

The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Report of the Auditor-General to Parliament on the South African Nuclear Energy Corporation SOC Limited

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 and its subsidiaries (the group) set out on pages 123 to 242, which comprise the consolidated and separate statement of financial position as at 31 March 2019, consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity, and consolidated and separate statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the consolidated and separate financial statements of the group. Because of the significance 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.

Basis for disclaimer of opinion

Going concern for consolidated and separate financial statements

3. I was unable to obtain sufficient appropriate audit evidence to confirm the reasonableness of the cash flows forecasted and the related assumptions, conditions and events to support management's assessment of the entity's viability in the foreseeable future.

Preparation of the consolidated and separate financial statements

4. 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 consolidated and separate financial statements in accordance to International Financial Reporting Standards (IFRS), as written representations 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 the relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the consolidated and separate financial statements. I could not determine the effect of the lack of such representations on the financial position of the public entity and the group at 31 March 2019 or the financial performance and cash flows for the year then ended.

Consolidated financial statements

5. 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 agree to the consolidated financial statements. The public entity did not have adequate systems of internal control in place for the preparation of the consolidated financial statements. I was unable to audit the consolidated financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the consolidated financial statements as a whole.

Decommissioning and decontamination stage 1 liability

6. I was unable to obtain sufficient appropriate audit evidence for the decommissioning and decontamination stage 1 liability on the consolidated and separate financial statements due to numerous limitations placed on the expert in performing the calculation of the provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the decommissioning and decontamination stage 1 liability stated at R3 556 000 000 (2018: R3 309 472 000) in the consolidated and separate financial statements.

Decommissioning and decontamination stage 1 asset

7. I was unable to obtain sufficient appropriate audit evidence for the decommissioning and decontamination stage 1 asset due to numerous limitations placed on the expert in performing the calculation of the provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the decommissioning and decontamination stage 1 asset stated at R3 556 000 000 in the consolidated and separate financial statements.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Revenue – sale of goods

8. I was unable to obtain sufficient appropriate audit evidence for revenue – sale of goods in the consolidated financial statements due to the status of the accounting records. The public entity 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 financial statement item by alternative means. Consequently, I was unable to determine if any further adjustment were necessary to revenue – sale of goods stated at R2 103 843 000 (2018: R2 507 279 000) in the consolidated financial statements. The possible effect of the matter was not considered material to the separate financial statements.

Cost of sales

9. I was unable to obtain sufficient appropriate audit evidence for the cost of sales at Pelchem SOC Limited and the South African Nuclear Energy Corporation SOC Limited due to the status of the accounting records at the public entity and its subsidiary. The public entities did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cost of sales stated at R1 514 122 000 (2018: R1 445 341 000) and R258 389 000 in the consolidated and separate financial statements, respectively.

Other operating expenses

10. I was unable to obtain sufficient appropriate audit evidence for the other operating expenses due to numerous limitations placed on the expert in performing the calculation of the decommissioning and decontamination provision. Additionally, Pelchem SOC Limited could not provide supporting evidence for certain transactions and did not account for all expenses. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other operating expenses stated at R1 159 27700 and R937 767 000 in the consolidated and separate financial statements, respectively.

Other financial assets

11. I was unable to obtain sufficient appropriate audit evidence for the other financial assets relating to the decommissioning and decontamination provision due to the inappropriate assumptions relating to the timing of the cash flows. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the decommissioning and decontamination asset included in the other financial assets stated at R904 723 000 in the consolidated and separate financial statements.

Deferred income

12. I was unable to obtain sufficient appropriate audit evidence for deferred income due to the status of accounting records. The public entity did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to deferred income stated at R562 651 000 in the consolidated and separate financial statements.

Decommissioning and decontamination stage 2 liability

13. I was unable to obtain sufficient appropriate audit evidence for the decommissioning and decontamination stage 2 liability on the consolidated and separate financial statements due to inappropriate assumptions relating to the timing of the cash flows. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the decommissioning and decontamination stage 2 liability stated at R541 472 000 (2018: R198 064 000) in the consolidated and separate financial statements.

Trade and other payables

14. I was unable to obtain sufficient appropriate audit evidence for the trade and other payables at Pelchem SOC Limited and the South African Nuclear Energy Corporation SOC Limited due to the status of the accounting records at the public entity and its subsidiary. The public entities did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to trade and other payables stated at R503 779 000 (2018: R466 227 000) and R49 761 000 (2018: R93 473 000) in the consolidated and separate financial statements, respectively.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Other income

15. I was unable to obtain sufficient appropriate audit evidence for the other income due to numerous limitations placed on the expert in performing the calculation of the decommissioning and decontamination provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the other income stated at R454 701 000 and R364 611 000 in the consolidated and separate financial statements, respectively.

Trade and other receivables

16. I was unable to obtain sufficient appropriate audit evidence for the trade and other receivables at Pelchem SOC Limited and at the South African Nuclear Energy Corporation SOC Limited due to the status of the accounting records at the public entity and its subsidiary. The public entities did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to trade and other receivables stated at R406 380 000 (2018: R559 470 000) and R93 558 000 in the consolidated and separate financial statements, respectively.

Decommissioning and Decontamination of Stage 2 funding asset

17. The public entity did not recognise all decommissioning and decontamination assets in accordance with the requirements of IFRS 9, Financial instruments. Funding assets that did not meet the recognition criteria of IFRS 9, Financial instruments, were incorrectly recognised as assets. Consequently, other financial assets and other income was overstated by R338 857 617 in the consolidated and separate financial statements.

Investment income

18. I was unable to obtain sufficient appropriate audit evidence for the investment income due to numerous limitations placed on the expert in performing the calculation of the decommissioning and decontamination provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the investment income stated at R323 710 000 and R294 081 000 in the consolidated and separate financial statements, respectively.

Inventories

19. I was unable to obtain sufficient appropriate audit evidence for the inventories due to the status of the accounting records. The public entity did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the inventories stated at R309 440 000 (2018: R283 222 000) and R41 389 000 (2018: R66 115 000) in the consolidated and separate financial statements, respectively.

Finance costs

20. I was unable to obtain sufficient appropriate audit evidence for the finance costs due to numerous limitations placed on the expert in performing the calculation of the decommissioning and decontamination provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to finance costs stated at R286 768 000 and R279 162 000 in the consolidated and separate financial statements, respectively.

Amounts received in advance

21. I was unable to obtain sufficient appropriate audit evidence for the amounts received in advance due to the status of the accounting records. The public entity did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the consolidated and separate financial statements. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts received in advance stated at R162 662 000 and R237 839 000 in the consolidated and separate financial statements, respectively.

Decommissioning and decontamination stage 2 asset

22. I was unable to obtain sufficient appropriate audit evidence for the decommissioning and decontamination stage 2 asset due to inappropriate assumptions relating to the timing of the cash flows. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the decommissioning and decontamination stage 2 asset stated at R151 163 000 in the consolidated and separate financial statements.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Vaalputs after care

23. I was unable to obtain sufficient appropriate audit evidence for the Vaalputs after care due to management's inappropriate methodologies and assumptions in performing the calculation of the provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to Vaalputs after care stated at R91 454 000 in the consolidated and separate financial statements.

Investment contributions for future liabilities

24. I was unable to obtain sufficient appropriate audit evidence for the investment contributions for future liabilities due to numerous limitations placed on the expert in performing the calculation of the decommissioning and decontamination provision. I could not confirm the financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment contributions for future liabilities stated at R40 014 000 in the consolidated and separate financial statements.

Revenue – other grants

25. I was unable to obtain sufficient appropriate audit evidence for revenue – other grants in the separate financial statements due to the status of the accounting records. The public entity could not provide sufficient appropriate audit evidence for the amount disclosed in the separate financial statements. The public entity did not have adequate systems of internal control 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 financial statement item by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue – other grants stated at R15 070 000 in the separate financial statements. The possible effect of the matter was not considered material to the consolidated financial statements.

Prior period errors

26. Pelchem SOC Limited and the South African Nuclear Energy Corporation SOC Limited did not disclose prior period errors in note 38 to the financial statements, as required by International Accounting Standard (IAS 8), Accounting policies, changes in accounting estimates and errors. The nature and the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed, as the supporting evidence was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to these disclosures in the consolidated and separate financial statements.

Revenue – sale of goods

27. The South African Nuclear Energy Corporation did not recognise all items of revenue in accordance with IFRS 15, Revenue from contracts. Revenue relating to the previous year was incorrectly recognised in the current year. Additionally, recoveries from subsidiaries were incorrectly recognised as revenue instead of other income. The effect on the separate financial statements was that revenue was overstated by R41 464 197 (2018: R23 277 208). There was an impact on the surplus for the period and on the accumulated loss in the separate financial statements. The effect of the matter was not considered material to the consolidated financial statements.

Disclosures in the financial statements

28. The separate financial statements did not include all disclosures required by various IFRS and were not presented to achieve fair presentation. I have not included the omitted information in this auditor's report as it was impractical to do so.

Responsibilities of the accounting authority for the consolidated and separate financial statements

29. 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 the IFRS and the requirements of the Public Finance Management Act of South Africa 1999, (Act no 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (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.

30. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing 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 appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

31. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
32. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

33. 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 the selected key performance areas (KPA) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
34. 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.
35. 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 KPAs presented in the annual performance report of the public entity for the year ended 31 March 2019:

KPA	Pages in the annual performance report
KPA 1 – Necsca corporate financials	24
KPA 2 – NTP group financials	22
KPA 3 – Pelchem group financials	21
KPA 4 – Research outputs	24
KPA 5 – Innovation value chain	24
KPA 6 – Establish sustainable supply of LEU fuel and target plates	20
KPA 7 – SAFARI-1 operation	22
KPA 8 – D&D programme execution	22
KPA 9 – Compliance to SHEQ, license and other regulatory requirements	23

36. 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.
37. The material findings in respect of the usefulness and reliability of the selected KPAs are as follows:

KPA 1 - Necsca corporate financials

External sales (including intra-group sales)

38. The achievement for external sales (including intra-group sales) reported in the annual performance report was R402 400 000. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of R380 700 000.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

KPA 3 - Pelchem group financials

Net profit after tax

39. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the key performance area. This was due to limitation 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 -R75 000 000 as reported in the annual performance report.

KPA 8 - D&D programme execution

Execution of annual plan of action as approved by DOE

40. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was because documented system descriptions were established for only some of the activities encompassing the indicator. I was unable to validate the existence of systems and processes by alternative means.

41. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following KPAs:

- KPA 2 - NTP group financials
- KPA 4 - Research outputs
- KPA 5 - Innovation value chain
- KPA 6 - Establish sustainable supply of LEU fuel and target plates
- KPA 7 - SAFARI-1 operation
- KPA 9 - Compliance to SHEQ, license and other regulatory requirements

Other matter

42. I draw attention to the matter below.

Adjustment of material misstatements

43. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of NTP group financials. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

44. 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.

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

Annual financial statements

46. Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.

47. The 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)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.

Expenditure management

48. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R50 752 000 as disclosed in note 40 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.



The South African Nuclear Energy Corporation SOC Limited and its Group Companies

(Registration number 2000/003735/06)

Financial statements for the year ended 31 March 2019

Independent Auditor's Report

Strategic planning

49. An annual shareholder's compact was not concluded in consultation with the executive authority as required by treasury regulation 29.2.1.
50. A corporate plan including the affairs of the subsidiary was not submitted to the director-general head of the Department of Energy designated by the executive authority, as required by section 52(b) of the PFMA.

OTHER INFORMATION

51. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's 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 KPAs presented in the annual performance report that have been specifically reported in this auditor's report.52. My disclaimer of opinion on the 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.
53. 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 KPAs as presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
54. 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.

INTERNAL CONTROL DEFICIENCIES

55. I considered internal control relevant to my audit of the consolidated and separate 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.
56. The accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with applicable laws and regulations.
57. Senior management did not prepare accurate annual financial statements and a performance report that were supported and evidenced by reliable evidence, resulting in a disclaimed opinion on the financial statements and material findings on the annual performance report as well as compliance with applicable laws and regulations.

Auditor - General

Johannesburg

20 November 2019



AUDITOR - GENERAL
SOUTH AFRICA