

**REPORT TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS (SCOPA)**

**22 AUGUST 2017**

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**PART A**

## **PURPOSE**

* 1. The purpose of this report includes providing information on financial management within the Department of Water and Sanitation, during the 2015/ 2016 financial year.
	2. Matters relating to irregular expenditure. Fruitless and wasteful expenditure, accruals, as well as related explanations will be expressed in this report. Information about the Water Trading Entity Overdraft is also provided.
	3. Consequence management, as well as corrective and preventive actions, will also be outlined.

## **BACKGROUND**

* 1. For the financial year in question, it should be noted that the Auditor General only declared the Giyani Project as irregular. All other irregular expenditure was so declared by the Department of Water and Sanitation, in the interest of good governance and transparency. The AGSA could not find emergency appointment process as irregular but rather the scope of emergency work as irregular but rather the scope of the emergency work in Giyani. The department’s explanation is that the scope is not irregular given the following:
		1. The appointment and scope determination were necessary to ensure that the crisis is addressed;
		2. When we went on-site we discovered as we implement the project that all the project components that were part of the scope are necessary to be implemented otherwise the crisis.
	2. Due to the nature of the infrastructure expenditure, it should be understood that the Department of Water and Sanitation accounts in the 2015/ 2016 financial year, for expenditure that was initiated as far back as the 2008/ 2009 financial year. This is so, because long term contracts are awarded, due to the size and scope of the work that should be completed.
	3. In this regard, it should be noted that irregular expenditure emanates from:
		1. emergency appointments,
		2. inconsistencies between the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA),
		3. changing Instruction Notes from the National Treasury,
		4. changes in the regulations governing Supply Chain Management processes and
		5. historical matters
		6. grant allocations managed by municipalities, as implementing agents.
	4. The Department reported a cumulative figure of R 2.5 billion (2009-2016), for irregular expenditure in the 2015/16 financial year, of which R1.7 billion was irregular expenditure for the 2015/16 financial year.
	5. Of the R 2.5 billion irregular expenditure, R 241 million is for goods and services, and R 2.2 billion is for infrastructure projects.
	6. From the R 241 mil for goods and services, R 231 mil is for one contract, BCX IT Services and the remaining R 10 mil is for other goods and services. In this regard, the expenditure is irregular, disciplinary action was taken for goods and services and a condonation application for the BCX contract was forwarded to SITA for condonation. It should also be noted that this contract was awarded in 2009 and the department has since that time, accounted for that irregular expenditure, in every financial year. This means that in every financial year since the 2013/ 2014 financial, the department accounted for this irregular expenditure, by including it in its financial statements.
	7. From the R 1.7 bn irregular expenditure for infrastructure projects, R 1.3 bn is for the Giyani Project and the remaining R 400 mil is for other infrastructure projects across the other provinces. The Giyani Project was implemented as a result of the South Gauteng High Court making finding on the humanitarian crises that took place in the Mopani District in Limpopo Province. The Supreme Court of Appeal then instructed the Department of Water and Sanitation to intervene. The Office of the Public Protector gave similar directives to the department. In 2014, the department then acted on the orders by the Supreme Court of Appeal. The Giyani Project emergency interventions were implemented within the framework of the PFMA and is regular. The Department will continue to engage on the matter until it is resolved. The AGSA identified this as an irregular expenditure however, the department does not consider this as irregular as the crisis on the ground affected more than was initially thought owing to ageing infrastructure. Therefore, this is in line with the National Treasury emergency guidelines.
	8. At the time of preparing the Department’s financial statements as the supporting documents were not available the department classified the expenditure as irregular. Subsequent to the November SCOPA hearing, I have instructed the implementing agents to provide the documents in question; they are being provided and are being reviewed. Some of them already indicate that there was no reason for declaring the expenditure irregular. The department will provide the investigation report to the AGSA and the SCOPA as soon as finalised.
	9. It should also be noted, that in any event where the Department did make over payments as a result of administrative errors, that the money is NOT LOST and is still with our Implementing Agents. We will simply obtain credit notes, which will then be off-set against the ongoing projects undertaken by the IAs.
	10. No money is lost, and our people continue to benefit in each ward, municipality and province that we are engaged in. Through these RBIG projects, the Department created 3362 new jobs.

## **CONSEQUENCE MANAGEMENT**

* 1. The Department revived its Financial Misconduct Committee ( FMC) to review all matters of financial misconduct and to take appropriate disciplinary action.
	2. The table below indicates action taken by Line Managers to date. All disciplinary actions have not yet been completed as some disciplinary hearings are still ongoing.

# **PART B: MAIN ACCOUNT**

## **IRREGULAR EXPENDITURE**

* 1. **General Overview of Emergency Procurement 1**
		1. National Treasury Instruction 3 of 2016/17 provides that an emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids.
		2. In the department, emergency procurement include:
	2. drought related projects which complies with the National Treasury definition of emergency procurement, which is life, environment and health threatening.
	3. burst pipes related services which complies with the National Treasury definition of emergency procurement, which life, health, property and environment threatening.
	4. major infrastructure maintenance as a result of aging infrastructure.
	5. **Emergency Appointment for Giyani Project**
		1. In 2014, the Supreme Court of Appeal made adverse findings against Mopani District Municipality on its handling of water projects. The Supreme Court of Appeal also indicated its displeasure about the conduct of the Mopani District Municipality by ordering a punitive costs order against the district municipality.
		2. The Supreme Court of Appeal, after having considered the challenges at Mopani District Municipality in resolving the water challenges, saw it appropriate to give an order authorising the Department of Water and Sanitation to take over the Nandoni to Giyani Pipe Project from Mopani District Municipality.
		3. Lepelle Northern Water, an entity of the Department of Water and Sanitation, was appointed as the implementing agent and urgently provided the necessary resources to ensure the speedy implementation of the water projects in Mopani.
		4. Of the 55 villages that were set to benefit from the Giyani Water Works, 55 villages currently have consistent water from the bulk water supply, with another 13 villages receiving an erratic supply of water. The 6 boreholes of the Nkhensani Hospital have been refurbished and are all working. A 10 000 litre water tank was replaced and the internal pipe reticulation of the hospital as well as leaking taps and toilets have been attended to.
		5. The Auditor General has made finding of irregularities, but has never alleged that the Department failed to meet its constitutional obligations. The quality of the project is also not called into question. The AGSA identified this as an irregular expenditure however, the department does not consider this as irregular as the crisis on the ground affected more than was initially thought owing to ageing infrastructure. Therefore, this is in line with the National Treasury emergency guidelines.
		6. The emergency intervention continues. Unlike an emergency intervention by the police, that my take a day or two at most, to resolve; an intervention in infrastructure projects can take many years before the problems are resolved.
	6. **Challenges and interventions in working with implementing agents (including municipalities)**
		1. Circular on Budget and Supply Chain Management (SCM) processes by Implementing Agents (IA’s).
		2. In the past, the department incurred irregular expenditure from projects implemented by Implementing Agents for non-compliance with Supply Chain Management prescripts which include, amongst others, deviations from normal procurement processes and overpayment of contract amounts without variations.
		3. Further to this, most implementing agents cannot provide the required information on projects to both the department and Auditor General.

