



AUDITOR - GENERAL
SOUTH AFRICA

Portfolio Committee on Mineral Resources and Energy: audit outcomes **NECSA/SADPMR**

1 March 2022



Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be **recognised** by all **our stakeholders** as a **relevant** supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power:
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

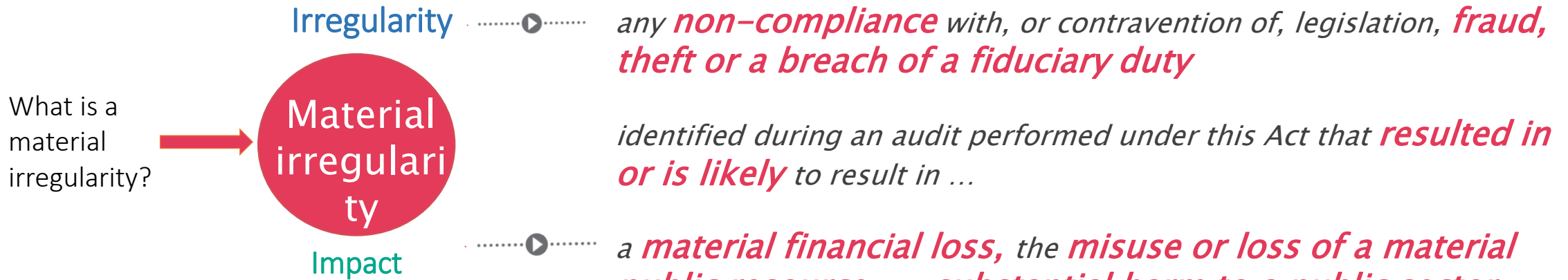
Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

At the center of the PAA amendments – material irregularity



identified during an audit performed under this Act that **resulted in or is likely to result in ...**

a **material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.**

Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent a **significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. For 2021, there was no auditee selected for MI implementation in the mineral resources and energy portfolio.

To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the **type of material irregularity** to be identified and reported
2. the **auditees** where it will be implemented



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Focus



AGSA audit outcomes

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion




Auditee:


- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements


The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in financial statements
2. Reliable and credible performance information for predetermined objectives
3. Compliance with laws and regulations governing financial matters

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

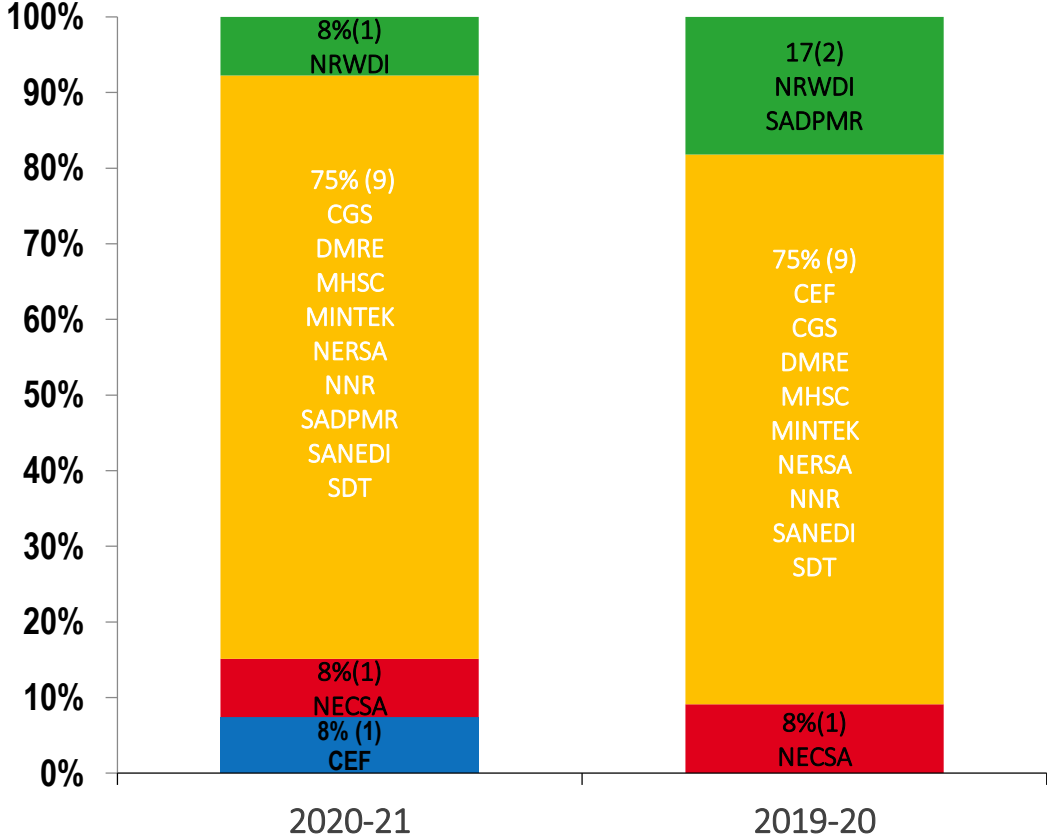
 Regressed



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Portfolio outcome

Audit outcomes of the minerals resources and energy portfolio over 2 years



Movement	
▲	0
▼	1
▶	10

CEF group not tabled

Audit outcomes are depicted as follows:

- Unqualified with no findings
- Unqualified with findings
- Unqualified with findings
- Adverse with findings
- Disclaimed with findings
- Not tabled audits



