



SCOPA BRIEFING NOTE

PFMA  
2019-20

ESKOM

*3 February 2021*



AUDITOR-GENERAL  
SOUTH AFRICA

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**1. Introduction**

**1.1 Reputation promise of the Auditor-General of South Africa**

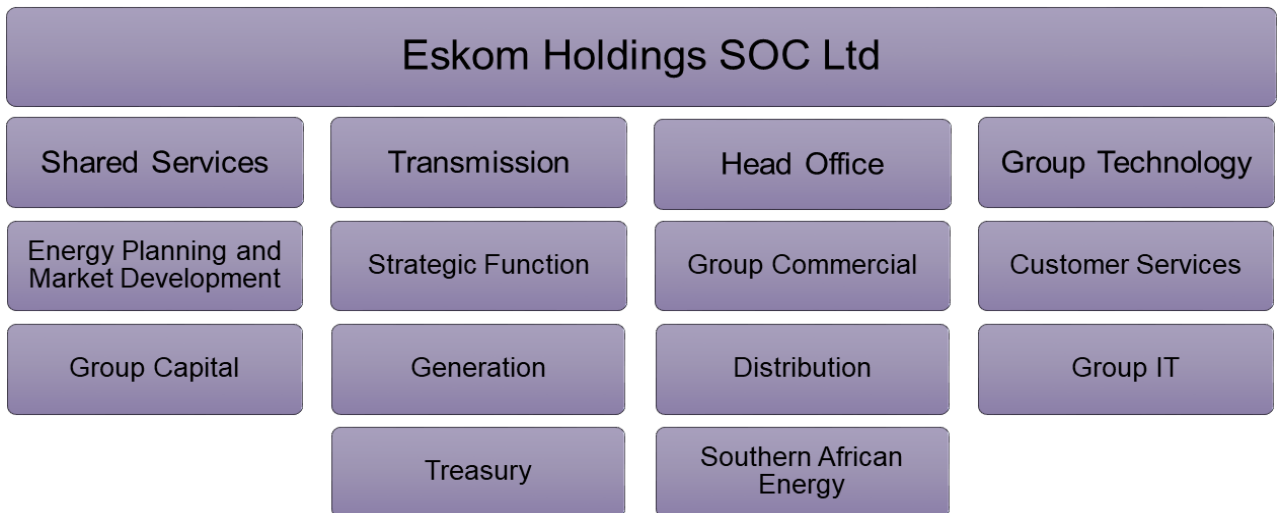
The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

**1.2 Purpose of document**

The purpose of this briefing document is to provide an overview of the audit outcomes and other findings in respect of Eskom for the 2019/20 financial year.

**1.3 Organisational structure**

Eskom is made up of 14 divisions with various functions as illustrated below.



Furthermore, it has subsidiaries as illustrated below.



**1.4 Funding**

Eskom raised R50.9 billion against a target of R46.2 billion in 2020. New funding of R35.9 billion was secured through cash drawdowns and a R15 billion credit facility agreement was extended with a consortium of banks. The sustainability of Eskom’s liquidity position and medium-term ability to raise funds remains at risk.

The debt repayment profile, based on existing debt, is pressured over the short and long term with debt repayments of R197 billion and interest payments of approximately R145 billion over the next five years and maturities extending to 2052. These redemptions and interest payments can only be met with government support combined with cost-reflective tariffs.

Eskom uses a government guarantee of R350 billion to secure funding. The committed and drawn down funding against the guarantee for 2020 was R324 billion, with R26 billion available for further use.

The new five-year borrowing programme for 2021 to 2025 envisaged that Eskom would raise R121.9 billion, which represents a decrease of R85.5 billion compared to the previous five-year borrowing programme. This demonstrates Eskom’s intention to limit further growth in debt securities and borrowings as well as related debt servicing costs.

