



Eskom submission to the Standing Committee on Public Accounts (SCOPA)
for

Oversight Visit to Eskom Holdings SOC Limited: 20 to 22 April 2022

Quarterly Progress Report on SCOPA Recommendations

31 December 2022

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Summary

The Standing Committee on Public Accounts (SCOPA), having undertaken an oversight visit to Eskom and its new build infrastructure projects, Medupi and Kusile, in Lephalale and Witbank, respectively, from 20 to 22 April 2022, in terms of Part 13, section 245(1)(d), of the Rules of the National Assembly, reported its findings and recommendations.

This report provides an update and feedback to the committee on the progress made by Eskom in giving effect to, and complying with, the eight recommendations made to Eskom.

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submission was based on information provided at the time of its commissioning. It may not have been possible to ascertain the accuracy of this information.

1. Maintenance of units

Recommendation 6.1

Carry out regular maintenance of units.

Response to the recommendation

Since financial year 2021 (FY2021), the Reliability Maintenance Recovery (RMR) Plan has focussed on improving the general performance of 11 targeted fossil-fired power stations.

The first six months of the programme particularly focused on nine specific outages, with the aim of making a step change in outage readiness.

Due to the critical need to enhance outage performance, the focus was extended to all outages since March 2021.

Challenges continue to be experienced with the funding of the Reliability Maintenance Recovery Plan. Reliability maintenance must also be sacrificed correctly to ensure that statutory maintenance receives priority to minimise the negative impact on the energy availability factor (EAF). The current system constraints during late FY2022 to present, which led to load shedding, are also challenging the business' ability to release outages for execution as planned. The inability to secure funds at least 24 months prior to an outage and the fluidity of the Outage Plan (movements of outages), compromises proper planning, hence the execution of outages, and this manifests in outages being executed with reduced scopes and/or at compromised quality.

FY2023 maintenance status

At the start of FY2023, 79 outages were scheduled from 1 April 2022 to 31 March 2023. By 31 December 2022, 31 of those outages had been completed, 13 were in execution, nine had been cancelled, five remained and 21 had been deferred (the majority to the next financial year). Furthermore, an additional 20 short-term outages had been completed. Short-term outage refers to corrective maintenance to avoid an increased risk of availability loss and does not depend on the duration of the outage.

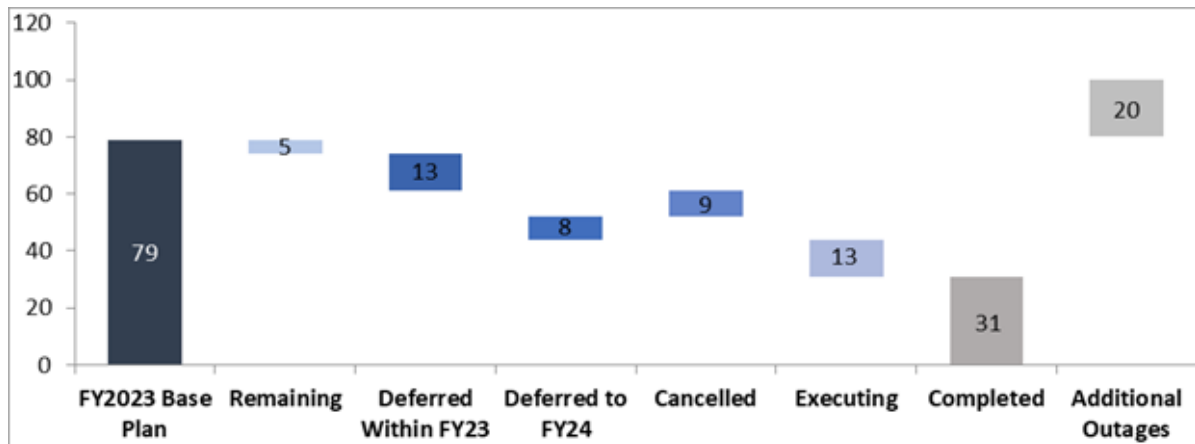


Figure 1: FY2023 YTD Maintenance Status

When scheduling outages, consideration is given to system capacity constraints, plant risks and availability of spares and resources.

Performance of completed outages

The main work affecting plant reliability and predictability is carried out during mini general overhauls (MGOs) and general overhauls (GOs). A total of 17 MGOs and GOs either commenced or were completed in FY2023 with RMR involvement. Results are shown in the table below.

