Budgetary Review and Recommendations Report of the Portfolio Committee on Mineral Resources and Energy Dated 17 October 2023

The Portfolio Committee on Mineral Resources and Energy, having considered the performance and submission to National Treasury for the Medium-Term period of the Department of Mineral Resources and Energy, reports as follows:

1. INTRODUCTION

The Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) sets out the process that enables Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

In October of each year, Portfolio Committees must compile Budgetary Review and Recommendation Reports (BRRR) that: assesses the service delivery performance of a national department given the available resources; evaluates the effective and efficient use and forward allocation of resources; and may make recommendations on future use of resources. Therefore, a comprehensive review and analysis of the national departments previous financial year's performance, including its performance to date, form part of the process.

The BRRR is also a source document for the Standing and/or Select Committees on Appropriations and/or Finance when recommendations are made to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS).

1.1. Mandate of the Portfolio Committee on Mineral Resources and Energy

In terms of the Constitution of the Republic of South Africa, 1996 (the Constitution), Portfolio Committees have a mandate to legislate, conduct oversight over the Executive and facilitate public participation. The Portfolio Committee on Mineral Resources and Energy mandate is governed by Parliament's mission and vision statements, the rules of Parliament and its Constitutional obligations.

The vision and mission of the Portfolio Committee is to contribute to the realisation of a developmental state and to ensure effective service delivery through discharging its responsibility of holding the Executive Authority and the related entities accountable. This is done through oversight of national department's objectives and programmes, scrutinising its budget and expenditure (annually), and recommending through Parliament actions that must be undertaken by the national departments in order to attain its strategic goals and contribute to service delivery.

The committee, in undertaking the process of compiling this report, considered the following source documents and engagements:

Annual Report briefings, in terms of Section 65 of the Public Finance Management Act, No. 1 of 1999, which requires that Ministers table the annual reports and financial statements of the Department and the public entities to Parliament. Consequently, the Portfolio Committee on Mineral Resources and Energy (herein after PCMRE or Committee) was briefed on 10 October 2023 by the following institutions:

- The Auditor-General of South Africa (AGSA) on the audit outcomes of the Department of Mineral Resources and Energy and the entities reporting to it.
- The Department of Mineral Resources and Energy (DMRE or Department), and the
- South African Nuclear Energy Corporation (NECSA)

It is important to note that the DMRE has eleven (11) entities as listed in the subsequent section. Usually, the Committee invites all the entities during the BRRR processes, however, due to time constraints this was not possible this year. The Committee is currently conducting nationwide public hearings on the Electricity Regulation Amendment (ERA) Bill which was referred to it as a priority Bill in August 2023. Consequently, the Committee intended to invite only two (2) entities that have had strategic challenges for a very long time, such as NECSA and the Central Energy Fund Group of companies. Regrettably, the Central Energy Fund Group did not table its annual report as per the legislated timeframes. Therefore, only NECSA briefed the Committee.

1.2. The Mandate of the Department of Mineral Resources and Energy

The overarching purpose of the DMRE is to ensure that diverse resources are available in sustainable quantities, and at affordable prices for the growth of the South African economy. In line with the

National Development Plan (NDP), the Department contributes to the fight against poverty, unemployment, and inequity while taking into account environmental concerns and obligations.

The Department's vision is to be a leader in the transformation of South Africa through economic growth and sustainable development in the mining and energy sectors. Its mission is to: regulate, transform and promote the minerals and energy sectors; provide sustainable and affordable energy for growth and development and ensure that all South Africans derive sustainable benefit from the country's mineral wealth.

The Department execute its mandate through the following entities:

Council for Mineral Technology Research (MINTEK), Mine Health and Safety Council (MHSC), State Diamond Trader (SDT), South African Diamond and Precious Metals Regulator (SADPMR), Council for Geoscience (CGS), National Nuclear Regulator (NNR), National Radioactive Waste Disposal Institute (NRWDI), South African National Energy Development Institute (SANEDI), NECSA, The Central Energy Fund (CEF) Group of Companies (SOC) Ltd, and the National Energy Regulator of South Africa (NERSA).

1.3. Purpose of the BRR Report

Section 77(3) of the Constitution stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. This constitutional provision gave birth to the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), which sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

Section 5 of the Act, states that the National Assembly (NA), through its Committees, must annually assess the performance of each national department with reference to the following:

- The medium-term estimates of expenditure of each national department including its strategic priorities and measurable objectives, as tabled in the NA with the national budget;
- Prevailing strategic plans;
- The expenditure report relating to such department published by the National Treasury in terms of the section 32 reports of the Public Finance Management Act, No 1 of 1999 (PFMA), as amended in 2009;
- The financial statements and annual report of such department;
- The report of the Committee on Public Accounts relating to the department; and
- Any other information requested by or presented to a House or Parliament.

The Act therefore makes it obligatory for Parliament to assess the department's budgetary needs and shortfalls vis-à-vis the department's operational efficiency and performance. This is done taking into consideration the fact that the DMRE has oversight responsibilities over eleven (11) entities.

Committees must submit the BRRR annually to the NA. The BRRR assesses the effectiveness and efficiency of a department's use and future allocation of available resources and may include recommendations on the use of resources in the medium term.

Committees must submit the BRRR after the adoption of the budget and before the adoption of the reports on the Medium-Term Budget Policy Statement (MTBPS) by the respective Houses in November of each year.

1.4. Method followed by the Committee in writing the BRR Report

The Committee has scrutinized and interrogated all available documents as outlined in Section 5 of the Money Bills Amendment Procedure and Related Matters Act. The Committee has assessed the performance of the Department in the 2022/23 financial year. The Committee held a meeting on 10 October 2023 to discuss the 2022/23 Annual Report of the Department and the selected entity, NECSA. The meeting was attended by the DMRE including the Deputy Minister and Director General, and the senior management from the selected entity NECSA. Also in attendance was the senior leadership from the office of the Auditor General of South Africa (AGSA), to which all leaders from the various institutions gave input and addressed key issues raised by the PCMRE during the BRRR process.

2. OVERVIEW OF THE PERFORMANCE OF THE DMRE, 2022/23

This section analyses the overall performance of the Department for the 2022/23 financial year.

2.1 Overall financial performance of the Department

For the 2022/23 financial year, the Department had an allocated total budget of R10.4 billion[1]. By the end of the year under review, the Department had spent R10.1 billion or 96.9 percent of the total allocated budget[2]. In the previous financial year, 2021/22, the Department had an allocated total budget of R9.2 billion and spent R8.9 billion or 96 percent of the total allocated budget.[3] Therefore, comparative to actual expenditure of R8.90 billion incurred in the 2021/22 financial year, expenditure in 2022/23 financial year improved by R1.22 billion or 13.65 percent.

A substantial portion of the Department's budget is for transfers and subsidies, an actual R8.021 billion was transferred in the 2022/23 financial year. This line item refers to the transfers and subsidies to the various entities as implementing agents to which funds are mainly for the implementation of projects and programmes, including the entities' operational expenditure[4].