**2. Audit opinion history**

The audit outcomes for the current period and the past 3 years have been summarised below:

DESCRIPTION	16-17	17-18	18-19	19-20
<i><b>Audit opinions</b></i>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>
<i><b>Areas of modification</b></i>				
<i>Irregular, fruitless and wasteful expenditure</i>	✓	✓	✓	✓
<i><b>Other findings</b></i>				
<i><b>Compliance with legislation</b></i>				
<i>Governance and oversight</i>			✓	✓

DESCRIPTION	16-17	17-18	18-19	19-20
<b><i>Audit opinions</i></b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>
<i>Material misstatements in the submitted financial statements</i>				✓
<i>Expenditure management</i>	✓	✓	✓	✓
<i>Procurement and contract management</i>	✓	✓	✓	✓
<i>Consequence management</i>		✓	✓	✓
<i>Revenue management</i>		✓	✓	
<b><i>Audit of predetermined objectives</i></b>				
<i>Material findings on usefulness and reliability of reported performance information</i>	✓		✓	

***Matters under investigation***

During the financial year under review the regulatory authorities and the accounting authority conducted investigations into alleged irregularities, fraud and corruption within the procurement environment and other areas of the entity. As at the reporting date, some of these investigations were still ongoing and we could not determine the extent of the impact of the outcomes of these investigations to the consolidated and separate financial statements. As disclosed in note 54.2 to the financial statements, various matters are reported to be under investigation.

**AUDIT OPINION**

<b>C</b>	<b>CLEAN AUDIT OPINION: No findings on PDO and Compliance</b>
<b>U</b>	<b>UNQUALIFIED with findings on PDO and Compliance</b>
<b>Q</b>	<b>QUALIFIED AUDIT OPINION (with/without findings)</b>
<b>D</b>	<b>DISCLAIMER/ADVERSE AUDIT OPINION</b>

**3. Overview of the audit outcomes**

- The audit outcome of Eskom in the current audit year **has not improved as a qualification was reported with regards to completeness of irregular expenditure reported**. Further, a material uncertainty relating to going concern was reported in the audit report. This follows four financial years of a stagnant position of “qualified audit opinion with findings”.
- The following movements in the board occurred during the current audit year: Mr JA Mabuza was appointed as the interim chairman and acting group chief executive (GCE). Mr Mabuza resigned on 10 January 2020 and the shareholder appointed Prof MW Makgoba as the Interim Chairman with effect from 13 January 2020. Mr A de Ruyter was appointed as the Group Chief Executive Officer. The utility is adversely impacted by the ageing generation fleet as it is susceptible to unpredictable breakdowns due to legacy issues, apathetic behaviour by some management has also exacerbated the situation.

- The operational, technical and financial performance of the utility was marked by the following key factors that had a negative impact on its going concern and sustainability:
  - system constraints that lead to load shedding
  - COVID-19 and the downgrade by credit rating agencies
  - liquidity constraints and increasing debt levels
  - flat sales and an increase in overdue debt


As highlighted in the current year audited financial statements, the above factors are huge contributors to the group's deteriorating results indicating a loss of R20 502 million (2019: R20 930 million). The group's current liabilities exceeded its current assets by R16 515 million (2019: R45 174 million). The current and prior year losses, deterioration of most of the group's financial indicators, the impact of reduced generation performance along with other matters as set forth in Note 4.2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern

- Liquidity remains one of the biggest short-term challenges hampering Eskom's ability to achieve financial and operational stability and posing a risk to going concern. Access to cost-effective funding remains restricted, while inadequate price increases granted by the National Energy Regulator of South Africa (NERSA) as well as escalating municipal arrear debt further contribute to liquidity constraints. Eskom has restricted its cash requirements to improve liquidity through targeted savings on operating and capital expenditure. However, cost savings alone will not be sufficient to resolve liquidity constraints and the electricity price must migrate to cost reflectivity.
- The downgrade of the sovereign credit rating by Moody's has placed the country at sub-investment grade level across all three internationally recognised credit rating agencies. With Eskom being intrinsically linked to the sovereign, the downgrade will result in an increase in the marginal rate of borrowing for Eskom.
- Overall there was a slight improvement in the financial performance from the previous year with earnings before interest, tax, depreciation and amortisation (EBITDA) increasing by R5.6 billion in 2020, primarily as a result of an increase in revenue and the results of cost curtailment efforts. These improvements were largely offset by an increase in primary energy expenditure.
- The capacity expansion programme started in 2005 to build new power stations and reinstate mothballed power stations to increase installed generation capacity by 17 384MW, as well as increase high-voltage transmission power lines by 9 756km and transmission substation capacity by 42 470MVA. The inception to March 2020 installed generation capacity increased by 12 338MW, transmission lines by 7 976km and substation capacity by 37 690MVA. The programme is expected to be completed by 2024, with an expected cost of R558.1 billion excluding borrowing costs.
- Medupi units 3 and 2 were commissioned during the year, adding installed capacity of 1 588MW to the national grid. Kusile units 2 and 3 were not commissioned during the year as originally expected due to the defects correction process. The Medupi and Kusile power stations are expected to be completed by 2021 and 2024 respectively.

