



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the joint committee of inquiry into the functioning of the Department of Water and Sanitation

Challenges facing the water and sanitation portfolio

23 March 2018

CONTENTS

	Page
1. Executive summary	3
2. History of audit outcomes in the water and sanitation portfolio	6
3. Instability in leadership	10
4. Human resource management	15
5. Irregular expenditure	15
6. The audit of key infrastructure projects	20
7. Fruitless and wasteful expenditure	23
8. Financial viability	32
9. Status of internal controls within the DWS	38
10. Feedback on the complaint process regarding the audit reports	43
11. Acronyms and abbreviations used in this report	45
12. Annexure A – Water boards consolidated audit outcomes	A



1. Executive summary

The Auditor-General of South Africa (AGSA) received a letter dated 14 March 2018, wherein the Standing Committee on Public Accounts (Scopa) and the portfolio committee on water and sanitation requested the AGSA to provide information on the challenges confronting the Department of Water and Sanitation (DWS) in the following areas:

- Instability in leadership
- Irregular expenditure
- Use of implementing agents
- Human resource (HR) challenges
- Internal controls
- Financial viability of the DWS
- Any other relevant information

It is against this background that we have prepared this document for the joint committee. We can further assist through a presentation if the committee so wishes.

This report documents the key findings from our audits in the above areas and provides insights into concerns noted during our audit of projects as well as relating to fruitless and wasteful expenditure. We also provide feedback on the progress and status of the contestation to the conclusions in our audit reports, as instituted by departmental management.

There is **significant instability at leadership level** within the DWS. There has been a significantly high turnover rate relating to the director-general (DG) position. Over the past four financial years, the DWS has gone through four different DGs and/or acting DGs – most of the time, this position has been filled in an acting capacity. This adversely affects the programmes (performance) and the internal control environment of the DWS. Three deputy directors-general (DDGs) were also placed on suspension and returned to work without any evidence that investigations had been conducted and/or concluded. There were also three resignations at this level. Furthermore, there are currently five acting officials at these levels, which is very high.

Irregular expenditure continues to significantly increase year on year. The amounts of irregular expenditure incurred could be higher than the amounts currently disclosed in the financial statements, as the DWS and the Water Trading Entity (WTE) were qualified on the completeness of these disclosures. The known irregular expenditure identified by the auditors amounted to R2,4 billion at the WTE, which management refused to disclose in the annual report. The extreme inability of the DWS and the WTE to effectively deal with irregular expenditure has also been noted as a source of concern during recent engagements between the DWS, Scopa and the portfolio committee on water and sanitation. The significant increase can be attributed to continued weaknesses in supply chain management (SCM) both within the DWS and at the water boards, especially those used as implementing agents.

The most prevalent finding that resulted in irregular expenditure related to deviations from prescribed procurement processes on the basis of emergency procurement. Although such deviations are allowed, we found that it was often not approved; or, if approved, the reasons for the deviation were not reasonable and/or justifiable. The majority of these were linked to ministerial directives used by the ministry. Management discretion was also inappropriately used during the

procurement process, as the accounting officer and accounting authorities used their discretion in certain instances to appoint targeted suppliers without justifiable reasons as the emergency principle was applied on multi-year projects, thereby failing to comply with SCM legislation.

The use of water boards as **implementing agents** continued to increase over the years, especially for infrastructure development. Although using implementing agents is often an effective way of delivery, the DWS did not adequately manage and correctly account for the projects executed by these agents. The DWS's monitoring controls were poor and as a result significant irregular expenditure and delays occurred on these projects. The increased use of water boards resulted in fewer projects being allocated to the construction unit within the WTE, which was specifically created to execute such projects. The planned overhead costs budgeted for the construction unit did not correlate with the decreased projects implemented by the unit. The total capacity costs were capitalised to the reduced projects implemented by the unit.

Also linked to the significantly high leadership instability at the DWS, are significant challenges with **HR management** at the DWS and the WTE. Consequence management is very weak, as investigations are not conducted at all or are not conducted timeously. There is a high vacancy rate of 25% at senior management level, which was made even worse by the moratorium to freeze all vacant positions to allow restructuring to incorporate the sanitation division, which was implemented by the minister from June 2014 to April 2016. The DWS also did not follow proper appointment processes as prescribed and documented in their policies.

A key driver of the audit outcomes of the DWS and its entities was the inadequate assurance provided by senior management, the accounting officer and executive authorities over the years. This inadequate assurance weakens the **internal control** environment. The controls and systems around the management, accounting and monitoring of implementing agents' activities are weak and require urgent attention. SCM controls and processes require significant overhaul to address the irregularities noted. Regular reviews and reconciliations are often not conducted; and where they are, they are inadequate. Action plans are developed but not implemented. In addition, the recommendations of both internal and external auditors are not fully implemented. Consequence management should also be strengthened to improve the weak internal control environment.

Our concerns with regard to the **financial health or going concern** of the DWS and the WTE were included in our audit reports. The DWS did not manage its finances optimally. The DWS overspent on its budget, resulting in unauthorised expenditure. Simultaneously, the accruals increased significantly. The continued rolling of the budget has a negative impact on the DWS's ability to pay creditors on time and also have a negative impact on service delivery. The WTE also exceeded its budget and went into overdraft in their South African Reserve Bank (SARB) account, which does not only show a lack of financial discipline, but also non-compliance with Treasury Regulations. The WTE did not budget appropriately or monitor the conditions of the amounts committed for spending in its budget. Both the DWS and the WTE further engaged in projects that were not budgeted for and exceeded the allocated budget on some of the budgeted expenditure. We noted a concerning practice where the WTE holds back payments to the Trans Caledon Tunnel Authority (TCTA), which could have a negative impact on the ability of the TCTA to service its obligations and – in turn – the guarantees provided by the National Treasury against the TCTA debt.

Fruitless and wasteful expenditure has increased over time in the portfolio. The amount of actual fruitless and wasteful expenditure incurred could also be higher than that disclosed, as the



DWS and the WTE were qualified on the completeness of these disclosures. The auditors identified known fruitless and wasteful expenditure amounts at the WTE, which management refused to disclose in the annual report. The significant increase can be attributed to continued weaknesses in the management and monitoring of projects as well as the deliberate acquisition of assets not adequately planned for, and which are then not used.

The trend of **contestation to our audit findings** continued and intensified in the previous audit cycle. Management contested our conclusions in the 2015-16 audit cycle at the WTE. The merits of the contestation were investigated by our office, through an independent review process to assess the accuracy of the conclusions reached, the work conducted by the auditors as well as the professional conduct of the audit team. The claims of the DWS were dismissed and the conclusions reached by the auditors were found to be factual, appropriate and supported by adequate work performed. The audit team's conduct was in line with the professional codes of conduct and the agreed terms of engagement. In the 2016-17 audit cycle, management contested the audit outcomes of both the DWS and the WTE, which were again taken through the independent review process. The conclusions and conduct of the auditors were once again upheld. The DWS further appealed the outcomes of the review process and this appeal is currently in progress. The contestation and pressure placed on the audit teams, without sufficient grounds, appear to be motivated by the DWS wanting to avoid negative audit outcomes and disclosures of irregular as well as fruitless and wasteful expenditure. The service providers to the DWS where irregular and fruitless and wasteful expenditure were noted also threatened the AGSA with legal action.

In **conclusion**, our office remains committed to working tirelessly within our mandate to strengthen financial and performance management and compliance within the water and sanitation portfolio and to assist the relevant assurance providers in their respective roles.



2. History of audit outcomes in the water and sanitation portfolio

There has been a regression in the overall audit outcomes of the portfolio, specifically so in the outcomes of the water boards which the AGSA audited for the first time in 2016-17. The leadership did not exercise their role of instilling a culture of accountability and expecting nothing less than sound administration.

Figure 1: Audit outcomes of the water and sanitation portfolio

Audit outcomes over three years for the Water Portfolio

Audit opinion	2016-17	2015-16	2014-15	Movement Financial	Movement Compliance	Movement AoPO
Entities audited by the AGSA						
Department of Water and Sanitation (DWS)	Qualified with findings	Unqualified with findings	Unqualified with findings	↓	↓	↑
Water Trading Entity (WTE)	Qualified with findings	Qualified with findings	Unqualified with findings	↔	↔	↑
Water Research Commission	Unqualified with no findings	Unqualified with findings	Unqualified with findings	↔	↑	↔
Magalies Water	Unqualified with findings	Unqualified with findings	Unqualified with findings	↔	↔	↑
Entities audited for the first time by the AGSA						
Amatola Water	Unqualified with findings	Unqualified with findings	Unqualified with findings	↔	↔	↔
Bloem Water	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	↔	↔	↔
Lepelle Northern	Qualified with findings	Unqualified with findings	Unqualified with findings	↓	↓	↓
Mhlathuze Water	Qualified with findings	Unqualified with no findings	Unqualified with no findings	↓	↓	↓
Overberg Water	Audits outstanding	Disclaimed with findings	Unqualified with findings	↓	↓	↓
Rand Water	Unqualified with findings	Unqualified with findings	Unqualified with findings	↔	↔	↓
Sedibeng Water	Qualified with findings	Unqualified with findings	Unqualified with findings	↓	↓	↓
Umgeni Water	Unqualified with findings	Unqualified with no findings	Unqualified with no findings	↔	↓	↔
Section 4 (3) auditees						
Breede-Gouritz Catchment Management Agency	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	↔	↔	↔
Inkomati Catchment Management Agency	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	↔	↔	↔
Trans-Caledon Tunnel Authority	Unqualified with findings	Unqualified with findings	Unqualified with findings	↔	↔	↔

PFMA 2016-17

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

↓ Regressed
↑ Improved
↔ Remained



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Only four entities within the portfolio received a clean audit opinion in 2016-17. The DWS regressed from an unqualified opinion with findings to a qualified opinion. There was no skills transfer from the consultants who assisted the DWS to achieve an improved audit outcome in the prior financial year, as the controls relating to the management of implementing agents had not yet improved.

Mhlathuze regressed from an unqualified audit opinion with no material findings, and Sedibeng and Lepelle from unqualified audit opinions with material findings, to qualified opinions. This was mainly due to inadequate processes and controls within the areas of SCM and asset management.

Areas of concerns within the water and sanitation portfolio reported in the audit reports

The DWS converted the schedule 6B indirect grants to schedule 5B direct grants on infrastructure projects. However, the operating model of these transactions did not change, which meant that the substance of the transactions remained the same as in prior years. Management did not account for this substance appropriately, which resulted in a modification of our audit opinion.

The WTE did not reconcile the carrying amount of assets under construction to specific assets and also did not assess the carrying amount for indicators of impairment, resulting in a modification of our audit opinion.

We audited infrastructure projects and found that they did not always follow proper SCM procedures and prescripts, resulting in irregular expenditure. Furthermore, there were indications of a possible lack of value for money, which could result in fruitless and wasteful expenditure. Neither the DWS nor the WTE completely disclosed these amounts, which resulted in a modification of our opinion relating to both irregular expenditure and fruitless and wasteful expenditure. In addition, the WTE incurred further irregular expenditure due to the following:

- Used panels that were not established in accordance with SCM prescripts.
- Approved unreasonable and poorly justified deviations caused by poor planning.
- Approved procurement transactions, where the departmental bid adjudication committee (DBAC) did not quorate.
- Did not consult the State Information Technology Agency (Sita) prior to procuring information technology (IT) goods and service when they were required to do so.

