



PFMA 2016-17



Budgetary review and recommendations report

Audit outcomes for the Energy portfolio

04 October 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Reputation promise

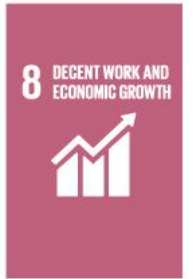
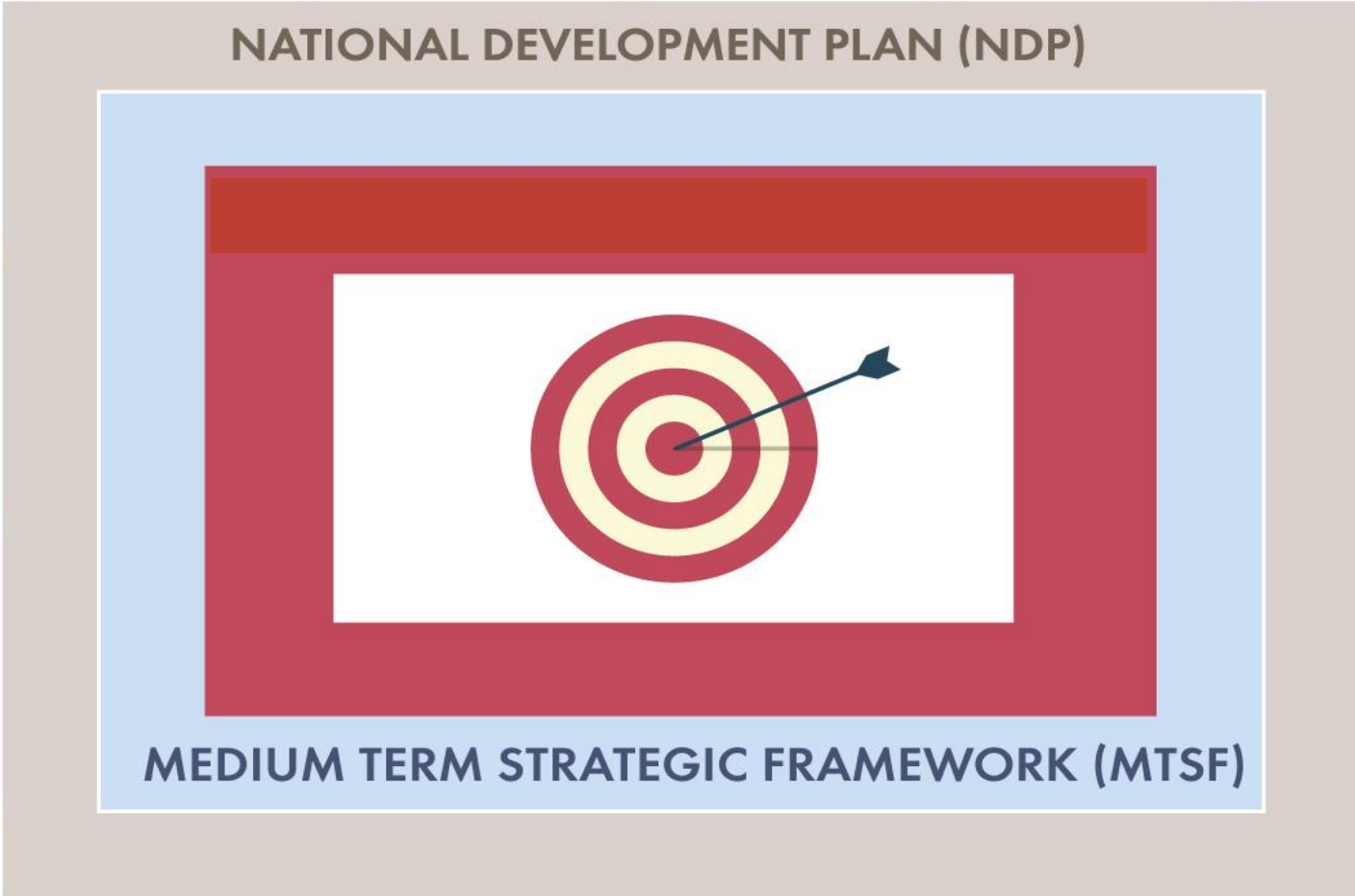
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary review and recommendations report (BRRR)*.





ACCOUNTABILITY = PLAN + DO + CHECK + ACT



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization





ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Our annual audits examine three areas

THE AG'S ANNUAL AUDITS EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND ABSENCE OF SIGNIFICANT MISSTATEMENTS IN FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS



The AGSA expresses the following different audit opinions:

Unqualified opinion with no findings (clean audit)



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
 - Useful and reliable performance as measured against predetermined objectives
 - complied with key legislation

Financially unqualified opinion with findings



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
 - Did not produce useful and reliable performance as measured against predetermined objectives
 - Did not comply with key legislation

Qualified opinion



- Auditee:
- had material misstatements on specific areas in their financial statements, which could not be corrected before the finalisation of the audit report.

Adverse opinion



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

Disclaimed opinion



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





Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Key control engagements / status of records review – objectives

