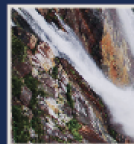
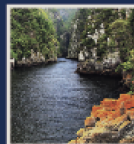




PFMA 2016-17



Pushbacks by the Department of Water and Sanitation

Water and Sanitation portfolio committee briefing

2 November 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Reputation promise

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





AGSA theme for the current year to improve outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization



AGSA theme for the current year to improve outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT


1

Pushbacks from the Department of Water and Sanitation




Pushbacks from the Department of Water and Sanitation:

During the 2015-16 audit the Emergency project from IA was disclosed as irregular expenditure in the annual report of DWS – note 26 page 293.



During the SCOPA hearing on 22 August 2017 the department contested then all the irregular expenditure in the financial statements even though it was previously disclosed as such

After the 2015-16 audit the Water Trading Entity lodge a formal compliant against the audit report for WTE



After the 2016-17, – formal compliant letters were received from the Department of Water and Sanitation & the Water Trading Entity

Pushbacks from the Department of Water and Sanitation continue:



As per the PAA section 13(1)(c) The Auditor-General, after consulting the oversight mechanism, must determine procedures for the handling of complaints when performing such audits.



2nd year compliant received concerning WTE audit report

1st year compliant received concerning DWS audit report



On all complaints the **Ethics and Risk** unit **independently** followed AGSA procedures in determining if the complaints are valid



1st Complaint on WTE (15-16) was concluded and found that Audit report was factual.
2nd Complaint processes (16-17) in the final stage and will be communicated to the complainant

2

Audit outcome history and stability in leadership



Stagnant unfavourable audit opinions over the past 8 years

	Financial years							
	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
DWS								
	Financial years							
	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
WTE								
Legends:								
			Unqualified with no findings		Unqualified with findings		Qualified with findings	Disclaimed with findings

Stability on Minister level

	Financial years							
	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Both entities	MP Edna Molewa					MP NP Mokonyane		

Instability on Director-General level

	Financial years							
	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Both entities			Mr M Sirenya			Ms M Diedricks	Mr D Mashitisho	
	Ms N. Ngele	Mr T Balzer		Mr T Balzer		Mr S Mkhize		Mr S Mkhize
							Legends:	
							Director-General	
							Acting Director-General	

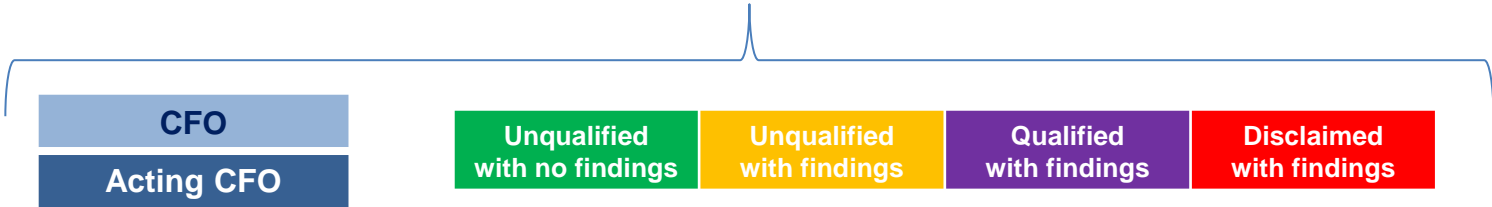
CFO instability at DWS

Financial years							
09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Mr Ayaya		Ms Fundakubi				Mr Mkhize	Mr Mkhize
	Ms Fundakubi				Ms Nkomo		Ms Manukuza

CFO stability at WTE

Financial years							
09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Mr Ayaya				Mr Mofokeng	Mr Mofokeng		Mr Mofokeng
	Mr Ismail	Mr Ismail					Mr Nel

Legends:



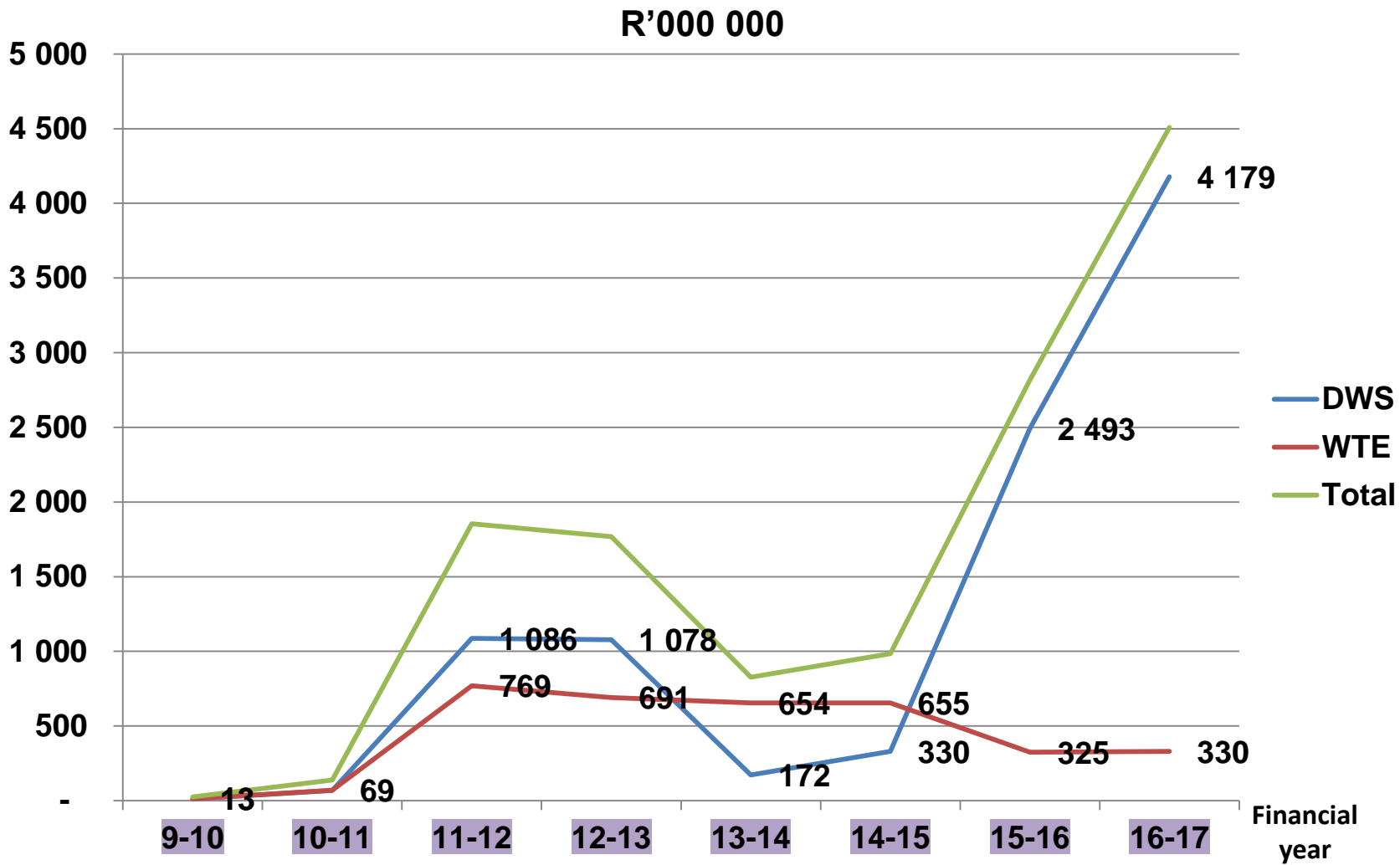
Irregular expenditure for DWS and WTE

Irregular expenditure: Closing balances for the past 8 years

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed.

Please
note!

Irregular expenditure was qualified for both DWS and WTE in 16-17 due to significant doubt on the completeness of the expenditure which was disclosed by management in both the AFS for DWS and WTE in the annual report on page 282 and page 401.



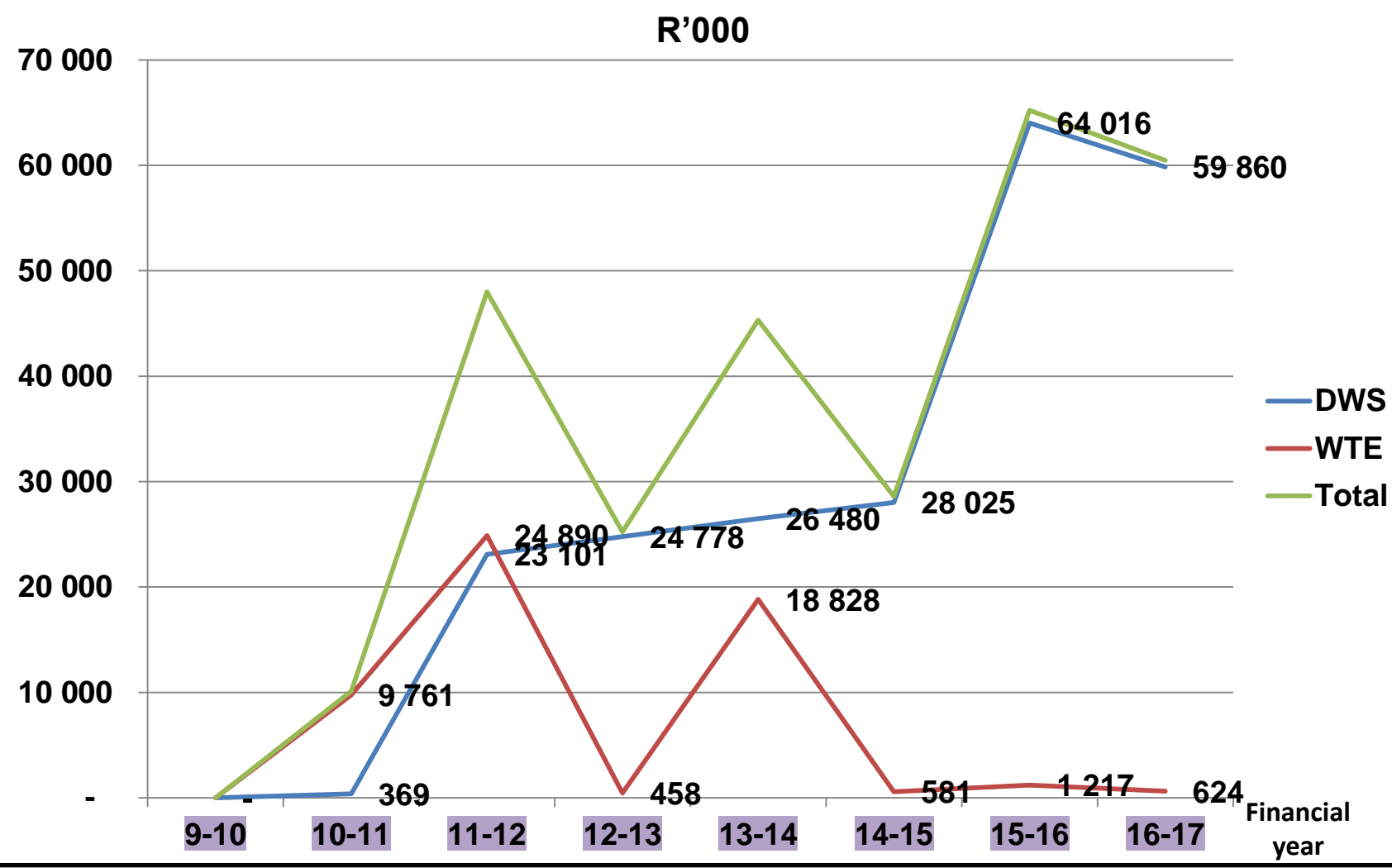
Fruitless and Wasteful expenditure for DWS and WTE

Fruitless and Wasteful expenditure: Closing balances for the past 8 years

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Please note!