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Audit outcome NECSA



2. Group audit outcomes

Overall outcome

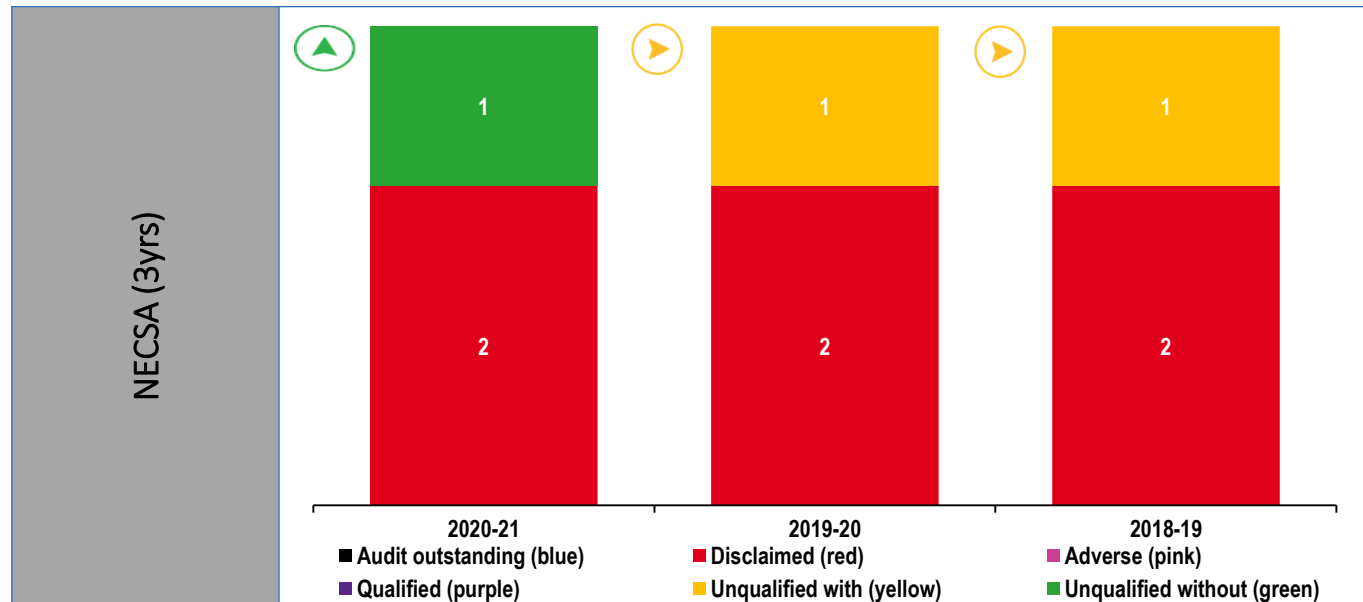
The South African Nuclear Energy Corporation (NECSA) outcome remained stagnant, with a disclaimer of audit opinion with material findings on compliance and predetermined objectives for the financial year 2020-21.

Why?

Senior management's slow implementation of the action plans from previous years in a timely manner has contributed to the entity not improving its audit outcome, especially in the areas of financial and performance information.

Way forward

- Improvement of internal processes and record management and consequence management in dealing with historical balances of Irregular and fruitless and wasteful expenditure at the entity.
- Developing an effective action plan for entities that will ensure basic control activities are implemented and monitored to improve the audit outcomes.



3. Other key messages

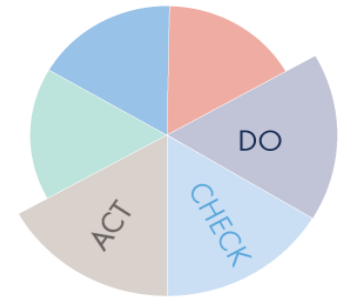
Financial Health

Regrettably, the financial position of the group remains very concerning due to the company and group having recorded losses for the past four years. NECSA accumulated losses/ a negative equity loss position for the previous six years.

Furthermore, the company and group's solvency is also concerning as the total liabilities exceed the total assets for the 31 March 2021-year end. These indicators are reflective of the negative financial performance as further demonstrated by NECSA's negative cash flows from operating activities and cash from investing activities since 2018.

Necsa is technically insolvent and illiquid and this has resulted in multiple material uncertainties that cast significant doubt regarding the entities ability to continue as a going concern as a result of the following indicators:

- The total liabilities exceed the total assets by R38 464 000 and the public entity made a loss of R 201 707 000 during the current year with accumulated losses of R756 773 at year end. NECSA recorded a loss for the past four consecutive years, has accumulated losses/ a negative equity loss position for the previous six years, and has cash deficits forecasted for the next three financial years. The public entity is also highly dependent on one significant customer.
- NECSA impairs most of its debtors due to a 63% debtor's impairment provision, which explains why the company continues to struggle to remain commercially solvent. The ineffective credit management and debt collection processes, as inter-linking components of integrated cash management, are key components that render their cash management process, as a whole, ineffective. Creditors are also six times (611%) cash and cash equivalents, and therefore there is insufficient cash resources to service short term obligations. NECSA policy requires that payments to the suppliers are settled after 30 days however NECSA takes 243 days to pay suppliers due to cash flow issues.
- In addition, the poor financial position has resulted in material uncertainties relating to the going concern of NECSA as well as the entities being in suspected financial distress and not trading appropriately in accordance with governance prescripts.



Overall message - NECSA

- The overall audit outcomes of NECSA remained stagnant compared to the previous four years with a disclaimer of opinion on the annual financial statements and material findings on performance information and compliance with laws and regulations. The stagnation is as a result of slow responses and instances of no response by the Accounting Authority (AA) and senior management to implement a credible action plan which addresses significant internal control deficiencies on the financial and performance reporting and compliance with legislation. This was also evidenced by the limited progress made to correct the issues reported in the prior year as only 10% of these issues were resolved.
- The quality of the submitted financial statements, of both the group and corporate, continues to be a concern as material misstatements were identified due to management's inability to provide sufficient and appropriate audit evidence to support the amounts disclosed in the financial statements. In addition, in a number of instances, management did not correctly apply the requirements of the financial reporting standards. We continue to recommend that management should develop and implement proper record keeping systems to ensure that documents and records supporting the financial statements and performance report are properly filed and easily retrievable.
- There were no improvements in the quality of the annual performance report. Management has not addressed the prior year issues, and as result a qualified conclusion was reached for the selected programme. The qualified conclusion was due to the method of calculation of the KPI - Execution of Annual Plan of Action as approved by DMRE not being well defined. Furthermore the approval required for the execution of this indicator was only obtained after year end. Management need to ensure that planned performance is well defined and key performance indicators inputs are obtained timeously.



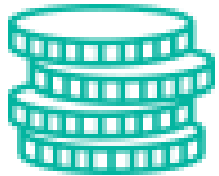
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Quality of financial and performance reporting



First focus area: credible financial reporting

Financial statements



- Submission of financial statements by legislated date
- Financial statements submitted without errors
- Quality of final submission after audit (material amendments to AFS)

Movement



2020-21

2019-20

Yes

Yes

No

No

No

No

Analysis

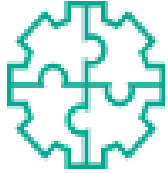
NECSA submitted financial statements that contained material misstatements, mainly due to inadequate preparation and reviews and improper application of IFRS standards.