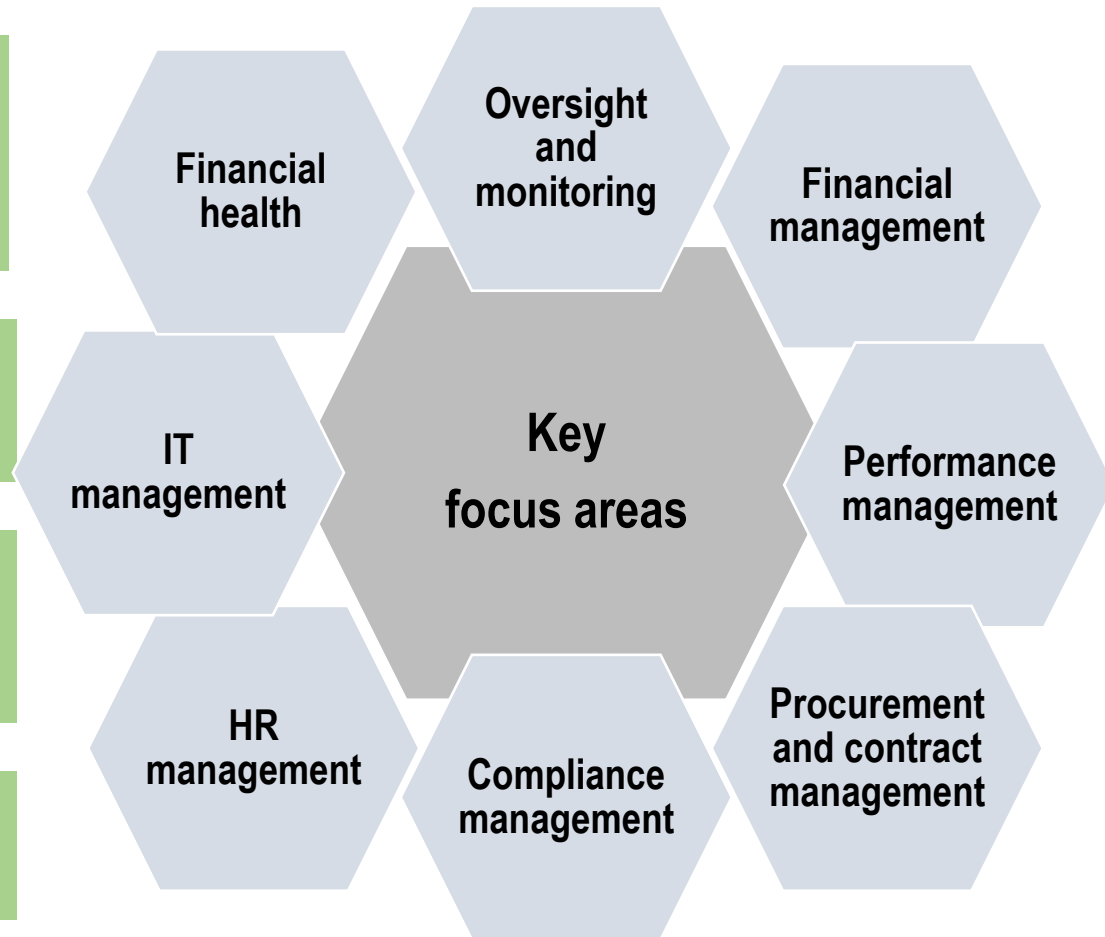
Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, with consequential regression in audit outcomes

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow through with commitments made in previous engagements

Identify those matters that add value when measures and action plans have been put in place well in advance to mitigate risks

Key control engagements / status of records review – focus areas







CONTENT

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- Movement of quality of submitted financial statements; annual performance report and compliance
- Movement table
- Quality of Annual Performance Reports
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- Irregular expenditure over three years
- Irregular Expenditure per entity over four years
- Unauthorized Expenditure
- Fruitless and wasteful expenditure
- Fruitless and wasteful expenditure over four years
- Findings on compliance with legislations
- Most common findings on Supply Chain Management
- Status of internal controls
- Assurance providers
- Root causes
- Status of key commitments made by the Minister
- Proposed recommendations for implementation by the Portfolio Committee








The percentages in this presentation are calculated based on the completed audits of 14 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Movement over a period is depicted as follows:

-  Improved
-  Unchanged
-  slight improvement
-  slight regression
-  Regressed



Energy Portfolio



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA



Equalisation
Fund

NRWDI

necsa

We're in your world
South African Nuclear Energy
Corporation SOC Limited



sonedi
South African National Energy
Development Institute



Actively enhancing life



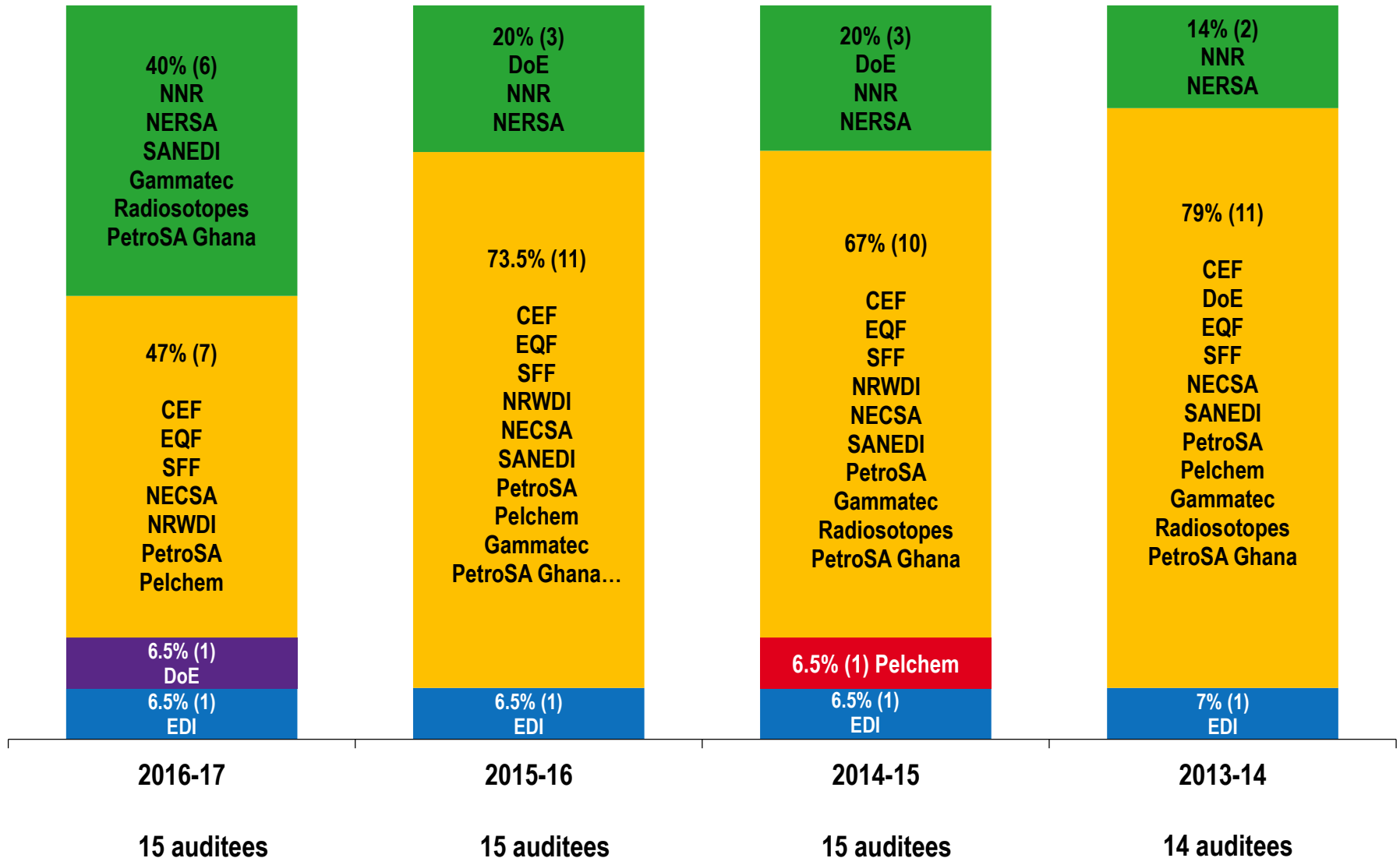
PetroSA



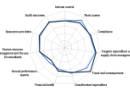
PetroSA
Ghana

Audit outcomes over four years

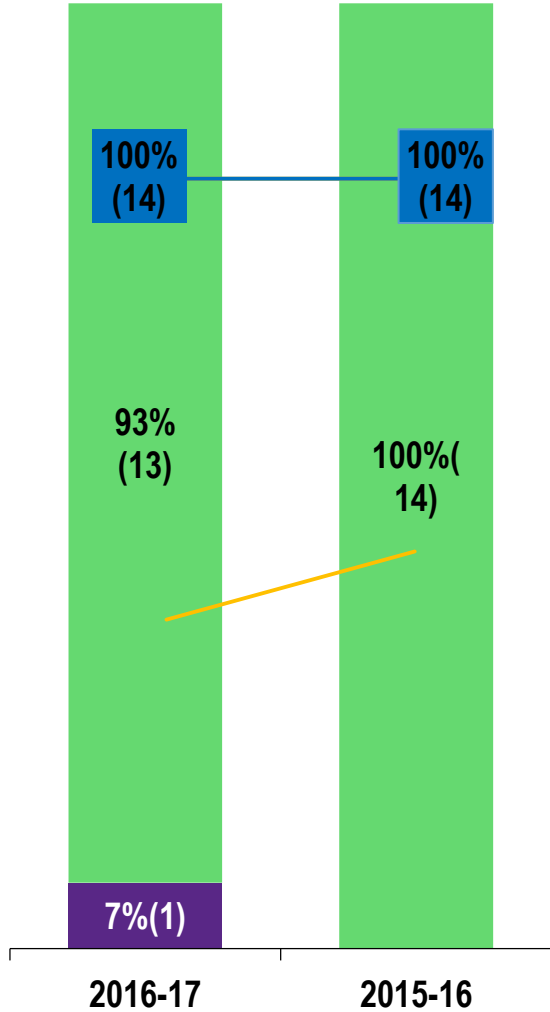
40%



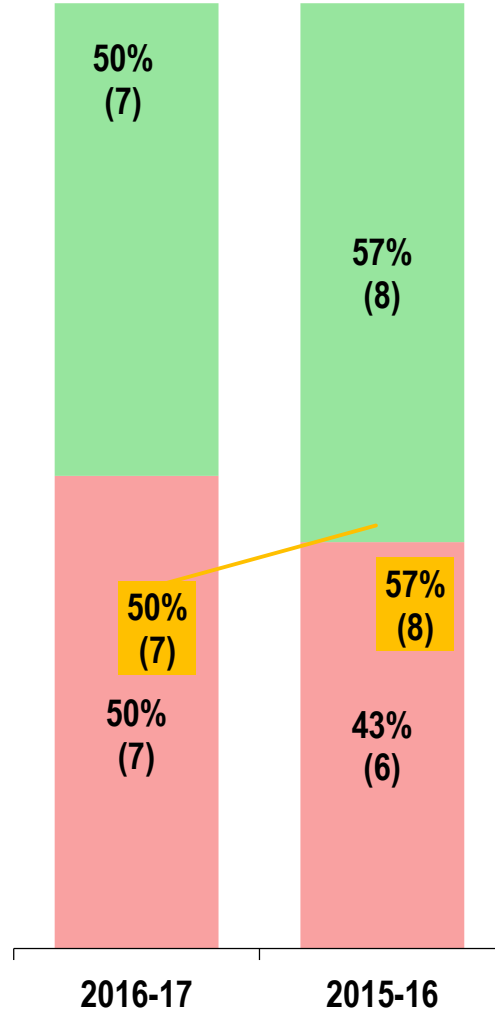
Movement on the quality of financial statements, annual performance reports and compliance



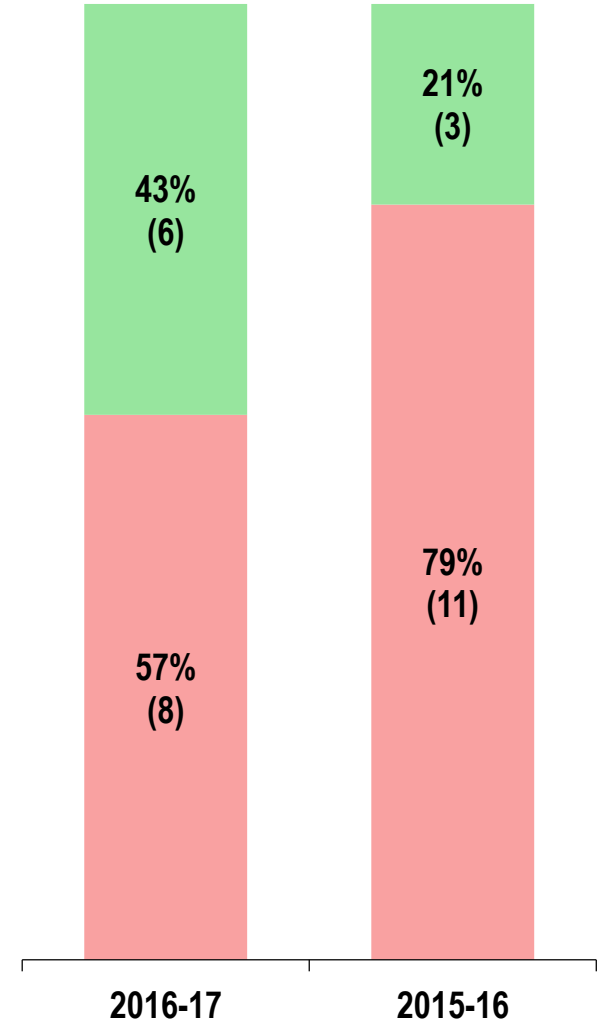
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



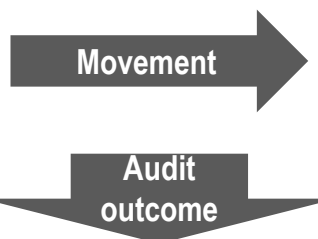
Unqualified Qualified Adverse Disclaimed

AFS submitted on time

AFS and APR submitted with no material misstatements

With no findings
With findings

Movement table (2016-17 over 2015-16)



	4 Improved	9 Unchanged	1 Regressed	0 New auditee	1 Outstanding audits
Unqualified with no findings = 6	SANEDI PetroSA Ghana Radiosotopes Gammatec	NERSA NNR			EDI
Unqualified with findings = 7		CEF NECSA NRWDI EQF SFF PetroSA Pelchem			
Qualified with findings = 1			DOE		
Adverse with findings = 0					
Disclaimed with findings = 0					

Colour of the number indicates the audit opinion from which the auditee has moved.
EDI audit remain outstanding since the 2013/14 financial year.