Fruitless and Wasteful expenditure was qualified for both DWS and WTE in 16-17 due to significant doubt on the completeness of the expenditure which was disclosed by management in both the AFS for DWS and WTE in the annual report on page 284 and page 405.



3

Improvements in our audit methodology resulted in a focus on key projects that were audited during the 2016-17 audit



AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



Numerous local and international discussions



Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.

4

Key projects audited – 2016-17 audit



Background on Key Projects audited during 16-17


Due to the risk identified specific to implementing agents and our enhanced audit focus on value add to ensure that value was derived from these projects, the Giyani project and 9 other projects were selected as part of the regularity audit of DWS and WTE.

What was audited?	How was it audited?
Budgeting process	Verifying that the project was still within the overall project budget (multi-year) as well the allocated budget for the current financial year.
Financial statements / Financial management	As part of the normal processes we audited the accurate accounting, recording and disclosure of transactions against supporting evidence for financial statement purposes to determine that the projects have been appropriately accounted for and disclosed
Compliance	This not only included the supply chain process related to these projects but also an understanding of the project management processes on the specific project and any other significant contractual requirements
Pre-determined objectives	We focussed on auditing the performance reporting targets specific to the projects for reliability of reporting against supporting evidence. We also noted concerns where planned projects progress for the year was not achieved.



Executive summary on key findings of Key Projects audited during 16-17

#	Key Projects audited	Budget versus spending	Financial management (AFS)	Compliance	Pre-determined objectives	Implementation party
1	<i>Eastern Cape – Greater Mbizana Regional Bulk Water Supply</i>					Umgeni Water Board
2	<i>KZN – Lower Thukela Bulk Water Supply Scheme</i>					Umgeni Water Board
3	<i>Limpopo – Giyani Bulk Water Services and Giyani Water Services</i>					Lepelle Water Board
4	<i>Mpumalanga – Northern Nsikazi Bulk Water Scheme</i>					Rand Water
5	<i>North West – Taung / Naledi</i>					Dr Ruth Segomotsi Mompati District Municipality
6	<i>Limpopo – Mopani Emergency Project</i>					WTE construction unit
7	<i>Limpopo – Nwamitwa Dam</i>					Lepelle Water Board
8	<i>Limpopo – Raising of the Tzaneen dam wall</i>					Lepelle Water Board
9	<i>Western Cape – Raising of Clan William Dam wall</i>					Started by WTE, in the process to appoint external service provider
10	<i>Eastern Cape – Mzimvumbu Water Projects</i>					Started by WTE in process to move to TCTA

 Material findings / concerns noted

 No material findings / concerns noted



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Key findings / concerns on projects audited

Budgeting process

Project	Detail findings / concerns on some of the projects
Giyani project	<ul style="list-style-type: none"> ➤ Project budget was revised from 2.5 billion to 2.8 billion as per IA <u>New business plan</u> refers to totalling in excess of R13.6 billion. <i>(The Project Business Plan also did not define a pricing strategy)</i> ➤ <i>Multiple business plans as scope changed throughout.</i> ➤ Actual expenditure to date R2.5 billion of R2.8 billion and project is not near completion. ➤ 2016/17 Actual expenditure R915 million compared to voted budget of R750 million for the current year.
Mopani project	<ul style="list-style-type: none"> ➤ This project had not been budgeted for in the current year, yet spending of R98 million was incurred during the year under review (R364 million to date)
ClanWilliam dam	<ul style="list-style-type: none"> ➤ Project was planned to be in construction, currently in tender evaluation, however contract cannot be awarded due to budget constraints as indicated by the department
Northern Nsikazi Bulk water scheme	<ul style="list-style-type: none"> ➤ Overspending of R9 million over current year allocation - 8% (Current year allocation = R111million vs actual spending = R120million)



Key findings / concerns on projects audited – fruitless and wasteful expenditure and financial statement findings

Financial management / statements

Project	Detail findings / concerns on some of the projects
Giyani project Nwamitwa dam Raising of Tzaneen dam	<ul style="list-style-type: none"> ➤ Excessive project management fees; ➤ Excessive professional fees (rates) compared to norms; and ➤ Excessive construction rates. <p>(this indicates fruitless and wasteful expenditure identified that can result in an overstatement of the value of the assets created)</p>
Giyani project:	<ul style="list-style-type: none"> ➤ Double invoices paid (double counting of professional hours)
Taung /Naledi Lower Thukela water supply scheme	<ul style="list-style-type: none"> ➤ The grants accounting treatment was also changed by DWS from an indirect grant accounting to a direct grant accounting, which currently did not meet the requirements of the MCS, resulting in a qualification of these funds transferred
Mopani project	<ul style="list-style-type: none"> ➤ Inconsistent and inappropriate accounting treatment of project costs and revenue; ➤ Main Account (department) not accounting for the asset constructed by the WTE as the money has not been paid yet by the department; and ➤ Projects were not assessed for indicators of impairment, especially where work was ceased with no clear indication at point of audit of when work was planned to be resumed.



Compliance – Difference between an Implementing agent and a contractor

Implementing Agent:

Refers to an institution that is appointed to manage and deliver a project on behalf of another institution and the implementing agent is paid a management fee. Such arrangements involve the transfer of the project budget to the implementing agent with a requirement to return unspent funds back to the principal institution. Implementing agents are typically used in infrastructure or capital project and grant funded service delivery programmes for public benefit.

A contractor:

A contractor differs from an implementing agent in that a contractor bids/ tenders for the total price of the construction or delivery of the project and is contracted to be paid the full contract price, while an implementing agent is only paid a management fee

Key findings / concerns on projects audited

Compliance – Using an Implementing agent

Extract from NT Revised irregular expenditure guidelines 2015:

- Where institutions are mandated in terms of the law to make use of other organs of state to procure goods and/or services, the institution receiving the goods and/or services must, where possible, ensure that it has supply chain management representatives on the mandated institution's bid committee to **confirm that appropriate supply chain management procedures have been followed**.
- ... the procuring institutions (Client) must always be represented in the bid committees of the mandated institutions for the procurement goods or services procured on their behalf, unless there are justifiable reasons for not being represented in the bid committees and such reasons must be in writing

In the case of an implementing agent relationship, the principal institution retains the right to be involved in the procurement processes and in some instances, the power to approve or reject the recommendation to approve the final award. The resultant **irregular expenditure** will, therefore, be reported in the **financial statements of the principal institution**.



Key findings / concerns on projects audited

Compliance – Supply Chain Management

Paragraph 16A6.4 of Treasury Regulations states that “ If in a specific case **it is impractical to invite competitive bids**, the accounting officer may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer

*Furthermore Practice Note 6 of 2007/2008 states that “ This provision is intended for cases of emergency **where immediate action is necessary** or if the goods and services required are produced or available from sole service providers. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes*



Key findings / concerns on projects audited – irregular expenditure

Compliance

Projects	Detail findings / concerns on some of the projects
Giyani project (15-16) Nwamitwa dam (used procurement process of the Giyani project) Raising of Tzaneen dam	<ul style="list-style-type: none"> ➤ SCM processes were not followed due to “Emergency” of water shortages although these were multi-year projects, resulting in irregular expenditure. ➤ Initial scope allocated to the implementing agent linked to the ministerial directive based on the emergency allocated R91 million. The directive was signed by the minister on 25 Aug 2014 after the contractor had already been appointed by the Implementing agent on 20 Aug 2014. This portion was justifiably deemed to be related to the emergency, however the necessary approval processes are still irregular. ➤ The scope was subsequently expanded to R248 million based on a new ministerial directive signed on 24 Oct 2014. ➤ The current business plan now indicates total costs of R13.6 billion (excl. VAT).
Giyani	<ul style="list-style-type: none"> ➤ No signed contracts between the department and the Implementing agent were provided ➤ CIDB guidelines not followed ➤ Scope of work changed significantly from inception of the project. ➤ No industry recognised from of contract between IA and contractor
Lower Thukela project ClanWilliam dam	<ul style="list-style-type: none"> ➤ Implementing agent did not follow proper supply chain procedures resulting in Irregular Expenditure