Table 1 below depicts the budget allocated and expenditure of the DMRE or Vote 34 for the 2022/23 financial year:

Table 1: Overall Budget for the Department for 2022/23 Financial Year

Programme	Main Appropriation	Actual Spending		Variance
	R'000	R'000	%	R'000
Administration	729.6	651.6	89.3%	78.0
Minerals & Petroleum Regulation	493.1	504.6	98.5%	7.7
Mining, Minerals & Energy Policy Development	880.0	855.0	97.2%	25.0
Mine Health & Safety Inspectorate	236.6	218.1	92.2%	18.5
Mineral & Energy Resources Programmes & Projects	6840.4	6728.6	97,3%	188.5
Nuclear Energy Regulation & Management	1,166.0	1,162.7	99.2%	9.3
Total	10 345.7	10 120.6	96,9%	327.0

Source: Department of Mineral Resources and Energy Annual Report, (2022/23)

As shown in Table 1 above, in terms of budget performance, the 2022/23 spending is R327 million or 3.1 percent lower than the total allocation. Below is the financial performance per programme of the DMRE, as contained in the Annual Report.

2.1.1 Programme 1: Administration

[1] Department of Mineral Resources and Energy, (2022)
[2] Ibid
[3] Department of Mineral Resources and Energy, (2021)
[4] Department of Miner Resources and Energy, (2022)

The Programme spent R651.59 million which represents 89.3 percent of its allocated budget. Therefore, the budget underspending is R78.03 million or 10.7 percent. The DMRE provided the following reasons for the underspending under this programme:

- Compensation of employees line item has an underspend of R11.22 million due to vacant funded positions.
- Goods and services lint item has an underspend of R66.16 million to which R62.51 million came from the computer services item attributable to the delayed acquisition of the Mining Licensing system whose procurement process was stopped and thereafter restarted through the State Information Technology Agency (SITA).
- The allocation earmarked for transfer to the Energy and Water Sector Education and Training Authority (EWSETA) of R911 000 was *not* transferred due to Central Supplier Database (CSD) registration challenges experienced by the SETA and pending finalisation of a service level agreement between the Department and Energy & Water Sector Education Training Authority (EWSETA).

2.1.2 Programme 2: Minerals and Petroleum Regulation

The Programme recorded a budget underspending of R7.72 million or 1.5 percent. The DMRE stated that this underspend was due to the underspending of compensation of employees, R4.99 million, as a result of vacant funded positions.

2.1.3. Programme 3: Mining, Minerals and Energy Policy Development 1

The Programme recorded a budget underspending of R26.96 million or 3.1 percent. The DMRE explained this underspending as follows:

- The Compensation of employees line time has a R6.61 million underspending due to funded vacant positions, and
- The goods and services line item has a R20.18 million underspending mainly made up of savings from items such as travel and subsistence, venues and facilities, consumables etc. Costs under venues and facilities were significantly brought down by establishing collaborations with stakeholders and sharing costs of hosting events.
- Finally, there are the consultants' items which was also under spent due to delays in finalising the procurement process for subscription to various information resources for research purposes.

2.1.4. Programme 4: Mine Health and Safety Inspectorate

The Programme spent R218.10 million, which represents 92.2 percent of the allocated budget, resulting in a budget underspending of R18.50 million or 7.82 percent. The Department highlights that the R16.76 million variance was contributed by the compensation of employees' item due to funded vacant positions. This is the main factor attributed to the underspending of Programme 4.

2.1.5. Programme 5: Mineral and Energy Resources Programmes and Projects

The Programme spent R6.73 billion or 97, 3 percent of the allocated budget resulting in a budget underspending of R188,49 million or 2.7 percent. The Department provided the following factors as reasons for the underspending:

- The compensation of employees' line item has an R5.79 million underspending due to funded vacant positions, and the goods and services line item has an R176.05 million underspending from the consultants' item attributable to delayed projects. The DMRE highlighted the following delayed projects:
    - ✓ Electrification Masterplan: the development of the Integrated National Electrification Programme (INEP) Electrification Master Plan was not finalised as anticipated during the period under review due to delayed delivery by service providers.
    - ✓ Energy Efficiency and Demand Side Management (EEDSM) & INEP Non grid electrification monitoring and verification (M&V): funds earmarked for the M&V of non-grid installations and EEDSM projects were not utilised as planned due to delays in initiating procurement processes.
    - ✓ National Solar Water Heater Programme (NSWHP): the appointment of installers took place later than expected delaying the 2022/23 implementation plan.

Outstanding invoices from service providers and efforts made by the Department to remove solar water heater (SWH) units from storage facilities at producers' sites and relocation to participating municipalities and public entities, resulted in lower than anticipated storage costs.

- ✓ INEP Non grid electrification projects: the delayed submission of invoices by service providers for implemented connections delayed the approval/verification process which must be undertaken prior to the release of funds.
- ✓ Budget savings were also recorded on administrative fees and travel and subsistence items due to less official trips taken than anticipated.
- ✓ Transfer Payments: R6.65 million budget underspending mainly due to subsidies, intended for marginalised mines to remove/pump extraneous mine water, which were not disbursed as planned as none of the applicants met the subsidy criteria.

2.1.6. Programme 6: Nuclear Energy Regulation and Management

The Programme recorded a budget underspending of R9.26 million or 0.79 percent mainly from the transfers and subsidies classification due to payments to the International Atomic Energy Agency (IAEA) for membership fees which were lower than anticipated, as determined by the IAEA. The vacancies within the Programme also contributed to the overall underspending.

2.2 Non-Financial Performance of the Department

As indicated in the preceding section, the Department has six programme areas. Each programme has sub-programmes within it. In this section of the paper, the focus is on an analysis of the performance or non-financial targets. The main objective of this section is to contrast what the Department had planned to achieve against what it has actually achieved.

Table 2: Overall Performance of the Department for 2022/23 Financial year

Programme	Total Targets	Achieved Targets	Not Achieved Targets
Administration	**9**	**4 (44.4%)**	**5**
Minerals & Petroleum Regulation	**9**	**8 (88.8%)**	**1**
Mining, Mineral & Energy Policy Development	**23**	**8 (34.7%)**	**15**
Mine Health & Safety Inspectorate	**12**	**10 (83.3%)**	**2**
Programme & Projects Management	**22**	**12 (54.5%)**	**10**
Nuclear Energy	**10**	**7 (70%)**	**3**
Total	**85**	**49 (57.6%)**	**36 (42, 3%)**

Source: Department of Mineral Resources and Energy Annual Report, (2022/23)

As can be seen in Table 2 above, the Department had set itself 85 performance targets for the 2022/23 financial year. The Department achieved 49 or 57.6 percent and fell short by 36 or 42.3 percent. It is important to note that the Department spent 96.9 percent of its allocated budget whilst it only achieved 57.6% of its performance targets for the year under review. Ideally there should be a correlation between the budget spent and the targets achieved. Moreover, the rate of 57.6 percent achievement of performance targets is below the National Treasury benchmark of 80 percent for the National Departments.

When compared to the previous financial year, there is drop in the performance of the Department. In 2021/22 financial year the Department set itself 81 performance targets and achieved 58 or 72% of its performance targets whilst spending the same 96 percent of the total allocated budget.

As depicted in the table above, two programmes, namely Programme 1: Administration and Programme 3: Mining, Mineral & Energy Policy Development achieved below 50 percent in their target performance. Programme 2: Minerals and Petroleum Regulation is the best performing programme, followed by Programme 4: Mine Health and Safety Inspectorate. Below are the explanations of the targets that were *not* achieved, illustrated per programme.

