Budgetary review and recommendations report | PFMA 2018-19

Briefing to Portfolio Committee on Water and Sanitation

12 May 2020

AUDITOR-GENERAL SOUTH AFRICA

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.

Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report* (BRRR).

The 2018-19 audit outcomes

Our annual audit examines three areas

THE AG's ANNUAL AUDITS EXAMINE

3

AREAS:

1 FAIR PRESENTATION AND ABSENCE OF SIGNIFICANT MISSTATEMENTS IN FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)

Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings

Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion

Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion

Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion

Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

Important to note

The percentages in this presentation are calculated based on the **completed audits of two auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:

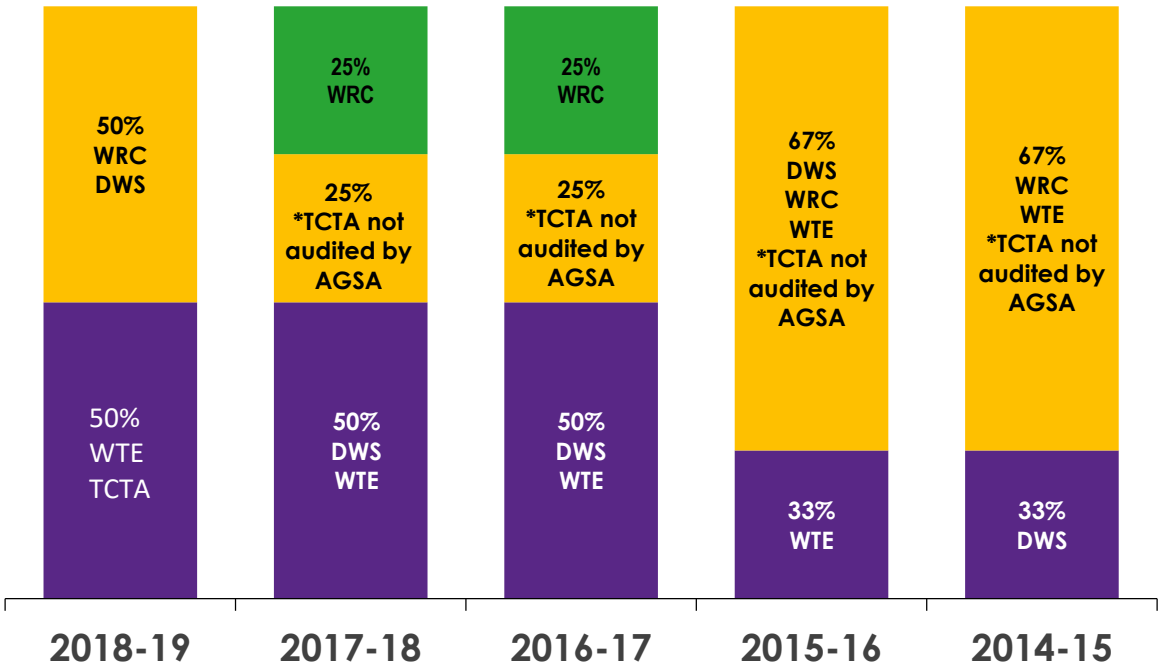
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits

Movement over the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Audit outcomes of portfolio over five years (excl. WBs)



Movement	
▲	1
▼	2
►	1
Outstanding audits	0

- DWS audit outcomes improved to an unqualified audit opinion with findings from a qualified audit opinion during the prior year.
- There was a notable improvements in the preparation, monitoring and updating of the commitments schedule. Furthermore, a number of measures to fully detect and disclose the completeness of fruitless and wasteful expenditure incurred as well as completeness of irregular expenditure incurred in the current year, as well as prior year, were implemented.
- Financial statement preparation remains a concern, as material adjustments had to be made to the financial statements submitted for auditing at DWS.
- WRC audit outcomes regressed from a clean audit to unqualified with findings on compliance.
- TCTA audit outcomes regressed from an unqualified with findings on compliance to a qualified audit opinion. The entity received a qualification on the following areas: Tariff Receivables, Provision for Compensation and Commitments. The entity did not adequate substantiate the amounts disclosed in the AFS for Tariff Receivables and also did not accurately disclose commitments.
- WTE audit outcomes remained stagnant at a financial qualification with findings on compliance with legislation. The entity received a qualification on Receivables and financial liabilities. This was a as a result of inadequate Internal controls implemented on the review of the financial models received from TCTA. In addition, there were inadequate processes and controls to ensure that all receivables are disclosed, as the entity offset receivables against liabilities where the standards did not allow.

Key message on the department and entities

- The audit outcomes of **DWS** improved from a qualified audit opinion with findings to an unqualified audit opinion with findings. WTE on the other hand remained stagnant with a qualified audit opinion with findings. TCTA was audited by the AGSA for the first time in 2018/19 and they regressed from an unqualified audit opinion with findings to a qualified audit opinion with findings.

- Both the WTE and TCTA financial statements had material misstatements due to limitations. The limitations would have resulted in qualification and or disclaimer of opinion. As a result of the adverse impact that this would have on the entities, the leadership of the entities requested time extension to address the potential qualifications and or disclaimer opinion. The adjusted financial statements of TCTA were received on 21 October 2019. The audit was finalised and the audit report signed on 20 December 2019.

- For WTE, the adjusted financial statements were received on the 14 December 2019 and the audit report was signed on the 21 February 2020. The financial statement preparation process remains a concern for both WTE and TCTA as material adjustments were effected to AFS submitted as a result of the audit process.

Key message on the department and entities

- **The difference of opinion on the Treaty requirements, Directives and MoUs with TCTA leadership was the major contributor of the delay in finalising the audit processes on the audit of TCTA. This delay also had a consequential effect on the finalisation of the audit of the WTE due to the direct link that the financial statements of the two entities have.**
- TCTA understood from the Treaty that their responsibility, relating to non-Treaty functions, was to provide funding to the LHDA and that the LHWC and DWS had the responsibility to account for the funds provided. As a result, TCTA accounted for transactions with LHDA when cash was effected rather than when expenditures were incurred, as required by Article 10 of the Treaty.
- We noted some treaty accounting controls which were not adhered to by either the TCTA or the LHWC, which could have alleviated the limitation and the impact thereof. The following serve as examples:
    - Advance requests accounted for as expenditure, transactions accounted for in an incorrect accounting period,
    - Provision for compensation payments were made by TCTA, however TCTA management were not aware of the nature of the compensation, as they did not thoroughly interrogate the requirements of the approved policy against the payments and what was ultimately accounted for in the financial statements, despite both provisions having been effective from the inception of the projects.
    - The Treaty makes provision for the LHWC to approve cost allocations and cost-to-funding reports annually. It further provides that TCTA can request, at any time once available, the commission to approve such reports to facilitate accurate, complete and reliable reporting by both entities. However, over the past three financial periods, TCTA had not received nor requested the commission for the cost-to-funding reports.
    - For cost allocation reports, TCTA resorted to submissions from the RSA delegate/ member. We noted our concerns to management on the risk that the inputs were exposed as the documentation stated that the member provided his input (view). We recommend rather that requests of such information be made from the full commission as per the Treaty requirements, to strengthen the assurance over these submissions that management use to compile the annual financial statements.
    - Even where such reports were received, there was no evidence that TCTA performed adequate reviews on these reports. We noted numerous errors on these cost allocations reports, which necessitated numerous amendments and re-submissions of these reports.
- Internal controls implemented on the review of the financial models received from TCTA were inadequate. These schedules were not adequately reviewed before they were accounted for or used in the financial statements of WTE. There were material differences noted between the financial liability models received from the TCTA and the information recorded in the annual financial statements of the WTE. In addition, TCTA could not provide sufficient and appropriate audit evidence to support the two thirds AMD liability which was supposed to have been recorded by the WTE and these also adversely affected the completeness of the financial liabilities of WTE. Furthermore, management also did not have adequate controls to review and reconcile the amounts provided by TCTA related to the AMD for inclusion in WTE annual financial statements. These differences, coupled with the limitations experienced, resulted in a modification of the audit opinion.

