

BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION ON THE PERFORMANCE OF THE DEPARTMENT OF WATER AND SANITATION AND ITS ENTITIES FOR THE 2016/17 FINANCIAL YEAR, DATED 2 NOVEMBER 2017

The Portfolio Committee on Water and Sanitation (hereinafter the Portfolio Committee), having considered the performance of the Department of Water and Sanitation (hereinafter the Department) and its Entities reports as follows:

1. INTRODUCTION

The Constitution of the Republic of South Africa, 1996 empowers the National Assembly, through its committees, to ensure that executive organs of the state to the national sphere of government are accountable to it. It further empowers the National Assembly to maintain oversight of the national executive within a particular sector, which for the purposes of this report, is water and sanitation.

In order for the Portfolio Committee to provide oversight, the Budgetary Review and Recommendation Report (BRRR) is an essential tool to assess the Department's performance and strategic direction. The BRRR also acts as a mechanism to measure service delivery and identify areas that require urgent intervention. The BRRR process enables the Portfolio Committee to understand how the Department expended its appropriated budget.

The Portfolio Committee engaged with the Department of Water and Sanitation and its Entities during briefings on the **4th, 5th and 18th October 2017**.

2. SCOPE OF OVERSIGHT OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION

The oversight component of the work of the Portfolio Committee, in its analysis of the work of the Department of Water and Sanitation and its Entities, through its scrutiny of the 2016/17 Annual Report, is to ascertain the extent to which the Department and Entities are:

- Complying with the legislative, budgetary, policy and constitutional mandate to ensure that the country's water resources are protected, developed, conserved and controlled by regulating and supporting the delivery of effective water and sanitation, particularly water and sanitation infrastructure. This entails adhering to the Public Finance Management Act, 1999, and other

relevant National Treasury regulations and other pieces of legislation governing national Departments;

- Adhering to water-related policies and legislation, including constitutional requirements that are critical in delivering the right of access to sufficient, quality water to all citizens in the country; and
- Aligning the work of the Department to the National Development Plan and Outcomes contained in the Medium-Term Strategic Framework.

3. MANDATE AND STRUCTURE OF THE DEPARTMENT OF WATER AND SANITATION

The mandate of the Department is derived from the National Water Act, 1998, the Water Services Act, 1997 and Water Research Act, 1971. Entities supporting the work of the Department are the Water Research Commission, the Trans-Caledon Tunnel Authority, Catchment Management Agencies and Water Boards.

The Department of Water and Sanitation, within Vote 36 undertook its work for the 2016/17 financial year by delineating budget and priorities under five (5) programmes – Administration; Water Planning and Information Management; Water Infrastructure Development; Water and Sanitation Services and Water Sector Regulation. To effectively optimise its work, the Department has two accounts under which it operates; the Main Account is the appropriated funds from the fiscus, and the Water Trading Entity. Funding for the Water Trading Entity, that of operations and maintenance, as well as development of new infrastructure comes from revenue that is generated from raw water charges in terms of the water pricing strategy. It also receives an augmentation from the fiscus, via the Department, through Programme 3: Water Infrastructure Development.

3.1 Overview of achievements and challenges related to attainment of strategic outcome oriented goals¹

For the period under review, the Department revised its strategic outcome oriented goals from three (3) during the 2015/16 financial year to five (5) during the 2016/17 financial year. The following strategic outcome oriented goals underpinned the work of the Department:

- Goal 1: Enhanced and protected water as a water resource across the value chain;
- Goal 2: Equitable access to reliable sustainable and acceptable water resources and water and sanitation services;

¹ The information below was sourced from the Department of Water and Sanitation, Annual Report, 2016/17

- Goal 3: An enhanced contribution to socio-economic development and transformation by the sector;
- Goal 4: An efficient, effective and development oriented water and sanitation sector; and
- Goal 5: Sound cooperative governance and an active and engaged citizenry.

To attain the defined strategic outcome goals, the Department received an appropriation to Vote 36 of an amount of R15.5 billion and spent R15.6 billion, which amounted to an overspend of R110.8 million.

An analysis of the percentage achievement of annual milestones for each of the goals listed above show that the Department achieved 60 per cent of its strategic objectives for Goal 1; 60 per cent for Goal 2; 75 per cent for Goal 3; 75 per cent for Goal 4 and 100 per cent for Goal 5.

The Department's explanatory notes on the milestone that were not achieved reflect the following²:

- In Programme 1: Administration, the unqualified audit outcome for 2016/17 was not achieved;
- In Programme 3: Water Infrastructure Development, 253 bulk water supply and sanitation services infrastructure projects were not completed. This falls mainly with the Regional Bulk Infrastructure Grant (RBIG); Water Services Infrastructure Grant and Accelerated Community Infrastructure Programme projects. Funds were reprioritised to support the emergency interventions relating to drought relief as well as certain operations and maintenance projects to ensure water security; and
- In Programme 5: Water Sector Regulation, the draft water and sanitation services regulatory compliance and assessment tool was not achieved as the consolidation of the regulatory instruments is still underway. The draft National Mine Water Regulation Programme was not achieved.

4. FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT OF WATER AND SANITATION

4.1 Department of Water and Sanitation – Main Account and Water Trading Entity

4.1.1 Main Account

The Department of Water and Sanitation had at the end of the 2016/17 financial year spent R15.6 billion or 100.7 per cent of the total available budget of R15.5 billion, which translates to an overall overspending of R110.8 million. This is as a result of a net loss of R89 million, an overdraft of R194

² The information that follows was sourced from presentations made by the Department of Water and Sanitation on its analysis of the Annual Report, 2016/17 on 4 and 5 October 2017

million and unauthorised expenditure of R406 million incurred by the Department for the period under review. Furthermore, the Department's current liabilities exceeded its total assets by R454 million.

An analysis of the annual performance in the Main Account showed that for the period under review, the Department achieved 48 per cent of its defined targets, not achieved 31 per cent and partially achieved 21 per cent.

Table 1 below reflects the departmental expenditure per programme and economic classification of Main Account as at 31 March 2017:

Programme	Adjusted Appropriation R'000	Shifting of Funds	Virement R'000	Final Appropriation R'000	Actual Expenditure R'000	Variance R'000	Percentage Spent
Administration	1 612 951	-	(65 208)	1 547 743	1 504 930	42 813	97.2%
Water Planning and Information Management	814 813	-	(65 157)	749 656	695 604	54 052	92.8%
Water Infrastructure Development	12 012 696	-	117 622	12 130 318	12 082 462	47 856	99.6%
Water and Sanitation Services	738 060	-	40 428	778 488	1 070 757	(292 269)	137.5%
Water Sector Regulation	346 077	-	(27 685)	318 392	281 685	36 707	88.5%
Total	15 524 597	-	-	15 524 597	15 635 438	(110 841)	100.7%
Economic Classification							
Current Payments	3 202 471	(15 935)	-	3 186 536	3 139 948	46 588	98.5%
Compensation of Employees	1 540 217	-	-	1 540 217	1 439 945	100 272	93.5%
Goods and Services	1 662 185	(15 941)	-	1 646 244	1 699 929	(53 685)	103.3%
Interest on Rent and Land	69	6	-	75	74	1	98.7%
Transfers and Subsidies	7 487 642	15 906	-	7 503 548	7 482 157	21 391	99.7%
Payment for Capital Assets	4 834 484	26	-	4 834 510	5 013 330	(178 820)	103.7%
Payments for financial assets	-	3	-	3	3	-	100.0%
Total	15 524 597	-	-	15 542 597	15 635 438	(110 841)	100.7%

Source: Presentation by the Department of Water and Sanitation, 4 October 2017

4.1.1.1 Overview and Assessment of Programme Performance³

Although the country and the region experienced below normal rainfall in 2015/16, which resulted in the meteorological, hydrological, socio-economic and agricultural drought, the performance of the Department can best be described as “average”, as it only managed to achieve 52 per cent of its targets. Programme 4: Water Sector Regulation only managed to achieve a mere 36 per cent of its targets. This implies a serious lack of service delivery in terms of water sector regulation. This in turn, would affect all service delivery efforts, since regulation provides the foundation for all other services, such as quality, decent water and sanitation services and protection of water resources.

For the period under review, the departmental spend and attainment of performance targets for each programme in the Main Account showed the following:

- **Programme 1: Administration** spent 97.2 per cent of the final appropriation of R1.5 billion. The total number of delineated indicators for the programme was 10. The Department achieved 8 of these, partially achieved 1 and not achieved 1. The Department had planned to achieve:
 - A 100 per cent compliance with Management Performance Assessment Tool (MPAT), but only achieved 43 per cent. The 57 per cent compliance with MPAT was not achieved as certain key performance areas had additional requirements resulting in the attainment of partial compliance;
 - Planned to achieve 100 per cent expenditure on annual budget, but overspent by 100.7 per cent; and
 - Planned percentage of targeted procurement budget spent on exempted micro enterprises was at 15 per cent, but attained 13 per cent.

The failure to achieve the above-mentioned targets resulted in the non-realisation of the strategic objective (an efficient, effective and high performing organisation) for this programme. The Department had also received a qualified audit, which reflects negatively on the optimal functioning of the Department.