The *Administration Programme* achieved 44 percent of its planned targets, a regression when compared to the 79 percent achieved in the previous financial year. The targets not achieved in this programme during the year under review included the following:

- The Department had planned to eliminate 100 percent of Wasteful and fruitless expenditure compared to previous financial year. However, the Department recorded wasteful and fruitless expenditure. It cited that this had occurred due to historical wasteful and fruitless expenditure transactions.
- It had also planned a 100 percent reduction of irregular expenditure compared to prior year. Irregular expenditure was incurred and the Department states that 99.6 percent was achieved and that the 0.4 percent shortfall is due to the payment of continuous contract that were found to be irregular and not yet condoned.
- The Department did not meet its target of having 100 percent approved invoices from service providers paid within 30 days. According to the Department this happened because of delay in submitting invoices by process owners within the stipulated timeframes.
- The Department failed to achieve the target of 4 approved shareholder compacts and corporate plans of schedule 2 State Owned Entities (SOE). The Department indicates that there were delays in submission of the request clarification on budget allocation and targets by relevant stakeholders.
- The Department also planned to have 44 SOE's quarterly performance reports reviewed, and Ministerial submissions produced; however, one (1) quarterly report was not submitted.

Programme 2: Minerals and Petroleum Regulation Programme achieved 88.8 percent of its set targets, an improvement from 83 percent performance in the previous financial year. It must be noted that the DMRE surpassed its own performance targets under this programme. Notably, the Department planned 212 inspections on social and labour plans (SLP) projects in the financial year and the Department inspected 237 SLP projects. Similarly, planned targets of 120 SLP development projects completed, the Department achieved 150, and a planned 4000 jobs created through the issuing of mining rights, the Department enabled 6977 jobs. Lastly, the planned 1275 environmental inspections to be conducted by the Department were overachieved as 1400 environmental inspections were conducted.

The target not achieved is the number of petroleum retail site compliance inspections to which the Department planned to conduct 1500 however fell short and achieved 1463. The reason provided by the Department is that the wholesale site inspections were wrongly included in the annual target.

Programme 3: Mining, Mineral and Energy Policy Development Programme achieved 34.7 percent which is a significant decline from 72 percent performance targets it achieved in the previous financial year. The fifteen (15) targets *not* achieved are as follows:

- The Department had planned to table the Petroleum Products Bill in Parliament. According to the Department, the reason for the deviation from this planned target is that the stakeholder consultations delayed the process however as it currently stands the Draft Bill is with the State Law Advisor for pre-certification.
- The Mine Health and Safety Amendment Bill which was meant to be submitted to Parliament. The Department states that the social partners requested more time to obtain mandates therefore the initial rescheduled date for 30 December 2022 was rescheduled for 11 and 24 April 2023.
- The Department had committed to gazette the National Petroleum Company (NPC) Bill for public comments however this did not take place. The reason provided is that Cabinet approved the merger design on the 30th of November 2022, which affected the processes for gazetting of the Bill for public comments on time, however the Bill has been submitted to the State Law Advisor for pre-certification.
- The Diamonds Amendment Bill was meant to be tabled in Parliament for promulgation. This did not happen because the consultation process to identify gaps to inform the review of the Act were delayed due to approval processes to be followed by relevant SOEs on submission of their inputs. The DMRE has indicated that a draft Bill is in place, but it is still to be submitted to the State Law Advisors for pre-certification.
- The Department also planned to submit the Radioactive Waste Management Fund Bill to Cabinet for tabling in Parliament however this did not happen. The Department explains that

there was a delay in redrafting the Bill due to additional identified gaps however currently the draft Bill is finalised.

- Similar to the above, the Gas Act Amended Regulations were planned to be gazetted for public comments however did not take place as planned. The Department indicates that this is because the amendment is dependent on the promulgation of the Gas Amendment Bill. The Gas Amendment Bill has been withdrawn from Parliament for review.
- The Department planned to insert key amendments to the Mineral Petroleum Resources Development Act (MPRDA) specifically sections 75, 76 and 77. This did not take place and the reason provided for not achieving this target is that there was a delay in requesting formal concurrence from the Minister of Finance in terms of the MPRDA. The DMRE explains that the amendments are finalised, it is the concurrence that is outstanding.
- The Department planned to submit to Cabinet for final approval the Electricity Pricing Policy review however this was not achieved. The DMRE explains that the revised policy is currently being consulted at the National Economic Development and Labour Council (NEDLAC).
- Similar to the above in relation to the Gas Master Plan, which was meant to be submitted to cabinet for approval. The DMRE explains that there were delays in finalising the data modelling therefore the target could not be achieved.
- The Socio-Economic Baseline Report which was planned to be submitted to Minister for approval did not take place to which the Department explains is due to the prolonged value chain dependencies however the report was approved outside the reporting period in April 2023.
- The Department had committed to submit the Jewellery and Battery Minerals Value Chain implementation plans for approval by the Minister. According to the Department, there was a delay in receiving the final report from partner Department of Trade, Industry and Competition (DTIC). However, the finalised document will be submitted for approval in Quarter 1 of the 2023/24 Financial Year.
- The Department planned to host three (3) investment conferences however only hosted two (2) to which the explanation provided is that the planned third conference was due to take place in Northern Cape however did not due to unavailability of key stakeholders.
- The Department failed to publish the eight (8) planned mineral publications, and the four (4) planned annual energy statistics reports. The Department states that regarding the latter engagement with approval authority for with quality assurance prior to approval is taking place and a draft report is produced. With regard to the former, the Department explains that three (3) publications are finalised, the delay was caused by delays in the procurement processes of the subscriptions and other resources.
- Lastly, the DMRE planned to complete one(1) new agreement related to economic diplomacy. The DMRE explains the shortfall by stating that there was a delay in receiving inputs from Department of Justice for legal advice and process.

Programme 4: Mine Health and Safety Inspectorate Programme achieved 83.3 percent of its planned performance targets, an increase from the 50 percent achieved in the previous financial year. The two targets that were not achieved were as follows:

- The Department had planned for a 5 percent reduction in occupational injuries. The Department achieved 2 percent. There were 2073 injuries from April 2022 to March 2023 compared to 2130 injuries in the same period of the previous financial year. The reason cited for the deviation is that there were more collisions and accidents under transport and mining due to non- compliance.
- The 10 percent planned reduction in occupational diseases was not achieved, instead a deviation from the target by -23 percent was recorded. During April 2022/23, a total of 1 592 occupational diseases were reported compared to 1 403 cases reported during the same period in the previous year.

Programme 5: Mineral and Energy Resources Programmes and Projects achieved 54.5 percent of the planned performance targets, a decrease from 62 percent achieved in the previous financial year. Key targets not achieved are follows:

- The target of issuing a Request for Proposals (RFP) for 1500 MW from coal was not achieved. The Department explains that this is because of the diminishing financial market appetite for funding coal projects, a pre-feasibility study had to be conducted to assess the viability of undertaking a successful Coal Procurement Programme.
- The issuing of the RFP for 3 000 MW from gas did not happen as planned. The Department cites that the gas to power (G2P) programme conceptualisation has been completed and preparatory work for development of the gas RFP is underway.

- The Renewable Energy Sector Master Plan Report was not processed, signed off and approved as planned. Instead, the Department cites delays in finalising the implementation elements.
- The Department planned to rehabilitate three (3) derelict and ownerless mine sites however only two (2) sites were rehabilitated. The Department states that the one (1) site could not be rehabilitated due to community unrest.
- The Department planned to draft a Mining Sector Women Empowerment and Gender Equality Strategy and Implementation Plan. This did not take place as planned and the Department indicates that consultation will take place in the new financial year.
- The Department committed to financially support thirty (30) small-scale miners and did not achieve this target at all and did not provide reasons for this shortfall. Similarly, the department committed to financially support ten (10) women owned small scale miners and this did not take place. The Department indicates that the financial support could not be provided because a Memorandum of Agreement between the DMRE and the Industrial Development Corporation of South Africa (IDC) to allow for disbursement did not take place and was only approved in March 2023.