Credible financial and performance reporting

Financial statements

	Movement	2018-19	2017-18
Submission of financial statements by legislated date (all auditees)	▲	100%	50%
AFS submitted without errors	➤	25%	25%
Quality of final submission after audit	➤	50%	50%

***50%** achieved unqualified opinions only because they corrected all misstatements identified during the audit*

Performance report

	Movement	2018-19	2017-18
APR submitted without errors	➤	50%	50%
Quality of final submission after audit	▲	75%	75%

***75%** achieved unqualified opinions only because they corrected all misstatements identified during the audit*

Reliable reporting of achievements (WRC, DWS, WTE & TCTA)	75%	75%
Usefulness of performance indicators and targets (WRC, DWS, WTE & TCTA)	75%	75%

Disregard for compliance with legislation

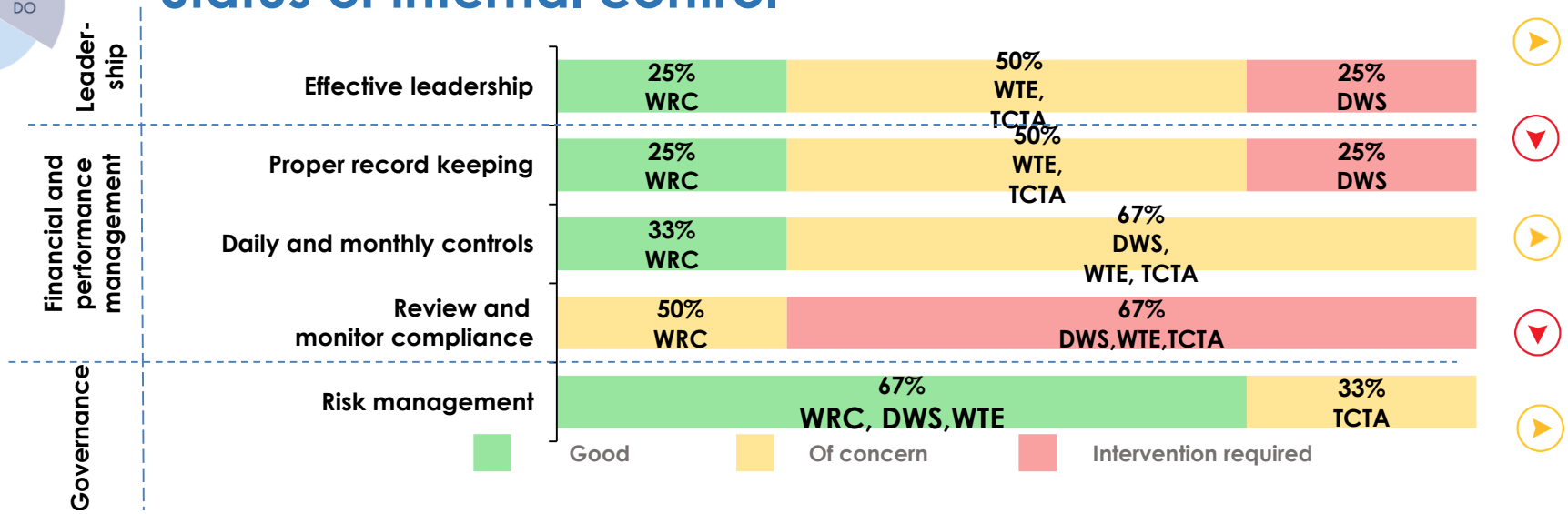
Findings on compliance with key legislation

Top five non-compliance areas

- Quality of financial statements (DWS, WTE and TCTA)
- Prevention of irregular expenditure (DWS, WRC, WTE and TCTA)
- Prevention of fruitless and wasteful expenditure (DWS, WTE and TCTA)
- Lack of consequence management (DWS, WRC)
- Conditional grants not spent for their intended purpose (DWS)
- Payments not made within 30 days (DWS)

It should be note that although TCTA audit report for the 2017/18 financial year was not signed off by the AGSA, the AGSA team was involved in the audit of procurement and resulted in an increase in the Irregular expenditure reported in the annual financial statements of 2017/18.

Status of internal control



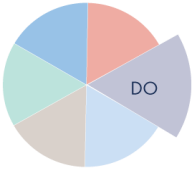
The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinions and the significant other findings, included in this report.

Leadership

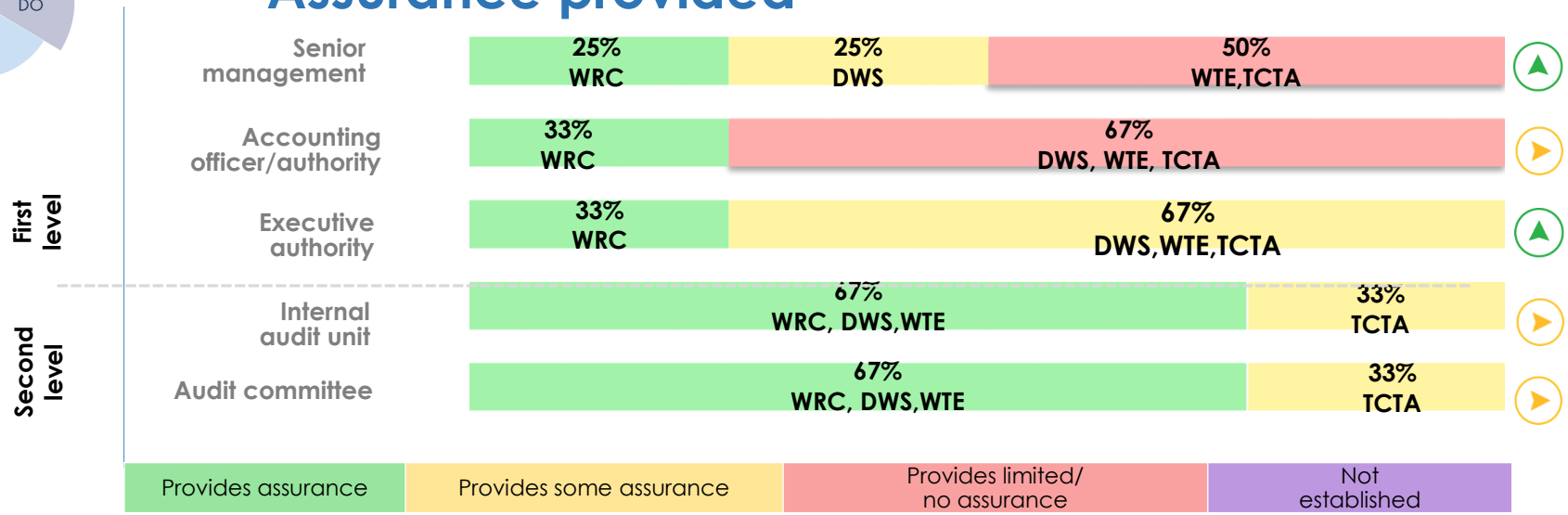
- The leadership instability persisted at top management level, as a result of vacancies and/or suspensions of the Accounting Officer, Chief Financial Officer and other Deputy Directors General for extended periods during the year under review. (DWS and WTE).
- Historical emergencies, on the basis of water being a basic need, which occurred at local government level resulted in a number of the departmental interventions. As part of taking over these projects, the leadership did not take appropriate actions to ensure that sufficient controls, monitoring and oversight were exercised over emerging projects run by the department or implementing agents appointed by them to execute the projects. (DWS).
- Consequence management processes were not in all instances sufficient as the leadership did not take the appropriate action required in a timely manner for all irregular as well as fruitless and wasteful expenditure incurred by the department. (DWS).
- Leadership did not ensure that adequate action plans are developed and implemented in order to address prior year qualifications and internal control deficiencies specific to (WTE).
- Leadership did not take appropriate actions to ensure that monitoring and oversight were exercised over work/ projects implemented by implementing agents, resulting in fruitless and wasteful expenditure being incurred on some projects (DWS).
- Management did not ensure that there were adequate controls in place to foster a culture of compliance with laws, regulations and internal policies. (DWS, WTE and TCTA).