Key findings / concerns on projects audited

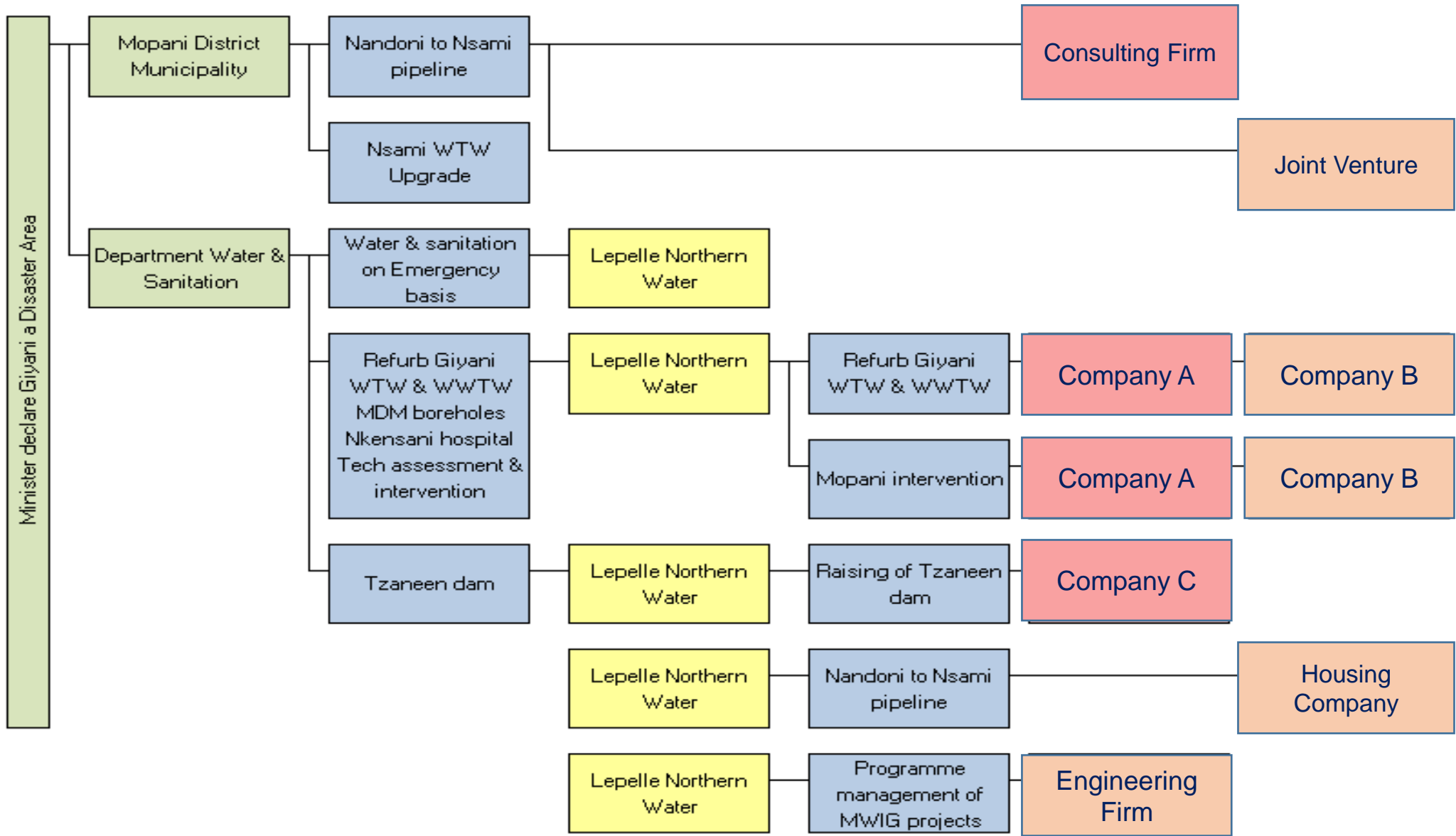
Predetermined objectives

Project	Detail findings / concerns on some of the projects
Mopani project	➤ This project was not budgeted for or included in the APP of the department.
Greater Mbizana Lower Thukela Giyani Project Northern Nsikazi Taung / Naledi	➤ In the 2016-17 APR, indicators are reliable, however these projects were only included in the DWS indicators from 2016-17 although it was multi-year projects which commenced in the prior years.
Nwamitwa Dam Raising of the Tzaneen dam wall Raising of Clan William dam wall Mzimvumbu Water Projects	➤ Planned targets for the project were either not achieved or partially achieved due to various reasons.



Key findings / concerns on projects audited

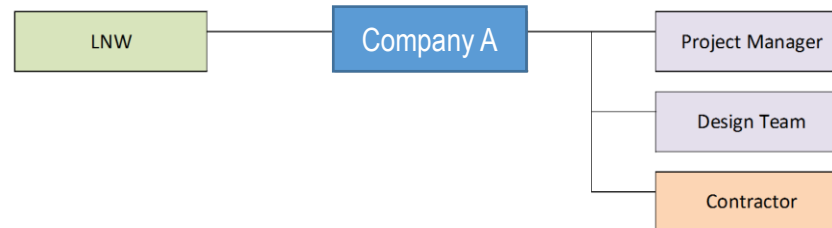
Allocation of projects to appointed contractors



Key findings / concerns on projects audited

Other contractual arrangements

LNW appointed Company A (Consultant) as turn-key Contractor as illustrated below:



- This is contrary to CIDB Practice Note #23 that clearly define a “Design and Construct” as a contract in which the Contractor designs (and not a contract where the Consultant constructs).
- Company A noted that they are consultants during an engagement between the AGSA, auditees and Company A on 25 July 2017, for that reason they agreed with LNW for direct payment to the Contractors (and other Consultants) by means of cessions.
- The Project Business Plan is not aligned with the format and content of any of the suitable forms of contract described in CIDB Practice Note #23. Critical contractual aspects are not addressed at all, for example:
 - Performance bonds, insurance
 - Commencement date of the agreement, time for completion
 - Instructions, delays
 - Payment, retention, penalties, Termination, etc
- The current arrangement expose the department to risk of incurring expenditure such as penalties or having no proper recourse.

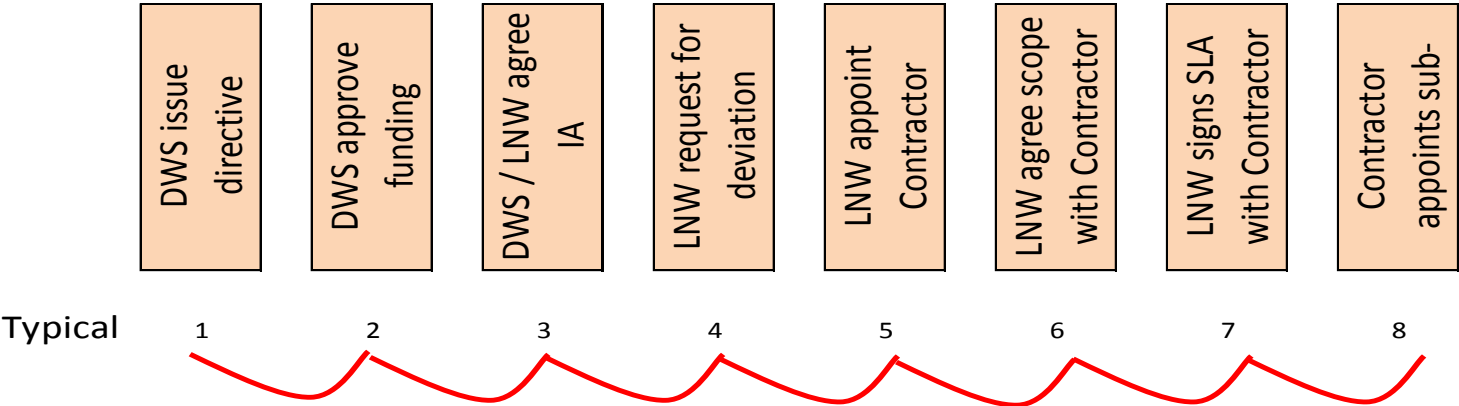


Key findings / concerns on projects audited

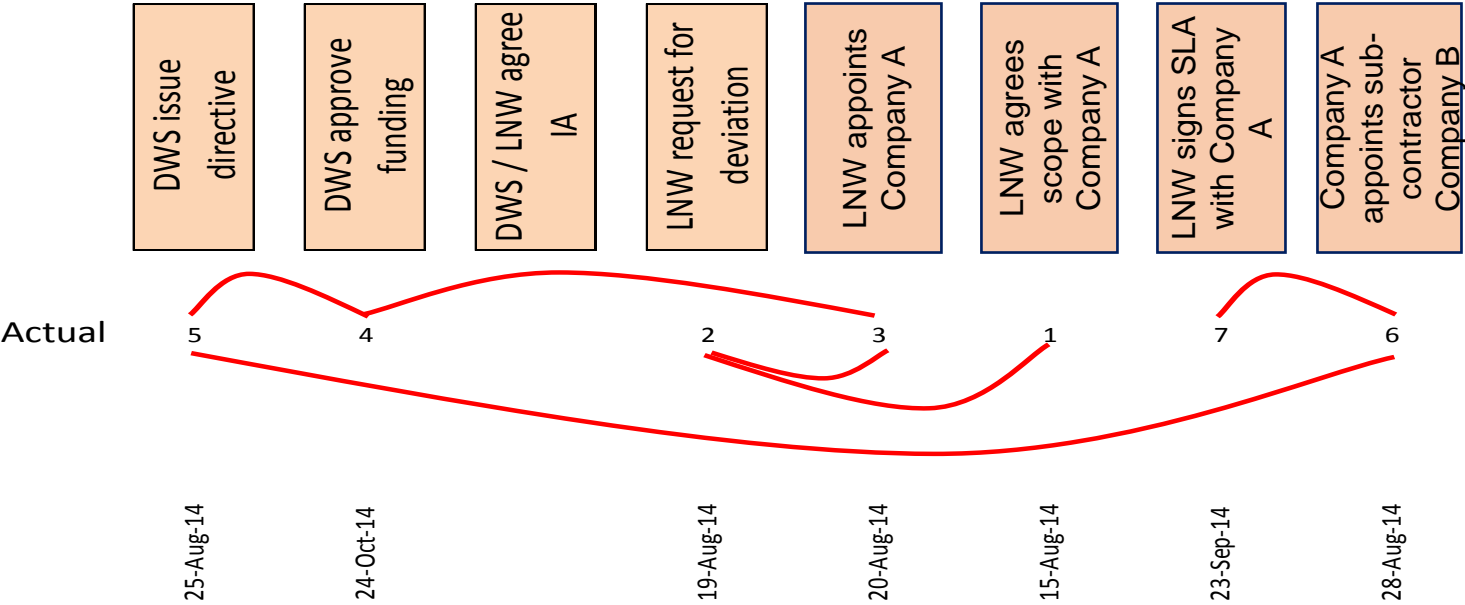
Other contractual arrangements

CONTRACT DOCUMENTATION

The typical process for the procurement of a Turn-key (Design and Construct) service provider is illustrated below:



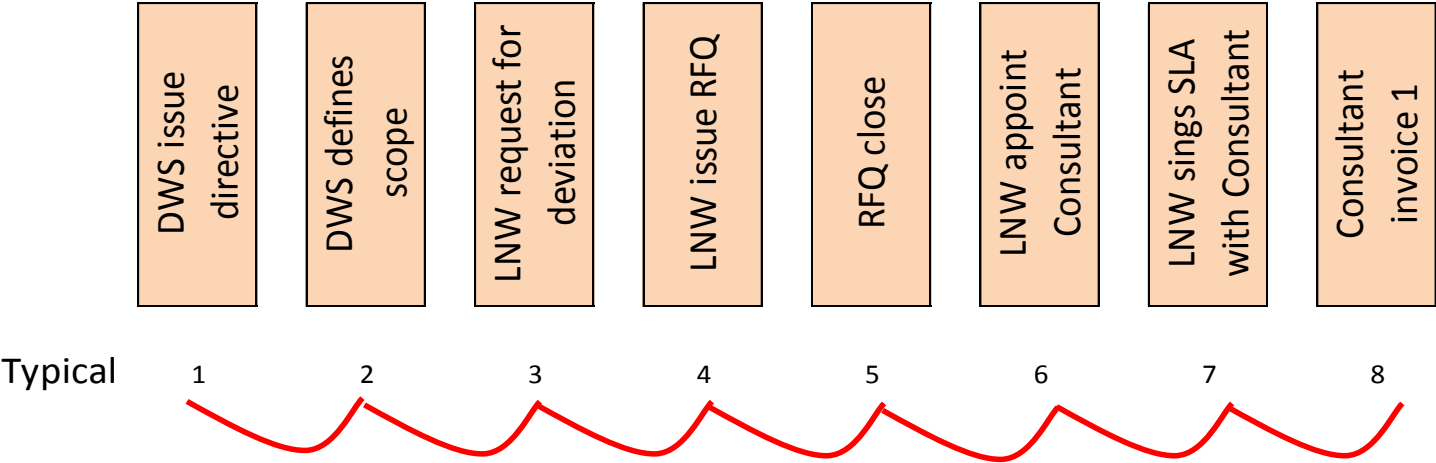
The actual process leading to the initial appointment of Company A mixed the sequence of events. This is illustrated as follows:



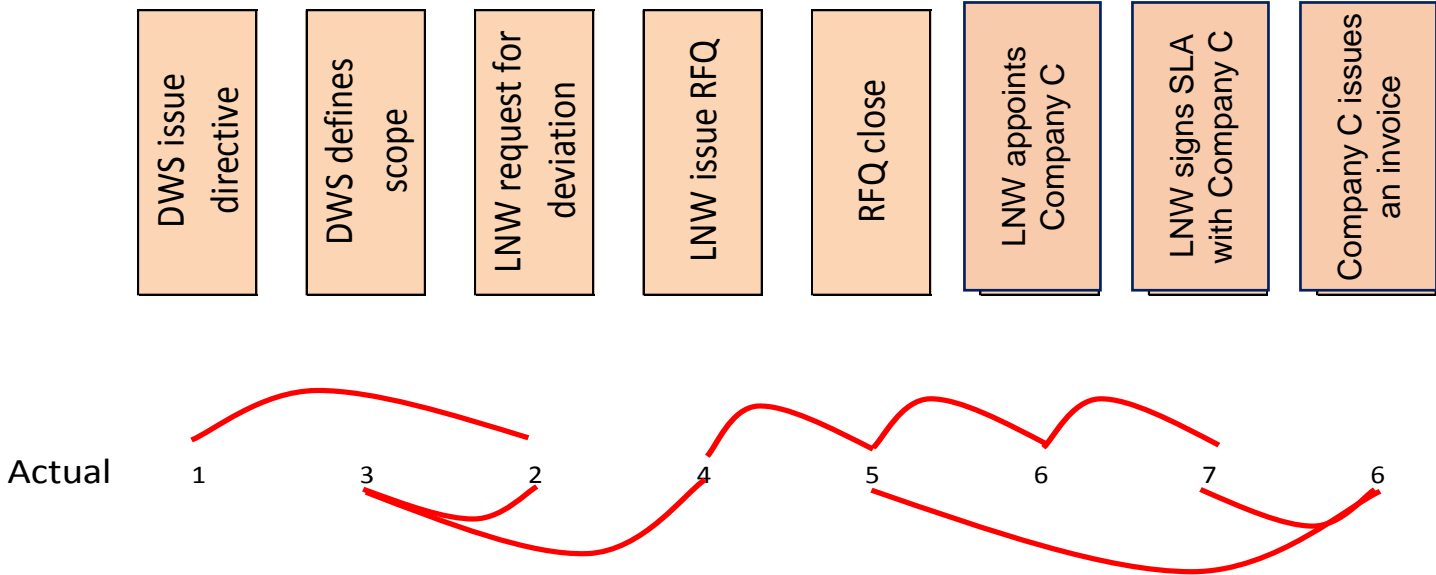
Key findings / concerns on projects audited

Other contractual arrangements

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



The actual process was again in an unorthodox sequence:



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



Key findings / concerns on projects audited

Other value for money considerations

PROJECT MANAGEMENT FEES BREAKDOWN

Many layered project managers with a combined fee of 11% of the Programme value (5% LNW + 3% Private consulting firm A + 3% Company A), compared to industry norms of overall 3 – 5% per the recommended guideline of fees published by the SACPCMP (Gazette 34510 of 12 Aug 2011).

Based on the total Programme Value of R13.6 billion (excl. VAT) over 5 years as defined in Annexure 18.2 of the Project Business Plan, the equivalent resources that would have been obtained based on DPW rates are indicated below:

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



Key findings / concerns on projects audited

Other value for money considerations

TIME BASED FEES MATTERS

POTENTIAL DUPLICATE CLAIMS and PAYMENTS

- Company A was appointed on 20 August 2014. They however claimed for 11 resources working 160 hours each during the full month of August 2014. This includes a claim for 160 hours for Employee X for project management for the Giyani WTW, plus another 160 hours for the same resource for engineering supervision for the same project.
- Company A also claimed an amount of R1.6 million for “Stakeholder Engagement” during August 2014.
- The Company A claim for September 2014 again includes 168 hours for Employee X for project management for the Giyani WTW, plus another 168 hours for the same resource for engineering supervision for the same project.
- A similar claim for Employee Y shows 168 hours for engineering supervision on the Giyani WTW, plus another 168 hours for preliminary investigations on the Giyani WWTW.
- Company A again claimed R1.6m for “Stakeholder Engagement” during September 2014.
- The claim for October 2014 again includes 184 hours for Employee X for project management for the Giyani WTW, plus another 184 hours for the same resource for engineering supervision for the same project.
- A similar claim for Employee Y shows 184 hours for engineering supervision on the Giyani WTW, plus another 184 hours for preliminary investigations on the Giyani WWTW.
- Company A again claimed R1.6m for “Stakeholder Engagement” during October 2014.



Key findings / concerns on projects audited

Other value for money considerations

TIME BASED FEES MATTERS

EXCESSIVE RATES COMPARED TO DPSA GUIDELINES for CONSULTANTS

Department of Public Service Administration published time-based rates applicable to the consultants based on the various levels. An abstract of the applicable rates in 2014 is provided below:



Hourly Fee Rates For Consultants - With effect from 1 April 2014

Salary Band	Average Total Package	Model A Short Term				Model B Long Term			
		Option A 1 All Overheads		Option A 2 Partial Overheads		Option B 1 All Overheads		Option B 2 Partial Overheads	
		A 1.1 Mark-up	A 1.2 No Mark-up	A 2.1 Mark-up	A 2.2 No Mark-up	B 1.1 Mark-up	B 1.2 No Mark-up	B 2.1 Mark-up	B 2.2 No Mark-up
16	1 667 850	3 336	2 568	2 869	2 202	None	None	None	None
15 / 16	1 472 127	2 944	2 267	2 532	1 943	2 429	1 870	2 090	1 605
15	1 276 405	2 553	1 966	2 195	1 685	2 106	1 621	1 812	1 391
14 /15	1 161 636	2 323	1 789	1 998	1 533	1 917	1 475	1 650	1 266
14	1 082 180	2 164	1 667	1 861	1 428	1 786	1 374	1 537	1 180
13 /14	990 034	1 980	1 525	1 703	1 307	1 634	1 257	1 406	1 079
13	890 210	1 780	1 371	1 531	1 175	1 469	1 131	1 264	970

Department of Public Works published time-based rates applicable to the architectural, engineering, quantity surveying and town planning professions. An abstract of the applicable rates in 2014 is provided below:

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

- The top rate for a consultant working at the level of a Director is R1 469/hour (Option B 1.1) according to the DPSA scales.
- The top rate for a registered professional principal is R1 446 according to the DPW scales (Par (i)).
- **Company A claimed up to R3 500/hour!**



Key findings / concerns on projects audited

Other value for money considerations

EXCESSIVE CONSTRUCTION COSTS

POTENTIAL EXCESSIVE CONSTRUCTION COSTS

The table below compares prices for some critical cost items between the Nandoni-Nsami pipeline constructed by Company D and the Giyani pipelines constructed by Company A (Sub-contracted to Company B). This high level comparison is not exhaustive and only included certain key cost components based on available information provide to illustrate to management the potential excessive costs at the time of audit:

		Company B												Company D	
Project Name		Pipeline A (0-5000)		Pipeline B (5000-82104)		Pipeline C (0-6200)		Pipeline D (Outlying)		Pipeline F1 (5000-45327?)		Pipeline F2 (5000-16287)		Nandoni - Nsami	
Pipe Diameter	mm	110-250		160-450		750 & 1200		110-630		160-450		160-315		200-800	
Total Length	m	32 908		77 104		6 200		107 719		60 720		16 287		50 222	
BoQ description	Unit	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty	Rate	Qty
Clear vegetation and trees	m	R 200	32 932	R 200	76 800	R 50	6 200	R 200	107 679	R 200	60 722	R 200	16 291	R 19	50 222
Excavate - 0 - 1.5m	m³	R 250	14 890	R 250	38 936	R 380	900	R 250	58 937	R 250	36 365	R 250	7 754	R 122	65 153
Excavate - 1.5 - 2.5m	m³	R 300	27 653	R 300	72 310	R 650	5 600	R 300	109 450	R 300	67 534	R 300	14 399	R 129	73 297
Excavate - Deeper than 2.5m	m³	R 500	0	R 500	0	R 900	550	R 500	0	R 500	0	R 500	0	R 145	24 432
Hard rock excavation	m³	R 625	8 509	R 625	22 249	R 625	12 000	R 625	33 677	R 625	20 780	R 625	4 431	R 269	24 432
Bedding & selected from trench	m³	R 300	3 700	R 300	10 288	R 300	3 500	R 300	16 184	R 300	10 221	R 300	1 996	R 49	35 551
Bedding & selected from borrow p	m³	R 500	15 100	R 500	41 153	R 500	7 200	R 500	64 734	R 500	40 888	R 500	7 980	R 99	53 327
Pipe encasement	m³	R 7 993	365	R 10 297	1 812	R 7 500	50	R 7 117	1 999	R 9 185	1 287	R 10 904	594	R 1 744	444
Total Cost (of above items)	R	R 35 501 025		R 103 013 525		R 16 818 450		R 141 601 875		R 89 815 150		R 23 352 075		R 21 839 543	
Total cost / meter	m	R 1 079		R 1 336		R 2 713		R 1 315		R 1 479		R 1 434		R 435	
Total cost / meter (Total average)	m R 1 447														

