**Report of the Standing Committee on Public Accounts on its oversight visit to ESKOM and its infrastructure projects of Medupi and Kusile, from 20 to 22 April 2022, dated 25 May 2022.**

1. **Introduction**
The Standing Committee on Public Accounts (the Committee), having undertaken an oversight visit to ESKOM and its infrastructure projects Medupi and Kusile in Lephalale and Witbank, respectively, from 20 to 22 April 2022, reports its findings and recommendations to the House as follows:

**Delegation**

Mr M Hlengwa (IFP); Leader of the delegation
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Mr S Somyo (ANC)
Ms N Tolashe (ANC)
Ms A Beukes (ANC)
Mr RA Lees (DA)
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**Apologies**

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**ESKOM delegation**
Prof. MW Makgoba Chairperson of the Board
Mr Andre de Ruyter Group Chief Executive
Ms Zinzi Mbanjwa Office Manager
Mr Calib Cassim Chief Finance Officer
Mr Bheki Nxumalo Group Executive: Group Capital
Mr Segomolo Scheppers Group Executive: Transmission
Ms Nthato Minyuku Group Executive: Govt & Regulatory Affairs
Mr Phillip Dukashe Group Executive: Generation
Ms Zandi Shange Group Executive: Generation
Ms Elsie Pule Group Executive: Human Resources
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Ms Busisiwe Mavuso Board Member – NED
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**SIU delegation**

Mr Richard Allie Manager: Forensics
Mr Mbuso Maseko Principal Forensic Investigator
Mr John Neave Project Manager
Ms Claudia O’Brien Programme Manager

**National Treasury delegation**

Ms Basani Duiker Director: COP
Dr Sakhile Mzinyathi Deputy Director: CPO

1. **Background**In August 2019, the Committee undertook an oversight visit to the ESKOM infrastructure projects for the purpose of finding out the cause of the delay in completing these projects, and the cost escalation associated with the delays. ESKOM continued to receive adverse audit reports after the visit, and the blackouts continued while the completion dates of the projects continued to shift. Recommendations made by the Committee were not fully implemented. The Unit 4 generator in Medupi exploded in August 2021, resulting in massive damage and exorbitant costs and a reduction in generation capacity, with repairs expected to be completed in August 2024.

The Committee took the view that a follow-up site visit would give more insight into why the problems persist, thereby placing the Committee in a better position to make appropriate recommendations on how these problems can be addressed. The Committee further believed that interaction with management was crucial if any improvement was to be seen in those areas where the Auditor-General had raised concerns.

Before the actual visit, the Committee received an audit briefing from ESKOM’s auditing firm SNG for the financial year 2020/2021. Medupi incurred irregular expenditure of R355 million for the financial year 2020/2021, this being due to irregular tender processes and breach of legislation, which included modifications exceeding National Treasury thresholds. For Kusile, irregular expenditure amounting to R27 million was attributed to the same reasons as for Medupi. Fruitless and wasteful expenditure of R4.4 billion was incurred by Medupi and Kusile, R1 billion of which was an overpayment to ABB by Kusile. ABB entered into a settlement agreement with ESKOM to pay about R1 billion. Further overpayments estimated at R2.5 billion were disclosed as matters under investigation, following supplier claims which could not be substantiated.
Further audit findings revealed the prevalence of poor record management, and this hampered the Board’s efforts to ensure accountability. ESKOM was advised to identify and record irregular expenditure and hold officials accountable where they fail to avail records of their procurement activities.

**History of engagement with Eskom since the August 2019 oversight visit**

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| **Date** | **Agenda** |
| 03 December 2019 | Briefing by the Department of Cooperative Governance and Traditional Affairs (COGTA) on its plans to resolve the problem of municipal debt to Eskom |
| 04 February 2020 | Department of Public Works on the plan to address ESKOM debt, with Minister |
| 18 February 2020 | Update on SCOPA recommendations following oversight visit, with Deputy Minister |
| 04 March 2020 | Inter-Ministerial Task Team & stakeholders on ESKOM debt, with COGTA Minister  |
| 18 June 2020 | ESKOM on SCOPA recommendations, with Minister |
| 14 October 2020 | Special Investigating Unit (SIU) provided the Committee with an update on its investigations into ESKOM in relation to corruption, fraud, and mismanagement and other irregularities |
| 16 October 2020 | ESKOM: Follow-up meeting on outstanding matters, with Minister |
| 17 February 2021 | Update by the Special Investigating Unit (SIU) on the outcomes of the investigations it had conducted at ESKOM |
| 23 February 2021 | Hearing on 2019/20 deviations and expansions, with DPE Minister |
| 29 June 2021 | ESKOM: Tabling of disciplinary hearing report & hearing on deviations and expansions, with Minister |
| 23 November 2021 | Hearing 2020/21 audit & investigations: with Deputy Minister |
| 01 March 2022 | Hearing on deviations and expansions for Quarters 1 & 2 of 2021/22 |