Financial and performance management

- Management did not implement proper record management system to maintain information that supported financial and performance reporting (TCTA).
- Management did not perform adequate reviews and reconciliations on the financial statements submitted for audit and underlying information, as the financial statements submitted contained material misstatements of which some were corrected as a result of the audit process and of which some could not be corrected which resulted in the modified opinion. (WTE and TCTA).
- Management did not implement adequate controls to prevent and detect non-compliance with laws and regulations, which resulted in irregular and fruitless and wasteful expenditure. The entities incurred both irregular and fruitless and wasteful expenditure as disclosed in the annual reports. (DWS, WTE and TCTA).
- The department did not have a proper standard operating procedure manual pertaining to emergency projects, to guide them with procedures/ checklists to know, start, monitor, comply and address projects done on an emergency basis as and when intervention was required (DWS).



Assurance provided



We assessed the level of assurance provided by these assurance providers based on the status of internal controls at the department and entities and the impact of the role players on these controls. There remains a significant instability in leadership positions within the department. There has been a significantly high turnover rate at the level of DG. Over the past six financial years, the department has had five different DGs and/or acting DGs – for most of the time, the position was occupied by an acting director-general.

No.	Minister	Name of DG	Acting	Months as DG
1	Ms B Sonjica	Pam Yako		4
2	Ms B Sonjica	Nobubele Ngele	A	15
3	Ms BE Molewa	Trevor Balzer	A	15
4	Ms BE Molewa	Maxwell Sirenya		12
5	Ms BE Molewa	Trevor Balzer	A	16
6	Ms Mokonyane	Trevor Balzer	A	4
7	Ms Mokonyane	Margaret-Ann Diedericks		21
8	Ms Mokonyane	Sifiso Mkhize	A	6
9	Ms Mokonyane	Dan Mashitisho		7
10	Ms Mokonyane	Sifiso Mkhize	A	9
11	Mr G Nkwinthi	Sifiso Mkhize	A	3
12	Mr G Nkwinthi	Deborah Mochotlhi	A	12
13	Mrs L Sisulu	Mbulelo Tshangana	A	9*

*Currently still acting, months calculated from June 2019 to date

Management and delivery of key programmes

Management and delivery of all programmes for DWS (including WTE) – Spending, performance and reporting

Programme	Budget spent	Achievement of programme	Unauthorised, irregular and fruitless and wasteful expenditure	Material misstatements corrected	Comments
Programme 4 - Water Sector Regulation	95.9%	50%	IE – R674 million	No	None Identified
Programme 3 - Water Infrastructure Development	98.3%	50%	UE – R292 million (prior year) IE – R1 915 million FWE – R47 million	Yes	Material misstatements were identified and corrected.
Programme 2 - Water Planning	100%	62%	IE – R19 million	No	None Identified
Programme 1 – Administration	100%	38%	UE – R349 million (prior year) IE – R519 million	Not audited	**Programme not selected for audit**

Summary

Programme	Budget spent	Achievement of programme	Material misstatements
Programme 3 – Water Infrastructure development	**98%**	**50% (10 of 20)**	**Yes, but subsequently corrected – resulting in no findings in the audit report**

UE – Unauthorised expenditure IE – Irregular expenditure FWE – Fruitless and wasteful expenditure

Good Of concern Intervention required Not audited

Grants management – DWS (including WTE)

Details	Regional Bulk Infrastructure Grant (RBIG)	Water Services Infrastructure Grant (WSIG)
Available to spend (percentage funds spends)	R4.844 billion (89%)	R5.385 billion (99%)
Underspending by more than 10%	Yes	No
Used for intended purposes	No	No

Any other grant utilisations findings:

- The Regional Bulk Infrastructure grant and Water Services Infrastructure grants were not spent in accordance with the applicable framework, a required by section 17(1) of the Division of Revenue Act (Act 1 of 2018), as underspending which occurred during the year was not supported by cash on hand.

Summary of Key projects audited (DWS including WTE)

Key projects audited	Budget	Actual versus budget (YTD)	Financial	Compliance	Resulting in Irregular / Fruitless	Pre-determined objectives
Overall planning		-			-	
Giyani Bulk and Water Services	*	R3.3 billion spent *			Irregular & Fruitless	
Bucket Eradication Project	*	R3.4 billion spent*			Irregular	
Vaal Intervention Project		R0			-	
War-on-Leaks	*	R2.97 billion spent*			Irregular	
Sedibeng Waste Water Treatment		R766 million spent			-	
Raising of Hazelmere Dam	Overspending	R533 m from R498			Fruitless	
Mopani Emergency	*	R13 million spent *			Fruitless	
Nwamitwa Dam		R0			-	
Tzaneen Dam	Underspending	R10.2 m of R47 m			-	
Raising of Clanwilliam Dam	Underspending	R31.6m of R189 m			Fruitless	
Mzimvumbu Water Projects	Underspending	R6m of R86.9 m			-	
Percentage of projects with findings	**75%**		**50%**	**42%**		**83%**

* No initial budget for the project

No Material findings | Material findings | Not yet audited

Key findings and examples from audit of quality of project

No	Key projects audited	Key findings
1	*Bucket Eradication Programme*	- Although the budget was not overspent 93% of the allocated budget was utilised while 13% of the planned targets was achieved due to site challenges and lack of bulk services or infrastructure. A portion of the current year's budget was used to pay previous year BEP accruals. (Actual spending to date: 3.4 billion) - Section 42 of the PFMA was not complied with, which has resulted in material adjustments in the AFS - SCM policy did not support implementation of the best practices of the SIPDM issued by National Treasury. - Some of the service providers were appointed without following SCM processes. This has resulted in payments made in 2018/19 to the amount of R215 million declared as Irregular expenditure. - Planned target as per the APP was not achieved and 2019 of the 15 638 was reported achieved.
2	*War-on-Leaks*	- This project started as an intervention to the problem that was identified as such it did not have a particular budget, however project cost as per the business plan have been exceeded as it was initially anticipated to be R2.1 billion. Actual spending to date: 2.996 billion. - WoL is disclosed as Irregular Expenditure, and it contributed to the Unauthorised Expenditure (incurred in the prior year) not yet approved - SCM processes were not followed when the implementing agents were appointed by DWS which resulted in the whole project being declared Irregular - Planned targets of 2640 learners that completed training through W-O-L programme as per the APP was not achieved as 1689 was reported as achieved.
3	*Giyani Bulk Water Supply*	- Project started as an emergency intervention to restore water supply in Giyani. Actual spending to date: 3.3 billion spent - Fruitless and wasteful expenditure resulting from this project was included in 2018/19 financial year
4	Emergency intervention of Vaal Refurbishment (WWTP)	- None noted as at the time of the audit no Separate Service Legal Agreements (SLA's) was entered into between the parties involved, the project will be followed up in the 2019/2020 audit cycle.
5	Sedibeng Bulk Regional Sewerage Programme	- Sub-projects was planned to be under construction and the target was met. The implementation readiness study (IRS) was not yet approved.

