INDEPENDENT AUDITOR'S REPORT

Report on the audit of the consolidated and separate financial statements

DISCLAIMER OF OPINION

1. I was engaged to audit the consolidated and separate financial statements of the South African Nuclear Energy Corporation SOC Limited (the entity) and its subsidiaries (the group) set out on pages 127 to 243, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as the notes to the financial statements and a summary of significant accounting policies.

2. I do not express an opinion on the consolidated and separate financial statements of the South African Nuclear Energy Corporation. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

BASIS FOR DISCLAIMER OF OPINION

Preparation of the separate and consolidated financial statements

3. I was unable to obtain sufficient appropriate audit evidence that the accounting authority has fulfilled its responsibility for the preparation and fair presentation of the separate and consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as written management representations letters in this respect were not provided. I was also unable to obtain written representations from the accounting authority that I had been provided with all relevant information and access to information as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the separate and consolidated financial statements. I could not determine the effect of the lack of such representations on the financial position of the entity and the group at 31 March 2018 or the financial performance and cash flows for the year then ended.

Consolidated financial statements

4. I was unable to obtain sufficient appropriate audit evidence that the consolidated financial statements and the notes thereto have been properly prepared as required by IFRS 10, *Consolidated Financial Statements,* as the consolidation could not be substantiated with supporting workings that reconcile and agreed to the consolidated financial statements. Material differences were noted between the consolidated amounts and the amounts as per the audited trial balances resulting in an unreconciled overall difference of R 17 505 000. I was unable to audit the consolidation by alternative means. Consequently, I was unable to determine to which accounts such adjustments were necessary to the consolidated financial statements as a whole.

5. In addition, I was unable to obtain sufficient appropriate audit evidence for cost of sales, trade and other payables, provisions, inventory, cash and cash equivalent, revenue and trade and other receivables on the financial statement of Pelchem, due to a breakdown in the internal controls surrounding the accounting records at the subsidiary. The subsidiary did not have adequate systems of internal controls in place for the recording of all transactions and events and further could not reconcile the transactions and events to the financial statements. I could not confirm the subsidiary financial statement items by alternative means. Consequently, I was unable to determine whether any further adjustments to these financial statement items were necessary and the related impact thereof on the consolidated financial statement items as described below:

- Cost of sales stated at R1 177 610 000.
- Trade and other payables stated at R200 400 000.
- Provisions stated at R96 815 000.
- Inventory stated at R278 749 000.
- Cash and cash equivalents stated at R61 511 000.
- Revenue stated at R2 251 307 000.
- Trade and other receivables stated at R459 960 000.

Going concern for consolidated and separate financial statements

6. The entity's current liabilities exceed its current assets by R 153 132 000 and the entity made a loss of R 132 992 000 during the current year with accumulated losses of R510 752 000 at year end. The entity has adverse liquidity ratios with cash deficits being forecast for the next financial year. Pelchem SOC Limited (Pelchem) a subsidiary, continued to make losses with an accumulated of R 207 944 000 (2017: R172 386 000) for the 2018 financial year end and has adverse solvency and liquidity ratios which is significantly dependent on Necsa. Note 42 does indicate multiple factors that I am unable to confirm or dispel whether it is appropriate to prepare the financial statements using the going concern basis of accounting for the entity and group as management did not provide me with sufficient appropriate audit evidence to support the going concern assumption.

New standards and interpretations

7. The entity and the group did not include the required information on the impact of the standards and interpretations of the IFRS reporting framework that have been issued but are not yet effective in the notes to the financial statements, as required by IAS 8, Accounting policies, changes in accounting estimates and errors and IAS 1. The following standards are effective for annual periods beginning on or after 1 January 2018: IFRS 15, Revenue from contracts with customers and IFRS 9 Financial Instruments.