Material misstatements identified by the auditors in the submitted annual financial statements were corrected by management, however, some could not be corrected resulting in the financial statements receiving an qualified audit opinion, listed below are some of the areas that had uncorrected misstatements:

- Property, plant and equipment
- Decommissioning and Decontamination (D&D) on stage 1 asset
- Decommissioning and Decontamination (D&D) on stage 2 asset
- Vaalputs After Care
- Inventory

Second focus area: credible performance reporting

Performance report



- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability
- Reliable reporting of achievements
- Usefulness of performance indicators and targets

Movement



	2020-21	2019-20
Performance report submitted without errors	No	No
Performance report adjusted for material misstatements to improve reliability	No	No
Reliable reporting of achievements	No	No
Usefulness of performance indicators and targets	No	No

Analysis

- Material findings were identified on **NECSA** and none were corrected.
- The method of calculation and source information for achieving the planned indicators were not clearly defined for the reported achievements against the annual performance plan before re tabling
- We identified material misstatements in the annual performance report submitted for auditing. As management subsequently corrected only some of the misstatements we raised findings on usefulness of the reported performance information.

Recommendations

- The public entity need to design performance indicators that are well defined and adhere to the SMART criteria
- Standard operating procedure/policies should be designed such it that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined



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Compliance with legislation

Third focus area: compliance with legislation

Annual financial statements

- Financial statements were not submitted for auditing within the prescribed period after the end of financial year, as required by section 55(1)(c)(l) of the PFMA.
- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.

Procurement and contract management

- Some of the goods, works or service 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.

Expenditure management

- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R8 511 548 as disclosed in note 40 to the financial statements, as required by section 51(1)(b)(ii) of the PFMA.
- We were unable to obtain sufficient appropriate audit evidence that the resources of the public entity were utilised economically, as required by section 57(b) of the PFMA. Due to the disclaimer of opinion on the consolidated and separate financial statements I was unable to confirm whether assets were used economically, and goods and services paid for were actually required, received and used.

Consequence management

- I was 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. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

Revenue management

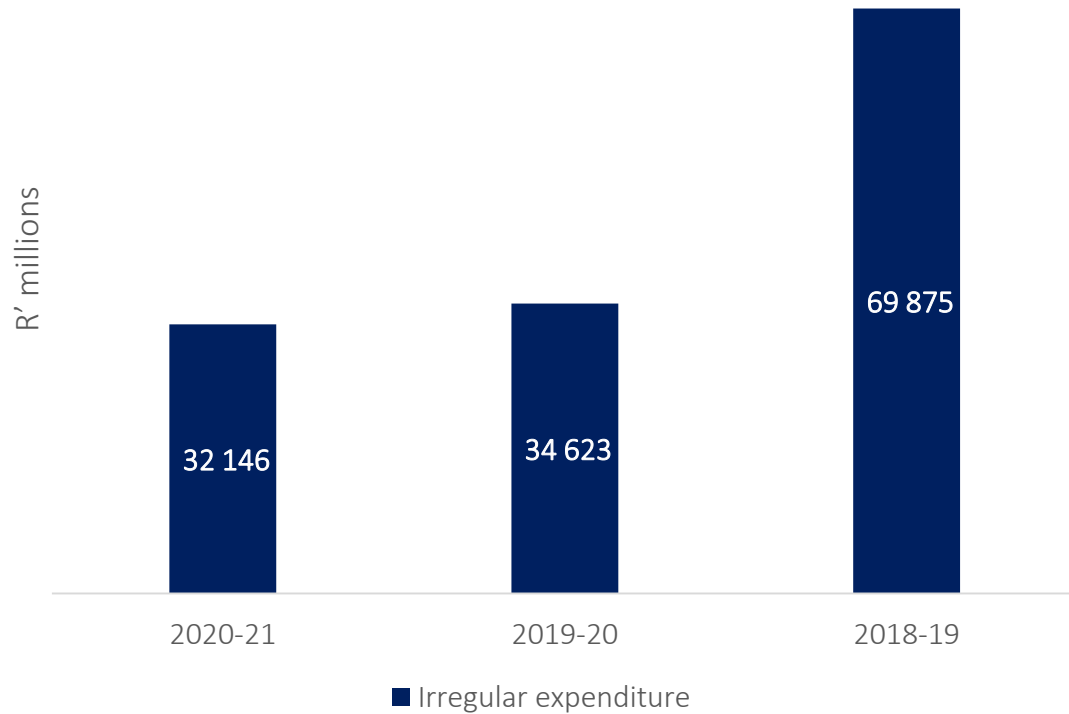
- Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

Findings on compliance with key legislation



Analysis of Irregular Expenditure (IE)

Annual IE incurred **decreased** from R34 million to R32 million



IE incurred – top 2 contributors

Top 2 contributors	2020-21 R	2019-20 R	2018-19 R
PELCHEM Pty Ltd	23 634 000	24 342 000	48 580 000
NECSA Pty Ltd	8 512 000	10 281 000	21 295 000
Total	32 146 000	34 623 000	69 875 000

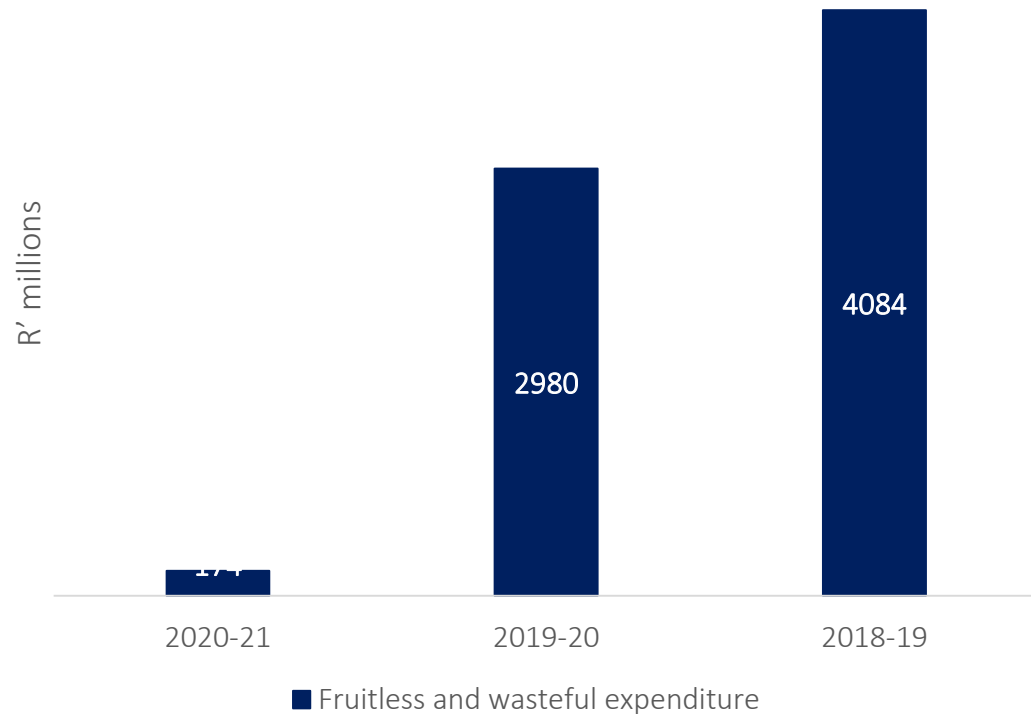
Root causes for fruitless and wasteful expenditure incurred for the top 2 contributors audits