- Construction of transmission lines is behind schedule due to various challenges such as site instability, poor contractor performance, construction problems and contractual issues. During the year, 127.9km of high-voltage transmission lines and 250MVA of substation capacity were installed and commissioned.
- The finalisation of investigations into former executives suspected of misconduct remains a priority. Two former senior employees were arrested on corruption-related charges in December 2019. Eskom and the SIU issued summons in August 2020 to recover money from three former board members and four former executives relating to a prepayment to a former supplier, Tegeta Exploration and Resources (Pty) Ltd
- Eskom submitted a claim of R5 billion against the Optimum Coal Mine (Pty) Ltd business rescue practitioners for pre- and post-business rescue penalties. This has subsequently been reduced to R1.3 billion after an arbitration ruling.
- Eskom and the SIU are investigating potential overpayments to a number of contractors involved in the construction of the Kusile power station. At this stage, Eskom identified the possibility of overpayments of approximately R4 billion. Based on the progress of the investigations into these matters, R3.5 billion of expenditure previously capitalised to the cost of plant was written off as well as related borrowing cost of R0.5 billion. The necessary recovery processes are being instituted upon conclusion of the investigations and quantification of the overpayments in line with the normal processes followed for variation orders and compensation events.
- The breakdown in controls at the entity, failing infrastructure together with the repeated incidents of accidents, theft and vandalism issues have impacted negatively on electricity generation and supply.
- Ineffective compliance monitoring processes that have been previously reported to senior management, has remained unaddressed resulting in repeat non-compliance findings. This includes ineffective steps taken to prevent irregular, fruitless and wasteful expenditure. Please refer to the key focus areas section in this document from page 17 for the specific non-compliance findings.
- Irregular expenditure of R11.2 billion was reported in the current year for the group as Eskom continues with its governance clean up. Irregular expenditure will continue to be incurred on open contracts until the related transgression have been condoned. Fruitless and wasteful expenditure of R2.3 billion and losses due to criminal conduct of R2.2 billion were reported during the year for the group. This trend has been continuing for the past four financial years as indicated in the table above.

**4. Irregular, Fruitless and Wasteful expenditure**

(a) Irregular expenditure:


Auditee		Irregular expenditure (Balance)			
		Movement	Amount R 2020	Amount R 2019	Amount R 2018
1	Eskom Holdings SOC Ltd - Group		33 billion	22 billion	21 billion

Irregular expenditure as at 31 March 2019 was restated which resulted in a decrease of irregular expenditure by R3.6 billion. This was as a result of management’s action plan to address the issues which resulted in the 2019 qualification of irregular expenditure.

Irregular expenditure increased by R11 billion from the prior year. The irregular expenditure was mostly as a result of contravention of supply chain management prescripts. The current year irregular expenditure consisted mostly of the following:

- Tender processes not adhered to and insufficient delegation of authority, this includes non-compliance to Eskom supply chain management policies and procedures, the PFMA and other legislative prescripts. (R5.5 billion)
- Incorrect classification of procurements as emergencies. (R2.7 billion)
- Contract price or time was exceeded without obtaining the necessary approvals including those from National Treasury. (R2.2 billion)
- Eskom is engaging with National Treasury to expedite the condonation process. A standing committee has been established between Eskom, National Treasury and DPE to monitor the processing of submitted applications, including condonation of all irregular expenditure

(b) Fruitless and wasteful expenditure:

Auditee		Fruitless and Wasteful expenditure (Balance)			
		Movement	Amount R 2020	Amount R 2019	Amount R 2018
1	Eskom Holdings SOC Ltd - Group		2.9 billion	538 million	8 million

Fruitless and wasteful expenditure as at 31 March 2019 was restated which resulted in a decrease of R14 million. This was due to managements clean up exercise.

Fruitless and wasteful expenditure increased by R2.4 billion from the prior year. The current year fruitless and wasteful expenditure consisted mostly of the following:



- Expenditure made in vain as a result of poor contract management. Poor contract management consisted of overpayments and projects that were never finalised. (R2.1 billion)

**5. Reportable irregularities**

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors.

The table below reflects the status of the reportable irregularities at 31 March 2020.