Table 1: Performance of completed outages

| Outage ID | Site | Unit | Start | End | Planned Duration | Funding (T-6) | Total Capex Spend | ORI (T-3) | Slip (days) | UCLF 6M prior to Outage | UCLF 6M post Outage |
|-----------|--------------|------|------------|------------|------------------|------------------|-------------------|-----------|-------------|-------------------------|---------------------|
| 13435 | Lethabo MO | 1 | 2021/01/12 | 2021/04/17 | 95 | Partially funded | 275 041 007,93 | 57.9% | 0.6 | 6.73% | 9.53% |
| 24408 | Matla GO | 2 | 2021/09/14 | 2021/12/13 | 90 | Partially funded | 667 350 850,07 | 91.8% | 0 | 57.55% | 32.14% |
| 17922 | Arnot GO | 2 | 2021/07/03 | 2021/10/06 | 95 | Partially funded | 402 902 038,56 | 71.1% | 14.1 | 43.92% | 30.77% |
| 15082 | Matimba MO | 6 | 2021/01/29 | 2021/04/09 | 70 | Partially funded | 347 969 578,95 | 46.8% | 0 | 7.13% | 8.58% |
| 38069 | Camden GO | 6 | 2021/04/26 | 2021/06/28 | 65 | Partially funded | 457 294 128,66 | No record | 0 | 39.01% | 15.6% |
| 13884 | Kriel GO | 1 | 2021/08/07 | 2021/11/13 | 98 | Partially funded | 641 002 778,46 | 62.9% | 0 | 24.73% | 18.59% |
| 30084 | Kriel MO | 2 | 2021/01/21 | 2021/03/18 | 56 | Partially funded | 292 715 548,61 | 47.6% | 0 | 11.01% | 14.7% |
| 13879 | Kriel MO | 4 | 2021/04/26 | 2021/06/21 | 56 | Partially funded | 323 319 777,80 | 54.3% | 0 | 34.85% | 27.7% |
| 19085 | Majuba MO | 4 | 2021/08/05 | 2021/10/19 | 68 | Partially funded | 543 618 062,04 | 51.0% | 2.1 | 31.36% | 35.49% |
| 21161 | Duvha MO | 4 | 2021/06/20 | 2022/02/18 | 163 | Partially funded | 720 919 733,50 | 37.0% | 67.6 | 56.83% | 45.73% |
| 17998 | Camden MO | 2 | 2021/12/27 | 2022/02/20 | 56 | Partially funded | 148 708 794,79 | 59.0% | 1.3 | 19.54% | 32.7% |
| 38117 | Grootvlei GO | 2 | 2021/10/15 | 2022/01/25 | 103 | Partially funded | 139 313 898,10 | No record | 40.4 | 15.70% | 47.63% |

| Outage ID | Site | Unit | Start | End | Planned Duration | Funding (T-6) | Total Capex Spend | ORI (T-3) | Slip (days) | UCLF 6M prior to Outage | UCLF 6M post Outage |
|-----------|------------|------|------------|------------|------------------|------------------|-------------------|-----------|-------------|-------------------------|---------------------|
| 17610 | Duvha MO | 2 | 2022/01/07 | 2022/06/13 | 90 | Not funded | 709 689 485,57 | 47.20 % | 67.3 | 42.15% | 99.86% (1 month) |
| 13834 | Kendal GO | 2 | 2022/01/08 | 2022/06/13 | 120 | Fully Funded | 303 178 259,50 | 65.40 % | 36.6 | 56.5% | 35.46% (1 month) |
| 13881 | Kriel GO | 6 | 2022/02/03 | 2022/05/12 | 98 | Partially Funded | 586 345 865,38 | 40% | 0.0 | 39.49% | 24.36% (2 month) |
| 17947 | Arnot MO | 3 | 2022/01/15 | 2022/04/27 | 85 | Partially funded | 405 563 547,59 | 43.20 % | 8.4 | 38.43% | 29.53% (3 months) |
| 17875 | Lethabo MO | 5 | 2022/03/26 | 2022/07/22 | 110 | Partially funded | | 32.70 % | 8.2 | 17.22% | 22.67% (25 days) |

The underfunding of outages due to severe financial constraints has severely limited the ability of the site to drive outage excellence. The constraint will remain over the next five years, arising from the National Energy Regulator of South Africa's (NERSA) determination of the Multi-Year Price Determination 5 (MYPD5), which will require support from the National Treasury (NT) to expand guarantees. Outage readiness is hugely dependent on the timely release of funds. Inadequate outage preparation is manifested in outage slips and poor outage performance, as seen in the table below, thereby having a knock-on effect on the EAF.

Funding impact on upcoming outages

Currently, all the remaining outages in FY2023 are funded. However, for the FY2023 to FY2027 cycle, adequate funding could not be approved. See table below.

Table 2: Outage Capex FY2023 to FY2027

| Original Outage targets | FY23 | FY24 | FY25 | FY26 | FY27 | Total (R,Bn) |
|--|--------|---------|---------|---------|---------|--------------|
| Original Corporate plan approved | 8, 171 | 5, 300 | 9, 675 | 9, 053 | 9, 615 | 41, 814 |
| Latest approved Corporate plan (Budget re-phased) – "A" | 9, 471 | 4, 000 | 9, 675 | 9, 053 | 9, 615 | 41, 814 |
| Budget requested for approval (IFC supported to Eskom BOARD) – "B" | 9, 471 | 9, 529 | 8, 500 | 8, 500 | 8, 000 | 44, 000 |
| Budget required by stations (F8 requirement) – "C" | 9, 471 | 9, 929 | 9, 000 | 9, 000 | 8, 385 | 45, 785 |
| Variance (A-C) | 0, 000 | -5, 529 | +0, 675 | +0, 053 | +1, 230 | -3, 571 |
| Variance (B-C) | 0, 000 | -0, 400 | -0, 500 | -0, 500 | -0, 385 | -1, 335 |

The planning cycle for FY2024 to FY2028 is currently underway. The requirement for Outages Capex in FY2024 is R9.93 billion. As the NERSA determination was announced last week, Eskom is reviewing the impact on overall funding allocations.

This means that any possible shortfall for Outage Capex in future will only be known once the Financial (Corporate) Plan has been approved by the Eskom Holdings Board.

Enablers required for improved outage performance currently receiving internal focus

- Additional support is required from Exco, the Board, and National Treasury on ensuring timeous and adequate outage funding.
- Human capital requires focus with regard to complement, competence/proficiency, contractor capacity, and capability. This need is evident along the entire value chain.
- Disciplined execution is necessary, particularly in the planning and execution of routine maintenance and outages.

2. Clean-up operation plan

Recommendation 6.2

Develop a clean-up operation plan, 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 are contributing to the delay in addressing the committee's recommendations.

