



**PFMA
2021-22**

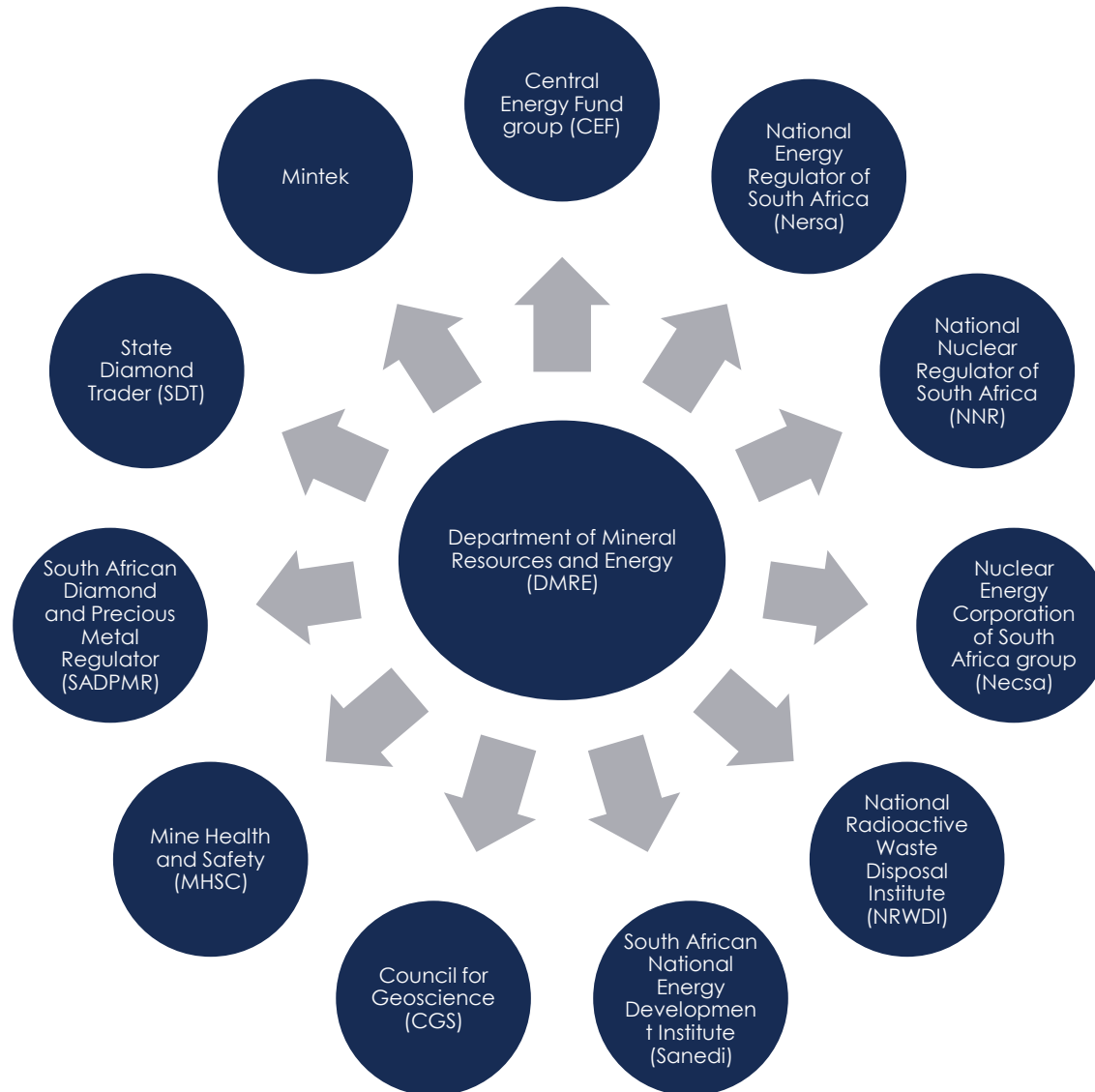
Budgetary review and recommendations report

