment in the development of its human capital was spent as follows:

Table 6: Human Capital Development

Salary levels	No. of Bursaries	Actual No. of employees as at 31 March 2006
1-2	0	0
3-5	3	11
6-8	20	43
9-12	6	29
13-16	5	41
Total	34	124

5. PROGRAMME 1: ADMINISTRATION

5.3 COMMUNICATIONS

Purpose

To provide an exciting communications, marketing and external relations plan of action that will position the department and enhance its ability to fulfil its mandate.

Targeted outputs

- To improve the DPE's communications, marketing and external relations strategy.
- Develop a comprehensive internal communications system and activities for staff, in line with the ethos of the DPE.
- Establish a new corporate identity

Achievements

- Participated in the following events
 - 16 Days of Activism on violence against women and children
 - The DG's visit to the Phelophepa Train
- Revamped website, new content site map and new corporate identity for the site
- Successful coordination of Minister's Imbizo in the Western Cape
- Launched a new corporate identity during the period under review

Challenges

The absence of a communication strategy hindered the effectiveness of the unit.

5.4 INFORMATION MANAGEMENT UNIT

Purpose

To provide the required information management systems and technology services underpinned by service excellence.

Targeted outputs

- Virtual Private Network
- Automated business processes
 - Finance
 - Human Resources
 - Registry
 - Performance management
- IT availability (Hardware and Software) and data availability.

Achievements

- First phase of automated business processes completed
- Automated project management system implemented.

5.5 CORPORATE SERVICES

Purpose

To provide an enabling environment in which internal clients (staff) are provided with essential support services.

Targeted outputs

Here the emphasis was on upgrading safety and security standards, reviewing and, where necessary, developing new DPE Corporate Services policies, and cutting costs while improving efficiencies. At the same time the interconnectedness of the Record Management and Knowledge Management (through the Hummingbird system) was developed.

Achievements

- Vetting of all employed SMS members submitted to National Intelligence Agency
- Manual file plan updated and approved by National Archives
- The following policies were approved: Sessional, Library, Parking, Sponsorship, Security and Registry.

5.6 FINANCE AND SUPPLY CHAIN MANAGEMENT

Purpose

To create an environment that affords effective financial management and financial planning, as well as ensuring that efficient, transparent supply chain processes are maintained.

Targeted outputs

The efficiency drive of this unit extends to:

- An up-to-date and accurate assets register
- Proper procurement procedures
- Quick turnaround times for ordering goods

Achievements

- Staff training on procurement and petty cash processes have been completed
- Development of new Procurement Policy
- Revision of six other finance-related policies - Petty Cash, Travel, Entertainment and Catering, Telephone, Cellular phone and Network card, Assets, Subsistence and Travel. Some of these are still awaiting approval, but will be finalised within this financial year.
- Finalisation of the updated asset register is pending.

Challenges

- Department restructured during the year under review which resulted in numerous budget reallocations.

5.7 INTERNAL AUDIT AND COMPLIANCE

Purpose

To be a change agent providing impartial opinion, practical actions, and cost effective solutions that will assist the Department in mitigating business risks and achieving its objectives.

Targeted outputs

- Effective Risk Management practice.
- Improved compliance with laws.
- Compliance with the Institute of Internal Auditors' (IIA) Professional Practice standards.

Achievements

- Processes for controls, risk management and governance reviewed and recommendations implemented.
- Departmental compliance with National Treasury regulations and IIA Professional practice standards reviewed and recommendations implemented.



6. PROGRAMME 2: ANALYSIS AND RISK MANAGEMENT (ARM)

PURPOSE

To analyse and monitor the financial, operational and socioeconomic performance of SOE to ensure compliance with the Corporate Plans, and Shareholder Compacts and actively mitigate key risks flowing from the SOE activities.

Apart from the Management component of the programme, there are two sub-programmes:

Analysis sub-programme continuously analyses and monitors the performance of SOE, focusing on their operations, financial performance and their role in socio-economic development. The sub-programme plays a vital role in the shareholder compact and oversight process as it identifies the key performance indicators and targets for inclusion in the compacts and is responsible for a comparative benchmarking programme of SOE.

