



AUDITOR-GENERAL
SOUTH AFRICA



17 May 2017

Auditing to build public confidence

Briefing to the Portfolio Committee on Water and Sanitation Review of the 2017-18 Annual Performance Plan

Reputation promise/mission

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

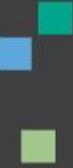
Purpose of the briefing and Index



To provide the Portfolio Committee (PC) with audit insights on the interim review of the Department of Water and Sanitation (DWS) (inclusive of Water Trading Entity (WTE)) draft annual performance plan (APP) in order to add value to oversight.

Index

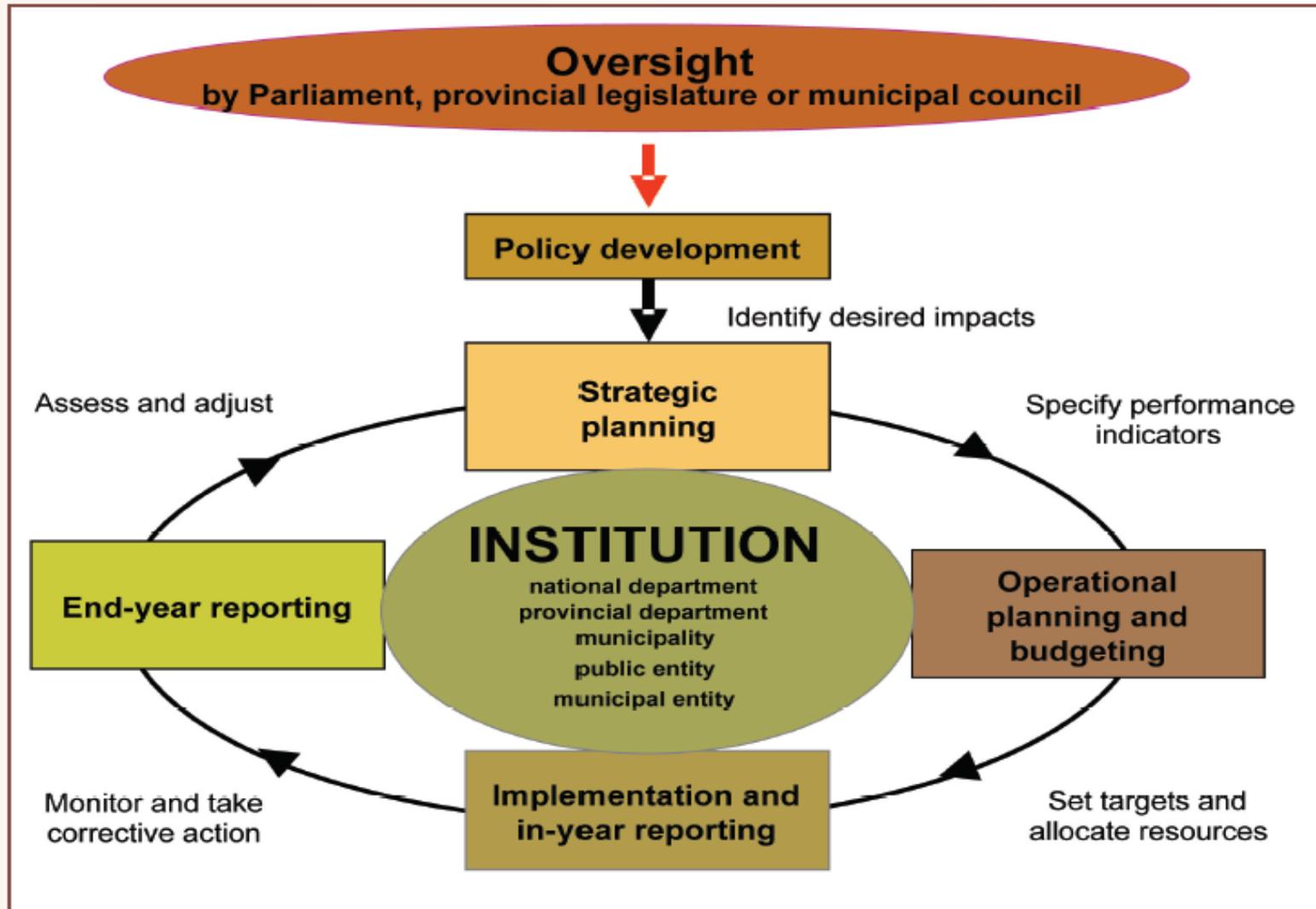
1. Overview of the performance reporting process
2. Audit outcomes of the portfolio
3. Annual Performance Plan (APP) 2017/18 review of DWS
4. Overview of key findings on the review
5. DWS Budget analysis
6. Key matters for noting
7. AGSA improved audit methodology



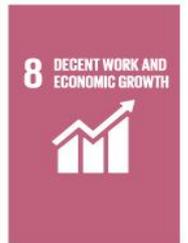
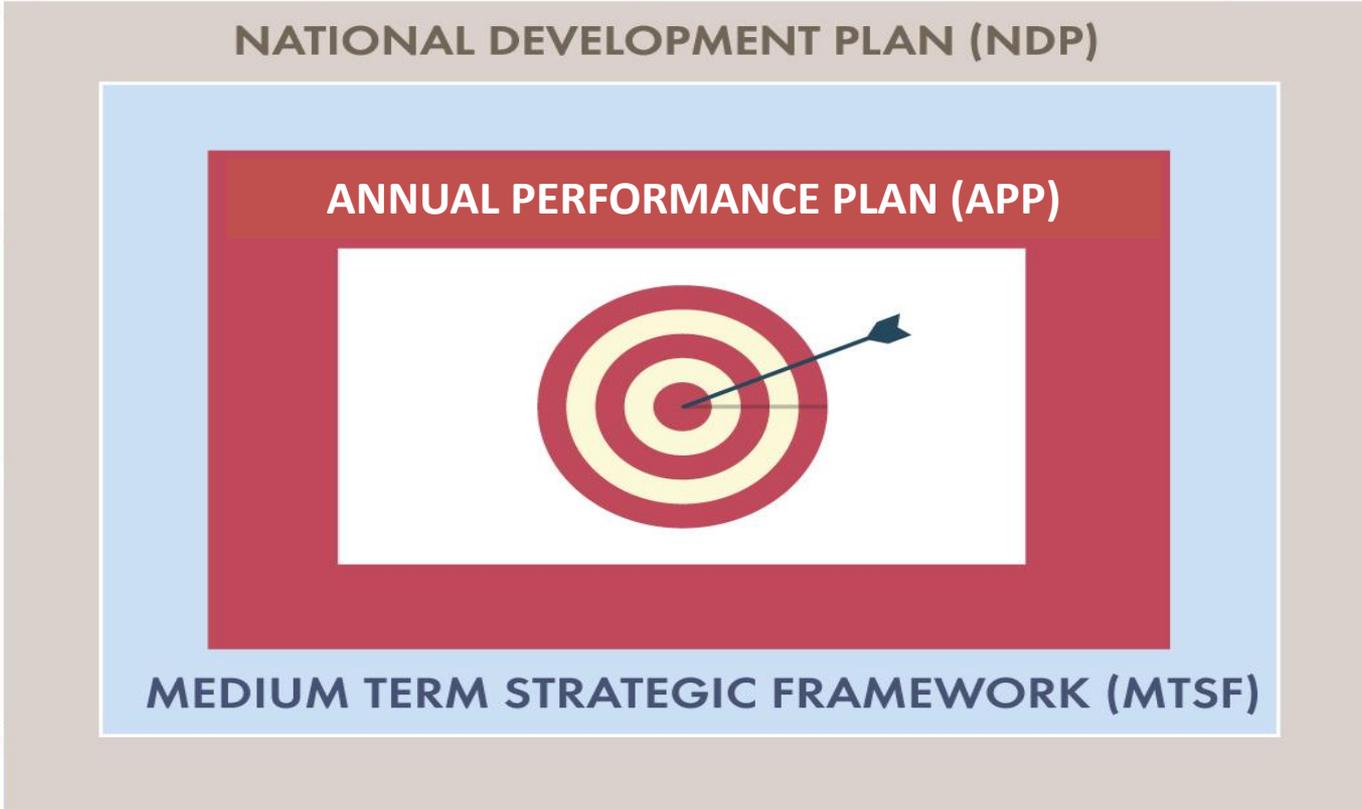
1

Overview of the performance reporting process

1. Overview of the performance reporting process



1. Overview of the performance reporting process (cont.)



1. Overview of the performance reporting process (cont.)

National Development Plan:

The point of departure in planning.

Provide a fuller picture by implementing the value chain approach in planning and auditing.



Too few people work



Infrastructure is poorly located, inadequate and under-maintained



The economy is unsustainably resource intensive



Public services are uneven and often of poor quality



South Africa remains a divided society.



1

Quality of school education for black people is poor

<input type="checkbox"/>	Excellent
<input type="checkbox"/>	Very good
<input type="checkbox"/>	Good
<input type="checkbox"/>	Average
<input checked="" type="checkbox"/>	Poor

2

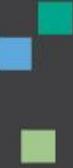
Spatial divides hobble inclusive development

3

The public health system cannot meet demand or sustain quality

4

Corruption levels are high

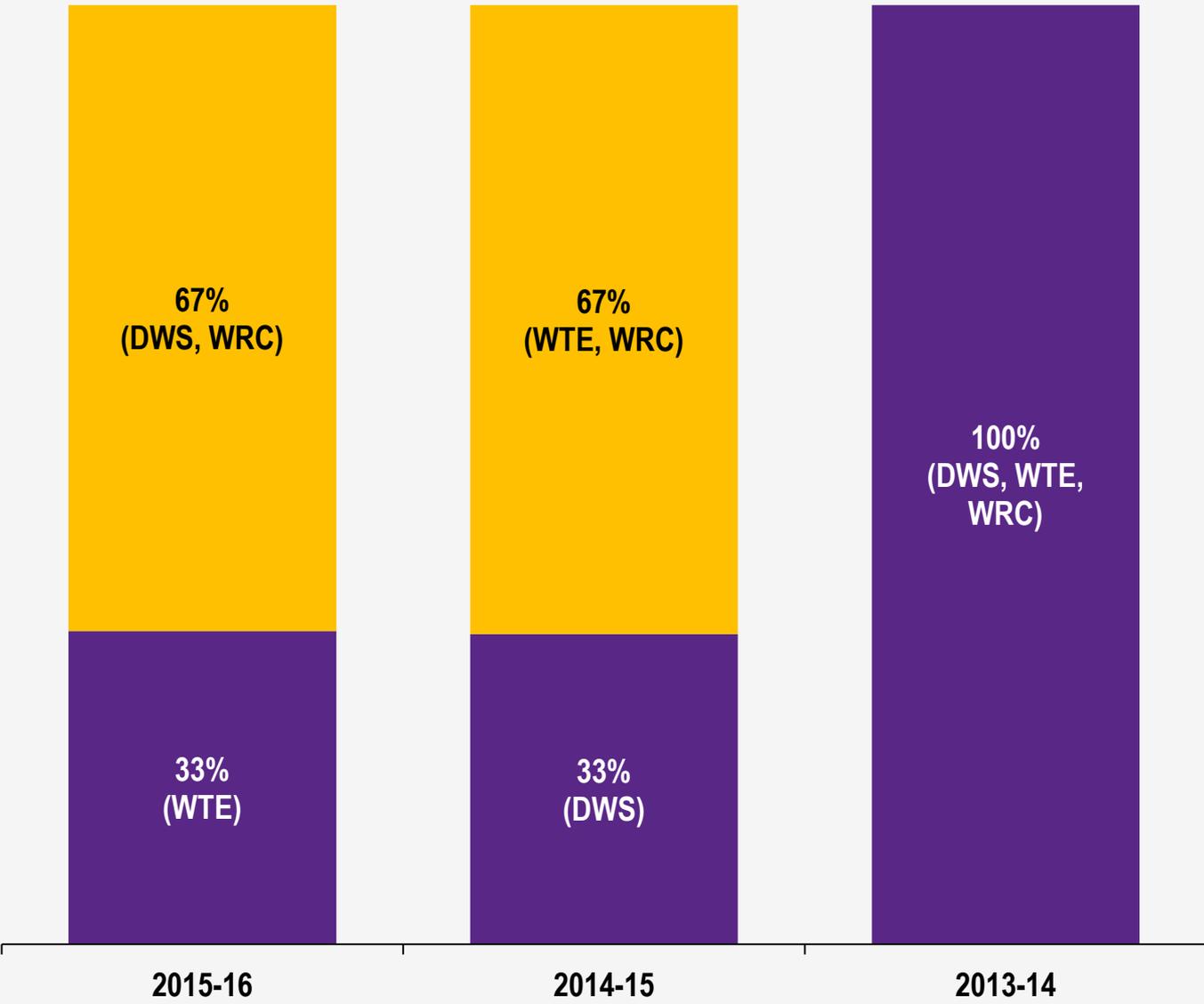


2

Audit outcomes of the portfolio

Audit outcomes over three years – Water and Sanitation portfolio

2015-16
PFMA



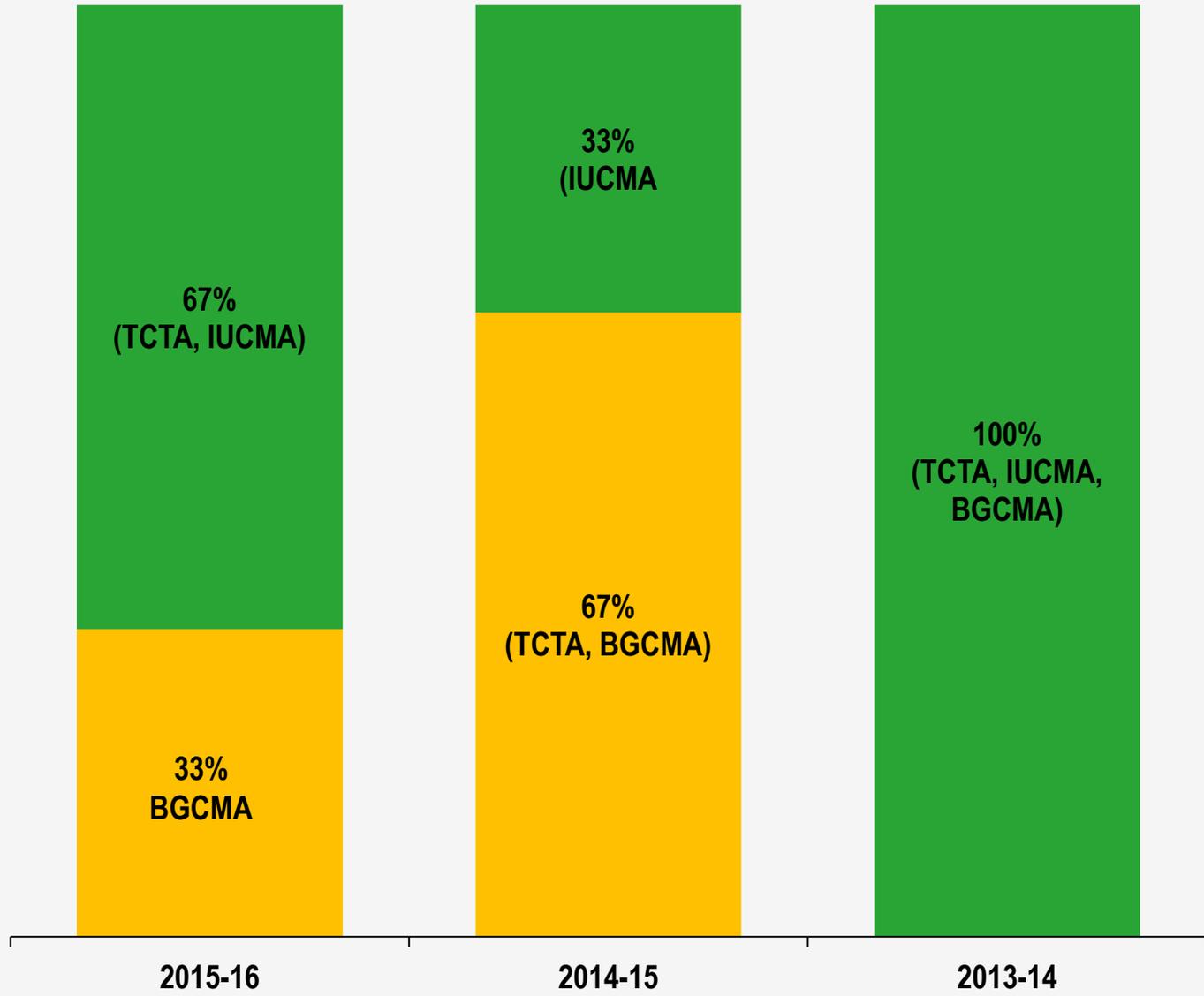
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding



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Audit outcomes over three years – Water and Sanitation portfolio [Section 4(3) audits – not audited by the AGSA]

2015-16
PFMA



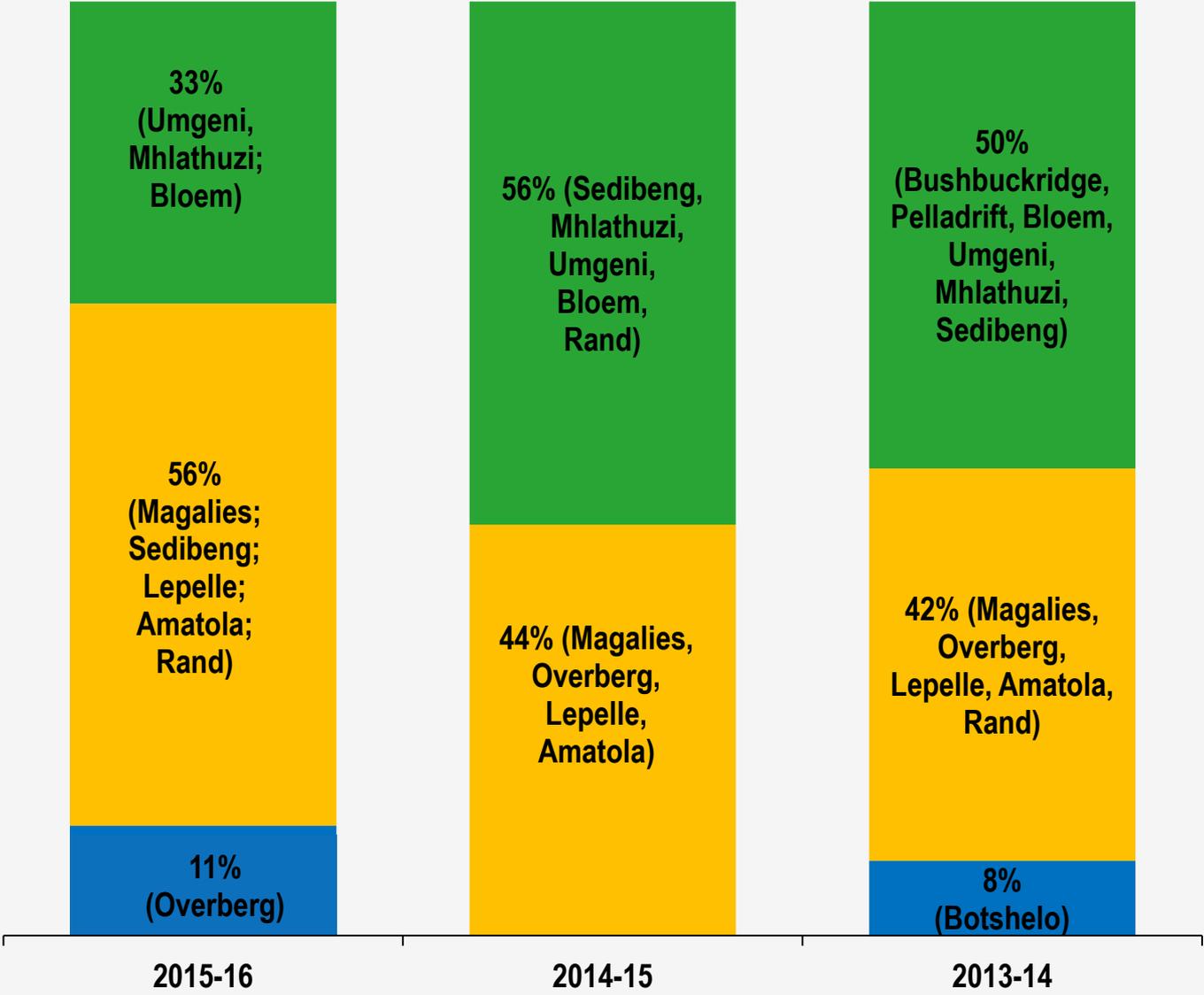
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Audit outcomes over three years – Water Boards

2015-16
PFMA



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



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3

Annual Performance Plan (APP) 2017/18 review for DWS



Scope of the 2017/18 APP review

- The interim review provides an early warning where concerns with regards to the measurability and relevance of planned indicators and targets are identified
- The interim review does not entail the performance of detailed procedures where underlying systems and supporting documentation are inspected to give assurance on the verifiability of indicators and targets
- The interim review is only performed on a selection of significant programmes

3. APPs 2017/18 review of DWS (cont.)

Scope of the 2017/18 APP review

Review process

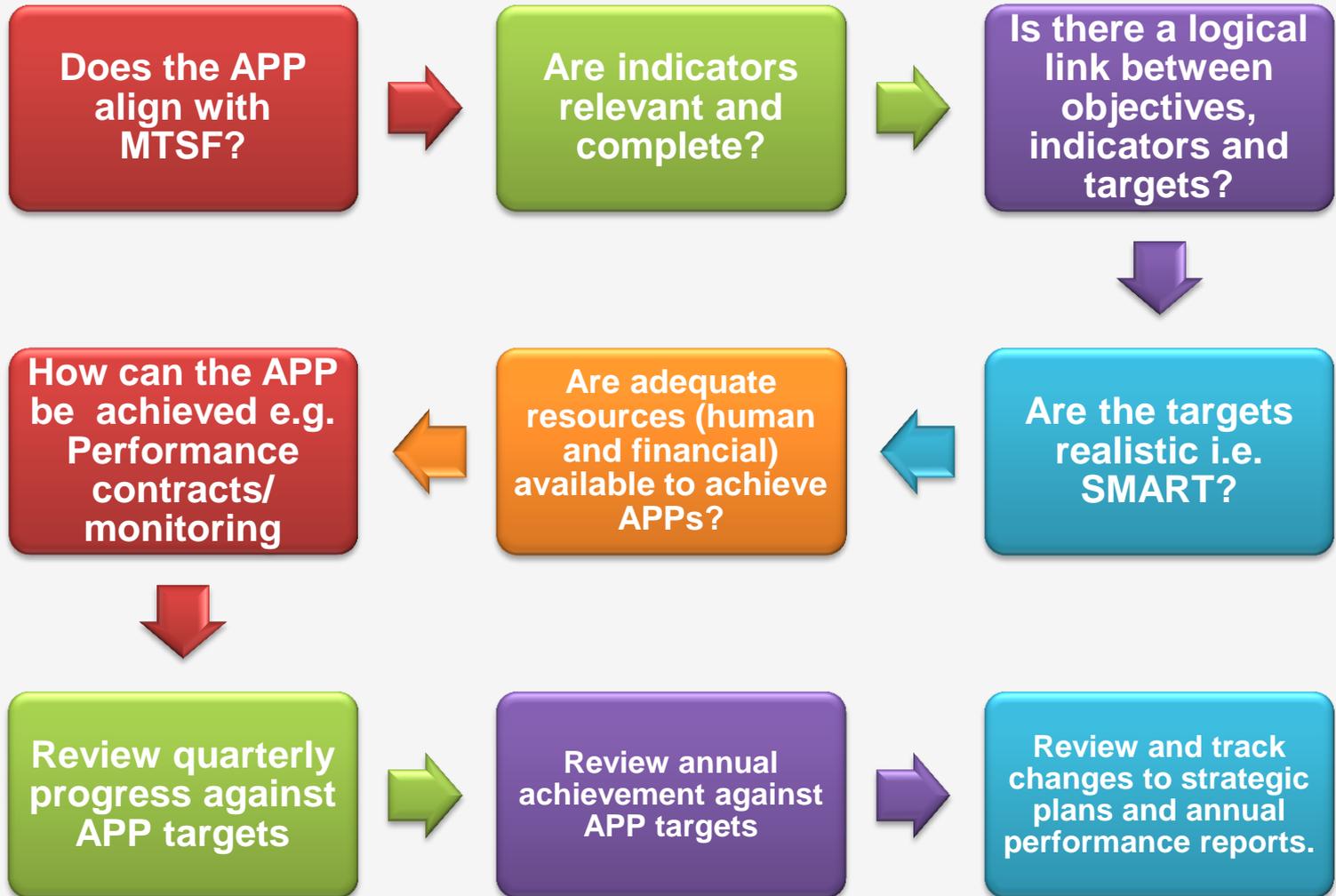
- Assessed the process followed by departments to prepare and submit strategic plans and APPs.
- Assessed the **measurability and relevance** of the final draft indicators and targets planned for selected programmes

Reporting

- Findings from the review are communicated in the 2016-17 interim management report to enable changes to be made.
- Findings relevant to the interim review do not have an impact on the audit conclusion on usefulness or reliability of the selected programmes for the PFMA 2016-17 year end audit.

3. APPs 2017/18 review of DWS (cont.)

Key considerations when reviewing the APP



3. APPs 2017/18 review of DWS (cont.)

Criteria used to assess the draft APP

Measurability of indicators and targets

Indicators are well-defined

Well-defined = clear, unambiguous definition so that data will be collected consistently and will be easy to understand and use.

Indicators are verifiable

Verifiable = it must be possible to validate the processes and systems.

Targets are specific, measurable and time-bound.

Specific = the nature and the required level of performance can be clearly identified

Measurable = the required performance can be measured

Time bound = the time period or deadline for delivery is specified

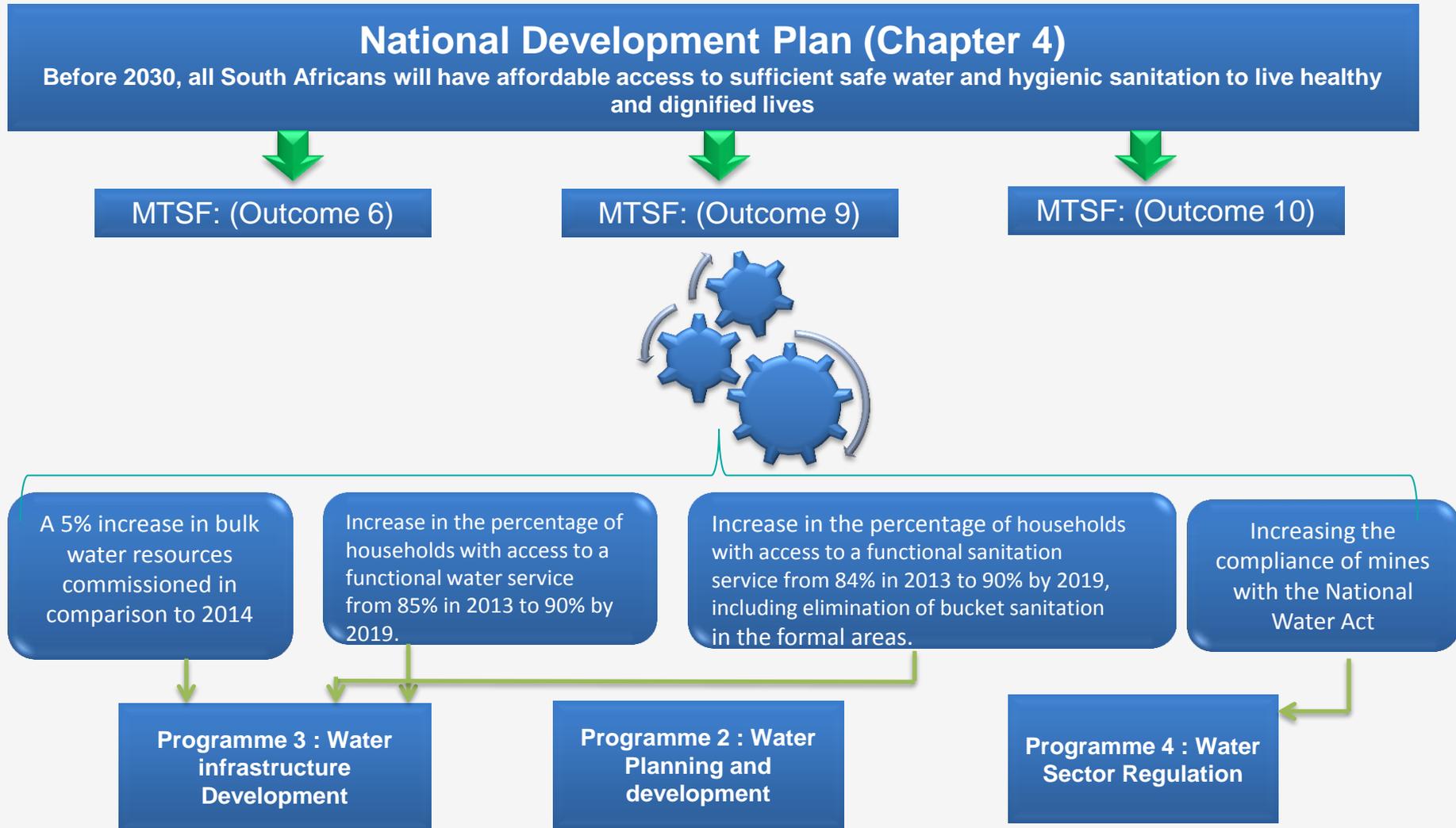
Relevance of indicators and targets

Indicators and targets are relevant to the mandate and realisation of strategic goals and objectives

The performance measure/indicator and target relates logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.

3. APPs 2017/18 review of DWS (cont.)

Strategic alignment of portfolio – DWS (APP 2017/18)



3. APPs 2017/18 review of DWS (cont.)

Key objectives per ENE vs Targets – DWS (APP 2017/18)

Programme 2: Water Planning and Information Management

Key Objective per ENE	Indicator included in APP 2017-18	Comment/Observation
Ensure the protection of water resources by implementing an integrated water quality management strategy and determining resource quality objectives for nine river systems by March 2019.	Number of river systems with water resources classes and determined resource quality objectives	Included in the 2017/18 APP
Ensure a coordinated approach to water and sanitation infrastructure planning, monitoring and evaluation by developing and implementing the water and sanitation master plan by March 2019.	National Water and Sanitation master plan (NWSMP) adopted	Included in the 2017/18 APP
Protect water resources and improve water quality by developing and implementing the integrated water quality management strategy to by March 2019.	Integrated Water Quality Management Strategy	Included in the 2017/18 APP

3. APPs 2017/18 review of DWS (cont.)

Key objectives per ENE vs Targets – DWS (APP 2017/18)

Programme 3: Water Infrastructure Development

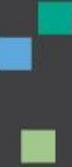
Key Objective per ENE	Indicator included APP 2017-18	Comment/Observation
Ensure the effective and sustainable management of water resources by transferring and monitoring funds to the Water Trading Entity for the design, construction, commissioning and rehabilitation of bulk raw water infrastructure, including dam safety rehabilitation, on an ongoing basis.	<ul style="list-style-type: none"> • Number of bulk raw water projects ready for Implementation • Number of bulk raw water projects under construction • Number of bulk raw water projects completed • Number of bulk raw water projects completed • Number of dam safety rehabilitation projects completed 	Included in the 2017/18 APP
Ensure adequate water availability through water resources infrastructure development and management, and enhance the provision of sustainable and reliable water supply and sanitation services through the <i>regional bulk infrastructure grant</i> , the <i>water services infrastructure grant</i> and the <i>Accelerated Community Infrastructure</i> subprogrammes on a continuous basis.	<p>The following but not limited to:</p> <ul style="list-style-type: none"> • Number of mega regional bulk infrastructure project phases completed • Number of large regional bulk infrastructure project phases completed • Number of small regional bulk infrastructure project phases completed • Number of small ACIP projects completed • Number of small WSIG projects completed 	Included in the 2017/18 APP

3. APPs 2017/18 review of DWS (cont.)

Key objectives per ENE vs Targets – DWS (APP 2017/18)

Programme 4: Water Sector Regulation

Key Objective per ENE	Indicator included in APP 2017-18	Comment/Observation
Create an enabling environment for the economic and social regulation of water by revising the water pricing strategy and developing the economic regulation strategy by 2017/18.	<ul style="list-style-type: none"> Water economic regulator established Water pricing regulations implemented 	Included in the 2017/18 APP
Improve efficiency and effectiveness in the delivery of water and provide dignified sanitation by establishing operationally and financially viable catchment management agencies and regional water utilities by 2017/18.	<ul style="list-style-type: none"> Number of Catchment Management Agencies gazetted for establishment Number of regional water and wastewater utilities gazetted for establishment 	Included in the 2017/18 APP
Ensure the equitable allocation of water resources for social and economic development by processing 80 per cent of water use authorisation applications within 300 working days from the date of receipt.	Percentage of applications for water use authorisation finalised within 300 days	Included in the 2017/18 APP
Strengthen regulation by implementing monitoring programmes for drinking water quality, wastewater quality and mine water quality on an ongoing basis; and implementing mitigation measures in catchments with potential for acid mine drainage.	<p>The following but not limited to:</p> <ul style="list-style-type: none"> Number of wastewater systems assessed for compliance with the Green Drop Regulatory standards Number of water supply systems assessed for compliance with Blue Drop Regulatory standards Number of WMAs assessed for Acid Mine Drainage (AMD) 	Included in the 2017/18 APP
Coordinate and monitor compliance with standards, licence conditions and regulations across all sectors to ensure that water resources are protected on an ongoing basis.	<ul style="list-style-type: none"> Number of water users monitored for compliance Number of water management institutions monitored for compliance with own water use entitlements and effective monitoring of affiliated water users 	Included in the 2017/18 APP
Ensure the effective enforcement of compliance with water legislation by monitoring, conducting investigations and providing legal support in cases of unlawful water use, on an ongoing basis.	Percentage of reported noncompliant cases investigated	Included in the 2017/18 APP



4

Overview of key findings on the review of the 2017/18 APP

4. Overview of Key findings on the review of the 2017-18 APP

Review was done on the final draft APP provided to us by end of January 2017 – DWS



Key Findings

- One target was not specific for DWS
- Some TIDs included a formula in addition to the way in which it will be reported which might affect measurability

Technical Indicator Description (TIDs) = provide further information eg. the short definition, calculation type, source, purpose/ importance, indicator responsibility, data limitations, desired performance, etc.

NOTE.

This review excluded review the APPs at the Water Boards as the AGSA will only commence auditing of the Water Boards for the 2016-17 financial year.

All section 4(3) as noted above were also not included as part of this review as these audits are not conducted by the AGSA.

4. Overview of Key findings on the review of the 2017-18 APP

Programme 3: Water infrastructure development

No.	Indicator	Issue on indicator	Target	Issue on target
1	PPI 2.3.10: Number of small ACIP projects under construction, and PPI 2.3.11: Number of small ACIP projects completed.	None	52	The number of ACIP projects as per appendix 4 of the APP is 55, thus the target is not specific.

This target has already been revised in the tabled APP.

Programme 3: Water infrastructure development

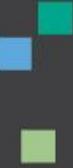
2	PPI 3.2.3: Number of job opportunities created through the Resource Poor Farmer and Water Harvesting programmes.	None	247	<p>As per TID indicates that a list of all created job opportunities is maintained; however, the method indicates that the formula used for targeting the number of job opportunities is as follows:</p> <p>Direct job opportunities $= \frac{(30\% \text{ of construction budget} - \text{material budget})}{40\,000}$</p> <p>Which method will be used to calculate the number of job opportunities created? Is a list maintained or is the formula used? What does the 40 000 represent and what is the budget for both construction and material?</p>
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4. Overview of Key findings on the review of the 2017-18 APP

Management response: This indicator is coordinated by Department of Public Works (DPW) through the expanded public works programme. Therefore, in an effort to explain this to the coordinating department, it is essential to provide the targeting formula used to ensure alignment with the DPW guidelines. Unlike other indicators that use a baseline as a targeting mechanism, this indicator is an anomaly as it is based on the allocation (i.e. construction budget) for the year in question. In an effort to address the question regarding the fluctuation of the number of jobs created per financial, the formula is included for clarification purposes. In addition targeting, the department clearly stipulated (in the technical indicator description) that the reporting method of calculation will be “the actual number of job opportunities created (i.e. a list of beneficiaries will be marinated)”.

As per the auditors’ comment, we recommended that the formula be removed/moved from the TID and that the basis for target setting be included instead, for example in the annual report as part of the description of the indicator. If this change is made, the finding will be resolved.





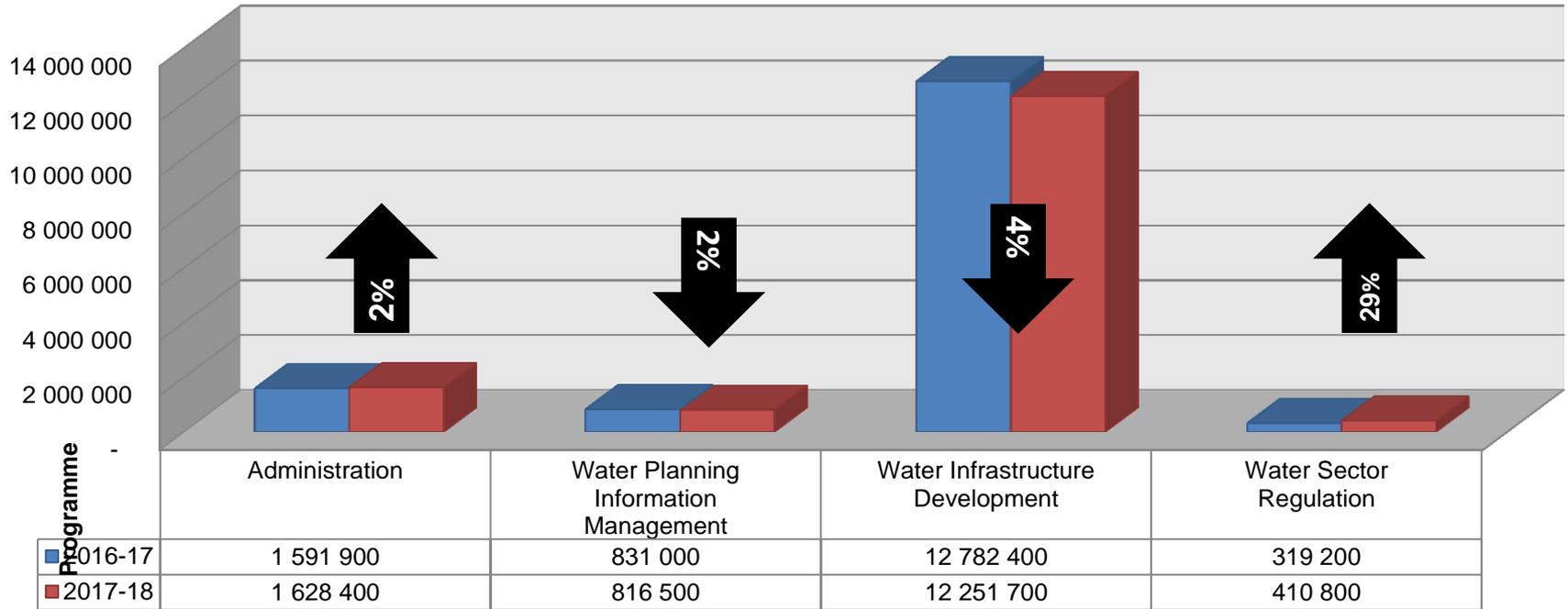
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DWS Budget analysis

5. DWS Budget analysis

Comparison between current year and prior year budget – DWS

Budget Comparison: R'000



% Budget increase

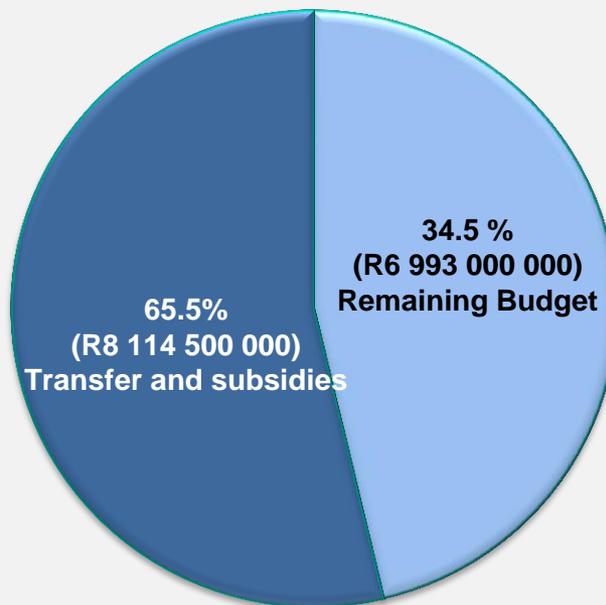


% Budget decrease

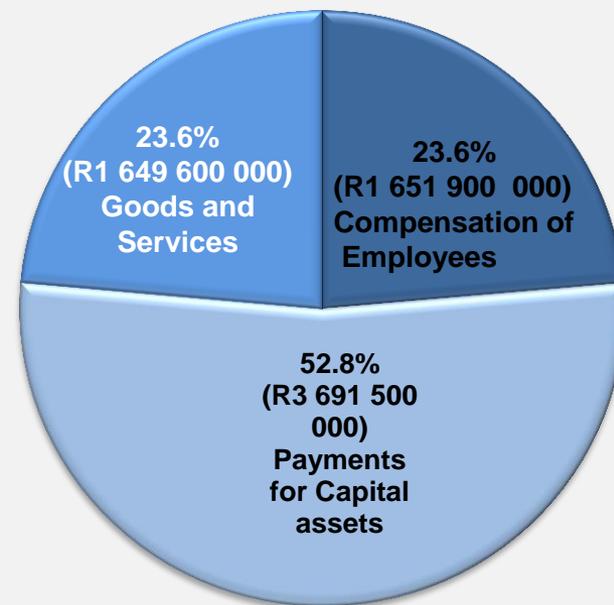
5. DWS Budget analysis (cont.)

DWS budget per Economic classification 2017/18

DWS Budget

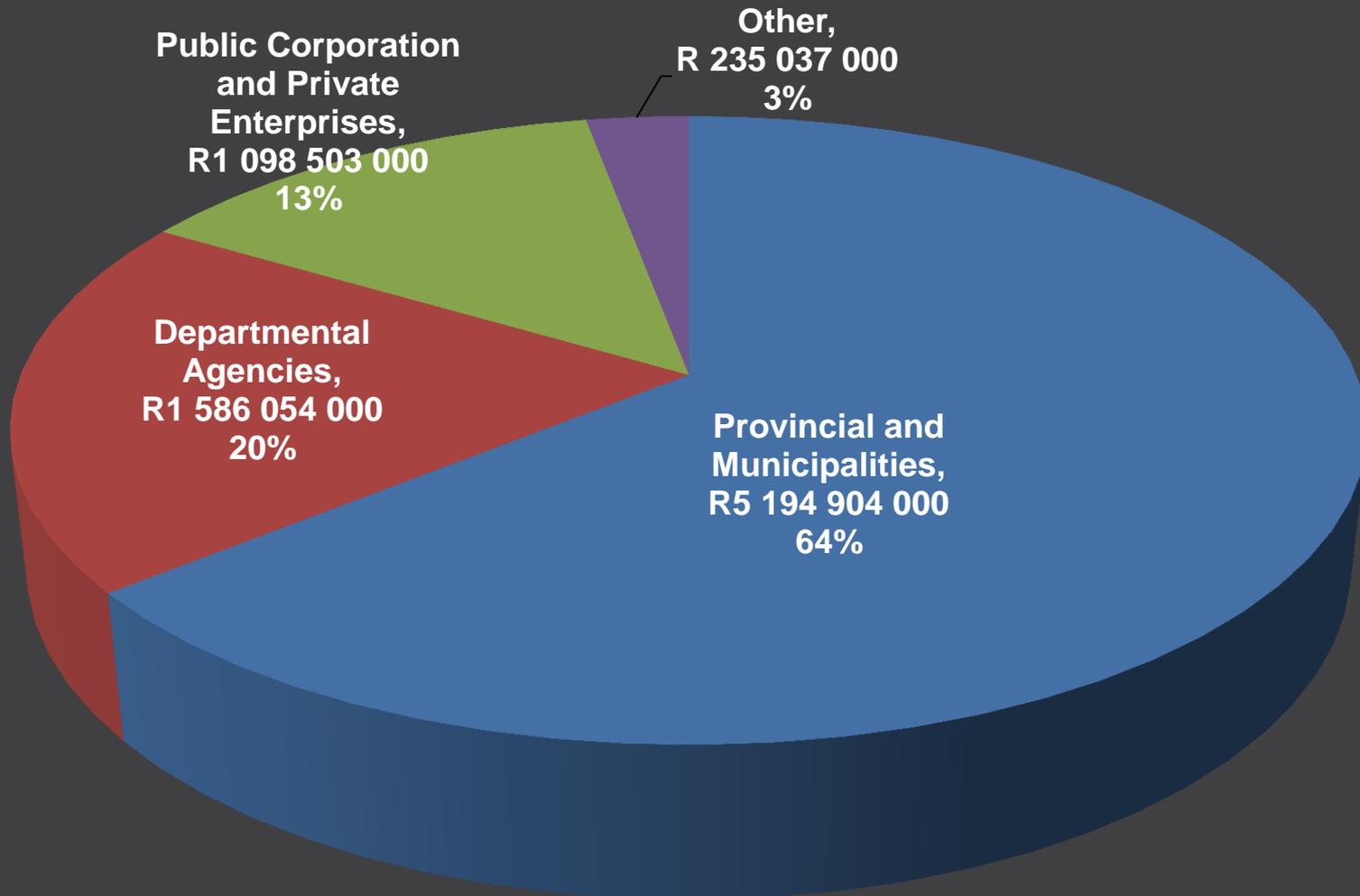


Remaining Budget



5. DWS Budget analysis (cont.)

DWS budget – Grants budgeted for entities 2017/18





6

Key matters for noting

6. Key matters for noting



The 2016-17 financial year audit processes are currently underway at the DWS and WTE and the following matters are brought to your attention:



- Some direct grants have been moved to indirect grants during the year;
- Implementing agents (SCM processes) are a focus area within the portfolio;
- Drought relieve expenditure is in process of being followed up;
- The actual expenditure compared to budgets is a focus covered during the audit with certain deficiencies identified in the preparation and monitoring of budgets at WTE;
- The financial performance and position of WTE relating to collection of receivables and bank overdraft remains a concern for the year under review;
- 10 x Projects have been selected and focus is on entire project (budgets, monitoring, project expenditure, project performance reporting and SCM) from inception to current status;
- Water boards now audited by AGSA = consistent approach being followed;



GRANTS



DROUGHT



BUDGET
EXPENSES



PAST DUE



PROJECT





7

AGSA Improved audit methodology

7. AGSA improved audit methodology



We have improved our audit methodology and audit report

Delivering a **valuable and relevant product** focusing on the things that matter



SOME BENEFITS

①

A **more robust risk assessment process** that includes in-depth discussions. This will ensure that we have an even better and deeper understanding of the key activities relevant to your core business; one that goes beyond numbers and allows audits to **focus on the things that matter**.

②

A **seamless and integrated audit** that encompasses the three audit areas of annual financial statements, performance information and compliance.

③

One **holistic audit** performed by a **unified audit team** that may include fraud experts and information systems and performance audit specialists. This will increase the audit's relevance.

④

A **refining of our scoping and risk assessment and response processes** which could influence the focus areas in the audits and the audit procedures. We will share this with you in our audit strategy.

⑤

A **management report that simplifies the reporting on performance information** by including a single conclusion per programme, objective or development objective and not separate conclusions on usefulness and reliability.

⑥

An **audit report that shows the performance information findings per indicator**. This will assist the users of the audit report in understanding where the material misstatements occurred.

⑦

An **audit report that has been aligned to the auditing standards and thus has a different format and content**. You will receive an easy-to-understand explanation of the changes in due course.

7. AGSA improved audit methodology

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

Status of records review = Pro-active follow up procedures + Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Key control engagements / status of records review – objectives

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and 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

Feedback linked to Focus Areas



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QUESTIONS