Programme 6: Nuclear Energy Programme achieved 70 percent of the planned targets, a marginal decrease from 71 percent in the previous financial year. The three targets not achieved were as follows:

- The Department had planned to issue a request for proposals for procurement of 2500 MW Nuclear Programme, this did not take place. The Department mentions that they are awaiting the National Energy Regulator of South Africa (NERSA) unconditional concurrence with Ministerial section 34 determination.
- The Feasibility Report for the establishment of the Centralised Interim Storage Facility (CISF) was not submitted to Cabinet for approval as planned. The reasons for the deviation as cited by the Department is that the Gateway Review project is delayed due to protracted procurement process.
- Lastly the Department planned to complete the Draft Feasibility study on the Multipurpose reactor (MPR) for Gateway Review. The Department has indicated that the report is currently being reviewed by the ministerial task team. In parallel, the process to procure the service provider for the gateway review is being expedited by NECSA.

2.3 Auditor General's Report on the DMRE

During the year under review, the Department obtained an Unqualified Audit Opinion with findings from the AGSA. In the previous financial year, the Department obtained the same opinion from the AGSA. Key findings of the AGSA on the Department were as follows:

- Impairment of accrued Departmental revenue: an amount of R 268 251 000 was impaired as a result of the department's inability to collect revenue due to the department.
- Expenditure Management: The AGSA found that effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R 7 874 000 to which the majority of the fruitless and wasteful expenditure related to payment of storage fees.
- Consequence Management: The AGSA was unable to obtain sufficient and appropriate audit evidence that disciplinary steps were taken against officials who had incurred unauthorised, irregular and fruitless and wasteful expenditure as required by section 38(1)(h)(iii) of the PFMA. This was because investigations were not finalised as of 31 March 2023 for unauthorised, irregular as well as fruitless and wasteful expenditure. This was also a finding in as internal control deficiency – the slow progress in finalising investigations into transgressions.
- Revenue Management: Finding that interest was not charged on debts relating to annual petroleum fees, as required by treasury regulation.
- Strategic Planning and Performance Management: The AGSA states that specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery.
- Material Performance reporting issues on Programme 2: The planned indicator and target were number of jobs to be enabled through the issuing of mining rights; however, the technical indicator description refers to jobs created through issuing of mining rights. The AGSA finds that the source of information, evidence and method of calculation for achieving the planned indicator was not clearly defined.
- A similar finding regarding the *number of rights and permits granted and/or issued to Historically Disadvantaged South Africans (HDSA) controlled entities,* the AGSA finds that the

source information and method of calculation for achieving the planned indicator was not clearly defined.

- Material findings on performance on Programme 5: An achievement of 20 950 additional households connected to non-Grid was reported against a target of 15 000 additional households electrified with non-grid electrification to achieve the 2022/23 target. The AGSA found that she could not determine if the reported achievement was correct, as the processes established to consistently measure, and report achievements were inadequate. The AGSA further indicates adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

  It is important to note that some of the AGSA findings are a repeat of the previous financial year, particularly the issue of interest not charged, fruitless and wasteful expenditure related to the storage fees, and the issue of revenue collection.

  Notably, the AGSA continues to make findings on the quality of the performance reports of the Department due to a defective or unclear methodology used by the Department to assess performance and planning. As a result, the AGSA both before audit adjustments and after the Department provided adjustments to its performance report found that the performance report is not useful for planning and reporting on the DMRE's impact on service delivery.

3. ENTITIES REPORTING TO THE DEPARTMENT

As stated above, eleven (11) State-Owned Entities (SOEs) contribute to and implement the objectives of the Department. Due to time constraints, only NECSA was invited to brief the Committee this year. Below is an overview of NECSA's performance in the 2022/23 financial year.

Governance and leadership stability started taking shape at NECSA during the 2020/21 financial year. Thus, new turnaround strategy was developed, which necessitated a transition where NECSA moved from an old strategy and corporate plan to the new strategy comprised of five (5) pillars or programme supported by fifteen (15) key performance indicators (KPAs) – a reduction from twenty-six (26) in the 2019/20 financial year[5]. During the period under review, 2022/23 financial year, as per the previous financial year, NECSA executed its mandate and measured its performance through the five strategic pillars, supported by the 15 targets. The five strategic pillars are Financial Recovery and Sustainability, Research and Innovation, Profitability Commercial Enterprises, Business Continuity and Efficiency, Talent Excellence and High-Performance Culture. These are discussed in detail below.

3.1 Overall performance of NECSA

For the 2022/23 financial year, NECSA achieved 73 percent of its planned performance targets, this compares to 63 percent in the previous financial year. This means that, of the fifteen (15) performance targets set per the strategic pillar, only four (4) were not achieved. Similarly, the entity has achieved an income of R145.3 million, this compares to R318.7 million loss recorded in the 2021/22 financial year. At the year-end, NTP recorded a profit of R113 million, compared to R52 million in the previous financial year. On the other hand, Pelchem recorded a loss of R62.8 million due to unreliable plant performance.

Below is a summary of the targets achieved and not achieve by NECSA during the year under review as per the strategic pillars.

Financial Recovery and Sustainability Pillar: Two (2) targets were set under this strategic pillar, namely, NECSA Group net profit after tax of -R23.1 million, and to obtain unqualified audit opinion for 2022/23 audit. The latter was not achieved as the entity obtained a qualified audit opinion. The qualification is on the Decontamination and Decommissioning Stage 1 provision – this will be discussed in detail in section 4 below. The other target was exceeded as the entity recorded a net profit of R125.5 million. This remarkable achievement is attributed to the NTP's outstanding financial performance.

Research and Innovation: All three (3) targets under this strategic pillar were achieved. The achieved targets were to increase revenue through Contract Research and Development income generation to the tune of R40 million. This target was exceeded as the entity achieved R58 million.

[5] NECSA, (2022)

According to NECSA this achievement was made possible by additional income from virement funding and Multipurpose reactor (MPR) work. The second target was to produce 23 peer reviewed research publications. This was exceeded as the entity produced 27 peer reviewed research publications. The third target was to attain 6 innovation disclosures. This was exceeded, as 7 innovation disclosures were attained. The achievement is attributed to high turnaround in intellectual property approval and registration process.

Profitability Commercial Enterprises: Two (2) targets were set for this strategic pillar, and one was achieved. The first target was that the NTP Group net profit after tax should be R19.7 million. The target was exceeded as R138.2 million was achieved. This outstanding achievement is attributed to the high production levels in response to global shortage of radioisotopes caused by Belgian reactor outage. The second target was not achieved, and this relates to the Pelchem net profit after tax which was aimed at R19.7 million. The subsidiary made a loss of R61.7 million. The reason cited for this dismal performance was the aged infrastructure.

Business Continuity and Efficiency: Of the five (5) planned targets of this strategic pillar, three (3) were achieved and two (2) were not achieved. The first target that was not achieved relates to the D&D programme execution (Stage 1). The target was the 90 percent execution of annual plan of action as approved by NECSA Board and submitted to DMRE. Instead, 59.6% was achieved. The reason cited for the failure to achieve the target was that D&D performance was corrected in line with original APA. Another reason cited was the shortage of specialised staff and equipment needed for the execution of the target. The second target not achieved relates to the Multipurpose Research Reactor Development - Replacement of SAFARI-1 Reactor. Only 1 of the 3 sub-targets was met. The sub-targets that were planned included the Framework for Infrastructure Delivery and Procurement Management (FIDPM) feasibility, Environmental Impact Assessment (EIA) application and overarching licensing strategy.