- **Programme 2: Water Planning and Information Management** spent 92.8 per cent of the final appropriation of R749 million. The total number of delineated indicators for the programme was 11. The Department achieved 7, partially achieved 3, and not achieved 1. The Department had planned to achieve:

³ The information below was sourced from the Department of Water and Sanitation, Annual Report, 2016/17

- A total of 16 versus the planned 28 feasibility studies for water and wastewater services projects Regional Bulk Infrastructure Grant were completed. The reason for the deviation was due to contractual matters that took longer than anticipated;
- A total of 12 versus the planned 19 implementation readiness studies for water and wastewater services projects were completed. The reasons for the deviation were due to contractual matters that took longer than anticipated. The reprioritisation of a list of projects and budget reallocation in consultation with provincial offices and municipalities had to be done to confirm the project list and co-funding, which contributed to delays; and
- A total of 17 versus the planned 53 Water Services Authorities were assessed for socio-economic impact. This was not achieved as the signing of the contract with the service provider occurred later than anticipated, which delayed the completion deadline. The assessment of the remaining Water Services Authorities is carried over to the current financial year.

Although the Programme managed to achieve 60 per cent of its planned targets, the centrality of water planning and information management in the entire water value chain is an important component of the work of the Department. The programme provides statistical guidance for the effectiveness, efficiency and functionality for future determinations and costing of water and sanitation infrastructure delivery.

- **Programme 3: Water Infrastructure Development** spent 99.6 per cent of the final appropriation of R12.1 billion. The total number of delineated indicators for the programme was 18. The Department achieved 6, partially achieved 5 and not achieved 7. The Department had planned to achieve:

- Two (2) mega water and wastewater services project ready for implementation was not achieved. This related to the Polokwane Wastewater Treatment Works, in which only the implementation readiness study was concluded. On Sedibeng Bulk Regional Sewerage project, this had to be reviewed as the Sedibeng Regional Sewer Scheme projects were prioritised to include new rudimentary projects;
- Completion of the construction of 1 mega water and wastewater services project was not achieved. The plan to complete the construction of Jozini Bulk Water Scheme project was not achieved as funds were reprioritised. Subsequently, the project was accelerated through bridge funding provided by uMhlathuze Water with a phase of the project completed;
- The plan to have 2 large water and wastewater services projects under construction was not achieved. This related to the Emalahleni Bulk Water Supply Upgrade and the Western Highveld Water Supply Scheme;

- The plan to complete the construction of 1 large water and wastewater services project was not achieved. The plan to complete the construction of KSD sanitation project was not achieved as there are land matters prohibiting its completion;
 - The plan to complete the construction of 251 small water and wastewater services projects was not achieved;
 - The plan to create 113 job opportunities was not achieved. The implementation of Olifants River Water Resource Development Project Phases (ORWRDP) 2D, E, and F was affected by the longer than anticipated funding between the Department and the Trans-Caledon Tunnel Authority; and
 - The plan to have 5 bulk raw water projects for implementation was not achieved in Tzaneen, Nwamitwa Dam, Clanwilliam Dam, Umzimvubu and the ORWRDP 2 E and F.
- **Programme 4: Water and Sanitation Services** spent 137.5 per cent of the final appropriation of R778 million. The total number of delineated indicators for the programme was 6. The Department achieved 5 and partially achieved 1. The Department had planned to achieve:
 - A total of 1 500 tanks were to be installed to harvest water for food production and other household productive uses, but achieved 807. The plan to install 693 tanks to harvest water was not achieved as funds were reprioritised to support drought interventions.
- **Programme 5: Water Sector Regulation** spent 88.5 per cent of the final appropriation of R318 million. The total number of delineated indicators for the programme was 23. The Department achieved 33, partially achieved 14 and not achieved 21. The Department had planned to achieve:
 - Two (2) of the planned 3 catchments were assessed for Acid Mine Drainage. The plan to achieve the Usuthu-Mhlathuze catchment for Acid Mine Drainage was not achieved due to human capacity constraints;
 - One (1) of the planned 2 catchments had Acid Mine Drainage mitigation strategies developed. The plan to develop a mitigation strategy for the Vaal catchment was not achieved as the review of the catchment is still underway;
 - The plan for developing a funding model was not achieved as the funding model is still being finalised;
 - The plan to complete the Witwatersrand Acid Mine Drainage long-term project was not achieved as a single source procurement of an Environmental Impact Assessment practitioner had to be revised to include Broad-Based Black Economic Empowerment objectives;

- The plan to develop the Draft National Water and Sanitation Resources and Services Strategy was not achieved due to the delays in finalising the contractual issues;
- The water supply and sanitation norms and standards were not published as there was a delay in finalising the contractual issues;
- The plan to have an approved business case for the establishment of the independent economic regulator was not achieved as the business is on hold until the next financial year;
- The plan to gazette the final water pricing strategy was not achieved as the process to obtain the concurrence from other stakeholders is ongoing;
- The plan to gazette the business case for the establishment of the National Water Infrastructure Agency was not achieved;
- The plan to gazette the establishment of 3 Catchment Management Agencies was not achieved as the process for the gazetting is still ongoing;
- The plan to gazette the establishment of 2 proto-regional water utilities was not achieved as the matter is still being consulted on with interested and affected stakeholders in Kwazulu-Natal and North-West; and
- The plan to finalise 129 water use authorisations within 300 days was not achieved due to inadequate human resources at catchment management agencies.

4.1.1.2 Other Expenditure Trends – Virements and Rollovers⁴

Other expenditure trends for the Department for the period under review show that in terms of **Virements**, the Department vired an amount of R117 million from Programme 1: Administration to Programme 3: Water Infrastructure Development to defray over expenditure. An amount of R40 million was vired from Programme 2: Water Planning and Information Management and Programme 5: Water Sector Regulation to Programme 4: Water and Sanitation Services to defray over expenditure.

The Department did not request a **rollover** from National Treasury as it exceeded its budget allocated to the vote by R110.8 million, as a result of a net unauthorised expenditure amount of R406.9 million incurred by Programme 4: Water and Sanitation Services. There were challenges in respect of supply chain management as some implementing agents did not comply with the departmental supply chain policy when implementing projects on behalf of the Department. This affected the Department's ability to prevent irregular expenditure, which resulted in irregular expenditure increasing from R2.4 billion in 2015/16 to R4.1 billion in 2016/17.

⁴ The information below was sourced from the Department of Water and Sanitation, Annual Report, 2016/17

4.1.2 Overview of the Water Trading Entity

The Entity is divided into two parts – the Water Resource Management unit as well as the Infrastructure Branch. Water resource infrastructure is financed either by the national budget or through the Trans-Caledon Tunnel Authority. The establishment of the Water Trading Entity within the Department of Water and Sanitation was to promote the efficient management of bulk infrastructure. The Trans-Caledon Tunnel Authority operates as a special purpose vehicle responsible for the financing and building of large water infrastructure that is identified by the Water Trading Entity. The Trans-Caledon Tunnel Authority borrows finance from markets in its own capacity, with government providing explicit guarantees in certain instances. Once the infrastructure is built, the Water Trading Entity is then responsible for the operation and maintenance of this infrastructure. The Trans-Caledon Tunnel Authority services the debt (usually over 20 years) with payments from the Water Trading Entity. After the debt is repaid, asset ownership is transferred to the Water Trading Entity.

4.1.2.1 Budget and expenditure summary and overview of performance of the Water Trading Entity⁵

- Overview of total income, expenditure and deficit for the Water Trading Entity*

In the period under review, an overview of the operating performance of the Water Trading Entity, as reflected in Table 2 shows the total income, expenditure and deficit for the Water Trading Entity for the 2016/17 financial year:

	As reflected in the Annual Report, page 23	As reflected in the financial statement of the Water Trading Entity on page 348 of the 2016/17 financial year
Total income	R11.798.111 billion	R11.797.865 billion
Total expenditure	R17.605.161 billion	R15.401744 billion
Deficit	R5.807.050 billion	R3.603.879 billion

The Portfolio Committee on Water and Sanitation noted with concern the discrepancies of figures related to the Water Trading Entity for the 2016/17 financial year. In the overview of the operations of the Department by the Accounting Officer, Mr S Mkhize, Acting Director-General on page 23, noted that the income, expenditure and deficit of the Water Trading Entity reflected an amount of R11.7 billion as total income, R17.605.161 billion as total expenditure and a deficit of R5.8 billion for the Water Trading Entity.

⁵ The information below was sourced from the Department of Water and Sanitation, Annual Report, 2016/17

However, the inconsistencies in the amounts for the Water Trading income, expenditure and deficit on the audited financial statements reflected on page 243 of the Annual Report show the following amounts:

- Total income – R11.797.865
- Total expenditure: R15.401.744
- Deficit: R3.603.879

In addition, the acting Director-General also provided reasons for the trends in deficit, expenditure and total income. The deficit of R5.8 billion can be attributed to the increase on finance costs of capital infrastructure undertaken by Trans-Caledon Tunnel Authority. Total expenditure increased by 57% in the 2016/17 financial year from R7.6 billion in 2015/16 to R17.6 billion in 2016/17. The increase is mainly attributed to increase on the finance costs, impairment of financial assets and operating expenditure. The total number of indicators per programme showed that for financial management, the Department had delineated 3 indicators, had achieved 2 and partially achieved 1. For the Water Resource Management, the Department had delineated 1 indicator, and had achieved 1.

On this issue, Members felt strongly that the Department needed to cross-check the information, more especially relating to budget amounts, as it becomes a contentious issues not only for the Portfolio Committee, but the Office of the Auditor-General as well.