Response to the recommendation

Organisation-wide processes

Eskom has established the following organisation-wide processes to detect and monitor fraud, embezzlement, and malfeasance:

- Lifestyle audits
- Independent whistle-blower reporting portal and case management
- Compulsory annual declaration of interest
- Private management and authorisation process
- Independent proactive assurance of high-value procurement transactions by competent audit firms
- Compulsory annual fraud awareness training
- Transaction-specific interest declarations by Eskom and tender bidders

- Non-disclosure agreements by Eskom procurement cross-functional teams

Generation Division has also implemented the following:

1. Divisional Compliance Office: compliance managers who are General Machinery Regulation 2.1 legal appointees and functional compliance officers (subject matter experts) have been appointed to focus on various technical areas and provide support to generation plants to improve adherence to the regulatory compliance requirements and, by extension, plant technical performance. Compliance management plans/programmes, policies, and standards have been put in place to achieve consistency and standardisation across generation fleet. Going forward, the power station general managers will sign off on these compliance plans developed by the compliance managers to address non-compliance in the plants, thereby reducing the open breaches and legal contraventions.

Across the various functional areas, functional compliance officers are expected to unpack the applicable legislative requirements (that is, the compliance universe) to ensure that proper controls and monitoring mechanisms are put in place for this universe to achieve the desired culture, improved plant performance, and sustainability of the organisation. Furthermore, compliance management training interventions and onboarding of power station general managers, compliance functional practitioners, and staff are being rolled out to increase awareness and appreciation of compliance management within our generation fleet. The frequency of compliance performance peer and self-assessment reviews will be increased to further entrench the compliance management culture, leading to fewer occurrences of non-compliance within Generation.

2. Progress tracking and monitoring of contract procurement transactions at Cluster Management Committees. There is a standard reporting item to migrate away from once-off purchase orders.
3. Monthly productivity tracking of procurement practitioners: a disciplinary process is followed in case of non-performance.

4. Reporting of informal tendering transactions, that is, transactions below R1 million: these are reported to the local Procurement and Tender Committees.

Other measures under consideration

- Two-yearly retraining and re-accreditation of buyers
- Compulsory training of users on the Preferential Procurement Policy Framework Act (PPPFA) and Eskom Procurement Procedure

Generation-specific initiatives to curb malfeasance

- Installation of smart closed-circuit television (CCTV) in vulnerable areas, for example, warehouses, coal offloading facilities, fuel offloading facilities, critical plant areas, workshops, access points, and peripheral infrastructure outside the national key point (NKP) perimeter fence
- Power station sourcing of own capability for continuous fraud and criminal investigators
- Vetting of all Eskom and contractor employees

3. Employment of adequately skilled personnel in the Supply Chain Management Unit

Recommendation 6.3

Employ adequately skilled personnel in the Supply Chain Management Unit at head office and at different projects where procurement takes place.

Response to the recommendation

After the divisionalisation, the relinking of existing personnel, and the approval of the new/revised structures, the Procurement and Supply Chain Management (P&SCM) function resumed recruitments to capacitate various functional areas at both head office and divisional level.

The new chief procurement officer was appointed. In collaboration with Human Resources, the P&SCM recruitment process was preceded by a skills audit exercise to determine the core and critical skills that were required. Subsequently, two executive managers were appointed, with one being the head of the Supplier

Development, Localisation, and Industrialisation (SDL&I) Unit and the other being in core procurement. In addition, there are other vacancies for which the process has been concluded, with 40 new candidates having been appointed within P&SCM and 25 placements being in the pipeline.

Parallel to this process of recruiting new personnel is the closing of identified skills gaps by offering procurement training sessions, which are rolled out by the Eskom Academy of Learning and government institutes such as the Construction Industry Development Board (CIDB) and the Broad-Based Black Economic Empowerment (B-BBEE) Commission, with the Competition Commission having recently conducted workshops for Procurement employees to ensure that the current staff members across the business are upskilled to execute procurement operations and to be able to generate more competitive tension in bids, as the divisions are now assuming a semi-autonomous status.

Specific to Generation Procurement, a procurement augmentation project is under way, which will ensure that the Generation Procurement Department has skilled personnel in the Procurement space across all the Generation sites. This is accompanied by a warehouse augmentation project that is aimed at improvement of the warehousing function, removal of stock obsolescence, and implementation of different stock management approaches such as consignment stock management. These two projects will lead to an effective and streamlined Supply Chain Management. Over and above the two augmentation projects, there is continued upskilling of existing P&SCM staff.

4. Action plan to address poor procurement planning and poor governance structures

Recommendation 6.4

Develop a detailed action plan seeking to address poor procurement planning and poor governance structures that 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 as well as how oversight measures will be enhanced.

Response to the recommendation

In accordance with the Ministerial Equity Conditions, Eskom embarked on a process to entrench procurement planning across its divisions and monitor compliance with it. The process of compiling procurement plans has improved in comparison to prior years. Where the challenge remains is in the execution timelines that do not always coincide with those that were envisaged at the time of formulating the plans for a variety of reasons. These reasons include the time taken in compiling and finalising specifications and evaluation criteria, without which the procurement process cannot start. At times, the delegated approval authority may require some refinements to the procurement strategy, which may then result in the timelines being outside of what was originally planned.

Lastly, due to the maintenance nature of the business, there will always be several unforeseen items that are required due to unplanned breakdowns. An ever-changing business environment, coupled with funding constraints, can ultimately lead to the reprioritisation of materials and services requirements, thereby having an impact on the procurement plan.

Despite all the aforementioned challenges, Eskom still enforces its internal controls to mitigate any issues that may emanate from poor procurement planning by embedding functionality that triggers alerts six months in advance for the particular owner of a project/contract to commence with the process in order not to compromise the operations. To enhance the governance structures, Eskom has effected amendments to the Delegation of Authority (DoA) to expedite the approval of submissions. Another improvement has been to make it mandatory for the business to finalise its plans before obtaining budgets for its various projects.