Talent Excellence and High-Performance Culture: All three (3) targets under this strategic pillar were achieved. These related to improved performance culture and maintaining core skills, staff productivity, and ensuring that about 67% of black professionals are in middle management and higher positions.

3.1.1 Human Resources

As at the end of the 2022/23 financial year, the NECSA Group's total staff complement inclusive of contract workers was 1 687 against the 1 850 approved posts for the year under review. Therefore, for the 2022/23 financial year, NECSA had about 163 vacant posts. In the previous financial year, 2021/22, NECSA staff complement 1 775. Table 1 below provides NECSA's employment and vacancies statistics for the 2022/23 financial year.

Table 3: NECSA Employees and Vacancies during the 2022/23 Financial Year

Programme	2022/23 Number of Employees	2022/23 Approved Posts	2022/23 Vacancies	% of Vacancies
Financial Recovery & Sustainability	64	99	35	35.35%
Research & Innovation	91	100	9	9%
Profitability Commercial Enterprises	509	509	-	-
Business Continuity and Efficiency	935	1 032	97	9.40%
Talent Excellence & high-performance culture	88	110	22	20%
Total	**1 687**	**1 850**	**163**	**73,75%**

Source: NECSA, (2023)

As evident in table 1, NECSA has quite a number of vacant posts in critical programmes which are important for the entity to realise its growth path. The Group lost a total of 94 employees due to terminations and appointed 22 during the year under review.[6]

3.2 Audit Outcomes in relation to NECSA

[6] NECSA, (2023)

For the 2022/23 financial year, NECSA obtained a qualified audit opinion from the AGSA. This an improvement for a disclaimer opinion in the previous financial year. A disclaimer audit opinion means the Auditor was unable to obtain sufficient evidence to form an opinion on the financial statements being audited. On the other hand, a qualified audit opinion means that the Auditor found that the company's financial statements are presented fairly, except in specific areas. The basis provided for the qualified audit opinion as a follow:

Decommissioning and decontamination (D&D) on stage 1 liability and asset: The AGSA was unable to obtain sufficient appropriate audit evidence in respect of the D&D stage 1 liability due to inconsistencies noted from the information submitted to support the Group's estimated timing and quantum of estimated costs used in determining the liability. Moreover, the AGSA was unable to confirm the D&D on stage 1 liability by alternative means. Consequently, unable to determine whether any adjustments were necessary to the D&D stage 1 liability stated at R2 593 856 000 (2022: R3 222 453 000). Furthermore, due to the inability to obtain sufficient appropriate audit evidence for the D&D on stage 1 liability, AGSA was unable to determine by alternative means, whether any adjustments are required to the D&D on stage 1 asset stated at R2 593 856 000 (2022: R3 222 453 000).[7]

Investment income: The AGSA was unable to obtain sufficient appropriate audit evidence for investment income: stage 1 D&D stated at R296 275 000 (2022: R309 701 000), because this interest income is calculated based on the D&D stage 1 asset, for which the AGSA was not able to obtain sufficient appropriate audit evidence. Consequently, AGSA was unable to determine whether any adjustments were necessary to the investment income: stage 1 D&D stated at R296 275 000 (2022: R309 701 000).

Finance cost: The AGSA was unable to obtain sufficient appropriate audit evidence for finance costs: stage 1 D&D stated at R290 535 000 (2022: R309 701 000), because these finance costs are calculated based on the D&D stage 1 liability, for which AGSA was not able to obtain sufficient appropriate audit evidence. Consequently, AGSA was unable to determine whether any adjustments were necessary to the finance costs: stage 1 D&D stated at R290 535 000 (2022: R309 701 000).

Acceptance of decommission and decontamination Stage 1: The AGSA was unable to determine whether any adjustments were necessary to the acceptance of D&D stage 1, stated at R868 954 000 (2022: R1 650 945 000) because the AGSA could not obtain sufficient appropriate audit evidence for the D&D stage 1 liability. Furthermore, because AGSA could not obtain sufficient appropriate audit evidence for the D&D stage 1 liability, it was unable to determine whether any adjustments were necessary to government grant expense (D&D stage 1), stated at R868 954 000 (2022: R1 650 945 000). This item is a movement to release the government grant to profit or loss, based on the D&D stage 1 liability.

4. AUDITOR-GENERAL'S REPORT ON THE DMRE AND ITS ENTITIES

This section provides a synopsis of the AGSA findings on the DMRE and its entities. Audit discussion in respect of the DMRE and NECSA will not be discussed in this section as these have been discussed above. However, wherever necessary reference will be made to the two.

4.1 Synopsis of Audit Outcomes

Most of the entities under the DMRE received a clean audit for the 2022/23 financial year, and all of the entities passed the cash ratio liquidity test meaning that all entities are able to cover all their short-term obligations from their available cash resources.

The South African National Energy Development Institute (SANEDI), National Energy Regulator of South Africa (NERSA), National Nuclear Regulator (NNR), National Radioactive Waste Disposal Institute (NRWDI), South African Diamond and Precious Metals Regulator (SADPMR), and Council for Geoscience (CGS) received *unqualified audit opinion with no findings, meaning clean audit.*

According to the AGSA, drivers for a clean audit are; effective implementation and monitoring of audit action plans, stability in key positions, tone at the top – such as culture of no tolerance for irregularities, timely implementation of the audit recommendations, improvement in the control environment especially around record keeping and review of financial statements, less reliance on consultants, effective in-year monitoring and being serious about preventive controls.1 Therefore, the

[7] Ibid

above six (6) entities successfully mastered what is required to attain a clean audit or good governance.

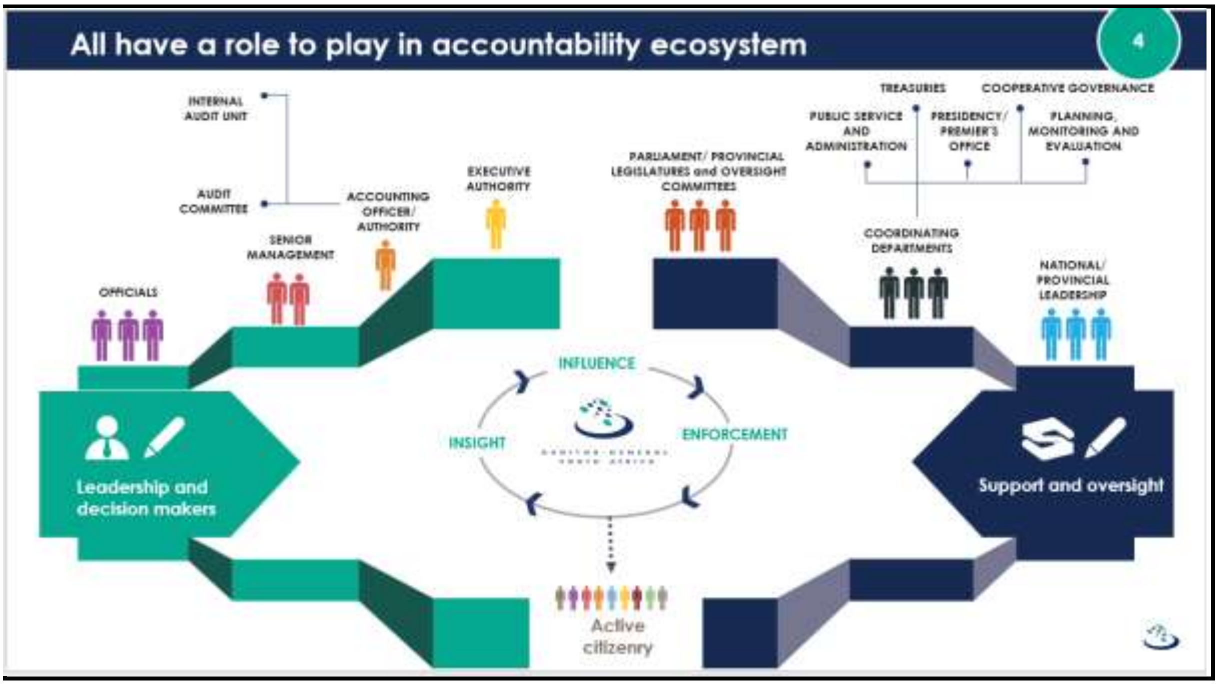
On the other hand, the State Diamond Trader (SDT), Council for Mineral Technology Research (Mintek) and Mine Health and Safety Council (MHSC) received *unqualified audit opinions with findings*. It is important to note that, SDT regressed from a clean audit in the previous financial year. As discussed above, NECSA received a *qualified audit opinion* from the AGSA. This is a fair improvement, from a disclaimer audit opinion in the previous financial years.