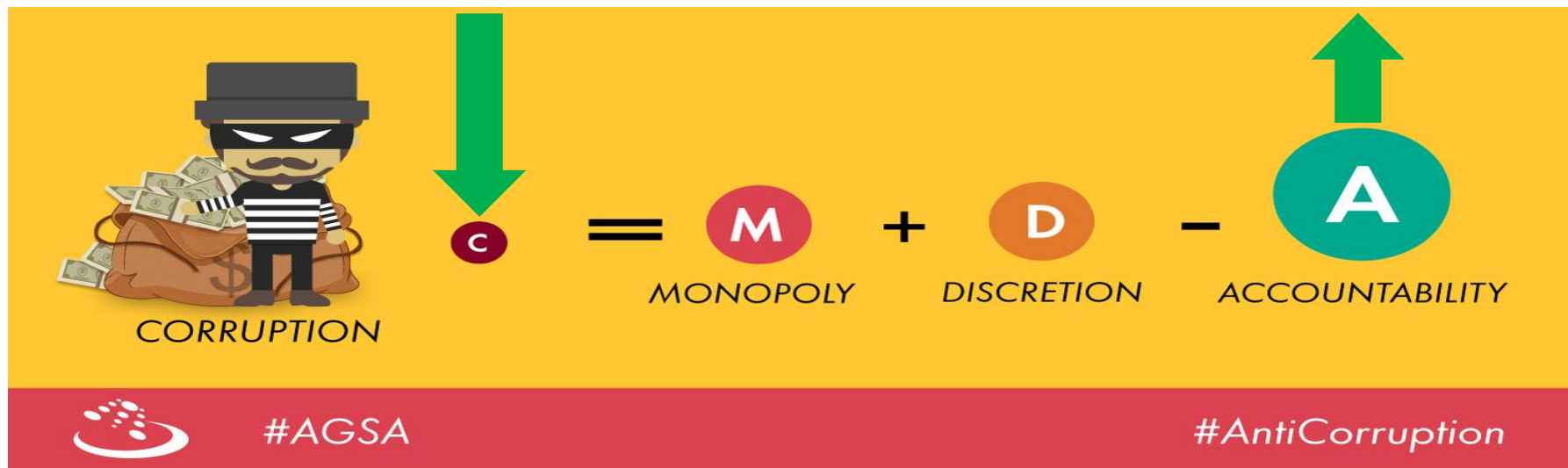
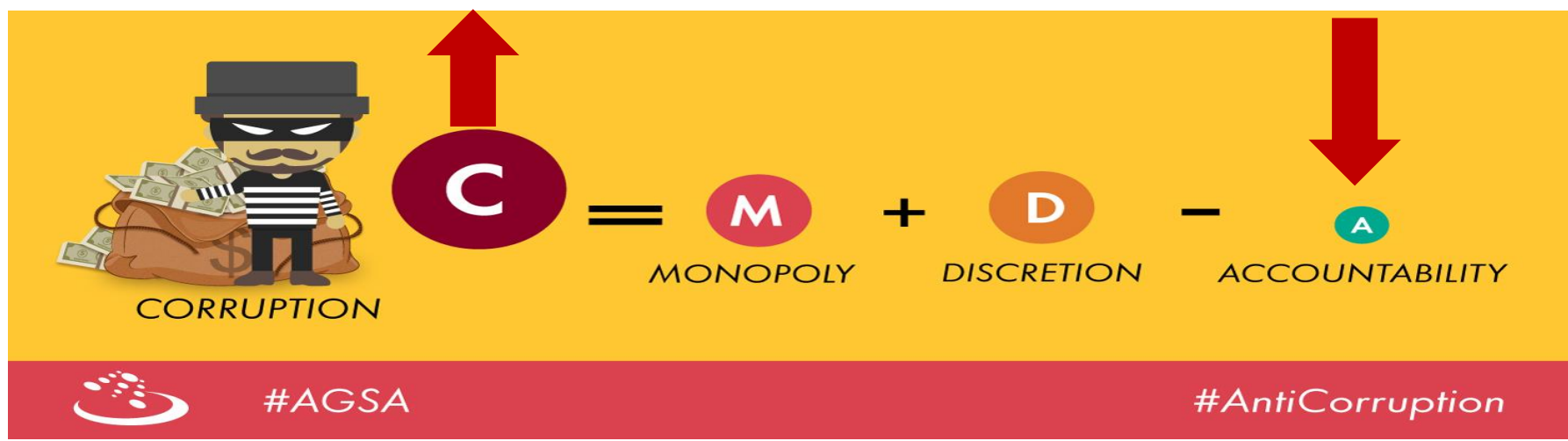


Concluding comments and Recommendations

- We recommend that the department conducts a full investigation to determine the actual fruitless and wasteful expenditure on these projects.
- The department needs to determine the extend of other projects where fruitless and wasteful expenditure could potentially exist and investigate them to determine the full amount of fruitless and wasteful expenditure that must be disclosed by the department.
- Only 10 projects (and a specialist was used on 3 of the projects). We therefore recommend management reviews the other projects for similar risks.
- We also recommend that the applicable project management controls and principles be improved by management.
- The department should determine norms and standards for professional fees, project management fees etc and ensure that all projects are executed in line with the relevant guidelines.
- All the contracts entered into by Implementing agents should be reviewed by the department to determine the full extend of the irregular expenditure that must be disclosed in the financial statements of the department.



Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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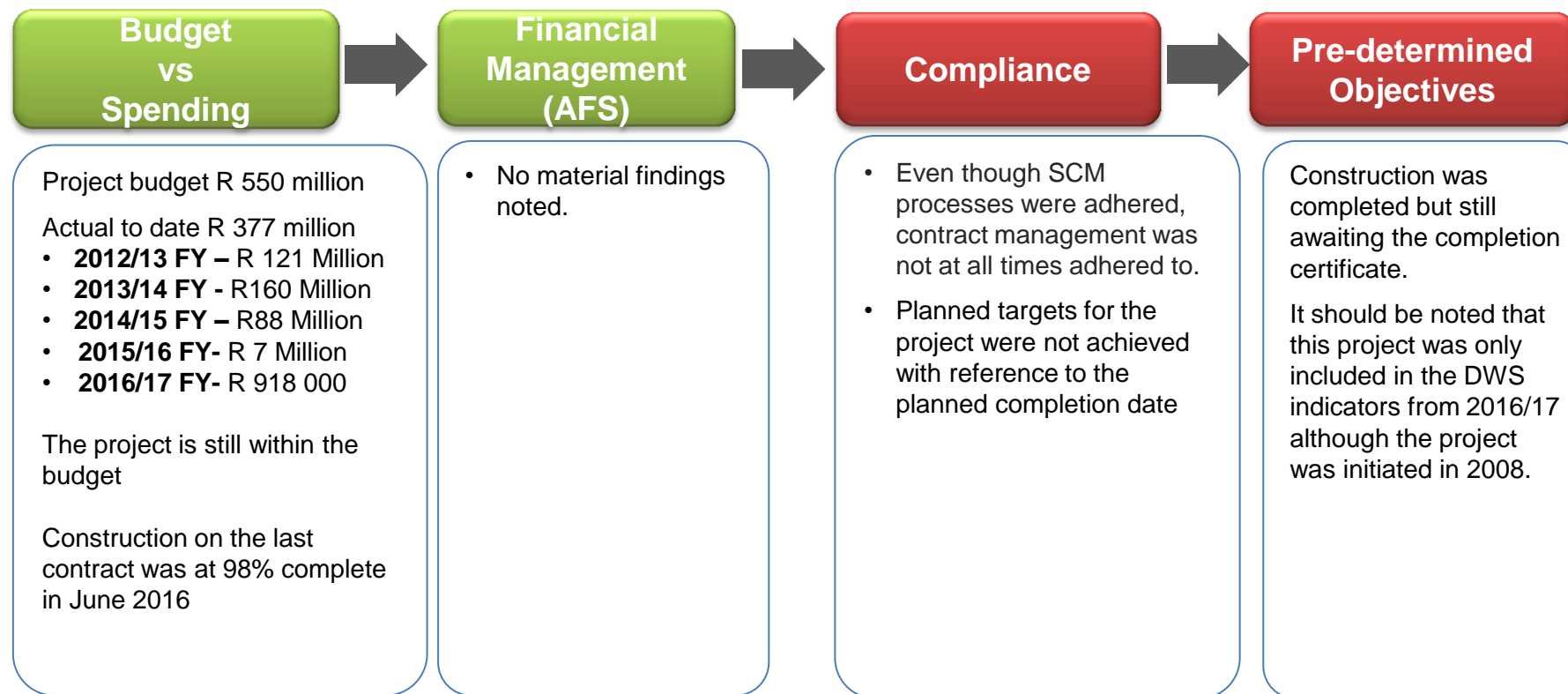
Detail slides per project audited (Annexure)



1. Eastern Cape: Greater Mbizana Regional Bulk Water Supply



Programme 3 –
PPI no 2.3.7 –
Number of large
water and
wastewater
projects under
construction



Key project dates

- Start date: **Feb 2008**
- Planned completion date: **Feb 2016**

No feedback has been received from Eskom with regard to the power points applied for at the Bizane Town and KwaNke

Progress report as at 31 March 2017

- As per department when the project is handed over for operation and maintenance to deliver water to the targeted recipients and practical completion certificates is issued only then are the project considered as complete.
- **Certificate of completion still to be issued.**



Material
findings / concerns noted



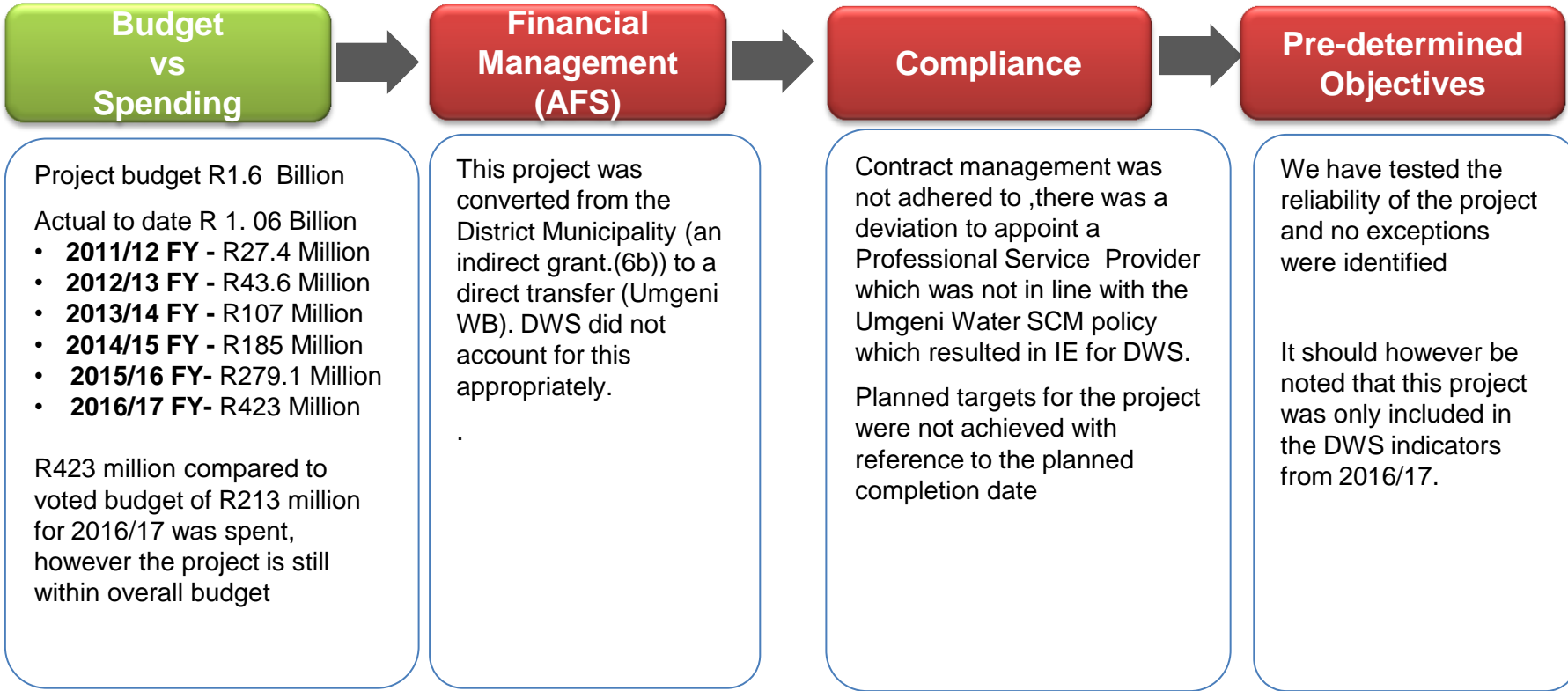
No material
findings / concerns noted

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

2. Kwa-Zulu Natal - Lower Thukela Bulk Water Supply Scheme



Programme 3 – PPI no 2.3.5 – Number of mega water and wastewater projects under construction



Key project dates

- Start date: **July 2011**
- Original planned completion date: **25 November 2015**
- Revised contractual completion date: **31 August 2016**
- Anticipated Completion date: **27 February 2017**

The reason was to reprioritise available funds to drought interventions.