In addressing recurring audit findings from previous years, a robust audit recovery plan, which is operationalised through detailed divisional individual audit improvement plans, has been adopted and submitted to the Department of Public Enterprises (DPE). Coupled with this is the enhancement of procurement systems to mitigate any identified leakages that subsequently result in irregularities. Through the Audit and Risk Committee, compliance with the overarching plan is being monitored, and quarterly performance is then reported to the DPE.

In order to improve performance and compliance with procurement plans, Eskom gives its commitment on the following improvement actions:

Table 3: Improvement action plan

| No. | Issue | Intervention | Activities | Responsible | Outcome | Timelines |
|-----|--|--|--|-------------|---|---|
| 1. | Improve compliance with the procurement plan. | Procurement practitioners are to update the existing plan on a regular basis, with amended dates where milestone dates have been missed, and capture reasons and corrective actions. | <ol style="list-style-type: none"> 1. Assign a dedicated resource/ champion per division to proactively manage procurement plans. 2. Hold regular meetings with relevant end users and project managers on procurement planning and amendments to plans, where necessary. | Divisions | Improved procurement plan compliance | <p>March 2023</p> <p>March 2023</p> |
| 2. | Improve monitoring of compliance with the procurement plan. | Improve procurement planning, measuring, and monitoring. | <ol style="list-style-type: none"> 3. Measure procurement plan compliance on the divisional scorecard. 4. Implement a tracking and monitoring tool to ensure that agreed procurement plan timelines are complied with. 5. Do regular progress reporting to operating unit (OU)/power station (PS) management, escalate non-compliance to senior management, and report to the divisional Board and other management forums. | Divisions | Ensuring that progress is visible and allowing for timeous intervention | <p>Commenced – March 2023</p> <p>Ongoing (monthly basis)</p> <p>Ongoing (monthly basis)</p> |
| 3. | Compile the annual procurement plan. | Do procurement planning for the next cycle. | <ol style="list-style-type: none"> 6. Timeously start the capturing of plans for the next annual procurement planning cycle. | Divisions | Business awareness regarding the procurement plan | July 2022 |

| No. | Issue | Intervention | Activities | Responsible | Outcome | Timelines |
|-----|---------------------------------------|---|---|---|--|---|
| 4. | Enhance governance structures. | Review the number of tender committees and the frequency of meetings. | <p>7. Provide sufficient delegation for one or a maximum of two procurement committees to provide support and approval, in conjunction with the company secretariat.</p> <p>8. Ensure that meetings are not cancelled or deferred due to the lack of a quorum.</p> <p>9. Review the Procurement Procedure Revision 4 (32-1034) to ensure alignment with all the relevant and newly enacted supply chain management legislative prescripts.</p> <p>10. Effect changes to the planning process to allow procurement strategy and planning prior to budget approval for investment and outages.</p> <p>11. Facilitate ad hoc meetings for governance, as required, and round-robin meetings.</p> | Risk, Governance & Compliance (RG&C)/ Company Secretary | <p>Signed DoA</p> <p>Scheduled monthly meetings</p> <p>Signed Revision 5 Procurement Procedure</p> <p>Report on performance of procurement governance structures</p> | <p>Reporting monthly</p> <p>Ongoing (monthly basis)</p> <p>February 2023</p> <p>Ongoing (quarterly basis)</p> |

| No. | Issue | Intervention | Activities | Responsible | Outcome | Timelines |
|-----|---|--|--|---|---|--|
| | Address audit findings. | Establish a Chief Financial Officers' (CFO) Forum and an Audit Co-ordinators' Forum. | <p>12. The CFO chairs the external audit findings meetings with divisional representation for closing out finding actions to ensure that historical finding are closed.</p> <p>13. Appoint a senior manager to co-ordinate the year-end audit with divisional participation.</p> <p>14. Establish an Audit Co-ordinators' Forum, including divisions, to manage the process during audits.</p> | CFO | Minimal recurrence of previous findings | <p>Ongoing (monthly and quarterly)</p> <p>Completed March 2022</p> <p>Completed March 2022</p> |
| | Handle procurement audit recovery. | Document the audit recovery plan. | <p>15. Update the audit recovery programme at Central as well as divisional plans.</p> <p>16. Report quarterly on progress against the plan.</p> | Office of the Chief Procurement Officer (OCPO) | <p>Minimal recurrence of previous findings</p> <p>Reduced irregular expenditure</p> | <p>Plan done; will be updated end September for 2022/23 findings</p> <p>July 2023</p> |
| | Address skills and knowledge/ competency management. | Drive recruitment. Enhance training and awareness. | <p>17. Do recruitment to fill key vacancies.</p> <p>18. Conduct end user and project manager awareness sessions on procurement planning.</p> <p>19. Offer training interventions in conjunction with external institutions such as the CIDB, B-BBEE</p> | <p>CPO</p> <p>Divisions</p> <p>Risk, Governance, and Compliance</p> | <p>Skills in key roles</p> <p>Improved procurement process compliance</p> | <p>Commenced</p> <p>Completed</p> <p>B-BBEE – 28 July and 18 August 2022; Competition Act</p> |

| No. | Issue | Intervention | Activities | Responsible | Outcome | Timelines |
|-----|--|--------------|--|--|--|---|
| | | | Commission, and Competition Commission. 20. Do procurement training of committee members. | | | – 1 June and 22 June 2022; CIDB – 13 April 2022 4 and 11 August 2022 |
| | Address legislative challenges. | | 21. Engage with external stakeholders on various items (plans, regulations/ instructions, and initiatives). 22. Providing Training awareness on newly published instruction notes | Office of the Chief Procurement Officer (OCPO) | Reduced tender cancellations Improved plan compliance and enhancement of Central Supplier Database (CSD) system | Before FY2023 year-end |

Audit recovery plan

As mentioned before, in addressing recurring audit findings of previous years, a robust audit recovery plan, which is operationalised through detailed divisional individual audit improvement plans, has been adopted and submitted to the DPE. Coupled with this is the enhancement of procurement systems to mitigate any identified leakages that subsequently result in irregularities. Through the Audit and Risk Committee, compliance with the overarching plan is being monitored, and quarterly performance is then reported to the DPE.