This will result in a negative audit opinion due to limitation of scope and has serious implications on the credibility of the financial information prepared by the Department.

Given the above historical challenges, the Circular on Budget and Supply Chain Management (SCM) processes by Implementing Agentsnow contains the following provisions:

* 1. **Confirmation of funds**
		1. Implementing Agents will be required to obtain written confirmation of funds from the Director-General prior to committing the Department on any project or task with financial implications.
		2. This will apply to normal projects, emergency interventions, change of scope, variation orders and Ministerial Directives.
		3. This will assist in avoiding over committing the Department above the available budget, and to prevent unauthorized expenditure.
	2. **Advertisement of bids**
		1. All projects must be advertised in the government tender bulletin, National Treasury e-tender portal and / or any national / local newspapers and other appropriate media to ensure accessibility by all prospective bidders.
		2. The CIDB I-Tender portal must be utilized for construction projects.
	3. **The Bid Committee System**
		1. The bids must be managed, evaluated and awarded through the Bid Specification Committee which compiles specifications / TOR, the Bid Evaluation Committee to evaluate bids and make the recommendations, the Bid Adjudication Committee to award or make further recommendations to the higher authority depending on the delegated powers of the Implementing Agent.
	4. **Preference Point System**
		1. The bids must be evaluated based on functionality if applicable, comply with local content threshold if applicable and evaluated further on either 80/20 or 90/10 depending on the value of the project in line with Preferential Procurement Regulations (2017).
	5. **Approval of bids**
		1. All bids advertised by Implementing Agents on behalf of the Department must be approved by the Director General of the Department of Water and Sanitation through the recommendation of the Departmental Bid Adjudication Committee (DBAC) of the Department.
		2. The Bid Adjudication Committee of the Implementing Agent must recommend to their Accounting Officer / Authority to request the Director General of the Department to approve the award of the tender to the recommended contractor.
	6. **Management of contract variations**
		1. The thresholds set by National Treasury (15% or R15 million for goods and services and 20% or R20 million for construction works, whichever is the lower amount) must strictly be adhered to.
		2. All variations within these thresholds must be addressed to the Director General for approval.
		3. Where the variation exceeds the above thresholds, the Director General will recommend to National Treasury for approval.
	7. **Deviations**
		1. Any deviation from normal procurement processes due to emergency and / a sole service provider will be approved by the Director General.
		2. All deviations from normal procurement processes for reasons other than emergency and a sole service provider must be approved by National Treasury prior to implementation of projects.
		3. This should be done through a detailed submission motivating the reasons for the deviation. The submission must be signed by the Chief Executive Officer / Municipal Manager and recommended by the Director General to National Treasury for approval.
	8. **Oversight by DWS**
		1. In order for the department to play effective oversight role over the procurement process, the IA is required to invite DWS to sit on its Bid Evaluation Committee meetings for all projects above R50 million.
		2. The DWS representative will provide support and advisory role during the meeting to ensure compliance to DWS specific requirements.
	9. **National Treasury Instruction Note No. 3 Of 2016/17 on Variation Orders**
		1. The National Treasury Instruction Note No. 3 of 2017 dated 19 April 2016, provides that the variation of contracts are not to be varied by more than 20% or R20 million (including VAT) for construction related goods, works and or services and 15% or R15 million (including VAT) for all other goods and or services of the original contract value.
		2. Previously the variations approval, irrespective of the amount, was delegated to Accounting Officers.
		3. With effect from 01 May 2016, the Department submits all variations which exceeds the applicable threshold (15% or R15 million or 20% or R20 million) to National Treasury for approval.

## **BACKGROUND ON IMPLEMENTING AGENTS AND INFRASTRUCTURE IRREGULAR EXPENDITURE**

* 1. The department of Water and Sanitation is tasked with the responsibility of managing the Bulk Infrastructure grant (RBIG) as well as the Water services infrastructure grants (WSIG).
	2. The grant allocations are in two schedules (5B and 6B). The grants are regulated by the Division of Revenue Act (DoRA), Public Finance Management Act (PFMA), the Regional Bulk Infrastructure Grant (RBIG) Framework and Treasury Regulations.
	3. **DoRA Schedule 5 Part B: Specific Purpose Allocations to Municipalities**
		1. In this instance funds are transferred directly to municipalities for them to implement projects in line with the approved business plans and implementation readiness studies (IRS).
		2. If a municipality is under 5B, by implication it has the required capacity to implement the project. Although this can change to the unstable environment and leadership change that currently prevails in that space.
		3. On an annual, the status is being reviewed by both the National Transferring department and National Treasury. The municipality follows its own supply chain processes to appoint its service providers and it will be unfair to audit against the irregular created by municipalities which are also audited under Municipal Finance Management Act (MFMA).
	4. **DoRA Schedule 6 Part B: Allocation In-kind to Municipalities for Designated Special Programmes**
		1. The department appoints Implementing agents to implement on its behalf; this can be either a municipality or a Water Board.
		2. The reasons for appointing Water Boards to implement includes situations where the municipality does not have sufficient capacity to implement and manage the projects.
		3. During this process, the National transferring department is obliged to build capacity for the municipality to assume the responsibility as the function of water services provisioning is their competency as outlined in the Constitution of the Republic of South Africa.
		4. Under schedule 6B funds are not transferred but payment is done per work done. The department has developed a checklist for payment which needs to be complied with prior any payment being processed.
	5. **The process for appointing Schedule 6B Implementing Agents**
		1. The project manager prepares a submission to DBAC to appoint an implementing agent from the database of the department. The financial statements and SCM policy of the IA are then annexed to the submission.
		2. The department’s supply chain unit will then recommend the IA after thorough perusal of the submitted documents. A Service Level Agreement / Memorandum of Understanding is then signed with the appointed IA.
		3. In consultation with supply chain, the infrastructure team is working towards the review of the SLA /MOU to include issues of the approval of variation orders to minimize and prevent irregular expenditure. It is recommended that supply chain in consultation reviews the status of implementing agent to verify their credibility status and capacity to implement projects.
		4. At the time of audit, not all documents were received for irregular expenditure to be cleared, however documents were subsequently submitted. What is outstanding is for AG to assist the department in clearing the irregular incurred. As mitigation to this, in the 2016/17 FY the department developed a checklist for the processing of invoices. This will ensure that all documents are submitted before any payment is done.
		5. Previously the department did not sit in the bid evaluation and adjudication committees of the IA to ensure that the correct supply chain management processes are followed. Where the department tried to participate, the department were receiving resistance from the IA as they argue that they are regulated by different legislation. The department is challenging the reasoning of the IAs because the department is accountable for the funds.
		6. A circular from the Department of Water and Sanitation Finance Branch were circulated widely to the IA as a measure to address this matter.
		7. The proposal going forward is to ensure DWS supply chain management (SCM) experts be part of the project bid evaluation committee and appointment of the contractors. The DWS Project Managers will also sit in project specification committees. Concurrence is being sought between DWS, COGTA and SALGA to get buy in on this matter.
		8. The department also proposes that the IA must ensure that the official within their institution who violates the SCM policies must be subjected to consequence management to avoid the recurrence of the situation.
		9. The projects that are highlighted in the report as having caused irregular expenditure are not linked to drought relief but normal RBIG project. The irregular came as a result of non -submission of documents such appointment letters and contract from our IA (municipalities and Water Boards) and which were subsequently provided.
		10. The department through its Institutional Oversight Chief Directorate will strengthen the capacity of the Implementing Agents in the areas of finance, project and contract management.
		11. The department also recommends that due to the capacity constraints in the department’s Infrastructure Branch, that the Project Management Office (PMO) within the department should be activated to support both the department and IA.
		12. In dealing with emergency situations, the department has developed a standard operating procedure document which currently awaiting approval by top management.