- PELCHEM - Non compliance with SCM regulations
- NECSA - Non compliance with SCM regulations



Analysis of Fruitless and Wasteful Expenditure (F&WE)

Annual F&WE incurred **decreased** from R 2 890 000 to R 174 000



F&WE incurred – top 2 contributors

Top 2 contributors	2020-21 R	2019-20 R	2018-19 R
PELCHEM	153 000	2 968 000	3 847 000
NECSA	21 000	12 000	237 000
Total	174 000	2 980 000	4 084 000

Root causes for fruitless and wasteful expenditure incurred for the top 2 contributors audits

- PELCHEM – SARS interest and penalties
- NECSA – Salary overpayments



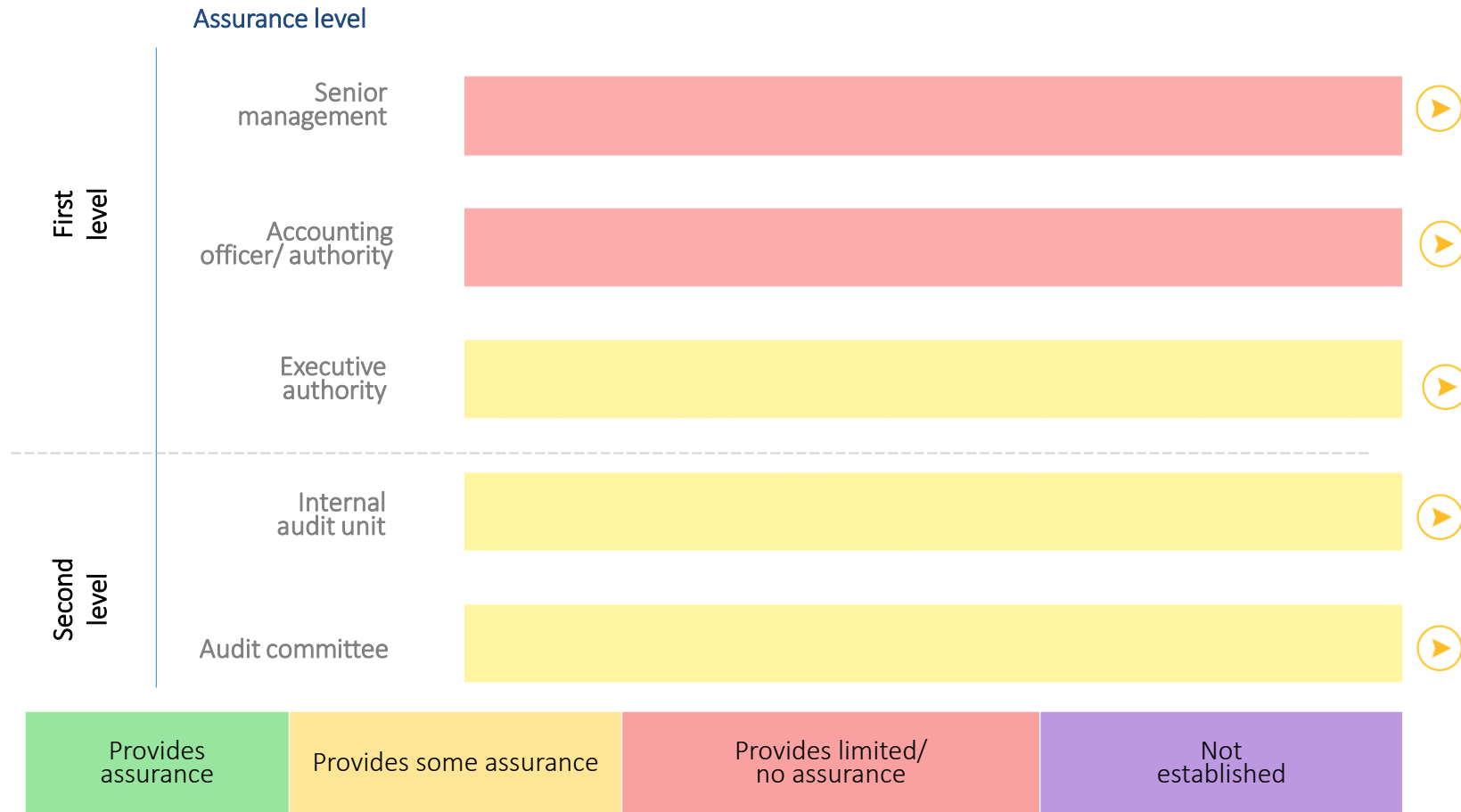


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Governance and internal controls



Assurance provided



Status of internal control



Good Of concern Intervention required

Summary of 3 key root causes



Slow response from management to address the audit findings



Lack of proper action plans to address the audit findings



No consequence for poor performance management



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Recommendations

Recommendations for entity



Accounting authority should strengthen preventative controls to identify non-compliance and lack of improvement on the audit outcomes



Accounting authority must thoroughly review developed action plans to ensure they address root cause



Accounting authority must continue to do their work through audit committees to ensure management implements and enhances review processes for AFS



Monitor performance and consequence management



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Audit outcome SADPMR



2. Entity audit outcomes

Overall outcome

The South African Diamond and Precious Metals Regulator (SADPMR) obtained an unqualified audit opinion with findings on compliance and predetermined objectives for the financial year 2020-21.

The overall audit outcome regressed in the current year when compared to the prior year.