1. **Objectives**Based on these incidents, the Committee decided to have a follow-up visit in order to:

**3.1** Determine the extent to which the Committee’s recommendations were
 implemented or not implemented;
**3.2** Find out how much progress has been made since the Committee’s last visit;
**3.3** Establish why the blackouts continue and why the completion dates keep
 shifting;
**3.4** Find out the cause of the explosion at Unit 4 in Medupi; and
**3.5** Probe areas of non-compliance, weak internal controls and consequence
 management.
2. **Findings**
**4.1 Medupi Power Station**
The Medupi Power Station project is in Lephalale, Limpopo. It is a green-fields coal fired power plant and it is the first base load station to be built by ESKOM in twenty years, after Majuba Power station. In identifying the location, ESKOM undertook feasibility studies in order to determine the most viable plant location for the Medupi power station. Some of the criteria used included the availability and accessibility of primary resources such as coal and water, the ability of the new power station to connect to the existing network/grid, environmental acceptability, as well as cost of production. The construction unit comprises six generation units with a capacity of 794 MW each, translating to 4 764 MW output in total.

The following findings were made at Medupi:

**4.1.1** There are 6 generation units, one of which has been struggling to generate power. Unit 4 suffered an explosion in November 2021, resulting in damages estimated at R2.4 billion, crippling the total output of electricity by about 700 MW. It was reported that there was no visible physical damage on the turbine rotors and other components, but these were nonetheless taken away for testing and refurbishment. The explosion occurred largely due to
 procedure not having been followed, and due to lack of proper supervision,
 when air was let into the generator prematurely while there was still hydrogen
 in the generator. This Unit 4 was said to be expected to be fully operational
 again by August 2024. An investigation into the matter is being concluded, and 9 employees – 2 senior managers, 3 shift managers and 4 operators – were charged.
**4.1.2** 18 418 filter bags, as per design, are used for filtering dust and are supposed
 to have a lifespan of 24 months, but currently these are changed every 18
 months due to wear caused by air entering the plant from the side instead of
 the bottom. The current bags have not been changed in 21 months, the
 longest period ever know in the history of their lifespan.**4.1.3** Plant maintenance on Unit 2 was not done during the previous financial year,
 hence the deterioration.
**4.1.4** The amount of the stockpile is approximated at 13.8 million tons, expected to rise to 14 million tons by the end of the year. Money is spent on compacting it to avoid spontaneous combustion. ESKOM’s position is that piling the coal is cheaper than penalties for not taking it from the supplier. An option to transfer coal to other plants was explored but this did not prove to be cost effective.
**4.1.5** The culture of ESKOM having evergreen contracts still persists, and this needs to be addressed as it denies innovation. Contract management skills remain a challenge. **4.2 Kusile Power Station**
The Kusile Power Station is located near Witbank in Mpumalanga. One of the deciding factors for its location was its proximity to the New Largo coal fields, which meant less transportation costs for the needed coal. The former agreement entered into by ESKOM with a contractor was later cancelled. Kusile consists of six units, each designed to generate approximately 800 MW, contributing to a total of 4 800 MW to the grid.