Progress report

- Five (5) of the Six (6) contracts have effectively been completed and practical completion certificates issued with only the final Mechanical and Electrical installation and wet commissioning being undertaken
- Civil works for the Weir & Abstraction Works and Water Treatment Works are at 100% and 98% respectively
- Construction on the last contract is at 98% (Water Treatment Works)



Material findings / concerns noted

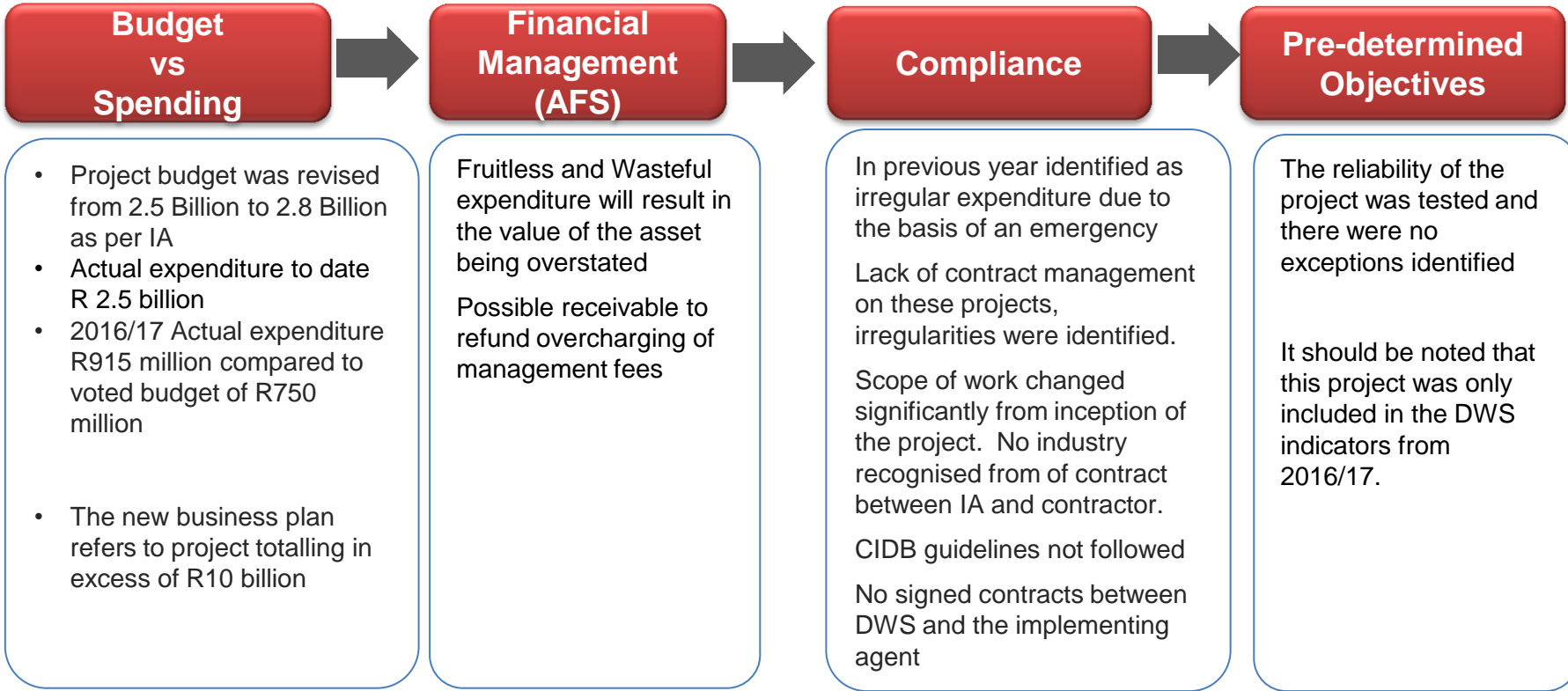


No material findings / concerns noted

3. Limpopo - Giyani Bulk Water Services and Giyani Water Services



Programme 3 –
PPI no 2.3.5 –
Number of mega
water and
wastewater
projects under
construction



Key project dates

- Start date: **28 August 2014** as an emergency intervention to restore water supply in Giyani – this was completed
- Initial completion date: September 2014
- Project expected completion date: during **2018/19 financial year as per new business plan**

Progress report


- The initial emergency – restoring of the water supply was achieved. The subsequent objectives to serve the entire Mopani District has not yet been achieved.


Value for money audit

As part of the audit an assessment of the value for money received on this project was conducted. There is estimated amounts for Fruitless and Wasteful expenditure identified during the audit that can potentially result in the value of the asset being overstated. The following areas have been identified where the department may have overpaid on this project.

- Project management fees & double invoices paid (double counting of professional hours)
- Excessive professional fees (rates) & excessive construction rates

The recommendation to the department is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project

**Material findings / concerns noted**

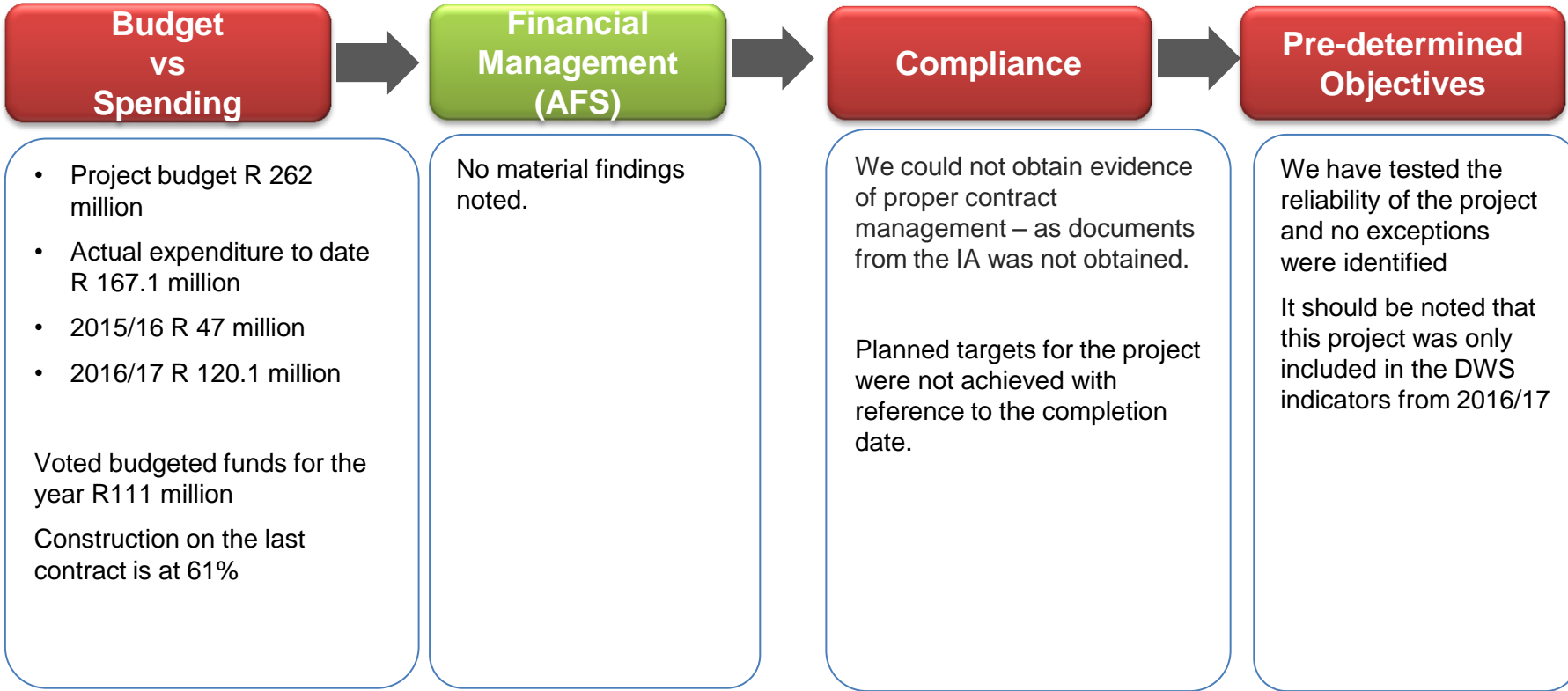
**No material findings / concerns noted**



4. Mpumalanga - Northern Nsikazi Bulk Water Scheme



Programme 3 – PPI no 2.3.5 – Number of mega water and wastewater projects under construction



Key project dates

- Start date: 19 March 2015
- Completion date- 30 September 2017

The contractor is asking for an extension and the Implementing Agent is still assessing the request

Progress report

- Pipeline Construction (Sabie river – Nyongane pump station) – 94% complete
- Pipeline Construction (Nyongane pump station - Numbi reservoir) 51% complete
- The overall expenditure is based on the Total Contract amount s to 60% and the overall progress of the work done to-date is at 61%
- The delivery of the pump station material was expected to be in April 2017, and that is the final stage of the phase of the project