Quality of annual performance reports

Auditee	Usefulness	Reliability
DoE	Material findings	No material findings
SANEDI	No material finding	No material finding
NERSA	No material findings	No material findings
NNR	No material findings	No material findings
CEF	No material findings	No material findings
NECSA	No material findings	No material findings
NRWDI	Material findings	Material findings
EQF	Material findings	Material findings
SFF	No material findings	No material findings
Petro SA	No material findings	Material findings
Pelchem	No material findings	No material findings
Radiosotopes	No material findings	No material findings
Gammatec	No material findings	No material findings
Petro SA Ghana	No material findings	No material findings
Totals		



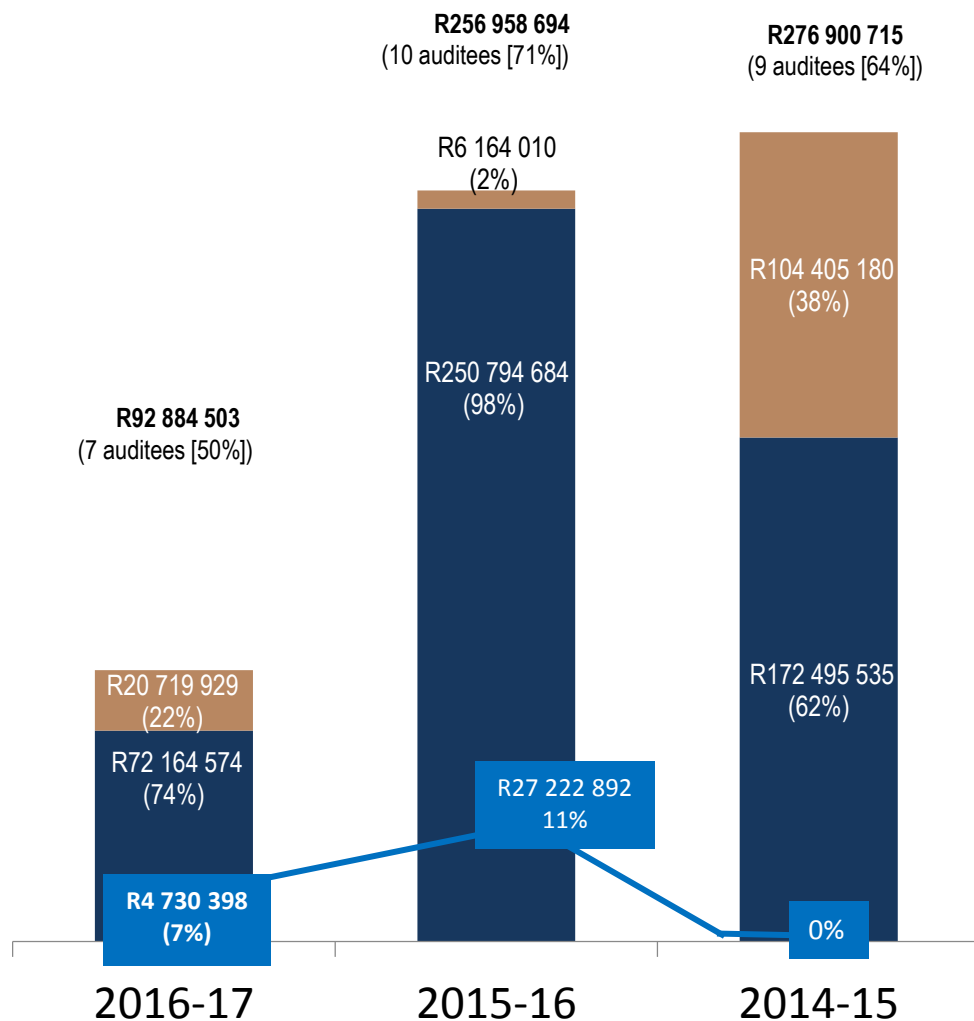
Status of audits that were outstanding at 31 August 2017

- One audit was outstanding on 31 August 2017 (our cut-off date) and for 2015-16.
- This related to non-submission of annual financial statements by EDI. There was a Cabinet decision to close the entity and an administrator was appointed in this regard. We have been informed that the Annual Financial Statements will be prepared and submitted for audit as the Liquidation process has been recently finalized.



Irregular expenditure over three years

With no IE = **50%**



Nature

- 83% of occurrences caused by **non-compliance with SCM legislation**
- **Main areas of non-compliance** within SCM that caused irregular expenditure:
 - Non-compliance with legislation on contract management (77%)

Highest contributors

- **DOE** – R76 824 000 (2015-16: R678 000)
- **PetroSA** – R7 113 000 (2015-16 :R511 000)
- **NRWDI**– R3 362 500 (2015-16: R828 648)
- **Nersa** – R 4 795 003 (2015-16 : R 0)