## **IMPLEMENTING AGENTS AND ACTUAL IRREGULAR EXPENDITURE**

The following Implementing Agents contributed to the infrastructure irregular expenditure:

* 1. **Water Boards**

|  |  |
| --- | --- |
| **Implementing Agent** | **Irregular Expenditure**  |
| Lepelle Water | 1 543 285 778 |
| Sedibeng | 95 735 700 |
| Rand Water | 67 828 471 |
| Magalies Water | 27 781 122 |
| Bloem Water | 24 664 574 |
| Mhlathuze Water | 247 383 |
| Amatola Water | 75 739 |
| Umgeni Water (Mbizana, Alfred Nzo) | 145 079 527 |
| Magalies Water (Moedi wa Batho) | 4 668 222 |
| Amatola Water (Sunday’s River) | 1 233 536 |
| **TOTAL** | **1 910 600 052** |

* 1. **Municipalities**

| **Implementing Agent** |  **Irregular Expenditure**  |
| --- | --- |
| Mogalakwena Local Municipality | 80 946 065 |
| Sekhukhune District Municipality | 64 121 598 |
| Drakenstein Municipality | 52 131 826 |
| Breed Valley Municipality | 29 294 464 |
| Umzinyathi District Municipality | 23 288 893 |
| Vhembe Local Municipality | 22 481 609 |
| Vhembe District Municipality | 12 836 608 |
| Sol Plaatje Municipality  | 10 616 273 |
| Chris Hani District | 9 882 947 |
| Tswelopele Municipality | 7 172 169 |
| Joe Morolong Municipality | 6 509 550 |
| Theewaterskloof Municipality | 5 230 916 |
| Nketoana Local Municipality | 5 994 840 |
| Alfred Nzo District Municipality | 1 993 205 |
| Tokologo Municipality | 1 560 384 |
| Dr Ruth S Mompati Municipality | 1 462 994 |
| Ngaka Modiri | 1 364 828 |
| Moqhaka Municipality | 2 103 443 |
| Ilembe District Municipality | 764 181 |
| Swellendam Municipality | 471 889 |
| Stellenbosch Municipality | 321 087 |
| Mantsopa Municipality | 288 684 |
| Gamagara Municipality | 158 009 |
| Cederberg Municipality | 64 215 |
| Maluti-A-Phofung | 42 000 |
| Setsoto Local Municipality | 36 708 |
| **TOTAL** | **341 139 385** |

## **MAIN ACCOUNT IRREGULAR EXPENDITURE**

* 1. The irregular expenditure for the Main Account was reported as follows in the 2015/16 Annual Financial Statements:

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
| Bid Awarded to bidder who quoted the highest price with low functionality points.  | 552 000  | Security Service Providers in Limpopo were appointed while they did not meet the requirements. The companies failed to meet the requirements of functionality as well as specification but were still appointed. | Investigation completed and currently engaging the relevant parties to obtain responses prior to taking a decision on how to proceed. | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.  |
| Bid not evaluated as per the prescribed prescripts.  | 235 000  | Security Service Providers in Limpopo were appointed while they did not meet the requirements. The companies failed to meet the requirements of functionality as well as specification, but were still appointed. | Investigation completed and currently engaging the relevant parties to obtain responses prior to taking a decision on how to proceed. | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.  |
| Bidder did not qualify on functionality but was evaluated on price and BBBEE.  | 552 000  | Security Service Providers in Limpopo were appointed while they did not meet the requirements. The companies failed to meet the requirements of functionality as well as specification, but were still appointed. | Investigation completed and currently engaging the relevant parties to obtain responses prior to taking a decision on how to proceed. | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.   |
| Contract extended without approval.  | 1000  | The contract of Rent O Kill was extended by an employee who did not have the necessary authority to do so.(Limpopo) | The Department investigated the matter and took disciplinary action against the employee. | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.  |
| No PBAC approval was obtained | 14 000  | Approval was granted by the Provincial Head for two officials to attend an Indaba, however at that time the delegation to approve the expenditure was with the Regional BAC. The documents were not tabled before regional BAC for approval before the officials can attend an Indaba (Free State) | The Department investigated the matter and took disciplinary action against the employee. | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.  |
| Overspending on contract amount without a variation order.  | 237 000  | This amount is divided between various contracts that were exceeded due to the failure to obtain approval via variation orders.  | The matters were investigated and disciplinary action taken. | Continues training on SCM procedures and contract management. |
| Preference point system not used on evaluation of quotations | 315 000  | The tender evaluation for the appointment of the Midvaal Water Company was not done correctly. The evaluation criteria applied to evaluate bids, differed from those provided in the original request for quotation or documentation. 90//10 appeared on request for quotations and the 80/10 was used to evaluate the quotations (NW) | The matter was investigated and disciplinary action was taken.  | Bid Committees training was arranged. The training targeted the Bid Adjudication and Bid Specification committees as well as project managers who are often appointed on the Bid Evaluation Committee. SCM officials from regional offices also attended. Enforcement of compliance by bid committees and officials.SCM will constantly update all officials on new SCM processes through circulars and workshops.Disciplinary action will be taken on officials who violate SCM processes.  |
| Procurement of goods and services without an order.  | 27 000  | An employee failed to obtain the required permission to deviate from the normal procurement procedures and to use only 1 quotation. | This was to attend the annual WISA Conference in Durban. The employee was disciplined.(KZN) | Continues training on SCM procedures. |
| SCM processes were not followed. | 30 000 | An employee failed to get approval to deviate from normal SCM processes and to proceed with 1 quotation to have a TLB repaired. | Hydrology unit sent to SCM the request memo to source quotations for repairs to the TLB truck. Only one quotation was received with the letter stating that the company CASE IH are the sole suppliers for repairs and parts of CASE products. The user was advised through an email dated 15 July 2015 that the purchase order cannot be issued before the approval to use the company as sole supplier is obtained. This quotation was sent to RBAC for cancellation on 28 July 2015. SCM learnt on 11 August 2015 that the TLB truck had been serviced already.The employee was disciplined. (Free State) | Continues training on SCM procedures. |
| Services were rendered without DBAC approval |  294 000  | Security services provided without DBAC approval. | The Chief Director Limpopo Region, was under threat and her life was in serious jeopardy. Top Management agreed to provide personal protection due to the serious and urgent nature of the threats. As a result, normal procurement processes could not be followed. The appointed service provider in Limpopo provided the extra personal protection. | Condone the expenditure. |
| Tender not advertised through SITA.  | 82 203 000  | The Department failed to obtain SITA approval before advertising and appointing a service provider.  | The Department was in need of IT Services. An application was made to SITA for permission to advertise and appoint a service provider. The Department proceeded to advertise a tender. The tender was adjudicated and a service provider was appointed. At the time of appointment, the Department did not have the required SITA approval, but the Legal Adviser, advised the Acting DG that he can proceed to sign the contract.  | The Department wrote to the relevant authority requesting condonation.  |
| Tender not published in Government Gazette | 186 000  | The Department failed to advertise the tender for the Stakeholder Empowerment and Public Participation for the Establishment of Catchment Management Agency in the Crocodile(West) Marico Area in the North West Province in the government gazette.(NW) | The NW Office advertised the tender in only one local newspaper. Employee disciplined. | Continues training on SCM procedures. |
| Three quotations not attached and no approval | 90 000  | An employee failed to obtain 3 quotations for training in Microsoft Excel. | Employee was disciplined. | Continues training on SCM procedures |
| Infrastructure project payments made above the contracted amount. (Overpayments).  | 304 316 000  |  |  |  |
| **Eastern Cape****Accumulative (R159 916 798.22)**  | **2015/16****R 40 929 444** | At the time of the audit, the IAs were unable to provide supporting documentation required by the AG.  | The Department engaged with the IAs and obtained the necessary documentary evidence that indicate that the DG approved budget increase.  | Project Managers will improve on project administration and coordination.The Department will provide the supporting documents to the AG for confirmation. |
| **Free State****Accumulative (R 14 874 087.73)** | **2015/16****R 14 283 058** | Some of the invoices for the projects did not have invoice numbers.Contract values exceeded.Overcharge of management fee .Calculation Errors.Vat Overcharged.  | The Department investigated and found that the VAT charged was correct. The correct invoice was obtained to support this. The appointment letter for the Consultants appointed by the IAs were recovered and it was found that the appointment letters do not have a value. So there could not have been an overpayment. The management fees were recalculated and found to be correct. The IAs were instructed to ensure that invoices are properly numbered.  | Project Managers will improve on project administration and coordination.The Department will provide the supporting documents to the AG for confirmation. |
| **Gauteng****Accumulative (R 101 567 349.50)** | **2015/16****R 42 317 450** | Overpayments were made from the Department to Rand Water to the value of R 25 mil.A Reconciliation of accounts indicated that apart from the R 25 mil overpayment from DWS to Rand Water, no other overpayments took place. The overpayment was as a result of the change over from one project manager to the next. | Department is engaging with Rand Water to recover the overpayment. Subsequently a debt has been raised with the entity.  | Project Managers will improve on project administration and coordination.The Department will improve on its handing-over process from one project manager to the next.  |
| **KZN** **Accumulative (R 24 300 456.11)**  | **2015/16****R 17 156 322** | Overpayment on contracts. | The Department investigated and found that the overpayments were authorised by means of variation orders. The problem is that the variation orders were approved by the IAs and not by the Department. The irregularity is therefore solely as a result of the incorrect authority approving the VOs. It was however standard practice during this period, for IAs to approve VOs and the practice was based on the general conditions of contract. This has since been corrected. | Project Managers will improve on project administration and coordination.The Department directed all IAs to forward VOs to the Department for consideration and approval. The Department will provide the supporting documents to the AG for confirmation. |
| **NC****Accumulative (R 17 283 832.37)**  | **2015/16****R 0** | Contract Value Exceeded | The Department investigated and found that the overpayments were authorised by means of variation orders. The problem is that the variation orders were approved by the IAs and not by the Department. Some of the VOs also exceeded the R 20 mil threshold set by National Treasury, without NT approval. Some were also for additional work outside the original scope and did not follow a competitive process. It was practice for IAs to approve VOs. This was since corrected. | Project Managers will improve on project administration and coordination.The Department directed all IAs to forward VOs to the Department for consideration and approval. The Department will provide the supporting documents to the AG for confirmation. |
| **NW****Accumulative (R 23 230 356.40)**  | **2015/16****R 5 635 648** | Contract Value Exceeded.Overpayment of management fees.  | The management fees were fixed at 7.5% and was not over-charged. During the audit, all the IAs could not provide all the necessary appointment letters, and as a result, the payments were classified as over-payments. Since then, the IAs provided the additional appointment letters, confirming that the payments were made within the allocated budgets. | Project Managers will improve on project administration and coordination.The Department will provide the supporting documents to the AG for confirmation. |
| **WC****Accumulative ( R 87 514 396.92)**  | **2015/16****R 38 264 987** | Contract Value Exceeded due to non adherence to the funding agreement.  | The Department entered into co-funding agreements with various municipalities in the WC in order to deliver infrastructure projects. These agreements required the Department to only pay a certain percentage of the infrastructure project, example 30% and the municipality 70%. Due to practical difficulties with splitting of invoices, the Department paid more than its share for the projects while the municipalities paid less than what they were supposed to. The Department could however not stop the projects as a result of the splitting invoices, and continued to deliver the projects.  | The Department is in the process of engaging the municipalities to recover the overpayments. The Department will provide the supporting documents to the AG for confirmation. |
| **Limpopo****Accumulative (R 1 723 671 657.77)**(Inclusive of Giyani) | **2015/16****R 1 378 313 985** | Contract Value Exceeded.Non compliance with SCM processes. | During the audit, the IAs could not provide the required supporting documentation. The Department has since engaged the IAs and got hold of the contracts. The contracts indicate that the budgets were not exceeded. In some instances, IAs appointed contractors and consultants without a specific contract value ( turn-key projects), and as a result, no overpayments could be made. In some instances, IAs made use of established supplier databases to procure materials or to appoint contractors and consultants.  | Project Managers will improve on project administration and coordination.The Department will provide the supporting documents to the AG for confirmation. |
| Sanitation (BEP) | **99 380 497** | The 3 service providers appointed without following correct SCM processes. They were appointed directly.  | In April 2015, the Department embarked on a process to source contractors for the implementation of the Bucket Eradication Programme for the 2015/16 FY however post the project briefing sessions, the tender was cancelled as the tender was not published on the CIDB website.With time lapsing, the Department resolved to utilise the WTE 1014 Database with a contractor profile ranging from CIDB Grade 2 – 9. The Department invited only 3 contractors for the implementation of the Bucket Eradication Programme to be allocated to the Free State, North West, Northern Cape and the Eastern Cape Province respectively. This approach is deemed to be irregular as it constitutes a non-competitive bid.  |  |
| Appointment of service provider by the Implementing Agent on an emergency basis.  | 1 321 409 000  | The Giyani Project was declared irregular | The Department does not accept the finding that the Giyani Project is irregular. The project was an emergency intervention and procurement took place in terms of the Public Finance Management Act, Regulation 16A6.4taht states as follows " If in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority".It is unfair to use one standard of measurement of an emergency situation across Departments. What constitutes an emergency for example in the in the Police, and how they deal with it, will differ greatly from an emergency in respect of infrastructure and needs to be measured according to the specific industry.  | The Department is contesting the finding from the Auditor General. |