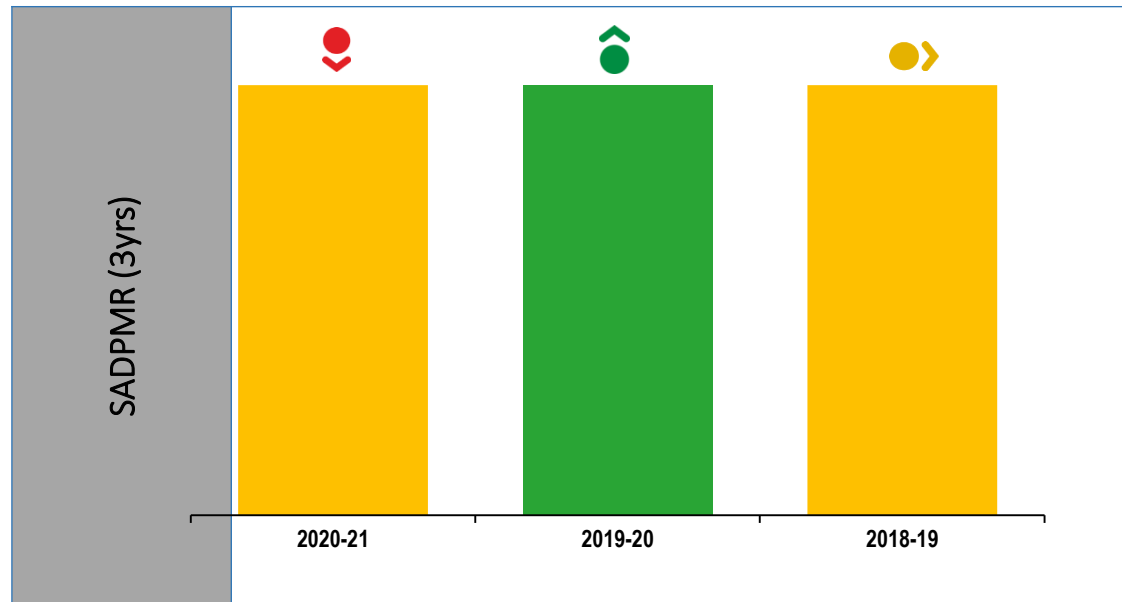
Why?

The instances of material non-compliance are in the areas of expenditure management, procurement and contract management and material misstatements identified in the financial statements submitted for auditing.

Why? (continued)

Non compliance with laws and regulations was a significant deficiency in the public entity's environment. The review, sufficient monitoring and accountability for ensuring compliance with laws and regulations was lacking at the public entity.

We identified material findings on the audit of performance information and the annual financial statements. This was due to inadequate preparation and review processes by senior management of the annual performance plan, annual performance report and annual financial statements.



Way forward

In order to improve the audit outcomes a combined assurance is required at all levels.

Governance structures and leadership should ensure that actions are taken to address the significant internal control deficiencies.

In addition the accounting authority needs to enforce accountability and implement consequence management in a timely manner for any transgressions identified.



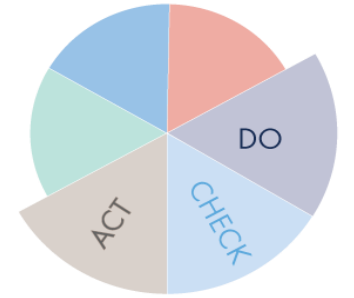
3. Other key messages

Financial Health

The financial Health of the public entity is **good**, however the impact of COVID 19 has affected the economic conditions and the industry within which it operates.

The entity is dependent on government grants, license and service fees for the continued funding of its operations.

Management has developed plans and measures to mitigate the risk and additional support has been provided by the Department of Mineral Resources and Energy.





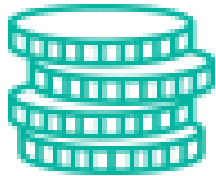
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Quality of financial and performance reporting



First focus area: credible financial reporting

Financial statements



- Submission of financial statements by legislated date
- Financial statements submitted without errors
- Quality of final submission after audit (material amendments to AFS)

Movement



2020-21

2019-20

2020-21	2019-20
Yes	Yes
No	Yes
Yes	No

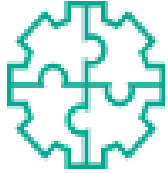
Analysis

SADPMR submitted financial statements that contained material misstatements, mainly due to inadequate preparation and reviews and improper application of GRAP standards.

Material misstatements identified by the auditors in the submitted annual financial statements were corrected by management, resulting in the financial statements receiving an unqualified audit opinion.

Second focus area: credible performance reporting

Performance report



- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability
- Reliable reporting of achievements
- Usefulness of performance indicators and targets

Movement



	2020-21	2019-20
Performance report submitted without errors	No	Yes
Performance report adjusted for material misstatements to improve reliability	Yes	Yes
Reliable reporting of achievements	No	Yes
Usefulness of performance indicators and targets	No	Yes

Analysis

- Material findings were identified on **SADPMR** and only some were corrected.
- The method of calculation and source information for achieving the planned indicators were not clearly defined for the reported achievements against the annual performance plan before re tabling
- We identified material misstatements in the annual performance report submitted for auditing. As management subsequently corrected only some of the misstatements we raised findings on usefulness of the reported performance information.

Recommendations

- The public entity need to design performance indicators that are well defined and adhere to the SMART criteria
- Standard operating procedure/policies should be designed such it that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined



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Compliance with legislation

Third focus area: compliance with legislation

The areas of material non-compliance reported are:

Annual financial statements

- Material misstatements identified in financial statements submitted for auditing