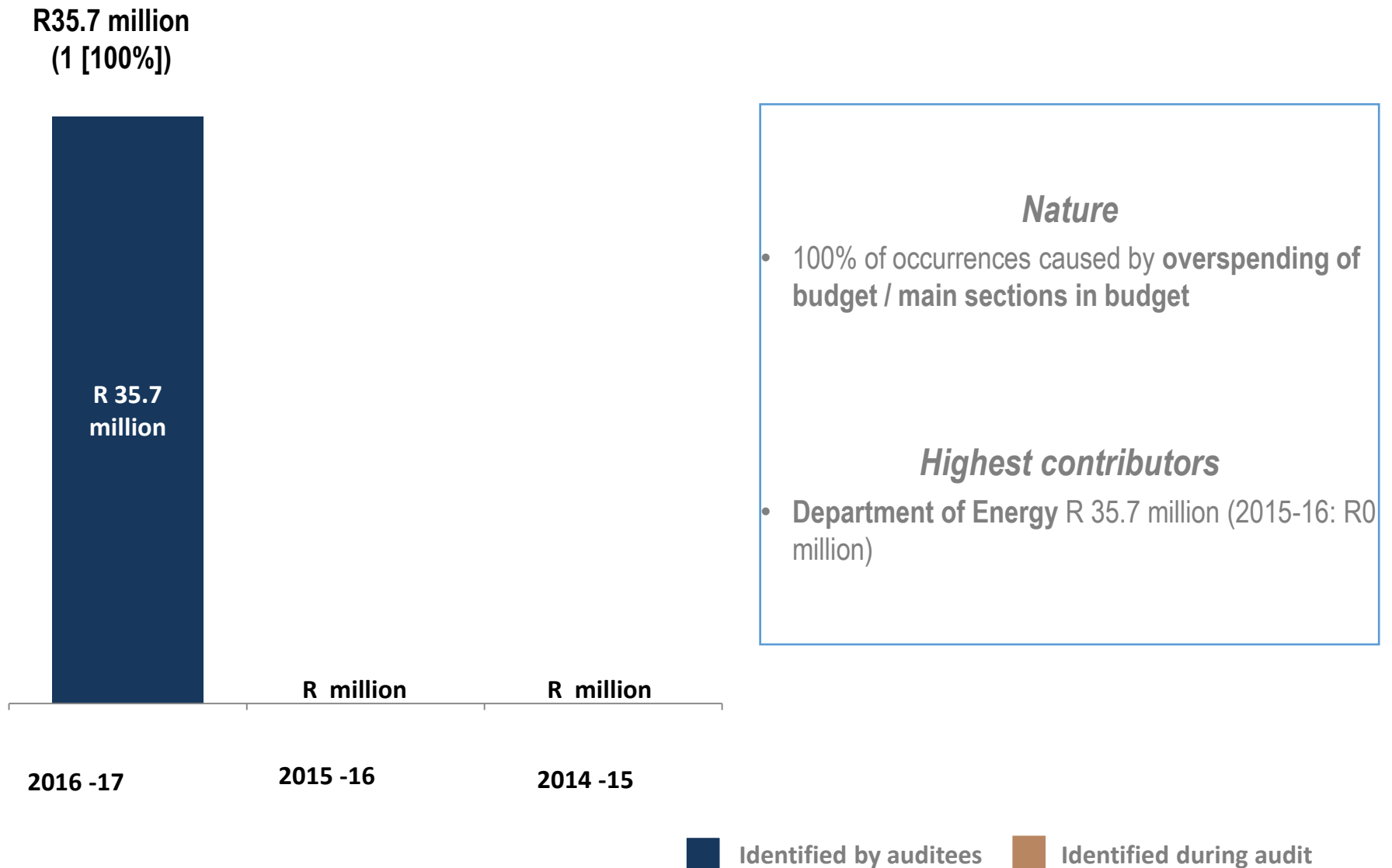
■ Identified by auditees ■ Identified during

— Incurred in previous years/audit identified in current year

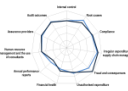
Irregular expenditure incurred per entity

Irregular expenditure				
Entity	2016/17	2015/16	2014/15	2013/14
DoE	76 824 000	678 000	55 000	379 000
CEF	52 000	82 657 000	20 429 000	1 604 058 000
NECSA	0	43 638 000	169 874 000	5 792 000
SANEDI	120 000	420 000	426 000	12 644 000
NRWDI	3 362 500	4 513 546	828 648	0
SFF	619 000	80 436 000	282 000	8 556 000
Petro SA	7 113 000	511 000	16 937 000	1 589 000 000
Radiosotope	0	33 973 157	2 688 084	0
Gammatec	0	6 891 615	63 084 547	0
Pelchem	0	3 235 693	592 549	391 900
NNR	0	4 683	0	0
NERSA	4 795 003	0	1 703 887	64 935
Total	92 885 500	256 958 964	276 900 715	3 220 885 835

Unauthorised expenditure over three years



Fruitless and wasteful expenditure over three years



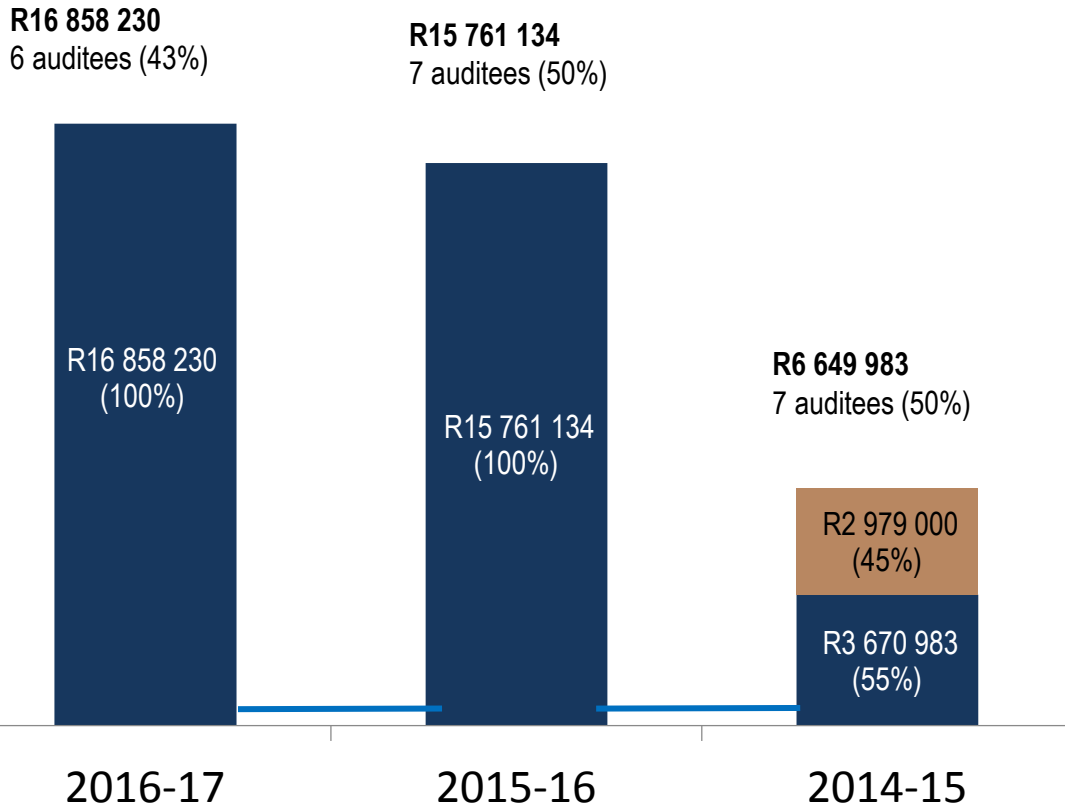
With no FWE = **57%**

Nature

- **Litigations and claims payments** caused 95% of the fruitless and wasteful expenditure