Material findings / concerns noted

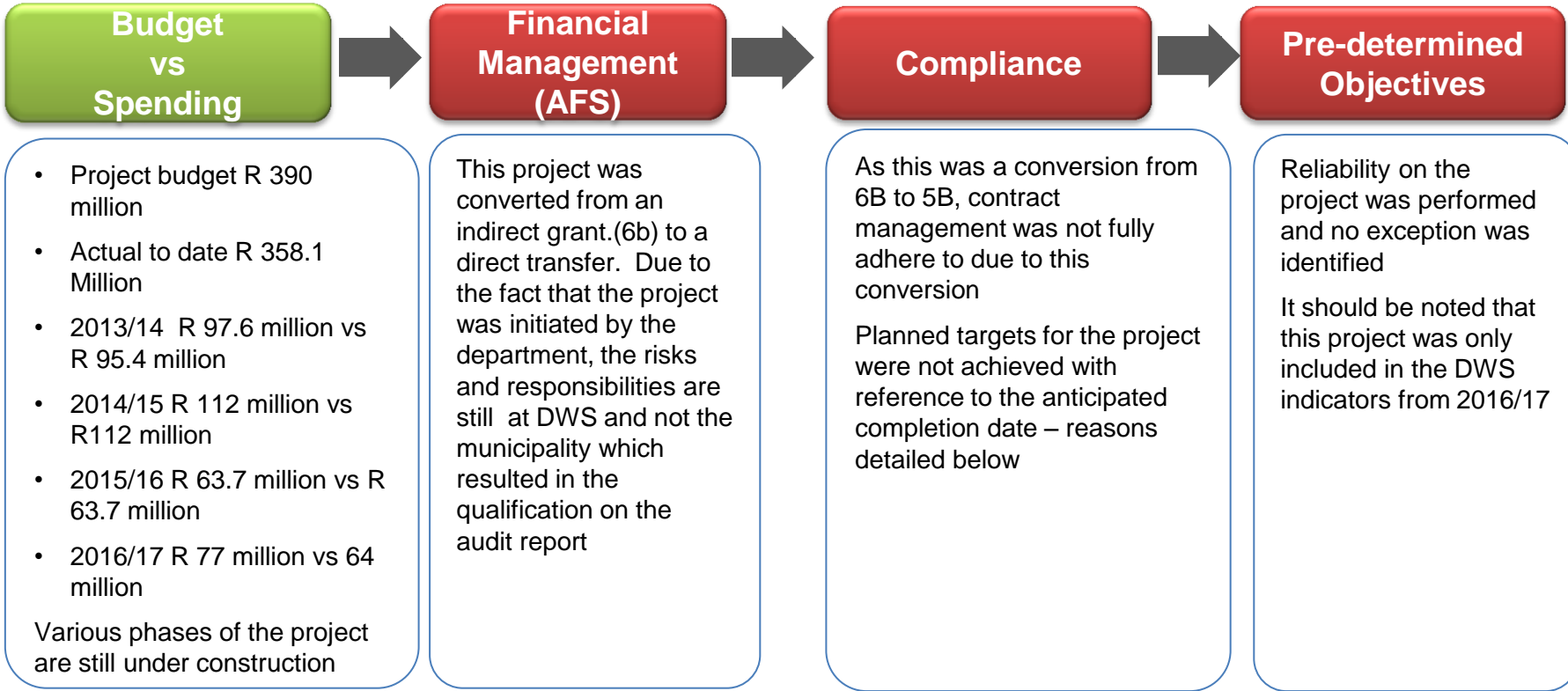


No material findings / concerns noted

5. North West - Taung / Naledi



Programme 3 – PPI no 2.3.7 – Number of large water and wastewater projects under construction



Key project dates

- Start date: for phases 1 to 2D: **2009-**
- Original planned completion date: **2016**
- Anticipated Completion date: Unknown and for phase 2(D) – **August 2017**

Due to unrest protest and changes of scope the original planned completion date was not achieved. In additional the Traditional Authority is in negotiations with the department due to bordering his land and claiming compensation – this also affected the completion date

Progress report

- Phase 1 to Phase 2B completed
- Phase 2C - Progress of the Works is at 99% complete with only the Roof Slab to construct and Hydraulic Pipes to install at the Abstraction Point.
- Phase 2D- Under construction
- Project phase 2(E)(1) – Pre- procurement stage (currently)
- Phase 2F- Future**

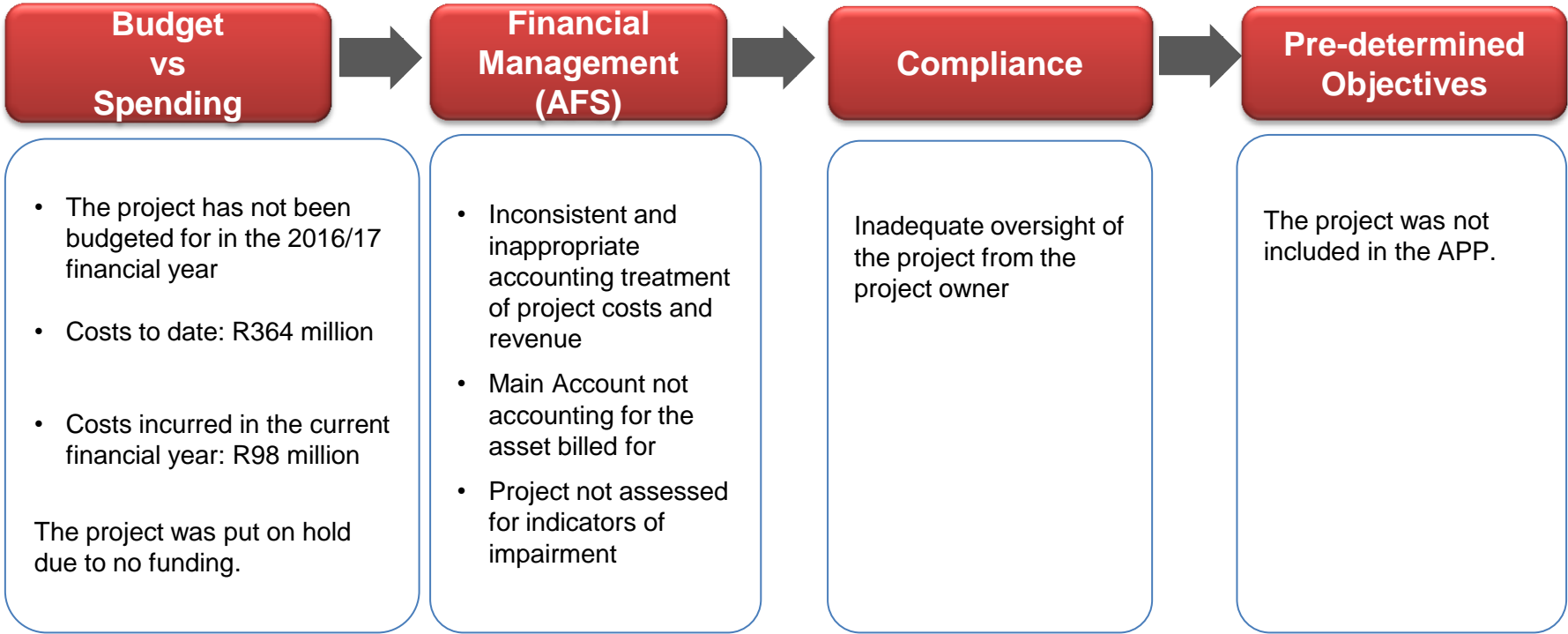


Material findings / concerns noted



No material findings / concerns noted

6. Limpopo – Mopani Emergency



Key project dates

- Start date: for phases 1 to 2D: August 2014
- Original planned completion date: September 2014

Progress report

- For the 2016/17 financial year, the project was not budgeted for and current year project costs were billed to Main Account and prior year costs not billed.
- No contract exists between WTE and Main Account for the recovery of the project costs as a result revenue billed to Main Account does not meet the revenue recognition criteria.
- Excessive administration costs were capitalised to the project due to the Construction Support office having less projects
- If no confirmed plans to fund and finalise the project, costs incurred to date are indicative of impairment and will be regarded as fruitless and wasteful expenditure.
- The project owner was not aware that the project was under his control, as a result, there was inadequate oversight of the project
- The project was not planned for in the annual performance plan although it was a multi-year project dating back a few years.



Material findings / concerns noted

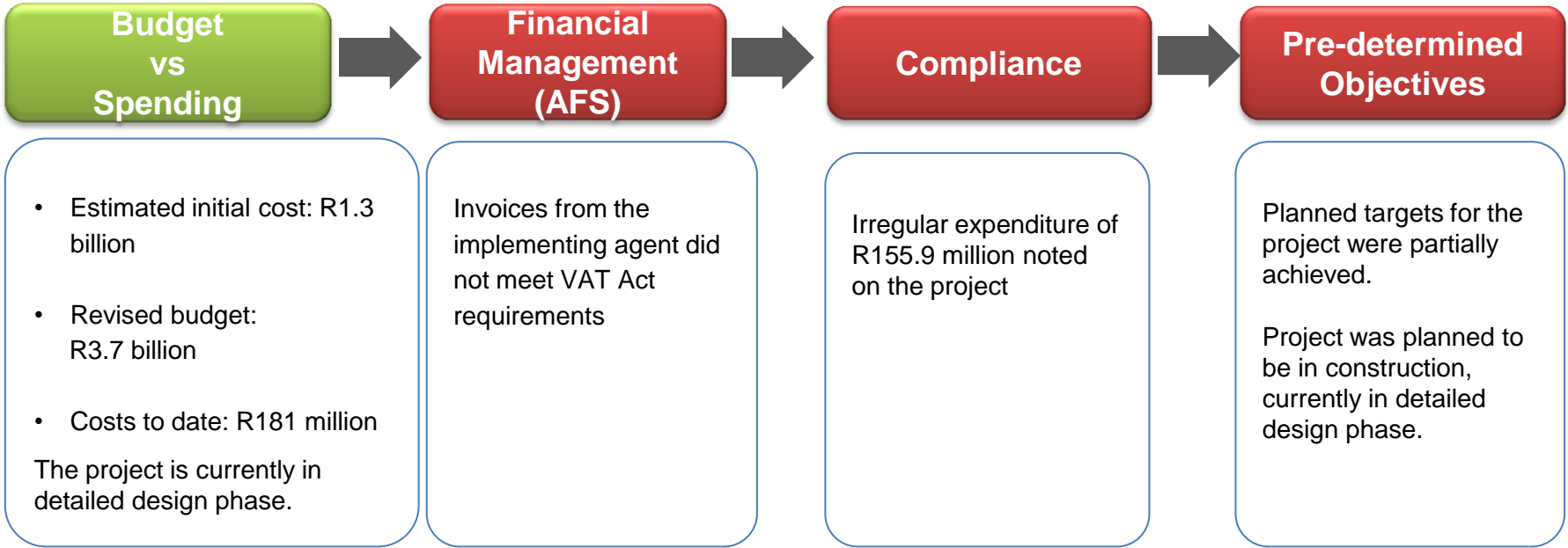


No material findings / concerns noted

7. Limpopo – Nwamitwa Dam



Programme 3 –
PPI no 2.3.1 and
2.3.2 – Number
of bulk raw water
projects



Key project dates

- Start date: May 2010
- Original planned completion date: 2016

Progress report

- Invoices from the implementing agent, Lepelle Northern Water (LNW) did not meet the VAT Act requirements.
- WTE awaiting detailed tender specifications from the implementing agent. Contractor not yet appointed and the construction has not yet commenced. The costs incurred to date mainly relate to the design of the road to be reallocated and professional fees.
- LNW did not follow procurement transcripts in appointing Company A for the project. Company A in turn appointed Company E on the basis of a contract that was already declared irregular by the Chief Procurement Officer from National Treasury.