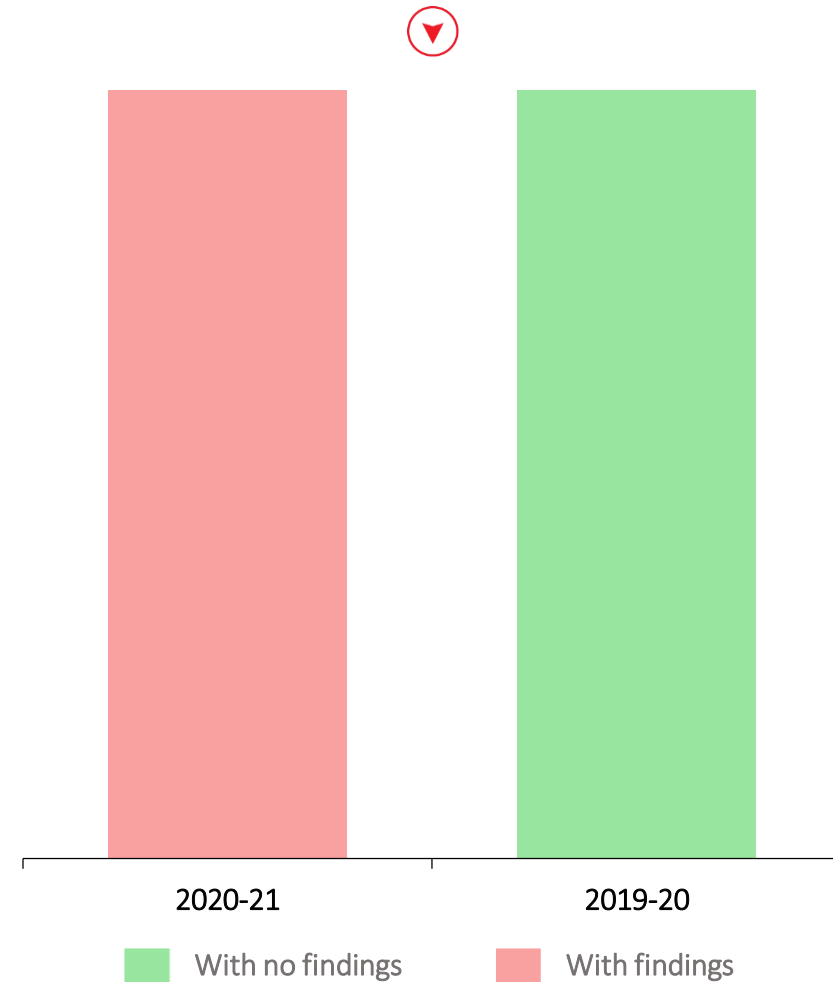
Expenditure management

- Ineffective steps taken to prevent irregular expenditure

Procurement and contract management

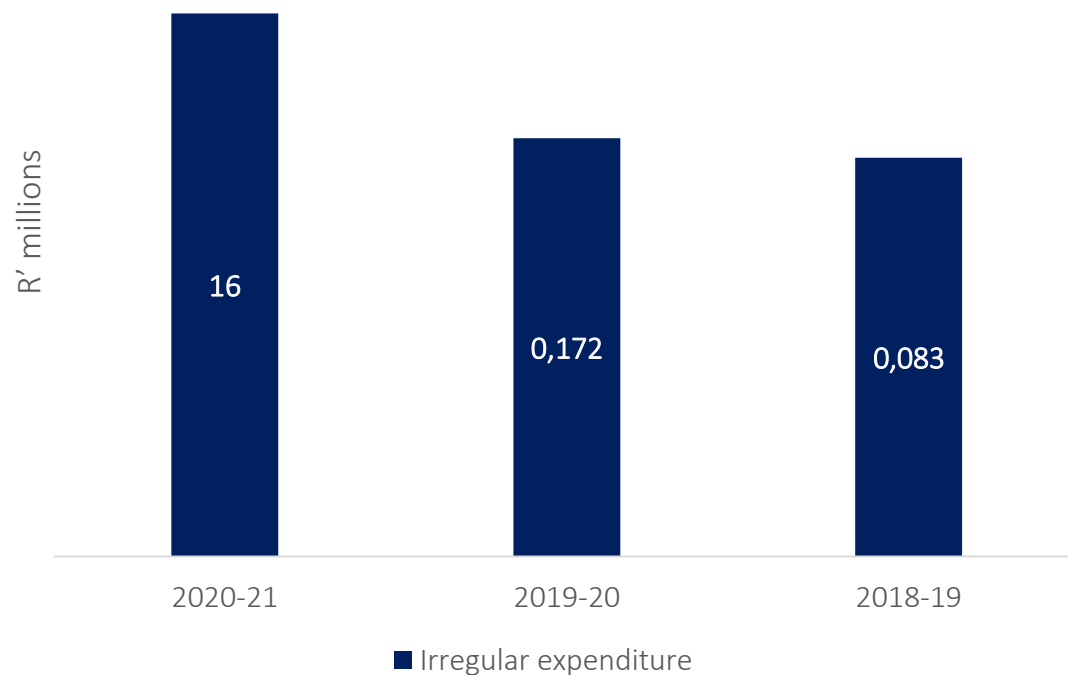
- Some goods and services were procured without obtaining the required price quotations
- Some contracts were extended without approval of a properly delegated official

Findings on compliance with key legislation



Analysis of Irregular Expenditure (IE)

Annual IE incurred **increased** from R172 thousand to R16 million



IE incurred

Contributor	2020-21 R	2019-20 R	2018-19 R
SADPMR	16 058 743	172 280	82 966
Total	16 058 743	172 280	82 966
Percentage of total irregular expenditure	100%	100%	100%

Root causes for irregular expenditure incurred for the audit

R16 million was incurred by SADPMR in the current year mainly caused by non compliance with Treasury Regulation 16A6.2b

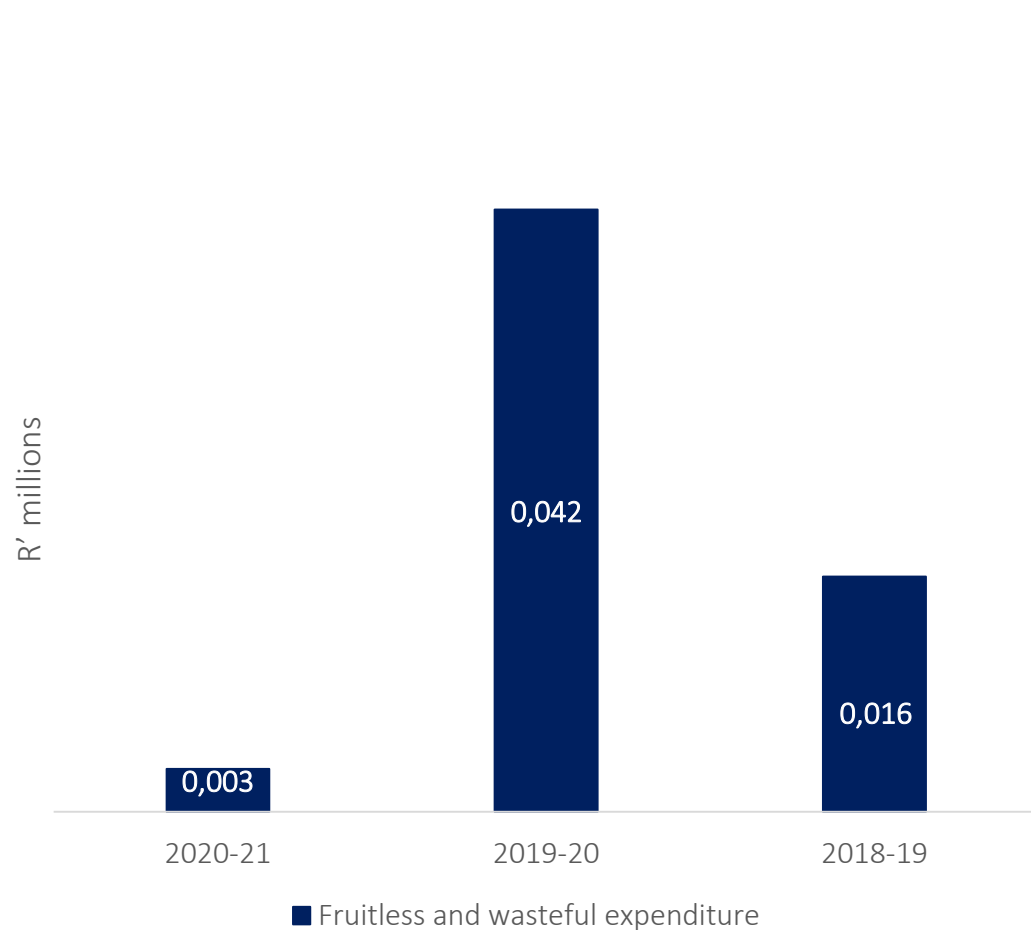
Irregular expenditure must be investigated to determine whether any official is liable for losses incurred as a result of irregular expenditure