Table 3: Audit Recovery plan

| Procurement Audit Recovery Plan FY2020 to FY2023 | | | | | | | |
|---|--|--|---|--|-----------------|-------------|---|
| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
| 1. Use of sole source | IAQ 67 (financial year-end (FYE) 2019/20) – Approval not obtained for single source | Contravention sections 8.3 and 8.5 of NT Instruction No. 3 of 2016/2017 and Eskom Procurement Procedure | Independent reviews of divisional single source contracts to determine whether they are true sole source | Accurate and complete population of approved single source contracts | 31-Mar-21 | Completed | No new sole source issues have been identified. |
| 2. Classification of emergency procurement | IAQ 29 – Fuel oil incorrectly classified as an emergency | Contravention section 8.2 of NT Instruction No. 3 of 2016/2017 and Eskom Procurement Procedure | Exemption to be sought on the definition of emergency procurement in order to cover real situations of production losses, security of supply, or loss of income | Exemption approval obtained | 2022/06/30 | In progress | The determination report has been concluded and given to Generation to start with the condonation of the transaction. A 5 year national contract for supply and delivery of Fuel Oil has been put in place |
| | IAQ 65 (FYE 2019/20) – Quotations – Procured services incorrectly classified as an emergency | Contravention section 8.2 of NT Instruction No. 3 of 2016/2017 and Eskom Procurement Procedure | Review of purchase order population | Accurate and complete population of purchase orders issued through emergency | 30-Jun-22 | In progress | The determination report has been concluded and given to Generation to start with the condonation of the transaction. A 5-year national contract for supply and delivery of Fuel Oil has been put in place |
| 3. Management of panel contracts | IAQ 28 – Overall non-compliance with National Treasury Instruction Note 3 of 2016/2017 and Instruction Note 9 of 2017/2018 | Sections 9.1 and 9.2 of Instruction Note 3 of 2016/2017 and sections 2.2, 3.1(d), and 3.3 of Instruction Note 9 of 2017/2018, respectively | Periodic reviews of the implementation of the Standard for Panel Contracts | Reports on the level of compliance with the standard | 30 Nov. 2022 | In progress | Review on the implementation of the panel standard is in progress, and will be completed by 30 November 2022 |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|---|---|--|---|--|-----------------|-------------|---|
| 4. Modification exceeding threshold | IAQ 127 (FYE 2019/20) – Modifications to task orders and investigations into panels – Poor management of panel contracts – Allocations of task orders and modification of these | Contravention of NT Instruction No. 3 of 2016/2017 and Eskom Procurement Procedure | Review of task order allocation and management | Quarterly compliance reports | 30 Nov. 2022 | In progress | <p>The condonation application has been rejected by the National Treasury due to non-compliance with the Irregular Expenditure (IE) framework. An application is to be submitted to the Board for removal.</p> <p>Issuing of Task Orders are governed by Panel Control Committees, and the NT thresholds are now being applied whenever a task order is modified.</p> |
| 5. Tender process not adhered to and incorrect delegation of authority | IAQ 21 – Tender advertised for less than 21 days without approval | National Treasury SCM Instruction Note 12 of 2020/2021; Treasury Regulations 16A6.3(c) and 16A6.3(d), in as far as they relate to the publication of bid advertisements and bid awards | Enhancement of the Tender Bulletin platform to have a workflow that triggers the approval process to the relevant delegated authority | Indicator that flags tenders advertised for a shorter duration and report on approvals obtained | 30 Jun. 2023 | In progress | <p>Monitoring compliance to the rule regarding the advertisement of tenders</p> <p>Procurement Practitioners are notified to request approval to advertise for less 21 days if the bid/tender need to be fast tracked</p> |
| 6. Designated sector commodities | IAQ 17 – Non-compliance with National Treasury instruction notes for designated sectors | The Preferential Procurement Regulations (PPR), 2017 and National Treasury Designated Sector Circular No. 11 of 2019-2020 (various sections) | Training sessions on compliance with designated sector commodities requirements in accordance with PPR Regulation 8(4) for various procurement mechanisms | Quarterly reports on the level of compliance with the regulations and circular (both contract and purchase orders) | 30 Jun. 2023 | In progress | <p>Monitoring of the implementation of the Designated Sector Guidelines on Purchase Orders.</p> <p>The Declaration Certificate for Local Content forms part of</p> |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|--|---|--|--|---|-----------------|-------------|---|
| | | | | | | | the enquiry as a mandatory tender returnable where designated sectors apply and must be completed and duly signed by the tenderer. |
| 7. Tax clearance certificate | Various IAQs (FYE 2018/19) – Contract awarded to a suppliers whose tax matters had not been verified at the date of the award | National Treasury SCM Instruction No. 9 of 2017/2018 | 1. All documentation (including the CSD verification report and tax compliance pin) supporting the process followed to finalise and award the contract will be filed in individual files per contract (electronic/manual). 2. A condonation process is in progress for all matters related to foreign suppliers' tax clearance. | Compliance quarterly reports | 30 Sept 2022 | Complete | Consultative session with National Treasury to clear misinterpretation. Items have been taken through condonation process. |
| 8. Incorrect tender process applied | IAQ 18 – Informal tendering – Procurement mechanism not applied | National Treasury Instruction 3 of 2016/2017 | Monitoring of the utilisation of the informal tendering system | Quarterly reports on the level of compliance with the regulations | 31 Mar. 2023 | In progress | Monthly Standard Purchase Order Report is drawn and analysed for value and possible items that can be grouped together and put contracts in place as well as possible splitting of orders |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|--|--|---|--|---|-----------------|-------------|--|
| | IAQ 24 – Low Purchase Order (LPO) and low-value tendering mechanism – Overall process non-compliance | National Treasury SCM Instruction No. 9 of 2017/2018, par. 2.2, 3.1(d), and 3.3 | Sporadic review of LPO population to determine the level of compliance and abuse of the system Training sessions for LPO buyers on compliance matters | Monthly reports on LPO management and training interventions report | 30 Jun. 2023 | In progress | Monthly LPO report is drawn and analysed for possible repeat items and rotation of suppliers |
| | IAQ 30 – Quotations – Overall process non-compliance and internal control deficiencies identified | Preferential Procurement Regulations (PPR), 2017 – section 6 | Sporadic review of quotations population to determine the level of compliance and abuse of the system | Quarterly reports on the level of compliance with the regulations | 30 Jun. 2023 | In progress | Monthly Standard Purchase Order Report is drawn and analysed for value and possible items that can be grouped together and put contracts in place as and when required. |
| | IAQ 31 – Splitting of purchase orders | Eskom P&SCM Procedure Manual (32-1034) Revision 4 – par. 6.1.14 | Review of purchase order population | Quarterly reports on the level of compliance with the regulations | 30 Jun. 2023 | In progress | Monthly Standard Purchase Order Report is drawn and analysed for value and possible items that can be grouped together and put contracts in place as and when required |
| 9. Contracts awarded without CIDB requirement | IAQ 20 – CIDB – Overall non-compliance identified for CIDB | CIDB Act 38 of 2000 – section 18(1); Regulation 25(7A) and CIDB Standard for Uniformity (SFU) | Review of the construction/ infrastructure contract to determine the application of the threshold versus the CIDB grading | Quarterly verification reports | 31 Mar. 2023 | Complete | CIDB training sessions convened, with more than 500 officials attending. Further awareness will be increased, and this non-compliance has reduced since identification. |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|---|--|---|--|---|-----------------|-------------|--|
| | IAQ 23 – Non-compliance: CIBD – Gateway review | National Treasury Instruction Note 3A of 2019/2020 – par. 5 and 32-1034 – par. 4.4.1 Gateway reviews for major capital projects above a threshold | FIDPM unlike the SIPDM is a high level .framework particularly regarding the Infrastructure Procurement elements which requirements are broadly catered for in Eskom's PSCM Procedure already. | Finding in the process of being closed | 31 Oct 2022 | Complete | This is no longer a requirement as per NT instruction note 3A of 209/2020 which amended the Framework for Infrastructure Delivery Management |
| 10. COVID-19 spend report | IAQ 16 – Non-compliance with the requirement to report on the COVID-19 expenditure | Non-compliance with National Treasury Instruction Note 11 of 2020/2021 | Submission of FYE 2020/21 COVID-19 personal protective equipment (PPE) spend report to National Treasury | Quarterly reports submitted to National Treasury | 30 April 2022 | Complete | Reporting commenced late. |
| 11. Breach of more than one Commercial requirement | IAQ 27 – Contract management (CM) – Payments made after the end of the contract | Guideline L: Contract management (CM)/ Administration | 1. Actively manage exhaustion of contract budgets, enhance project budget monitoring, and reduce the number of contract variations above thresholds. 2. Ensure that contract managers are adequately capacitated with CM skills and knowledge. 3. Provide contract governance services such as claims, variations, and compensation event modifications, condonations, and disputes. | 1. Contract management proactive reviews quarterly reports 2. Training statistics of contract managers | 30 Nov 2022 | In progress | |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|---|---|---|--|--|------------------------|---------------|--|
| | IAQ 22 – Supplier Review Committee – Non-compliances identified regarding the supplier review process | Contravention various sections of NT Instruction No. 3 of 2016/2017 and Eskom Procurement Procedure | Review of the Supplier Review Committee (SRC) process and governance | SRC Process Control Manual, SRC Guidelines, and SRC submission templates | 30 October 2022 | 75% complete | Signed-off the SRC Process Control Manual, and SRC submission templates Aligning the SRC Guidelines with the recently enacted SCM legislative prescripts |
| | IAQ 19A – Non-compliance: Computer Assisted Audit Tools (CAATs) – Declarations of employee/supplier interest and possible undue influence | Eskom's Conflict of Interest Policy (32-173) Revision 3 – par. 2.2.2 to 2.2.6 | Conducting of regular probity checks on the procurement practitioner | Probity checks Monthly reports | 31 March 2023 | 98% | Currently, 98% compliance due to suspended employees |
| 12. Limitation of scope (various Informal Audit Queries) | IAQ 13 – Limitation of scope (various) | Eskom Procurement and Supply Chain Management Procedure (32-1034) | Migration of business documentation into a central repository | Monthly document management reports | 31 March 2023 | In progress | A central space has been created on Open Text for the filing of procurement documents. Ad hoc training on the system is provided on a request basis by the Doc Man department |

Procurement Audit Recovery Plan FY2020 to FY2023

| Finding | Finding description | Breach | Intervention | Deliverable | Forecast finish | Status | Comments |
|---------|---|---|---|--|-----------------|---------------|--|
| | IAQ 11 – Contract management – Documentation not provided | Eskom Procurement and Supply Chain Management Procedure (32-1034) | 1. Proactive reviews of newly established contracts and expansions as well as deviations 2. Early involvement of contract managers at the planning and contract placement stage to influence contract strategies and review contract documents prior to sign-off 3. Establishment of Contract Management Office (CMOs) to actively monitor contracts, modifications, and compliance and ensure adequate capacitation of contract managers | Repository with complete and accurate contracts documentation per division | 30 June 2023 | In progress - | A central space has been created on Open Text for the filing of procurement documents. Ad hoc training on the system is provided on a request basis by the Doc Man department |

5. Fraud prevention plan

Recommendation 6.5

Establish, document, and implement a fraud prevention plan.