Value for money audit

As part of the audit an assessment of the value for money received on this project was conducted. There is estimated amounts for Fruitless and Wasteful expenditure identified during the audit that can potentially result in the value of the asset being overstated. The following areas have been identified where the department may have overpaid on this project.

- Project management fees
- Professional fees (rates) not in line with the norm & non-market rates charged on actual installation and costs paid.

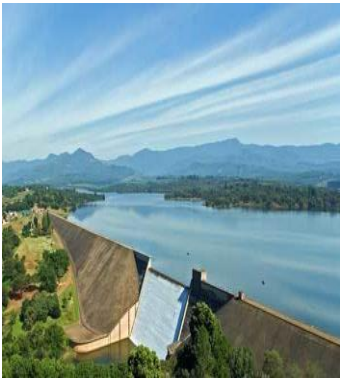
The recommendation to the department is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project

Material findings / concerns noted

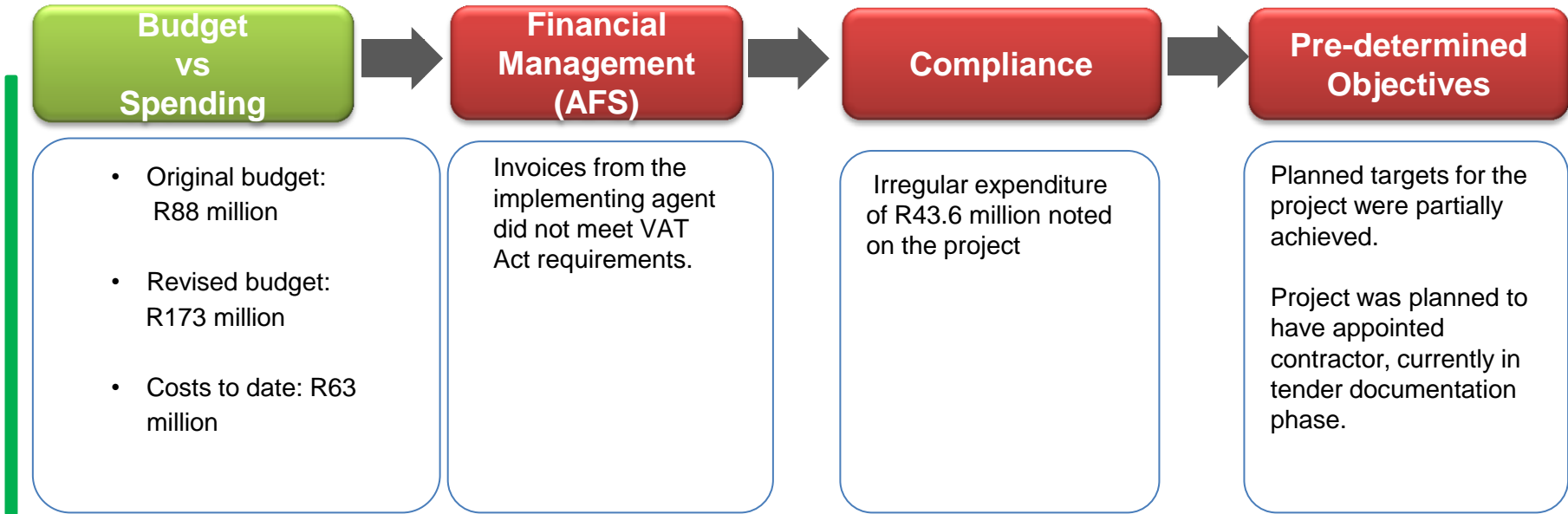
No material findings / concerns noted



8. Limpopo – Raising of the Tzaneen dam wall



Programme 3 –
PPI no 2.3.1 –
Number of bulk
raw water projects



Key project dates

- Start date: 2010
- Original planned completion date: 2016

Progress report

- Invoices from the implementing agent Lepelle Northern Water (LNW) did not meet the VAT Act requirements.
- The costs incurred to date relate to detailed dam designs and earthworks stock piling
- Appointment of Blackhead Consulting was approved as a deviation from normal tender process. The reason for deviation was not justifiable as the project was not an emergency, thus resulting in irregular expenditure.

Value for money audit

As part of the audit an assessment of the value for money received on this project was conducted. There is estimated amounts for Fruitless and Wasteful expenditure identified during the audit that can potentially result in the value of the asset being overstated. The following areas have been identified where the department may have overpaid on this project.

- Project management fees
- Professional fees (rates) not in line with the norm & non-market rates charged on actual installation and costs paid.

The recommendation to the department is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project



Material findings / concerns noted

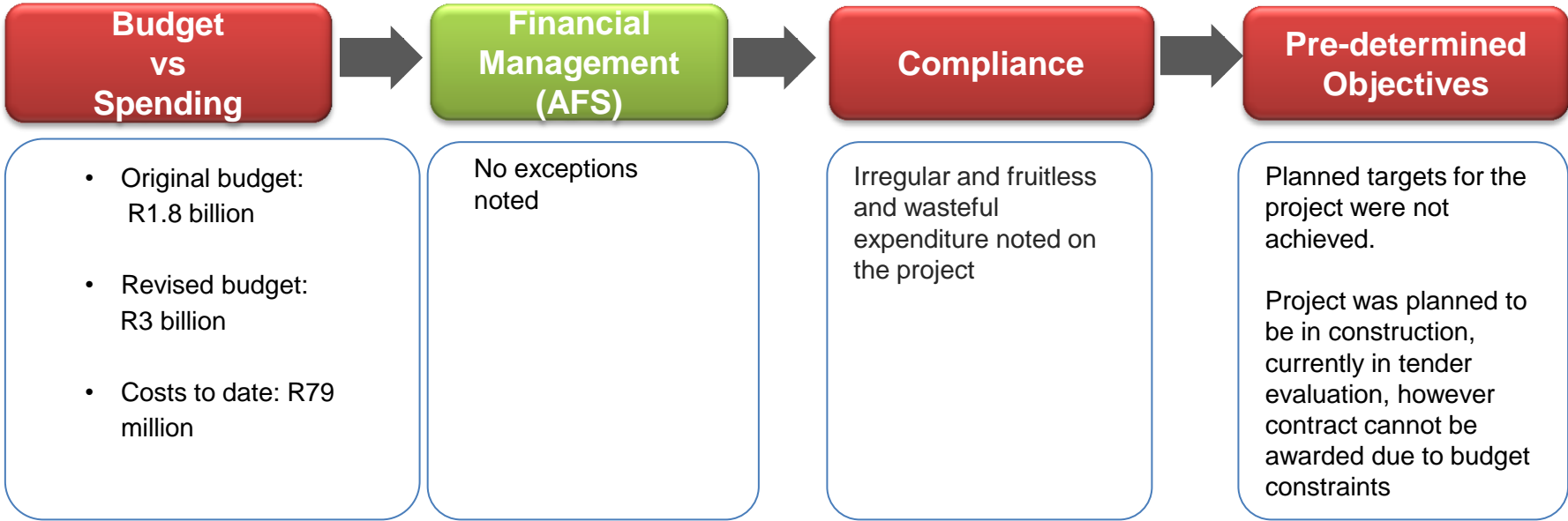


No material findings / concerns noted

9. Western Cape – Raising of Clan William dam wall



Programme 3 – PPI no 2.3.1 and 2.3.2 – Number of bulk raw water projects



Key project dates

- Start date: June 2014
- Original planned completion date: December 16/17

Progress report

- The tender for the main contractor’s work was advertised and is now closed. Bid evaluation process cannot commence due to insufficient budget allocations. This delay will most likely result in escalation of costs for the project. Costs incurred on employee costs while the project is on halt, resulting in fruitless and wasteful expenditure.
- Costs incurred to date mainly relate to construction of the N7 road by SANRAL (R228 million) and site establishment (R154 million).
- The Approved Professional Person for the project, retired employee of WTE, was appointed via a deviation from normal procurement process. Previous DG refused to extend the employment contract of the APP after it had already been extended by two years. The APP was then appointed through a consulting company without following procurement transcripts.
- The appointed consultant was awarded additional scope of work for Project Management via a deviation from normal procurement. WTE has an in-house Infrastructure Development Directorate that should be providing Project Management services for the project.

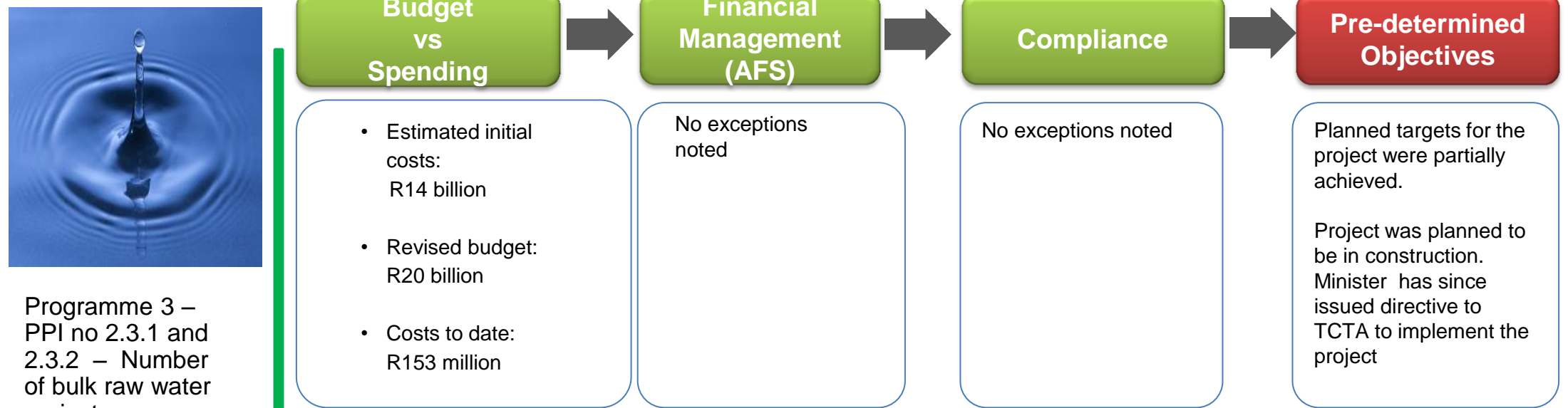


Material findings / concerns noted



No material findings / concerns noted

10. Eastern Cape – Mzimvumbu Water Projects



Programme 3 – PPI no 2.3.1 and 2.3.2 – Number of bulk raw water projects

Key project dates

- Start date: Moved to TCTA
- Original planned completion date: Moved to TCTA

Progress report

- The contractor procurement, site establishment and commencement of the construction were not achieved.
- The Minister has since issued a directive that the project be implemented by TCTA in terms of Section 103(2) if the National Water Act, 1998.
- Due diligence on the work done to date by WTE is being performed by TCTA and TCTA is preparing a Project Charter which will provide an updated programme and cost estimates.



Material findings / concerns noted



No material findings / concerns noted

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