In addition to the deficit of R5.8 billion reflected by the Water Trading Entity in the 2016/17 financial year, a number of other challenges highlighted below confronted the Entity in the period under review, which related to the liquidity, cash flow and debt book.

In respect of aspects related to liquidity, the current ratio of the Entity decreased from 3.32:1 to 0.70:1 due to the overdraft of R2.2 billion reported in the 2016/17 financial year. The ratio indicates that the Entity does not have adequate working capital to meet short-term obligations when they arise. On cash flow, the Entity's Cash Flow Statement reflects a net decrease in cash and cash equivalent of R2.2 billion. The Entity has since, with assistance from National Treasury, put measures in place to improve the cash flow in the new financial year. The National Treasury has granted the Entity approval to reduce the overdraft by R743 million in the new 2017/18 financial year. On aspects related to the debt book, the debt book reflects a balance of R9.9 billion before the provision of impairment of financial assets of R7.1 billion for the 2016/17 financial year.

5. OVERVIEW AND ASSESSMENT OF AUDIT OUTCOMES OF FINANCIAL STATEMENTS AND SELECTED PERFORMANCE OBJECTIVES OF THE DEPARTMENT OF WATER AND SANITATION FOR THE 2016/17 FINANCIAL YEAR – OFFICE OF THE AUDITOR-GENERAL OF SOUTH AFRICA⁶

The Office of the Auditor-General, in his opening remarks noted that the institution existed to strengthen democracy by enabling oversight, accountability and good governance in the public sector through auditing. This, in turn builds public confidence in government institutions. The current theme for the Office of the Auditor-General to improve outcomes is “Accountability = Plan + Do + Check + Act. The theme centred on the importance of government institutions to have a defined target, implement the basics, requires monitoring by all assurance providers and be able to deal with the consequences if all the elements listed were not prepared and followed.

Both the Department and Water Trading Entity received qualified audit opinion related to irregular and fruitless and wasteful expenditure. This was in relation to there being no controls to identify unauthorised, irregular, fruitless and wasteful expenditure within projects. The Water Trading Entity could not reconcile the financial liability of Trans-Caledon Tunnel Authority to the underlying accounting models.

On other key aspects to the audit findings, the Auditor-General found that:

- Financial statement preparations in the Department remain a concern;
- Inadequate monitoring of supply chain management legislation;
- Poorly motivated deviations;
- Internal controls detected unauthorised expenditure, controls are inadequate to prevent unauthorised expenditure;
- Leadership, financial and performance governance was a huge challenge within the Department’s Main Account and Water Trading Account;
- Concerns were raised on Programme 3: Water Infrastructure Development, which showed that 99.6 per cent of its allocated budget was spent with only 28 per cent of targets achieved;
- Four of the ten projects of the Water Trading Entity did not achieve desired objectives. The statutory audit findings in this respect showed that targets were not achieved with projects still under construction, yet there was overspending of the funds allocated per year. Multi-year key projects which had begun in earlier years were only included in the Annual Report of the current

⁶ Report of the Auditor-General on financial statements and selected performance information as contained in the 2016/17 Annual Report of the Department of Water and Sanitation

year. Supply chain management processes were not followed on most projects due to drought interventions by the Department, which resulted in irregular expenditure. Certain projects did not go through a tender process, and there was no budgeting for the Mopani Emergency Project in the current year, yet spending was incurred. The Limpopo Giyani has exceeded its annual budget; and

- Forty-four (44) per cent of the targets were not achieved on the selected projects. Of the ten (10) audited projects, compliance (including contract requirements) and pre-determined objectives had material findings, which were concerning.

5.1 Main Account

The Auditor-General in its assessment of the work of the Department of Water and Sanitation indicated that there is a material uncertainty relating to the going concern or financial sustainability of the Department. This, is as a result of a net loss of R89 million, an overdraft of R194 million and unauthorised expenditure of R406 million incurred by the Department in the period under review. Furthermore, the Department's current liabilities exceeded its total assets by R454 million, and as a result, will not be able to begin any new infrastructure projects over the medium-term.

Table 3 below provides an overview of the financial statements for the Main Account with regard to the issues raised by the Auditor-General for the 2016/17 financial year:

Items	2016/17	Comments
Audit Opinion	Qualified	The Department has regressed in this regard. The reasons for the qualified opinion, are amongst others, the financial statements submitted for auditing were not prepared in all instances in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 40(1)(a) and (b) of the Public Finance Management Act, 1999. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
Fruitless and Wasteful Expenditure	R59 million	The Department entered into contracts with implementing agents to construct capital infrastructure on an emergency basis. A system of control, that includes proper project management and costing techniques in line with the construction norms and standards, was inadequate to ensure that value for money was received. To this extent, the Department's processes to ensure that all fruitless and wasteful expenditure is identified and disclosed were inadequate. As a result, the Auditor-General was unable to confirm the completeness of fruitless and wasteful expenditure disclosed and could not confirm it by any alternative means. Consequently, fruitless and wasteful expenditure is understated. The Auditor-General was unable to determine the full extent of the understatement as it is impracticable to do so.
Irregular expenditure	R4.1 billion	The Department entered into contracts with implementing agents to construct capital infrastructure. When implementing agents are contracted by the Department, this does not release the Department from ensuring that funds spent on their behalf by the agents comply with the supply chain management (SCM) regulations that apply to the Department. The system of control within the Department to ensure that all irregular expenditure is identified and disclosed was inadequate to allow the Auditor-General to confirm the irregular expenditure disclosure, and could not confirm it by any alternative means.

		Consequently, the irregular expenditure is understated. The Auditor-General was unable to determine the full extent of the understatements as it was not practical to do so.
Unauthorised expenditure	R406 million	This was as a result of overspending of the main division during the year under review.
Contingent liabilities	R22.1 billion	The majority of these liabilities relate to foreign guarantees for mega projects such as the Lesotho Highlands Water Project which has a guarantee of around R21 billion.
Commitments	R9.1 billion	These arise from the multi-year contractual arrangements that will be paid over several years.

Apart from the financial issues, the Auditor-General also raised issues relating to leadership, the lack of implementation of policy and procedures to guide the operations of the Department in respect of the Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant. These policies insufficiently implemented. A manual/policy exists for the year under review to support payments to ensure proper reconciliation systems per project, which are reconciled on a monthly basis. However, the implementation and monitoring thereof was insufficient.

The Auditor-General further found that the Department did not have a proper internal control system to ensure that all tender processes conducted on behalf of the Department by the implementing agents. Tender processes were not adhered to.

A system of control that includes proper project management and costing techniques in line with construction norms and standards was inadequate to ensure that value for money was received. The projects were managed by implementing agents and procurement through a proper tender process did not occur.

The Auditor-General also highlighted consequence management as a concern as no evidence could be provided of steps taken against some of the officials who had incurred and/or permitted fruitless and was wasteful expenditure as required by section 38(10)(h) (iii) of the PFMA.

Lastly, the Auditor-General also found that the accounting officer did not ensure that internal controls were in place when major decision are taken in one division of the Department, which impact on decisions of other Departments. Decisions were not clearly articulated, considered and discussed with all other divisions before a final decision is taken.

5.2 Water Trading Entity⁷

The Water Trading Entity received a qualified audit opinion for the year under review, which are similar to those raised in the 2015/16 financial year. The Auditor-General was unable to obtain sufficient appropriate audit evidence for the carrying amount to assets under construction and related impairment, as the Entity did not have adequate systems in place to reconcile the carrying amount of assets under construction to the specific assets under construction.

In addition, the Entity did not assess the carrying amount for indicators of impairment as required by GRAP 21 (Impairment of non-cash generating units). The Auditor-General was unable to confirm the carrying amount of assets under construction by alternative means. In addition, the completed and commissioned assets were not transferred to infrastructure assets, the impairment of assets under construction was not accounted for and transactions that were not within property, plant and equipment were recorded in assets under construction, which resulted in assets under construction being overstated by R1.8 billion. As a result, the Auditor-General was unable to determine whether any further adjustments were necessary to assets under construction and infrastructure assets stated at R14.4 billion and R54.1 billion respectively in property, plant and equipment as disclosed on the financial statements.

Table 4 below provides an overview of the financial statement for the Water Trading Entity with regard to the issues raised by the Auditor-General in the 2016/17 financial year:

Items	2016/17	Comments
Audit Opinion	Qualified	The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 40(1)(a) and (b) of the PFMA. Material misstatements of non-current assets identified by the auditors in the submitted financial statements were corrected, and supporting records were provided. The uncorrected material misstatements and/or supporting records that could not be provided relating to property, plant and equipment liabilities and disclosure items resulted in the financial statements receiving a qualified audit opinion.
Fruitless and Wasteful Expenditure	R624 000	Interest expenditure was incurred on overdue accounts from Eskom and municipalities. Interest expenditure was also incurred on expropriation of land.
Irregular expenditure	R4.3 million	Goods and services were rendered by the supplier and paid for without a valid written signed contract and contract extension without proper delegation.
Revenue	R10.2 billion	This revenue mainly accrued from the sale of raw water.
Contingent liabilities	R35 million	These relate to legal claims against the Department.