Highest contributors

- **PetroSA**
R16 023 000 (2015-16: R500 000)



Identified by auditees
 Identified during audit

Fruitless and wasteful expenditure incurred per entity

Fruitless and wasteful expenditure				
Entity	2016/17	2015/16	2014/15	2013/14
DoE	16 000	12 000	15 000	0
CEF	561 000	11 055 000	4 731 000	6 802 000
NERSA	27 230	1 134	402	5 475
NECSA	134 000	1 023 000	165 000	156 000
SFF	97 000	3 041 000	48 000	6 555
Petro SA	16 023 000	500 000	1 602 000	3 718 000
NRWDI	0	0	54 581	0
SANEDI	0	129 000	34 000	2000
Total	16 858 230	15 761 134	6 649 983	10 690 030



Compliance with legislation and poor quality of financial statements

Material misstatements in submitted annual financial statements



Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure



Management of procurement and/or contracts



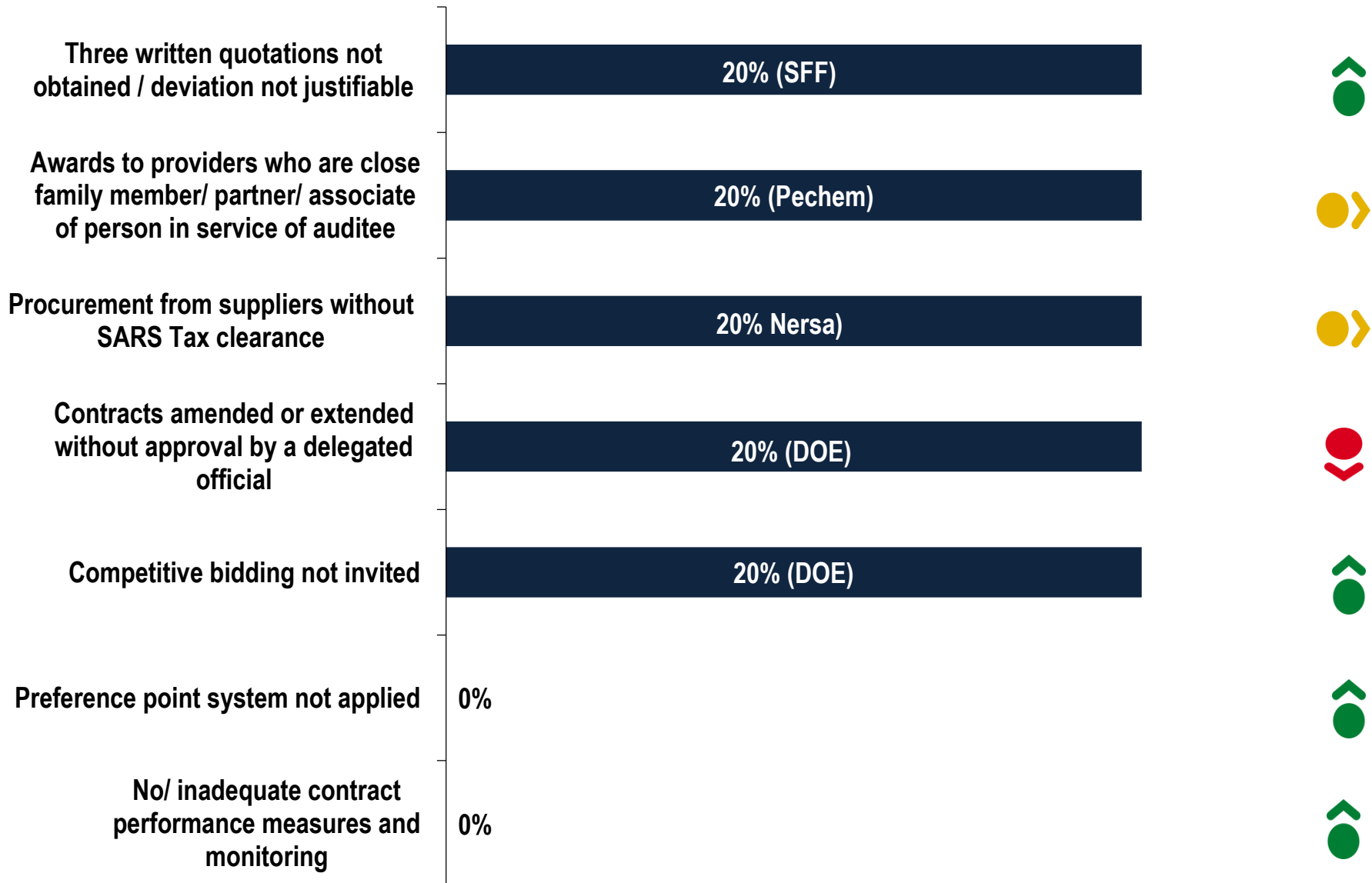
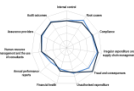
Other non compliance findings

SFF

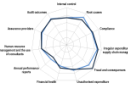
The public entity did not inform the National Treasury of its participation in a significant partnership arrangement relating to the procurement and sale of crude oil as required by section 54 2(b) of the PFMA.