## **MAIN ACCOUNT ACCRUALS**

8.1 The Department reported accruals and payables of R727 million in the 2015/16 financial year made up as follows:

* **R500 million accruals** of which R457million is for infrastructure projects and R43million is for goods and services.
* **R227 million payables** of which R219million is for infrastructure projects and R8million is for goods and services.

8.2 The accruals of R500 million relate to cases where goods and services were received, however an invoice were not issued by the service provider.

8.3 The payables of R227 million relate to cases where invoices have been received but not yet paid by 31 March 2017.

* 1. It should be noted that all accruals and payables of R727million have since been paid in the 2016/17 financial year.
		1. It should be noted that the accruals of R500million could not be paid in the 2016/17 financial year as invoices had not yet been received from service providers. There was therefore no deliberate attempt by the Department to withhold payment to avoid overspending as was alleged in the media.
		2. Of the payables of R227million where invoices were received, based on the age analysis (pg 289 of Annual Report), R190million of these invoices were still within 30 days and not yet due for payment. These invoices were mainly received just before the Department closed its books for year-end processes and were paid within 30 days in 2016/17.
		3. Out of the total accruals and payables of R727million, only R36million was relating to invoices received for more than 30 days. If this amount was paid in the 2015/16 financial year, the Department would still not have overspent its budget as there was a reported under-spending of R189 million on voted funds.
	2. All accruals and payables reported in 2015/16 were paid in the 2016/17 financial year.

## **FRUITLESS AND WASTEFUL EXPENDITURE**

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
| Payments made to service providers for travelling and accommodation where the officials did not travel. | R28 million | Travelling and accommodation arrangements are often made for official duties in the Department.In certain instances, last minute changes take place resulting in cancellation of the official trips. However, service providers usually charge a cancellation fee where the cancellation is not made within a certain time frame. In other cases, the service providers do not refund the Department for last minute cancellations.This therefore resulted in payments being made for travelling and accommodation where the actual service was not rendered as the Departmental officials did not travel due to unforeseen circumstances in the Department. | Each case of fruitless and wasteful expenditure that arose from cancellations of travelling arrangements has been investigated and the following action has been taken:-An amount of R23million was identified to have been erroneously included as fruitless and wasteful expenditure in the previous financial years as a debtor had already been raised in the previous financial years.-Where investigations revealed that the cancellation was due to the individuals fault, acknowledgement of debts have been signed by the employees and the debt has been raised for recovery. The debt raised amounted to R7 thousand.-In the remaining balance of R5million, it was discovered that the cancellation was not due to the official’s fault. The cancellation of the event was done by external parties, which then necessitated the Department to also cancel on their side. This amount will be written off from fruitless and wasteful expenditure. | Going forward, where cancellations occur, officials must first report to the CFO’s office of the cancellation and the reason for the cancellation. Where reasons for the cancellation are reasonable and are due to external forces, the CFO will approve the cancellation. |
| Interest paid on outstanding invoices. | R6.5million | The Department had received some claims from a service provider for IT licenses which were being disputed by the Department. The dispute was being challenged in court and took almost two years before the dispute was resolved. The service provider won the case in court, and a court order was issued against the Department to pay the claim together with interest for two years. The interest that had accumulated was R6.5million. | Internal investigations by the Department noted that this money should not be recovered from any official in the Department as it wasn’t due to any fault of the officials in the Department. The interest arose as a result of a lengthy court case which spanned over two years of which the Department’s legal unit was of the opinion that the Department would win the case in court. | This will be removed from fruitless and wasteful expenditure. |
| Duplicate payments to Implementing Agents | R52million | The Department appointed a service provider to assist it with its commitments during the 2015/16 financial year. This exercise required going as far back as 2009 to correct the commitments figures for the comparative financial year. Through this exercise, it was discovered that in certain instances, implementing agents had submitted different invoices for the same claim, which resulted in the claim being paid twice. These duplicate payments were historically not picked up as the Basic Accounting System picks up duplicate payments when the same invoice is being submitted twice. However, in this case, different invoices were submitted for payment although they were for the same claim. | A debtor of R33.8million has been raised against implementing agents and removed from fruitless and wasteful expenditure. Where projects are still ongoing with implementing agents, this amount has been offset against future payments to the implementing agents. Where there no current projects with the implementing agents, this amount is being recovered from implementing agents.The remaining amount of R18.2million has not been raised as a debtor as the Implementing Agents are disputing that the payments were for the same claim and are currently submitting the correct claims for the invoices paid. The submitted supporting documentation is currently being reviewed by the Department to determine if the amount should be removed from fruitless and wasteful expenditure. | Stringent payments reconciliations are being performed for each payment made to implementing agents. Each invoice submitted by an implementing agent is now supporting by the respective claim and payment certificate. These details are kept on a reconciliation spreadsheet by the Department which picks up additional fields which are not necessarily picked up by the Basic Accounting System. |

## **CORRECTIVE MEASURES**

* 1. The existing Standard Operating Procedure for directives issued in terms of section 41 of the Water Services Act has been reviewed and updated to close gaps that were identified during the audit process.
	2. The existing MOU with implementing agents and SCM Policy have been and finalised
	3. **Corrective Measures for Variation Orders**
		1. All variation orders (Infrastructure and goods/services) have been centralised to the Department for recommendation and or approval. A central repository for all VOs has been established for ease of tracking.
		2. All submissions for variation orders are subjected to SCM processes within the department.