Description of issue		Action	Status
Reported as at 31 March 2017			
1	<p><b>Early Retirement – Brian Molefe</b></p> <p>There were allegations that an early retirement agreement between Eskom and the former GCE (B Molefe) was irregular</p>	<ul style="list-style-type: none"> <li>- the Democratic Alliance and Solidarity Trade Union successfully brought an application in the Gauteng Division of the High Court to set aside the early retirement agreement between Eskom and the former GCE</li> <li>- the former GCE appealed the High Court decision to the Supreme Court of Appeal</li> <li>- the Supreme Court of Appeal dismissed the appeal in April 2019</li> <li>- the former GCE subsequently appealed the matter to the Constitutional Court, which also dismissed the case</li> <li>- the EPPF issued a letter of demand to the former GCE in April 2019 for payment of the amounts ordered by the High Court, to date payment is outstanding</li> <li>- the EPPF advised Eskom that it approached the court for an order empowering it to repay the early retirement to Eskom as the current court orders did not empower it to do so</li> <li>- the Hawks are currently investigating the matter</li> <li>- the EPPF launched new proceedings against the former GCE</li> </ul>	Open, pending repayment of the early retirement settlement

Description of issue	Action	Status
Reported as at 20 September 2017		
<p>2</p> <p><b>Parliamentary inquiry status</b></p> <p>A parliamentary inquiry was held into perceived maladministration, governance and procurement issues at Eskom. Certain representations made by previous and current directors and officials indicated that there could have been a breach of fiduciary duties in terms of the requirements of the Companies Act</p>	<ul style="list-style-type: none"> <li>- Eskom investigated and action was taken, including relevant reporting where appropriate, against those implicated in the parliamentary inquiry</li> <li>- some of the implicated employees resigned or their employment was terminated</li> <li>- criminal charges were lodged against relevant employees</li> <li>- the final report on the inquiry was adopted by the Portfolio Committee on Public Enterprises on 28 November 2018</li> <li>- the findings of the report, which were not conclusive, have been analysed. The report recommended that the findings and evidence be submitted to the Judicial Commission of Inquiry into Allegations of State Capture (Zondo Commission) for further investigation</li> <li>- the Zondo Commission is ongoing and Eskom is participating in this process</li> </ul>	<p>Open, pending finalisation, conclusion and receipt of the final report of the Zondo Commission</p>
<p>3</p> <p><b>Procurement of Trillian and McKinsey</b></p> <ul style="list-style-type: none"> <li>- the subcontracting of Trillian Management Consultancy (Trillian) by McKinsey did not follow the correct procurement process</li> <li>- a further issue relating to this matter was raised on 31 March 2018 where the former chief procurement officer (CPO) (E Mabelane), former group executive (GE): group capital (A Masango), former acting GE: group capital (P Govender) and former company secretary (CS) (S Daniels) approved payments to Trillian without the existence of a contract thereby breaching their fiduciary duties</li> </ul>	<ul style="list-style-type: none"> <li>- executives and senior management resigned</li> <li>- criminal charges were lodged against relevant employees</li> <li>- the business relationships with McKinsey and Trillian were terminated</li> <li>- information was provided to the Hawks for investigation</li> <li>- the High Court ruled against Trillian on 18 June 2019 and ordered it to repay R595 million to Eskom</li> <li>- Trillian applied for leave to appeal to the Supreme Court of Appeal</li> <li>- liquidation proceedings have been launched against Trillian by Eskom and SARS</li> </ul>	<p>Open, pending completion of the recovery process</p>