The Central Energy Fund (CEF) annual report was not tabled therefore there is no final AGSA report on the entity. However, for completeness, it important to note that reasons for the outstanding audit are attributed to request for extension of audit timelines by the following subsidiaries of the CEF Group: African Exploration Mining Finance Corporation (AEMFC), Strategic Fuel Fund (SFF) and PetroSA.

As already discussed above, the DMRE obtained an *unqualified audit opinion with findings* as a result of governance and control environment failures. This is the same audit outcome as in the previous financial year.

4.2 Key issues raised by the AGSA in respect of the outcomes

On the DMRE, the AGSA found that performance targets were not aligned with government priorities. They referred to what they term 'accountability ecosystem', all relevant role players have to contribute to the performance planning of the state institutions. Key coordinating departments in this regard as mentioned by the AGSA are Treasuries, Public Service and Administration, Cooperative Governance, Planning, Monitoring and Evaluation.



Source: Auditor General of South Africa, (2023)

Performance planning and reporting on service delivery: On *planning* for service delivery, the AGSA found that not all core functions relating to the mandate were included in the Annual Performance Plans. Indicators were also not aligned to core mandate to ensure energy security. With regard to *reporting*, the AGSA found that **t**he source information and supporting evidence for measuring the planned indicator was not clearly defined because of limitation of scope on systems and processes to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions, amongst others. According to the AGSA. This was due to a lack of adequate measurement definitions and processes. Poor planning and poor reporting resulted on the following:

- 55% (excluding CEF group) of the entities within the portfolio submitting the annual performance reports that were credible without material misstatements and 45% had material misstatements, 3 of the entities were allowed to make corrections to their annual performance report.

- The DMRE and SDT performance reports with material misstatements could not be corrected as the findings related to usefulness indicators and targets at the planning stage. The information that is received by the users of the annual performance report might not be useful. Possible non achievement of mandate and service delivery objectives in energy security.
- On quality of indicators, AGSA found that the within the DMRE, there is a misalignment between policy objectives as per mandate and the department's key performance indicators (KPIs) i.e., no KPI that effectively measures progress made in introducing more capacity to the grid (renewables). The Department measures itself on the issuance of Request for Proposals (which is the early stages of the securing energy for the country and therefore achievement of this KPI does not necessarily translate into the achievement of the DMRE mandate). The DMRE disputed this finding. Similarly on NERSA, it was found that the entity includes the changing of ownership details of an existing licensee as part of their achievements in relation to their targets, changing ownership details does not result in a new electricity generation facility nor does it add to the electricity generation infrastructure and thus does not contribute to achieving its mandate of issuing of licenses and setting of conditions. Investigations are performed and have material findings however there is no further follow ups on implementation of recommendations. Therefore, there is an urgent need for NERSA to enforce the licence conditions.

In respect of the DMRE and NERSA, the AGSA made the following recommendations:

- That the Department should ensure continuous improvement on the definition of performance measures – to ensure meaningful performance monitoring and achievement of mandate. That the Department should enhance mechanism to monitor generation capacity. The executive authority in contracting with the accounting officer should ensure that the Department is setting KPIs that are aligned to mandate and policy objectives to enable transparency and accountability as key role player in the energy value chain.
- That Department and National Treasury should prioritise (through budget allocation) to rehabilitate more derelict and ownerless mines, than just three (3) per year.
- That NERSA as a regulator is encouraged to continue monitoring and enforcing recommendations made in respect of licensing conditions, but most importantly ensuring strict enforcement of contraventions noted and actively influence the importance of sending a common message on the dire need for the conditions to be adhered to for the overall benefit of the country.

Quality of financial reporting: 64% (7) auditees submitted credible financial statements without material errors. 36% (4) 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 have improved to a qualification in four (4) areas as discussed above. The AGSA stated that a qualification is not good audit outcomes, however the progress to better audit outcomes was noted. The main reason for a qualified audit opinion is a material limitation, because sufficient and appropriate audit evidence was not provided to allow an appropriate opinion to be expressed on the line items. Within the portfolio there is some reliance on the audit process to ensure that the annual financial statements are credible and free from material misstatements. This is because 36% (4) of the financial statements were submitted with material misstatements and only 3 managed to adequately correct the financial statements.

Overall Assessment and Recommendations by the AGSA: In its conclusion, the AGSA stated that the root causes for the negative performance outcomes within the portfolio is compliance with key legislation that is not adequately monitored, Audit action plan monitored for scoped in programmes, and slow progress in implementation of consequence management. In relation to the above, the AGSA recommended to the Director General (DG) of the DMRE that he monitors the entities to ensure that they still add to the value chain for energy security and mineral regulation, monitor achievement of key indicators to ensure that in-year –monitoring identifies possible gaps that may result in non-achievement of key indicators within the portfolio, ensure alignment of indicators to outcomes of the Integrated Resource Plan (IRP), and implement consequence management including monitoring and implementation by the entities.

5. DISCUSSIONS ON THE ANNUAL REPORTS

5.1 Auditor-General of South-Africa (AGSA)

The Committee was pleased that six (6) of the entities under the DMRE achieved a clean audit. This indicates that state-owned entities can maintain a healthy financial state, only with strong and capable leadership at the helm. The Committee further welcomed the unqualified audit opinion the DMRE received by the AGSA and impressed upon the Department to lead by example and aim for a clean audit in the next financial year. Similarly, the three (3) entities, namely, MHSC, Mintek and SDT which obtained unqualified audit opinion with findings were encouraged to improve on this performance in the 2023/24 financial year.

As explained in the preceding sections, the (CEF) Group audit remains outstanding. This was the same case the previous financial year. It was asked at what point does delays become unacceptable and the AGSA makes an audit finding, rather than back and forth with the auditees. The AGSA responded that they engage with the Department and its entities prior to the submission of the financial statements, and in the event that entities are not satisfied, there is a dispute resolution process in place.
An example was made of African Exploration Mining and Finance Corporation (AEMFC), wherein the AGSA received the financial statements from the entity on 31 May 2023, reviewed the statements, identified a number of material misstatements which were submitted for audit, thereafter, what was required from AEMFC was discussed with the Board and Executive Management. Closer to the submission date of the audit, AEMFC then requested an extension of audit timelines. The AGSA informed the AEMFC, she was not in a position to extend the timeline, and the AEMFC subsequently requested the National Treasury for the extension, who also declined the extension. The Board, together with the Audit Committee then decided to embark on a dispute process within the various levels of the AGSA. Thus, entities and the Department are given a fair chance to provide evidence, prior the AGSA signing off audits.