Response to the recommendation

Eskom established a fraud prevention plan as contemplated in Regulations 27.2.1 and 29.1.1 of the Public Finance Management Act (PFMA). The FY2023 Fraud Prevention Plan includes the following key activities to prevent fraud:

- The conducting of preliminary and forensic investigations into reported incidents in a timely manner, with due focus on reducing the backlog: Forensic conducts preliminary assessments of incidents received and thereafter conducts investigations. Since the beginning of FY2023, 6 449 preliminary assessment of incidents and 195 investigations have been completed.

The following graph represents progress made against the backlog of forensic investigations:

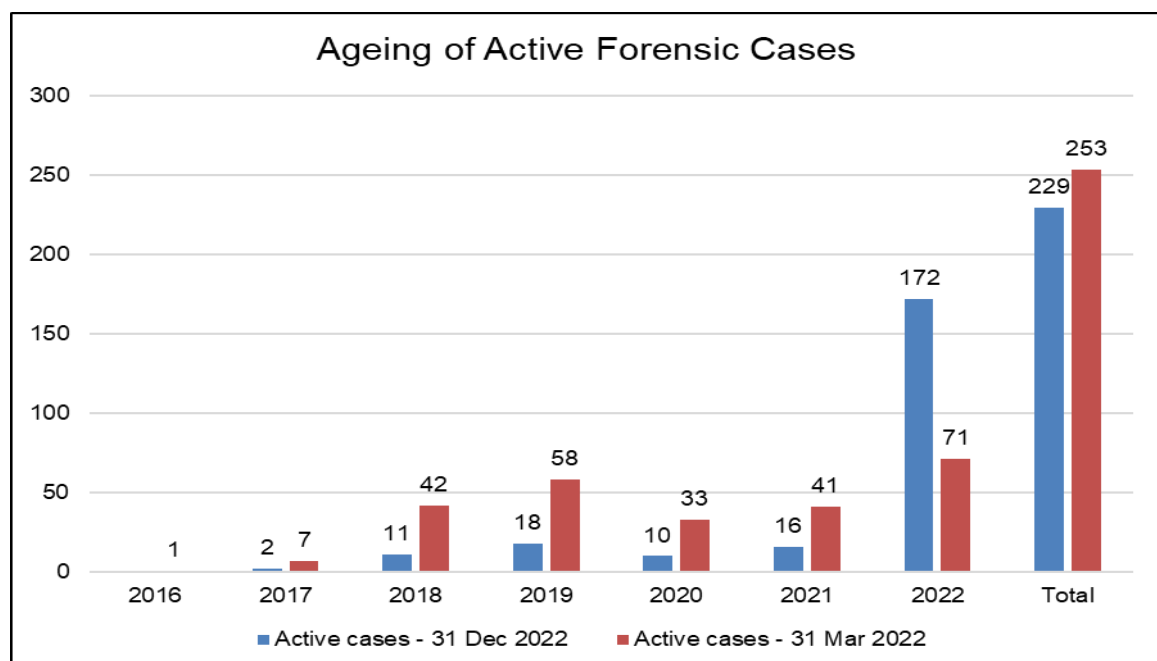


Figure 2: Ageing of Active Forensic Cases

- Development and publishing of monthly fraud awareness publications: monthly and ad hoc newsletters on various fraud and corruption topics are published for all employees to create awareness. Since the beginning of the financial year, 6 newsletters have been published, including a special edition to commemorate African Anti-Corruption Day and two global email messages to employees. In addition, Eskom observed International Fraud Awareness Week during the week of 13 to 19 October 2022 by raising awareness on the responsibility of employees towards fraud and corruption.
- Establishment and implementation of the Boots on the Fraud and Corruption Grounds Project: the project involves visiting power stations with the purpose of engaging with management to understand concerns and to identify possible fraud red flags as well as opportunities for further fraud detection and response activities. The project was completed having visited 16 coal powered stations and Koeberg. Four incidents linked directly to these visits were registered for further investigation.
- Maintenance of the Fraud Hotline to encourage whistle-blowing: Eskom finalised the appointment of an independent service provider to manage the hotline to preserve the integrity of the whistle-blowing process. Monthly and ad hoc fraud awareness publications encourage whistle-blowing and share all contact details. A separate communication was shared to encourage reporting through the DPE hotline.
- Performance of fraud deep dives on high-risk procurement items/commodities: Forensic conducts fraud deep dives related to the procurement of goods and services and identifies exceptions such as inflated prices and splitting of orders to circumvent the requirement for a higher level of authority. Forensic has registered four incidents for investigation based on the data analysis reports. Eskom with the support of its external auditors, conducted fraud risk procedures, fraud risk analytics and fraud indicators and identified fraud red flags. Eight incidents have been registered for assessment and investigation.
- The enhancement of working relationships with various agencies, the Special Investigating Unit (SIU), the Directorate for Priority Crime Investigation (DPCI, also

known as the Hawks), and the National Prosecuting Authority (NPA): Forensic Department is tasked with the co-ordination of all interactions with the law enforcement agencies, including the SIU, the DPCI (or Hawks), and the NPA, as well as Eskom's internal stakeholders.