Both the DWS and the WTE implemented projects that were not budgeted for or significantly exceeded the budget, which put pressure on the available financial resources and resulted in significant doubt about their going concern assumptions.

- The following projects were implemented without a budget or there was significant overspending on them (please refer to section 8 of this report for more detail):
 - War on leaks
 - Drop a block
 - Mopani project
 - Bucket eradication programme
 - Acquisition of SAP accounting system for water boards and municipalities
- Furthermore, the WTE budgeted for the collection of long-outstanding debt and did not put in place more stringent measures to collect the amounts. They also did not monitor the debt to determine whether the assumption of collection of these amounts was realised during the year.
- The significant increase in accruals at both the DWS and the WTE, which effectively takes away financial resources from the current planned projects, further contributed to the strain on available financial resources.

Financial statement qualifications at water boards mostly arose from misstatements in the recognition, measurement and disclosure of property, plant and equipment; irregular expenditure; and trade receivables and payables.

Material non-compliance was identified at seven of the eight water boards, mainly relating to the following (Refer to Annexure A):

- Not preventing irregular and/or fruitless and wasteful expenditure.
- Not procuring through a competitive bidding process although required.
- Submitting financial statements late for auditing and with misstatements.
- Not safeguarding assets.
- Not collecting all revenue due to the water boards.

Material findings on **performance reports** were also reported at seven of the eight water boards, mainly due to the following:

- Indicators were not clearly defined in identifying the source information and method of calculation.
- Targets were not specific in clearly identifying the nature and required level of performance.
- Sufficient appropriate audit evidence was not available to confirm the reliability of the reported performance.
- Reported performance was not reliable when compared to source information.

Although no material findings relating to the usefulness and reliability of indicators and targets were reported on the audited programmes, the achievement of targets did not correlate with the expenditure. Expenditure rates far exceeded the achievement of targets for each of the programmes as indicated in the table below.

Table 1: Expenditure compared to achievement of targets

Programme	Budgeted (R '000)	Spent (R '000)	Percentage spending	No. of targets planned	No. of targets achieved or overachieved	Percentage achieved
Programme 1 – administration	R1 547 743	R1 504 930	97,2%	13	10	77%
Programme 2 - water planning and information management	R749 656	R695 604	92,8%	12	8	67%
Programme 3 - water infrastructure development	R12 130 318	R12 082 462	99,6%	18	6	33%
Programme 4 - water and sanitation services	R778 488	R1 070 757	137,5%	6	5	83%

Programme	Budgeted (R '000)	Spent (R '000)	Percentage spending	No. of targets planned	No. of targets achieved or overachieved	Percentage achieved
Programme 5 - water sector regulation	R318 392	R281 685	88,5%	23	8	35%
Total	R15 524 594	R15 635 438	100,7%	72	37	51%

Additional information on the TCTA

The WTE utilises the TCTA to implement capital projects where the project has a commercial element to it, as the TCTA sources funding from the financial markets via guarantees from the National Treasury. The WTE funds the TCTA loans through the sale of water and augmentation from the National Treasury. For the 2017-18 financial year, payments to the TCTA were budgeted at R4,5 billion, which equates to 50% of the WTE's expenditure budget.

The WTE was qualified in the 2016-17 financial year on the TCTA's financial liability because the disclosed liability did not agree to the TCTA's financial records and/or the underlying supporting financial models that should inform this amount.

3. Instability in leadership

There is **significant instability in leadership positions** within the DWS. There has been a significantly high turnover rate at the level of DG. Over the past four financial years, the DWS has had four different DGs and/or acting DGs – for most of the time, the position was occupied by an acting director-general. The Institute of Race Relations analysed the turnover of DGs between 2009 and 2017 and noted the following with regard to the DWS:

Table 2: Turnover of DGs at the DWS

No.	Minister	Name of DG	Acting	Months as DG
1	Ms B Sonjica	Pam Yako		4
2	Ms B Sonjica	Nobubele Ngele	A	15
3	Ms BE Molewa	Trevor Balzer	A	15
4	Ms BE Molewa	Maxwell Sirenya		12
5	Ms BE Molewa	Trevor Balzer	A	16
6	Ms Mokonyane	Trevor Balzer	A	4
7	Ms Mokonyane	Margaret-Ann Diedericks		21
8	Ms Mokonyane	Sifiso Mkhize	A	6
9	Ms Mokonyane	Dan Mashitisho		7
10	Ms Mokonyane	Sifiso Mkhize	A	9

The table below indicates DG and DDG vacancies at the DWS over the past four financial years:

Table 3: Vacancies at DG and DDG level at the DWS

Position	2016-17		2015-16		2014-15		2013-14	
DG	Mkhize	Mashitisho	Mkhize	Diedericks	Diedericks	Balzer	Balzer	Balzer
CFO: Main Account	Manukuza	Mkhize	Manukuza	Mkhize	Nkomo	Fundakubi	Fundakubi	Fundakubi
CFO: WTE	Nel	Mofokeng	Mofokeng	Mofokeng	Mofokeng	Mofokeng	Mofokeng	Mofokeng
DDG: NWRI	Mathe	Mathe	Mathe	Mathe	Mathe	Mathe	Mathe	Mathe
DDG: Policy and Regulations	Sigwaza	Singh	Singh	Singh	Singh	Singh	Singh	Singh
DDG: Corporate Services	Mahlangu	Mahlangu	Mahlangu	Mahlangu	Mahlangu	Mahlangu	Mahlangu	Mahlangu
DDG: Water Planning and Information Management	Mochotlhi	Mochotlhi	Mochotlhi	Mochotlhi	Mochotlhi	Mochotlhi	Mochotlhi	Mochotlhi
DDG: International Water Cooperation	Lusenga	Lusenga	Lusenga	Lusenga	Lusenga	Lusenga	Lusenga	Lusenga
DDG: Programme Management Unit	Ramunenyiwa	Gasa	Gasa					
DDG: Extra	Fundakubi	NoE	NoE	NoE	NoE	NoE	NoE	NoE
DDG: Operational Integration	Balzer	Balzer	Balzer	Balzer	Balzer	Balzer	Balzer	Balzer
DDG: Integrated Government Relations (Communications)		Matakala						

Permanent	Suspended	Acting	Not on staff establishment	No post
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The DWS has nine DDG positions on its approved structure; however, 11 personnel members were in DDG positions due to the following:

- The DWS seconded a DDG to Overberg. While the DDG was still at Overberg, they permanently filled the position. When the DDG returned from secondment, the position was occupied and this resulted in a DDG without a position.
- The position of DDG: Integrated Government Relations is not on the establishment.

The DWS suspended the chief financial officer (CFO) of the WTE and the DDG of National Water Resource Infrastructure (NWRI) for four months pending investigations; however, no further investigations were conducted until the CFO and the DDG returned to work on 28 July 2017.

The DG, Mr D Mashitsho, was suspended in July 2017, which resulted in instability at CFO level at the DWS due to the CFO being appointed as the acting DG.

The WTE's CFO, Mr Mofokeng, resigned in December 2017. The chief director: Asset Management was appointed as the acting CFO for the WTE.

Governance structure concerns were also noted at four of the nine water boards (Umgeni Water Board, Sedibeng Water Board, Mhlathuze Water, and Overberg Water Board). Properly constituted board committees were not in place due to the expiry of the boards' term and the previous minister not timeously appointing new boards.

4. Human resource management

In addition to the high instability in the leadership of the DWS as previously discussed, numerous officials at the level of DG and DDG were suspended at the DWS as outlined in the table below.

Table 4: Details of DG and DDG suspensions

Name of official	Rank	Date of suspension	Status of suspension	DWS comment
D Mashitisho	DG	20 July 2017	N/A	Mr Mashitisho transferred to the Department of Cooperative Governance with effect from 1 December 2017.
A Singh	DDG: Regulation	15 June 2017	Suspension lifted on 20 November 2017	Mr Singh is currently on unauthorised leave and appropriate steps are being taken. Disciplinary hearing has commenced.
M Mofokeng	CFO: WTE	17 April 2017	Suspension lifted on 28 July 2017	Mr Mofokeng resigned from the DWS on 31 December 2017. The DWS accepted his resignation.
Z Mathe	DDG: NWRI	25 April 2017	Suspension lifted on 28 July 2017	The DWS is currently considering charges against Ms Mathe.
A Van der Walt	Chief director: Sanitation	25 April 2017	Suspension lifted on 28 July 2017	Charges have been served and the hearing is currently in process.
P Gasa-Lubelwana	Director: Institutional Establishment	1 April 2016	The employee is still on suspension	Disciplinary hearing has commenced. This is an external disciplinary hearing through the GPSSBC.

We noted the following concerns regarding the **suspensions**:

- Investigations were not conducted during the suspension periods and therefore consequence management processes were not applied efficiently.
- Inconsistencies were noted in the timing of returning back to work after the suspensions were lifted, with some employees taking extensive periods and others returning after the lapse of the legislated three months.

In addition, the following discrepancies were noted with the recent **DG appointment**:

- The appointment of the last DG was considered outside the shortlisting process, resulting in non-compliance with the prescripts.
- The DG was appointed at a higher remuneration without Cabinet approval. The difference has been reported as irregular expenditure.

The minister implemented a **moratorium** on filling vacant positions from June 2014 to April 2016 to allow the DWS to review their structure. The moratorium was lifted in 2016-17. We noted the following effects of the moratorium:

- The vacancy rate was higher than 10% in 2015-16 (overall – 17%; senior management service (SMS) level – 31%).
- Forty-nine SMS positions were vacant for between 13 and 40 months in 2016-17 due to the accounting officer not filling them in a timely manner.
- Acting periods exceeded the maximum allowed periods as at 31 March 2017 due to the non-filling of vacancies in a timely manner:
 - 25 employees on levels 1-12 acted for 4 years
 - 66 employees on levels 1-12 acted for 3 years
 - 90 employees on levels 1-12 acted for 2 years

We noted the following weaknesses with the regard to **verification processes**:

- Criminal record, financial record and citizen verification checks were not performed. Qualification verifications were not always done and where negative verifications were obtained, these were not followed up.
- Bi-annual submissions to the Department of Public Service and Administration (DPSA) on poor-performing SMS members were not done, as management failed to fulfil their reporting responsibilities in this regard.
- Performance bonus payments in 2016-17 relating to the 2014-15 performance assessment cycle were paid to 10 employees who were not entitled to payment according to the performance assessment report.
- The performance reward liability figure for 2016-17 was overstated by R200 906 and for 2015-16 it was understated by R241 587, due to a poor control environment in which accurate records of payments made as opposed to payments due could not be kept.

The report on the **performance audit on water infrastructure** at the DWS that was tabled in November 2016 highlighted the following HR issues:

- Ageing workforce: An analysis of the age of staff employed as scientists and engineers with high-level skills at the DWS showed that 86 employees would reach the retirement age of 65 within the next 10 years. No workplace plan exists to replenish these high-level skills.
- At the NWRI branch:
 - Five out of the eight head of unit posts were vacant during the performance audit.
 - There was a shortage of water controllers.
 - Only seven of the 13 critical mechanical and electrical engineer positions were filled at the time of the audit.
 - At the Tzaneen office, only 20 of the 70 brush cutters had received job training, creating a risk of staff safety when working with the equipment.
- A skills audit had not been conducted in the past 15 years at the DWS.
- Foreign engineers were appointed, but communication with these engineers was a challenge and delayed the transfer of skills.
- Engineering candidates were struggling to register with their statutory body because they were unable to attain the required competencies from the DWS.

There was no clear evidence on how these weaknesses were considered holistically to be addressed, as the actions plans did not sufficiently address these matters.



5. Irregular expenditure

Procurement through deviations from SCM regulations was highly prevalent at **water boards**, as some of their SCM practices were to treat directives from the minister of Water and Sanitation as emergency cases, thereby not following the required SCM regulations. These practices are in contravention of legislative requirements and therefore lead to the incurrence of irregular expenditure at the DWS.

Table 5: Number of directives issued to water boards as per the list received from the DWS

	Total	Amatola Water	Bloem Water	Lepelle	Magalies	Mhlathuze	Rand Water	Sedibeng	Umgenti
Directives issued from 2012-13 to 2015-16	34	1	-	5	2	2	9	12	3
Directives issued for 2016-17	16	1	3	2	-	2	8	-	-
Total directives per water board	50	2	3	7	2	4	17	12	3
Irregular expenditure/ limitation		R156,4 m	-	R2,2b n	-	R90,2 m	-	R189 m	-

No irregular expenditure identified

SCM documents not submitted for auditing

Irregular expenditure identified

Irregular expenditure remains a challenge at the DWS and the WTE. There was a significant increase in the irregular expenditure, as highlighted in the figure below.

Figure 2: Concerns relating to increased irregular expenditure

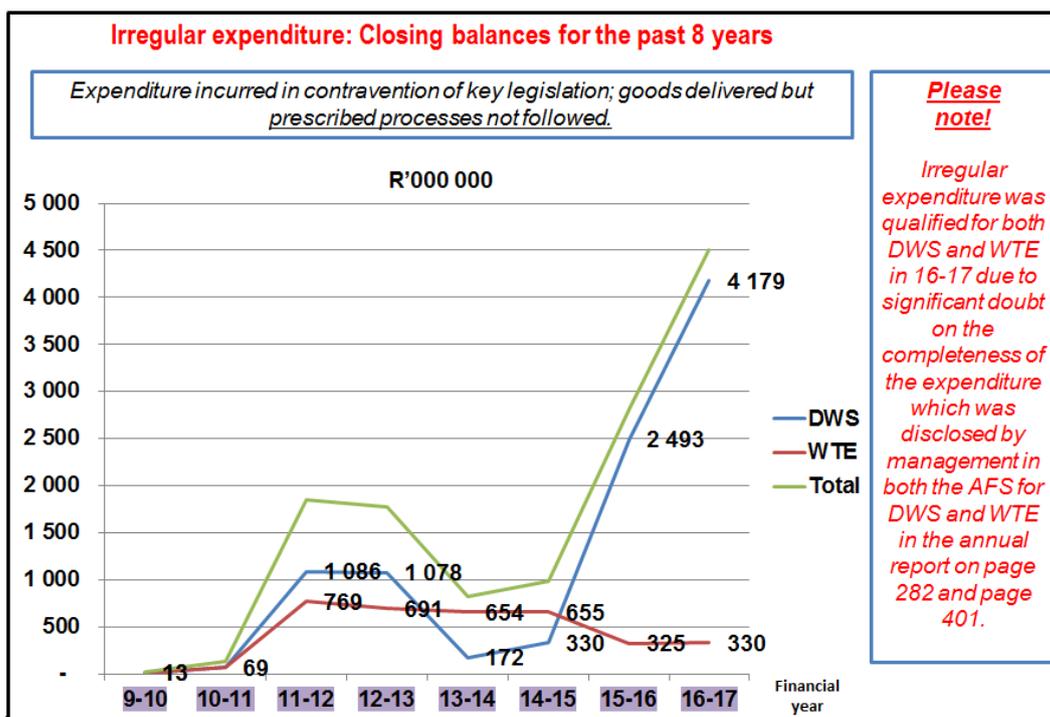


Table 6: Irregular expenditure incurred by the WTE identified by auditors and not disclosed in the financials for 2016-17

Description	Amount (R)
Deviations approved not in accordance with Treasury Regulations	975 961 298
DBAC quorum not obtained	33 179 735
Procurement and contract management (compliance) - disclosure of irregular expenditure understated	346 354 379
Contract and management - procurement of unlimited SAP licences	450 256 943
Deviation - appointment of approved professional person	13 000 000
Three quotations not obtained for procurement of between R30 000 and R500 000 and deviation not approved by the delegated authority	115 403
Irregular expenditure at the implementing agent (Sedibeng Water)	174 077 699
Irregular expenditure at the implementing agent (Lepelle Northern Water)	467 200 628
Total	2 460 146 086

The DWS created a panel of service providers for construction work and events management, using a practice note that is applicable only to consultancy services. Management conceded that they should not have created such panels for events management services, but felt strongly that they were allowed to create them for construction work.

A consultation with the National Treasury clearly indicated that they were not allowed to create panels for construction work, as indicated by Practice Note 3 of 2003. Management was, however, still convinced that there was a regulation within the Construction Industry Development Board

(CIDB) that allowed them to create such panels. Our subsequent engagements with the CIDB confirmed that they provide guidance on framework agreements that can be used after following a competitive bidding process. This renders all procurement conducted through such panels as irregular expenditure. Management still has to quantify and disclose the full extent of this irregular expenditure, which could amount to billions of additional irregular expenditure over the course of the period this practice was applied.

The WTE considered and approved procurement transactions where the **DBAC was not properly constituted**, resulting in contracts approved by this improperly constituted structure being irregular. The minimum quorum required is six officials but sometimes only five members were present during approvals.

We reported the acquisition of the **SAP system as irregular, as the appointment processes were non-compliant** or deficient in the following regard:

- The acquisition of the contract did not go through Sita as required by the Sita Act for mandatory services.
- The DBAC approved the contract, despite the information technology committee (ITC) not having endorsed or supported the acquisition based on a submission from the ITC chairperson signed and dated 30 June 2016. The ITC raised concerns as no proper feasibility study was conducted to ensure that the procurement implications and costs were clarified for the DWS.
- In addition, the ITC wrote to the DBAC to highlight that in previous SAP procurements, EOH was appointed to provide SAP licences because SAP (main supplier) was not the most competitive bidder in the market. They further recommended to the DBAC to advertise the bid and open it to the market to ensure competitive processes.
- Sita's chief executive officer also advised management on 19 July 2016, based on evidence inspected, not to proceed with the purchase. Notwithstanding this, management proceeded to sign the contract on 26 July 2016. The chief executive officer further advised the DWS not to enter into any contract in this regard prior to providing the required information to Sita for them to make a full assessment of the scope and enabling mandate.
- This acquisition did not go through a formal open tender process, as the entity had already identified SAP as its strategic IT partner and therefore motivated the sole supplier route. However, no evidence was provided at the time of auditing that the reasons to deviate from normal procurement processes had been documented as required by prescripts, as the approval by the DG did not contain this.
- A proper needs analysis was not conducted prior to the acquisition. The system was purchased and intended for use by the water boards, the TCTA and municipalities; however, these entities were not consulted to solicit their buy-in as the intended end-users.
- At the time of the audit, no clear implementation plan had been communicated to these entities relating to the project. Communication was only conducted in November 2016 to solicit collaboration and support participation in the project, which was subsequent to acquisition. No further evidence or commitment was obtained from certain of these entities.
- This expenditure was not budgeted for in the 2016-17 financial year.

- There was no training for staff prior to acquiring the system to ensure that the envisaged benefits to be derived from the usage of the system were fully planned for.

Further to this, **as the system was then not used by the intended recipients**, a portion of this expenditure was reported as **fruitless and wasteful expenditure**. As the contract value is R450 million over five years, the fruitless and wasteful expenditure reported for the current year amounted to approximately R90,4 million.

With regard to the use of **implementing agents**, the DWS used Sedibeng Water, which proceeded to procure services for the drop-a-block programme to the amount of R174 million without using competitive bidding.

Lepelle Northern Water was also appointed as an implementing agent for construction services on the Nwamitwa and Tzaneen projects. They then appointed other construction service providers without going through competitive bidding processes to the amount of R467 million. They used the same service providers already appointed for the Giyani project, which was declared irregular and so these awards were also declared irregular.

The WTE disclosed R33,6 million worth of irregular expenditure in the 2017-18 interim financial statements, but the nature, extent and root cause thereof are still under investigation. The WTE has further not reported the irregular expenditure identified to the National Treasury.

The majority of the irregular expenditure at the DWS was a result of deviations from SCM processes at implementing agents. Total expenditure on the Giyani project of R2,2 billion for the 2016-17 financial year (2015-16: R1,3 billion) was disclosed as irregular expenditure, because Lepelle Northern Water deviated from normal procurement process in response to a ministerial directive. R154 million of the R2.2 billion spent could be allocated to the emergency portion for the hospital. **The new business plan refers to a project totalling in excess of R10 billion.**

In recent times, the previous minister of Water and Sanitation went onto media platforms and asserted that when faced with an emergency case, which happens regularly in her environment, her priority would be to meet her constitutional obligation of providing water and sanitation services, which would more likely than not result in her department incurring irregular expenditure. The minister's argument suggests that when faced with an emergency case, management together with the executive will need to make a call to either incur irregular expenditure and respond to the emergency case or prevent irregular expenditure by not responding to the emergency case.

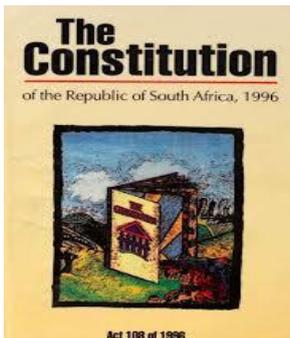
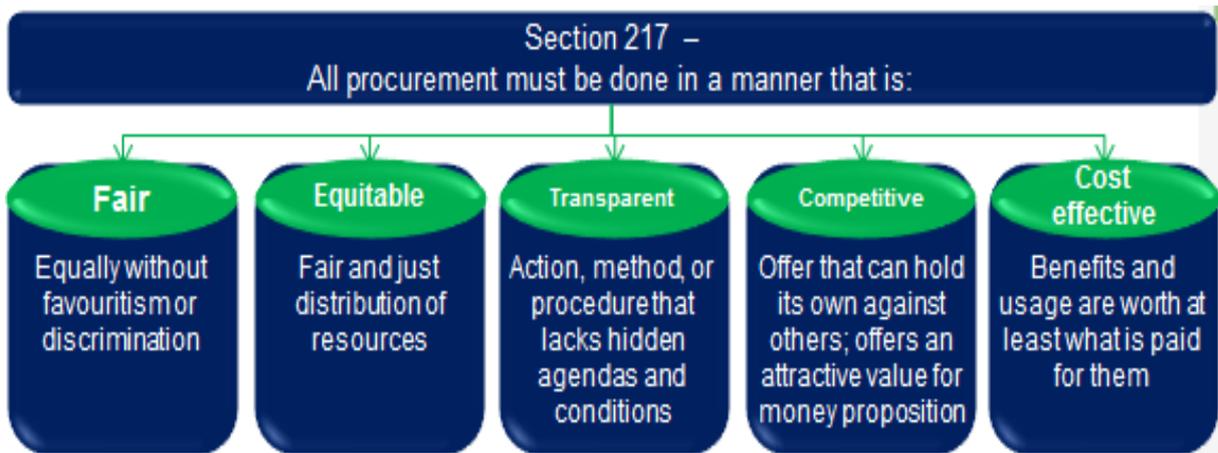
This is not the case though, as the Disaster Management Act (DMA) outlines a process to be followed to declare and respond to emergencies. The Public Finance Management Act (PFMA) also defines an emergency and outlines a process that should be followed to dispense money in an emergency case. No contradictions in this regard were noted between the Constitution, the DMA, the PFMA and the National Treasury's regulations. As a result, it is possible to respond to an emergency without necessarily incurring irregular expenditure.

Therefore, there is sufficient legislation that regulates emergency cases. Deviating from the normal procurement processes in cases of emergency should not disregard other requirements that the accounting officer should adhere to. Written approval from the accounting officer or relevant

treasury is required to ensure that the DWS has not departed from ensuring that its SCM system remains fair, equitable, transparent and cost effective notwithstanding it being an emergency case.

The figure on the following page summarises the legislation that regulates emergency procurement.

Figure 3: Legislation regulating emergency procurement



There are two types of emergencies, i.e. emergencies due to a disaster as per the Constitution and the DMA, and emergencies as defined by the PFMA. An emergency at a minimum needs to pose a risk to health, life, property or environment.

It is reasonable to make inference to time frames stipulated by the Constitution and the DMA of 21 days and 3 months, respectively. A maximum period of 3 months can be applied to the immediate action time frame as the DMA makes reference to the PFMA. Therefore, the response actions to the emergency should be executed and **completed within the 3 months** (water infrastructure projects are multi-year projects).

6. The audit of key infrastructure projects

During the 2016-17 year, we audited the infrastructure projects in the table below by focusing on the following:

- Budget versus spending
- Financial management
- Compliance
- Predetermined objectives

Table 7: Findings/concerns noted during audits of key projects

No.	Key projects audited	Budget vs	Financial	Compliance	Predetermined	Implementation party	Findings/concerns
1	<i>Eastern Cape – Greater Mbizana regional bulk water supply</i>					Umgeni Water Board	According to the DWS, only when the project is handed over for operation and maintenance to deliver water to the targeted recipients and practical completion certificates are issued, is the project considered complete. The certificate of completion is still to be issued.
2	<i>KZN – Lower Thukela bulk water supply scheme</i>					Umgeni Water Board	Five of the six contracts have effectively been completed and practical completion certificates issued with only the final mechanical and electrical installation and wet commissioning being undertaken. Civil works for the weir and abstraction works and the water treatment works are at 100% and 98%, respectively. Construction on the last contract is at 98% (water treatment works).
3	<i>Limpopo – Giyani bulk water services and Giyani water services</i>					Lepelle Water Board	The budget was revised from R2,5 billion to R2,8 billion. There is lack of contract management on this project. Irregular expenditure and fruitless and wasteful expenditure were incurred. As part of the audit, an assessment of the value for money received on this project was conducted. There are estimated amounts of fruitless and wasteful expenditure identified during the audit that can potentially result in the value of the asset being overstated. The following areas have been identified where the DWS may have overpaid on this project: project management fees, double invoices paid (double counting of professional hours), excessive professional fees (rates), and excessive construction rates. The recommendation to the DWS is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project.

No.	Key projects audited	Budget vs expenditure	Financial management	Compliance	Predetermined objectives	Implementation party	Findings/concerns
4	<i>Mpumalanga – Northern Nsikazi bulk water scheme</i>					Rand Water	The project budget has been exceeded by R72 million. We could not obtain evidence of proper contract management – documents from the implementing agent were not obtained. Planned targets for the project were not achieved with reference to the completion date.
5	<i>North West – Taung / Naledi</i>					Dr Ruth Segomotsi Mompoti District Municipality	This project was converted from an indirect grant (6B) to a direct transfer. Due to the fact that the project was initiated by the DWS, the risks and responsibilities are still at the DWS and not the municipality, which resulted in the qualification of the audit report. As this was a conversion from 6B to 5B, contract management was not fully adhered to due to this conversion. Planned targets for the project were not achieved with reference to the anticipated completion date. No exception was identified with regard to reliability on the project. It should be noted that this project was only included in the DWS's indicators from 2016-17.
6	<i>Limpopo – Mopani emergency project</i>					WTE construction unit	The project was not budgeted for in the 2016-17 financial year and R98 million was incurred. In the 2017-18 financial year, the project was put on hold due to a lack of funding. Inconsistent and inappropriate accounting treatment was noted and the project was not assessed for impairment. No contract exists between the WTE and the DWS for the recovery of project costs. Excessive administration costs were capitalised to the project due to the construction unit having less projects. The project owner was not aware that the project was under his control, thus there was inadequate oversight of the project. The project was not planned for in the annual performance plan (APP) although it was a multi-year project.
7	<i>Limpopo – Nwamitwa dam</i>					Lepelle Water Board	Invoices from the implementing agent did not meet the Value-Added Tax (VAT) Act requirements. Irregular expenditure of R155,9 million was noted on the project. As part of the audit, an assessment of the value for money received on this project was conducted. Estimated amounts of fruitless and wasteful expenditure identified during the audit can potentially result in the value of the asset being overstated, related to project management fees, double invoices paid, professional fees (rates) not in line with the norm, and non-market rates charged on actual installation and costs paid. The recommendation to the department is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project. The planned targets for the project were partially achieved.

No.	Key projects audited	Budget vs expenditure	Financial management	Compliance	Predetermined objectives	Implementation party	Findings/concerns
8	<i>Limpopo – raising of the Tzaneen dam wall</i>					Lepelle Water Board	Invoices from the implementing agent did not meet the VAT Act requirements. Irregular expenditure of R43,6 million was noted on the project. As part of the audit, an assessment of the value for money received on this project was conducted. Estimated amounts of fruitless and wasteful expenditure identified during the audit can potentially result in the value of the asset being overstated, related to project management fees, double invoices paid, professional fees (rates) not in line with the norm, and non-market rates charged on actual installation and costs paid. The recommendation to the department is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project. The planned targets for the project were partially achieved.
9	<i>Western Cape – raising of Clanwilliam dam wall</i>					Started by the WTE, in the process of appointing external service provider	Irregular expenditure and fruitless and wasteful expenditure were noted on the project. The appointed professional person (APP) for the project, a retired employee of the WTE, was appointed via a deviation from the normal procurement process. The previous DG refused to extend the employment contract of the APP after it had already been extended by two years. The APP was then appointed through a consulting company without following procurement transcripts. The appointed consultant was awarded additional scope of work for project management via a deviation from normal procurement. The WTE has an in-house infrastructure development directorate that should be providing project management services for the project. The tender for the main contractor's work was advertised and is now closed. The bid evaluation process cannot commence due to insufficient budget allocations. This delay will most likely result in the escalation of costs for the project. The amounts spent on employee costs while the project is on hold will probably result in fruitless and wasteful expenditure. Planned targets for the project were not achieved.
10	<i>Eastern Cape – Mzimvumbu water projects</i>					Started by the WTE, in the process of moving to the TCTA	The contractor procurement, site establishment and commencement of construction were not achieved. The previous minister has since issued a directive that the project be implemented by the TCTA in terms of section 103(2) of the National Water Act. Due diligence on the work done to date by the WTE is being performed by the TCTA, and the TCTA is also preparing a project charter that will provide an updated programme and cost estimates.



Please also refer to sections 4 and 9 for further detail on irregular expenditure and fruitless and wasteful expenditure relating to implementing agents.



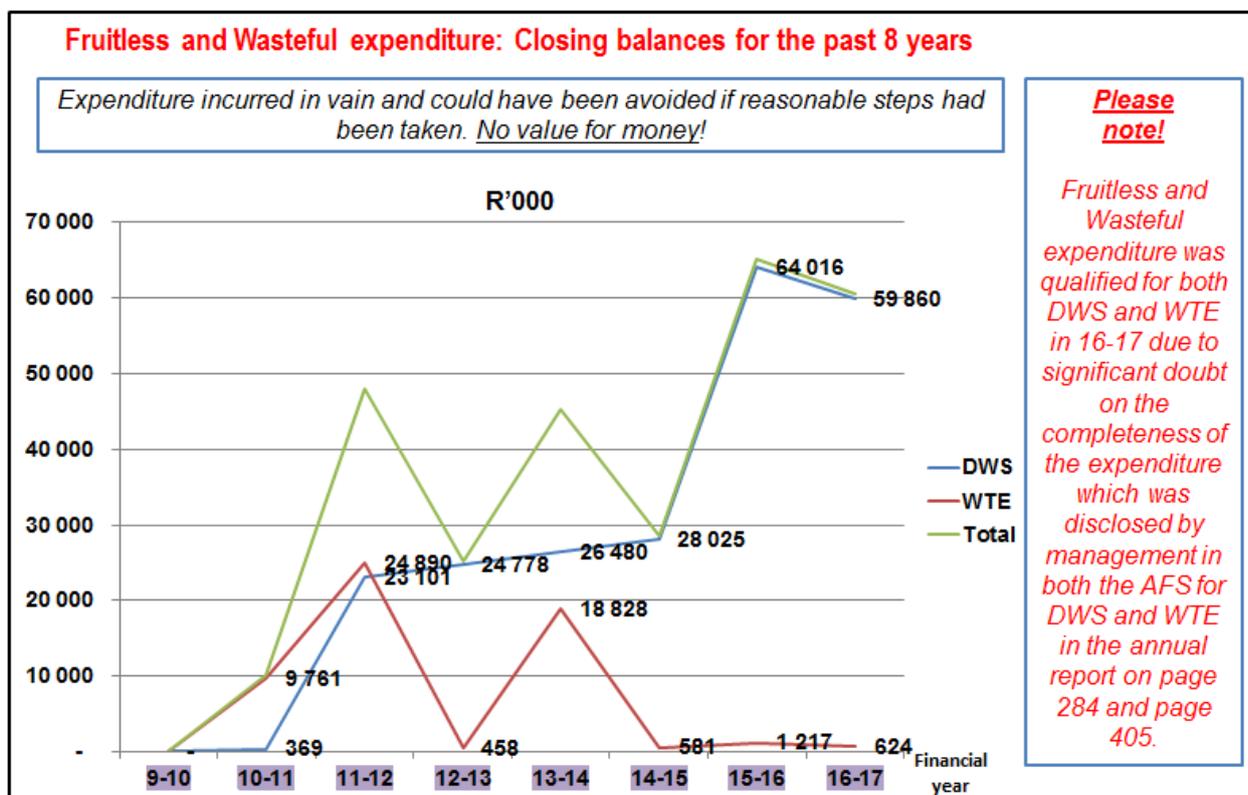
7. Fruitless and wasteful expenditure

Procurement through deviations from SCM regulations was prevalent at water boards as indicated earlier on in this report. As part of our risk-based audit approach, this was identified as a significant risk as no formal bidding process was followed, and required specific work to determine whether value for money was received.

We qualified both the DWS and the WTE on fruitless and wasteful expenditure, as we could not confirm its completeness. The main driver of the amount at the DWS was the Giyani project.

The figure below indicates the movement of fruitless and wasteful expenditure reported in the DWS's annual reports over a period of eight years.

Figure 4: Fruitless and wasteful expenditure at the DWS



The table on the following page lists the fruitless and wasteful expenditure incurred by the WTE during the 2016-17 financial year.

Table 8: Fruitless and wasteful expenditure at the WTE in 2016-17

Description	Amount R'000
Possible fruitless and wasteful expenditure on Mopani emergency project requirement	467 201
Fruitless and wasteful expenditure – incomplete disclosure of fruitless and wasteful expenditure – Nandoni pipes	697 100
Contract and management – procurement of unlimited SAP licences	90 000

The envisaged benefit to migrate the TCTA to the SAP system will not be realised, as the TCTA is currently migrating to the Oracle system.

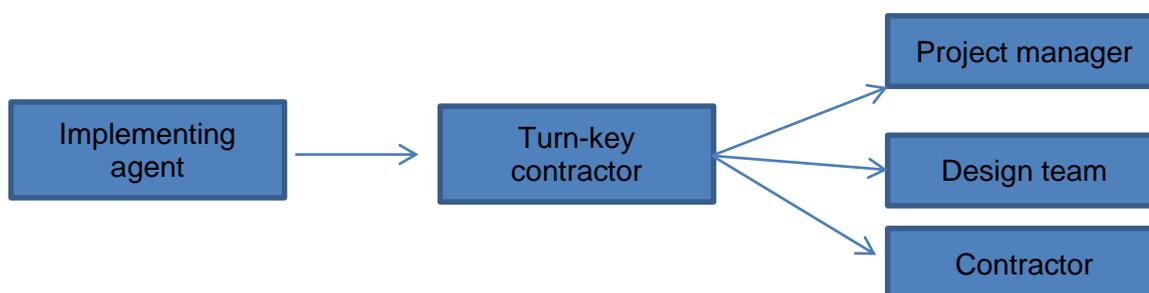
The motivation to acquire the SAP licences was that the DWS would be able to monitor transfers to the municipalities and water boards. The WTE does not do any transfers to water boards or municipalities, as it is the main account that does so. The main account is currently not on the SAP platform and there are currently no plans to migrate the main account to the SAP platform. Furthermore, the National Treasury’s approval has not been obtained to move the main account to the SAP platform. The main account would still not realise the envisaged integration of having SAP at the water boards and municipalities, as the Basic Accounting System is not integrated with SAP.

It was recommended that an investigation into the SAP contract and related services be conducted, preferably by an independent investigative body.

There has been no communication regarding new developments on whether beneficiaries of this contract have now started participating in the contract, or whether the DWS has started investigating this matter.

Giyani project

With regard to the Giyani project, the DWS appointed an implementing agent – Lepelle Northern Water (which in turn appointed company A (consultant) – as a turn-key contractor as illustrated below:



This is contrary to CIDB Practice Note 23 that clearly defines ‘design and construct’ as a contract in which the contractor designs (and not a contract where the consultant constructs).

Company A indicated that they are consultants during an engagement between the AGSA, auditees and company A on 25 July 2017. For that reason they agreed with Lepelle Northern Water on direct payment to the contractors (and other consultants) by means of cessions.

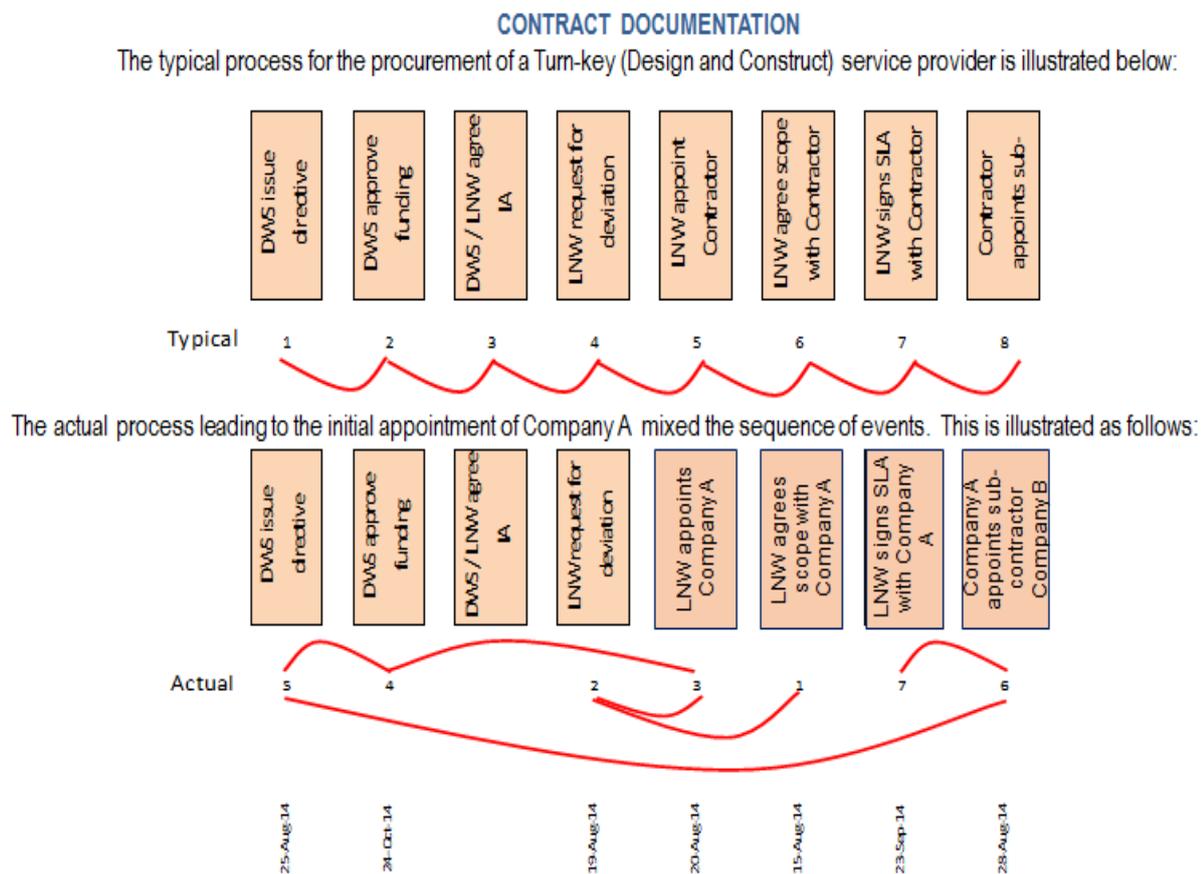
The project business plan is not aligned with the format and content of any of the suitable forms of contract described in CIDB Practice Note 23. For example, the following critical contractual aspects are not addressed at all:

- Performance bonds, insurance
- Commencement date of the agreement, time for completion
- Instructions, delays
- Payment, retention, penalties, termination

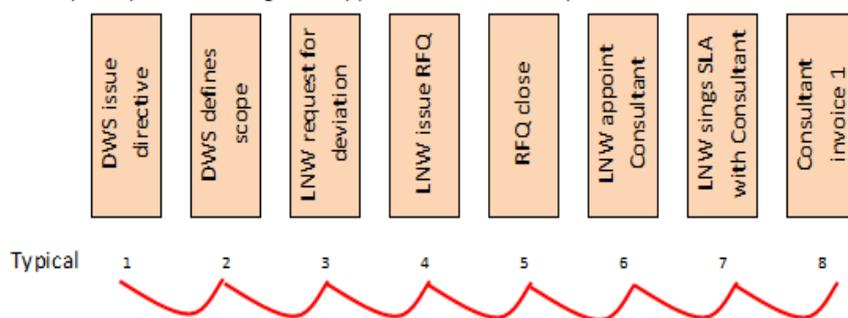
The current arrangement exposes the DWS to a risk of incurring expenditure such as penalties or having no proper recourse.

In addition, the typical as well as the actual process in appointing a turn-key contractor is illustrated below.

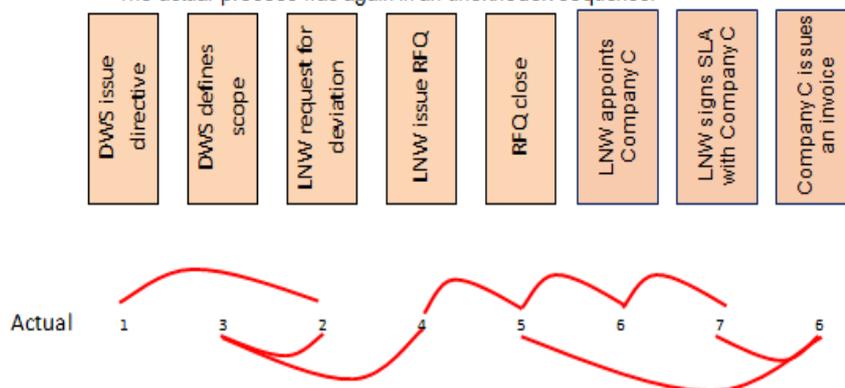
Figure 5: Typical versus actual process in appointment of turn-key contractor



The expected anticipated process leading to the appointment of a service provider for Tzaneen Dam is illustrated as follows:



The actual process was again in an unorthodox sequence:



The RFQ for Tzaneen Dam was issued on 12 November 2015 and closed the next day.

Concerns were reported relating to the many layered project managers with a combined fee of 11% of the programme value (5% Lepelle Northern Water + 3% private consulting firm A + 3% company A), compared to industry norms of an overall 3% to 5% per the recommended guideline of fees published by the South African Council for Project and Construction Management Professions in Government Gazette 34510 of 12 August 2011. This points to fruitless and wasteful expenditure.

Based on the total programme value of R13,6 billion (excl. VAT) over five years as defined in annexure 18.2 of the project business plan, the equivalent project managers that would have been employed based on Department of Public Works (DPW) rates are indicated in the table below.

Table 9: Comparative DPW rates

	Lepelle Northern Water (Based on 5%)	Company A (Based on 3%)	Private consulting firm A (Based on 3%)	Total project manager fees on R13,6 billion
Total fee over five years	R681 million	R409 million	R409 million	R1 499 million
Average fee per year	R136 million	R82 million	R82 million	R299 million
Equivalent senior principals' hours per year at DPW rate of R1 536/hour (applicable in 2015)	88 706 hrs	53 224 hrs	53 224 hrs	195 154 hrs
Equivalent number of full-time senior principals at 160 hours/month	46	28	28	102

As part of the value-for-money considerations, concerns were also raised relating to time-based fees. The rest of this section reflects some of the findings we had reported.

(a) Potential duplicate claims and payments

August 2017

- Company A was appointed on 20 August 2014. However, they claimed for 11 resources working 160 hours each during the full month of August 2014. This includes a claim for 160 hours for employee X for project management for the Giyani WTW, plus another 160 hours for the same resource for engineering supervision on the same project.
- Company A also claimed an amount of R1,6 million for 'stakeholder engagement' during August 2014.

September 2017

- The company A claim for September 2014 again includes 168 hours for employee X for project management for the Giyani WTW, plus another 168 hours for the same resource for engineering supervision on the same project.
- A similar claim for employee Y shows 168 hours for engineering supervision on the Giyani WTW, plus another 168 hours for preliminary investigations on the Giyani WWTW.
- Company A again claimed R1,6 million for 'stakeholder engagement' during September 2014.

October 2017

- The claim for October 2014 again includes 184 hours for employee X for project management for the Giyani WTW, plus another 184 hours for the same resource for engineering supervision on the same project.
- A similar claim for employee Y shows 184 hours for engineering supervision on the Giyani WTW, plus another 184 hours for preliminary investigations on the Giyani WWTW.
- Company A again claimed R1,6 million for 'stakeholder engagement' during October 2014.

As the information was provided for these three months only, it was recommended that management revisit all payments on the project to ensure that the full extent of these duplicate payments is determined and reported.

(b) Excessive rates compared to DPSA guidelines for consultants and DPW suggestions

The DPSA published time-based rates applicable to consultants based on the various levels. An abstract of the applicable rates in 2014 is provided in the figure below.

Figure 6: DPSA rates for consultants – 2014



Hourly Fee Rates For Consultants - With effect from 1 April 2013

Salary Band	Average Total Package	Model A Short Term				Model B Long Term			
		Option A 1 All Overheads		Option A 2 Partial Overheads		Option B 1 All Overheads		Option B 2 Partial Overheads	
		A 1.1 Mark-up	A 1.2 No Mark-up	A 2.1 Mark-up	A 2.2 No Mark-up	B 1.1 Mark-up	B 1.2 No Mark-up	B 2.1 Mark-up	B 2.2 No Mark-up
16	1 577 909	3 156	2 430	2 714	2 083	None	None	None	None
15 / 16	1 392 741	2 785	2 145	2 396	1 838	2 298	1 769	1 978	1 518
15	1 207 573	2 415	1 860	2 077	1 594	1 992	1 534	1 715	1 316
14 / 15	1 098 993	2 198	1 692	1 890	1 451	1 813	1 396	1 561	1 198
14	1 023 822	2 048	1 577	1 761	1 351	1 689	1 300	1 454	1 116
13 / 14	934 742	1 869	1 440	1 608	1 234	1 542	1 187	1 327	1 019
13	838 239	1 676	1 291	1 442	1 106	1 383	1 065	1 190	914

The DPW published time-based rates applicable to the architectural, engineering, quantity surveying and town planning professions. An abstract of the applicable rates in 2014 is provided in the figure below.

Figure 7: DPW rates for consultants – 2014

2014-01-01	Par. (i)	18,75c	R1 446,00
	Par. (ii)	17,5c	R1 013,00
	Par. (iii)	16,5c	R 839,00 (max)
2015-01-01	Par. (i)	18,75c	R1 535,86
	Par. (ii)	17,5c	R1 084,25
	Par. (iii)	16,5c	R 898,14 (max)

The table below describes the three levels of resources.

Table 10: Description of different levels of resources

Resource level	Description
Par. (i)	Registered professional principals, including professional architects, professional quantity surveyors, professional engineers, professional technologists (engineering), professional planners & professional construction project managers
Par. (ii)	Registered professionals, including professional architects, professional quantity surveyors, professional engineers, professional technologists (engineering), professional planners & professional construction project managers
Par. (iii)	Registered technicians, including professional technicians (engineering), professional senior technologists (architectural), principal technologists (architectural) & technical planners

The following illustrates the key concern noted with regard to the excessive rates charged:

- The top rate for a consultant working at the level of a director is R1 469/hour (option B 1.1) according to the DPSA scales.
- The top rate for a registered professional principal is R1 446/hour according to the DPW scales (par. (i)).
- Company A claimed up to R3 500/hour for their resources.



(c) Potential excessive construction costs

The table below compares prices for some critical cost items between the Nandoni-Nsami pipeline constructed by company D (which was appointed through competitive bidding) and the Giyani pipelines constructed by company A, which sub-contracted to company B (which was not appointed through competitive bidding).

Please note that this high-level comparison is not exhaustive and only includes certain key cost components based on available information at the time of the audit to illustrate to management the potential excessive costs.

Table 11: Comparative prices of contractor appointed through competitive bidding and contractor not appointed through competitive bidding

		Company B											Company D		
Project Name		Pipeline A (0-5000)		Pipeline B (5000-82104)		Pipeline C (0-6200)		Pipeline D (Outlying)		Pipeline F1 (5000-45327?)		Pipeline F2 (5000-16287)		Nandoni - Nsami	
Pipe Diameter	mm	110-250		160-450		750 & 1200		110-630		160-450		160-315		200-800	
Total Length	m	32 908		77 104		6 200		107 719		60 720		16 287		50 222	
BoQ description	Unit	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty
Clear vegetation and trees	m	R 200	32 932	R 200	76 800	R 50	6 200	R 200	107 679	R 200	60 722	R 200	16 291	R 19	50 222
Excavate - 0 - 1.5m	m ³	R 250	14 890	R 250	38 936	R 380	900	R 250	58 937	R 250	36 365	R 250	7 754	R 122	65 153
Excavate - 1.5 - 2.5m	m ³	R 300	27 653	R 300	72 310	R 650	5 600	R 300	109 450	R 300	67 534	R 300	14 399	R 129	73 297
Excavate - Deeper than 2.5m	m ³	R 500	0	R 500	0	R 900	550	R 500	0	R 500	0	R 500	0	R 145	24 432
Hard rock excavation	m ³	R 625	8 509	R 625	22 249	R 625	12 000	R 625	33 677	R 625	20 780	R 625	4 431	R 269	24 432
Bedding & selected from trench	m ³	R 300	3 700	R 300	10 288	R 300	3 500	R 300	16 184	R 300	10 221	R 300	1 996	R 49	35 551
Bedding & selected from borrow p	m ³	R 500	15 100	R 500	41 153	R 500	7 200	R 500	64 734	R 500	40 888	R 500	7 980	R 99	53 327
Pipe encasement	m ³	R 7 993	365	R 10 297	1 812	R 7 500	50	R 7 117	1 999	R 9 185	1 287	R 10 904	594	R 1 744	444
Total Cost (of above items)	R	R 35 501 025		R 103 013 525		R 16 818 450		R 141 601 875		R 89 815 150		R 23 352 075		R 21 839 543	
Total cost / meter	m	R 1 079		R 1 336		R 2 713		R 1 315		R 1 479		R 1 434		R 435	
Total cost / meter (Total average)	m	R 1 447													



As can be seen in the table, company B is charging an average cost of R1 447 per meter of piping, while company D (which was appointed through a competitive tender process) was charging only R435 per meter.

It is important to note that no significant concerns were raised regarding the quality of the delivered infrastructure, but the above considerations formed part of our value-add focus. The indicated project management times and charge-out rates seem to be excessive and can thus point to overpricing and potential fraud.

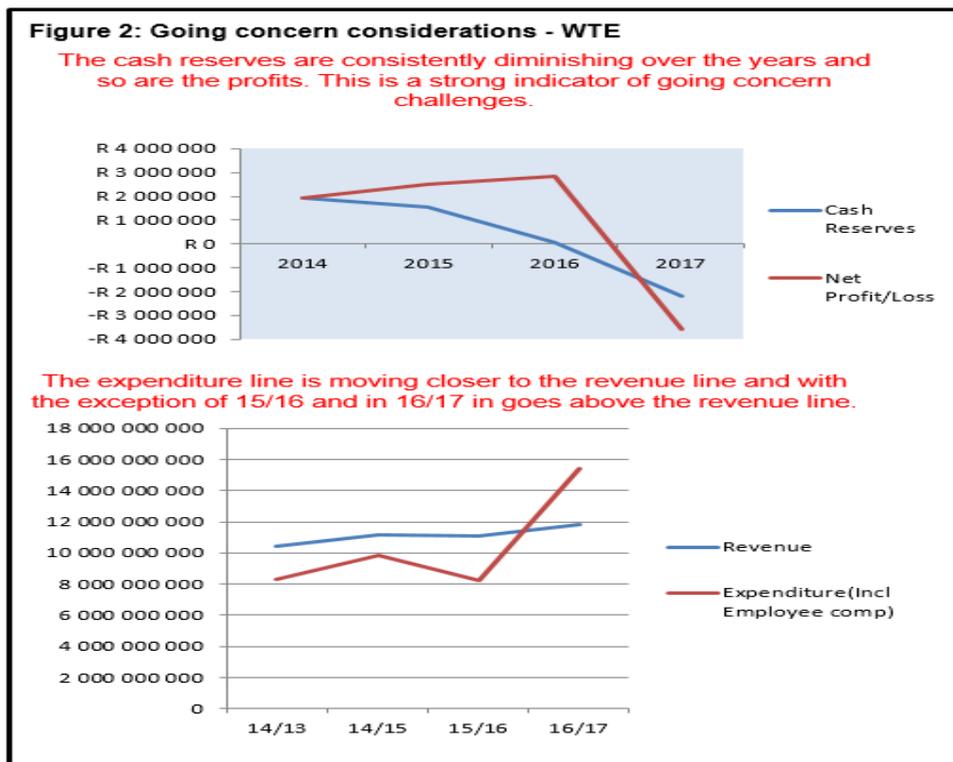


8. Financial viability

WTE

The WTE incurred a net deficit of R3,6 billion and saw a decrease in the generated cash flow of R2,2 billion in 2016-17. The WTE further incurred a bank overdraft of R2,7 billion during the year ended 31 March 2017. The figure below shows the diminishing cash reserves at the WTE over a period of four years.

Figure 8: Going concern considerations at the WTE



The WTE committed to the National Treasury to reduce the overdraft of R2,7 billion with the SARB by R748 million by 31 March 2018. As at 30 September 2017, the overdraft balance with the SARB was R1,9 billion, and R1,6 billion as at 28 February 2018.

Although the overdraft balance has decreased in line with the commitments made to the National Treasury, we noted that the payables as at 30 September 2017 had also increased by R1 billion – the WTE is therefore not honouring its short-term liabilities. Furthermore, we noted from engagements with management that there are outstanding invoices from the TCTA of R1,4 billion as at 28 February 2018. If the increased payables and the TCTA unaccounted invoices are taken into account, the WTE did not actually meet the commitment made to the National Treasury to effectively reduce the overdraft with the SARB by R748 million.

The bank overdraft was mainly caused by budgeting for the collection of old debt from municipalities and water boards (R2,9 billion), with the WTE not putting in place more stringent measures to collect the amounts. When the collection of these amounts was not realised, the WTE did not timeously revise their expenditure downwards. Furthermore, the WTE incurred expenditure

on projects not budgeted for and made payments on projects not within the mandate of the WTE, as reflected in the tables below.

Table 12: Projects paid but not budgeted for

Project	Amount (excl. VAT) R'000
Mopani emergency project	98 390
SAP licences *	250 000
Drop a block	174 078

* The full commitment for the SAP licences is R450 million (excl. VAT)

Table 13: Expenditure paid outside the mandate of the WTE

Project	Amount (excl. VAT) R'000
War on leaks	1 218 445
KZN drought relief programme	21 083

The cash flow to debt ratio is currently 0,08%:1, which clearly indicates that the WTE would not be able to utilise all its cash flows from operations to cover this debt in the foreseeable future.

Construction unit of the WTE

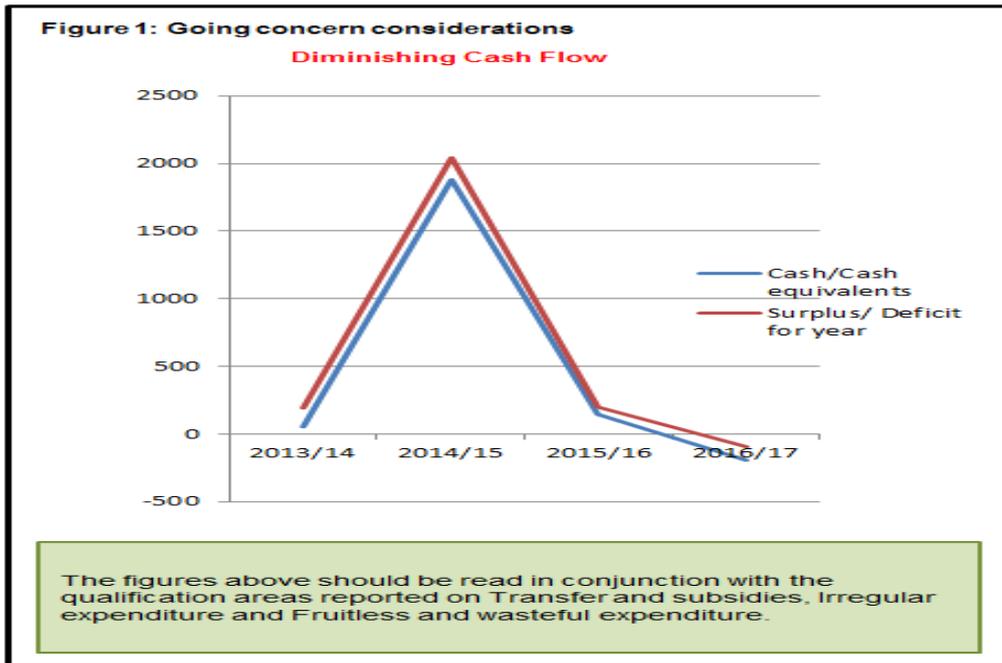
We did not specifically audit the capacity of the internal construction unit versus the utilisation thereof but noted that there has been a decline in the operational activity of the unit due to construction work being awarded to implementing agents and external service providers. Due to budget constraints, certain projects had to be halted, which resulted in fruitless and wasteful expenditure on idle labour costs. Price escalations will further affect the costs of the projects once the funding is made available, which will result in actual expenditure exceeding the budgeted costs.

We further noted that the basis for allocating the excessive overhead costs to individual projects was inappropriate, due to the reduced number of projects undertaken by the unit. This resulted in excessive overhead costs allocated to individual projects as a direct result of the reduced operational activity of the unit. The Mopani emergency project is a case in point in this regard.

DWS

The DWS incurred a net loss of R89 million, had an overdraft of R194 million and incurred unauthorised expenditure of R406 million during the year ended 31 March 2017. The figure below shows the diminishing cash flow of the DWS over a period of four years.

Figure 9: Going concern considerations at the DWS



Prior year unauthorised expenditure has still not been approved by Parliament and might still need to be refunded to the national revenue fund, while the DWS is likely to incur additional unauthorised expenditure by 31 March 2018.

The war-on-leaks project was not budgeted for in 2017-18, but the revised APP has been adjusted to include war on leaks. Funds had to be reprioritised for the war-on-leaks project, thus affecting the completion of other projects and service delivery. A prepayment of R524 million was made for war on leaks without an allocated budget and still needed to be allocated to expenditure.

Concerns regarding the cash flow of the DWS

The table on the following page shows the cash flow forecast of the DWS for February 2018 and March 2018 as presented at an audit committee meeting on 13 February 2018.

Table 14: Cash flow forecast

Details	February forecast R'000	March forecast R'000
Opening bank balance	(625 251)	869 321
Drawings – voted funds still to be received	2 166 900	612 965
Salaries-15th estimates	(92 000)	(92 000)
Salaries-31st estimates	(17 000)	(17 000)
Transfers: 5B RBIG	-	(502 780)
Transfers: 5B WSIG	-	(801 035)
Invoices on hand as at 31 January 18	(452 683)	
Invoices on hand as at 31 January 18	(110 645)	
Cash balance estimate	869 321	69 471

The DWS indicated the following as some of the factors that led to the monthly overdrafts:

- Payment of ‘unavoidable and unanticipated’ invoices.
- Payment of war-on-leaks invoices to the value of R524 million that was made without an approved budget and is currently in a suspense account to be allocated to programme 1 for expenditure on war on leaks in the revised APP.
- Absorption of the 2016-17 overdraft balance.
- Condonement of unauthorised expenditure of the prior year still outstanding.
- Payment of 2016-17 accrued invoices.

Accruals and payables amounting to R1,015 billion were paid up to 30 September 2017, by using current year funds.

Table 15: Accruals and payables at 30 September 2017

Accruals and payables balance as at 31 March 2017 R'000	Accruals and payables balance as at 30 September 2017 R'000	Accruals and payables paid at 30 September 2017 R'000
1 435 234	420 162	1 015 072

To indicate the debt owed to implementing agents, specifically the water boards, the table below shows the amounts included in the water boards’ financial statements for the year ended 30 June 2017 with regard to DWS and WTE receivables totalling R848 million.

Table 16: Debt owed to water boards

	Amatola R'000	Bloem R'000	Lepelle R'000	Umgeni R'000	Rand Water R'000	Magalies R'000	Mhlathuze R'000	Sedibeng R'000
Debt	R8 553	R72 384	R524 816	R4 160-	R88 423	R92 719	R57 245	-



Drought relief

In the estimates of national expenditure for 2016-17 specific to vote 36: water and sanitation, there is only one reference to drought, namely spending on providing bulk water as a result of deteriorating water quality in the Vaal catchment management area due to drought and flood conditions.

Within the DWS, there is no estimates of national expenditure budget allocation for drought intervention, as the National Treasury's Framework for Managing Programme Performance Information requires budgets to be developed in relation to inputs, activities and outputs, while the aim is to manage performance towards achieving the outcomes and impact. Interventions cannot form part of outcomes and impact, but it needs to be kept in mind that government interventions can also have unintended consequences.

The Division of Revenue Act (Dora), through the Water Services Infrastructure Grant (WSIG) (a total grant amount of R3.2 billion), supports drought-related projects. The indirect portions of the WSIG, Regional Bulk Infrastructure Grant (RBIG) and municipal water infrastructure grant transfers are being utilised at the DWS to re-allocate funds to assist with drought interventions. The requirements of Dora for the re-allocation of funds are being followed (budget process per programme).

As indicated above, there is no performance indicator with reference to drought relieve spending due to interventions, and we could not compare any reports to a specific budget in this regard. The only drought relieve expenses that could be distinguished separately were the Richards Bay desalination plant and some expenditure relating to water tanks for the 2016-17 year.

During the current year, we requested a list of boreholes drilled, but the DWS could not provide the information as it did not have proper systems and controls to distinguish between the expenditure incurred during the normal course of business and those specifically related to these interventions.

Revision of 2017-18 APP

The highlighted challenges in financial viability had a noticeable impact on service delivery where the DWS reduced its targets for programme 3: infrastructure development due to a lack of funds. The table below illustrates the extent of the reduced targets for programme 3.

Table 17: Adjusted targets for programme 3

Programme performance indicator		Medium-term targets for 2017-18	
		Published targets	Adjusted targets
Strategic objective 2.3: adequate water availability and enhanced provision of sustainable and reliable water supply and sanitation services			
2.3.1	Number of bulk raw water projects ready for implementation	5	4
		Tzaneen, Clanwilliam, Nwamitwa, Umzimvubu, ORWRDP 2E, 2F	Tzaneen, Clanwilliam, Nwamitwa, Umzimvubu
2.3.2		4	1

Programme performance indicator		Medium-term targets for 2017-18	
		Published targets	Adjusted targets
	Number of bulk raw water projects under construction	Tzaneen, Clanwilliam, ORWRDP 2D, Hazelmere	Hazelmere
2.3.5	Number of mega regional bulk infrastructure project phases completed	3	0
		OR Tambo King Sabata Dalindyebo (KSD) water supply Phase 2 of 2	
		Jozini (Pongolapoort) BWS	
		Sebokeng WWTW Phase 1 of 2	
2.3.7	Number of large regional bulk infrastructure project phases completed	26	16
2.3.9	Number of small regional bulk infrastructure project phases completed	20	10
2.3.10	Number of small ACIP projects under construction	55	1
2.3.11	Number of small ACIP projects completed	55	1
2.3.13	Number of small WSIG projects completed	41	30
Strategic objective 2.4: safe, reliable and sustainable water supply and water and sanitation services infrastructure			
2.4.2	Percentage of projects completed as per AMP aligned maintenance plan (planned maintenance)	90% of projects in the initial AMP (i.e. 540 projects)	90% of a revised AMP (i.e. 390 projects)
Strategic objective 3.4: job opportunities created that expand economic opportunities for historically excluded and vulnerable group			
3.4.1	Number of job opportunities created through implementing infrastructure projects	2 800	600

The following indicators were included in the final draft APP for 2018-19 with a zero target:

- Number of small ACIP projects under construction
- Number of small ACIP projects completed
- Number of small WSIG projects completed
- Number of bulk raw water projects completed
- Number of kilometres of conveyance systems rehabilitated per annum
- Number of resource-poor farmers financially supported to enhance access to water
- Number of tanks installed to harvest water for food production and other household productive use

9. Status of internal controls within the DWS

The status of records review is aimed at engaging accounting officers in conversations that are insightful, relevant and aimed at having an impact. It involves proactive follow-up procedures through which financial and non-financial information (internal and external reports/documents as well as discussions with senior managers) is considered to provide relevant early warning information to management on key audit matters and risks that require their intervention to drive favourable audit outcomes, through the following objectives:

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and a consequential regression in audit outcome.
- 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 matters that add value in putting measures and action plans in place well in advance to mitigate risks.

Below is an overview of these focus areas, which are discussed in more detail in the rest of this section.

Figure 10: Overview of feedback linked to the focus areas for the DWS



Good	The basics are in place as no concerns were identified.
Concerning	Concerns were identified.
Intervention required	Level of concern identified is an indicator that the accounting officer needs to urgently intervene to prevent audit failure.

Financial management

The action plans tabled to the audit committee do not address the qualification areas for the main account relating to fruitless and wasteful expenditure, transfers linked to direct and indirect grants, and irregular expenditure for 2016-17. This is mainly due to the appeals that were lodged, and management focusing on these and not on the implementation of proper actions to address the qualification areas.

The audit action plan for the WTE was initially not endorsed by top management, as it was not reviewed/validated by the internal audit function and the timelines within the plan were towards the end of the financial year. The action plan has since been tabled at a top management meeting in February 2018. Through inspection of the action plan and engagements held with management, no adjustments were made in the interim financial statements, because the matters which were qualified were under appeal by the department. The audit thereof will be delayed and management might not have sufficient time to ensure complete disclosure of prior year irregular as well as fruitless and wasteful expenditure.

The audit committee has also not yet approved the overall action plans to address the AGSA's findings emanating from the 2016-17 audit. This may result in repeat findings and/or modifications in the current year.

Although management has processed adjustments to significantly reconcile the financial liability of the WTE to the financial records of the TCTA, we noted various concerns when reviewing the adjustments, which management still needs to address, such as the following:

- The adjustments were not reviewed by management.
- VAT was accounted for on non-vatable transactions with the TCTA.
- Amounts were capitalised to assets under construction without engineer's certificates and/or supporting invoices.

Management has embarked on a process to review all transactions in all accounts related to assets under construction to address the qualification. The process is extensive, and involves tracing each transaction to invoices, determining whether the costs qualify for capitalisation and whether the project has been completed or not. In many instances, information still has to be sourced from regional offices. Once the information has been received and reviewed by head office personnel, the necessary adjustments need to be processed. Once the adjustments have been processed, the next step will be to assess the remaining balances for impairment. To date, no adjustments have been made to the financial records. Thus, the necessary reconciliation of assets under construction to individual projects has not been performed. Considering the volume of transactions and documents to be reviewed and adjustments to be processed, a risk exists that the current process to address the prior year qualification might not be completed in time for the preparation of the 2017-18 financial statements.

The Mopani emergency project (portion undertaken by the WTE's construction unit) was reported in the prior year as fruitless and wasteful expenditure, due to the project being halted and the



unavailability of funds. For the 2017-18 financial year, fruitless and wasteful expenditure of approximately R17 million had been incurred as at 31 December 2017, mainly due to idle labour costs.

Similarly, the Clanwilliam dam project costs by the WTE's construction unit will also be reported as fruitless and wasteful expenditure due to these idle labour costs. Costs incurred up to 31 December 2017 on the project amounted to R9,5 million. These amounts, as well as costs to be incurred for the remainder of the financial year, should be accounted for as fruitless and wasteful expenditure, as these labour costs are incurred while the project has been halted.

With regard to the SAP licences, management continues to disagree that the costs for the elapsed period of the five-year licences are fruitless and wasteful expenditure. Management is yet to provide evidence that the SAP licences acquired have been deployed and used by any of its intended beneficiaries. Approximately R90 million in fruitless and wasteful expenditure will be incurred in this regard in the 2017-18 financial year.

Through engagements with the chief director: Revenue Management, there has been some improvement in the collection of debt relating to the current year, but there has not been any movement with regard to the old debt. After the previous minister's notices on water cuts, numerous meetings were held with municipalities and some payment arrangements were entered into; however, the majority of customers are disputing the amounts owed. The WTE did not budget for the recovery of this old debt.

Performance management

The tabled APP for 2016-17 is incomplete, as the targets for the war-on-leaks project were not included in the APP or reported on, while expenditure of R1 218 445 000 was incurred by the WTE in this regard. During engagements in 2017-18, it was indicated that the APP has been revised to include the war on leaks in programme 1, while targets in programme 3 were significantly reduced (please also refer to section 8 of this report). Our office received the revised APP on 18 January 2018. Evidence of approval by the previous minister was also received, but the revised APP was not tabled in Parliament.

Procurement and contract management

(Please also refer to the subsections pertaining to implementing agents and SCM.)

The DWS and the WTE have not yet finalised their update of the SCM policy to incorporate the new Preferential Procurement Regulations, as this process is still underway. The risk is that the expenditure may be exposed to non-compliance as these regulations became effective on 1 April 2017.

The systems of internal control are inadequate as they fail to identify irregular expenditure, especially relating to implementing agents. The practice was for implementing agents to use the emergency basis for procurement on all expenditure relating to ministerial directives. The DWS has, however, developed and approved a circular, which includes the SCM business process to guide the implementing agents when implementing DWS projects going forward. This aims to ensure that future contracts entered into at implementing agents follow correct SCM processes.



However, the DWS must still review all of its old contracts to ensure that all irregular expenditure incurred has been completely identified and reported as such.

Compliance management

Consequence management is not adequately implemented by the DWS, as many cases of transgressions relating to irregular and fruitless and wasteful expenditure were only followed up by the DWS upon further scrutiny by Scopa.

We assessed the progress made by management to investigate irregular expenditure reported in the previous year. Although some investigations have been undertaken to address the reported irregular expenditure, the actual outcome of the process involves only issuing final written warnings despite the severity of certain of the transgressions.

Key officials of the WTE, including those charged with governance, are aware of allegations, ongoing investigations and completed investigations relating to fraud. Through inspection of the allegations register, we noted that corrective action has not been taken for completed investigations relating to the current and prior years. This will result in possible non-compliance in the area of consequence management.

HR management

Please refer to section 6 for matters relating to HR and concerns relating to instability at the executive/top management level of the DWS. Of the 11 executive positions including that of DG, three critical positions were vacant and two suspensions during the year created instability in top management. There is a vacancy at CFO level, due to the resignation of the CFO of the WTE in December 2017. The position of DG has been vacant since the previous DG was suspended in July 2017 and then transferred to the Department of Cooperative Governance and Traditional Affairs in January 2018. In addition, the DDG position in the programme management unit is also vacant due to a resignation.

Within the HR environment, numerous findings were raised in the 2016-17 audit, which poses questions regarding the effectiveness of internal controls surrounding HR matters.

Oversight and monitoring

There is inadequate monitoring and oversight responsibility as our prior year recommendations have not been fully implemented due to inadequate action plans.

Monitoring and oversight of budget controls and financial spending remains a concern, as the DWS and the WTE keep incurring expenditure without having funds available (also refer to section 8 of this report), resulting in unauthorised expenditure and pressure on the financial health of the DWS.

This was made even worse by expenditure incurred in 2016-17 on multi-year projects that had not been budgeted for, specifically relating to the Mopani project and SAP licences, as well as overspending on the bucket eradication programme, none of which have been condoned.



Financial health

The DWS reflected an overdraft of R757 million in its interim financial statements ended 30 September 2017. The DWS will most likely incur additional unauthorised expenditure and will have a bigger overdraft by 31 March 2018. The DWS reduced its targets in the adjusted APP as a result of budget constraints.

This may have an impact on current planned service delivery achievement, as 71 slow-moving projects relating to the regional bulk infrastructure grant (RBIG) will be stopped. The water services infrastructure grant (WSIG) (100%) will be utilised to pay accruals relating to this grant. All 52 new projects relating to the accelerated capital infrastructure plan will be stopped and only three in KwaZulu-Natal will be finalised. This raises a serious concern about the extent to which service delivery will be achieved in 2017-18 (also refer to section 8 of this report).

The WTE's financial health regressed in the 2016-17 financial year. The WTE incurred a net loss of R3,6 billion and had an overdraft of R2,7 billion. Based on the review of the interim financial statements for the period ended 30 September 2017, the WTE managed to decrease the overdraft amount slightly, but management still needs to put in place stringent measures to curb and reduce expenditure to reasonable proportions to decrease the overdraft considerably, and to move from a deficit to a surplus. This has also placed strain on the TCTA, as some TCTA invoices amounting to approximately R1,3 billion were not timeously paid.

Based on the audit evidence obtained during the 2016-17 audit, we concluded that a material uncertainty existed relating to events or conditions that individually or collectively cast significant doubt on the WTE's ability to continue as a going concern. As such, the WTE was required to include a going concern note to address the negative mechanisms and recovery plans, and this was included as an emphasis of matter in the audit report.

IT management

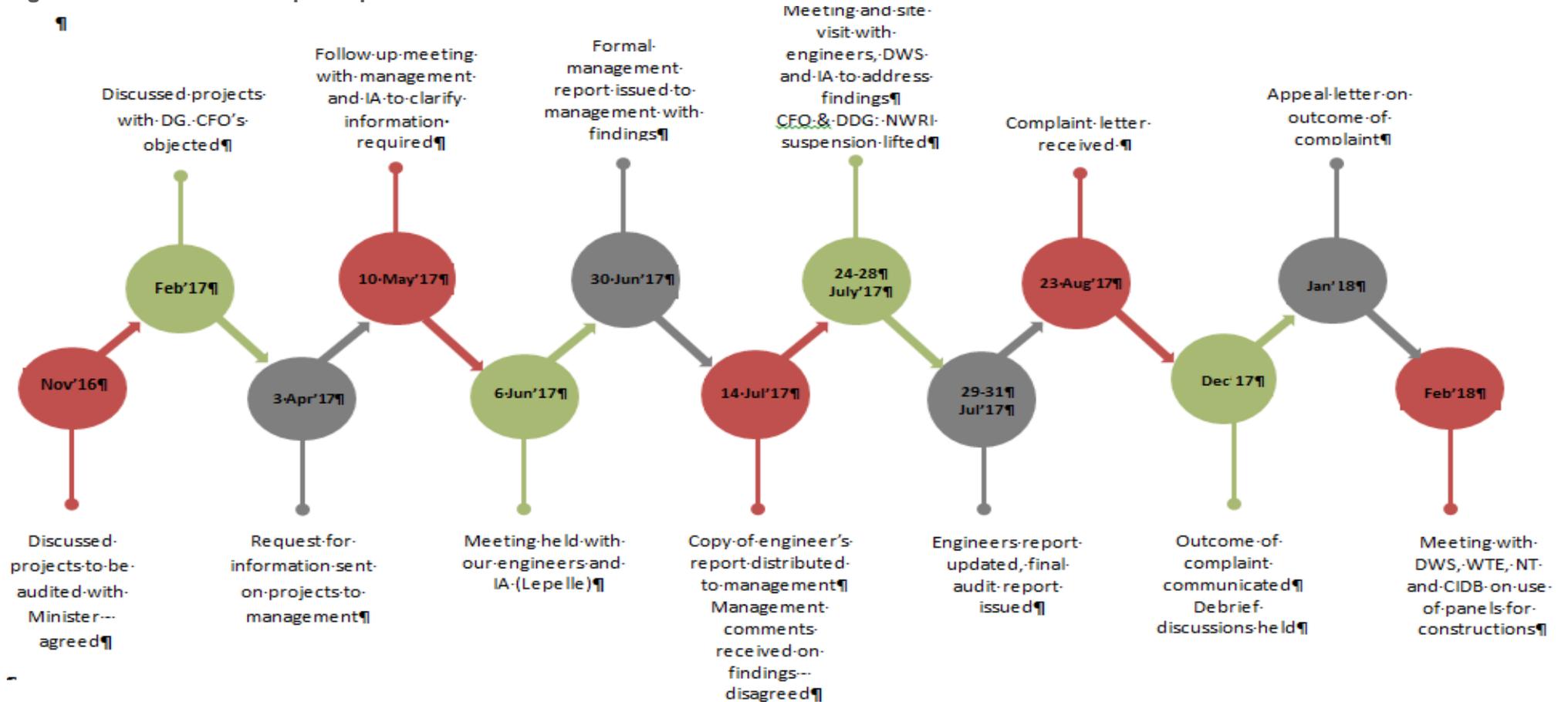
Based on previous reports for the last year, the IT governance framework was not fully implemented as the IT steering committee was not functional, due to committee members not honouring the attendance of scheduled meetings. Minimal progress has been made in this regard in the current year.



10. Feedback on the complaint process regarding the audit reports

Timeline of the complaint process

Figure 11: Timeline of complaint process



Outcomes of the complaint process

The conclusions in both audit reports were found to be supported by sufficient and appropriate audit evidence, and were in compliance with our audit methodology. The conduct of the audit team was also found to be in accordance with the adopted codes of conduct and the rules of engagement.

The complaint on the WTE report was the second consecutive complaint on the audit opinion since the 2015-16 audit outcomes. The WTE's CFO and DDG: Infrastructure were suspended during April 2017 and returned on 28 July 2017, when they immediately noted concerns relating to the audit findings despite not having been part of the audit process. The DWS re-appealed the outcomes of the complaint in January 2018 and this process is still ongoing.



11. Acronyms and abbreviations used in this report

AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
APP	annual performance plan
CFO	chief financial officer
CIDB	Construction Industry Development Board
DBAC	departmental bid adjudication committee
DDG	deputy director-general
DG	director-general
DMA	Disaster Management Act
Dora	Division of Revenue Act
DPSA	Department of Public Service and Administration
DPW	Department of Public Works
DWS	Department of Water and Sanitation
HR	human resources
IT	information technology
ITC	information technology committee
NWRI	National Water Resource Infrastructure
PFMA	Public Finance Management Act
RBIG	regional bulk infrastructure grant
SARB	South African Reserve Bank
SCM	supply chain management
Scopa	Standing Committee on Public Accounts
Sita	State Information Technology Agency
SMS	senior management service
TCTA	Trans Caledon Tunnel Authority
VAT	value-added tax
WSIG	water services infrastructure grant
WTE	Water Trading Entity

Waterboard slides as presented to the portfolio committee on Water Affairs and Sanitation



2016-17 PFMA -
Water board consolic