Portfolio committee on Mineral Resources and Energy

11 October 2022



AUDITOR-GENERAL
SOUTH AFRICA





MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence

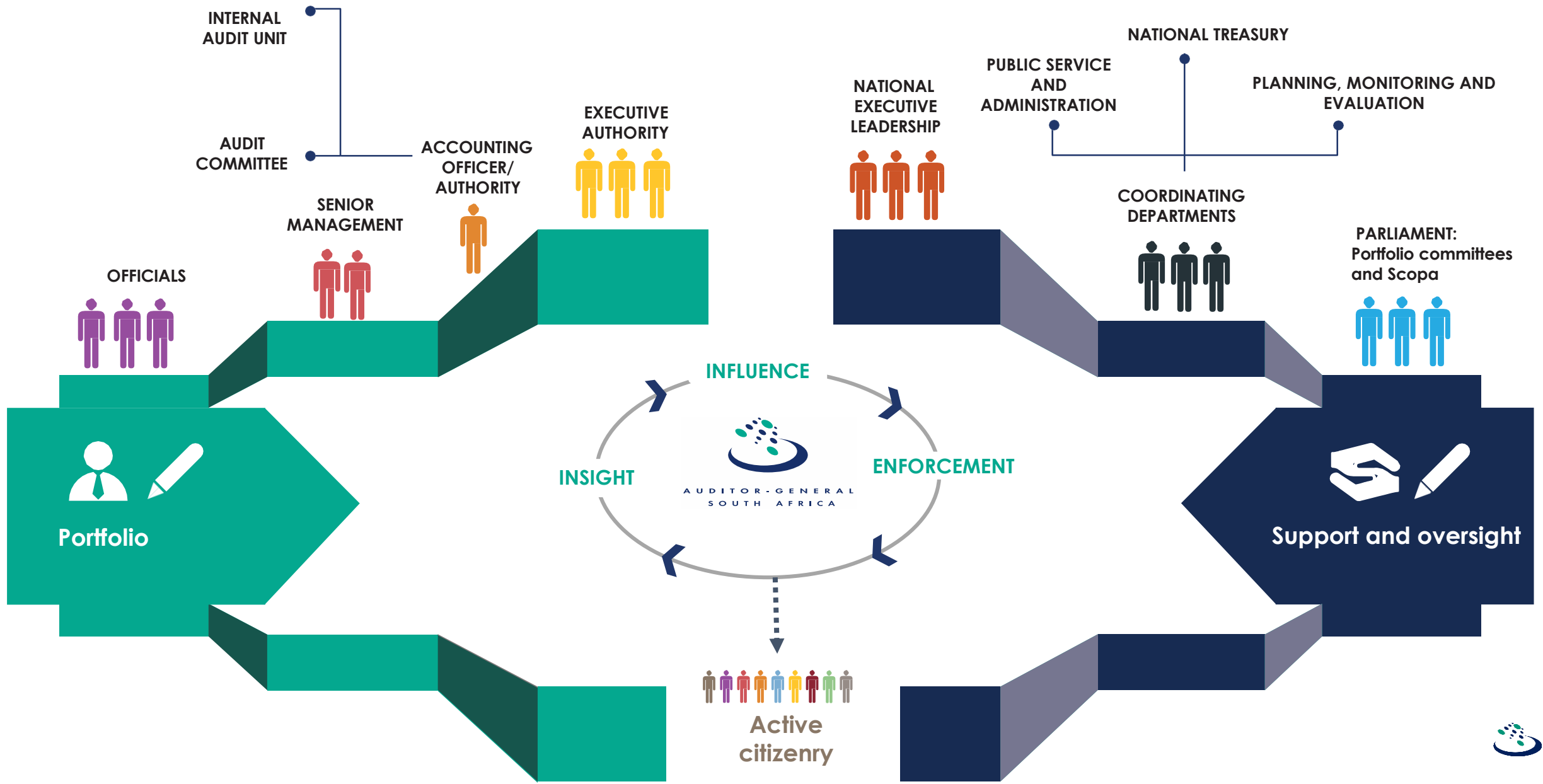


VISION

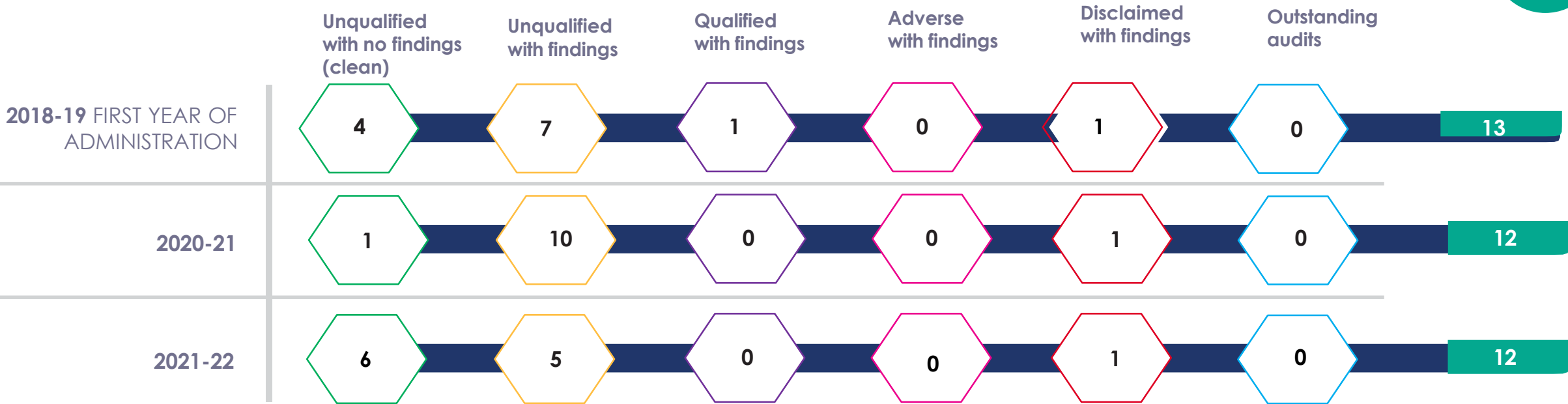
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



All have role to play in national government accountability eco-system



Improvement/ regression/ no change over administration term



MOVEMENTS FROM PREVIOUS YEAR:
5 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
3 ↑ 0 ↓

CGS
Nersa
NNR
NRWDI
Sanedi
SDT

DMRE
CEF
MHSC
Mintek
SADPMR

Improvement as there are no entities that are currently qualified as compared to 2018-19

There are no auditees that obtained adverse audit opinion

Necsa has been disclaimed since 2018-19

Outstanding audits
All audits within the portfolio has been finalised



Movement from previous year



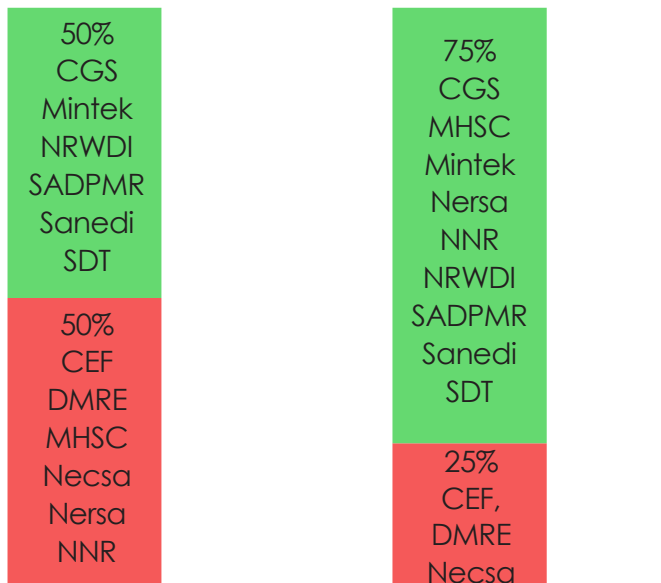
	5 Improved	7 Unchanged	0 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 6	CGS Nersa NNR Sanedi SDT	NRWDI			
Unqualified with findings = 5		CEF DMRE MHSC Mintek SADPMR			
Qualified with findings = 0					
Adverse with findings = 0					
Disclaimed with findings = 1		Necsa			



Portfolio performance



Quality of performance reports before and after audit



■ With findings ■ With no findings

Findings: Planning for service delivery (DMRE, CEP and Necsa)

- We were unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due to a **lack of measurement** definitions and processes

Findings: Reporting DMRE, CEP and Necsa

- The source information and supporting evidence for measuring the planned indicator was not clearly defined

Impact

- 50% of the entities within the portfolio submitted the annual performance reports that were credible without material misstatements and 50% had material misstatements and 3 of the entities were allowed to make corrections to their annual performance report.
- CEP, DMRE and Necsa performance reports remained with the material misstatements after the audit process.