Risk Management sub-programme is responsible for formulating and implementing a risk management framework for the purposes of providing the shareholder with reasonable assurance that significant risks both at SOE and departmental level are systematically identified and managed to acceptable levels on a continuous basis. This includes the analysis and monitoring of risks associated with SOE activities, advising on the application of section 54 of the PFMA and materiality frameworks, identification of key risks to be monitored by the shareholder, and establishing early warning and reporting systems. The sub-programme will regularly report on systemic risks and vulnerabilities in and across the SOE and advise on risk mitigation plans.



TARGETED OUTPUTS

Output	Measure/Indicators	Target	Achievement
ANALYSIS			
Report on financial performance of SOE against agreed targets	Financial performance reports with appropriate corrective measures taken by the department to limit the deviations	Quarterly	Assessments of SOE quarterly performance reports, recommending shareholder intervention where appropriate
		Annual	Assessment of all SOE 2004/05 annual financial performance in preparation of Annual General Meetings
		Five-year Review	Developed and compiled a 5-year analysis report on the historical performance of SOE
Benchmarked on key financial performance indicators for each SOE for incorporation into shareholder compacts	Researched and benchmarked key performance financial indicators, resulting in SOE performance aligned with industry standards	Annual revised benchmarks	Successfully implemented Holt Value-Add to determine Cash Flow Return on Investment®. CFROI and other KPIs used to benchmark SOE 2006/07 targets as per Corporate Plans.
Develop mechanism to improve co-ordination of SOE	Establishment of CFO Forum	September 2005	CFO Forum established with two meetings during 2005/06. Terms of Reference developed and approved by CEO forum

6. PROGRAMME 2: ANALYSIS AND RISK MANAGEMENT (ARM)

Output	Measure/Indicators	Target	Achievement
Develop generic and specific key socio-economic indicators for SOE	Strategic Key Performance (SKP) Indicators for SOE	Feb 2006	Identified SKPIs for Eskom and Transnet
Benchmark selected socio-economic KPI targets against legislative requirements (Employment Equity, Skills Development, Empowerment Acts and relevant charters)	Financial KPIs database		Created an excel based benchmark database for the financial KPIs of Eskom, Denel and SAA
			Analysis of quarterly performance of SOE
RISK MANAGEMENT			
Determine the effectiveness and appropriateness of risk management in SOE	Risk Management Survey	June 2005	Conducted a high level risk management survey that resulted in the publication of a booklet on the status of risk management in SOE. The booklet was presented to parliament during the Minister's budget vote of April 2005.
Manage and reduce risks government is exposed to through the activities of SOE	Reports from SOE outlining risk profile and identified risks.	Quarterly reports	The above-mentioned survey assisted a lot in focusing the risk management interventions of the department. The key risks facing the department and its SOE, and the strategies to manage these risks will be outlined in detail in the proposed risk management framework which is envisaged to be completed in August 2006
Government-wide guidelines on risk management in SOE	Implemented or revised risk management guidelines within SOE	End of 2005/06 financial year	Finalised a draft position paper on the risk management framework that also include risk guidelines. The position paper is awaiting the necessary approvals, and after which there will be implementation.
			Established the SOE Risk Forum, which is a forum constituted of risk officials in SOE to discuss and share issues related to corporate governance and risk management. Terms of reference of the Forum were developed and approved by the Minister, and four quarterly meetings took place during the financial year.
			Published a booklet on the status of risk management practices in SOE



7. PROGRAMME 3: LEGAL, GOVERNANCE AND SECRETARIAT (LGS)

PURPOSE

To provide effective legal services, corporate governance systems and secretariat services to the department and SOE and to ensure alignment with government policy objectives.

Legal, Governance and Secretariat (LGS) is comprised of three functional areas: Legal Office, Governance and Secretariat. All three deliver internal services. Governance has a distinct role in that it interfaces with SOE, National Treasury and

other government departments. A substantial portion of the Secretariat's workload relates to the Economic Cluster.

The LGS programme also provides advisory and secretariat services to the department and the Economic and Employment Cluster. The programme has a distinctly legal focus, as it interprets, develops and records factual frameworks in relation to powers, functions and duties, and formal decisions.