⁷ Report of the Auditor-General on financial statements and selected performance information as contained in the 2016/17 Annual Report of the Department of Water and Sanitation

Commitments	R2 billion	This relate to capital commitments whereby the acquisition of property, plant and equipment was contracted, but not provided for in the financial statements
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Apart from the asset register for property, plant and equipment, the Auditor-General raised similar issues to those on the Main Account, this related to leadership, financial sustainability and financial liabilities of the Entity.

6. OVERVIEW OF PERFORMANCE (FINANCIAL AND NON-FINANCIAL) OF ENTITIES REPORTING TO THE DEPARTMENT OF WATER AND SANITATION

6.1 Water Research Commission (WRC)⁸

The Water Research Commission was established in terms of the Water Research Act, 1971, following a period of serious water shortages in South Africa. It was deemed to be of national importance to generate new knowledge and promote the country's water research. The WRC operates and accounts for its activities in accordance with the Public Finance Management Act, 1999 and listed as a schedule 3A public entity. The Water Research Commission reports directly to the Minister of the Department of Water and Sanitation.

The function of the Water Research Commission is to:

- Promote coordination, cooperation and communication in the area of water research and development;
- Establish water research needs and priorities;
- Promote the effective transfer of information and technology; and
- Enhance knowledge and capacity building within the water sector.

For the period under review, the Water Research Commission spent R310 million of the total budget of R302 million. There was a deficit of R8.8 million. The Water Research Commission received an unqualified audit opinion for the third consecutive year.

In terms of performance information, the Water Research Commission reports this within three key performance areas, namely the Research Portfolio; Human Resources and Financial. In respect of the first key performance area, Research Portfolio, the Water Research Commission managed to

⁸ 2016/17 Annual Report of the Water Research Commission and presentations made on 5 October 2017

overachieve on all of its targets. For the second key performance area, Human Resources, the Water Research Commission achieved all its targets and for the Financial Key Performance Area, the Water Research Commission managed to maintain income growth at R71.7 million by achieving R11.1 million more than targeted.

6.2 Catchment Management Agencies

Catchment Management Agencies are established in terms of Chapter 7 of the National Water Act. They are responsible for managing the water resources at a catchment level in all collaboration with local stakeholders (with a specific focus on involving local communities in the decision-making) regarding meeting of basic human needs, promoting equitable access to water and facilitating social and economic development.

The Catchment Management Agencies are listed as schedule 3A entities in the Public Finance Management Act. Nine (9) Catchment Management Agencies are being established. The establishment of all nine (9) Catchment Management Agencies was intended to be completed by 2016, but the establishment process has been delayed due to a number of challenges.

6.2.1 Inkomati-Usuthu Catchment Management Agency⁹

The vision for the **Inkomati-Usuthu** is to ensure water for all in the water management area of its functioning. The performance target achievements for the Inkomati-Usuthu Catchment Management Agency for the 2016/17 financial year reflect the following:

- With regard to governance, the Catchment Management Agency achieved all the planned targets, which were aimed at ensuring effective corporate governance;
- The performance objectives under the Office of the Chief Executive Officer relates to the compliance with the legislative reporting requirements; marketing of Inkomati-Usuthu Catchment Management Agency's activities and alignment of the performance management system with the Annual Performance Plan. In this regard, all planned targets were achieved satisfactorily. For example, four quarterly performance reports were submitted and Annual Performance Plan was approved for the year under review;
- With regard to Water Resource Management, the Inkomati-Usuthu Catchment Management Agency achieved 100 per cent of the planned targets. However, the withdrawal of delegated

⁹ The information below was sourced from the 2016/17 Annual Report of the Inkomati-Usuthu Catchment Management Agency and presentation on 5 October 2017

functions by the Minister is negatively affecting the water allocation reform process. For example, the Water Allocation Reform processes, which include validation and verification of water use within the Inkomati and Usuthu catchments, could not be concluded due to withdrawal of the functions by the Minister; and

- The Inkomati-Usuthu Catchment Management Agency reported that 20 directives and 12 notices were issued to non-compliance users and 2 criminal cases were opened against unlawful users.

The Inkomati-Usuthu Catchment Management Agency received an unqualified audit report in the financial year under review.

6.2.2 Breede-Gouritz Catchment Management Agency¹⁰

The vision for the Breede-Gouritz Catchment Management Agency is quality water for all in its catchment areas. The performance information for the Breede-Gouritz Catchment Management Agency for the 2016/17 financial year reflects the following:

- On **water resource planning**, 80 per cent of catchment management strategies were planned and this was achieved and 83 per cent of percentage of land use planning and rezoning applications were commented on as opposed to the planned 80 per cent; and there was the completion of 1 water quality objective report;
- On **water use management**, the planned target for water registration to be finalised was 80 per cent and attained 38 per cent. The reason for the deviation was the lack of capacity (personnel) to attend to the workload; and limited system functionality and connectivity greatly hindered productivity. The planned target for processed water use applications was 85 per cent, and achieved 93 per cent. The planned target for completion of audit reports for water use compliance was 60, which was achieved. The planned target for water users' validation and verified in selected priority catchments was 200 confirmation letters, and 205 was achieved;
- On **Management and Governance**, a 100 per cent was achieved;
- On **Water Allocation Reform**, 100 per cent support was provided to resource poor farmers; and
- On **Resource Protection**, 70 water quality points were to be monitored and 103 achieved. The agency attained its target of 4 in respect of rehabilitating river projects.

The Breede-Gouritz Catchment Management Agency received an unqualified audit report for the financial year under review.

¹⁰ The information that follows was sourced from the 2016/17 Annual Report of the Breede-Gouritz Catchment Management Agency and presentation on 5 October 2017

6.3 Trans-Caledon Tunnel Authority¹¹

The Trans-Caledon Tunnel Authority is a state-owned water infrastructure entity, which was established in 1986 to fund and implement the South African portion of Lesotho Highlands Water Project, Phase 1. The mandate was expanded to undertake liability management on the Lesotho Highlands Water Project. Currently, the Trans-Caledon Tunnel Authority is a multi-project entity to fund and implement bulk raw water infrastructure. The Trans-Caledon Tunnel Authority reports to the Minister of Water and Sanitation and has a shareholder's compact (agreement) with the Minister on the expected performance targets. The strategic goals of the Trans-Caledon Tunnel Authority are to deliver on government imperatives and an assurance was given that job creation within infrastructure projects is prioritised.

A number of Ministerial directives are given to the Trans-Caledon Tunnel Authority to undertake the following projects for the period under review:

- **Pre-implementation** – Phase 2B of the Olifants River Water Resources Development Project and Phase 2A of the Mokolo-Crocodile River (West) Augmentation Project.
- **Under construction** - Acid Mine Drainage: Eastern Basin and Phase 2C of the Olifants River Water Resources Development Project.
- **Post-construction** - Acid Mine Drainage: Central Basin; Phase 2 of the Mooi-Mgeni Transfer Scheme and Phase 1 of the Mokolo-Crocodile River (west) Augmentation Project.
- **Operation and Maintenance** – Acid Mine Drainage: Short-term Intervention (Western, Central and Eastern Basins; and Outfall Tunnel North of the Lesotho Highlands Water Project.

6.3.1 Total expenditure for the TCTA

The total expenditure for the TCTA in the period under review reflected the following:

- Finance costs amounted to R3.284 million;
- Capital expenditure amounted to R574 million;
- Royalties to the Lesotho Highlands Development Agency and Lesotho Highlands Water Commission amounted to R1.044 million;
- Other costs related to operating expenditure amounted to R291 million; and
- Staff costs amounted to R162 million.

¹¹ The information that follows was sourced from the 2016/17 Annual Report of the Trans-Caledon Tunnel Authority and presentation on 5 October 2017

6.3.2 Evaluation of the Reported Financial and Performance Information of the Trans-Caledon Tunnel Authority

Ernest and Young Incorporated evaluated the reported financial and performance information. The auditor did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

On financial performance, the auditor noted that there was irregular expenditure of R49.4 million for services not procured in accordance with regulation, but value for money was received. This was in respect to the contractor for the operation of the Central Basin Acid Mine Drainage Plant; the provision of disaster recovery services; appointment of a forensic auditor; appointment of executives; changing criteria during the evaluation of a photocopier tender and aspects relating to international travel. On fruitless and wasteful expenditure, there were thirteen incidents of a value of R202 million, where no value was received for the expenditure incurred.

7. OVERVIEW AND ASSESSMENT OF THE WORK OF THE DEPARTMENT OF WATER AND SANITATION AND ENTITIES BY THE PORTFOLIO COMMITTEE ON WATER AND SANITATION FOR THE 2016/17 FINANCIAL YEAR¹²

For the 2016/17 financial year, the Portfolio Committee undertook briefings, workshops and oversight of the Department and Entities, as well as attended meetings of the Standing Committee on Public Accounts and Select Committee on Appropriations. The Portfolio Committee noted and highlighted the following systemic challenges confronting the Department of Water and Sanitation over the medium-term:

7.1 RESPONSES BY THE DEPARTMENT OF WATER AND SANITATION

7.1.1 Audit Outcomes

Although the 2016/17 Annual Report of the Department and Entities was tabled on time, and in accordance with the National Treasury guidelines for the preparation of Annual Reports, the Portfolio

¹² The information that follows emanated from inputs made by Members of the Portfolio Committee on Water and Sanitation during briefing sessions by the Department and Entities in the 2015/16 and 2016/17 financial year

Committee, in its engagement with the Officer of the Auditor-General was extremely concerned by the substantive and comprehensive findings, which encompassed the following:

Material uncertainty relating to the going concern or financial sustainability of the Department

The Auditor-General, based on its scrutiny of the financial statements of the Main Account and Water Trading Entity indicated that there is material uncertainty relating to the going concern or financial sustainability of the Department. This is as a result of a net loss of R89 million, an overdraft of R194 million and unauthorised expenditure of R406 million. Furthermore, the Auditor-General found that for the period under review, the Department's current liabilities exceeded its total assets by R454 million. As a result, the Department has to now defer any new infrastructure projects over the medium-term.