Key targets in medium term strategic framework for portfolio

Supply of energy secured:

- Improve energy availability factor to ensure constant supply of electricity – 80% by 2024
- Increase electricity reserve margin to counter load shedding – 15% by 2024

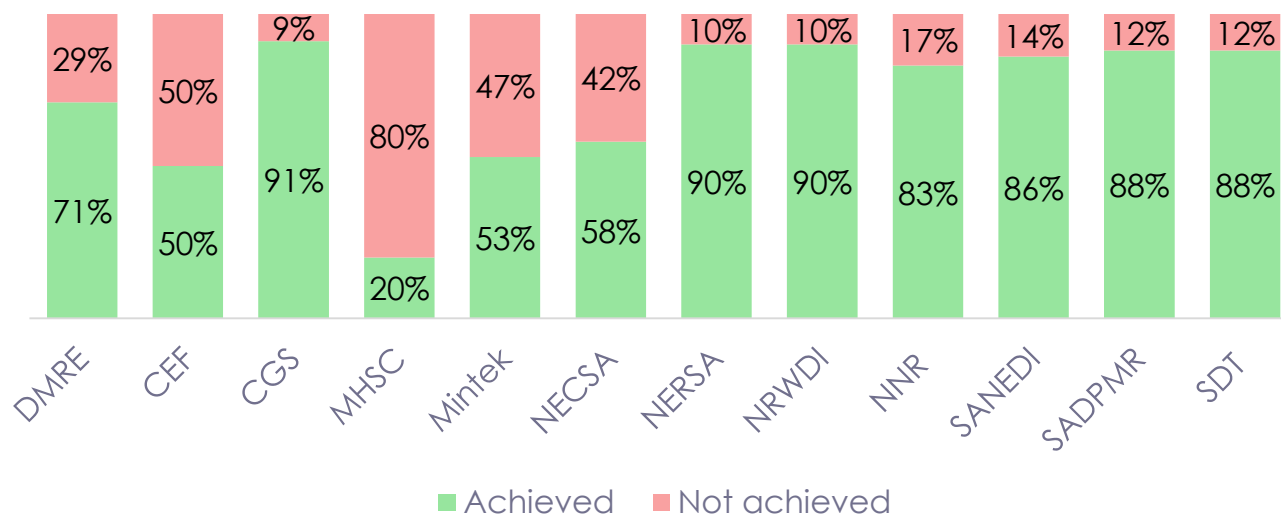
Strengthen Nersa’s regulatory oversight of Eskom and relevant municipalities

- Nersa review completed with recommendations adopted by Cabinet and implemented by March 2022/23

Security of supply and diversify liquid fuels

- Updated strategy and plan for liquid fuels by 2022 and submit for Cabinet approval
- Pre-feasibility study on new oil refinery completed by end 2021 and final investment decision made

Achievement of annual targets as reported in Annual Performance Report (all indicators*) – 2021-22



*Not all the targets and indicators were audited, the information was obtained from the annual performance reports of the entities



Achieving key performance targets – summarised information from performance report

Performance indicator	Target	Actual performance	Reason for non-achievement
Number of jobs to be created through the issuing of mining rights a petroleum licenses	4000	8451(211%) from issuing of mining rights	N/A target achieved <i>Audit insight: The department should consider reporting on the actual jobs created as this will be more meaningful to the citizens.</i>
Number of black industrialists created through mining and petroleum charters	10	9 (not achieved)	N/A target was achieved <i>Audit insight: Indicators not well defined. What is meant be “industrialists”? No supporting evidence for achievement.</i>
Number of SLP projects development projects completed.	120	128	N/A target achieved <i>Audit insight: The department does not have effective measures for monitoring and enforcing implementation of the social and labour plans.</i>
Number of derelict and ownerless mine sites rehabilitated.	3	3	N/A target achieved <i>Audit insight: The pace of planned rehabilitation is a concern as they plan to rehabilitate only 12 mines over the MTEF period – as compared to the over 2 000 mines that were classified as high risk D&O mining commodities (including the 246 asbestos mines).</i>



