

DEPARTMENT OF ENERGY

***PRESENTATION TO THE SELECT COMMITTEE ON
ECONOMIC DEVELOPMENT***

***DEPARTMENT'S 2013/14 NON FINANCIAL
PERFORMANCE AND ANNUAL FINANCIAL
STATEMENTS***

***Ms Yvonne Chetty
Chief Financial Officer
04 NOVEMBER 2014***

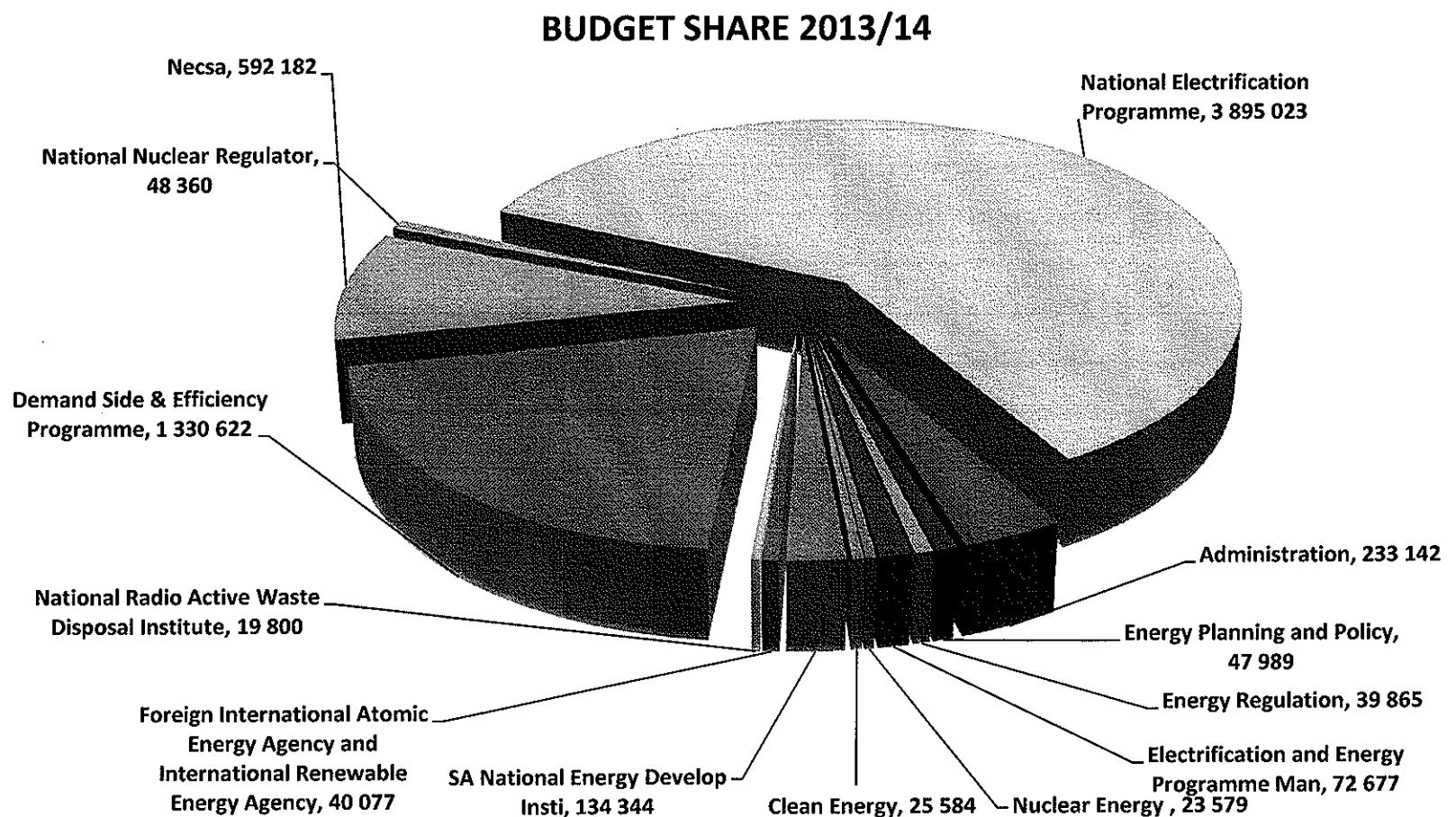
- ## AFS Preparation
- The financial statements has been prepared on the modified cash basis as required in terms of the Departmental Financial Reporting Framework Guide issued by National Treasury.