# **PART C: WATER TRADING ACCOUNT**

## **11. IRREGULAR EXPENDITURE FROM 2010 TO 2014**

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
| Variation order approved without proper authority Good and service procured without following proper process as prescribed in terms of supply chain management laws and regulations. | R86 400 987R184 908 013 | Variation order and extension of scope were approved without proper delegated authority Goods and service were procured without following proper supply chain management process | These cases were referred to the internal Financial Misconduct Advisory Committee (FMAC) to look at the matters submitted and subsequently the FMAC made recommendations for condonement and in certain instances disciplinary action and to date all cases are ready for condonement. | The department has strengthened the procurement processes. |
| TOTAL | R271 309 000 |

## **12.WTE IRREGULAR EXPENDITURE AS AT 2015/16**

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
| Expenditure exceeding original approved contract or quoted amount or no contract in place or contract expired | R 97 291,17 | Expenditure exceeding original approved contract or quoted amount or no contract in place or contract expired. Altech Auto page where the contract expired and then the office in Tzaneen Operation North struggled to port certain officials over to the MTN New contract | Altech - Auto page where the contract expired and then the office in Tzaneen Operation North struggled to port certain officials over to the MTN New contract. Altech - No because there was no criminal activities or personal gain involved. This was porting of contracts, moving from Altech to MTN.The amount of R 97 291.17 was spend in the interest of the department as no individual benefit was detected. | * In terms of Department or National Treasury in case of transversal contract, should make provision for transition period to allow department to close of all previous transitions between the Department and relevant service provider in writing.
* The Department has develop policy on irregular expenditure guide how officials handle matters of irregular expenditure and also written circular on measures to be implement to prevent irregular expenditure from occurring when goods and service are procured was also written.
* The instruction by the SCM Head Office is still valid and end user are informed in advance to close purchase order for contract related service or goods where the contract is still valid at the financial year end in particular for the service of the this nature because budget allocation and commitment is not the same as for goods and infrastructure projects. It is possible to manage such purchase orders.
* Bid evaluation committee and the adjudication committee are advised by the procurement secretariat to evaluate and adjudicate the bids as per evaluations criteria of the advertised bid. The process on how the bids should be evaluated and adjudicated is also indicated on the SCM instruction note for the implementation of the preferential procurement framework of 2017.
* Workshops were also conducted for members of the specification , evaluation and bid adjudication committee
* All officials of the department are made aware to declare the business interest at the beginning of every financial year and during the briefing session all prospective bidders are also informed about completing the declaration honestly.
* During the drafting of specifications all conditions of the contracts are detailed and confirmed by the end-user before the specification is submitted to the specification committee for recommendation to the DBAC and the Director General for approval.
* Ethics committee which oversees the implementation of sanction recommended after investigation of irregular expenditure has been appointed.
* Risk management investigate all requests submitted for irregular expenditure
* Facilitation, monitoring and interrogation of the submission of monthly reports to SCM H/O on fruitless and wasteful expenditure incurred is in process
* Training for all End Users and SCM stakeholders regarding fruitless, wasteful andirregular expenditure has taken place
* Policy on Emergency Orders in accordance with NT criteria
* Orders are created for all procurement activities within the WTE.
* To phase out the utilisation of sundry payments a checklist has been developed to monitor sundry payments
* A register for irregular expenditure is maintained and updated monthly
* Possible disciplinary Action will be recommended by the Financial Misconduct
* Committee for cases that warrant such action
 |
| The method of procurement is inconsistent with those prescribed in terms of PN 8 of 2007/2008. Goods or services of a transaction value of R10 000 to R500 000 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by delegated person. | R 240 522,22 | The method of procurement is inconsistent with those prescribed in terms of PN 8 of 2007/2008. Goods or services of a transaction value of R10 000 to R500 000 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by delegated person - Go Rental | Go Rental - Line function to regularize the procurement as only one company responded to the request for quotation invitation and Auditor General consider the transactions as deviation. The amount of R 240 522.00 was spend in the interest of the department as no individual benefit was detected. |
| Goods and Service were rendered by the supplier and paid for without a valid written signed contract  | R 778 013,34 | Goods and Service were rendered by the supplier and paid for without a valid written signed contract- Phakisa World MTN and Duma. The alleged irregular expenditure for Phakisa, Duma and MTN was incurred due to orders that were not created in time for the period 2015/16. Line functions are required to create annual purchase order through SCM per the budget for the period. The purchase order for the previous financial year must be closed at the year-end as per instruction from SCM Head Office . Request must be submitted for the new financial period to create orders for that period - Phakisa World MTN and Duma.Service was rendered without official purchase order. SCM policy paragraph 11.10 state that no goods or services will be procured without the issuing of an official purchase order. Hire of toilet - Ash Jonki T/A Traka Enviro Cheam CC and Mafoko Security Patrols PTY( LTD ) | Phakisa & Duma - The instruction by the SCM Head Office is still valid and end user are informed in advance to close purchase order for contract related service or goods where the contract is still valid at the financial year end in particular for the service of the this nature because budget allocation and commitment is not the same as for goods and infrastructure projects. It is possible to manage such purchase orders. Warning Letters were issued to affected officials and the case will be submitted for Condonement (As per disciplinary prescripts all written warnings should be filed on the employee personal file, after period of 6 month the written warning must be removed from file and be destroyed.).The amount of R 664,017.18 was spend in the interest of the department as no individual benefit was detected.Ash Jonki T/A Traka Enviro Cheam CC and Mafoko Security Patrols PTY( LTD - Service was rendered without official purchase order. SCM policy paragraph 11.10 state that no goods or services will be procured without the issuing of an official purchase order. Hire of toilet - Ash Jonki T/A Traka Enviro Cheam CC and Mafoko Security Patrols PTY( LTD .Warning Letter were issued to affected officials and the case will be submitted for Condonement (As per disciplinary prescripts all written warnings should be filed on the employee personal file, after period of 6 month the written warning must be removed from file and be destroyed.The amount of R113 995.53 was spend in the interest of the department as no individual benefit was detected. |
| Goods and Service were rendered by the supplier and paid for without a valid written signed contract - RBAC submission was send through to DBAC for approval - Critical Service pertaining to Water Testing | R 792 487,83 | No current contract in place - RBAC submission was send through to DBAC for approval - Critical Service pertaining to Water Testing-Sol Plaatjie Municipality | Father & Son (Midvaal Water) - Service rendered before the Purchase Order can be created. Father and Son catering. Written warning was issued to the affected official (As per disciplinary prescripts all written warnings should be filed on the employee personal file, after period of 6 month the written warning must be removed from file and be destroyed.). The amount of R 889.20 was spend in the interest of the department as no individual benefit was detected.Midvaal Water - No current contract in place - RBAC submission was send through to DBAC for approval - Critical Service pertaining to Water Testing. Warning letter was issued by Head of Northern Cape Region to the official involved –Mr P L Mokhantle and Mr Khorombi Konanani is the supervisor (As per disciplinary prescripts all written warnings should be filed on the employee personal file, after period of 6 month the written warning must be removed from file and be destroyed.). The amount of R 791 598.63 was spend in the interest of the department as no individual benefit was detected. |
| Unfair elimination of bidder | R 429 401,00 | Contract awarded to the bidder who should have been eliminated | Dedone Trading Enterprise - Bid evaluation committee and the adjudication committee are advised by the procurement secretariat to evaluate and adjudicate the bids as per evaluations criteria of the advertised bid. The process on how the bids should be evaluated and adjudicated is also indicated on the SCM instruction note for the implementation of the preferential procurement framework of 2017. Workshops were also conducted for members of the specification , evaluation and bid adjudication committee.The amount of R 429 401 .00 was spend in the interest of the department as no individual benefit was detected. |
| No current contract in place - RBAC submission was sent through to DBAC for approval - Critical Service pertaining to Water Testing | R7000 | No current contract in place - RBAC submission was sent through to DBAC for approval - Critical Service pertaining to Water Testing-Sol Plaatjie Municipality | Sol Plaatjie - Service rendered before the Purchase Order can be created . Warning letter was issued by the Head of Northern Cape Region to the official involved –Mr P L Mokhantle and Mr Khorombi Konanani is the supervisor (As per disciplinary prescripts all written warnings should be filed on the employee personal file, after period of 6 month the written warning must be removed from file and be destroyed.).The amount of R 6 968.00 was spend in the interest of the department as no individual benefit was detected. |
| Extension of scope and payment of invoices without the approval of DBAC | R18 686 251.76 | Bid scope was extended and paid without proper delegated authority  | Sgodi Marah martin Management support - Investigations was completed chargers will be issued. |
| Advanced payment was done whereas provision was not made for such in the conditions of contract. Officials did not have delegations to approve payments. | R30 655 170 | Advanced payment was done whereas provision was not made for such in the conditions of contract. Officials did not have delegations to approve payments. Supply of steel , pipes a, specials , Fit tings and Valves for Meetse Civil  | Metsi Civils - The official resigned during the process of disciplinary hearing and the report to close the case was written to the complainant Transaction is ready to be condoned. The amount of R 30 655 170. 00 was spend in the interest of the department as no individual benefit was detected. |
| Contracts awarded to supplier who should have been disqualified | R 359 863,80 | The bid was awarded to the bidder who should have been disqualified as did meet the specification requirement | Dedone Trading Enterprise - Bid evaluation committee and the adjudication committee are advised by the procurement secretariat to evaluate and adjudicate the bids as per evaluations criteria of the advertised bid. The process on how the bids should be evaluated and adjudicated is also indicated on the SCM instruction note for the implementation of the preferential procurement framework of 2017. Workshops were also conducted for members of the specification , evaluation and bid adjudication committee.The amount of R 429 401 .00 was spend in the interest of the department as no individual benefit was detected. |
| Awards to bidders who did not meet all the specification requirements | R 1 987 227,00 | The bid was awarded to the bidder who did not meet the specification requirement | DCD Ringroller Bid evaluation committee and the adjudication committee are advised by the procurement secretariat to evaluate and adjudicate the bids as per evaluations criteria of the advertised bid. Warning letter will be issued to the bid Evaluation Committee which participated of the bid for supplier of spare parts. The process on how the bids should be evaluated and adjudicated is also indicated on the SCM instruction note for the implementation of the preferential procurement framework of 2017.Workshops were also conducted for members of the specification , evaluation and bid adjudication committee .The amount of R 1 987 227.00 was spend in the interest of the department as no individual benefit was detected. |
| Suppliers to whom awards were made did not submit declarations to declare that a close family member/ partner/ associate of the supplier or of a director/ member/ principal shareholder/ stakeholder of the supplier is in the service of the institution. | R 531 856,17 | Suppliers to whom awards were made did not submit declarations to declare that a close family member/ partner/ associate of the supplier or of a director/ member/ principal shareholder/ stakeholder of the supplier is in the service of the institution. Non declaration of interest by employee in business owned by spouse which conducted business with the Department - Zenzele Projects & SNZN Construction Catering and Cleaning.Non declaration of interest by employee in business owned by spouse which conducted business with the Department – Zenzele Project | Zenzele Projects & SNZN Construction - Catering and Cleaning. All officials of the department are made aware to declare the business interest at the beginning of every financial year and during the briefing session all prospective bidders are also informed about completing the declaration honestly. The amount of R 475 034 was spend in the interest of the department as no individual benefit was detected.Zenzele Projects & SNZN Construction Declaration of Interest- Declaration of Interest - Does not meet definition of irregular expenditure as per the investigation report. The amount of R 56 822 was spend in the interest of the department as no individual benefit was detected. |  |
| **TOTAL** | **R54 565 052,29** |  |