Material irregularities



The material irregularity (MI) process was implemented at the following auditees

- DMRE
- CEF
- Necsa

means any **non-compliance** with, or **contravention** of, legislation, fraud, theft or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit 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**

If **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:





DMRE: Storage costs incurred on solar water heating program

Notified	Type	MI description	Status of MI
29 July 2022	Non-compliance: possible and actual financial loss	<p>The department experienced delays in the finalising the solar water heating programme, which resulted in the department incurring additional storage fees as they did not take custody of the manufactured units from the suppliers as per the stipulated contractual agreements.</p> <p><u>Material financial loss:</u> The department paid a total of R310 075 097, 44 as at 31 March 2022 in storage cost to the suppliers of which R110 800 660.78 was paid after 1 April 2019, that has been classified as fruitless and wasteful expenditure. Subsequent to year end, the department incurred R5 648 141 in additional storage costs.</p>	<p>The department has responded on the actions they are taking.</p> <p>We are still assessing the department's responses and analysing related evidence to determine if the actions taken by the department are appropriate.</p>



Observations from MI process

- The MI was issued to the accounting officer who has responded to the issued MI, we are in the process of reviewing the responses.
- Key personnel that were involved in the project of solar water heaters are no longer employed by the department.
- The department is still incurring storage cost.

Recommendations for portfolio committee

- Follow up on the processes put in place to address material irregularities and ensure that there is consequence management for the transgressors