With regards to PetroSA, the AGSA highlighted that challenges were experienced, namely that there was a significant reduction in one of the liabilities which they had, which caused a significant audit risk which had to be addressed. AGSA said that there were pushbacks from management and the Board on provision for onshore and offshore liability. Additional audit work was required to resolve the pushback and address audit risks. PetroSA sought the assistance of expert to look into this environmental liability provision. AGSA then also sought an expert from their side to look at the applicable liability provision. According to AGSA, these processes has now been concluded. The AGSA assured the Committee that once the audit is signed and the Annual Reports are tabled, the AGSA will return to brief the Committee on these audit outcomes. The AGSA emphasised that the internal control environments in these entities need to be instituted long before the audit processes commence. The audited processes cannot be used as a way of making sure that the financial statements that are used, are credible.

In respect of Material Irregularities (MI) processes identified and implemented, the AGSA highlighted that this was because of the storage fees incurred on the Solar Water Heater (SWH) project that were not installed to recipients in a timely manner. The AGSA stated that losses already incurred are on the storage fees paid on the NSWHP project. The AGSA stated that the Accounting Officer did not take appropriate action to resolve the MI. The slow response to the finalisation of the NSWHP project resulted in further losses in the 2022/23 financial year. Moreover, the AGSA reported that the material non-compliance on consequence management is mainly due to non-finalisation of the investigation into the fruitless and wasteful expenditure incurred on this project. Recommendations have been included in the audit report for tracking and these are due on 31 October 2023.

The AGSA highlighted that their intention has always been that the NSWHP should not be stopped, rather these systems be installed, as the intention of the programme was never that they be stored. A clear project plan was needed for the project to be implemented and monitored. The AGSA was encouraged by the fact that some of these systems have now been installed on rooftops.

A concern raised by the AGSA and disputed by the Department is that Annual Performance Plan of the DMRE did not measure the Department’s milestones against the Integrated Resources Plan (IRP) of 2019 relating to for example energy security. An example was made that the Department was measuring itself on procurement or Request for Proposals (RFP) as though the Department is a procurement agency. The AGSA stated that the Department cannot measure itself on output as the number of procurements are not useful measure. The Committee was concerned that the AGSA was raising this issue in the year under review when the targets have always been contained in the Department’s Annual Performance Plans in the past. The AGSA responded that this was due to continuous improvement on their part.

The AGSA was impressed by NECSA's performance, especially when taking into account the audit outcomes of the previous years, where there were a number of disclaimers. According to the AGSA, there are entities in the portfolio that when they raise the findings and make recommendations, they do put measures in place to address these.

On derelict and ownerless (D&O) mines rehabilitation, the target of three (3) per year for 2022/23) against 6000 is terribly slow and will take a number of years to permanently address the problem. The recommendation from AGSA was that the Executive Authority engage with National Treasury to address the funding of this programme in order to speed up progress.

5.2 Department of Mineral Resources and Energy (DMRE)

The Committee heard, once again that, the DMRE obtained an unqualified audit opinion, and that it had regressed on its non-financial performance having achieved 58% of the planned performance targets, compared to 72% achieved in the previous financial year.

The Committee is particularly concerned about the National Solar Water Heater Programme (NSWHP), the implementation challenges related thereto, as well as irregular, fruitless and wasteful expenditure that is reported about the programme every year. The Committee is concerned about the lack of consequence management with regard to the programme. The Committee stated that the officials who were responsible for the failure of this programme should be held accountable. Members reiterated that the SWHs need to be on rooftops, not in storage. The Department is of the view that the NSWHP cannot be scraped or written off, as the programme will benefit poor communities. The DMRE acknowledged that consequence management, project management initiatives and mitigation measures need to improve when implementing the programme.

Furthermore, the Committee was informed that there is a final forensic report on the NSWHP, compiled by KPMG, which was given to the DMREs Senior Council to review, which was then returned to KPMG to address certain matters. The report was then sent back to the DMRE, where it is now with its legal team and the process of appointing a chairperson of the disciplinary hearings. According to the DMRE, the report does implicate a number of officials, with different transgressions.

It was noted that the DMRE disputed the audit findings that their performance targets are not aligned with their mandate or government priorities. It was suggested that the DMRE work with the Department of Planning, Monitoring and Evaluation (DPME), to ensure that the DMRE's objectives are aligned with the overall government objectives and strategies. The Committee was informed that with regard to the planning cycle, the DPME leads, and provides feedback on the Annual Performance Plans of the DMRE. However, after the DPME has provided feedback, the AGSA will indicate that there are still shortcomings/gaps in the Annual Performance Plan.
The Committee raised concern regarding the long outstanding non-tabling to Parliament of the Mine Health and Safety Amendment Bill, amongst others. It was stated that the Bill crucial as it will protect workers in the mining industry. The Department acknowledged this failure on their part and indicated that at times the delays at NEDLAC, something that is beyond their control. Challenges at NEDLAC has been how the Council is structured. The Council is structured with various chambers, and legislation must go through all these chambers, who do not sit together and do not sit on a monthly basis, and this is where delays are experienced. However, the Department also acknowledged that, there has been poor planning from its side, it was not practical for it to be able to table all the Bills during the current administration.

The Committee highlighted that the DMRE need to perform better than its respective entities – relating to its audit outcomes as they need to lead by example. The DMRE acknowledged that they need to improve their performance and assured the Committee that they would do whatever it takes to implement the recommendations of the AGSA in order to improve performance.

In respect to the concerns regarding the target on the closure of D&O mines, the department stated that funding remains a challenge. The Committee requested the DMRE to approach the National Treasury for additional funding, with the recommendation from the AGSA's report. The Committee was informed that from a budget point of view, the DMRE had to reprioritise within the existing budget in order to deal with emergency situations such the closing of holings in the Riverlea area. The Department reported that it has written to the National Treasury requesting funding of the D&O programme. The Department added that one of the interventions that is currently happening is within the Justice Crime Prevention and Security Cluster (JCPS) to deal with illegal mining, to which there are a number of workstreams, and the DMRE is responsible for the sealing of holes and the Department of Human Settlements is dealing with the informal settlements which are surrounded by these holings. There is also a legal stream, to which the DMRE is involved in strengthening legislation to address these matters.

It was noted that in terms of new generation capacity, the IRP2019 needed to be put in context in relation to the powers of the Minister. The Act states that the Minister may determine that new generation capacity is required and the IRP provides a framework under which the Minister makes its decisions. According to the DMRE, the IRP is not the only instrument which the Minister may use. Another instrument used is the Medium-Term System Outlook, which is a review which Eskom does on an annual basis, where they publish a five-year view relative to their planning which shows the gaps generation capacity.

In respect of a concern on nuclear and needs analysis, the DMRE stated that there are various studies which the DMRE is undertaking, where they have had a number of Requests for Information (RFIs) to test the market to see what the price for the nuclear programme is and also what would be the ideal procurement framework.

Regarding mining rights and permits, the Committee noted that the Department process around +-300 per annum, and the vast majority are mining permits.