A second workshop with the Gauteng Province officials from the NPA and the Hawks was held on 29 and 30 November 2022. The purpose of the workshop was to share Eskom's key procurement processes with the officials and other matters related to the current investigation that are related to Eskom matters.

- Referral of criminal conduct to the law enforcement agencies for further investigation: Forensic continues to refer criminal cases to the law enforcement agencies and follows up on progress. Currently, 144 cases have been registered with the South African Police Service and 41 of these cases have been disposed of through the criminal justice system process. The court proceedings in respect of 7 of these cases are in progress at various criminal courts. The remaining 96 are still under investigation.
- Review of the Anti-Fraud and Corruption Strategy: the Anti-Fraud and Corruption Strategy has been drafted and is going through the approval process.
- Review of the fraud awareness training: Forensic has reviewed the e-learning fraud awareness material for relevance and effectiveness. The material is being developed for e-learning and will be rolled out once approved.

Protection of whistle blowers

In terms of this Act, Eskom is required to create an environment where employees and other stakeholders can report amongst others, known or suspected acts of fraud, corruption, general and financial irregularities confidentially without fear of victimisation. The Eskom Fraud Hotline which is managed by an external service provider is maintained. So far Eskom has received 2 requests for protection since the beginning of the financial year, 1 from a member of the public and another from an employee. The request from the member of the public has been resolved.

Management is attending to the request by the employee. No further requests were received during this reporting period.

6. Consequence management of officials who cause irregular expenditure

Recommendation 6.6

Ensure that concrete measures are in place to deal with the implementation of consequence management of officials who cause irregular expenditure.

Response to the recommendation

The Loss Control Function independently conducts PFMA determinations with regard to allegations of irregular expenditure. The determination report provides details regarding the employees involved and their respective roles.

- If the determination report confirms that there is an employee who is responsible for the irregular expenditure, the line manager must consult with Human Resources (People/Employee Relations) within 30 calendar days to assist in instituting disciplinary processes. This is done in accordance with the relevant human resource processes.
- If, in consultation with the relevant HR functionary, the line manager decides that disciplinary action is not appropriate in the circumstances, then such decision and rationale are communicated to the Loss Control Function, together with all supporting documents. The line manager must also indicate what alternative consequence management measure has been instituted, for example, training. It is worth noting that consequence management is not limited to disciplinary action.

All occurrences of irregular expenditure are recorded in the Loss Control Register. An incident or occurrence may not be removed from the register if effective and appropriate disciplinary measures have not been instituted against the employees concerned. These registers are reported to the Board Audit and Risk Committee on a quarterly basis.

The disciplinary procedure states that Eskom will endeavour to institute disciplinary action within three months from the date that it becomes aware of any misconduct.

Once concluded, the outcome of the disciplinary action is reported to the executive authority and the National Treasury as well as to the Auditor-General in accordance with PFMA Treasury Regulation 33.3.

7. Safe keeping of Unit 4 components

Recommendation 6.7

Ensure that the components of Unit 4 required to get the unit running again are in safe keeping.

Response to the recommendation

Medupi Unit 4 components will not be removed (undamaged property), as the plant is being preserved according to Eskom's Preservation of Power Plants During Shutdowns Guideline (240-57127944) for Coal-Fired Power Stations.

In addition, Medupi Unit 4 has been declared a limited-access areas and fenced off, with security guards deployed at all entrance points and transitions from adjacent units.

The Medupi Unit 4 Spares and Equipment Removal Procedure (241-202224) is used to obtain the necessary clearance and approval for removal of spares and equipment from the plant, management of the process to ensure return of the borrowed spares and equipment, and close-out of the process after installation of the borrowed spares and equipment, including completion of testing and commissioning requirements.

8. Skills transfer by OEMs

Recommendation 6.8

Develop and follow a plan designed to ensure that there is some degree of skills transfer every time the original equipment manufacturer (OEM) is called on to carry out repairs.

Response to the recommendation

Most OEM contracts have skills transfer obligations for Eskom employees and broader skills development and localisation obligations for local communities. A case in point is the obligations for the transfer of skills and on-the-job training of the recently concluded turbine and generator engineering services contracts.

A programme of works is being developed to effect the obligation, which will be established as a template for standard skills transfer. The elements of skills transfer include the following:

- Sabbaticals to OEM design and manufacturing works, local and overseas
- Participation of Eskom employees in the training programmes of the OEMs
- Development of training manuals for Eskom employees
- Mandatory on-site training for operating, maintenance, and engineering staff
- Competency assessment of Eskom employees on programmes of OEMs
- Refresher training
- Inclusion of OEM training programmes in Eskom employees' training manuals
- Progress tracking of the skills transfer programmes at the monthly contractual meetings
- Inclusion of measurable mandatory capacity skills and skills transfer obligations in all future contract scopes of OEMs
- Amendment of all Eskom standard contracting templates and bespoke contracts to include measurable skills transfer obligations
- Tools for Skills Transfer from OEM:
 - The committed training on OEM contracts will be registered on database for execution.
 - The required skills transfer will be registered on the employee individual development plan (IDP)
 - The employee committed skills transfer will be registered or executed in line with IDP.
 - The record of the completed training will be loaded on training system.
 - The 4IR process and digital transformation can only stand to serve and improve Eskom's performance and the lives of 60 million South Africans.

- Process Control Manuals (PCM) will be developed to map various solutions/monitoring/maintaining/etc, and or for knowledge management.
- The effectiveness of skills transfer will be measured by evaluation of independent execution of skill (learn by doing).
- Maintain the database of skilled employees on critical functions.