- ## Challenges
- Financial skills still remain a challenge in the Finance Branch, however training in this regard is currently underway.

- ## Achievements
- The Department was chosen as one of the best performing departments in the 2013 MPAT process by DPMF for 100% compliance in the payment of invoices within 30 days.
 - The Department was also selected as a case study for the above achievement.

INTRODUCTION

The final appropriation of the Department moved from R6.73 billion in 2012/13 financial year to R6.50 billion in the 2013/14 financial year, and was allocated as follows:



Statement of Financial Performance for the year ended

FINANCIAL PERFORMANCE

31 March 2014

REVENUE	6,619,526	Annual Appropriation	6,503,244	Departmental Revenue	43,472	Aid Assistance	72,810
	R'000						
2013/14							
EXPENDITURE	414,785	Transfers and subsidies	6,050,595	Expenditure for capital assets	11,683	Payments for financial assets	0
Current expenditure	414,785	Transfers and subsidies	6,050,595	Expenditure for capital assets	11,683	Payments for financial assets	0
TOTAL EXPENDITURE	6,477,063						
SURPLUS FOR THE YEAR	142,463	Voted Funds	26,181	Departmental revenue	43,472	Aid assistance	72,810

2013/14 BUDGET OVERVIEW

Major spending areas			
DETAILS	Adjusted Budget	Actual spend 31/03/2014	Actual % on budget spend
Rand's Million	R'000	R'000	%
Transfers and subsidies	6,060,826	6,050,595	99.83%
Compensation of Employees	230,312	228,545	99.23%
Goods and Services	199,932	186,240	93.15%
Payments for capital assets	12,173	11,683	95.97%
Payments for financial assets	1	0	0%
Totals : Major spending areas	6,503,244	6,477,063	99.60%

Per Programme			
DETAILS	Actual Spend 2013/14	Budget 2013/14	Actual % on budget spent
Totals 2013/14	6,503,244	6,477,063	99.60%
Administration	233,142	232,558	99.75%
Energy Policy and Planning	47,989	47,756	99.51%
Energy Regulation	39,865	25,836	64.81%
National Electricity	3,967,700	3,958,525	99.77%
Nuclear Energy and Regulation	723,998	722,501	99.79%
Clean Energy	1,490,550	1,489,887	99.96%

2013/14 BUDGET OVERVIEW (continued)

2013/14 BUDGET OVERVIEW (continued)

Support Function				
Administration	Planned Targets	Achieved	Partially Achieved	Not Achieved
Corporate Services	4	2	2	-
Governance & Compliance	1	1	-	-
Financial Management Services	2	2	-	-
Total	7	5	2	
DETAILS		Adjusted Budget 2013/14	Actual spend 2013/14	Actual % on budget spend
		R'000	R'000	%
Administration		233,142	232,558	99.75%

Line Function						
Planned	Achieved	Partially Achieved	Not Achieved	Targets	Actuality	Line Function
12	8	3	1			Energy Policy and Planning
						DETAILS
Actual % on budget spent	Actual % on budget spent	Adjusted Budget	2013/14	R'000	47,756	Energy Policy and Planning
99.51%						

2013/14 BUDGET OVERVIEW (continued)

2013/14 BUDGET OVERVIEW (continued)

Line Function				
	Planned Targets	Achieved	Partially Achieved	Not Achieved
Energy Regulation	6	3	0	0
DETAILS		Adjusted Budget 2013/14	Actual spend 2013/14	Actual % on budget spend
		R'000	R'000	%
Energy Regulation		39,865	25,836	64.81%

Line Function					
Not Achieved	Partially Achieved	Achieved	Targets	Planned	Programme & Project Management
0	1	3	4		Total
					DETAILS
Actual % on budget spent	Actual spend	Budget 2013/14	R'000	99.77%	Electricity & Energy Programme & Project Management
99.77%	3,958,525	3,967,700	R'000	%	Electricity & Energy Programme & Project Management

2013/14 BUDGET OVERVIEW (continued)

2013/14 BUDGET OVERVIEW (continued)

Line Function				
	Planned Targets	Achieved	Partially Achieved	Not Achieved
Nuclear Energy and Regulation	9	4	2	3
DETAILS		Adjusted Budget 2013/14	Actual spend 2013/14	Actual % on budget spend
		R'000	R'000	%
Nuclear Energy and Regulation		723,998	722,501	99.79%

Line Function						
Planned	Achieved	Partially Achieved	Not Achieved	Targets	Clean Energy	DETAILS
-	1	4	5	Actual % on budget spent 2013/14	R,000	99.96%
				Actual spend 2013/14	1,490,550	Clean Energy
					1,489,887	

2013/14 BUDGET OVERVIEW (continued)

FINANCIAL PERFORMANCE

Analysis of financial performance:

- As at 31 March 2014, the Department spent R6.48 billion or 99.6% of its allocated budget.
- This resulted in an unspent balance of R26.18 million or 0.4% of the adjusted allocation.
- The composition of the overall unspent balance of R26.18 million is as follows:
 - Compensation of Employees :R 1.77 million
 - Goods & Services :R 13.69 million
 - Transfer Payments :R 10.23 million
 - Capital Assets :R 490 000
- A rollover motivation totalling R21.13 million was submitted to National Treasury for consideration. (Subsequently, R18.9 million was approved).

Compensation of employees

- The under-expenditure of compensation of employees by 0.77% is mainly due to delay in the implementation of SMS salaries adjustment.
- The department had anticipated the SMS salaries adjustment to be effective from January 2014 however it was only implemented from April 2014 as per DPSA instructions.

FINANCIAL PERFORMANCE (continued)

FINANCIAL PERFORMANCE (continued)

Goods & Services

- The under-spending of goods & services by 6.85% (or R13.69 million) is attributable to delays in administrative processes for projects which were planned to commence during the financial year, for which orders were placed.
- However payments could not be effected due to delays in delivery of goods and services.
- A proposal has been forwarded to National Treasury for the roll-over of a total of R11.97 million of the unspent funding of R13.69 million in goods and services to the 2014/15 financial in order to finalise projects initiated in the 2013/14 financial year. (Subsequently, R10 million was approved).

FINANCIAL PERFORMANCE (continued)

Transfer Payments

- The budget balance of R10.23 million or 0.17% under the transfer payments economic classification is mainly due to under-spending of R8.9 million in the Non-grid Programme.
- The Department was allocated a total of R119.22 million for the implementation of non-grid electrification technologies by service providers during the 2013/14 financial year.
- As at 31 March 2014, the Department had disbursed payments totalling R110.32 million to non-grid service providers, leaving an unspent total of R8.9 million, for which a rollover was requested. (A rollover for the full amount was subsequently approved).

FINANCIAL PERFORMANCE (continued)

Transfer Payments

- Administrative challenges in finalising service provider contracts during the financial contributed to some of the delays in this project.
- Additional service providers were brought on board to accelerate the non-grid implementations.
- During the last quarter of the financial year, a number of audits or verifications of work performed were finalised, increasing the spending in this project.

CAPEX

- The under-spending of payment for capital assets is mainly attributable to orders placed but for which payment was pending as a result of delays in delivery.