The following findings were made at Kusile:

**4.2.1** Unit 4 was awaiting certification, and therefore not commercial yet.
**4.2.2** Units 1 and 2 were currently producing about 620MW.
**4.2.3** During the last visit by the Committee, an impression was given that a
 conveyor belt would be built, but to date there is still none. Instead, the same
 trucks that were supposed to be eliminated by the presence of a conveyor
 belt could still be seen. This situation translates to no progress regarding cost effective coal delivery.
**4.2.4** The ERI company had secured a contract with ESKOM and had begun to
 collect ash.
**4.2.5** Progress in construction was considerably slow while large amounts were
 being spent. The Kusile project which started in 2008 was initially scheduled for completion in 2012. In 2019 the completion date was revised to 2023, and now it has been moved to 2024.
**4.2.6** There was less rigorous monitoring of construction by ESKOM in Kusile than was the case at Medupi. This has resulted in leadership change, as well as extensive corporate restructuring of the management team.
**4.2.7** It was not clear to the Committee what was commercially certified in terms of
 the plants when problems leading to load shedding still abound.
**4.2.8** Ordinarily, systems do not have multiple breakdowns in their components,
 and this raised the question of whether or not this points to a deliberate
 intention to sustain evergreen contracts to benefit certain individuals.
3. **Meeting with ESKOM officials**

The delegation met with ESKOM officials for the purpose of discussing matters observed on site in Medupi and Kusile, and to probe further into other matters pertinent to the oversight visit. In addition to oversight matters, the Committee had previously intended to deal with matters pertaining to progress made by ESKOM following recommendations made after the previous visit in 2019. Only 9 out of the 23 recommendations had so far been implemented. An update in this regard was presented to the Committee, and it included the following:

**5.1 *Investigations:*** There are 253 active cases as of 31 March 2022. Out of the 104 cases that ESKOM has reported to the SAPS, only in 12 of these has action been seen to be taking place. An investigation found that there were 3812 employees doing business with ESKOM.

**5.2 *Lifestyle audits:*** 383 mandatory lifestyle audits of executives and senior managers were completed. The result of the audit led to referrals for disciplinary action, criminal investigations, guilty findings with sanctions imposed, not-guilty findings, dismissals, retirements and resignations.

**5.3 *Criminal charges:*** 104 cases were opened with the SAPS. The SIU is conducting investigations relating to maladministration and losses or prejudices suffered by ESKOM.

**5.4 *Recovery of financial losses:*** About R1.5 billion was recovered from ABB.
 The SIU has instituted proceedings against Tegeta and the Business Rescue Practitioners (BRPs) to repay R734 million to ESKOM. ESKOM has a claim of R359 million against the BRPs, which the BRPs oppose. The matter is currently in the hands of the SIU.
 ESKOM is also claiming R108 million from PwC in an application filed with the High Court, following a flawed procurement process. PwC is opposing the application.
 An interim enforcement order to pay ESKOM R595 million was not honoured by Trillian and Mr Wood. SARS also has a claim of R600 million against Trillian Management Consulting in unpaid taxes.
 ESKOM has recouped R3 million and is pursuing the rest of the R35 million claimed as a result of fraudulent invoices submitted by Meagra Transport for coal transportation.
 R3.8 billion is being pursued by ESKOM against former directors and executives as a result of their involvement in the State Capture.
 R27 000.00 has been recovered by ESKOM from one of five former directors in respect of legal fees advanced.
 The General Manager for Facilities has been dismissed following disciplinary processes occasioned by allegations of fraud, corruption and misconduct relating to the Wilge Housing Project, where ESKOM had suffered financial losses. An amount estimated at R840 million in fruitless and wasteful expenditure is earmarked for recovery.

**5.5** The recommendation received from Kusile required Primary Energy to source as per coal quality specification in order to improve plant reliability until the design deficiencies have been resolved. The coal quality specification will be reviewed after all the design deficiencies have been resolved.

**5.6** ESKOM determined that the Medupi coal could not be burnt at all Witbank Power Stations because the Sulphur content, at approximately 1.41%, was too high for most of the stations. Furthermore, the ash quality component at approximately 34.4% was also considered relatively high.