If the root causes leading to non-compliance with legislation are not addressed by the entity it runs the risk of continuing to incur irregular expenditure and fruitless and wasteful expenditure which could lead to material irregularities in terms of the Public Audit Amendment Act (PAA).



Analysis of Fruitless and Wasteful Expenditure (F&WE)

Annual F&WE incurred **decreased** from R16 402 to R3 000



F&WE incurred

Contributor	2020-21 R	2019-20 R	2018-19 R
SADPMR	3 000	16 402	42 000
Total	3 000	16 402	42 000

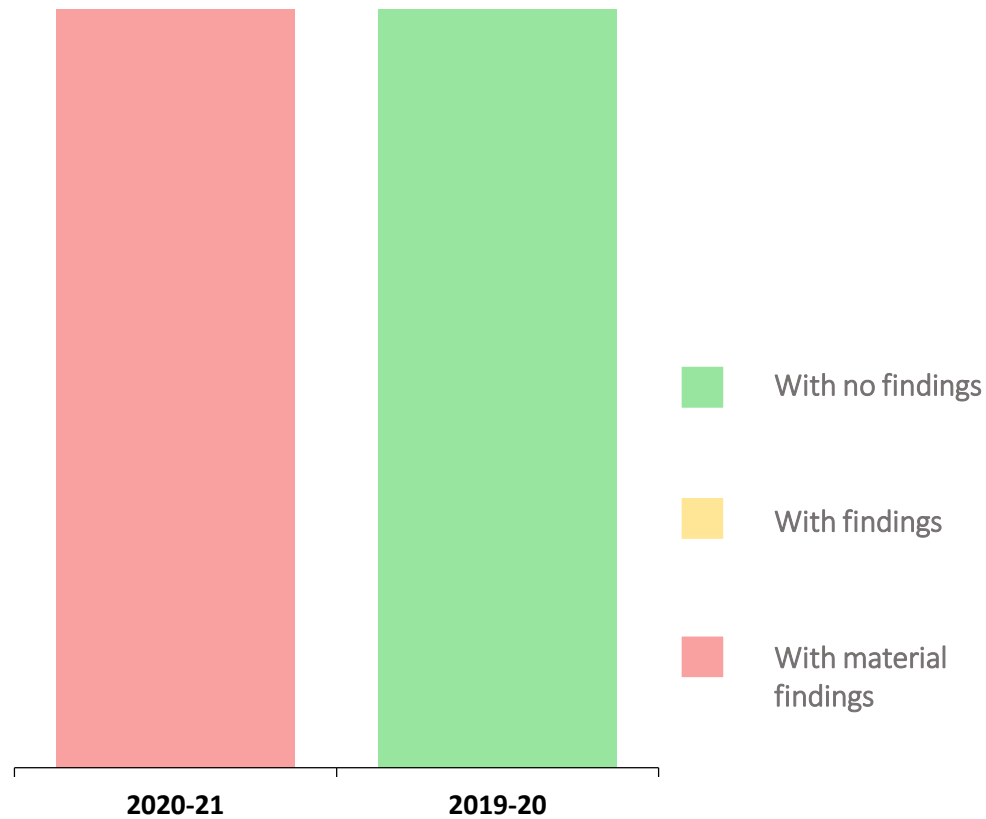
Root cause for fruitless and wasteful expenditure incurred for the audit

SADPMR incurred R3000 in the current year caused by transport related costs that could have been avoided



Supply chain management

▼ Overall regression in SCM compliance
 All SCM findings should be investigated



Findings on supply chain management

- Some goods and services below R500 000 were procured without obtaining required price quotations.
- Contracts were amended or extended without approval by a delegated official.
- The entity does not have a bid specification committee resulting in irregular expenditure

Recommendations

- SCM training to ensure understanding and application of legislation
- All SCM findings must be investigated