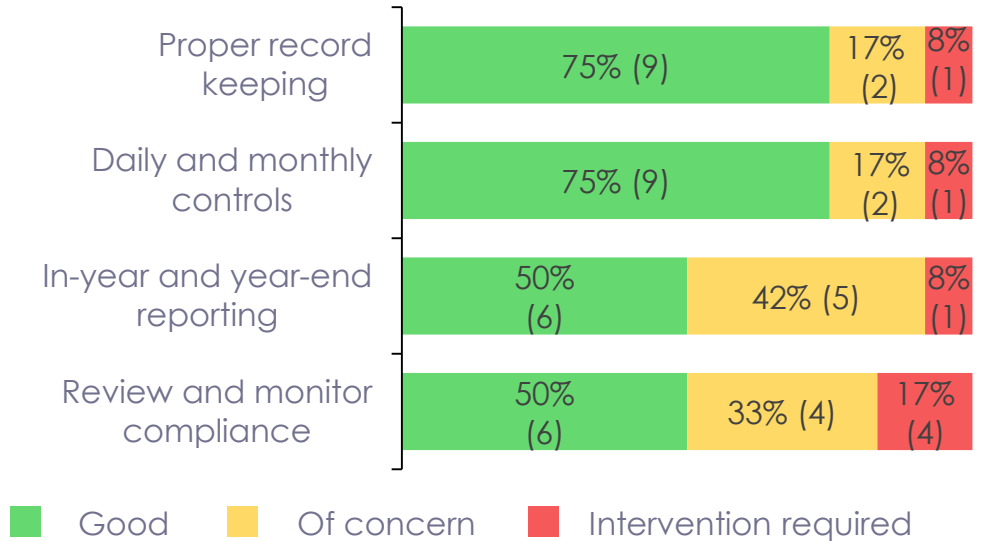




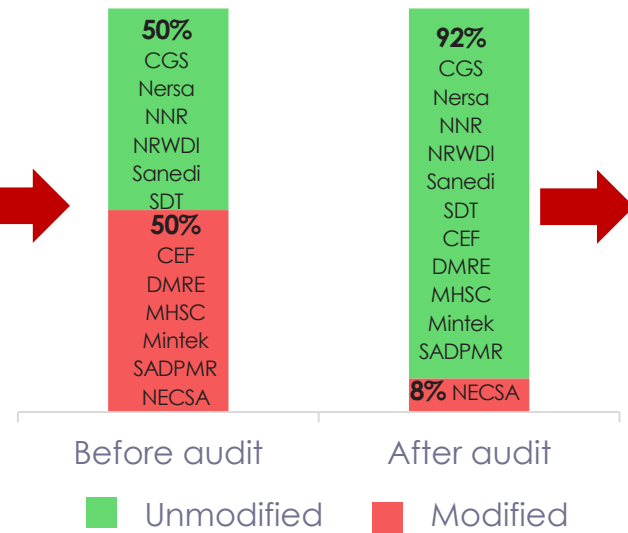
Financial management and compliance



Financial management controls



Impact on quality or financial statements submitted for audit



Main qualification areas

- Necsa received a disclaimer of opinion and there was no sufficient and appropriate audit evidence for the following line items in the AFS:
- Eliminating journal entries, PPE, Going concern; trade and other receivables, other operating expenses; administration and fees; cost of sales; investment income; finance cost; cash flows, commitments; provision; trade and other payables; and decommissioning and decontamination disclosure.

Impact

- 50% (6) auditees submitted credible financial statements without material errors
- 42% (5) auditees submitted financial statements that contained material misstatements that were subsequently adjusted and this was mainly due to inadequate reviews.
- Necsa's audit of annual financial statement remains unchanged as a disclaimer and Necsa is also experiencing going concern issues which may have an impact in its ability to continue its operations in the near future.
- The findings raised are recurring and this is despite discussions held with the auditees on the implementation of preventive control measures. Within the portfolio there is reliance on the audit process to ensure that the annual financial statements are credible and free from material misstatements.



Revenue



Expenditure



Debt- collection period >90 days at **DMRE and SANEDI**

Average debt- collection period = **92 days**

More than 10% of debt irrecoverable at **DMRE, SADPMR at NNR;**

R5,2m of expenditure was **fruitless and wasteful** (3,9m was incurred by DMRE services not rendered in relation solar water heaters and 1.2m in relation to CEF for interest and penalties to SARS)

Creditor- payment period > 30 days at **DMRE; CGS, CEF; SADPMR; Mintek, SANEDI and NNR**

Average creditor-payment period = 45 days

Impact



NECSA obtained a disclaimer of opinion that included modification on significant doubt in the entities ability to continue **operating as a going concern** in foreseeable future

The average collection period of the portfolio is high at 92 days, the longer the collection period the higher the risk of the debts not being recoverable. This is evident by high impairment provision for **DMRE; NNR and SADPMR**

Average creditors payment period for the portfolio is 45 days which is over and above target of 30 days that government strive for. This impact the viability of companies that do business with the state

Doubt whether auditees can continue as a going concern

NECSA
(4 years)





2021-22

CGS, Nersa,
NNR, NRWDI,
Sanedi & SDT

DMRE, CEF, Mintek, MHSC,
SADPMR & Necsa

5 0

No material findings Material findings

Most common areas of non-compliance	DMRE	CEF	Mintek	MHSC	NECSA	SADPMR
Quality of financial statements	X	X	X	X	X	X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X	X	X	X	X	X
Effecting consequences	X	X	X			
Effective steps not taken to collect revenue	X			X	X	





2021-22

CGS, Nersa,
NNR, NRWDI,
Sanedi & SDT

DMRE, CEF, Mintek, MHSC,
SADPMR & Necsa

5 ↑ 0 ↓

● No material findings ● Material findings

Most common areas of non-compliance	DMRE	CEF	Mintek	MHSC	NECSA	SADPMR
Payments not made within 30 days and interest not charged on debts	X					
Resources not utilised economically					X	
The audit committee was not constituted in terms of PFMA for the full financial year.		X				
Shareholders compact not concluded in consultation with the executive authority and the corporate plan did not include strategic objectives and outcomes as identified and agreed on by the executive authority and shareholders compact		X				





2021-22

CGS, Nersa,
NNR, NRWDI,
Sanedi & SDT

DMRE, CEF, Mintek, MHSC,
SADPMR & Necsa

5 ↑ 0 ↓

● No material findings ● Material findings

Most common areas of non-compliance	DMRE	CEF	Mintek	MHSC	NECSA	SADPMR
Approved audited AFS not filled with the annual returns as required by the companies act.		X				



Status of compliance with legislation on procurement and contract management



6 1

● With no findings
 ● With findings
 ● With material findings

Details of procurement findings	DMRE	CEF	Mintek	NECSA	SDT	SADPMR
Uncompetitive and unfair procurement processes	X	X	X	X	X	X
Prohibited awards to employees				R52k		
Prohibited awards to family partners and business associates				R691k		

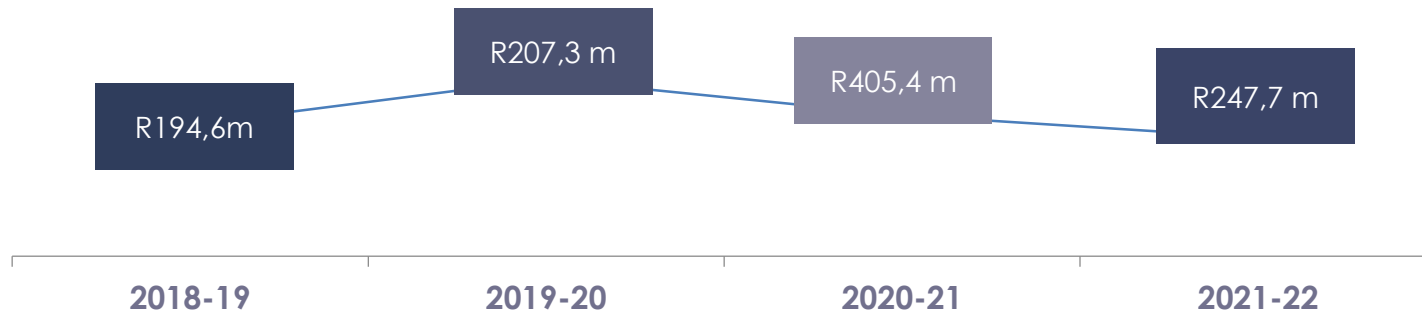
Non compliance identified:

No bid specification committee; three quotations not obtained; deviations not approved by the delegated officials, deviations approved even though it was practical to follow procurement process; local content minimum threshold not stipulated in the bidding process; awards not published in the e-tender portal and or government bulletin.

Contract management: no contract in place and/or contract has expired and/or no contract end dates



Annual irregular expenditure



Top contributors



Nature of irregular expenditure

- failure to follow a competitive procurement process and prescripts
- contracts extended or modified without appropriate approvals



Irregular expenditure is not complete

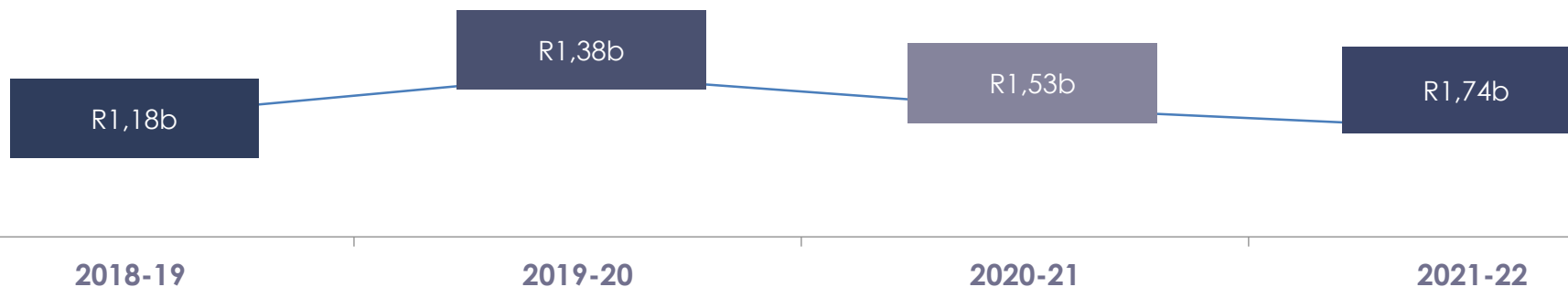
- CEF group is Still investigating irregular expenditure to determine the full amount.

Impact assesment of irregular expenditure incurred

Impact of these irregular expenditure has not been assessed.



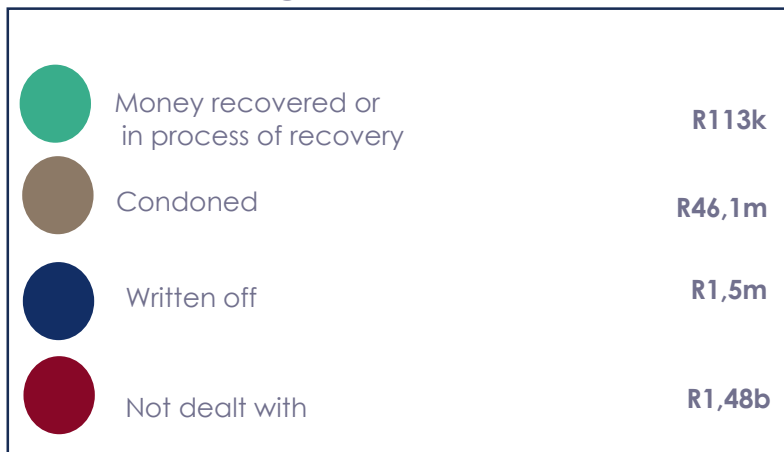
Closing balance of irregular expenditure continues to increase



Top 4 contributors (R1,66 billion) to closing irregular expenditure constitute 95% of R1,74 billion



How have auditees dealt with irregular expenditure

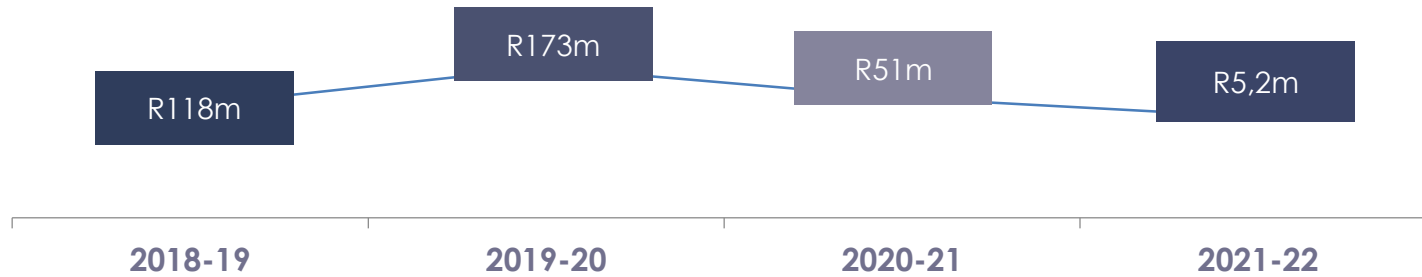


Reasons for IE not dealt with:

- Consequence management remains a challenge as there is still lack of investigations in some of the entities (DMRE, CEF (AEMFC) and Mintek) leading to inadequate disciplinary actions being taken against staff who has caused irregular expenditure.



Annual Fruitless and Wasteful Expenditure



Top contributors



Analysis of the fruitless and wasteful expenditure

- Significant improvement has been noted in the annual fruitless and wasteful expenditure for the portfolio.
- From the first year of administration to the current year, FWE has decreased by 96%
- As compared to the prior year, annual FWE incurred has decreased significantly by 90%

Nature of Fruitless and Wasteful expenditure

- Services not received in relation to prepayments made to a supplier that subsequently went into liquidation for the solar water heater programme.
- Penalties and interest to SARS due late submission of VAT and PAYE



Conclusions and recommendations



Overall root causes of significant findings in portfolio

- Management did not implement adequate review and monitoring controls over the preparation of the annual financial statements
- Internal audit is not provided sufficient time to review the AFS before they are submitted for audit purposes
- In most instances, findings raised are reoccurring, indicating that audit action plans and a culture of accountability are not exercised effectively. Leadership should ensure that actions are taken to address internal control deficiencies.

Key recommendations to and commitments by Accounting officers and authorities

- Governance structures should review the action plans ensures that action plans address real root causes and the actions are taken to address internal control deficiencies identified.
- Strengthen the review process of the AFS through the internal audit process
- Monitor and manage the consequence management process for repeat findings

Commitments by Executive Authority

- Follow up on action plans provided by the accounting officers and accounting authorities and monitor the implementation thereof.
- Follow up on the process put in place to address material irregularities
- Follow up on the consequence management process for transgressors of UIFW and material irregularities



Monitor and regularly follow up with the executive authority on:

1

Progress on audit action plans put in place by departments and entities

2

Follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure that there is consequence management

3

Follow up on process put in place to address the material irregularities and ensure that there is consequence management



THANK YOU



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