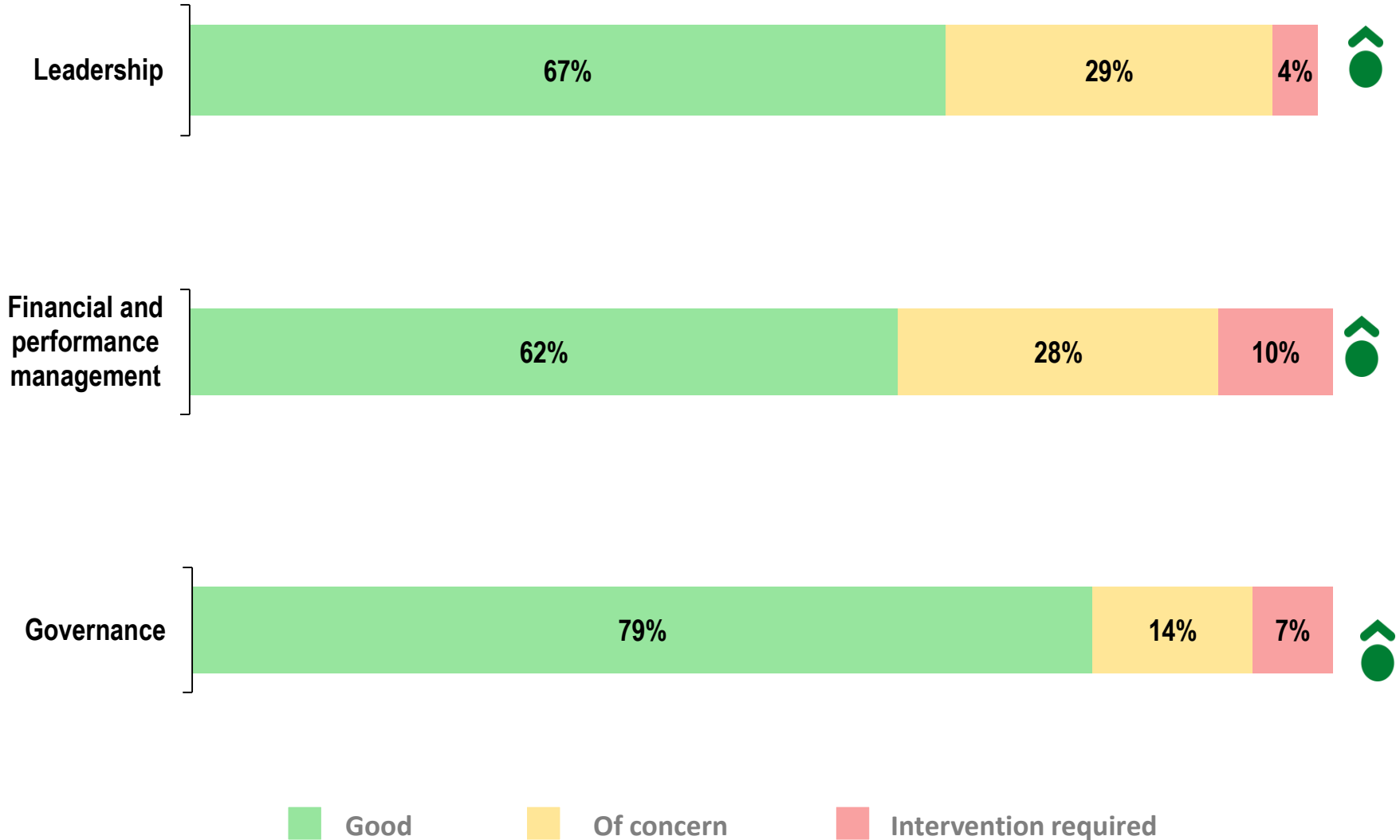
Most common findings on supply chain management



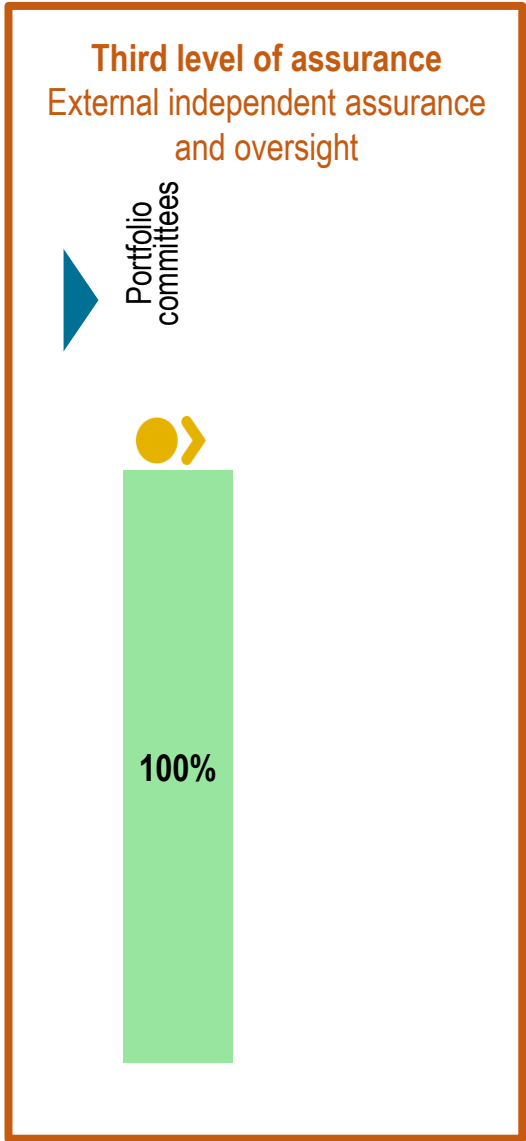
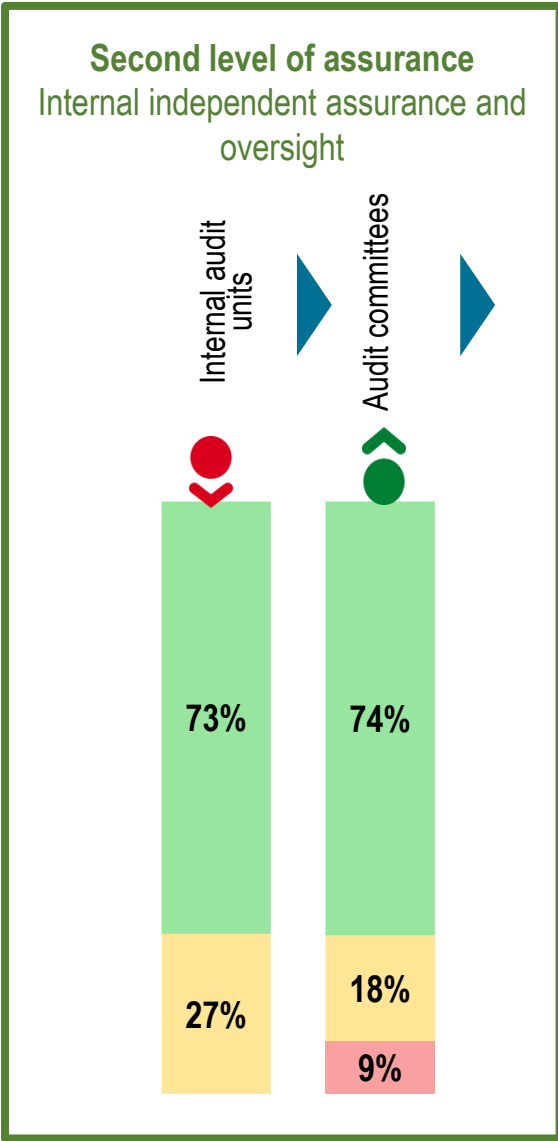
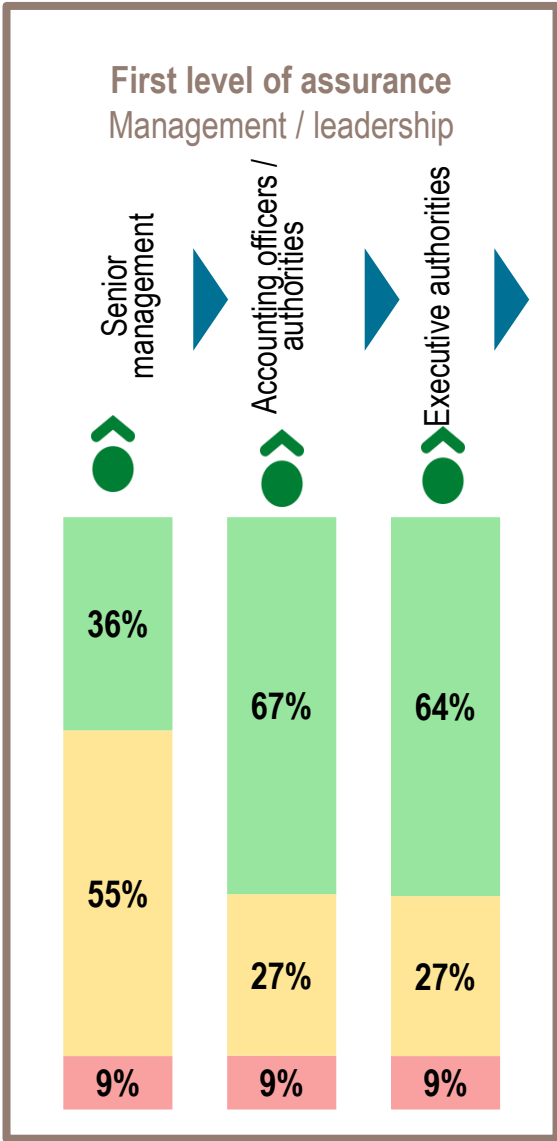
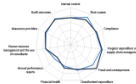
Status of internal control