Revenue and trade receivables

8. I was unable to obtain sufficient appropriate audit evidence that sales of goods, included in the revenue note 29 to the separate financial statements, were recognised in the correct financial year, as internal controls have not been established to ensure that all invoices are processed in the year the goods are delivered in accordance with International Accounting Standards (IAS) 18: Revenue, due to the status of the accounting records. I could not confirm revenue from sales of goods by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revenue from sales of goods amount stated at R388 072 000 for the entity, the related impact thereof on R1 563 035 000 for the Group respectively and trade receivables amount stated at R61 250 000 of the entity and the related impact on R459 960 000 for the Group, respectively, in the separate and consolidated financial statements. I therefore could not determine the impact on the separate loss and consolidated profit for the year as well as separate accumulated losses and consolidated accumulated earnings.

Investment in subsidiaries in separate financial statements

9. As disclosed in note 9 to the separate financial statements an amount of R115 010 000, being the trade receivable owing to the entity by Pelchem as at 31 December 2017 was converted to a further investment in Pelchem. The decision to convert the trade receivable in a further investment in a subsidiary took place after the financial year end of 31 March 2018 and was not related to conditions that existed as at 31 March 2018. This is therefore a non-adjusting event in terms of the requirements of IAS 10, events after the reporting period. Consequently, the separate gross investment in subsidiaries and separate impairment of investment in subsidiaries are overstated by R115 010 000 respectively.

10. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the impairment loss on the investment in Pelchem of R 23 048 000 included in note 9 to the financial statements due to limitations placed on the scope of my work. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the investment in subsidiaries stated at R 243 749 000 in the separate financial statements.

Impairment of Property, Plant and Equipment

11. The entity, in recognising the impairment loss estimate for Property, Plant and Equipment, did not take into account all relevant information available as required by IAS 36: Impairment of Assets, about impairment indicators existing at the end of the period. I was unable to obtain sufficient appropriate audit evidence on the recoverable amount for the Capital Work-in-Progress amount that is reflected in Property, Plant and Equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Capital Work-

Progress that is reflected in Property, Plant and Equipment amount stated at R993 450 000 for the entity and R1 405 503 000 for the group in the separate and consolidated financial statements. I therefore could not determine the impact on the separate loss and consolidated profit for the year as well as separate accumulated losses and consolidated accumulated earnings.

Impairment of trade and other receivables

12. The entity did not estimate the impairment loss for trade and other receivables in accordance with the requirements of IAS 39: Financial Instruments – Recognition and Measurement. In recognising the impairment loss estimate for trade and other receivables, did not reverse the prior year impairment loss, resulting in the current year impairment loss being overstated by R 33 672 000. Consequently, trade and other receivables was understated and total expenditure was overstated by R 33 672 000 in the separate financial statements and accumulated loss are understated in the separate financial statement.

Stage 1 and 2 Decommission and Decontamination provision

13. The entity and the group did not calculate the stage 1 and 2 in accordance with the requirements of IAS 37: Provisions, Contingent Liabilities and Contingent Assets. In recognising the stage 1 and 2 of the Decommission and Decontamination provisions did not correctly account for the government grants received in the discounting calculation resulting in an understatement of the provisions of R 27 228 000. Consequently total expenditure was understated by R 27 228 000 in the consolidated and separate financial statements and accumulated loss are understated in the separate financial statement and accumulated earnings are overstated in the consolidated financial statement.

Irregular expenditure

14. The entity did not include irregular expenditure in the notes to the financial statements, as required by section 40(3)(i)/ 55(2)(b)(i) of the PFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R29 943 803. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R Nil (2017: R Nil) in the financial statements.