	Description of issue	Action	Status
4	<p><b>Tegeta guarantee</b></p> <p>The former CFO (A Singh) approved a guarantee on behalf of Eskom to Tegeta Exploration and Resources (Pty) Ltd in December 2015 in contravention of the PFMA without proper delegation of authority</p>	<ul style="list-style-type: none"> <li>- the former CFO resigned</li> <li>- the guarantee was not called on and expired on 31 March 2017</li> <li>- guarantee fees were incurred and reported as fruitless and wasteful expenditure in terms of the PFMA</li> <li>- the cost incurred will be recovered from the former CFO</li> <li>- legal processes are being followed to recover the cost incurred from the former CFO</li> </ul>	Open, pending recovery of guarantee fees
Reported as at 31 March 2018			
5	<p><b>Huarong facilitation fee</b></p> <p>There were allegations that the former CFO (A Singh) and former interim GCE (S Maritz) breached their fiduciary duties by contractually and financially binding Eskom to a facilitation fee with Huarong Asset Financing (Huarong)</p>	<ul style="list-style-type: none"> <li>- the former CFO and interim GCE resigned</li> <li>- the agreement was not binding as the required formal approval from the DPE and National Treasury was not obtained</li> <li>- there was no financial loss to Eskom</li> <li>- it was communicated to Huarong that Eskom would not honour any agreement as it is considered not binding</li> <li>- the matter was discussed at the Zondo Commission</li> </ul>	Open, awaiting conclusion of the Zondo Commission
6	<p><b>Sole source appointments</b></p> <p>There were allegations that Eskom incorrectly procured services from Bizz Tracers (Pty) Ltd through the sole source supplier process</p> <p>- subsequent to 31 March 2018, further suppliers were identified where services were incorrectly procured through the sole source supplier process</p>	<ul style="list-style-type: none"> <li>- the GE: security resigned</li> <li>- the investigation into the matter was finalised and the findings from the investigation are being actioned. The findings of the reports are currently being reconfirmed</li> <li>- letters of demand were issued to relevant suppliers for recovery of monies paid</li> </ul>	Open, pending addressing of findings and finalisation of recovery process
Reported as at 30 September 2018			
7	<p><b>Legal fees</b></p> <p>Legal fees were paid on behalf of certain former board members that were not directly related to their roles as directors of Eskom.</p>	<ul style="list-style-type: none"> <li>- the former board members resigned</li> <li>- it was confirmed that legal fees had been paid on behalf of BS Ngubane, MV Pamensky and DV Naidoo</li> <li>- letters of demand and summons were issued to former board members for recovery of fees paid</li> <li>- BS Ngubane is challenging Eskom, MV Pamensky has a repayment arrangement</li> </ul>	Open, pending finalisation of recovery process

Description of issue		Action	Status
		that he is servicing and DV Naidoo has settled in full	
Reported as at 31 March 2019			
8	<p><b>Non-compliance with B-BBEE Act</b></p> <p>There was non-compliance in terms of the B-BBEE Act as Eskom's compliance report and annual financial statements were not submitted timeously as required</p> <ul style="list-style-type: none"> <li>- Eskom did not apply the relevant code of good practice in terms of the B-BBEE Act when evaluating a request for proposal and in the award made to Dongfang Electrical Corporation Limited (Dongfang)</li> </ul>	<ul style="list-style-type: none"> <li>- the relevant submissions were made as required</li> <li>- procedures have been put in place to ensure that the relevant submissions are submitted timeously</li> <li>- the court set aside the tender award made to Dongfang</li> </ul>	- closed
Reported as at 31 March 2020			
9	<p><b>Non declaration of interest</b></p> <p>The former interim executive chairman and acting GCE (JA Mabuza) had an interest in supplier IDS Industry Service, through his alleged niece (NZ Mabuza), which was not declared.</p>	<ul style="list-style-type: none"> <li>- adequate policies and procedures are in place and the former interim executive chairman and acting GCE declared all other interests in line with Eskom's policies and procedures</li> <li>- all members are requested at every meeting to declare any interest</li> <li>- this tender adjudication process was performed at a lower level tender committee of which the former interim executive chairman and acting GCE was not a member</li> <li>- the niece of the former interim executive chairman and acting GCE declared her interest as per normal tender processes</li> </ul>	Closed
10	<p><b>Minutes of meetings not signed and approved</b></p> <p>certain minutes of the board and its subcommittees were not signed as evidence of approval</p> <ul style="list-style-type: none"> <li>- certain resolutions purported to have been made at previous meetings could</li> </ul>	<ul style="list-style-type: none"> <li>- improvements will be made to ensure minutes are signed timeously</li> <li>- a process is in place to ensure that extracts of minutes are a true reflection of the approved minutes. Where there are changes to draft minutes, an extract of the final minutes will be communicated to the business</li> <li>- a permanent company secretary has been appointed on 1 July 2020 which will bring stability to this function</li> </ul>	Open, pending signing of the relevant minutes and implementation of improvements

Description of issue		Action	Status
	not be found in the minutes of meetings		
11	The underlying irregular expenditure register used to disclose irregular expenditure as part of the annual financial statements, per the requirements of the PFMA section 55(2)(b)(i), was not complete and accurate	<ul style="list-style-type: none"> <li>- Eskom is focussing on ongoing improvements to the reporting process and clean-up of the reported information</li> <li>- training on the revised PFMA reporting procedures and guidelines was rolled out</li> <li>- a loss control department is being established to assess and investigate all occurrences of irregular expenditure and oversee consequence management including disciplinary actions, condonations and recovery of losses</li> </ul>	Open, pending Implementation of improvements and finalisation of clean-up exercise

## 6. Modification (Qualification) paragraph

### Irregular expenditure

The irregular expenditure includes amounts emanating from the modifications to contracts which were not conducted as required in terms of the PFMA. In addition, irregular expenditure was not fully recorded in the notes to the financial statements. We were unable to determine the full extent of the understatement of the irregular expenditure disclosed in terms of section 55(2)(b)(i) of the PFMA stated at R33 055 million (2019: R22 111 million) and R23 429 million (2019: R14 688 million) in the consolidated and separate financial statements respectively, as it was impractical to do so.

## 7. Key Focus areas

### 7.1 Predetermined objectives

We have undertaken a reasonable assurance engagement on the reported performance information against pre-determined objectives for the following selected Key Performance Area as presented in the shareholder compact performance section of the directors' report of the public entity for the year ended 31 March 2020:

Objective	Pages in annual performance report	Opinion	Movement.
Key Performance Area – Improve Plant Operation	23	Unmodified	unchanged

### 7.2 Material Findings

No material findings were identified.

### 7.3 Other important Matters

The following findings, which was reported in the management report, were caused by control deficiencies and did not result in a modification of our opinion.

Subject matter	Finding	Root cause	Recommendation
Annual Financial Statements	The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and/or supported by full and proper records, as required by section 55 (1)(a) and (b) of the PFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently.	Lack of management oversight over the financial reporting process.  Lack of or inadequate controls around the preparation of the AFS to ensure that they are in compliance with the Acts and Legislation.	The accounting authority must devise internal controls that will enable the timeous resolution of technical accounting matters which usually delay the issue of financial statements.  Further, the accounting authority should have a mix of persons with strong accounting technical ability in the Audit committee to assist management with compliance with the legislation and financial reporting framework.
Expenditure Management (irregular & Fruitless)	<p>Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion the full extent of the irregular expenditure could not be quantified. Most of the irregular expenditure disclosed in the financial statements was caused by modifications to contracts.</p> <p>Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 868 million, as disclosed in note 53.2 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. Most of the fruitless</p>	A loss control function was not established to monitor items reported, provide sufficient training, and perform basic reviews.	Loss control function is currently being staffed and training was being conducted in the 2020/2021 financial year.

Subject matter	Finding	Root cause	Recommendation
	<p>and wasteful expenditure was caused by the poor facilitation of project management. Fruitless and wasteful expenditure amounting to R840 million was incurred on the construction of residential flats to accommodate artisans for the Kusile project as the building cannot be utilised for the intended purpose and R1 247 million was incurred due to shortcomings in project management.</p>		
<p>Procurement and contract management</p>	<p>Sufficient appropriate audit evidence could not be obtained that all awards to suppliers on established panels were in accordance with legislative requirements, as proper record keeping of such awards was not maintained. Similar limitations were also reported in the prior year.</p>	<p>There is a lack of understanding of the relevant laws and regulations and action plans to address internal control deficiencies was not adequate.</p> <p>Management did not implement appropriate record keeping.</p>	<p>Management should develop and implement a system to prevent, detect and report on non-compliance in accordance with the National Treasury framework on irregular expenditure.</p> <p>All irregular expenditure should be disclosed in the register.</p>
	<p>Some of the goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.</p>	<p>There is a lack of effective consequence management practises for officials that continuously do not perform their responsibilities and do not comply with the Eskom policies and procedures that results in non-compliance with laws and regulations.</p>	<p>Policies and procedures should be clear and comply with laws and regulations.</p>
	<p>Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.</p>		<p>Consequence management should be implemented for officials who permit or causes non-compliance with laws and regulations</p>

Subject matter	Finding	Root cause	Recommendation
	<p>Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable in accordance with Preferential Procurement Regulations 5(6).</p>		
	<p>Some of the tenders which achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with Preferential Procurement Regulations 5(7).</p>		
	<p>Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board and qualified for the contract in accordance with section 18(1) of the CIDB Act, CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.</p>		
	<p>Sufficient appropriate audit evidence could not be obtained that some of the bid documentation for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(2).</p>		



Subject matter	Finding	Root cause	Recommendation
	<p>Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 Preferential Procurement Regulation.</p>		
	<p>Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).</p>		
	<p>Sufficient appropriate audit evidence could not be obtained that members of the accounting authority whose close family members, partners or associates had a private or business interest in contracts awarded by the entity disclosed such interest, as required by PFMA section 50(3)(a).</p>		
	<p>Sufficient appropriate audit evidence could not be obtained that persons in service of the entity who had a private or business interest in contracts awarded by the entity had not participated in the process relating to that contract as required by PFMA section 50(3)(b).</p>		

Subject matter	Finding	Root cause	Recommendation
<p>Consequence Management</p>	<p>We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA.</p>	<p>This was due to investigations not being initiated and failure to maintain proper and complete records as evidence to support that investigations were initiated.</p> <p>Disciplinary steps are not taken as there are significant delays in initiating disciplinary procedures or investigations are not completed within a reasonable time.</p>	<p>Investigations should be finalised within a reasonable period of time.</p> <p>Disciplinary processes should be initiated within the time prescribed in Eskom's policies.</p>
	<p>Disciplinary steps were not taken against the officials who had incurred and/or permitted fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA.</p>	<p>A central register of all investigations being conducted is not maintained and monitored.</p>	<p>Investigations should be monitored, and a full record should be maintained from reporting to finalisation.</p>
	<p>We were unable to obtain sufficient appropriate audit evidence that allegations of financial misconduct committed by members of the accounting authority and officials were investigated as required by treasury regulation 33.1.3 and 33.1.1 respectively. This was due to a failure to maintain proper and complete records as evidence to support the investigations into allegations of financial misconduct committed by members of the accounting authority and officials.</p>	<p>There is a slow response by senior management in enforcing compliance with the approved disciplinary processes and addressing the ongoing non-compliances previously reported.</p>	
	<p>We were unable to obtain sufficient appropriate audit evidence that allegations of theft / fraud / extortion / forgery / uttering a forged document which exceeded R100 000 were reported to the SAPS, as required by section 34(1) of the PRECCA. Similar limitation</p>		

Subject matter	Finding	Root cause	Recommendation
	was also reported in the prior year.		
Governance and oversight	The company secretary did not ensure that the minutes of all shareholders meetings, board meetings and the meetings of any committees of the directors, or of the company's audit committee, were properly recorded, as required by section 88(2)(d) of the Companies Act. Similar non-compliance was also reported in the prior years.	<p>The high turnover of company secretaries of the entity.</p> <p>No approved and revised terms of reference of the committees.</p> <p>No established processes for documentation, review and approval of minutes.</p> <p>Outdated secretarial management policy.</p>	<p>Update the secretariat management policy (SMP) annually.</p> <p>Implement consequence management when deviations to the SMP have been identified.</p> <p>Update and review the terms of reference on a frequent basis.</p>

8. Drivers of internal controls

Entity	Leadership					IT governance	Financial and performance					Governance		
	Oversight responsibility	Effective leadership culture	HR Management	Policies & procedures	Action plans		Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT Systems controls	Risk management	Internal audit	Audit committee
Eskom Holdings SOC Ltd	Yellow	Green	Green	Green	Yellow	Green	Green	Green	Yellow	Red	Green	Green	Green	Yellow

Legend Drivers	Good	Causing Concern	Intervention required
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The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls that resulted in the lack of proper procurement and contract management processes as well as effective consequence management practices. Action plans developed to address internal control deficiencies were not, in all instances, adequate.

We considered internal controls relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. The matters reported are limited to the significant internal controls deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

The accounting authority’s initiatives implemented during the year to provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity are in progress and have not, in all circumstances, resulted in the intended outcomes

The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls that resulted in the lack of proper procurement and contract management processes as well as effective consequence management practices. Action plans developed to address internal control deficiencies were not, in all instances, adequate.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

The accounting authority did not fill the vacancy of a chairperson of the Audit and Risk Committee who resigned during the year with a member that has the requisite financial skills as there was no member appointed to the accounting authority by the executive authority who possesses the requisite skills.

## 9. Key recommendations to the committee

Follow up on the following:

- Appointment of an Audit and Risk Committee member that has the requisite financial and accounting skills.
- Progress on the action plan to address the audit findings,
- Progress on the investigations and consequence management, and
- Actions taken with respect to reportable irregularities.