Irregular expenditure and fruitless and wasteful expenditure

There is a recurrence of irregular expenditure and fruitless and wasteful expenditure for both accounts in the last two financial years. The flouting or non-compliance to supply chain management and procurement processes as prescribed in the Public Finance Management Act reflected the risks associated with limited or no continuous monitoring of audit outcomes by the internal audit committee.

Procurement of information system

The Water Trading Entity procured an information system for municipalities and water boards to be used over a period of five (5) years and none of these entities used the system in the period under review, which resulted in fruitless and wasteful expenditure. The procurement of the Information System was processed without consultations with the State Information Technology Agency (SITA).

Supply chain management processes within the Water Trading Entity

The Department's implementing agents did not follow normal supply chain management processes. The Water Trading Entity created a panel form where suppliers could be sourced without undergoing the tender process, which resulted in irregular expenditure. Deviations were approved without justifiable reasons.

Conflicting analysis of departmental financials by the Auditor-General and Department

Members of the Portfolio Committee were extremely frustrated during the briefings by the Auditor-General and Department, after receiving two conflicting reports on the Department's financials. The Department and Auditor-General differed on key figures and percentages in the analysis of the financial statements and selected performance areas for the 2016/17 financial year.

The Department disputed three aspects of the Auditor-General's report, namely, the R1.6 billion figure of its irregular expenditure and the costs incurred by the Water Trading Entity and the Trans-Caledon Tunnel Authority. The Minister, Ms N Mokonyane and acting Director-General, Mr Mkhize argued that the figures do not take into account multi-year projects where debt is rolled over. It also did not take into account emergency projects needed to relieve citizens who did not have water.

Giyani and Mopani Projects receive Poor Audits

Two of the biggest running projects of the Department, the Giyani and Mopani projects received poor audit outcomes, achieving material findings in all aspects. Both projects fell short in budget vs spending, financial management, compliance and pre-determined objectives. National Treasury had earlier this year also highlighted to the Portfolio Committee that the Giyani water project had begun with an initial 2016/17 budget of approximately R140 million, but the current budget stood at R912 million.

The report of the Auditor-General identified ten projects of the Department that needed further investigation.

7.1.2 Reasons for Non-Attainment of Targets in Programme 3: Water Infrastructure Development

The Department noted that for the year under review, the country experienced significant drought which had an impact throughout the country. Within Programme 3, specifically, the Department attained 28 per cent of targets against 99 per cent of budget allocations. The Department provided interventions in respect of drought relief, primarily utilising the budget of Programme 3. Interventions were also provided to municipalities who did not have sufficient budget or capacity to augment water supply. This funding was also directed to seventy-seven priority district municipalities. Further interventions include the installation of the desalination plant in Richards Bay, as the area was experiencing critical water supply shortages and emergency desalination interventions needed to be implemented.

One of the key challenges the Department experienced was cost recovery from municipalities for its emergency drought interventions, as well as the inability to operate and maintain water and sanitation

infrastructure due to insufficient budgets. The Annual Performance Plan (APP) had particular targets linked to multi-year projects. Some of these projects are ready for implementation, but given the reprioritisation of budgets to deal with drought interventions, the attainment of targets to certain projects could not be met. The Department has since taken a resolution not to initiate any new projects and rather target the backlogs of deliverables on existing projects and programmes. During the 2014/15 financial year, the Department requested a roll-over of R919 million to implement 41 Regional Bulk Infrastructure Projects, which was declined by National Treasury. Due to this, the implementation of projects under construction had to be delayed.

The Department indicated that it would provide a full analysis of projects and expenditure for Programme 3 in writing to the Portfolio Committee.

7.1.3 Reasons for departmental contesting audit findings in both the Main Account and Water Trading Entity

The Department was contesting the qualifications related to Fruitless and Wasteful Expenditure and Irregular Expenditure as well as material uncertainty related to the going concern of the Department, in both the Main Account and Water Trading Entity. The Water Trading Entity was further contesting qualifications related to transfers (financial liability) and assets under construction overstatement between the Water Trading Entity and the Trans Caledon Tunnel Authority.

In terms of the financial liability with regard to the Water Trading Entity and Trans-Caledon Tunnel Authority, the Department contested the qualification. The argument made was that when further information was required from the Auditor-General, the Auditor General indicated that they had run out of time to conclude the audit on the annual report. The Auditor General indicated that during the course of the audit, it conducted regular engagements with the Department. During this particular auditing period, the Chief Financial Officer of the Water Trading Entity had been on suspension and objections were only noted at the tail end of the audit process. This is currently at a dispute phase and this process is at an advanced stage.

7.1.4 Non-reflection of the budget allocation and targets and indicators on the R1 billion on the War on Leaks Programme in the Department's Annual Performance Plan

The Department indicated that the War on Leaks and Drop a Block programmes were not in the Annual Performance Plan of the Department for the year under review. It is, however, included in the Annual Performance Plan for the 2017/18 financial year. Spending on the War on Leaks Programme amounted to approximately R1 billion and Drop a Block R200 million for the year under review. The War on

Leaks programme was intended as an intervention by the Department to prevent water losses. Whilst the job creation impact of this programme can be quantified, the impact on the prevention of water losses cannot. The Department indicated that it would provide a full report on the spending of this project to the Portfolio Committee in writing.

7.1.5 Progress and funding in respect of the construction of the uMzimvubu Dam

The uMzimvubu Dam is currently still at the design phase. There were cost escalations for the Giyani Emergency Interventions; and funding had to be redirected towards this project resulting in delays in the uMzimvubu Dam. Further responses would be submitted in writing.

7.1.6 Investment in Quality of and Access to Water and Sanitation Infrastructure¹³

South Africa has made good progress in improving access to environmental services (water, sanitation and wastewater treatment management). However, further investment is necessary to continue this progress and improve access to, and quality of services. A key obstacle is the inadequate level and design of service charges, which do not cover operational and maintenance costs in relation to water and sanitation infrastructure. There has been limited implementation of the increased block tariffs, required by legislation.

In respect of the pivotal role accorded to public investment in the National Development Plan, National Treasury argued that for the Department's critical role in water and sanitation infrastructure, the following key questions around infrastructure and its proper financing should be raised on all projects:

- What are the financing needs of infrastructure?
- How much scope is there for private participation?
- How much fiscal space do governments have in undertaking these infrastructure projects?

The non-implementation of bulk water infrastructure projects or augmentation projects due to budget constraints reflect poor planning and costing processes within the Department and Entities. Examples of non-implementation of planned projects include the following – Olifants River Water Resource Development Projects Phase 2D and 2E; Mokolo River Augmentation Phase 1 and 2A; and the uMzimvubu Water Project.

¹³ The information that follows emanates from a Report of the Workshop of the Portfolio Committee on Water and Sanitation, 14 – 16 September 2016 in Gauteng

7.1.7 Compliance to legislation and predetermined policy priorities

Catchment Management Agencies

The Portfolio Committee has repeatedly requested information on the establishment of all nine (9) Catchment Management Agencies as required by the National Water Act. However, the Department only supplied information at the briefing of the Annual Report, and maintained that National Treasury had opposed the further establishment of Catchment Management Agencies due to labour disputes and financial non-viability of the future of agencies. National Treasury has subsequently mooted the idea of one regional catchment management agency.

Establishment of an Independent Economic Regulator, National Water Infrastructure Agency, Regional Water Utilities, National Water Master Plan and Drafting of the national Water and Sanitation Bill

Between 2014 to date, the Department proposed and committed to develop a National Water and Sanitation Ten-Year Master Plan, the National Water Infrastructure Agency, Regional Water Utilities and completion of the draft Water and Sanitation Bill.

The Portfolio Committee, in its engagements on the above issues has repeatedly requested timeframes for the establishment of the above-mentioned institutions and completion of critical policies and legislation to support the work of the water and sanitation sectors in South Africa.

7.1.8 Cooperative governance of water and sanitation services management and delivery

The Department, together with the Water Boards, Catchment Management Agencies and Trans-Caledon Tunnel Authority is responsible for water resources, bulk water services infrastructure and catchment on national water management, while local government has the constitutional obligation to provide water and sanitation services within their areas of jurisdiction.

The Portfolio Committee noted the many challenges at the municipal level in relation to the delivery of water services. These challenges include poor maintenance and refurbishment of infrastructure, which resulted in increased interruptions in supply and high levels of unaccounted for water; poor management of wastewater treatment works resulting in deteriorating raw water quality; slow delivery of sanitation service; and unaffordable technology choices in some areas. The challenges are further compounded by the inadequate cost recovery in the water services sector.