**Further matters noted and discussed:**
**5.7** The Committee’s observation was that Kusile was far more of a disaster than Medupi, and there was more cooperation at Medupi than at Kusile.
**5.8** There seemed to be persisting prevalence of evergreen contracts, resulting in bleeding the country’s economy. The non-ending projects gave the impression that someone stood to benefit from the perpetual problems, and as such ESKOM has to prove the Committee wrong by putting an end to these contracts and all else that is not being done right. ESKOM cited limitation by policies which make it difficult to get rid of the excess contracts.
**5.9** ESKOM was still beset by corruption and the legacy of many ills of the past, having been under maintained since 2002.
**5.10** Generator capacity remained inadequate.
**5.11** Consequence management was wanting.
**5.12** Skills, time and money were needed, but were lacking.
**5.13** There was no barcoding on items to guard against the disappearance of spares. Some large amounts had been written off following the theft of spares.
**5.14** According to ESKOM, it was difficult to fire people because of the disciplinary code.
**5.15** R39 billion had been spent at Medupi to address the Flue-gas desulphurisation (FGD).There is no adequate expertise or skills to maintain the FGD. The plan was to have the technical know-how to maintain environmental emissions at Medupi and Kusile at a level permissible by law. It was thought necessary to send people abroad to learn about the nuances of the FGD. However, the FGD technology, which is new in South Africa, and which is crucial for the removal of Sulphur from the flue gas in order to avoid acid rain, does not always yield optimal results.
**5.16** Emission levels at Kusile are kept low in order to comply with legislation that regulates air pollution standards. The plant itself has air pollution monitors designed to control emissions, and once the highest permissible level is reached, generation of power is reduced. This unfortunately has the unintended consequence of lowering the overall output of energy. **5.17** Staff turnover is a challenge as ESKOM struggles with the retention of qualified staff who are either attracted to better packages elsewhere, or poached. ESKOM also mentioned constraints relating to increasing the salaries for its employees.
**5.18** Only 13% of the required level of regular maintenance of the Units was achieved, resulting in the plants being subjected to more strain. Priority was given to keeping the lights on rather than doing regular maintenance, which has now resulted in the current expensive situation of trying to rectify what could have been avoided. This situation requires consultants and money to catch up with the backlog.
**5.19** In terms of the unexpected breakdowns, ESKOM is in the process of determining whether this anomaly is attributable to human performance rather than the equipment itself.
**5.20** Mention was made of collusion by some staff with some of the clients. Sometimes there would be internal resistance to some matters.
**5.21** R45 billion was owed by municipalities. ESKOM solicited the Committee’s assistance in addressing this debt.
**5.22** The Board is required by the Department of Public Enterprises to put together a corporate plan articulating key performance indicators, which would culminate into a performance agreement. ESKOM indicated having a plan in place in terms of going forward, but has to get the blessing from the Department before sharing this with the Committee.
4. **Recommendations**
The Committee recommends as follows:

**6.1** Carry out regular maintenance of Units.
**6.2** Develop a clean-up operation plan and identify teams that may be resisting internal controls where the application of a turnaround strategy is hampered, and put together a report detailing consequence management should there be any officials who contribute to the delay in addressing the Committee’s recommendations.
**6.3** Employ adequately skilled personnel in the supply chain management unit at head office, as well as at different projects where procurement takes place.
**6.4** Develop a detailed action plan seeking to address poor procurement planning and poor governance structures which resulted in items not being approved timeously, and submit this plan to the Committee within 30 days of adoption of this report. The plan must also address the audit findings and the reported internal control deficiencies, and how oversight measures will be enhanced.
**6.5** Establish, document and implement a fraud prevention plan.
**6.6** Ensure that concrete measures are in place to deal with the implementation of consequence management on officials who cause irregular expenditure.
**6.7** Ensure that the components of Unit 4 required to get the unit running again are in safe keeping.
**6.8** Develop and follow a plan designed to ensure that there is some degree of skills transfer every time the original equipment manufacturer is called upon to carry out repairs.
5. **Conclusion**
The Committee was generally disappointed by the extent to which the Accounting Authority and Executive Management seem to not have addressed the financial management weaknesses and other shortcomings that have previously been identified, especially as some of these matters have been raised in the oversight visit report of 2019 (ATC 16 October 2019).

In the light of this, the Committee resolves that the Auditor-General should conduct a special follow-up audit into the matter of financial weaknesses of ESKOM.

The Committee further resolves that the Accounting Authority submits quarterly progress reports on the implementation of the above recommendations to the National Assembly, the first of which is due in 30 days after the adoption of this report by the House.

After the meeting with the Board of ESKOM, a complaint was filed with the Speaker of the National Assembly, following an incident that occurred during the meeting. A decision is pending to determine whether or not the matter will serve before the Powers and Privileges Committee.

Report to be considered.