## **FRUITLESS AND WASTEFUL EXPENDITURE 2015/16**

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
| Payments not made before due date to Eskom and or municipalities for supplying electricity to the department which resulted in interest being incurred | R1 217 000 | Treasury regulation 8.2.3 provides that unless determined otherwise in the contract or other agreement, all payment due to creditors must be settled within 30 days from receipt of invoice or in the case of civil claims from the date of settlement or court judgment. This is also a requirement as per Section 38(1) (f) of the PFMA.WTE has managed to pay on average 98% of valid invoices on time in compliance with Treasury regulation 8.2.3. However of the 2% delayed payments, Fruitless and wasteful expenditure was incurred in relation to the following:-* Contractual terms for payment of invoices by WTE to Eskom stipulates less than 30 days from date of invoice receipt into the department.
* Current contracts with Eskom are considered invalid because:-
* They were signed off by junior staff not delegated to sing off on departmental contracts; *and/or*
* Contracts were signed before enacting of the PFMA (Prior to 1999).
 | * The department (WTE) has held discussions with Eskom requesting Eskom to look at the contractual terms and revise them to be in line with the PFMA section 38(1), but the meeting did not yield any positive results.
* Invoices investigated to determine possible recovery of interest paid and no disciplinary action taken internally until all engagements with Eskom and the municipalities are concluded
* The departmental authorisation process shortened through the revision of the Delegation of authority to curb handing of invoices for payment.
* WTE will request recovery of the interest paid to date from Eskom.
* In incidents where payment was made on time but Eskom or the municipality had not allocated the payments on time within the various WTE accounts will be reversed by Eskom/municipality.
 | Contractual arrangements* In this regard, the department has undertaken a dispute on the current contracts with Eskom to be invalid because they were entered upon before applicability of the PFMA and were later never aligned to the PFMA and have not aligned themselves to section 38(1) of the PFMA.
* WTE’s negotiations with Eskom will encompass that they either change from expecting payment within 10 – 15 days as currently is the case to expect the department to pay instead within 30 days **or** the department changes the payment terms from 60 days to 14 days on Water user charges (i.e. for sale of raw water to Eskom)