7.1.9 Challenges related to the effective functioning of the Department's internal controls and audit committee

The material findings relating to commitments, accruals, irregular expenditure and fruitless and wasteful expenditure, as well as non-compliance of legislation and supply chain management raises concerns around the internal controls within the Department. Financial statements are bodies of information to be utilised during the year, and if internal controls are ineffective in the course of the year, decisions will be taken based on information that is not credible and reliable as it should be.

7.1.10 Lack of oversight by the Department over Implementing Agents

The main concern by the Auditor-General in this regard was the lack of supply-chain management issues in the use of implementing agents. The use of water boards as implementing agents was initially utilised on an emergency basis, but over time, it has become the norm for the Department to use mainly water boards as implementing agents to undertake work on its behalf.

This was particularly disturbing to the Office of the Auditor-General as the Department is not only using implementing agents for emergency issues, but according multi-year projects to the water boards. This has resulted in irregular expenditure, which raised questions around the standard practice of oversight of and compliance by the implementing agents to supply chain management issues by the Department.

7.1.11 Use of statistics for effective integrated planning for water and sanitation infrastructure development and service provision¹⁴

The Portfolio Committee, in its engagement with Statistics South Africa in the 2016/17 period, concurred with the Statistician-General, Mr P Lehohla, who noted that many government departments were not utilising the impressive base of statistics generated by the institution, and this impacts on the quality of plans that will be rolled out. The importance of an integrated approach to planning if incorrectly undertaken, may lead to a fragmented approach to the developmental agenda, with some areas highly developed in some areas, limited or under-developed in other areas, which could lead to discontent amongst communities.

¹⁴ The information that follows emanates from a Report of the Workshop of the Portfolio Committee on Water and Sanitation, 14 – 16 September 2016 in Gauteng

In respect to the water and sanitation sector, the Statistician-General noted that “ineffective planning, and conniving and collusion at various sectors eroded the gains made in access to water and sanitation services”¹⁵ in South Africa. The correlation between ineffective planning and inadequate skills pool stymies and derails developmental plans on water and sanitation infrastructure. There is already a huge problem with the skills within the Department of Water and Sanitation, and if critical posts can remain unfilled for more than five years, it does not matter how good plans are, the implementation thereof may pose challenges.

Within the Department of Water and Sanitation, the lack of use of statistical data within certain sub-programmes such as War on Leaks, and Drop a Block, for example, has resulted in unaccounted for expenditure.

7.1.12 Role of the Department as sector leader and regulator¹⁶

The Portfolio Committee, in its engagement with the Department and Entities and the National Planning Commission charged with the water sector articulated in the National Development Plan, recognised the importance of a review related to the role and effectiveness of sector leaders and regulators in all service provision in the country. This argument arose from studies undertaken by the National Planning Commission on the effectiveness and efficacy of the work of regulators and sector leaders. There was an acknowledgment that regulators and sector leaders in the form of government department and entities have had success in issuing licences, developing pricing methods and establishing technical and service standards. However, the notable challenges in the water and sanitation sector in this regard relate to:

- Delays in investment in water infrastructure;
- Failure to moderate growth in water demand;
- Backlogs in service provision in rural areas remain and there is pressure to upgrade urban service levels, which will require further investment;
- Concerns have been raised about the ability of the current water administration to cope with emerging challenges;
- The available pool of experienced water engineers and scientists at national and local level is shrinking; and
- The inability of many municipalities, who lack the technical capacity to build and manage their wastewater treatment systems.

¹⁵ These sentiments were articulated by the Statistician-General to the Members of the Portfolio Committee at its workshop in Gauteng on 14 – 16 September 2016

¹⁶ The information that follows emanates from a Report of the Workshop of the Portfolio Committee on Water and Sanitation, 14 – 16 September 2016 in Gauteng

7.1.13 Attainment and alignment of the work of the Department and Entities toward Vision 2020 as articulated in the National Development Plan¹⁷

The centrality of water for social and economic development in South Africa is stressed as a priority area for the State in the National Development Plan. To achieve and ensure the centrality of water for social and economic development in South Africa, the National Development Plan places importance on the following – managing, protecting and monitoring South Africa’s water resources; using innovative water management strategies and improving institutional arrangements for water management.

The Portfolio Committee’s engagement with the Commissioners and the National Development Plan provided insights on a selection of key actions needed for the developmental agenda toward attaining Vision 2030 for the water sector:

- A comprehensive investment programme for water-resource development, bulk water supply and wastewater management must be established for major centres and reviewed every five years;
- The management of water services must be strengthened and regional water and wastewater utilities established to support municipalities (including mandates of existing water boards) by 2017;
- Finalising the future institutional arrangements for water-resource management (Medium-Term Strategic Framework), which could include a national water resource infrastructure agency that will develop and manage large economic infrastructure systems; catchment management agencies to undertake resource management on a decentralised basis, with the involvement of local stakeholders; and
- Increasing national capacity to support research, development and operation of water re-use and desalination facilities.

¹⁷ The information that follows emanates from a Report of the Workshop of the Portfolio Committee on Water and Sanitation, 14 – 16 September 2016 in Gauteng

7.2 RESPONSES BY THE ENTITIES – WATER RESEARCH COMMISSION, TRANSCALEDON TUNNEL AUTHORITY AND CATCHMENT MANAGEMENT AGENCIES

7.2.1 Water Research Commission (WRC)

The involvement of the Water Research Commission in the War on Leaks Programme

The Water Research Commission indicated that training has been undertaken with plumbers around finding new solutions on water-related issues. Funding has been apportioned from the Energy and Water Sector Education and Training Authority (EWSETA) for this purpose. The crux of rollout of this solution is that new skills and specialised training is required for the new water saving systems.

Extent of inputs to drought intervention and mitigation strategies

There was a sense of desperation in the midst of drought with boreholes being drilled without sufficient geological inputs. A new paradigm for water management needs to be adopted wherein the country adopts a new normal of water scarcity. This needs to be done in collaboration with the private sector. Research is being conducted in conjunction with the Agricultural Research Council in terms of drought resistant crops.

Progress of the Water Research Amendment Bill

The Bill is currently on hold pending the consolidation of legislation by the Department of Water and Sanitation. The original Water Research Amendment Bill needs to be expanded to include the sanitation function.

Utilisation by the Department of Water and Sanitation of new sanitation innovations and technologies piloted the Commission in the Bucket Eradication Programme

A lot of work has gone into new sanitation technologies using less water than standard sanitation mechanisms. However, the challenge is getting decision makers to embrace new technologies and moving away from the notion that sanitation innovations are only for the poor, and not for the rich. At a legislative level, these new sanitation technologies could be included in the designs for the Reconstruction and Development Programme houses. New sanitation technologies have been piloted in Amathole and Ethekwini District Municipalities, amongst others. The Water Research Commission

is currently embarking on attaining the International Organization for Standardization (ISO) standard on some of the dry sanitation technologies piloted by the Commission.

Linkages to Department of Water and Sanitation planning and programmes

The Water Research Commission provides guidance to the Department of Water and Sanitation in terms of the research it does; and works closely within the water resource management programmes of the Department.

Allocation towards rural development

Fifty (50) per cent of WRC's budget is on rural based programmes and programmes within the economic and agricultural sector, exclusively funded for the rural domain.

7.2.2 Trans Caledon Tunnel Authority (TCTA)

Impact of the credit ratings downgrade on the financial management of the Entity; and the increased cost on future credit

Trans-Caledon Tunnel Authority has not issued bonds in recent months due to project delays. However, an analysis of market configuration models and strategies reflect a reduced appetite for bonds, particularly in terms of state owned enterprises (SOEs). This is a general attitude towards all SOEs and there is nothing specific against the TCTA at this stage. In addition to the fixed rate and floating bonds, the TCTA also has direct loans, the costs of which will increase. Furthermore, there is a risk that should there be further credit ratings downgrade, the full balance of those loans could be called in by creditors. Negotiations are underway to make amendments to current loan agreements in order to avoid this from happening. Any future funding will be more expensive than the debt TCTA currently has on its books.

The reason for the non-spending of R574 million within the 2016/17 financial year

This was due to the delays in Phase 2 of the Lesotho Highlands Water Project, as well as long-term interventions on Acid Mine Drainage (AMD).

Extent to which the Entity can leverage assets in order to secure more funding within the capital market

The current arrangement is that the Entity secures capital funding for mega infrastructure project. Once these assets are handed over to the Water Trading Entity, they become liabilities that need to be maintained. Discussions are ongoing as to where the assets would be better placed to yield more value.

Involvement in drought relief in the Western Cape

The Minister has given the Trans-Caledon Tunnel Authority the directive for augmentation of water supply in the Western Cape. The Charter has already been given to the Board; and is awaiting approval.

Internal control challenges within the Trans-Caledon Tunnel Authority

Failures relating to internal control issues were traced back to one person within the organisation and immediate action was taken address the situation. Mechanisms, particularly in respect of Supply Chain Management (SCM) and procurement have been put in place to ensure that this does not happen again. In this instance, a supplier was paid R42 million without proper Supply Chain Management or procurement processes being followed. Consequently, the procurement manager has been placed under suspension and all procurement contracts under this manager are being investigated.

7.2.3 Catchment Management Agencies

7.2.3.1 Breede Gouritz Catchment Management Agency (BGCMA)

Reasons for fruitless and wasteful expenditure

Fruitless and wasteful expenditure was related to a late payment penalty to the South African Revenue Service of R113 380. This is an unusual oversight by the Agency; and subsequently, an investigation was undertaken to prevent recurrence of the incident.