5.3 South African Nuclear Energy Corporation (NECSA)

The committee acknowledged a significantly improved performance by NECSA. Under a fairly new leadership that was appointed three years ago. As noted above, NECSA has improved from the previous four consecutive disclaimer audit opinions to a qualified opinion with just one finding. The Committee was informed that even though NECSA has a qualification on their audit results, this qualification does not affect their balance sheet or income statement. It was projected three years ago that NECSA would only start making a profit in the 2025/26 financial year. However, the entity has recorded an early achievement with a total comprehensive income of R145 million in the period under review. The Committee noted that the recovery plan, presented to the Committee two (2) years ago, indicated a projected loss of R23 million in 2022/23. The committee is aware of the reality that NECSA is still not out of the woods yet, but it applauded the entity's remarkable achievements and encouraged it to aim for a clean audit.

Meanwhile, the committee has noted the poor performance of Pelchem, which is one of NECSA's subsidiaries. It encouraged more efforts to be made to address the challenges. Pelchem has recorded a loss of R62.8 million due to unreliable plant performance and the committee wants the entity to emulate the good work done by NTP Radioisotopes, which recorded a profit of R113 million in the period under review. This profit is an improvement from the R52 million that was recorded in the prior financial year. The Committee was informed that NTPs' profits was partly due to breakdowns of European reactors, there are only five (5) in the world, and the NTP took advantage of this situation.

NECSA has been in discussions with the Minister and the DMRE, regarding taking a role in the energy side of the business, where they want to support elements of the nuclear built programme going forward.

The Committee was informed that Ketlepela has been moved out of Pelchem and has now been merged with AEC Amersham - which is NECSA's radio pharmaceutical company. According to NECSA, placing Ketlepela initially in Pelchem was a misfit. Additionally, the Committee noted that the transfer of the Intellectual Property of the Pebble Bed Modular Reactor (PBMR) is still ongoing. NECSA seemed to be of the view that the transfer process is being dragged unnecessarily, especially that it is a transfer between government entities.

6. OBSERVATIONS

6.1 The Department of Mineral Resources and Energy (DMRE)

- The performance information of the Department is reportedly not in line with its mandate. The Committee notes that the Department does not agree with this audit finding.
- The clean audit achieved by the six (6) entities of the Department is welcomed. The unqualified audit opinion by the Department is also welcomed, however, an improvement to a clean audit in the next financial year is encouraged.
- It is becoming a norm that the CEF Group tables its annual report late. This is concerning, as the reason provided for late submission of audit information to the AGSA paints a picture of

non-commitment from the entity to submit financial statements for auditing on time. The dispute resolution process that the entity has embarked on is also noted with concern.

- Whilst the NSWHP continues to face challenges, in terms of fruitless and wasteful expenditure relating to the storage fees, the Committee is aware of the significance of the programme, especially as it relates to addressing energy poverty. The Committee is of the view that the primary objective and focus of the DMRE should be to ensure that the systems are installed, not stored.
- Linked to the above, lack of consequence management in respected of the NSWHP was noted as a concern. However, the Committee is comforted by the fact that the forensic report by the KPMG has been finalised and disciplinary hearings chairperson is soon to be appointed.
- Funding remains a challenge in respect of the implementation of the D&O programme. There is an urgent need to address this gap as the country is confronted with the challenge of illegal mining.
- The delays in tabling of legislation in Parliament by the Department is concerning. The explanation given that some of the processes are outside the control of the Department is noted. However, some pieces legislation was on the Departments Annual Performance Plan since 2014, such as the National Radioactive Waste Fund Bill. Often deadlines are moved into the next financial years or administration.

6.2 NECSA

- The improved performance of the entity is commendable, having obtained a qualified opinion from four (4) consecutive disclaimers.
- The poor performance of Pelchem is a concern, however the Committee is pleased with the plans and commitments made to improve the performance of Pelchem.
- The delays in the transfer of PBMR from Eskom to NECSA is noted, and it should be addressed, as the process should be easier in light of the fact that these are state owned entities.
- The relocation of Ketlaphela to NTP Radioisotopes is welcomed.

7. RECOMMENDATIONS

It is recommended that the Minister of Mineral Resources and Energy should:

1. Ensure that the Department and its entities aim to achieve clean audits in the next financial year.
2. Ensure that once the audit of the Central Energy Fund Group is signed and the Annual Reports are tabled, the AGSA must brief the Committee on these audit outcomes.
3. Ensure that the entities of the Department abide by the legislative deadlines in terms of submitting financial information for auditing purposes, as the entities are aware of the submission date of 31 May of each year.
4. Foster a good relationship with stakeholders such as the South African Local Government Association, the Department of Human Settlement and the Department of Cooperative Governance and Traditional Affairs in order to bring about the speedy implementation of the National Solar Water Heater Programme. The National Solar Water Heater Programme is an important project that can address the challenge of energy shortage and it could possibly form part of the Integrated National Electrification Programme.
5. Ensure that adequate measures are undertaken to finalise the investigation into the solar water heaters project, including storage costs and any other related costs, to determine the circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses as well as to identify responsible officials.
6. Institute consequence management against officials who had incurred unauthorised, irregular as well as fruitless, and wasteful expenditure as required by section 38(1)(h)(iii) of the Public Finance Management Act (PFMA) and finalize disciplinary actions without undue delays.
7. Ensure that the Department's performance indicators are linked to government priorities, both the AGSA and the Department of Planning, Monitoring and Evaluation are important players in this regard.
8. Linked to the above, ensure that the Department clearly defines its performance targets as well as the metric used for calculation so that the performance information is reported in the prescribed manner.

9. Consult with the National Treasury in respect of adequate funding required to address the closure of derelict and ownerless mines.
10. Strengthen the Department's administrative capacity to collect all money due, as required by section 38(1)1(c) (i) of the PFMA since the current capacity has simply proven inadequate.
11. Improve the Department's internal control measures so that effective and appropriate steps can be taken to prevent fruitless and wasteful expenditure as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.
12. Ensure that the Department improve its strategic planning mechanisms to enable the monitoring of progress made towards achieving performance targets, core objectives and service delivery as required by public service regulation 25(1)(e)(i) and (iii) so that evidence that the Department has achieved key performance indicators is not presumed but rather drawn deductively from tangible evidence.
13. Ensure that the Department consider increasing the budget earmarked for training its personnel to reduce the dependence on consultants which runs counter to the goal of creating a capable developmental state since it deprives the personnel the opportunity to develop their skills and expertise.
14. Ensure that the implementation of the Black Economic Empowerment (BEE) and Local Content Development receive considerable attention in the procurement practices of State-Owned Companies and the Department in the manner that complements the proposed amendment to the Preferential Procurement Policy Framework Act (PPPFA).
15. Minimize delays in the finalization of procurement processes and in appointing service providers. These must be addressed with practical solutions to reverse the current trend of budget underspending due to these delays.
16. Implement corrective measures and practical solutions to address the vacancy rate within the confines of the National Treasury's cost containment measures.
17. Expedite the finalization of the pre-feasibility study on coal to incentivize investment required to procure additional 1 500MW from coal.
18. Ensure that mechanisms are put in place to address barriers to investment in the expansion of the transmission network since transmission constraints inhibit the procurement of new generation capacity.

8. APPRECIATION

The Committee would like to thank the Minister of Mineral Resources and Energy, Hon. S.G Mantashe, Deputy Minister, Dr N. Nkabane and the senior management of the Department as well as the Board Members and Management of all the entities, for their cooperation and transparency during this process.

The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

Unless otherwise indicated, responses to the above recommendations should be submitted to the National Assembly ***not later than 3 months*** *after the adoption of this report by the National Assembly.*

Report to be considered.