	Budget	Actual	Variance	Transfers and Subsidies	Rand Million
EDSM - Municipalities	1,149,900	1,149,900	0	EDSM - Eskom	134,344
EDSM - Municipalities	180,722	180,718	4	EDSM - Municipalities	1,634,772
Rand Million	R'000	R'000		INEP - Eskom	2,141,027
				INEP - Non-grid	119,224
NNR	48,360	48,360	0	INEP - Eskom	2,141,027
NECSA	592,182	592,182	0	NNR	48,360
IAEA - Int. fees	40,077	38,903	1,174	NECSA	592,182
Waste Disposal Ins	19,800	19,800	0	IAEA - Int. fees	40,077
Households	418	269	149	Waste Disposal Ins	19,800
Total Transfer Payments	6,060,826	6,050,595	10,231	Households	418

FINANCIAL PERFORMANCE (continued)

FINANCIAL PERFORMANCE: TRANSFER PAYMENTS

- The management of transfer payments in terms of the DORA are managed by line function (INEP / Clean Energy) based funding requests received from individual municipalities and subsequent project plans which are included in the DORA implementation agreements.
- The Finance Branch manages the alignment of DORA payment schedules with the Department's drawings against the National Revenue Fund and payment requirements.
- The Finance Branch also assists the line function to re-gazette funds from a financial perspective, i.e. from non-performing municipalities and entities.

- Since the inception of the EEDSM programme in 2009/10 there has been some improvements on the management and administration of the programme. However, the following still remain a challenge:
 - Poor EEDSM proposals submitted by municipalities due to inadequate technical skills and/or capacity to manage and implement the project
 - Signing off the Agreements and submission of the business plans as required by the Division of Revenue Act.
 - Monthly, quarterly and annual progress reports not being submitted on time as required by the Division of Revenue Act.
 - Lack of accountability on reports provided. Most of these reports are not officially signed off by an authorized person within the municipality.
 - Poor expenditure by most municipalities. This is evident in the amount being requested as roll-over.
 - Municipal conflicts on Measurement & Verification (M&V) of energy savings. However, it should be noted that for 2014/15, the M&V function has now been shifted and centralized within the DOE.

MUNICIPAL EEDSM PROGRAMME CHALLENGES

TECHNICAL SUPPORT PROVIDED TO MUNICIPALITIES FOR EEDSM PROGRAMME

- In 2011/12 the Department decided to develop an implementation and monitoring guidelines for the EEDSM programme. The guidelines serves as practical tool for the development, implementation and monitoring of the EEDSM measures within municipalities, and also list options on various technologies and methodologies that can be adopted.
- In addition to the guidelines, the Department also developed a set of indicators as a criteria for developing EEDSM proposals.
- These set of indicators together with a business plan, and reporting templates were developed through the South African German Energy (SAGEN) Programme with the support of the German International Cooperation (GIZ).
- In 2013/14, the Municipal Infrastructure Support Agency (MISA) also came on board to provide support specifically on improving municipal capacity and project management on implementation of the programme
- The Department conducts structured workshops and site visits to municipalities to address any shortfalls on implementation agreements.

INEP PROGRAM CHALLENGES

- More connections are done in rural areas – connections costs increases sharply and subsidy level has to be increased accordingly.
- Annual budgetary process force projects to be planned and designed on an annual basis and not on a multi-year (project completion) basis.

FUNDING AND COST OF CONNECTIONS

- Non-grid service providers struggle to survive due to the small customer base and implementation of non-grid projects in far rural locations.
- Current non-grid systems are not addressing basic electricity needs of customers and does not address heating and cooking needs.
- Slow roll-out of non-grid connections due to negative perceptions about non-grid technologies and practical shortcomings.
- Non-grid service providers struggle to survive due to the small customer base and implementation of non-grid projects in far rural locations.