Progress in respect of the Oudtshoorn Blossoms Wellfield

The Oudtshoorn Blossoms Wellfield is a project intended to extract water from a deep fractured rock aquifer to augment existing surface water supply storage. The Blossoms groundwater will be piped to a reservoir in Oudtshoorn to augment water supply during the dry summer months. Partners in this project include the Departments of Water and Sanitation, Environmental Affairs, Water Research

Commission and the Development Bank of South Africa. Challenges relate to the availability of municipal funding for the project; as well as the variation of pressure for deep underground water.

Turnaround time for the approval of water use licences

The National Water Act, 1998 provides the legal basis upon which to develop tools and the means to implement the mandate of the Department. One of the means is the authorisation of water use as defined in Chapter 4 of the National Water Act. The online Water Use Licence Application and Authorisation System (e-Wulaas) new electronic system, eWulas, is now in place. This allows applicants to track their water use licence application is a tool to facilitate the authorisation and manage the authorisation of water use. The system has made a drastic improvement to the work of the agency toward the turnaround times of the application for new water use licences.

Impact of the single catchment management agency

The recent proposal of a single catchment management agency by National Treasury was recently communicated recently to the agency. As a result, the agency is in the process of trying to manage staff morale. Plans for the rollout of the establishment of a single catchment management agency still need to be communicated.

7.2.3.2 Inkomati Usuthu Catchment Management Agency (IUCMA)

Mechanisms in place to address polluters

Municipalities are the main culprits in terms of pollution due to poorly maintained infrastructure and waste water treatment plants. There has been some success. The agency holds regular meetings with municipal and technical managers of municipalities, particularly in terms of the lining and storage of raw sewerage before it gets into the water supply. R8 million was budgeted for in the 2017/18 financial year for the remediation of pollution and to fix sewerage spills, which would be recovered from municipalities. In instances where municipalities refuse to pay, environmental laws hold municipal managers personally liable; and the agency takes the municipal managers to the South African Police Station for prosecution.

Criteria used in awarding bursaries

The purpose of awarding fourteen (14) internal bursaries is the upskilling of staff. The criteria for the awarding of these bursaries are that studies should be undertaken at a South African University; there

must be a record of passing; and studies undertaken as part of an intervention in respect of the performance management system of the institution. IUCMA also awarded three (3) external bursaries for the year under review for students following scientific studies.

Impact of illegal sand-mining

This is a widespread occurrence, and in some cases, permission was given by the traditional authorities who hold custodial ownership over traditional lands. Illegal sand-mining impacts negatively on the ecology of rivers. This is however being monitored within the catchment by a task team established by the IUCMA

Remuneration of board members

The practice of paying board members monthly has been stopped as per the directive of the Portfolio Committee and Minister for Water and Sanitation.

8. OBSERVATIONS:

During deliberations with the Department of Water and Sanitation on its 2016/17 Annual Report, the Portfolio Committee noted the following key observations:

- 8.1. Department characterised by capacity constraints in the areas of: human capital, internal controls, contract management, project management and the costing of projects. These capacity constraints have led to issues of project cost escalations, flouting of procurement and supply management process, deviations, virements and negligence;
- 8.2. Inadequate internal controls to identify and monitor fruitless, irregular and unauthorised expenditure can also be noted;
- 8.3. Poor compliance with supply chain management and procurement processes leading to overstatement of the value of projects (e.g. Mopani and Giyani Emergency Project);
- 8.4. Department implemented projects with no budget allocation (War on Leaks and Drop a block, drought interventions and other emergency initiatives);
- 8.5. Drought interventions significantly impacted the financial and non-financial performance of the department against the approved Annual Performance Plan and budget allocation;
- 8.6. Although flagging capacity constraints to operate and maintain infrastructure, the department has a Construction Management Unit with extensive capacity but it is underutilised. Instead, Programme 3 projects are implemented using TCTA and external service providers;

- 8.7. No consequent management for employees found wanting in terms of financial misconduct and maladministration based on internal and external investigations (e.g. SIU);
- 8.8. Expenditure patterns and management of finances in the department's Main Account and Water Trading Entity are an area of concern;
- 8.9. Dispute between the Auditor General and the department on findings from Programme 3 (double invoicing, irregular, fruitless and wasteful expenditure);
- 8.10. Expenditure and liabilities exceed cash flow or revenue of the department;
- 8.11. Procured SAP IT system (R400m) not used by municipalities and water boards;
- 8.12. Implementing agents not following supply chain management processes and procedures;
- 8.13. One company appointed to collect department's debt at 11.5% per transaction;
- 8.14. Maladministration due to personnel of department and its entities having conflicting interests in relation to supplier or contractors bidding for business as per Special Investigating Unit outcomes.

9. RECOMMENDATIONS

After deliberating on the presentations by the Department of Water and Sanitation and its Entities on the financial and non-financial performance for the 2016/17 financial year, the Portfolio Committee recommended that:

9.1 Undertake a forensic audit into Programme 3: Water Infrastructure Development and Water Trading Entity

Having analysed and scrutinised the 2016/17 Annual Report and presentations made by the Department of Water and Sanitation on 4, 5 and 17 October 2017, as well as the audit findings of the Office of the Auditor-General, Members of the Portfolio Committee raised serious concerns on whether the Department has the ability to ensure its financial sustainability for effective bulk water and sanitation infrastructure development for the future of South Africa. In light of the critical issues highlighted the Portfolio Committee strongly recommends that an independent forensic audit or a forensic audit by the (Office of the Auditor-General) or the Special Investigating Unit (SIU) is undertaken to obtain a full understanding of the financial and non-financial risks apparent in the department's Programme 3: Water Infrastructure Development and Water Trading Entity. The following critical issues need to be focused on to correct instabilities evident in Programme 3: Water Infrastructure Development and the Water Trading Entity:

- 9.1.1 Address the material uncertainty relating to the going concern and financial sustainability of the Department in relation to the performance of the Main Account and Water Trading Entity

which showed a net loss of R89 million, an overdraft of R194 million, unauthorised expenditure at R406 million as well as the current liabilities exceeding its total assets of R454 million.

- 9.1.2 The mismanagement of the Giyani and Mopani infrastructure projects.
- 9.1.3 Addressing qualifications related to transfers and assets under construction, which were overstated between the Department and the Trans-Caledon Tunnel Authority.
- 9.1.4 Deferral of key infrastructure projects to pay off the overdraft incurred by the Water Trading Entity.
- 9.1.5 The non-implementation of bulk water projects or augmentation projects due to budget constraints, which reflect poor planning and costing of infrastructure projects for long-term sustainability.
- 9.1.6 The Construction Unit of the Department needs to be utilised on interventions in Municipalities and the costs borne from the Department of Cooperative Governance and Traditional Affairs
- 9.1.7 Project overdesign: There appears to be issues of designing bulk water supply projects mainly for future off-take, which result in massive funding costs that cannot be co-funded by municipalities. As a result, even the current beneficiaries/users cannot receive water. While it is important to design excess capacity for the future, the availability of funding should be considered as a major factor in this regard. For example, the Jozini Bulk Water Scheme is a 40 ML capacity scheme but currently only 8ML is being conveyed to communities. There is also a shortfall of R1 billion for the completion of the retail component.
- 9.1.8 On emergency interventions relating to water infrastructure, the construction unit, which has an assigned budget, should be fully utilised, rather than the increased dependency by the Department on implementing agents.
- 9.1.9 Poor municipal capacity: It was also noted that the institutional arrangements and budgets in the water sector are such that some municipalities are unable to implement the retail component of the scheme.

- 9.1.10 Differentiation and co-funding, alignment between Municipal Infrastructure Grant and Regional Bulk Infrastructure Grant: National Treasury should consider a differentiated approach when dealing with municipalities and bulk water projects.
- 9.1.11 An audit must be undertaken on the Regional Bulk Infrastructure Grant commitments and accruals.
- 9.1.12 Challenges relating to the effective functioning of the department's internal control and audit committee. These relate to the material findings related to commitments, accruals, irregular expenditure, fruitless and wasteful expenditure as well as non-compliance to legislation and supply chain management.
- 9.1.13 Whether the Department has the capacity and effective staff component to develop systems and protocols aimed at ensuring effective procurement planning and contract management for the smooth provision and maintenance of water services infrastructure.
- 9.1.14 The extent to which the Department develops and implements systems for the effective, oversight and monitoring of the rollout of conditional grants with emphasis placed on ensuring sustainable, viable and visible service delivery performance.
- 9.1.15 Ensuring that there are documented policies and procedures to guide the operations with regard to the Regional Bulk Infrastructure Grant and the Water Services Infrastructure Grant.
- 9.1.16 Ensuring that the Main Account and Water Trading Entity put in place mechanisms to support proper reconciliation systems per project so as to ensure that all information pertaining to the project are reconciled on a monthly basis.
- 9.1.17 Ensuring that the Department strengthens debt management systems and that revenue forecasts are reasonable and aligned with the budget for the financial year.
- 9.1.18 Embarking on a process of eliminating all outstanding accruals and strengthening cash flow management across the sector.
- 9.1.19 The ability of the Department to engage with National Treasury on a collaborative review of infrastructure grants on the following three (3) priority areas – improving the grant structure

for water and sanitation infrastructure; emphasising and improving asset management and clearer roles for national and local departments in the management of grant systems.