7. PROGRAMME 3: LEGAL, GOVERNANCE AND SECRETARIAT (LGS)

Output	Measure/Indicators	Target	Achievement
LEGAL			
Management and reduction of litigation against department	Management and reduction in litigious matters against department	March 2006	Two litigation matters settled Other matters continuing
Contract Management (including drafting, vetting and filing)	Proper contract management system	March 2006	Database established and working
Legal Advisory Support	Approved submissions	32 submissions	Approval of submissions by DG & Minister
Recovery of debts owed to department	Recovery of monies	Ongoing	Issued summons and warrant of execution against two of the debtors
Promotion of Access to Information Act	Framework for dealing with requests in terms of Act	March 2006	Delayed due to research on categories of information.
Legal Panel of Experts	Legal Panel database	Annually	Completed for 2005/6
Review procurement policy	Revised policy	March 2006	Policy revised

CHALLENGES

- An action was instituted against Government and Aventura by one of the bidders, Century One Holdings (Pty) Ltd, over the disposal of the Aventura Resorts. The claim is for R61 million. Department is defending the action.
- The Richtersveld Community has lodged a land claim against Alexkor and Government in the Land Claims Court for the return of their land and compensation. A memorandum of understanding to settle the land dispute was signed between the Community, Alexkor and Government. Negotiations are at an advanced stage to settle the dispute.
- Nabera instituted claims in the amounts of R4 million and R119 million respectively against Alexkor and Government. The claims are for “management fee” and “added value”. Both Alexkor and Government are opposing the legal action.

7. PROGRAMME 3: LEGAL, GOVERNANCE AND SECRETARIAT (LGS)

Output	Measure/Indicators	Target	Achievement
GOVERNANCE			
Effective Shareholder Management Model to improve government's oversight and shareholding role over SOE	Developed and implemented Shareholder Management Model (Approved Conceptual Framework, SMM Legislation, Directors' database, Induction Toolkit, Remuneration Guidelines, Board Appointment Framework, Review of Memorandum and Articles of Association, Generic Compacts, Board Evaluation Guidelines)	March 2007	Internal Stakeholder Workshops on the SMM Draft Conceptual Framework Draft Remuneration Guidelines Generic Compacts
Updated protocol on corporate governance to be used as tool to monitor compliance of SOE with PFMA and governance requirements	Updated protocol on corporate governance issued and implemented as benchmark for PFMA and governance requirements		The project has been deferred due to prioritisation of related SMM projects
Board Management	Signed SOE Shareholder's Compacts SOE Annual General Meetings Board Appointments Legislative compliance monitoring table	Annually Annually Ongoing Ongoing	Only Eskom Compact signed All SOE AGMs did take place Board appointments at Safcol, Eskom & Denel
Framework to strengthen sector regulators	Development of framework	November 2005	Completed.
POLICY			
Revised policy framework on restructuring SOE to guide future restructuring activities	Revised policy framework developed	September 2005	Approved Shareholder Management Model will be used to manage the SOE effectively.
Develop operational frameworks on broad-based BEE, preferential procurement, gender, HIV and Aids, and skills development	Frameworks developed and in use by SOE	March 2006	The DPE is closely monitoring the implementation of BEE policies in the SOE to ensure that there is compliance with legislation developed by policy departments

7. PROGRAMME 3: LEGAL, GOVERNANCE AND SECRETARIAT (LGS)

Output	Measure/Indicators	Target	Achievement
SECRETARIAT			
Co-ordination of responses to the Government's Programme of Action and the Cluster's ASGISA projects	Updated project Cards and POA cards completed and submitted by all Economic Cluster Departments	24 April 2006 21 June 2006 26 July 2006	1. Cluster Progress reports presented to Cabinet 2. Economic Cluster reports tabled before July and January Makgotla
Effective and efficient co-ordination of meetings for all fora served by the Secretariat.	1. Meeting dates circulated to all members at the beginning of the year 2. Meeting documentation circulated to all members in advance of all meetings.	Dates stipulated in the meeting schedules	1. Annual meeting schedules 2. Signed meeting packs
Professional management of all meetings	Professional layout of meeting venues, documentation and equipment to be used.	Dates stipulated in meeting schedules.	Co-managed meetings of the Economic Cluster - 18x meetings held Contributed to the development of the Economic Cluster reports on the implementation of the Programme of Action and inputs to Cabinet Lekgotla Three reports submitted to Cabinet, which were well received Sustainable platforms of engagement established With SOE 7x CEOs Forum 2x CFOs Forum 3x Chairpersons' Forum Within DPE 11x ExCo 7x MANCO 6x Projects meeting

GOVERNANCE

The Governance Unit has begun to strengthen the department's oversight role and compliance and thus ensure that the department's shareholder rights and obligations become more pronounced which was the case previously. The Shareholder Management Model ("SMM") is the key vehicle through which the aforesaid objective is to be achieved. The SMM is characterised by a number of sub-projects the cumulative effect of which is envisaged to result in overall effective shareholder oversight. The success of the SMM hinges strongly on inter-departmental consultation and consensus on an ongoing basis.

Some of the sub-projects under the broader SMM projects have been achieved (Draft Conceptual Framework, Remuneration Guidelines and generic shareholder's compact).

The SMM project is a multi-year exercise. It is envisaged that the outstanding SMM sub-projects (SMM Legislation, Directors' database, Induction Toolkit, Board Appointment Framework, Review of Memorandum and Articles of Association, Board Evaluation Guidelines), including implementation, will be completed during the 2006/2007 financial year.

Challenges

- Inter-departmental co-operation, consultation does result in delays
- Occasional SOE non co-operation (e.g. legislative compliance)
- Competing internal Governance-related priorities and projects
- Synergy between SOE Team and Unit-specific mandate & work
- Competing internal Governance-related priorities and projects
- Non uniformity & inconsistencies in relation to the process workflow

SECRETARIAT

Challenges

- Dedicated capacity by each Cluster Department in respect of responding to Cluster priorities
- Clear acknowledgement of meetings as decision supporting structures whose decisions require execution and whose commitments need to be kept.
- Recognition of meetings of various structures as professional arrangements rather than routine gatherings whose deliberations are forgotten until the next meeting.



8. PROGRAMME 4: CORPORATE STRATEGY AND STRUCTURE (CSS)

OVERVIEW

The Deputy Director-General heads the CSS unit. The unit comprises the Defence & Forestry, Energy and Transport sectors that are headed by the Chief Directors.

All sectors play a key role in the development of the Shareholder Compact, analysis of the Corporate Plans, analysis of the Quarterly reports and analysing section 54 applications in terms of the Public Finance Management Act (PFMA).

PURPOSE

The CSS Unit develops position papers on State-Owned Enterprises (SOE) strategies, develops optimal industry structure, defines the role of the SOE in the sector and align these to government policy.

8. PROGRAMME 4: CORPORATE STRATEGY AND STRUCTURE (CSS)

Output	Measure/Indicators	Target	Achievement
TRANSPORT			
Clearly defined strategy for ports, and framework for private sector participation	Defined areas for private sector participation, starting with container terminals	May 2005	Finalised the architectural framework for introducing PSP at Coega
Revised pricing policy for ports, specifically in relation to strategic industrial projects (e.g. Coega)	Pricing framework accepted by government and SOE	August 2005	The project objective, to reduce high prices in ports, is captured as part of KPIs for Transnet.
South African Airways strategy and investments aligned to overarching aviation industry strategy	Revised national aviation strategy, and revision of SAA plans in accordance with national aviation strategy	September 2005	Review of SAA is in progress and report will be submitted shortly
Model for private sector participation in rail, including principles for private sector access to railway network	Framework for private sector participation in rail, both core and branch line networks The Blue Train will be packaged for a potential concession	December 2005	Various models have been assessed, and can be implemented on a case by case basis Approved section 54 for the disposal of non-core assets (including the Blue Train)
Separation of SAA from Transnet	SAA no longer a subsidiary of Transnet	March 2006	SAA sold to Government effective from 31st March 2005
Transfer of Metrorail to SARCC	Transfer completed	March 2006	Operational Transfer completed in May 2006
ENERGY			
Revise Eskom's long term Electricity Infrastructure Investment Programme	Agreed revised Infrastructure Investment Programme	June 2006 June 2006 May 2007 February 2006	Eskom's Infrastructure Investment Programme was revised. An electricity forecast that is in line with reaching a 6% Gross Domestic Product (GDP) growth rate between 2010 and 2014 was adopted. Eskom will adopt a stretch period over the next five years in order to close the 2000 MW gap. Camden and Komati were returned to service The construction of the Open Cycle Gas Turbines in Atlantis and Mossel Bay is underway Approvals for the construction of a Base load coal-fired plant and a pumped storage scheme were granted

8. PROGRAMME 4: CORPORATE STRATEGY AND STRUCTURE (CSS)

Output	Measure/Indicators	Target	Achievement
New Gen Independent Power Producers (IPPs)	Signed Power Purchase Agreement	March 06	The PPA was signed
	Issuing of the Request for proposal (RfP)	March 06	The RfP was issued
Reserve Margin Position Paper	DPE approved Position Paper	July 06	The Reserve Margin Position Paper is being finalised
Electricity Distribution Industry Restructuring (EDIR): Developing the National Electricity Distributor (NED) concept and the Business Case for the NED	Cabinet approved NED Conceptual Design and the Business Case	June 06	The Concept Design and the Business Case for the NED is complete
Multi Year Price Determination (MYPD)	Approved MYPD	February 06	The National Energy Regulator of South Africa made the final determination on the MYPD.
Pebble Bed Modular Reactor (PBMR).	Approved Shareholders Agreement Completion of the listing Approved Shareholders Compact	September 06	
DEFENCE			
Defined growth and development strategy for Denel that will aid the broader defence industry.	Phase 1: Revised business model, business plan and investment plan: 1. New business strategy and plan 2. Consolidation roadmap for Denel 3. Exit of non-core businesses 4. Funding for Denel	November 2005	1. Denel's corporate strategy for the turn around of the SOE was finalised. 2. Denel assessed the viability of its businesses and determined which businesses will be turned around and which will be exited. Consolidation roadmap finalised. 3. Disposal of 4 non-core businesses finalised. 4. National Treasury approved a recapitalisation amount of R2 billion for Denel.
	Phase 2: Integration into global supply chains: A. Strategic partnership development 1. Assessment of potential strategic partners by Denel. 2. Conclusion of transaction agreements.	February 2006	1. Due diligence on potential partners carried out. 2. Memorandum of Understanding and business case finalised between Denel and a foreign partner. 3. First transaction expected during 2006/07.

8. PROGRAMME 4: CORPORATE STRATEGY AND STRUCTURE (CSS)

Output	Measure/Indicators	Target	Achievement
	B. A400M acquisition I. Off-set opportunities		B. A400M and off-set opportunities finalised, benefiting Denel and another work package supplier in the industry. Enhancement of Denel's capabilities through strategic alliance partnership underway (to be concluded in 2006/07)
SANDF procurement review and industry development initiatives 1. Assist with the alignment of defence acquisition policy with the objective of further developing the local defence industry 2. Assist with the rationalisation of key national defence functions	1. Alignment of acquisition processes 2. Defence sector strategy 3. Reclassification of Armscor 4. Establishment of the Defence Evaluation and Research Institute (DERI)	Implementation during 2006/07	Inter-departmental task teams and work plans were established: 1. Alignment of acquisition processes underway 2. Initial research and economic model on defence industry completed 3. Functions that will be transferred out of Armscor identified and implementation plan finalised 4. Functions that will be moved into DERI identified and implementation plan finalised
FORESTRY			
Sale of the Mountain to Ocean (MTO) forestry package Sale of Komatiland Forests (Pty) Ltd, a subsidiary of SAFCOL	Finalisation of transactions	July 2005	Sale of MTO finalised Following the investigation by the Competition Commission, the sale of KLF to the Bonheur Consortium was terminated early in 2006.
Review and determine the future role for SAFCOL in forestry development.	1. Review research on forestry sector and development opportunities 2. Consider the viability of "industrialising" certain indigenous tree species.	Future role and strategy for SAFCOL to be in place by 31 March 2007	International expert and Director for Forestry appointed. 1. Initial research on international best practice in forestry development and local studies on the sector complete. 2. The work on "industrialising" certain indigenous tree species will be undertaken in the SAFCOL role review during 2006/07.
ALEKKOR			
1. Monitoring of Alexkor's viability	1. Performance and Corporate Plan review	During 2005/06	1. Review complete. Implementation of Alexkor's turn around strategy in 2006/07.



9. JOINT PROJECT FACILITY (JPF)

Overview

In 2005 the Minister of Public Enterprises and the State Owned Enterprises (SOE) established a Joint Project Facility (JPF) to manage value-enhancing projects within specific SOE. The objective of the facility is to ensure the rapid development of projects to the point where an investment case has been accepted in principle by relevant operational companies and, where appropriate, by financial investors. All projects in the JPF are developed and executed by highly skilled project managers who report operationally to the DPE.

The JPF managed projects under five themes in the last year. These are:

- Continental Investments
- Energy & Pipelines
- Human Resources and Capacity Building
- Information Communication Technologies
- Properties

Targeted outputs

The focus of the JPF in 2005/6 was to establish the unit, recruit highly skilled project managers and appoint DPE staff to work on these projects. Terms of Reference for each project needed to be developed, and accepted by the CEO Forum before

proceeding with implementation. All the project teams were established by the close of the financial year, and all the Terms of Reference were signed off by the CEO Forum before the commencement of the new financial year.

9.1 CONTINENTAL INVESTMENTS

Achievements

The Terms of Reference for this project were approved in October 2005, and a Continental Investments Task Team, comprising key SOE managers involved in Africa, was established. The Team compiled a benchmark study of investments on the Continent.

9.2 ENERGY AND PIPELINES

Achievements

The project began in November 2005, with the primary objective of providing an overview of the energy sector that supports investment in pipeline infrastructure. Terms of Reference for the project were submitted to the CEO Forum at the end of 2005 and approved early in 2006. Information gathering and scenario planning were well under-way by the close of the financial year.

Challenges

Pressing capacity issues and constraints on the pipelines in the country require that this project is fast-tracked to ensure that the pipelines infrastructure in the country unleashes the potential for growth.

9.3 HUMAN RESOURCES AND CAPACITY BUILDING

Achievements

Terms of Reference for this project were approved by the CEO Forum in February 2006. This team's mandate is to understand skills requirements in the SOE to ensure their capital expansion programmes progress unhindered by constraints in human capital.

9.4 INFORMATION AND COMMUNICATION TECHNOLOGIES

Achievements

Broadband Infrastructure

The team performed an advisory role to the Ministry with respect to the Second Network Operator (SNO) and the SOE sale of the Full Services Network (FSN).

Call Centres

The Department worked closely with a call centre service provider to scope this project. A suitable site, in terms of location, access to transport, access to staff, and connectivity was identified. The project team also embarked on the process of securing a client for the pilot project.

SOE ICT rationalisation

A business case for the consolidation of the SOE data centres was developed and presented at the Chairpersons' Forum on the 6th of December 2005. However, it was clear that the risks and disadvantages outweighed the potential benefits of a consolidated data centre. It was therefore decided that this project should be closed.

A business case for the rationalisation of SOE data networks was developed and presented at the Chairpersons Forum on the 6th of December 2005 as well. It was agreed that this project has clear merits, but that it should be put on hold until the SNO is finalised. Once the SNO is operational, the ICT Project Team will engage with the SNO to bring this project to conclusion.

Challenges

Securing a client for the call centre pilot project has been the biggest challenge to the project team and ultimately to the success of the project.

A new model for the call centre has been developed. This will now involve collaboration with the Department of Education's Further Education and Training colleges (FETs), call centre technology providers, and institutions providing assistance for training in this field, such as Umsovombu Youth Fund. The new model was presented to the CEO Forum in February 2006 and intends operationalising this in the new financial year.

The network rationalisation project will resume in the new financial year, once the SNO is operational.

9.5 PROPERTY

Achievements

SOE non-core property portfolios were identified and a due diligence of SOE non-core properties undertaken.

Key pieces of SOE land have been identified for development. These developments will either unlock value for the SOE or have a developmental impact, or both. The identified areas for development are:

- Culemborg, Cape Town
- Port of Port Elizabeth
- Durban Bayhead and Point areas
- Newtown North Precinct
- Kaserne / City Deep
- East London sleeper site



10. PROGRAMME 5: CORPORATE FINANCE AND TRANSACTIONS UNIT

PURPOSE

The purpose of the Corporate Finance and Transactions Unit is to oversee and execute shareholder-initiated transactions such as initial public offerings (IPOs), joint ventures (JVs) and public-private partnerships (PPPs). To this end it identifies, manages, executes and reports all shareholder-led transactions.

Corporate Legal Services is responsible for analysing contractual agreements and providing strategic reports.

Corporate Finance is responsible for developing optimal financing structures, taking into account the nature and extent of the finance requirements, the SOE ability to access capital markets, its financial position and objective of the transaction.

Transaction Specialist Services is responsible for managing, executing and reporting on major transactions led by the shareholder in relation to the SOE Initial Public Offerings and prepares identified SOE for their listing on the domestic and international equity exchange markets.



Output	Measure/Indicators	Target	Achievement
CORPORATE SERVICES			
Facilitate development of optimal financing strategies by SOE, aligned to corporate structures and strategies.	Financing strategy supported by research and benchmarked data	December 2005	Consortium led by ABSA has been appointed. The project will be completed during the next financial year (2006-07) end of May
TRANSACTION SPECIALIST SERVICES			
Appropriate materiality frameworks implemented SOE to guide level of government intervention in transactions	Review of materiality frameworks implemented at SOE in terms of Treasury regulation requirements	May 2005	The framework for the assessment of strategic importance of non-core assets was completed and transaction guidelines were developed, and are reviewed as and when necessary.
Generic guidelines and service level agreements for SOE transactions of material nature, to promote conformity and standard processes during transactions	Developed and implemented generic guidelines and service level agreements between department and SOE	July 2005	Guidelines on conducting transactions have been completed and are being implemented



REPORT BY THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2006.

MEMBERSHIP AND ATTENDANCE

The Audit Committee consists of the members listed hereunder and held four (4) meetings as per the approved terms of reference. All the Audit Committee members are independent, which is in line with the industry corporate governance practice.

NAME OF MEMBER	NUMBER OF MEETINGS ATTENDED	MEETING DATES			
		28/11/05	27/03/06	26/05/06	
1. Zienzile Musamirapamwe (Chairperson)	4/4	X	X	X	X
2. Justine Kathan-Mazzaco	2/4	X	-	X	-
3. Richard Cascarino	3/4	X	X	-	X
4. Mattie Joubert	3/4	-	X	X	X
5. Jerry Sithole	2/4	X	-	X	-
6. Cynthia Mbili	2/4	X	X	-	-

COMMITTEE RESPONSIBILITY

The Audit Committee confirms that it has complied with its responsibilities arising from section 38(1)(a) of the Public Financial Management Act (PFMA) and Treasury Regulation 3.1.13.

The Audit Committee has regulated its affairs in compliance with its approved charter and has discharged all its responsibilities as contained therein.

In executing its duties during the past financial year the committee has, inter alia, reviewed the following:

- The effectiveness of the internal control systems
- The effectiveness of the internal audit function
- The procedures for identifying enterprise-wide risks and measures put in place to control the same
- The policies and procedures for preventing and detecting fraud
- The risk areas of the Department to be covered in the scope of the internal and external audits
- The independence, objectivity, organizational staffing plans, financial budget, audit plans and standing of the internal audit function to ensure adequate support is provided to enable the Committee to meet its objectives
- The results of the work performed by the internal audit function regarding financial reporting, risk management, governance processes and internal controls, and any significant investigations and management responses
- The co-ordination between the internal audit function and the external auditors
- The annual report and financial statements, which present a balanced and understandable assessment of the performance of the Department

- The external auditor's management letter and management responses and
- Problems and reservations arising from external audit, and any matters external auditors wished to discuss in the absence of management.

The Audit Committee's review of the effectiveness of the system of internal control is informed by the reports submitted by Internal Audit and management, who are responsible for the development and maintenance of the internal control system. We would, however, like to highlight that all the three internal audit staff members including the Director, Internal Audit resigned between November 2005 and January 2006. An internal auditor was thus engaged in March 2006 on a temporary basis.

Separate meetings on the control environment of DPE were held with the Minister and the Auditor General. Control weaknesses including recommended corrective action were discussed at these meetings. It is our opinion that controls on procurement and IT need to be improved as discussed with management.

We would like to report that the Audit Committee has enjoyed the support of the Minister and management, which is reflective of a positive tone at the top, critical to an effective control environment.

The Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Accounting Officer and the department during the year under review.

The Audit Committee has reviewed the annual financial statements of the Department and concurs with the conclusion of the Auditor-General. We therefore recommend that the annual financial statements as submitted be approved.



Chairperson of the Audit Committee
28 July 2006