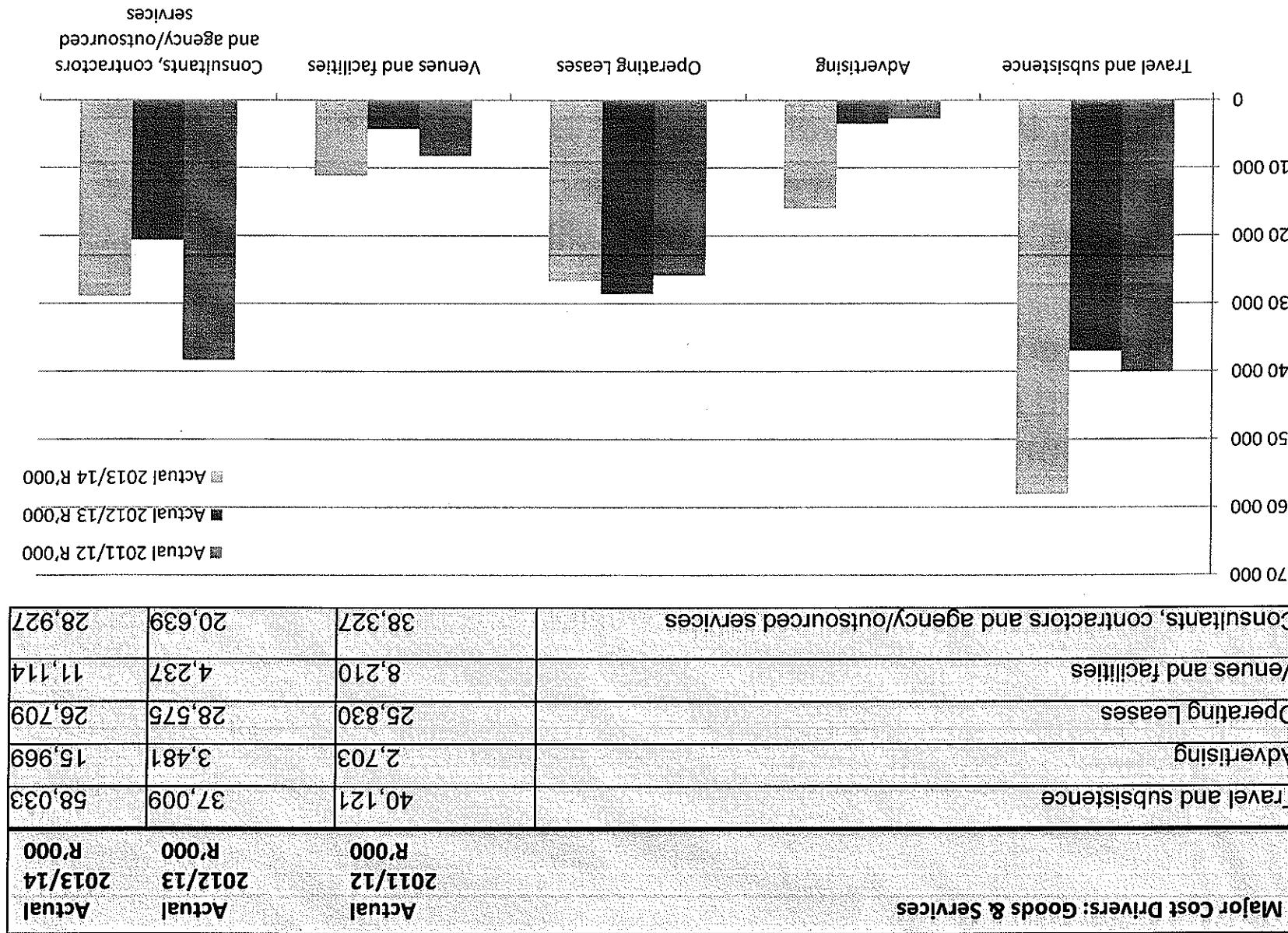
NON-GRID PROGRAMME

- Majority of Municipalities are not performing as required - internal procurement processes are too long, hence the delays in the appointment of the contractors, and the subsequent delays in service delivery.
- Lack of skills and high vacancy rates within Municipalities – administration, technical and project management functions.
- Slow delivery of electrification projects by Municipalities and in certain Eskom regions.