- 9.1.20 The impact and ability of the Department to manage litigation and claims in the current and future financial year. These impinge on budgets, which could result in limited funding for future infrastructure projects.
- 9.1.21 Addressing procurement systems in the Department such as the SAP IT rollout where there was no consultation with the State Information Technology Agency, 1998.
- 9.1.22 Non-compliance with the Construction Industry Development Board Act, 2000.
- 9.1.23 Lack of oversight by the Department over implementing agents in awarding grants to undertake multi-year projects.
- 9.1.24 The impact and efficiencies of Ministerial directives and determinations to implementing agents, Catchment Management Agencies and the Trans-Caledon Tunnel Authority in undertaking work of behalf of the Department.
- 9.1.25 Arguments raised by the Commissioners in the National Planning Commission on the ability of the current administration of the Department to cope with emergent challenges, delays on investment in water infrastructure; whether the Department has a comprehensive investment programme for water service development, bulk water supply and wastewater management.
- 9.1.26 The Portfolio Committee will await the risks and ethics report with regard to audit findings. This relates to subsequent dispute lodged by the Department against the audit findings of the Office of the Auditor-General.
- 9.1.27 On 1 November 2017, the Portfolio Committee engaged with the Special Investigating Unit, and recommended that a further briefing be held with the Special Investigating Unit, National Prosecuting Authority and South African Revenue Services on transgressions found in the Department and Entities through investigations. The referrals to other institutions by the Special Investigating Unit should be further monitored and evaluated so that concrete actions are taken in cases of misadministration or transgressions.

9.2 Finalisation of policy determinations and legislative commitments

- 9.2.1 A set timeframe be given to the Department by which to finalise legislation and policy in the water and sanitation sector such as the Establishment of an Independent Economic Regulations which specifically deals with water tariff determinations, National Water Infrastructure Agency, Regional Water Utilities, National Water Master Plan and Drafting of the national Water and Sanitation Bill
- 9.2.2 With regard to the idea of establishing one national Catchment Management Agency, the Portfolio Committee must be taken on board on this process, and provide substantive reasons for the shift from nine (9) Catchment Management Agencies to one (1). The implications and effects thereof needed to be fully explained in respect to legislation, funding priorities and personnel movement.

9.3 Leadership, Critical filling of vacant positions and consequence management for transgressions

- 9.3.1 The Minister should address the continuous change of leadership and management in the Department and the impact of this on the management and planning of water and sanitation in the country, more especially in terms of the development of a master plan for the water and sanitation sector in South Africa.
- 9.3.2 In terms of the critical role of the Department as a sector leader in the entire water value chain, there needs to be greater and sustained oversight of the work within the units in the Department, through the internal audit process, as well as systematic oversight of the work of the Department.
- 9.3.3 The Department of Water and Sanitation ensures that all critical, funded and vacant posts are filled timeously.
- 9.3.4 Senior management, leadership and oversight structures should continue to pay close attention to the occurrence of supply chain management and other transgressions. There should be investigations of non-compliance, and taking corrective steps as well as implement consequence management.

9.4 STRENGTHENING INTERGOVERNMENTAL RELATIONS AND COOPERATIVE GOVERNANCE ISSUES IN RESPECT OF WATER AND SANITATION INFRASTRUCTURE DEVELOPMENT AND SERVICE DELIVERY

- 9.4.1 The concurrent functions of water highlighted in the Constitution of the Republic of South Africa, 1996, are not fully operationalised or implemented between different spheres of government. Whilst there may be overlap in the functioning of the work in the entire water value chain, the Constitution, the National Water Act, 1998 and Water Services Act, 1997 are clear in the obligations of the national Department with regard to water resources management; and local government, charged with water services and supply within their jurisdictions.

Since the role of both the Department and Water Boards in supporting local government with providing water and sanitation services has been under the spotlight, this must be enhanced in the coming years. Intergovernmental coordination remains a significant challenge, as is seen through the lack of integration or water into/with other sector plans and through poor co-ordination between Departments and at a local and national level.

- 9.4.2 The Department needs to second departmental officials to those municipalities that have challenges in respect of refurbishment, and operations and maintenance of water and sanitation infrastructure. The cost of the secondment to be borne by the Department of Cooperative Government and Traditional Affairs.
- 9.4.3 Transfer of the Bucket Eradication Programme to the Department of Cooperative Governance and Traditional Affairs.
- 9.4.4 On debt owed by water boards and municipalities, the Department needed to work closely with the Minister of Cooperative Governance and Traditional Affairs and National Treasury in terms of accessing the outstanding debt through the Equitable Share funding to municipalities.
- 9.4.5 The cost of all interventions in Municipalities by the Department of Water and Sanitation needs to be claimed back from the Department of Cooperative Governance and Traditional Affairs

9.5 URGENT IMPROVEMENT AND IMPLEMENTATION OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT

- 9.5.1 The Department of Water and Sanitation together with the Department of Planning, Monitoring and Evaluation should develop mechanisms for appropriate sanctions to discourage poor performance, especially in ensuring that the attainment of targets in the annual performance plans are aligned to budget planning and spending performance.
- 9.5.2 The Water Trading Entity needs to renegotiate a five-year repayment plan with National Treasury in terms of the reduction of the its overdraft with the Reserve Bank
- 9.5.3 There was a need to address root causes of challenges faced in the financial management of the Department, which related to a slow response by management, instability of vacancies in key posts, lack of consequences for poor performance and transgressions.
- 9.5.4 Management was required to provide feedback on the implementation and progress, and feedback on action plans to address poor audit outcomes.
- 9.5.5 Management to provide quarterly feedback on the status of key controls, especially around project management, payment on key projects implemented by implementing agents;
- 9.5.6 Progress report on the filling of key vacancies at the Department.
- 9.5.7 The list of transgressors must be provided on a quarterly basis to the Committee for follow-up on irregular, and fruitless and wasteful expenditure.
- 9.5.8 Feedback must be provided to the Portfolio Committee on actions implemented to improve the financial health, budget, management and control, and turnaround plans or interventions.

9.6. Programme specific recommendations:

The Portfolio Committee also provides programme specific recommendations to the Minister, as follows:

9.6.1. Programme 1: Administration

- a) Provide accurate and up-to-date organogram of the department;
- b) Administer corrective action against implementing agents and officials responsible for fruitless, irregular and unauthorised expenditure within the department;
- c) Improve capacity of internal controls to detect and prevent fruitless, irregular and unauthorised expenditure within the department;
- d) Ensure compliance with supply management and procurement processes;
- e) Improve cash flow and overdraft of the department's main account and the water trading entity;
- f) Explore alternative funding sources for projects.

9.6.2. Programme 2: Water Planning and Information Management

- a) Disestablishment of irrigation boards
- b) Finalise funding model, Water Master Plan and the establishment of National Water and Sanitation Agency;
- c) Ensure misalignment of financial years between National government and municipalities does not lead to underspending (WSIG and RBIG) and ultimately compromise access to water and sanitation services for our people;
- d) Implement pricing strategy as well as the Water and Sanitation Master Plan
- e) Make use of the Water Research Commission innovations to eradicate the bucket system programme.

9.6.3. Programme 3: Water Infrastructure Development

- a) Second or deploy personnel from the construction management unit to municipalities in order to address and improve the capacity constraints of municipalities that struggle to deliver water and sanitation services;
- b) Allocate or identify project managers for outstanding and future projects;
- c) Re-establish geohydrology component of the department to verify and assist in the construction of boreholes;
- d) Report on the funding source and completion dates of the delayed 253 bulk water supply and sanitation services;
- e) Ensure completion of two large water and wastewater services projects: Emhalahleni Bulk Water Supply Upgrade and the Western Highveld Water Supply Scheme;
- f) Ensure implementation of five bulk raw projects that were not implemented: Tzaneen, Nwamitwa Dam, Clanwilliam Dam, Umzimvubu and the ORWRDP 2 E and F;

9.6.4. Programme 4: Water and Sanitation Services

- a) Bucket System Eradication Programme is a national priority (as per the MTSF) with unmet targets and unfunded mandate (according to the Department). The Department should provide report on challenges, progress and envisaged completion date of the bucket system eradication programme;
- b) Explore more innovative and cost-effective initiatives of delivering water services and infrastructure projects;
- c) Provide breakdown on the 37% which characterise the War on Leaks Programme.

9.6.5. Programme 5: Water Sector Regulation

- a) Finalise legislation on abolishing water trading, create a National Water and Sanitation Infrastructure Agency and ensure water is not subject to private ownership but completely owned by the state;
- b) Consider administering debt collection using internal units (such as the department's legal unit) instead of outsourcing debt collection function

- c) Provide update on the investigation of the following projects: Vuwani steel pipeline, Vaal Gamagara , Giyani , Clanwilliam Dam, Umzimvubu project;
- d) Report on funding source(s) for accruals and payment date for suppliers with outstanding invoices;
- e) Ensure that the DWS and COGTA garner stronger collaboration and cooperation in the provision of water and sanitation services;
- f) Sign Memorandum of Understanding between National Treasury, DWS and COGTA which clearly outlines the processes and procedures to be followed in the event of emergency interventions (especially those with no budget allocations);
- g) Department should take full ownership of the Special Investigating Unit's (SIU's) report and implement resolutions and referrals tabled by the SIU.

Report to be considered.