

2 REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON VOTE NO 42 DEPARTMENT OF WATER AND SANITATION

REPORT ON THE FINANCIAL STATEMENTS

Introduction

- 1 I have audited the financial statements of the Department of Water and Sanitation set out on pages 203 to 332, which comprise the appropriation statement, the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

- 2 The accounting officer is responsible for the preparation and fair presentation of financial statements in accordance with Modified Cash Standards prescribed by the National Treasury, the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

- 3 My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified audit opinion

Commitments

- 6 The department did not have adequate systems in place to maintain records of Regional Bulk Infrastructure Projects (RBIG) where the procurement of goods and services have been approved and/or contracted, but where no delivery has taken place at year end, which resulted in RBIG commitments being misstated by R1.4 billion for the restatement of the corresponding figure for RBIG commitments. The restatement was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence for the corresponding amounts disclosed as RBIG commitments in note 22 to the financial statements and I could not confirm the disclosure by alternative means. Consequently I was unable to determine whether any further adjustments to current year RBIG commitments stated at R36 billion in the financial statements were necessary.
- 7 The department did not have adequate systems in place to maintain records of RBIG, Municipal Water Infrastructure Grants (MWIG) and Rural Households Infrastructure Grants (RHIG) commitments where the procurement of goods and services have been approved and/or contracted, but where no delivery has taken place at year end, which resulted in RBIG, MWIG and RHIG commitments being misstated by R2 billion. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as RBIG, MWIG and RHIG commitments in note 22 to the financial statements and I could not confirm the disclosure by alternative means. Consequently I was unable to determine whether any further adjustments to RBIG, MWIG and RHIG commitments stated at R35 billion in the financial statements were necessary.

Accruals

- 8 The system of controls to maintain records of goods and services received but not yet paid for at the end of the financial year, relating to RBIG, MWIG and RHIG was inadequate and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all outstanding invoices for RBIG, MWIG and RHIG have been included in accruals. Consequently I was unable to determine whether any further adjustments to accruals stated at R1.4 billion (2014: R1.1 billion) in note 23 to the financial statements was necessary.

Qualified opinion

- 9 In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Department of Water and Sanitation as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with the Modified Cash Standards prescribed by the National Treasury and the requirements of the PFMA and DoRA.

Emphasis of matter

- 10 I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

- 11 With reference to note 21 to the financial statements, the department is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

- 12 As disclosed in note 36 to the financial statements, the corresponding figures for 2013-14 have been restated as a result of errors discovered during 2014-15 in the financial statements of the Department of Water and Sanitation at, and for the year ended 31 March, 2014.

Material underspending of the vote

- 13 As disclosed in the appropriation statement, the department had a underspending of the vote by 15% (R2.03 billion)

Additional matter paragraph

- 14 I draw attention to a matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

- 15 The supplementary information set out on pages 310 to 332 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- 16 In accordance with the Public Audit Act of South Africa (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have the responsibility to report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

- 17 I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2015:
- Programme 2: Water Sector Management on pages 36 to 50
 - Programme 4: Regional Implementation and Support on pages 51 to 74
 - Programme 5: Water Sector Regulation on page 75 to 87

- 18 I evaluated the reported performance information against the overall criteria of usefulness and reliability.
- 19 I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPPI).
- 20 I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
- 21 The material findings in respect of the selected programmes are as follows:

Water Sector Management

- 22 I did not identify any material findings on the usefulness and reliability of the reported performance information for the Water Sector Management programme.

Regional Implementation and Support

Usefulness of reported performance information

- 23 Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPPI. A total of 55% of the targets were not specific.
- 24 Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use as required by the FMPPPI. A total of 68% of the indicators were not well defined.
- 25 This was because management did not adhere to the requirements of the FMPPPI due to a lack of proper systems and processes and adequate technical indicator descriptions.

Reliability of reported performance information

- 26 The FMPPPI requires the department to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Water Sector Regulation

Usefulness of reported performance information

- 27 Performance targets must be specific in clearly identifying the nature and required level of performance as required by the FMPPPI. A total of 70% of the targets were not specific.
- 28 This was because management did not adhere to the requirements of the FMPPPI due to a lack of proper systems, processes and adequate technical indicator descriptions.

Reliability of reported performance information

- 29 The FMPPPI requires the department to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Additional matter

- 30 I draw attention to the following matter:

Achievement of planned targets

- 31 Refer to the annual performance report on pages 30 to 117 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

- 32 I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for water sector management, regional implementation and support and water sector regulation. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

- 33 I performed procedures to obtain evidence that the department has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable legislation as set out in the General Notice issued in terms of the PAA are as follows:

Strategic planning and performance management

- 34 The accounting officer did not ensure that the department maintained an effective, efficient and transparent system of internal control regarding performance management, which described and represented how the department's processes of performance planning, monitoring, measurement, review and reporting were conducted, organised and managed as required by section 38(1)(a)(i) and (b) of the PFMA.

Annual financial statements

- 35 The financial statements submitted for auditing were not supported by full and proper records as required by section 40(1)(a) of the PFMA. Material misstatements of commitments, accruals, irregular expenditure, immovable tangible assets and contingent liabilities identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

- 36 Some goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of Treasury regulation 16A6.4.
- 37 The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and Treasury Regulations 16A6.3(b).

Human resource management and compensation

- 38 Some employees were appointed without following a proper process to verify the claims made in their applications in contravention of Public Service Regulation 1/VI/D.8.

Expenditure management

- 39 Effective steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

Asset management

- 40 Proper control systems for the maintenance of the asset register and safeguarding of assets were not implemented, as required by section 38(1) (d) of the PFMA and Treasury Regulation 10.1.1(a) and 10.1.2

Internal control

- 41 I considered internal control relevant to my audit of the annual financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report

Leadership

- 42 There was ineffective review and monitoring of controls in place to ensure, accurate and valid financial and performance information reported

- 43 There was inadequate monitoring of the performance of the system of internal controls regarding procurement and contract management to prevent irregular expenditure.

Financial and performance management

- 44 Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting. The poor record keeping for RBIG and MWIG commitments and accruals was also affected by the poor internal controls in Municipalities.
- 45 A lack of regular review and monitoring resulted in non-compliance with laws and regulations.

Governance

- 46 Actions are not taken in a timely manner to address the risks relating to the achievement of complete and accurate financial and performance reporting as well as compliance with laws and regulations.

Other reports

Investigations completed during the year

- 47 Several investigations were conducted by the internal audit unit at the request of the accounting officer and the Minister arising from allegations against officials of the department. The investigations resulted in recommendations for disciplinary and/or criminal proceedings to be instituted against the department officials concerned.

Investigations in progress

- 48 Several investigations are being conducted by the internal audit unit at the request of the accounting officer and the Minister arising from allegations against officials of the department.

Performance audit

- 49 There is a performance audit to evaluate the effectiveness of the basic water infrastructure programme in progress at the department. The audit is still on-going.

Auditor-General

Pretoria

31 July 2015