Discounting* Agreement reached with Eskom to reverse/discount for all incidences were the department had paid timeously however Eskom had allocated the receipts to the respective WTE accounts late.
 |

## **WTE OVERDRAFT**

| **Incident** | **Amount** | **Problem Statement** | **Our Response** | **The Way Forward** |
| --- | --- | --- | --- | --- |
|  Overdraft  | R3.2 billion  | National Treasury reduced the Augmentation for the MTEF Cycle of 2016/2017 to 2018/19 by R4.4 billion broken down as follows:2016/2017 – R1.1 Billion2017/2018 – R1.7 Billion2018/2019 – R 1.6 billionNational Treasury reduced the MTEF allocation citing the accumulated surpluses within the Entity (these were non cash surpluses or reserves). The department then used the long outstanding debt of Water Boards and Municipalities as well as Private Companies and Individuals exceeding 150 days amounting to R2.9 billion and R 200 million respectively. | **A, Interventions by the Department** 1. The National Treasury had indicated to the Department (WTE) that cash surpluses must be used to offset the R4.4 billion reduction. The subsequent engagement with the NT indicated that the surpluses did not represent cash in the bank but indicated an income statement surplus. However, the engagement did not provide positive results for the department. At the time in question there were R2.9 billion commitments on hand at the aforesaid engagement and hence the use of the debt.2. In July 2016 the Department/WTE and National Treasury (NT) initiated engagement to agree on a realistic budget for WTE after noting deteriorating financial situation on the entity. 4. Following an engagement with the NT, on 20 April 2017 the following arrangements will the made to reduce the overdraft:a) at the end of June 2017 by R200 million,b) at the end of March 2018 by R748 million.c) By the end of 2018/19 financial year the remainder of the overdraft will be eliminated.5. The WTE dunning process didn’t yield any positive results as municipalities and water boards continued with non-payment of outstanding debt. Therefore the entity had to identify other intervention to collect the debts. * + Letter of demands were sent to all water users not paying the accounts (includes telephone calls)
	+ Appointment of the debt collector to collect debt older than 60 days.
		- Mainly on companies, individuals, departments and municipalities
		- Water Boards, Billing agents are excluded from hand-over.

6. The entity decided to call and arrange meeting with the municipalities. Many municipalities were disputing their accounts. WTE make efforts to correct accounts where customers had valid disputes. Municipalities that had their queries resolved promised to start paying for their accounts, they still continued with the non-payment of the accounts.7. WTE requested intervention from COGTA and Provisional Treasury. Municipalities made an undertaking to sign the payment arrangement. However the municipalities that signed the payment arrangement are not honouring the agreement.8. WTE wrote to COGTA and Minister of Finance in the current financial year to intervene as per the intergovernmental relation Act. COGTA consulted with the affected municipalities, however there is no positive results as yet.9. The NT is also trying to assist the DWS to collect the outstanding debt from municipalities.10. Non-payers are hand-over to legal for further handling.11. Customer Relations Management (Queries resolutions) has been implemented12. Electronic Bill Presentation and Payment (EBPP) is being implemented. 13. Discounting of the debt is being considered to encourage water users to come forward and pay the outstanding balance.14. Cabinet memo in this regard, is under consideration and consultation with relevant parties are underway. 15. The DWS is requesting support in implementing the following credit controls.* Withholding of the equitable share.
* National Treasure (NT) to withhold equitable share for municipalities that are not paying as prescribed by financial management prescripts. Alternatively the NT to transfer the equitable share ring-fenced raw water use charges to WTE for non-paying municipalities.
* Restricting water supply
* The existing pricing strategy does not make provision for the restriction or reducing the flow of water due to non-payment. Consequently, the normal credit control procedure for defaulting water users is followed..
	+ Restriction or reducing of water supply will affect will also affect economic activities that are happening at local level.
* Legal action
	+ Hands over non-payers to legal for further handling
* Listing
	+ Listing non-paying water users with the credit bureaus.

 **B (1) Progress on Reduction of Overdraft**The Overdraft at end March 2017 was R2.675 billionAs at end June 2017 the overdraft was R 2.277 Billion. There was a total reduction of R 398 million.**B (2) Progress on Debt Recovery** Companies and Individuals* The company and individual balance decreased by R1.4 million and R11.6 million respectively.
* The decrease is as result of the payment that the companies/ individuals are making and collection efforts by the debt collector.
* Non-paying companies
	+ Handed-over to legal due to non-payment
		- CHARL SENEKAL SUIKER R 18 million
		- NCORA IRRIGATION PRODUCERS ASSEMBLY R14 million
		- MASWIRI BOERDERY R22 million
	+ Handed-over for collection
		- OPTIMUM COLLIERY R R47 million

**B (3) Progress on Municipalities*** + District and local municipalities continue not to pay the accounts, however they were handed over to legal for summoning.
		- 61 summons issued ( 4 court judgment granted)
		- 121 still in legal collection process
		- 74 municipalities not handed-over as some of them were paying their accounts. Assessment is being done so that those that are not paying can be handed-over.

**B(4) Progress on Water-Boards*** The Water boards balance increased from R2.9 billion to R3.2 billion. The increase emanate from Sedibeng Water, they are not servicing their debt. They owe the department R1.9 billion. Meetings are being arranged to deal with the non-payment and this will include the respective municipalities that owes Sedibeng Water.
* The first round of meetings were held in June 2017 and the respective municipalities were requested to have a council resolution on how they are going to pay the debt.
* The second round of meetings will be convened the beginning of September 2017.
* Water services provider is Uthukela Water with outstanding balance of R202 million.
* They requested DWS to write-off 50% of the debt and make payment arrangement of the remaining 50%. The offer was rejected as DWS requires money to execute their mandate.
* Final demand letter was sent to in the beginning of January 2017
* Follow-up was made, they are still waiting for the approval of the budget from the respective municipalities.
* Water restriction will be considered if they continued not to pay the accounts ( section 59 of NW act).
* Legal actions will also be executed

**B(5) Progress on National Government**Follow-ups are being made to collect this debt, the main challenge is the National Departments always refers the WTE to the provincial departments and Public works. Meetings are being held to clarify the ownership of the debt.* The Provincial Government balance decreased from R14 million to R13.6 million. The decrease in this category is minimal.
 | 1. The Entity has implemented stringent/strict Cash Flow Management.2. The Entity is also engaging Cabinet to resolve the municipal debt issue which will go a long way to alleviate the overdraft.  |
|  |  | The commitments for 2015/2016 were R2.9 billion which had to be accounted for in the budget of 2016/17  |  |

**THE END**