Management and delivery of all programmes for TCTA – Spending, performance and reporting

Objective	Achievement of programme	Unauthorised, irregular and fruitless and wasteful expenditure	Material misstatements corrected	Comments
Objective 1 – Ensure financial sustainability of the organisation	25%	None	None	Programme not selected for audit
Objective 2 – Manage the implementation of projects to meet the objectives	0%	None	No	Material misstatements identified
Objective 3 – Operation and maintenance of designed projects in accordance with DWS requirements/ specifications	67%	IRE – R66 796 009 2017/18(R99 305 729)	No	Material misstatements identified
Objective 4 – Structure project funding and secure institutional arrangements and request necessary authorisation for funding to be raised	0%	None	No	Targets were deemed not relevant in consideration of the mandate of the entity
Objective 5 – Raise funding for the implementation of infrastructure (funding is available for project implementation)	25%	None	No	None Identified
Objective 6 – Manage debt within the approved borrowing limit and ensure that debt will be repaid	100%	None	No	None Identified

Summary of Key projects audited (TCTA)

Key projects audited	Budget	Actual versus budget (YTD)	Financial	Compliance	Resulting in Irregular / Fruitless	Pre-determined objectives
Acid Mine Drainage		R278 million spent			Irregular & Fruitless	

Good | Of concern | Intervention required | Not audited

Financial health and financial management

Financial Health

Material uncertainty exists whether **75%** of auditees can continue to operate in future

Expenditure management

- Creditor payment period for DWS and WTE is longer than 30 days (currently sitting at 155 and 65 days respectively) indicative that the entities are not adequately managing their working capital and that effective controls are not in place to ensure prompt payments are made.

Asset and Liability Management

- Current liabilities exceeding current assets indicating liquidity issues for DWS, which means that they might be unable to pay their creditors as payments become due.
- The debtor's days increased from 108.8 days to 127.6 days, which indicates that the entity continues to experience difficulties in timely collection of receivables, which in turn strains the entity's cash flows.

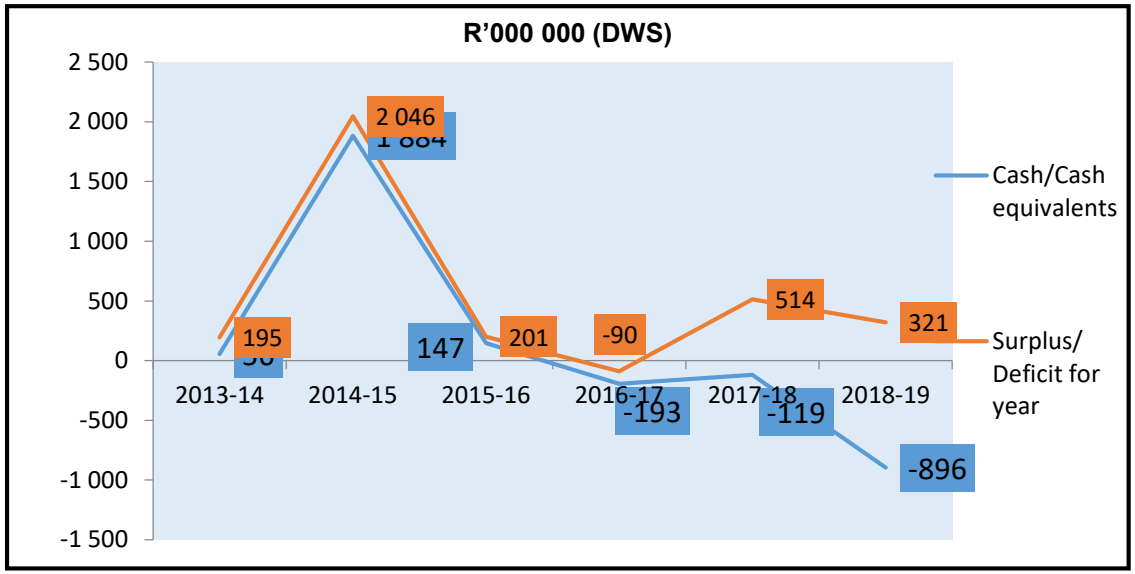
Cash management

- Negative cash balance of DWS continue to significantly increase year on year this in turn impacts on the time taken to pay suppliers, resulting in the auditee incurring interest and standing time cost due to late payments furthermore will have an impact on the ability of the auditee to meet its obligation to provide basic services and its financial commitments will be compromised.
- Negative operating cash flows for DWS may result in questions about the auditee's financial viability and its ability to continue operating optimally at its current capacity as a going concern.
- The WTE continues to operate an overdrawn account of R1 451 140 000, which is against the legislation as the entity is prohibited from borrowing funds.
- Furthermore, the entity had significantly reduced their targets in the annual performance plan predominantly due to the financial constraints experienced.

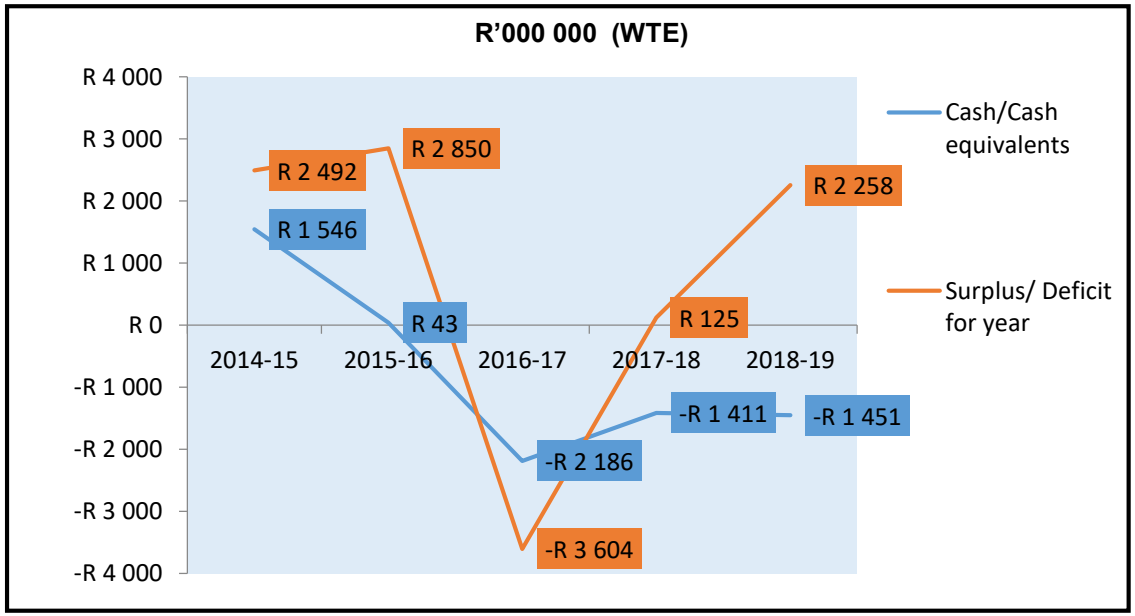
A default event

- Some significant Vaal River System (VRS) loans of TCTA indicated that a qualified audit opinion is, unless waived, an event of default. This results in a material uncertainty on TCTA's ability to continue as a going concern, being noted.

Financial health – DWS & WTE Specific



Material uncertainty related to going concern/financial sustainability included in the audit report:
As stated in note 2 of the accounting policies to the financial statements, the department had an overdraft of R119 million (2016-17: R193 million), cumulative unauthorised expenditure of R933 million (2016-17: R406 million), and accruals and payables to the value of R2,005 billion (2016-17: R1,572 billion) as at 31 March 2018. As further stated in note 2, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the department's ability to continue as a going concern (thus its ability to undertake its objectives where the vote has been depleted)



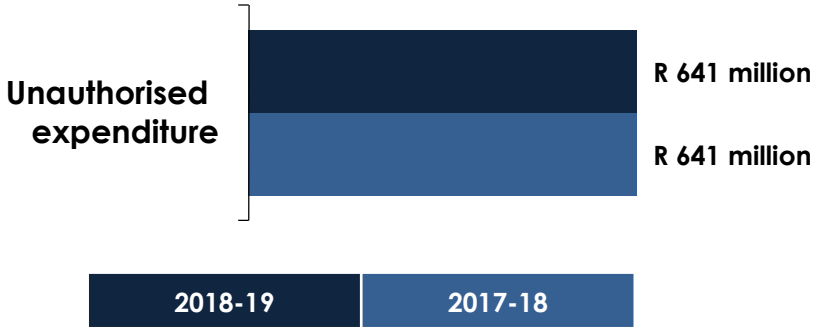
Material uncertainty related to going concern/financial sustainability included in the audit report:
I draw attention to Note 1.6 of the accounting policies in the annual financial statements, which indicates that the entity incurred a net profit of R2 258 021 000 compared to R125 910 000 in 2017-18. Furthermore, the entity still has an overdrawn account of R1 451 140 000 (2018: R1 411 641 000) as disclosed in note 19 to the financial statement, accruals and payables to the value of R2 911 638 000 (2018: R3 558 856 000) as disclosed in note 18 to the financial statement. As stated in Note 1.6 of the accounting policies, these events or conditions, along with other matters as set forth in Note 1.6, indicate that a material uncertainty still exists that may cast significant doubt on the entity's ability to continue as a going concern

Unauthorised expenditure restated over 2 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

Unauthorised expenditure incurred by entities in portfolio

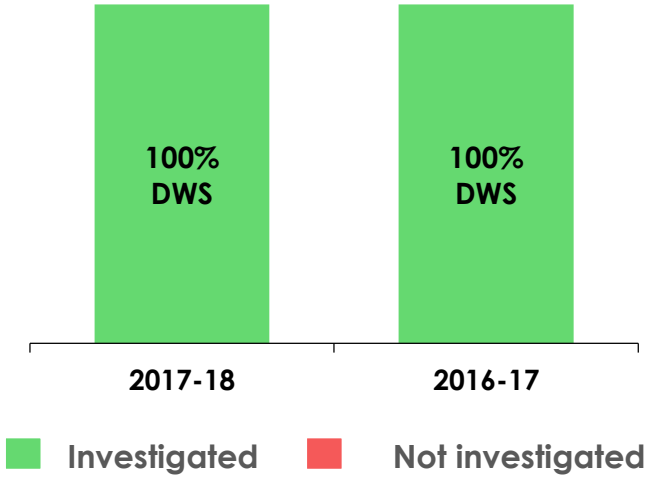


- *R292 million was restated during the current due to incorrect classification.*

Nature of unauthorised expenditure

- *No unauthorised expenditure was incurred during the current year for DWS.*
- *R349 million incurred during the prior year was due to payments made to the War on Leaks Programme that exceed the budget for goods and services (programme 1); and*
- *R292 million incurred during the prior year was due to Bucket Eradication Programme (BEP) overspent which was due to the payments of invoices related to services rendered in previous financial years using prior year allocations.*

Previous year unauthorised expenditure reported for investigation

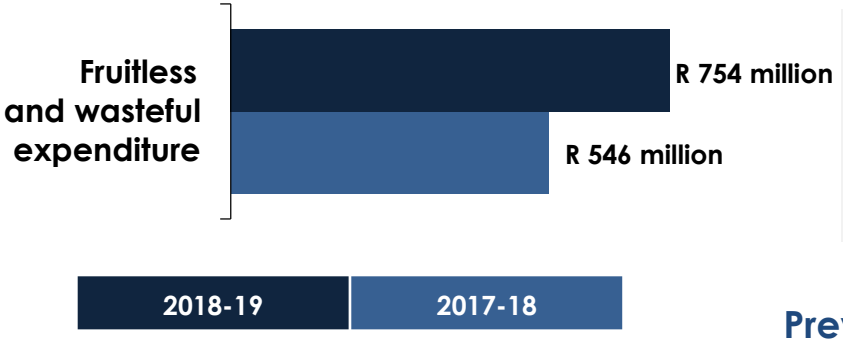


Fruitless and wasteful expenditure increase over 2 years

Definition

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

Fruitless and wasteful expenditure incurred by entities in portfolio

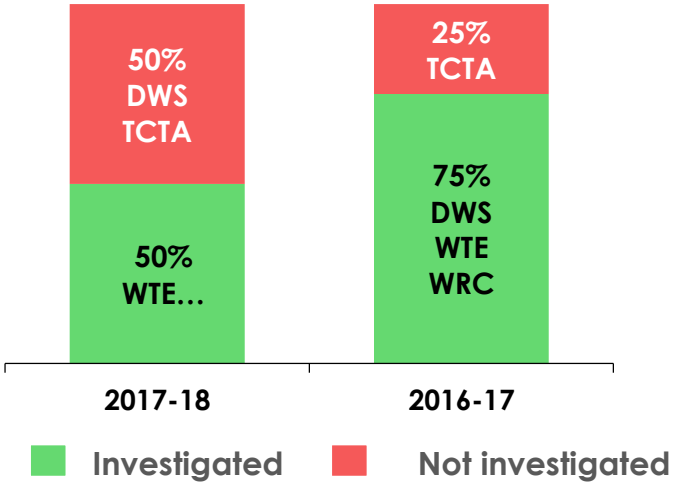


- *R706 million represents non-compliance in 2018-19*
- *R47 million is relating to prior year expenditure identified in the current year*

Nature of the fruitless and wasteful expenditure

- *The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by contractor invoices not being paid, resulting in interest and standing time being incurred, as well as excessive management fees being charged.*

Previous year fruitless and wasteful expenditure reported for investigation



Irregular expenditure increase over 2 years

Definition

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

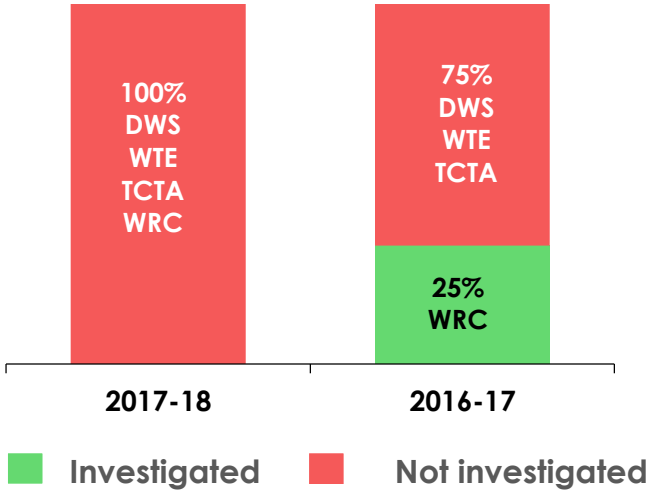
Irregular expenditure incurred by entities in portfolio

- *R1 062 million represents non-compliance in 2018-19*
- *R4 783 million is expenditure on ongoing multi-year contracts*

Nature of irregular expenditure

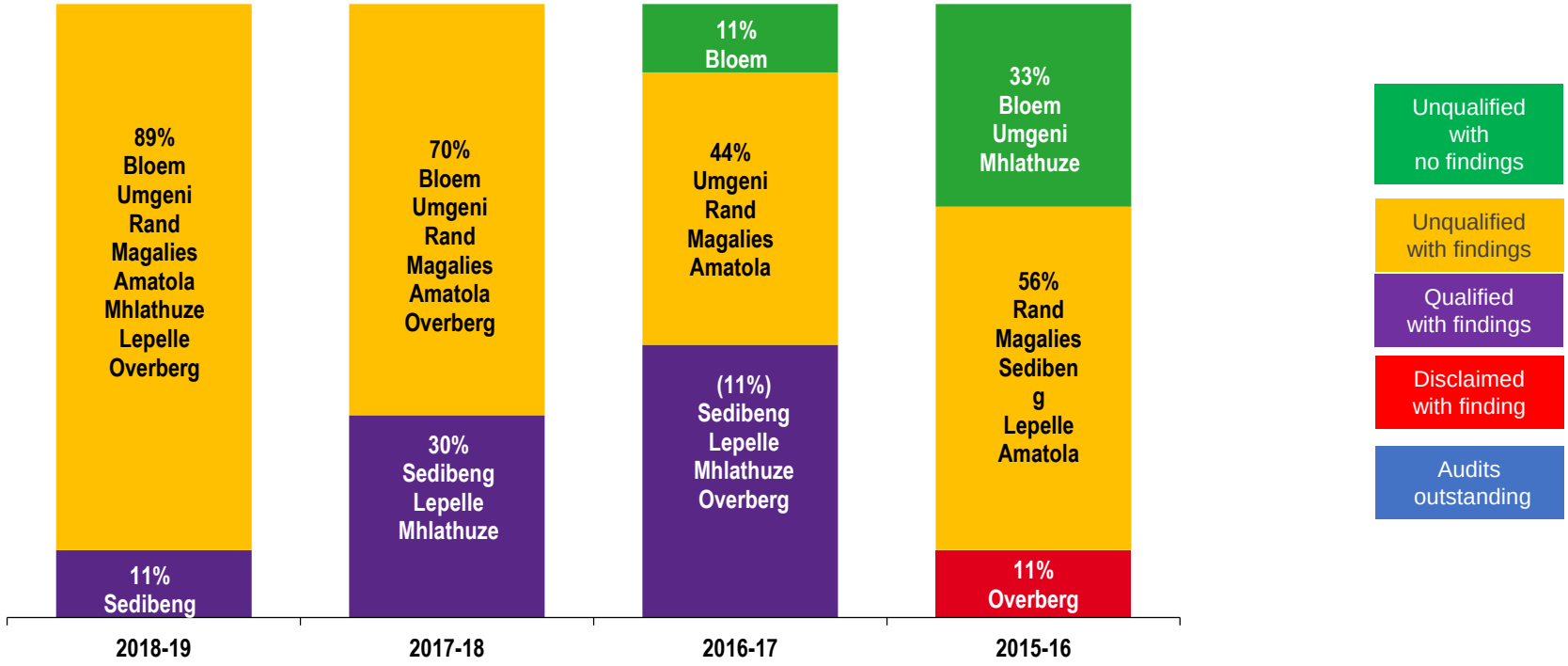
- *DWS - The majority was caused by implementing agents not following procurement processes and expenditure incurred due to improper deviations.*
- *DWS – Funds earmarked for a specific purpose were utilised for another purpose without obtaining prior approval (War on Leaks and Sedibeng Water).*
- *DWS – Contracts extended without pre-approval by the delegated official.*
- *TCTA – The majority of the irregular expenditure was caused by noncompliance with National Treasury Instruction note no 3 of 2016/2017 in relation to payments made for project claims/variations were prior approval was not obtained from National Treasury as required.*
- *WTE- The majority was caused by not following procurement processes, expenditure incurred due to improper deviations and sundry payments.*

Previous year irregular expenditure reported for investigation



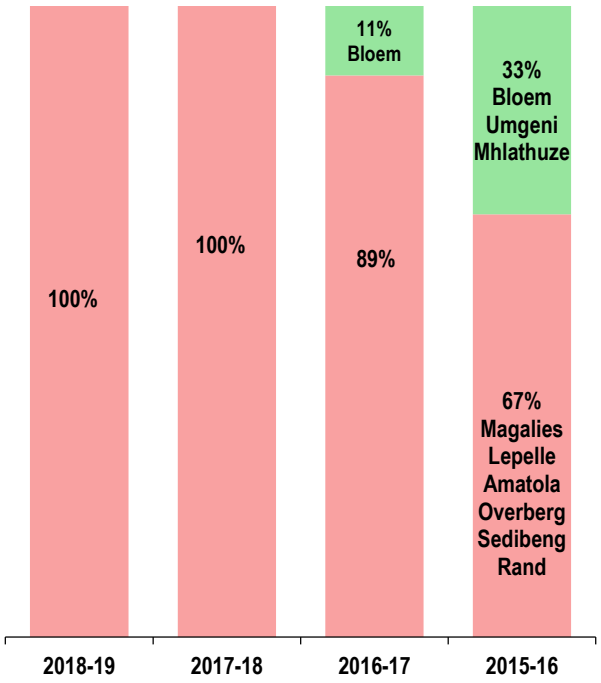
Water boards - audit outcomes 2018/19

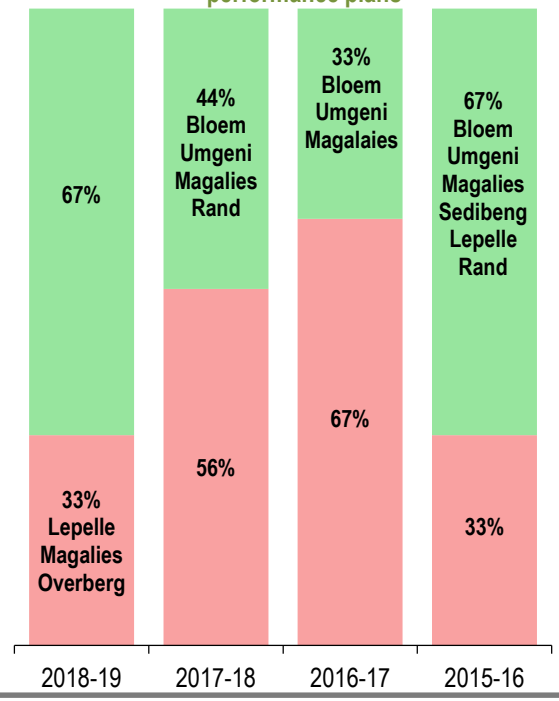
Overall audit outcomes of the WBs over four (4) years

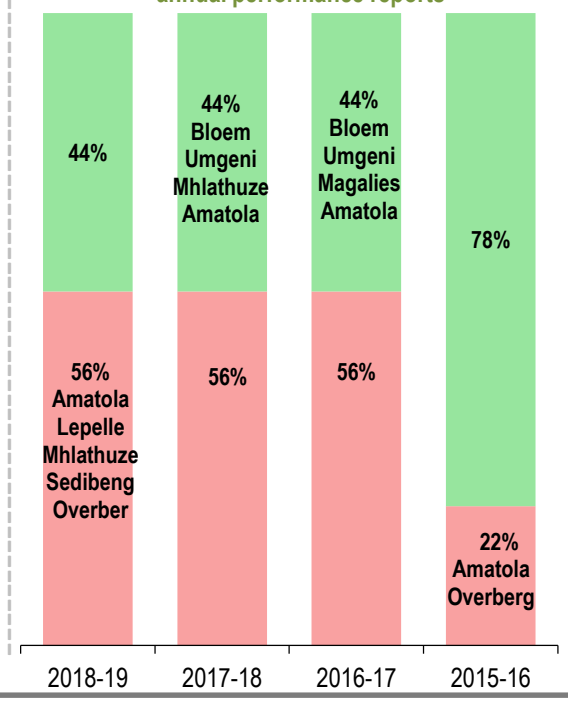


- An improvement was noted at both Lepelle and Mhlathuze, which received financially unqualified audit outcomes, with significant findings on other matters of compliance and/ or predetermined objectives.
- Preparation of Financial statements that are free from material fraud and errors in line with the required financial reporting standards, remains a concerns as material adjustments had to be effected to AFS submitted for audit, at all Water Boards.
- Lepelle and Mhlathuze managed to clear their prior year qualifications on property plant and equipment (PPE), payables from exchange transactions, cash-flow statement, statement of changes in net assets and commitments, and receivables, respectively.
- These entities managed to follow through on the implementation of a properly developed audit action plan. The entities also effectively used the interim audit to effectively deal with the prior year qualifications, prior to the start of the final audit.
- Sedibeng water remained qualified, again on irregular expenditure and trade and other receivables, but received additional qualification areas for PPE, Payables, commitments, deferred income and aggregation misstatements. Leadership instability concerns were noted as the position of the CEO has been vacant for more than 2 financial years, resulting in the appointed CFO acting as the CEO, giving rise to the need for acting CFOs to fulfil the finance responsibilities.

Compliance and pre-determined objectives







- AFS preparation remains a concerns as material adjustments are effected to AFS submitted for audit at all 9 Water Boards **including Magalies and Umgeni that did not have this finding in 2017/18.**
- Various SCM non-compliance findings were raised at all water boards except for Mhlathuze and Magalies.
- Effective steps were not taken to prevent irregular expenditure and/or fruitless & wasteful expenditure at Amatola, Bloem, Umgeni, Rand, Lepelle, Sedibeng and Overberg.

Objectives were qualified at Lepelle, Mhlathuze, Sedibeng, Amatola and Overberg on the following;.

- Lepelle - Strategic objective 1: Provision of equitable and sustainable regional water and sanitation services and Strategic objective 2: Develop and maintain regional water and sanitation infrastructure.
- Mhlathuze – Objective 13 – Support rural development.
- Sedibeng - Objective 4 – Increased access to services, Objective 11 – Bulk supply agreements concluded with municipalities/other customers, objective 13 – Support rural developments, Objective 17 – Jobs created
- Amatola - Objective: Support rural development.
- Overberg - objective 7 – Improve and enhance customer satisfaction, Other performance objective 1 – Bulk potable water quality, Other performance objective 2 – Manage avoidable water losses, Other performance objective 11 – Bulk supply agreements concluded with municipalities/other customers.

Irregular and fruitless and wasteful expenditure increased over years

Definition	IFW amounts incurred by entities in portfolio	Nature of IFW expenditure R'million	Audit report impact
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!	**Fruitless and wasteful expenditure (FW)**: R 9 million; R 7 million; R 12 million	• 95% of the fruitless and wasteful expenditure disclosed for the current year comes from 2 water boards namely Umgeni and Sedibeng. • The bulk of the disclosed fruitless and wasteful expenditure relates to payments made towards settlement agreements with executives (CEO Umgeni) (**R5.3 million**)	*Non compliance findings were raised at 2 Water Boards (Sedibeng and Overberg) due to effective steps not taken to prevent fruitless and wasteful expenditure*
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed	**Irregular expenditure (IE)**: R2 105 million; R 879 million; R 294 million	Majority of the disclosed irregular expenditure related to: • Non-compliance with the procurement processes. • Payments made to expired contracts and/or payment made not in accordance with contract terms. • Non-Compliance to SCM Regulations. • Non –Compliance with NT regulations and instructions. • Overpayment of contracts without proper variation orders approval.	*IE was qualified for Sedibeng due to significant doubt on the completeness of the expenditure which was disclosed in its annual report. Non-compliance findings were raised in six (6) Water Board due to effective steps not taken to prevent irregular expenditure*

Amatola & Sedibeng water boards - **previous year Fruitless and wasteful expenditure was not reported for investigation as per the Audit reports.**

Sedibeng was the only water board where **previous year irregular expenditure was not reported for investigation as reported on the Audit reports.**

2018-19	2017-18	2016-17

Public Audit Act Amendments and way forward

Key expansion of our mandate

Material irregularity

.. *means any* ***non-compliance*** *with, or* ***contravention*** *of, legislation,* ***fraud, theft*** *or a* ***breach of a fiduciary duty*** *identified during an audit performed under this act that* ***resulted in or is likely*** *to result in …*
a ***material financial loss,*** *the* ***misuse or loss of a material public resource*** *or* ***substantial harm to a public sector institution or the general public.***

If the accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to …

Refer material irregularities to relevant public bodies for further investigations

Take binding remedial action for failure to implement the AG's recommendations for material irregularities

Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

Additional efforts were introduced

Objectives

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, and consequential regression in audit outcome
- Provide our assessment of the status of key focus areas that we reviewed
- Assess progress made in implementing action plans/follow through with commitments made in previous engagements
- Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Reflections

- Implementation at auditees had the following positive results:
  - Proactive, enhanced, relevant and insightful engagements with auditees
  - Increased AO/AA's accountability and empowered, influenced and enable them to act
  - Early detection of audit issues – provided auditees time to address them before year-end
  - Reduced pushbacks during the audit as matters were detected and raised early in the year
- AO/AA are encouraged to still continue using this initiative to assist in improving their internal control environment by proactively addressing the risks raised during the audit process

Way forward

Will continue with proactive and continuous engagement to enable safeguarding against vulnerable areas of risk

Regular key control assessment – enhanced to Status of records reviews

Early warning system for accounting officers and authorities

Frequent oversight engagements

Regular engagements

with accounting officers/ authorities and executive authorities

Roadshows

To share audit outcomes and recommendations after each cycle

Media briefings

After every cycle

Capacity building initiatives

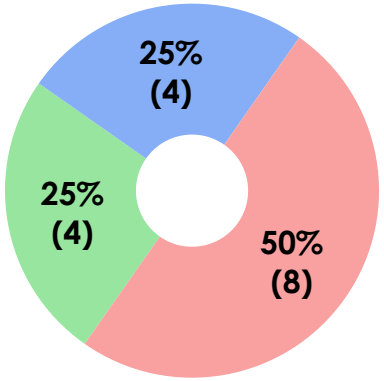
by CoGTA, the treasuries and other coordinating and supporting institutions also introduced

Material irregularities – Phase I

28 MIs identified from 12 completed audits

R2,81 billion financial loss

(**R2,51 billion** known and **R0,3 billion** estimated)



Completed audits – no MIs identified

Completed audits – MIs identified

Audits outstanding as at 15 October 2019

Addressing the material irregularities

25 (89%) – Accounting officer or authority is taking appropriate action

2 (7%) – Recommendations included in audit report

1 (4%) – Material irregularity referred to a public body

Nature of material irregularities

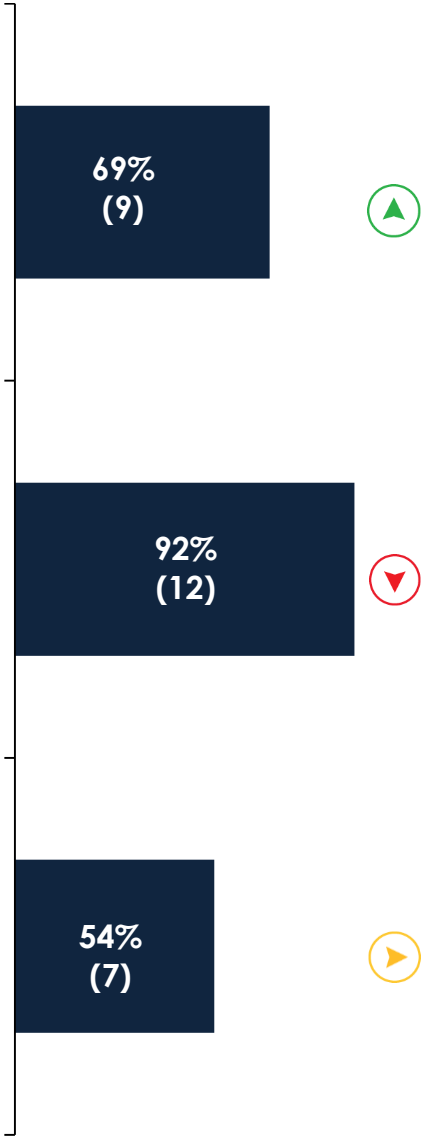
Unfair or uncompetitive procurement processes resulting in **overpricing of goods and services procured**	Unfair procurement processes resulting in **supplier appointed that did not deliver**	Payment for **goods or services not received**	Payment for **poor quality work**	Invoices or claims **not paid on time**
39% (11)	**4% (1)**	**39% (11)**	**7% (2)**	**11% (3)**
R438 million	**R2 220 million**	**R55 million**	**R7,6 million**	**R106 million**

DWS and WTE – Specific MIs reported in 2018-19

- *DWS and WTE payments not made within 30 days resulting in contractor claiming standing time and interest. R15million*
- *DWS payments made to a consulting firm without evidence of work performed. R18 million*
- *Effective and appropriate steps not taken to collect all money due to the entity. R346 million*

Accounting officer was investigating

Root causes



Management (accounting officers and senior management), the political leadership (executive authorities) and oversight bodies (SCOPAs and portfolio committees) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

If officials who deliberately or negligently ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.

The **instability** and **prolonged vacancies in key positions and boards** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

Focus on preventative controls

Preventive control activities aim to deter the instance of errors or fraud. **Preventive control** activities prevent undesirable "activities" from occurring, thus require well thought out processes and risk identification. They are proactive **controls** that help to prevent a loss. These controls are typically integrated into a process, so that they are applied on a continual basis.

They are especially common when the severity of a loss is considered to be quite high, so that their imposition will lower the probability of any loss ever occurring. Examples of **preventive controls** are:

1. Separation of duties,
2. Pre-approval of actions and transactions (such as a Travel Authorisation)
3. Adequate documentation, (including Policies, Standards, Processes, Procedures),
4. Access controls (such as passwords, authentication, encryption, and firewalls,
5. Physical control over assets (i.e. locks on doors or a safe for cash/checks, physical barriers),

30 April 2020

AGSA Status of records review:

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

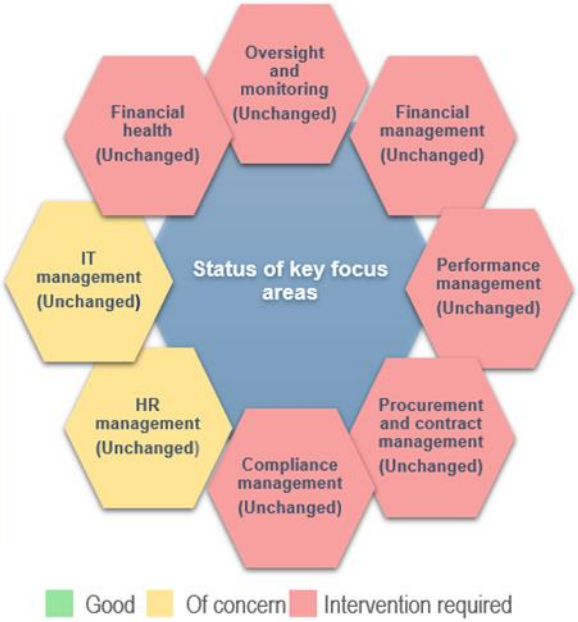
Status of records review = Pro-active follow up procedures + Financial and non – financial information (internal and external reports/documents & discussions with senior managers)

- No SoRR/ interim audits conducted at WTE & TCTA due to lateness of audits. Sedibeng requested time to deal with qualifications. Mhlathuze postponed (covid -19). Others - action plans are being implemented.
- Focus must be on Covid – 19 financial management disciplines (proper recording and accounting).

- Oversight & Monitoring - Key vacancies in key management positions – DG, CEOs, DDGs & CFOs.

- The Accounting officer (AO) needs to apply a heightened risk assessment informed by a review of the changes in their environment (new and existing risks).
- Portfolio is exposed due to emergency procurement management of Covid-19. DWS Internal Audit Function is auditing verification of Covid -19 expenditure. IAF has not conducted any work yet, currently busy with consulting documents to performance the risk assessment, which should inform the extend of the work to be done. Commitment made to engage AGSA on this.

- Department must strengthen the financial internal control unit to review all transactions before transactions are finalised for the necessary duly authorised and delegated approval. This will include documented SOP for deviations, manual transactions, accounting and reporting of transactions relating to COVID 19 response (suspense, clearing accounts).
- Ensure that proper records management is implemented to support the decisions taken and transactions entered into. Records management needs to facilitate easy accessibility and retrieval of supporting information.
- Capacitate the SCM and finance unit in order to respond to the increased level of activities.



Focus on preventative controls

Recommendations – department and entities

To department and its entities

- The department and its entities should develop effective action plans. The action plans should cover the financial statements, compliance with legislation and performance reporting. These action plans should be adequately monitored and consequence management should be implemented. Furthermore the action plans should also form part of the performance contracts of key officials. In addition, a task team within the department should monitor the implementation of each entity's action plan.
- Focus must be placed on the implementation of preventative controls.
- Key vacancies including board vacancies, should be prioritised and filled with competent officials.
- Consequence management should be prioritised and implemented as and when transgressions and/or poor performance is identified and addressed effectively and timeously.
- The department and its entities should review and re-design and improve systems and controls to ensure quality of the financial statements, compliance with legislation and quality performance reporting.
- Recovery of debt owed to them by municipalities, inhibits certain water boards to fully service their operational expenditure needs, which have to be funded from this revenue. Specific and focussed debt recovery strategies are required to be implemented by management to ensure sufficient levels of cash flow is maintained to ensure uninterrupted continuation of operations which does not compromise service delivery.
- Oversight by the department, minister and parliamentary committees responsible for these entities should include strong in-year monitoring and ensuring that governance policies and practices in place, are properly monitored.

Focus on preventative controls

Recommendations – Portfolio committee

To the portfolio committee

- Request feedback on actions implemented to improve the financial health, budget management and control and turnaround plans/ interventions.
- Monitoring of appointments for key vacancies.
- Fruitless and wasteful and irregular expenditure should be regularly followed up to confirm that all instances are adequately investigated and that adequate consequence management is implemented.
- Request regular feedback on action plans and implementation thereof. Effective monitoring by the portfolio committee should ensure that officials are held accountable.
- Request and monitor the review and implementation of systems and controls to ensure quality financial statements, compliance with legislation and quality performance reporting.

Thank You

Stay in touch with the AGSA

www.agsa.co.za

@AuditorGen_SA

Auditor-General of South Africa

Auditor-General of South Africa