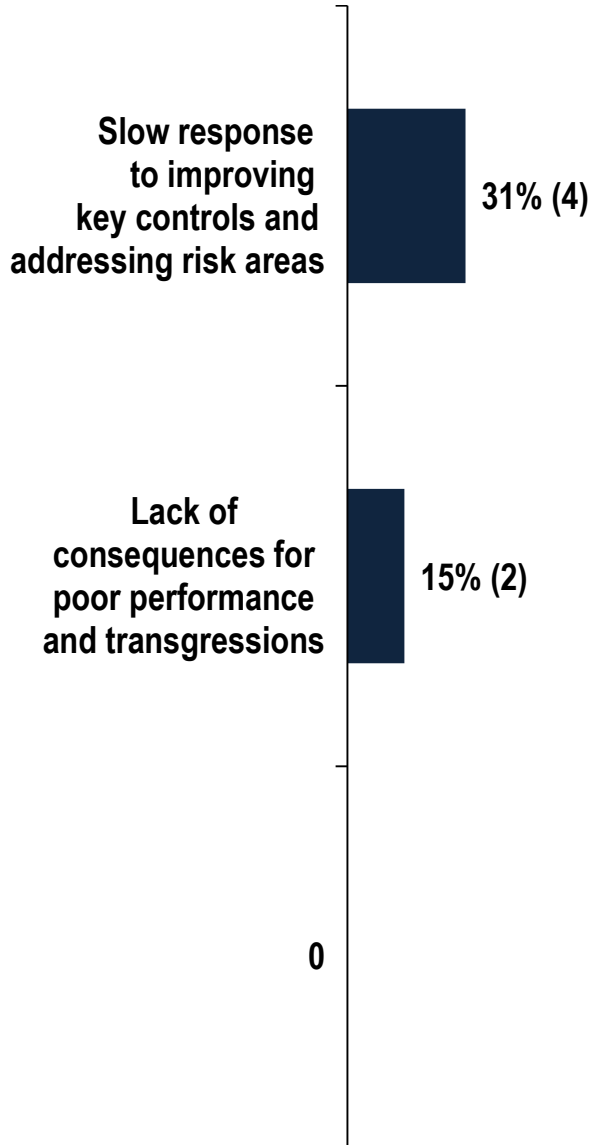
Good controls =



Assurance providers



Root causes



Best practices =

Management (accounting officers/authority and senior management), the (executive authorities) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Leadership not always holding staff accountable for poor performance and transgressions, which created the perception that these results are acceptable and tolerated.



Status of Key commitments made by the Minister

The following commitments were made by the Minister in relation to the performance of the Portfolio.

- The department commits to a process that is transparent and promotes good governance in the procurement of the Nuclear New Build Programme
- Filling of key positions at CEF group
- The disclosure in the financial statements will be strengthened to aid the users of the financial statements to appreciate the challenges, assumptions and amounts disclosed in the financial statements

- Filling of key positions at the Department
- To improve planning and reporting on Performance Information, which will result in improved audit outcomes

CEF/SFF have been requested to conduct an independent forensic audit that will review all contracts awarded from 2014-15 financial year to date

Not implemented In progress Implemented New



Proposed recommendations for implementation by Portfolio Committee

1. PC must request management to provide feedback regarding the progress made on implementation of the action plans to address poor audit outcomes during quarterly reporting.
2. PC must be request quarterly feedback on the progress of filling vacancies at the Department and CEF group.
3. List of action taken against transgressors must be provided quarterly to PC for follow up for all irregular and fruitless and wasteful expenditure incurred within the portfolio.
4. The PC should monitor implementation of commitments by accounting officers/authorities and Executive Authority





CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY

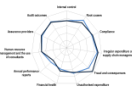


#AGSA

#AntiCorruption

Source: Robert Klitgaard (academic anti-corruption research)

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



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