MUNICIPALITIES AND ESKOM

PROPOSED SOLUTIONS ON INEP

- Project Managers and Project Coordinators in the regions must conduct site visits to assess the projects before funds can be allocated, in order to verify the existence of the project.
- During implementation phase, projects are monitored and evaluated, and this oversight role will be strengthened going forward.
- After the completion of the projects, Technical Audits are conducted in order to inspect the quality, technical standards and safety compliance.
- Not all the projects are regularly monitored and audited due to financial and human capacity constraints.
- Projects allocations of over R5 million are prioritised for technical audits.
- Establishment of the Departments monitoring and reporting unit of INEP is currently underway.



FINANCIAL POSITION

Statement of Financial Position as at 31 March 2014

	2013/14 R'000
ASSETS	
Current assets	27,159
Unauthorised expenditure	14,860
Cash and cash equivalents	6,677
Prepayments and advances	1,699
Receivables	3,923
Aid assistance receivable	0
Non-current assets	2,205
Investments	2,205
TOTAL ASSETS	29,364
LIABILITIES	
Current liabilities	27,013
Voted funds to be surrendered to the Revenue Fund	26,180
Dept. Revenue and NRF Receipts to be surrendered to the Revenue Fund	648
Payables	185
TOTAL LIABILITIES	27,013
NET ASSETS	2,351

- Unauthorized Expenditure – R14.86m**
- The unauthorized expenditure of R14.86 million is due to an Infrastructure Grant transfer payments paid to the Mthongane municipality in May 2010.
 - The transfer was appropriated in the 2009/10 financial year, however the payment to the municipality was processed in March 2010, but only transferred in May 2010 due to the system rejection of the banking details.
 - This amount was condoned by National Treasury on 09 November 2011, however NT has not yet indicated if the approval was granted with or without funding.
 - The matter was under discussion with National Treasury as at 31 March 2014.
 - Subsequent to the year-end the Minister of Finance requested SCOPA to consider the exceptional circumstances that DOE experienced at the time of the transaction.

FINANCIAL POSITION (continued)

FINANCIAL POSITION (continued)

Irregular expenditure

- All irregular expenditure incurred in the 2012/13 financial year has been condoned. Irregular expenditure amounting to R379 000 was discovered at the time of audit.
- The R379 000 of irregular expenditure relate to the additional expenditure incurred for the installation of 65 non-grid home systems prior to seeking the approval for expansion of scope.

Investments – R2.205 million

- The Department is a 100% shareholder in The South African Nuclear Corporation Limited (NECSA) and own 2,205 shares of R1 each

(Surplus funds account for 96.9% of the current liabilities).

- R26.18 million - Unspent voted funds / Surplus funds. This was surrendered to NT immediately after the audit.
- R648 000 - Revenue collected on the 31 March 2014. This has been surrendered to NT.
- R93 000 - Taxes on employee earnings. This was paid over to SARS in April 2014.
- R91 000 - Unallocated amounts received in respect of petroleum licenses.

The breakdown of the above is as follows:

Current Liabilities – R27,013 million

FINANCIAL POSITION (continued)

FINANCIAL POSITION (continued)

Audit outcomes for the last 4 years

	2010/11	2011/12	2012/13	2013/14
Audit Opinion	Unqualified	Unqualified	Unqualified	Unqualified
Support Function	27	31	8	14
Corporate Services	3	5	1	2
Information Technology	0	6	3	1
Financial Management Services	17	14	3	6
Governance and Compliance	7	6	2	5
Line Function	10	7	8	3

- Most of the audit findings were addressed as at 31 July 2014 outstanding AGSA findings.
- The department has completed an action plan to address all

Treasury)

- Reclassification of corresponding figures (which was as a result of the amended standard chart of accounts by National Treasury)
- Determination of the provision for the contingent liability relating to the NECSA operational past strategic facilities; following emphasis of matter;
- The department received an **unqualified audit opinion**, the audit opinion:

REPORT OF THE AUDITOR GENERAL

Thank you

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