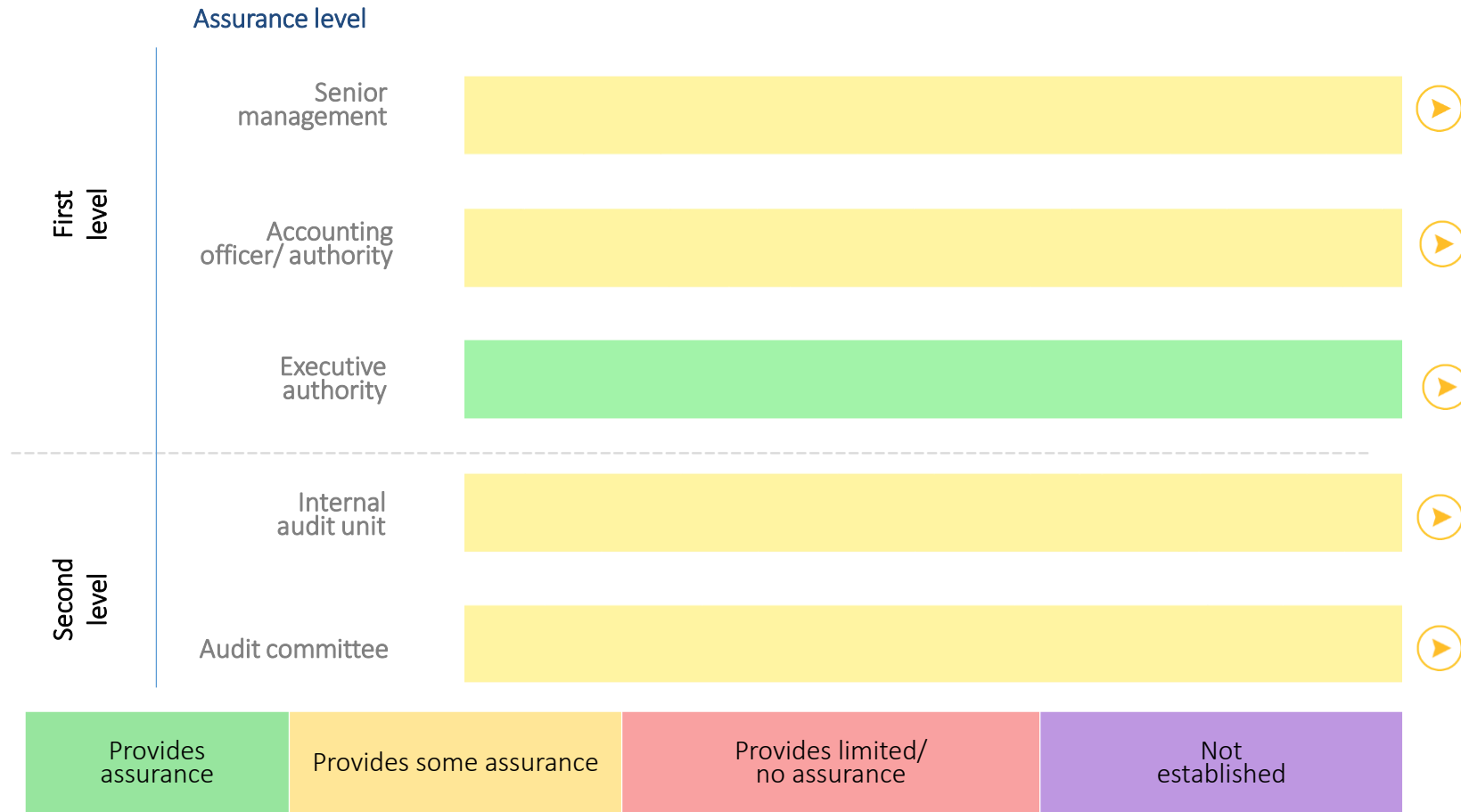


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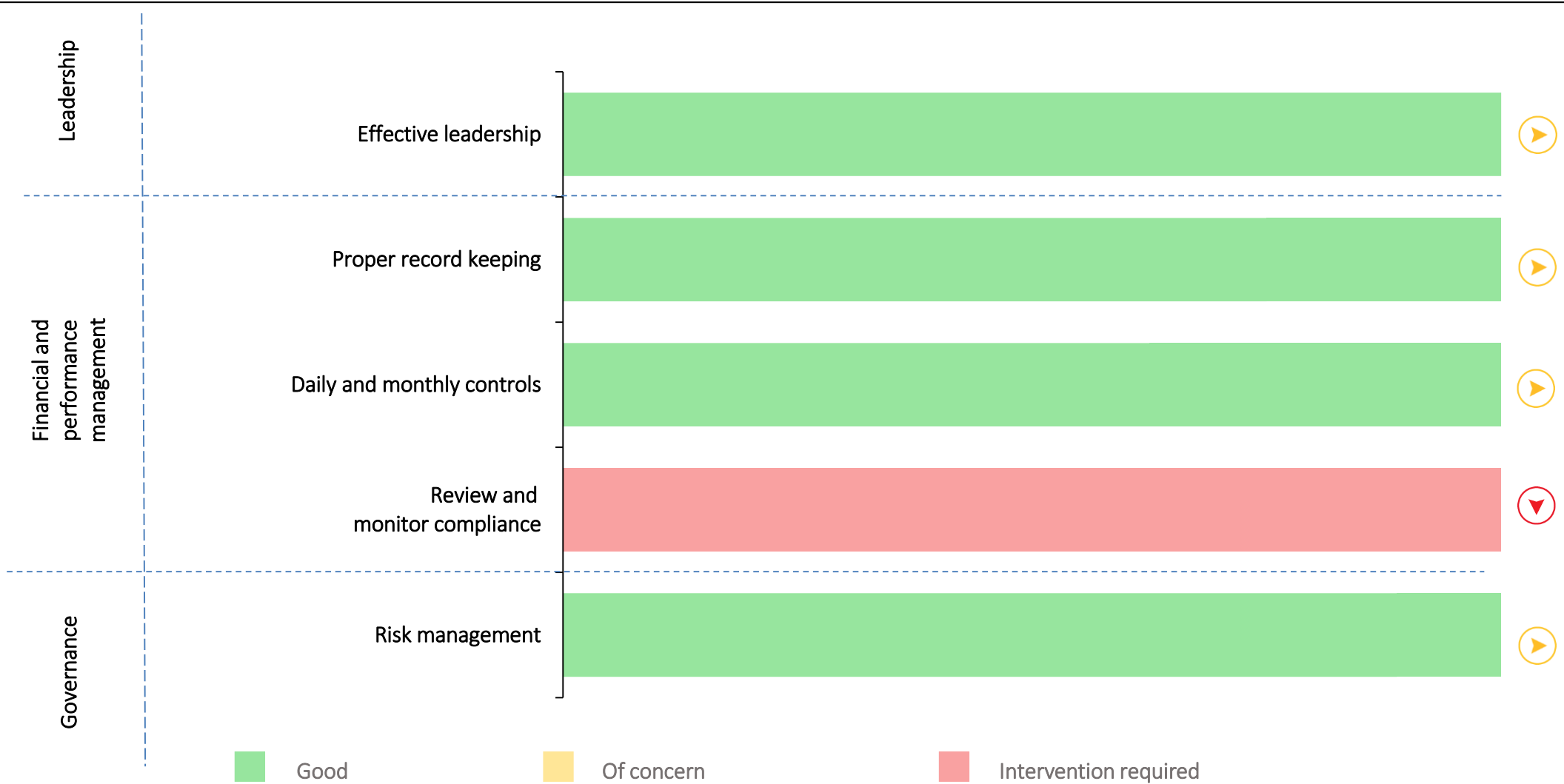
Governance and internal controls



Assurance provided



Status of internal control



Summary of 3 key root causes



Management did not put in place adequate controls to prevent non-compliance with procurement legislation



Management did not implement adequate review and monitoring controls over preparation of financial statements



Management was not effective in developing and monitoring implementation of action plans



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Recommendations

Recommendations for entity



Accounting authority should strengthen preventative controls to identify non-compliance



Accounting authority must thoroughly review developed action plans to ensure they address root cause



Accounting authority must continue to do their work through audit committees to ensure management implements and enhances review processes for AFS



Monitor performance and consequence management

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