EMPHASIS OF MATTERS

15. I draw attention to the matters below. My disclaimer of opinion is not further modified in respect of these matters.

Change in financial reporting framework

16. As disclosed in note 4, the consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time.

Material impairment investment in subsidiaries

17. As disclosed in note 9 to the financial statements, material impairment of investment in subsidiaries of R133 962 000 was incurred.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

18. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA and Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

19. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the entity's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the group and/or company or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

20. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

21. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit of the consolidated and separate financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

INTRODUCTION AND SCOPE

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Objective 1– Pelchem Group financials: Net profit after tax	28
Objective 2 – NTP Group financials: Net profit after tax	28
Objective 3 – SAFARI-1 Operation: Operational availability (days per year)	28
Objective 4 – D&D programme execution: Execution of Annual Plan of Action as approved by DoE	29
Objective 5 - Compliance to SHEQ, license and other regulatory requirements: • Disabling Injury Incidence Rate (DIIR) • Public dose impact (expressed as % of NNR allowable limit)	30
Objective 6 – Necsa Corporate Financials: External sales (including Intra Group Sales)	30

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

26. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 1 – Pelchem Group financials: Net profit after tax

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the objective. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the achievement of R35.5 million loss as reported in the annual performance report.

Objective 2 – NTP Group financials: Net profit after tax

28. The achievement for target: Net profit after tax, reported in the annual performance report was R 97.2 million. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of R 122.2 million.

Objective 3 – SAFARI-1 Operation: Operational availability (days per year)

29. I did not raise any material findings on the usefulness and reliability of the reported performance information for the Safari-1 Operation objective.

Objective 4 – D&D programme execution: Execution of Annual Plan of Action as approved by DoE

30. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collecting information to be used when measuring the actual achievement for the indicator. This was due to a lack of proper systems and processes. I was unable to test whether the target was clearly defined by alternative means.

Objective 5 – Compliance to SHEQ, licence and other regulatory requirements

31. The achievement for target: Public dose impact (expressed as % of NNR allowable limit), reported in the annual performance report was 2.780%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 1.938%.

Objective 6 – Necsa Corporate Financials: External sales (including Intra Group Sales)

32. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the objective. This was due to limitations placed on the scope of my work and I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the achievement of R362.5 million as reported in the annual performance report.

OTHER MATTERS

33. I draw attention to the matters below.

Achievement of planned targets

34. Refer to the annual performance report on pages 28 to 30 for information on the achievement of planned targets for the year and explanations provided for the under/over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 to 30 of this report.

Report on the audit of compliance with legislation

INTRODUCTION AND SCOPE

35. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

36. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

37. The consolidated and separate financial statements submitted for auditing were not prepared in accordance

with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (b) of the PFMA.

38. The financial statements submitted for auditing were not supported by full and proper records, as required by section 55(1) (a) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the consolidated and separate financial statements receiving a disclaimer of opinion.

Expenditure management

39. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion, note 43 of the financial statements does not reflect the full extent of the irregular expenditure incurred.

Asset management

40. Significant shareholding in a company was acquired without approval by the executive authority, in contravention of section 54(2)(c) of the PFMA.

Revenue Management

41. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

Procurement and contract management

42. Goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Other information

43. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Report of the Audit and Risk Committee, Directors' Report and the Company Secretary's Certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

44. My disclaimer of opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

45. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

46. The other information I obtained prior to the date of this auditor's report is the Director's Report as required by the Companies Act of South Africa, and the report of the Audit and Risk Committee. The Company Secretary's Certificate as required by the Companies Act of South Africa and the other information contained in the annual report is expected to be made available to me after 23 January 2019.

47. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

48. After I receive and read the Company Secretary's Certificate and annual report and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

50. The accounting authority and management did not provide adequate and effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity.

51. Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

52. There is inadequate monitoring on the implementation of action plans to address internal control deficiencies.

Financial and performance management

53. Management did not adequately implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

54. Management did not adequately implement controls over daily and monthly processing and reconciling transactions.

55. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

56. Management did not adequately review and monitor compliance with applicable legislation.

Governance

57. The public entity did not adequately implement appropriate risk management activities to ensure that a risk strategy to address the risks is developed and monitored.

58. Internal audit did not adequately identify internal control deficiencies and recommend corrective action.

59. The audit committee did not adequately monitor responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

Auditor-General

Pretoria
25 January 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence