1-

BRIEFING NOTE TO SCOPA | **PFMA 2018-19**

Department of Water and Sanitation,
Water Trading Entity
Trans Caledon Tunnel Authority
Water Boards

PFMA 2018-19

10 March 2020

AUDITOR-GENERAL
SOUTH AFRICA

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to brief SCOPA on the audit outcomes and other findings in respect of the annual financial statements, compliance with legislation and performance against predetermined objectives of the Department of Water and Sanitation (DWS), the Water Trading Entity (WTE) and the Trans Caledon Tunnel Authority (TCTA) for the 2018-19 financial year end.

It should be noted, that at the date of this briefing, DWS and WTE had not tabled their annual report yet.

1.3 Overview (Executive summary)

i). 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.

ii) Both the WTE and TCTA financial statements had material misstatements and the AGSA agreed to provide them additional time to correct those matters. This resulted in the TCTA adjusted financial statements being received on the 21 October 2019. Subsequent audit work was done resulting in the finalisation of the audit process and the audit report was 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.

TCTA - Difference of opinion of the Treaty requirements, Directives and MoUs.

It is acknowledged that the long time it takes for the reviews of key processes, documents and reconciliations such as the cost-to-funding allocation by the Lesotho Highlands Water Commission (LHWC), also impacted on the entity. Information submitted by the LHWC and the implementer on the cross border side, was however not interrogated sufficiently by management in line with the Treaty, MoU and other relevant documentation such as policies and procedures' requirements.

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, Phase II MoU signed in 2005 and the ministerial directive issued on 3 August 1994 and annexed to the income agreement signed between TCTA and DWS during the Notice of establishment in August 2001.

This understanding was maintained, despite the movements in the audit as expenses in the Statement of Comprehensive Income were already recorded by management as such, to facilitate audit progress. The expenses were however recorded once cash payments had been made based on the claims received, as noted above, and not when expenditure had been incurred (accrual basis), in contravention of the financial reporting framework (IAS 1 of IFRS) and Article 10 of the Treaty.

We advised management to obtain a legal consultation on the interpretation of the Treaty requirements, which the team finalised in August 2019, subsequent to having provided management with a recess of 3 weeks from the audit. Management had not provided any formal evidence to the team that a consultation has been undertaken.

Treaty accounting controls:
TCTA did not adequately design and implement proper internal controls to understand and review the impact of the accounting requirements of the transactions with LHDA. This was also exacerbated by the fact that where the TCTA understands how to record for some of these transactions, submissions, such as claims, from LHDA were not adequately reviewed to ensure they were supporting the actual transactions based on valid inputs, reliable supporting evidence and processes.

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.

Both these entities also have the same financial year end and if the internal controls are not updated to monitor these transactions throughout the year, it would result in continuous challenges with regard to the availability of sufficient and appropriate supporting evidence or processes to substantiate information reported in TCTA financial statements. Alternative procedures were performed this year to rely on the work performed by the LHDA auditors (EY), which yielded some results only due to the fact that the audit was delayed.

iii) The DWS management implemented measures and a follow up process to address the completeness of irregular expenditure and fruitless and wasteful expenditure incurred in the current year as well as during the prior year's resulting in the completeness qualifications from prior years being resolved. There has also been an improvement in the preparation, monitoring and updating of the commitments schedules and the department also addressed the findings from pre-determined objectives from the prior year resulting in the audit report not having any findings included for pre-determined objectives. However, non-compliance findings still remain a concern at the department as material corrections are eminent in the preparation of the financial statements and internal controls should still be strengthened further to ensure that a qualification does not recur in future.

iv) The WTE's audit outcomes remained stagnant on a qualified audit opinion with findings on compliance with legislation. The findings on predetermined objectives are reported in the department's outcomes. In the prior year the entity received a qualified audit opinion on two areas, namely property, plant and equipment, and the completeness of fruitless and wasteful expenditure. In the current year the entity also received a qualified audit opinion on two areas, namely, receivables from exchange transactions and financial liabilities: TCTA, as further elaborated on below.

v) 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.

vi) The overall audit outcome of TCTA has regressed as the entity obtained a financially qualified financial audit opinion, with material or significant findings on compliance with legislation as well as predetermined objectives. The annual financial statements of TCTA which were submitted for auditing on 31 May 2019, contained material misstatements that were identified by the audit process.

vii) Although, this was the first year audit by the Auditor General of South Africa of the TCTA annual financial statements; together with the annual performance report and status of compliance, the entity had a number of challenges relating to its control environment; with the following being noted:

- Internal audit function did not comply with requirements of its relevant professional institution;
- Deficiencies in the applications of the requirements of the financial reporting framework adopted by the entity;
- Outdated internal policies and procedures, exposing the financial and performance reporting processes of the entity;
- Shortcomings in the information technology environment and procedures, that should ensure the safe guarding and data integrity of the entity's information.

viii) Furthermore, matters identified on the audit of the financial statements presented by the entity relayed overarching control deficiencies which were linked to:

- inadequate and insufficient documentation presented for audit on certain significant components due to various reasons, including the fact that the majority of the key projects are implemented in a different country and a separate legal entity,
- lack of regular and adequate reconciliations on certain key financial statement line items submitted to the entity through the treaty processes, for reporting in its financial statements;
- inadequate interpretation of requirements set out in the accounting framework for the preparation and presentation of annual financial statements.

ix) The qualification paragraphs for TCTA were on three areas, namely: AMD Receivable, Provision for Compensation, and Commitments. Findings on predetermined objectives were on the following objectives: Objective 2- Manage the implementation of project to meet defined objectives; Objective 3- Operate and maintain AMD plants in accordance to the requirements; Objective 4- Structure project funding and secure institutional arrangements, as well as requesting necessary authorisations.

x) From internal controls implemented; the leadership of the entity did not adequately establish policies and procedures, in order to enable and support the understanding and execution of internal control objectives, processes and responsibilities on certain balances and transactions reported in the annual financial statements related to the projects being implemented in Lesotho.

xi) Additionally; management did not implement adequate proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support credible financial and performance reporting. Although implementation occurs across borders, certain supporting schedules are not obtained and quality assured prior to inclusion in the annual financial statements. This resulted in significant delays in submission of information impacting the audit process and ultimately the audit outcome.

xii) Material uncertainty regarding going concern on both DWS and WTE have again been included in our audit reports. The DWS did not manage its finances optimally due to projects being paid that were not budgeted for in the prior years, for example the War-on-Leaks project that is continuing. About R1,056 billion of the current year's voted funds were utilised to settle prior year accruals and payables and the department is having a bank overdraft of R897 million. The continued rolling of the budget has a negative impact on the DWS's ability to pay creditors on time and also have a negative impact on service delivery. With the revised annual performance plan (APP) it is evident that service delivery was impacted as certain targets related to infrastructure projects were reduced which resulted in delays in completion of some projects and construction on new phases or new bulk projects not commencing (both WTE and DWS). The delays were as a result of the department still attempting to manage the accruals and commitments of previous years.

xiii) Although the WTE incurred a net profit of R2.258 billion, the entity still has an overdrawn account of R1 451 140 000 (2018: R1 411 641 000) as disclosed in note 19 to the annual financial statements, accruals and payables to the value of R2 911 638 000 (2018: R3 558 856 000) as disclosed in note 18 to the annual financial statements. The debtor's days increased from 108.8 days to 127.6 days, which indicates that the entity is still experiencing difficulties in timely collection of receivables. Furthermore, the entity had significantly reduced their targets in the annual performance plan predominantly due to the financial constraints experienced. This could adversely impact on service delivery, particularly because some of the reductions were on the projects which were already in progress. This is indicative that the entity still has a material uncertainty to continue as a going concern.

xiv) Vacancies in key management positions still persisted in both at DWS and WTE, as the position of the accounting officer was vacant throughout at the year. DWS has also had the longest acting directors-general over the past 6 years. During 2018, the chief financial officer (CFO) for DWS and for WTE became one position and from then, that position was also being occupied by an acting incumbent.

xv) We take note of certain steps implemented by management to address certain deficiencies such as in the implementing agent environment where awareness and process documents were developed and rolled out to improve controls. Leadership efforts relating to consequence management are also noted, as senior management officials have been suspended, however this process should be informed by proper investigations and processes to facilitate the appropriate conclusions thereof, in ensuring effective consequence management.

xvi) With the Amendment Act, which commenced on 1 April 2019, the Amendment Act introduces the concept of “material irregularity” for audits conducted under of the Public Audit Act. A “material irregularity” refers to any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit 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.

xvii) In line with section 13(1)(b) of the Public Audit Act, which mandates the Auditor-General to determine the nature, frequency and scope of its audits, the Auditor-General has decided that DWS and WTE be part of the phased approach to the implementation of the amendments to the Public Audit Act for the 2018/19 PFMA cycle and the following MI’s were identified:

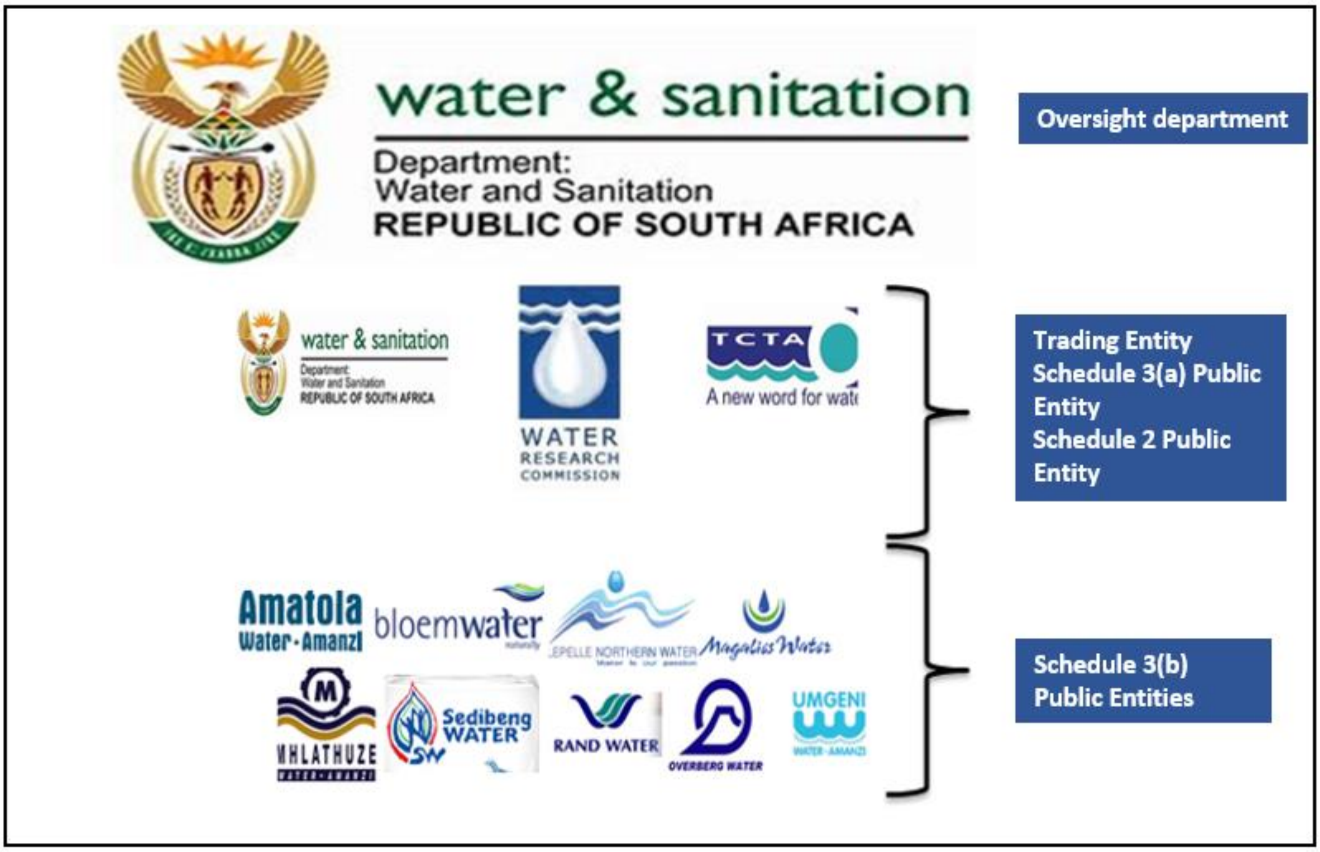
At DWS:

- Amatola Water Board not paid within 30 days
- Payment made to a consulting firm without evidence of work performed

At WTE:

- Effective and appropriate steps not taken to collect all money due to entity
- Payment not made within 30 days resulting in additional interest

1.4 Structure of the oversight of the Department of Water and Sanitation



1.5 Organisational structure and vacancy rate of DWS and WTE

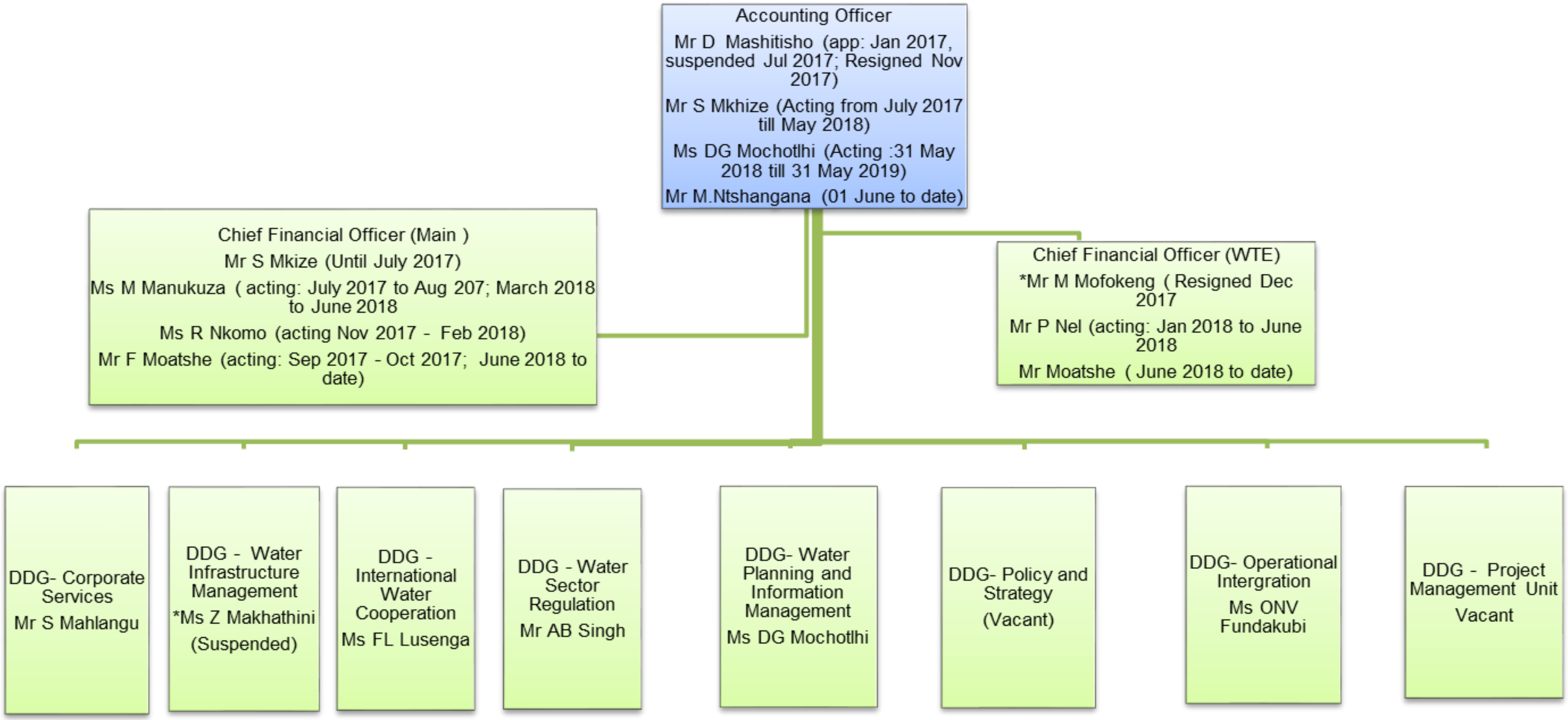
1.5.1 Vacancy rate

Vacany rate as at 31 March 2019 compared to the vacancy rate as at 31 March 2018

Vacancy rate as at 31 March 2018
Overall- 18%
Senior managers -30 %

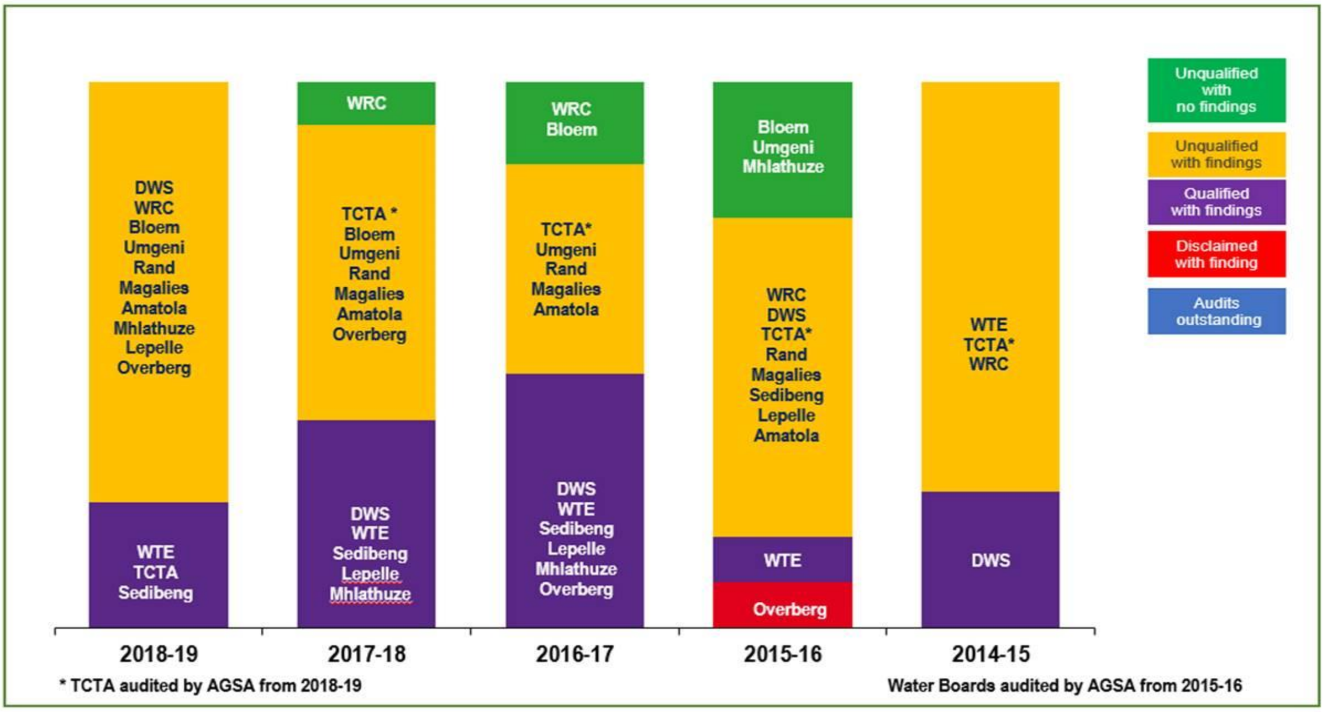
Vacancy rate as at 31 March 2019
Overall- 15%
Senior managers - 29%

1.5.2 Organisational structure of DWS and WTE



(Obtained from the department)

2. Consolidated portfolio audit opinion history



2.1 Department of Water and Sanitation

DESCRIPTION	2018-19	2017-18	2016-17	2015-16	2014-15
Report on the audit of the financial statements					
Audit opinions					
• **Areas of qualification**					
- Commitments		X			X
- Accruals					X
- Transfers and Subsidies			X		
- Fruitless and wasteful expenditure		X	X		
- Irregular expenditure		X	X		
• **Material uncertainty related to going concern**	X	X	X		
• **Emphasis of matter**					
- Restatement of corresponding figures	X	X	X	X	X
- Payables	X		X		
- Unauthorized expenditure			X		
- Subsequent events / Section 42 asset transfer	X	X			
- Material underspending of the Vote	X				X
- Significant uncertainty					X
Report on the audit of predetermined objectives					
• **Material findings on Predetermined objectives**		X	X	X	
Report on the audit of compliance					
• Annual financial statements and annual report	X	X	X	X	X

• Strategic planning and performance				x	x
• Procurement and contract management		x	x	x	x
• Expenditure management	x	x	x	x	x
• Consequence management	x	x	x		
• Conditional grants	x	x			
• Budgets			x		
• Asset management					x
• Human resource management					x
• Transfers and Subsidies			x		

2.2 Water Trading Entity

DESCRIPTION	2018-19	2017-18	2016-17	2015-16	2014-15
Report on the audit of the financial statements					
Audit opinions					
• **Areas of qualification**					
- Non-current assets		x	x	x	
- Current Assets	x				
- Current liabilities	x				
- Non-current liabilities	x				
- Fruitless and wasteful expenditure		x	x		
- Irregular expenditure			x		
- Expenditure (Maintenance costs)			x		
- Revenue					
• **Material uncertainty related to going concern**	x	x	x		
• **Emphasis of matter**					
- Restatement of corresponding figures	x	x	x	x	x
- Material impairments – trade receivables	x	x	x	x	x
- Contingent liabilities					x
Report on the audit of predetermined objectives (AoPO was reported as part of DWS audit report.)					
• Material findings on Predetermined objectives	*	*	*	x	x
Report on the audit of compliance					
• Financial statements	x	x	x	x	
• Expenditure management	x	x	x	x	x
• Strategic planning and performance				x	
• Revenue management	x	x			
• Procurement and contract management	x	x	x	x	x
• Consequence management		x	x		

2.3 Trans Caledon Tunnel Authority

DESCRIPTION	2018-19	2017-18	2016-17	2015-16	2014-15
Report on the audit of the financial statements					
Audit opinions					
• **Areas of qualification**					
- Non-current assets	x				
- Current Assets	x				
- Current liabilities	x				
- Non-current liabilities	x				
- Fruitless and wasteful expenditure					
- Irregular expenditure					
- Expenditure (Maintenance costs)					
- Revenue					
• **Material uncertainty related to going concern**	x				
• **Emphasis of matter**					
- Restatement of corresponding figures	x				
- Previous period audited by a predecessor auditor	x				
- Material impairments – trade receivables					
- Contingent liabilities					
Report on the audit of predetermined objectives					
• Material findings on Predetermined objectives	x				
Report on the audit of compliance					
• Annual financial statements and annual report					
• Financial statements	x				
• Expenditure management	x				
• Internal audit					
• Strategic planning and performance					
• Asset and liability management					
• Revenue management					
• Procurement and contract management	x				
• Consequence management					

AUDIT OPINION INDEX

CLEAN AUDIT OPINION: No findings on PDO and compliance
UNQUALIFIED with findings on PDO and compliance
QUALIFIED AUDIT OPINION (with/without findings)
DISCLAIMER/ADVERSE AUDIT OPINION

3. Report on the audit of the financial statements

3.1 Qualification paragraphs

The following qualification paragraphs were included in the audit report for WTE and TCTA on its annual financial statements for the 2018-19 financial year end.

3.1.1 WTE

Finding	Root causes	Recommendation
Receivables from exchange transactions		
The entity did not disclose all receivables from exchange transactions in accordance with the requirements of GRAP 104, Financial instruments and financial liabilities. The entity offset receivables against liabilities not in accordance with the requirements of GRAP 1, Presentation of financial statements, which only allows for the practice where it is between the same two parties and an agreement is in place to settle the amounts net. Consequently, Receivables from exchange transactions stated at R5 118 402 000 and Financial liabilities: TCTA stated at R20 729 271 000, were misstated by R1 034 113 000, as disclosed in notes 13 and 22 to the annual financial statements, respectively	Inadequate review by management to ensure that the amount disclosed for receivables excluded negative amounts which are payables	Management should ensure that there are adequate reviews in place to avoid non-compliance with legislation
Financial liabilities: TCTA		
The entity did not disclose all the financial liabilities to the Trans-Caledon Tunnel Authority (TCTA) in accordance with GRAP 104, *Financial Instruments,* as the entity did not adequately disclose the two thirds portion of the Acid Mine Drainage liability. The entity did not have adequate systems to determine the full extent and account for their portion of the liability, which originates from TCTA, and as a result I was unable to determine the full extent of the liability. In addition, the financial liabilities disclosed in the financial statements do not agree to the underlying financial models which form the basis of the liabilities. As a result, the financial liabilities: TCTA were misstated by an amount of R583 884 000. I was unable to confirm the carrying amount of Financial Liabilities: TCTA by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to financial liabilities: TCTA stated at R20 729 271 000 (2018: R24 106 102 000), disclosed in note 22 to the annual financial statements. As the entity did not maintain adequate records, and did not perform appropriate reconciliations and reviews on the records of TCTA thereon, it was impracticable to determine the consequential impact on the related item(s) of expenditure and/ or assets.	Management did not provide adequate review of supporting schedules to the Annual Financial statements to ensure that financial liability: TCTA disclosed in financial statements is supported by the accurate schedules. Management did not adequately review the summary of the financial models to ensure that it agrees with the financial models presented as part of the supporting schedules to the Annual Financial Statements.	Management should revise the financial statements to reflect the AMD project costs that are to be funded through fiscus separately from the total TCTA financial liability. Management should provide sufficient review of all information supporting the financial statements to ensure that all supporting schedules entail accurate information

3.1.2 TCTA

Finding	Root causes	Recommendation
AMD receivable		
I was unable to obtain sufficient appropriate audit evidence regarding the Acid Mine Drainage (AMD) receivable as the financial models provided as audit evidence for the receivable did not substantiate the amounts disclosed in the annual financial statements. I was unable to confirm this receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to AMD receivable stated at R727 million (2018: R774 million), as disclosed in note 14 to the annual financial statements.	Management did not provide adequate review of supporting schedules to the Annual Financial statements to ensure that AMD Receivable disclosed in financial statements is supported by accurate and complete schedules.	Management should conduct sufficient review of all information supporting the financial statements to ensure that all supporting schedules entail accurate information.
Provision for compensation		
Included in note 17 to the annual financial statements, is a provision stated at R375 million (2018: R340 million) relating to compensation to individuals affected by the loss of income as a result of re-appropriation of land in respect of the Lesotho Highlands Water Project (LHWP). I was unable to obtain sufficient appropriate audit evidence to substantiate the provision for compensation, as disclosed in note 17 to the annual financial statements. I was unable to confirm the provision by alternative means. As a consequence, I was unable to determine whether any adjustments were required to the amounts of provision for compensation in the annual financial statements	Management did not provide adequate review of supporting schedules to the Annual Financial statements to ensure that Provision for compensation disclosed in financial statements is supported by accurate and complete schedules.	Management should provide sufficient review of all information supporting the financial statements to ensure that all supporting schedules entail accurate information.
Capital commitments		
I was unable to obtain sufficient appropriate audit evidence for Capital commitments, as disclosed in note 22 to the annual financial statements. The capital commitments schedule provided as audit evidence did not substantiate the amounts disclosed in the annual financial statements. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R520 million (2018: R280 million), in note 22 to the annual financial statements.	Management did not provide adequate review of supporting schedules to the Annual Financial statements to ensure that capital commitments disclosed in financial statements is supported by accurate and complete schedules.	Management should provide sufficient review of all information supporting the financial statements to ensure that all supporting schedules entail accurate information.

3.2 Material uncertainty related to going concern (financial health)

3.2.1 DWS

Matter	Root causes	Recommendation
As stated in note 2 of the accounting policies to the financial statements, the department had an overdraft of R896 million (2017-18: R119 million), cumulative unauthorised expenditure of R641 million (2017-18: R641 million), and accruals and payables to the value of R1,668 billion (2017-18: R3,093 billion) as at 31 March 2019. As further stated in note 2, these negative results as set out 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 when the vote has been depleted).	The department initiated projects in prior years and are still continuing those projects such as War on Leaks (WoL) that were not originally budgeted for or where some emergency projects (for example Giyani) which also did not have budget in the past and had excessive expenses resulting in the going concern for the department due to payables and accruals that need to be funded from the future budgets.	• All projects should follow a proper procurement processes to ensure that the best price is sought • Monitoring of projects should be enhanced to ensure that projects are done within the specified time and budget allocated • Spend according to the projects that were budgeted for and ensure that where projects are implemented due to an emergency that those projects in future years are then included as part of the budgets.

3.2.2 WTE

Matter	Root causes	Recommendation
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 the restated amount of 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 annual financial statements, accruals and payables to the value of R2 911 638 000 (2018: R3 558 856 000) as disclosed in note 18 to the annual financial statements. The debtor's days increased from 108.8 days to 127.6 days, which indicates that the entity is still experiencing difficulties in timely collection of receivables. The creditors days have decreased from 80.4 days to 65.3 days, however it still significantly exceeds the required 30 day payments period. Furthermore, the entity had significantly reduced their targets in the annual performance plan predominantly due to the financial constraints experienced. This could adversely impact on service delivery, particularly because some of the reductions were on the projects which were already in progress. 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.	Management did not: • Review and monitor compliance with applicable laws and regulations. • Take necessary steps to ensure that WTE enforces an effective debt collection process, implement credit control policies and procedures and cash flow management in order to remain financially viable	Management should: • Have sound strategies in place to ensure that the agreement with NT to reduce the remaining overdrawn amount in the 2019/20 financial period is met and does not affect short-term liabilities. • Perform detailed cash flow analyses to ensure that the strategies are reasonable and will be met. • Relook at their debtor's collection strategies and ensure they implement effective strategies for debt collection by offering to reach a settlement on past-due accounts. • Clients should be offered payment alternatives that are timely and appropriate to each situation, and all collections activities should be recorded to facilitate continuous monitoring and follow-up as well as control of client compliance with negotiated agreements. • Develop a collection register in order to monitor the effectiveness of their collection strategies.

The entity had still an overdraft of R1 4511 million and althpough a net profit of R2 258 million during the year ended 31 March 2019, was realised, it is still an indication that a material uncertainty exists that may cast significant doubt on the entiyt's ability to continue as a going concern.

3.2.3 TCTA

Matter	Root causes	Recommendation
I draw attention to note 27 to the annual financial statements, which indicates that a qualified audit opinion is, unless waived, an event of default in some of TCTA's Vaal River System (VRS) loans. This results in an indication of a material uncertainty on TCTA's ability to continue as a going concern.	Management did not: • Prepare financial statements that are free from material errors. • Prepare accurate and complete supporting schedules that agree to the financial statements.	Management should provide sufficient review of all information supporting the financial statements to ensure that all supporting schedules entail accurate information.

3.3 Emphasis of matter paragraph

3.3.1 DWS

Emphasis of matter	Root causes	Recommendation
Restatement of corresponding figures		
As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the department at, and for the year ended, 31 March 2019.	Management did not perform adequate reviews on the financial statements to ensure that they are prepared in line with the requirements of the appropriate accounting framework.	Management should implement proper budgetary and expenditure controls whereby expenditure is assessed prior to being incurred to ensure that it has been budgeted for. Spending should not be incurred where budgets have not been allocated and/ or approved.
Subsequent events - Section 42 assets		
As disclosed in note 29 to the financial statements, the department transferred completed assets to the value of R2,593 billion through the section 42 transfer after year-end. This should be read in conjunction with note 32.5 to the financial statements.	Management is in the process to transfer the assets subjected to the change in the accounting for these assets from indirect grants (under the control of the department through implementing agents) to direct grants (under the control of the custodian - municipality) in prior years to the respective municipalities.	Management must continue with the process of addressing these registers and adequacy of these projects until all assets (WIP as well completed assets) are transferred to the respective custodians
Underspending of the Vote		
As disclosed in the appropriation statement, the department materially underspent the budget by R242 million on programme 3 – water infrastructure development.	The amount was committed for the Vaal River System pollution remediation project that is being implemented by Emfuleni municipality. Roll-over request was to be submitted to NT	Sufficient project management over projects being implemented by implementing agents.
Payables		
As disclosed in note 21.2 to the financial statements, payables of R641 million exceeded the payment term of 30 days, as required by treasury regulation 8.2.3. This amount, in turn, exceeded the R254 million of voted funds to be surrendered as per the statement of financial performance by R387 million. The amount of R387 million therefore, would have constituted unauthorised expenditure had the amounts due, been paid in time.	The department initiated projects in prior years and are still continuing those projects such as War on Leaks (WoL) that were not originally budgeted for or where some emergency projects (for example Giyani) which also did not have budget in the past and had excessive expenses resulting in the going concern for the department due to payables and accruals that need to be funded from the future budgets.	Management should implement proper budgetary and expenditure controls whereby expenditure is assessed prior to being incurred to ensure that it has been budgeted for. Spending should not be incurred where budgets have not been allocated and/ or approved

3.3.2 WTE

Emphasis	Root causes	Recommendation
Restatement of corresponding figures		
As disclosed in note 34 to the financial statements. corresponding figures for 31 March 2018 has been restated as a result of an error in the financial statement of the entity at and for the year ended, 31 March 2019.	Management did not perform adequate reviews on the financial statements to ensure that they are prepared in line with the requirements of the appropriate accounting framework.	Management should conduct proper reviews of the financial statements to ensure they are prepared in accordance with GRAP.
Material impairment of Trade Receivables		
As disclosed in note 8 to the annual financial statements, material impairments to the amount of R1 063 300 000 were provided for trade debtors, which are potentially irrecoverable.	The main root cause is the inability for the entity to collect all receivables and mainly from the municipalities. Further the delays in billing users of water and the immediate provision for impairment of these late billings.	Management should collaborate with all the necessary role players and facilitate the recovery of all long outstanding debt from the municipalities. Evaluate and assess items to be considered for impairment and ensure that proper accounting principles are followed to any inclusion in the estimate.

3.3.3 TCTA

Emphasis	Root causes	Recommendation
Restatement of corresponding figures		
As disclosed in note 26 to the annual financial statements, the corresponding figures for 31 March 2018 have been restated as a result of errors in the financial statements of the entity at the year ended, 31 March 2019.	Management did not perform adequate reviews on the financial statements to ensure that they are prepared in line with the requirements of the appropriate accounting framework.	Management should conduct proper reviews of the financial statements to ensure they are prepared in accordance with IFRS.
Prevous period audited by a predecessor auditor		
The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act, on 31 August 2018.	N/A	N/A

4 Report on the audit of the annual performance report

No material findings were included in the audit report of DWS (including WTE) on its annual performance report for the 2018-19 financial year end. It should however be noted that the 2018-19 annual performance plan was again adjusted and several targets were reduced. War on Leaks was moved from programme 1 to programme 3. The department should take cognisance of the fact that the reduction in targets will have an impact on the achievement of their five-year strategic plan (2015-16 to 2019-20) as we are nearing the end of the plan's period and the concern will be that this will also affect service delivery.

The DWS financial crisis is mainly due to a lack of insufficient planning to ensure that new water and sanitation infrastructure projects are properly planned for over a period of years and to ensure that the yearly budgets of the department are aligned to this planning. In addition, certain multi-year projects occurred in the past, based on an "emergency" intervention resulting in projects being build either with no original budget, or limited budget or due to no procurement processes it may have resulted in excessive costs involved. Also, due to the Water Service Authorities (WSA) owing money to the WTE and Water Boards for services rendered is aggregating the pressure the department is facing. In addition to that, the WSAs are not properly or not at all maintaining the water and sanitation infrastructure assets, resulting in "emergency interventions" as well for the department which had not been budgeted for.

This is leaving the department with huge debt (accruals and payables), resulting in the department reducing some of its key targets in 2018/19 in programme 3 for infrastructure with limited to zero targets – refer below for examples:

Key targets planned (and adjusted) for 2018-19	Planned	Adjusted
Number of bulk raw water projects ready for implementation = planned three (no adjustment)	3	3
Number of bulk raw water projects under construction = planned 4 (target adjusted to three during the year)	4	3
Number of bulk raw water projects completed during the year = zero (no adjustment)	0	0
Number of mega-regional bulk infrastructure project phases under construction = planned 15 (target adjusted to 10)	15	10
Number of mega-regional bulk infrastructure project phases completed = planned three (target adjusted to two during the year)	3	2
Number of existing bucket sanitation backlog systems in formal settlements replaced with adequate sanitation services per year = 15 638 (no adjustments)	15638	15 638
Number of rural households served to eradicate sanitation backlogs as per norms and standards = zero (not included in the 2018-19 APP) (in the prior year annual report, the target for this indicator was 10 032 and only 5 126 was achieved.	0	Not included

Also, the accelerated community infrastructure programme (ACIP) was designed to deal with emergency projects that relate to water supply responding to service delivery issues and demand management. In cases where municipalities are struggling with keeping their water losses at minimal, a pipe has burst and the community is not receiving water or the water quality is determined as sub-standard this is re sub-classified as community infrastructure, water conservation and demand management and waste water infrastructure refurbishment projects. This indicator's target was set at zero for this year.

Programme No	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

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

Good Of concern Intervention required Not audited

5 Report on the audit of compliance with legislation

The following material findings were included in the audit report of DWS, WTE and TCTA on its non-compliance for the 2018-19 financial year end.

Finding	Root cause	Recommendation
Annual financial statements		
The financial statements submitted for auditing were not 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. **(DWS)** Material misstatements of non-current assets, unauthorised expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were subsequently provided, resulting in the financial statements receiving an unqualified audit opinion. **(WTE)** Material misstatements on current assets, and liabilities and expenditure identified by the auditors in the submitted financial statements were not adequately corrected and supporting information not provided, which resulted in the financial statements receiving a qualified opinion	Instability in the CFO positions and an ineffective system of internal controls relating the compilation of financial statements which are fully supported by evidence. Inadequate review processes of financial statements. The audit action plan for resolving prior year qualification had completion dates that were too close to year end, which we highlighted in our management report that there is a risk that the action plan might not be timely achieved to allow for the timely submission of the financial statements for audit. Management did not ensure that adequate controls are implemented to ensure that the financial statements to be submitted for audit are timely reviewed by both the internal audit function and the audit committee, to enable the audit committee to recommend the submission of the financial statements for audit within the legislated deadline.	Appointment of a permanent accounting officer and CFOs with the knowledge and skills required to ensure that effective internal controls are implemented. Management should ensure that a financial statements action plan, with strict deadlines is implemented and adhered to. Adequate time should be allowed within the timelines, to allow for the proper review of the financial statements by all assurance providers, especially the Internal Audit function.
The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA. **(TCTA)** Material misstatements on non-current assets, current assets, liabilities, revenue and expenditure identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided for non-current assets, current assets, non-current liabilities, current liabilities and disclosure items resulted in the annual financial statements receiving a qualified opinion.	Instability in the CFO positions and an ineffective system of internal controls relating the compilation of financial statements which are fully supported by evidence. Inadequate review processes of financial statements. Management did not ensure that adequate controls are implemented to ensure that the financial statements to be submitted for audit are timely reviewed by both the internal audit function and the audit committee, to enable the audit committee to recommend the submission of the financial statements for audit within the legislated deadline.	Appointment of a permanent accounting officer and CFOs with the knowledge and skills required to ensure that effective internal controls are implemented. Management should ensure that a financial statements action plan, with strict deadlines is implemented and adhered to. Adequate time should be allowed within the timelines, to allow for the proper review of the financial statements by all assurance providers, especially the Internal Audit function.

Finding	Root cause	Recommendation
Expenditure management		
(i) Effective steps were not taken to prevent irregular expenditure, as required by section 38 (1) (c) (ii) of the PFMA and Treasury Regulation 9.1.1. **(DWS)** Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R3,130 billion incurred in the current year, as disclosed in note 24 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused by implementing agents not following proper procurement processes. An amount of R287 million was incurred in the current year on the bucket eradication programme due to improper deviations and an amount of R1,048 billion for the war-on-leaks project not following proper procurement. **(WTE)** The majority of the R7 357 billion as disclosed in note 32 to the annual financial statements was caused by non-compliance with procurement processes	Old multi-year projects where procurement processes were not followed contribute to the increase in irregular expenditure year-on-year. Management did not take adequate actions to prevent the continuation of the irregular expenditure. Proper controls were also not implemented on projects where implementing agents are used.	Stability in leadership to ensure effective internal controls are implemented and monitored and that proper project management is conducted. Management must also enforce consequence management for repeat transgressions where non-compliance with supply chain management processes are noted.
(TCTA) Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R104 million as disclosed in note 25 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of this amount related to expenditure incurred in the prior years, but identified in the current year. The irregular expenditure was mainly caused by deviations that were not properly approved.	Management did not ensure that adequate controls are implemented to ensure prevention of irregular expenditure being incurred. Management did not take adequate actions to prevent the continuation of the irregular expenditure.	Stability in leadership to ensure effective internal controls are implemented and monitored and that proper project management is conducted. Management must also enforce consequence management for repeat transgressions where non-compliance with supply chain management processes are noted.
(ii) Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1. **(DWS)** Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R60 million, as disclosed in note 25 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. Most of the fruitless and wasteful expenditure resulted from standing time and management fees being incurred at the implementing agents. Fruitless and wasteful expenditure amounting to R47 million was incurred on the Giyani Water and Waste Water project due to excessive management fees being paid **(WTE)** The majority of the R1,716 billion as disclosed in note 33 was caused by abnormal costs (salaries of the idle construction unit) incurred, relating to internal projects	Proper project management controls were not implemented in DWS and WTE to ensure that value for money is received on the related to projects. Management also did not take any action on the projects from when this was reported in the previous audit that the project had been halted.	We recommend that management consider various alternatives on how to prevent / limit the extent of the monthly fruitless and wasteful expenditure being incurred on the projects. Management should devise strategies/ alternatives on obtaining the necessary funding to complete projects which have been halted such as Mopani, Nwamitwa and Tzaneen – costs are being incurred on idle labour. Management must also enforce consequence management for repeat transgressions where non-compliance.

Finding	Root cause	Recommendation
Expenditure management		
(TCTA) Effective and appropriate steps were not taken to prevent fruitless expenditure amounting to R1 million as disclosed in note 25 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by payments for licenses not utilised due to post implementation challenges that were identified during the system change from Accpac to Oracle.		
(iii) <u>Payments were not made within 30 days or on an agreed period after receipt of an invoice, as required by Treasury Regulation 8.2.3, due to cash-flow constraints in the department. (DWS & WTE)</u>	Management did not pay invoices on time as a result of insufficient funds as a result of prior year overspending on their allocated budgets. In addition, the non-payment of invoices was noted to be as a result of where WTE payments were not allowed to be released by National Treasury due to their past continued overspending.	Management should ensure that all suppliers are paid within 30 days as prescribed. The entire population for all overdue payments must be revisited to identify any potential interest that may have been incurred on overdue amounts.
Procurement and contract management		
(WTE) Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention with treasury regulations 16A6.4. Similar non-compliance was also reported in the prior financial year. This was due to management not adhering to the procurement processes. **(WTE)** In some instances, sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers whose tax matters have been declared by the South African Revenue Services to be in order as required by treasury regulations 16A9.1(d).	Management did not perform adequate reviews to ensure compliance with the procurement laws and regulations.	The following were recommended: • Management should perform adequate controls that would ensure compliance with laws and regulations and ensure that all contract expansions are within the thresholds prescribed by national treasury. • Management should disclose the irregular expenditure in the annual financial statements
(TCTA) Some of the goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar instances of non-compliance were also reported in the prior year.	Management did not perform adequate reviews to ensure compliance with the procurement laws and regulations.	• Management should perform adequate controls that would ensure compliance with laws and regulations and ensure that all contract expansions are within the thresholds prescribed by national treasury. • Management should disclose the irregular expenditure in the annual financial statements.

Finding	Root cause	Recommendation
Consequence management		
(DWS) I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure in prior years as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure. **(DWS)** I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into fruitless and wasteful expenditure. **(DWS)** In some instances, I was unable to obtain sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 4.1.1	The leadership did not implement effective consequence management within portfolio. The overall instability in the leadership also exacerbated the lack of consequence management. Where management initiated processes, these were not based on a proper process of root cause analysis and did not correlate to severity/ extent of transgressions.	Management must continue conducting investigations to determine the real root causes of the transgressions and ensure that transgressors are held accountable as informed by proper disciplinary processes. Information/ recommendations received from other investigative bodies such as the SIU and oversight should be timely acted upon.
Grand Conditions		
(DWS) The indirect Regional Bulk Infrastructure and Water Services Infrastructure grants were not spent for their intended purposes in accordance with the applicable grant framework, as required by section 17(1) of DoRA, as underspending which occurred during the year was not supported by cash on hand	Management did not adhere to the processes as required by the DoRA legislation to ensure that spending only occurs in line with the intended purpose as DoRA funds were used for other purposes when management experienced insufficient funds.	Management must ensure effective internal controls are adhered to, in order to ensure that spending is only approved and incurred in line with the intended purpose of earmarked funds.
Revenue management		
(WTE) Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA and treasury regulation 7.2.1. This was because the entity did not bill all its customers whose revenues were recognised through the accrual revenue process. The entity thus also did not subject these customers to the normal debt collection processes. The non-compliance also resulted in a material irregularity as reported in the section on material irregularities	Lack of verification and validation of all water user loaded on WARMS, as a results registered water users who cease to use water due to succession in tittle before lawfulness could be determined result in the new property occupant not to be seen as a water user. Furthermore, the alleged successors, are known to the water trading entity, however no effort is taking to validate and verify their water use. No adequate controls are in place on what action should be taken for succession in title clients that are not forthcoming to register for water usage.	Management should ensure that verification and validation process is performed on all the water users on record, to ensure adequate identification and follow up of all water users that will facilitate complete billing for services rendered.

6 Report on material irregularities identified

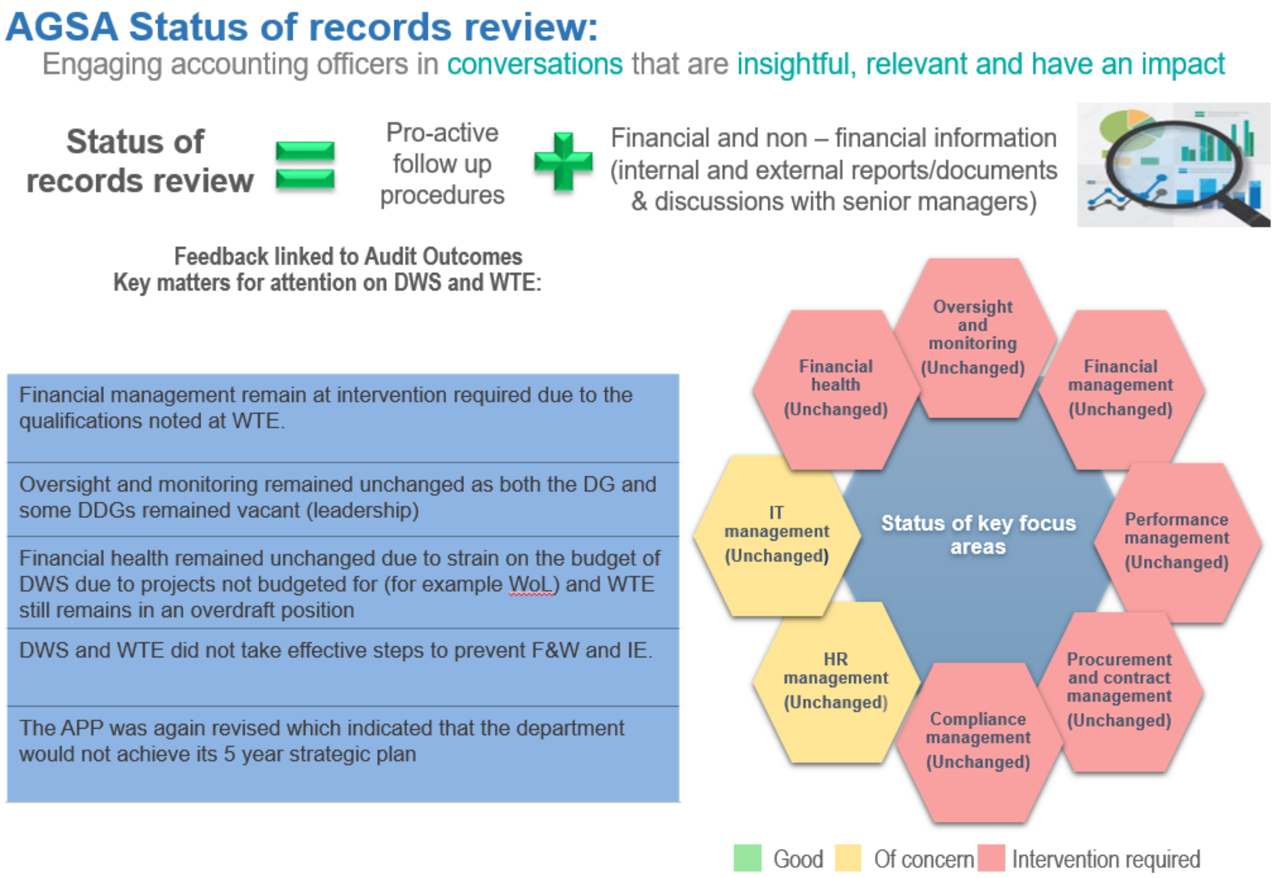
The department and the trading entity were selected a part of the phase-in approach to the implementation of the new amendments to the Public Audit Act. The phase-in approach focussed on a material irregularity as a result on non-compliance identified during the audit, which resulted in financial loss.

The following material findings were included in the audit report of DWS and WTE on its material irregularities identified for the 2018-19 financial year end.

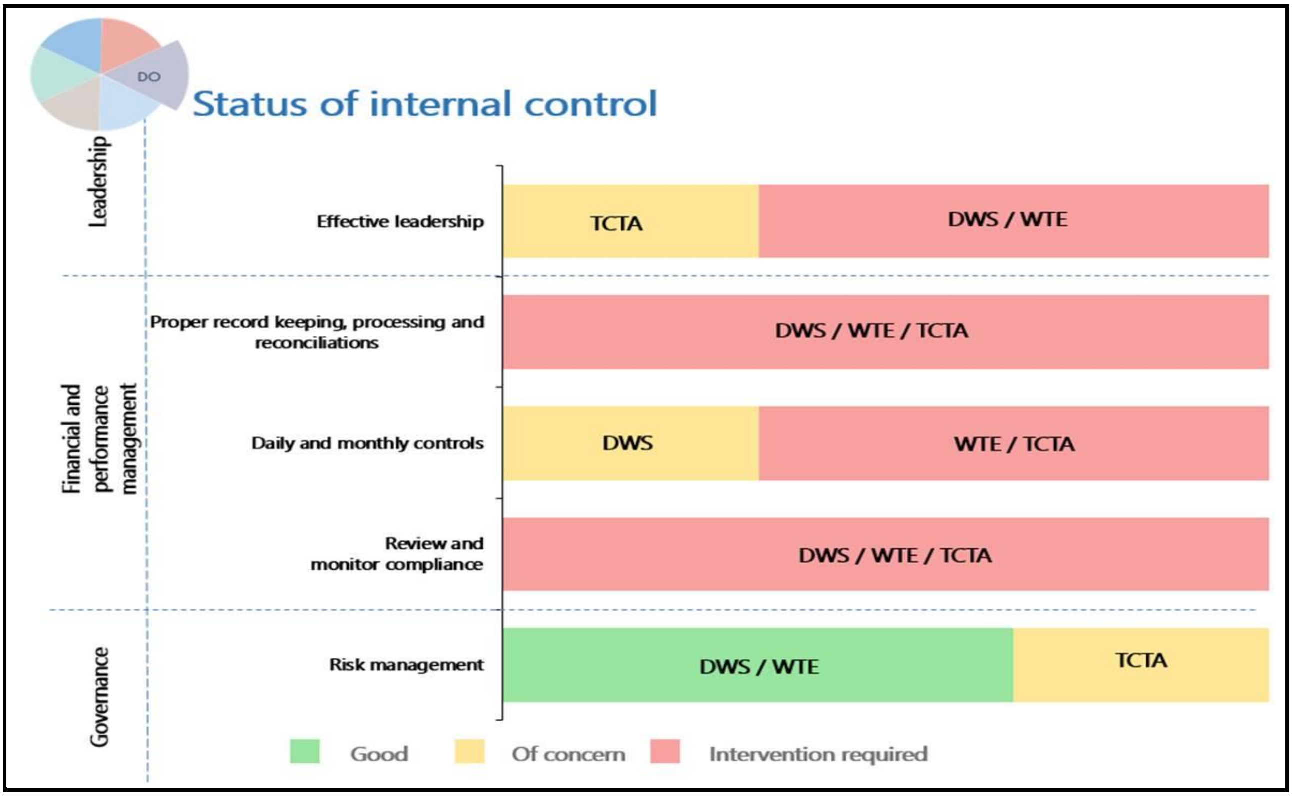
Material Irregularity identified	Accounting office took appropriate steps	Follow up:
DWS		
In 2018-19 payments to the Amatola Water Board were not made within 30 days from receipt of the invoices, as required by treasury regulation 8.2.3. The water board is an implementing agent for a water infrastructure project in the Eastern Cape, funded by the Regional Bulk Infrastructure grant (RBIG). As a result of the payment delays by the department, the invoices of the appointed contractor for the project could not be paid in time, which attracted interest. The construction was also suspended from 26 March 2018 until 4 June 2018, which resulted in the contractor claiming standing time, as provided for in the contract. The interest and standing time charged as a result of the late payments resulted in a material financial loss of R12 766 032 by the financial year-end, as disclosed in note 25 to the financial statements.	The accounting officer referred the matter to the internal risk management unit of the department to finalise an investigation by 31 August 2019. Based on the outcome of the investigation, the accounting officer will then take appropriate action against any officials found to be responsible and take the necessary steps to recover the financial losses to the fullest extent possible. I will therefore follow up on the investigation and the implementation of planned actions, during my next audit.	I will follow up on the outcome of the process through the next year audit process. The outcome of the report will be obtained from DWS for further follow up and to ensure that the matter was appropriately addressed.
A payment of R17 900 594 was made on 20 April 2018 to a consulting firm appointed for financial management services, without the required progress report supporting that the work had been performed. The payment for services not delivered was as a result of ineffective internal controls relating to the approval and processing of payments, as required by treasury regulation 8.1.1. The non-compliance with legislation is likely to result in a material financial loss if the amount paid is not recovered from the firm. A contingent asset of R17 900 594 in relation to this matter has been disclosed in note 19.2, to the financial statements.	An investigation into the matter by the internal audit unit of the department concluded their report on the 18 July 2018. Based on the outcome of the investigation, the accounting officer initiated disciplinary procedures against officials involved and filed a combined summons with the high court on the 22 November 2018, to declare the contract invalid. The accounting officer confirmed that he will take appropriate action once the court process has been concluded. I will therefore also follow-up on the actions currently under way, during my next audit.	I will follow up on the outcome of the court proceedings through the next year audit process.

Material Irregularity identified	Accounting office took appropriate steps	Follow up:
WTE		
The National Treasury Regulation 7.2.1 requires the accounting officer to develop and implement appropriate processes that provide for the identification of, collection of, recording of, reconciliation of and safeguarding of information about revenue. Accrued revenue, raised in prior years that should have been billed, had not been invoiced to the customers for water actually consumed and/ or utilised by these customers. This practice of accruing for revenue and not invoicing for it, is a practice noticed to have occurred over a number of years. This non-compliance with legislation is likely to result in a material financial loss of R346 223 000 by 31 March 2019, for the entity.	To ensure that there will be no recurrence of the matter, the accounting officer referred the matter to the internal risk management unit of the department to finalise an investigation by the 31st of October 2019. Based on the outcome of the investigation, the accounting officer would have then been required to take appropriate action against any official found to be responsible. At the date of this report, I had not been provided with any evidence of progress of the investigation nor its outcomes.	I will therefore follow up on the implementation of the planned actions, during my next audit.
The National treasury regulation (TR) 8.2.3 requires the accounting officer of an institution to settle payments within 30 days from receipt of an invoice or, in the case of civil claims, from date of settlement or court judgement. The entity entered into a contract with service provider with a contract value of R154 million (incl. VAT) which required a 10% advance payment on the contract value. WTE did not make the advance payment as per the contract provisions. This resulted in the service provider issuing a letter of demand and consequently, in court proceedings. The court ordered the entity to pay the service provider interest of R2,2 million and the applicant's taxed party-party costs. The interest expense results in a financial loss. The party-party costs have not yet been paid by the entity as ordered by the court and therefore should be considered as a likely financial loss.	The accounting officer referred the matter to the internal risk management unit of the department to finalise an investigation by 31 August 2019. The investigation was finalised and a report was submitted to the acting director-general on 26 September 2019. Based on the outcome of the investigation, the accounting officer is taking appropriate actions against any officials found to be responsible and implementing the necessary steps to recover the financial losses to the fullest extent possible	I will follow up on the planned actions, through the next year audit process.

7 Status of internal controls



The diagram below depicts the status of the control of DWS, WTE and TCTA as assessed by the auditors. The assessment was limited to the internal controls relevant to my audit of financial statements reported performance information and compliance with applicable legislation.



The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

7.1 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).
- During the prior year a limitation of scope was raised pertaining to consequence management and following up on irregular expenditure that was not done effectively pertaining to 2016-17 financial year. In the current year, the Risk Unit of the department conducted some investigations and provided management with a report on the 2017-18 irregular expenditure. However, the implementation of consequent management subsequent to the investigation are still insufficient (DWS) due to lack of evidence regarding the follow-up work on the related disciplinary processes.
- 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).**

7.2 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)**.

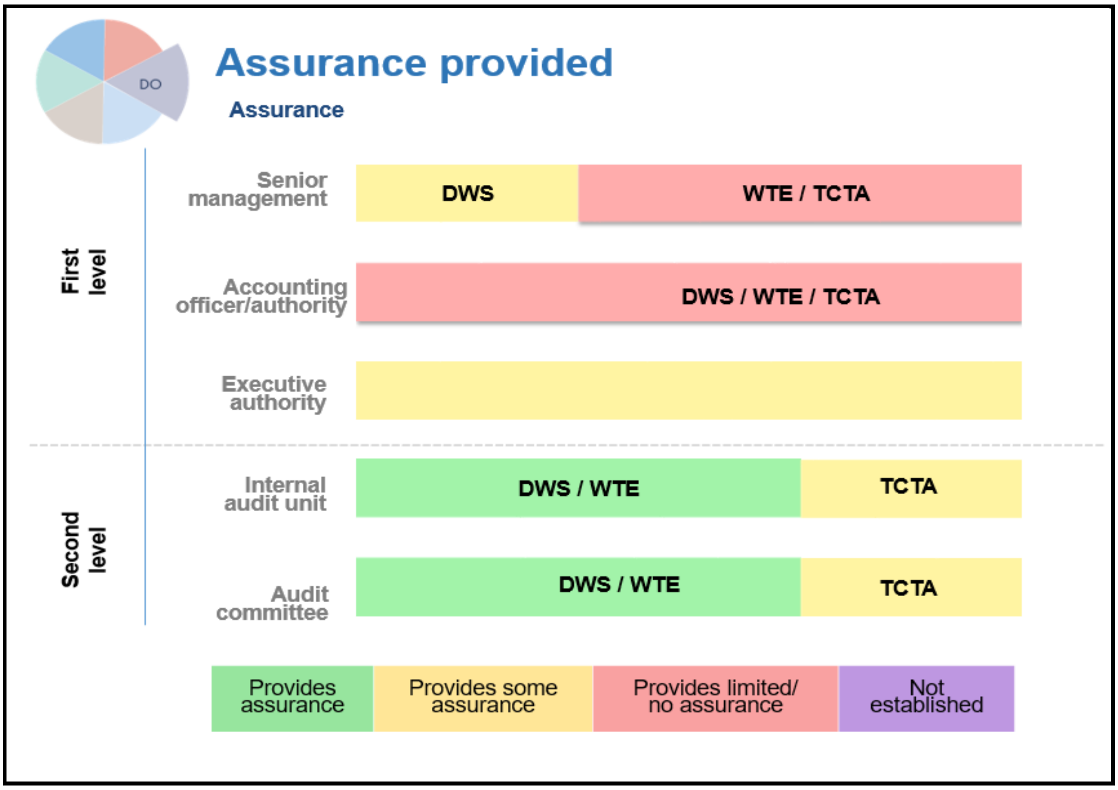
8 Other reports/ Investigations

Currently, the Special Investigation Unit (SIU) is investigating two projects, which were proclaimed by the President in 2010 and 2016, respectively:

- A forensic investigation into the Vuwani steel pipeline as per Proclamation Number R118 of 2010 (Gazette No. 22531 of 331 July 2010). This investigation was still in progress.
- A forensic investigation into allegations of irregularities and possible losses by Lepelle Northern Water, which is linked to the department, as per Proclamation Number R22 of 2016 (Gazette No. 39935 of 18 April 2016). This investigation was also still in progress.

Several other investigations were also conducted, or were in progress, by the internal audit unit at the request of the accounting officer and/ or the executive authority arising from allegations of financial misconduct against officials of the department. The completed investigations resulted in recommendations for disciplinary and/or criminal proceedings to be instituted against the officials concerned, while others were still in progress at year end.

9 Assurance providers



We assessed the level of assurance provided by these assurance providers based on the status of internal controls at the 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*

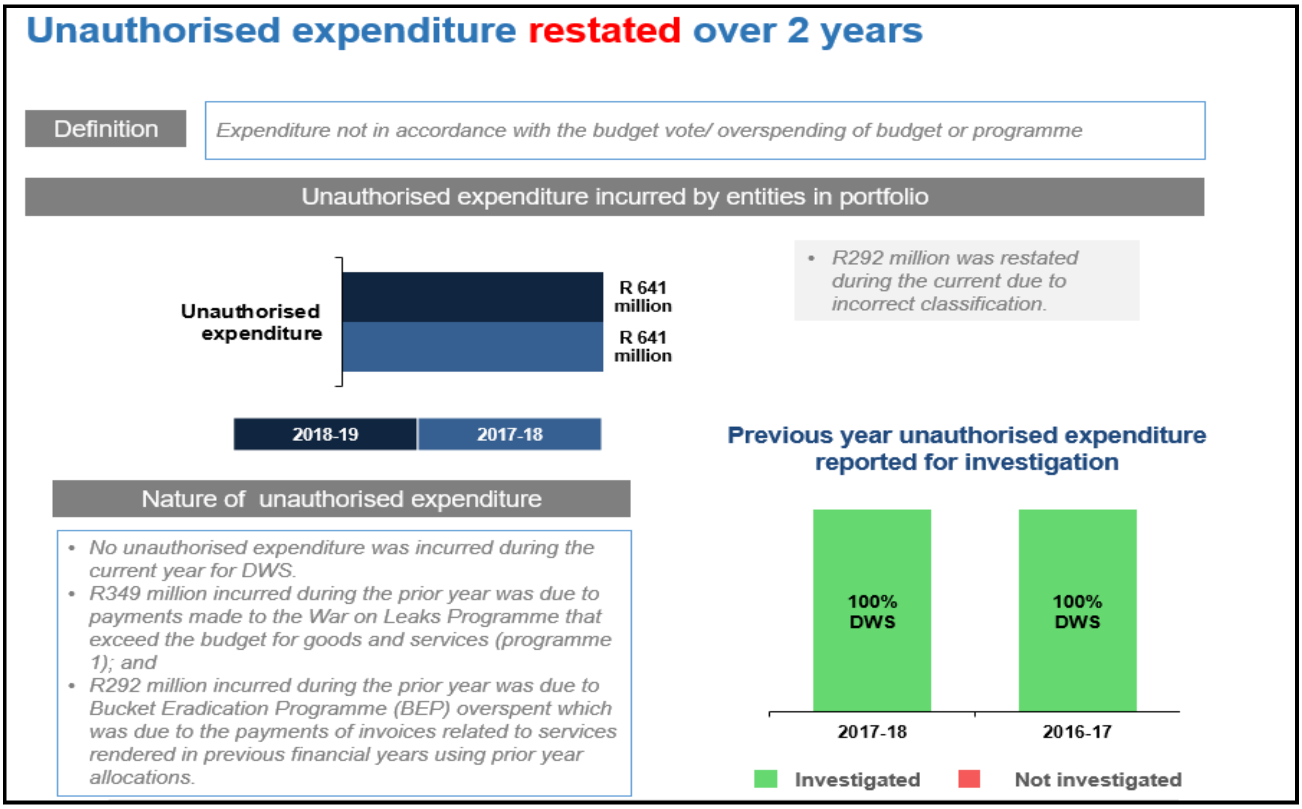
*Currently still acting, months calculated from June 2019 to date

10 Follow up on previous SCOPA resolutions from previous engagement

We are not aware of any prior formal SCOPA resolutions made following previous audit outcomes.

11 Unauthorised, Irregular and Fruitless and wasteful expenditure

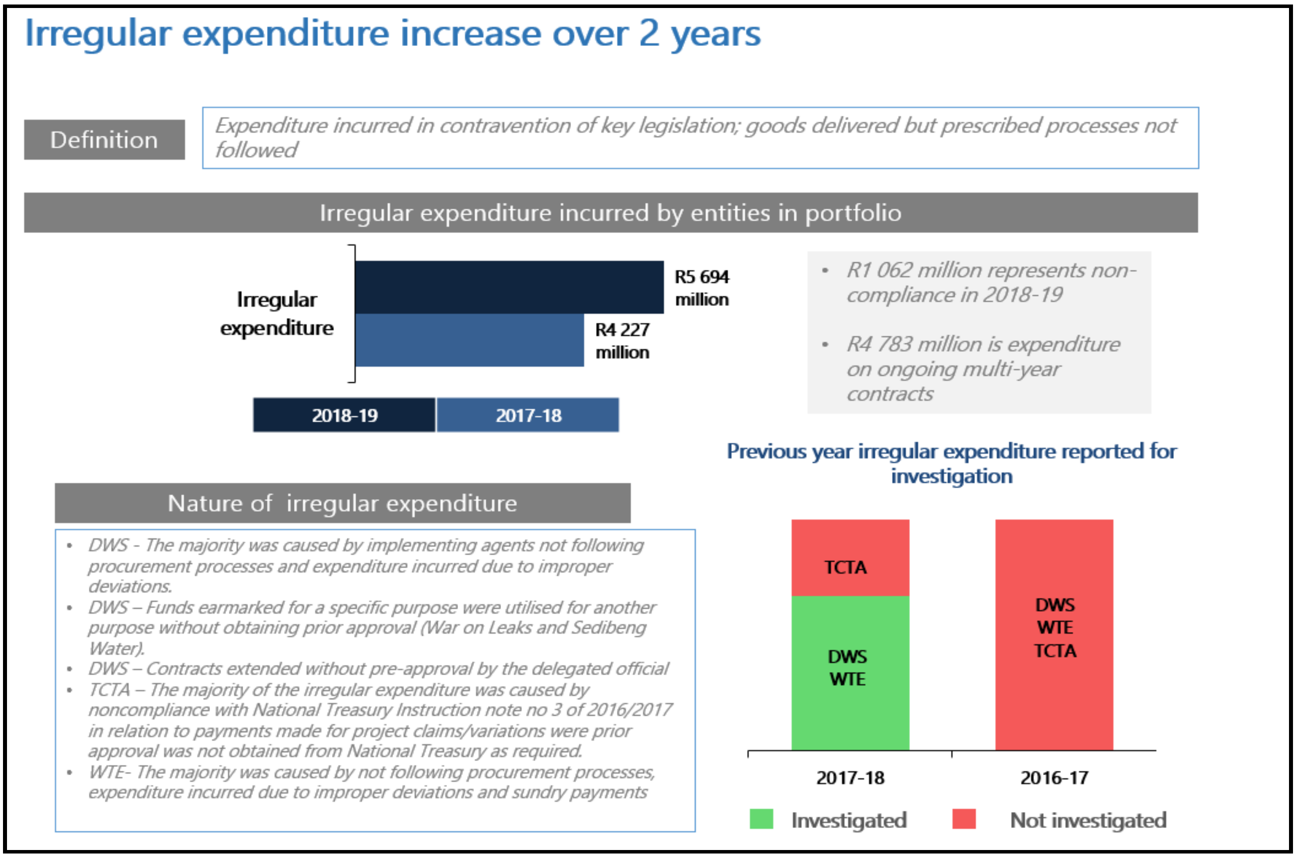
11.1 Unauthorised expenditure:



The re-statement of unauthorised expenditure was due to the non-compliance with section 5(1)(d) of the Adjustments Appropriation Act which in the past was disclosed as unauthorised expenditure, and should have been disclosed as irregular expenditure. DWS made the adjustments during 2018/19.

11.2 Irregular Expenditure:

The following depicts the incidents of irregular expenditure incurred during the 2018/19 financial year only for the entities listed therein:



Most common findings that resulted in irregular expenditure

Procurement through deviations from SCM regulations was highly prevalent at implementing agents in the past years as some of their SCM practices was to treat directives from the Minister of Water and Sanitation as emergency cases thereby not following the required SCM regulations. This policy, adopted mostly by water boards, was in contravention with legislative requirements and therefore led to the incurrence of irregular expenditure at the department. This was corrected from 2018, however, due to the multi-year nature of these projects, the department is still incurring the irregular expenditure. Furthermore, the entities irregular expenditures were mainly due to deviations which were not justifiable and did not meet the definition of an emergency procurement.

Number of all directives (including emergency directives) issued as per the list received from DWS:

Directives issues	Totals
Directives issued from 2012-13 to 2015-16	34
Directives issued for 2016-17	16
Directives issued for 2017-18	7
Directives withdrawn during 2017-18	(3)
Directives issued for 2018-19	5
Directives withdrawn during 2018-19	(2)
Total directives issued from 2012-13	**57**

19 of these directives have been completed up to date as per information from DWS.

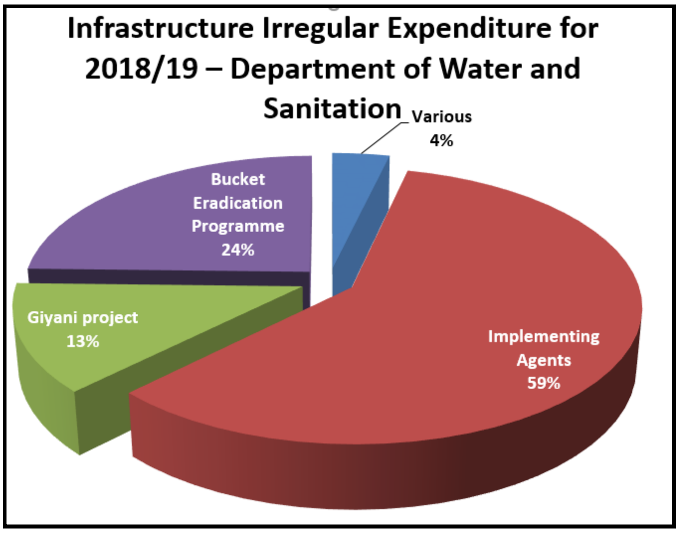
DWS

The department has implementing agents that are receiving 5B and 6B grants to implement water and sanitation infrastructure projects on behalf of the department.

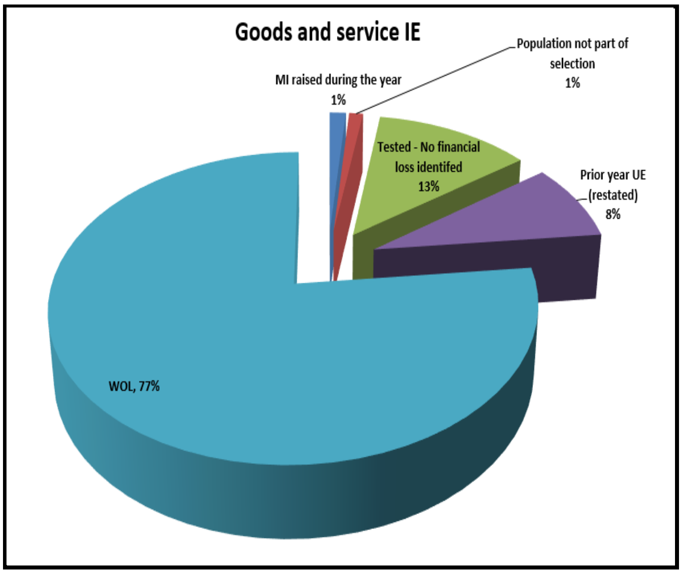
The irregular expenditure emanates mainly from old contracts which are multi-year projects and still running.

The diagram below depicts the fact that 72% of the irregular expenditure for DWS on infrastructure is as a result of implementing agents not following proper procurement processes in the past (old projects still running). This was mainly due to lack of oversight over implementing agents and lack of monitoring and oversight from the department.

With the Amendment Act, which commenced on 1 April 2019, the AGSA evaluated all irregular expenditure incurred at DWS during the audit of 2018/19 to determine if any possible material irregularities exist and the diagrams and tables below illustrate the results there off:



Infrastructure amount	Amount (R)
Once off, Prior year payments	65 241 521,75
Implementing agent's non-compliance	1 038 136 765,75
Giyani - Implementing agent's non compliance	226 021 198,20
Bucket eradication – Goods & Service received	434 041 185,70
	1 763 440 671,40



Goods and service	Amount (R)
MI raised during the year	17 900 594,37
Numerous immaterial amounts not selected for audit	15 333 633,50
Tested - No financial loss identified (service was delivered)	170 080 012,16
Prior year UE (restated)	114 879 198,62
WOL – Training conducted	1 047 889 589,88
	1 366 083 028,53

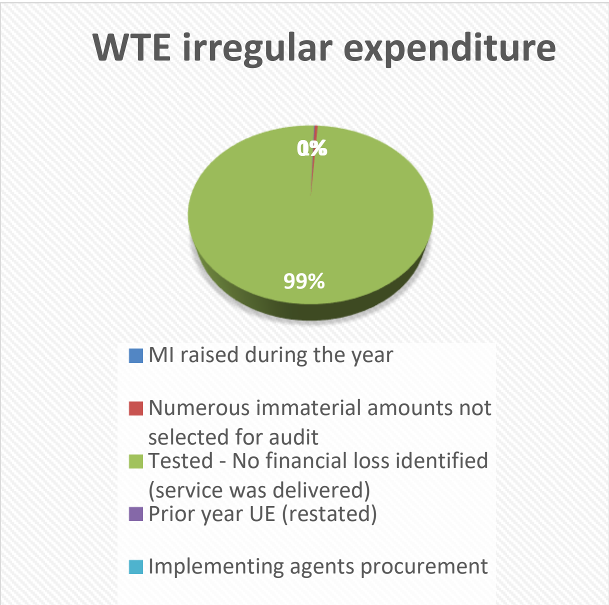
The total balance of irregular expenditure as disclosed in the financial statements amounted to R9 285 547 000 (2017/18 R6 156 025 000). The major contributors that contributed to the Irregular expenditure are as follows:

No	Nature of irregular expenditure	Amount (R) 2018/19
1	Contract extended without prior approval by the delegated official	406 890 302
2	Implementing agents - not following proper procurement processes in the past	793 341 775
3	Reason for deviation not justifiable	410 577 630
4	Funds earmarked for a specific purpose were utilised for another purpose without obtaining prior approval	823 129 589

- War on leaks - Funds earmarked for a specific purpose were utilised for another purpose without obtaining prior approval – EWSETA - R524 797 622 and Rand Water R523 091 962
- Bucket Eradication Programme — Deviation from normal procurement not justifiable - Vharanani - R185 250 133, NJR projects - R78 229 950, Blackhead Consulting - R75 174 741, SCIP Engineering Group - R37 750 155
- Giyani project – Proper procurement processes not followed when appointing contractors for the emergency ministerial intervention - LTE Consulting - R214 488 006
- Implementing agent - Sebokeng Waste Water Treatment Works –Contract extended without prior approval – CMC contractor – R236 869 577, Enzani Contractor - R64 197 641, PCISA - R30 005 736
- Implementing Agent – Meyerton WWTW, Contract extended without prior approval – Immediate Electric - R54 670 422
- Implementing Agent - Emergency upgrade and refurbishment of Mmabatho Water treatment works - Advertised a tender for a shorter period without prior approval as required by National Treasury, HT Pelatona - R33 831 060

WTE

With the Amendment Act, which commenced on 1 April 2019, the AGSA did evaluate all irregular expenditure incurred at DWS to determine if any possible material irregularities exist and the diagrams and tables below illustrate the results there off:



Description	Amount (R)
MI raised during the year	2 200 000
Numerous immaterial amounts not selected for audit	11 678 000
Tested - No financial loss identified (service was delivered)	2 460 392 000
Prior year UE (restated)	-
Implementing agents procurement	-
Total	2 474 270 000

The total balance of irregular expenditure as disclosed in the financial statements amounted to R7 357 423 (2017-18 R4 897 031). The major contributors to the irregular are as follows:

No	Nature of irregular expenditure	Amount (R) 2018/19
1	Service to support SAP ECC not procured through SITA	62 969 000
2	Deviations approved not in accordance with treasury regulations	148 035 000
3	Award not in line with specification	94 150 000
4	Bid adjudication committee quorum not obtained	70 255 000
5	BEC did not approve the change of scope	25 700 000
6	No declarations were made by directors	25 300 000
7	Payments made through sundry in contravention of DOA	121 529 000

- Deviation not approved by Treasury; Disciplinary proceeding underway
    - AECOM SA (PTY)Ltd - R148 035 331;
- Payment made through sundry - under investigation R121 529 435;
  Main contributors;
    - BIGEN AFRICA – R15 791 632;
    - BICACON (PTY) LTD – R12 358 472
    - INGEROP SOUTH AFRICA (PTY) LTD - R12 113 872
    - NORTHCOAST WATER UTILITY PTY LTD – R6 000 000
    - OTHER SERVICE INCLUDE RENT, MAINTENANCE, SECURITY SERVICES AND TRAVEL AND ACCOMMODATION – R64 738 890
- Award of bid not in accordance with approved specification; Disciplinary proceeding underway
    - BATLHOKOMEDI MANAGEMENT SERVICES CC - R94 150 466;
- There was no provision of CPIX initially included in the principal contract and tender documents, however management agreed and signed an addendum for additional payments which are not justified; Under investigation
    - ALTERAM SOLUTIONS (PTY) LTD – R18 225 082;
- SCM process followed not in line with SCM Prescripts
    - PRO PLAN (Umzimvubu Project) – R6 986 832;

TCTA:

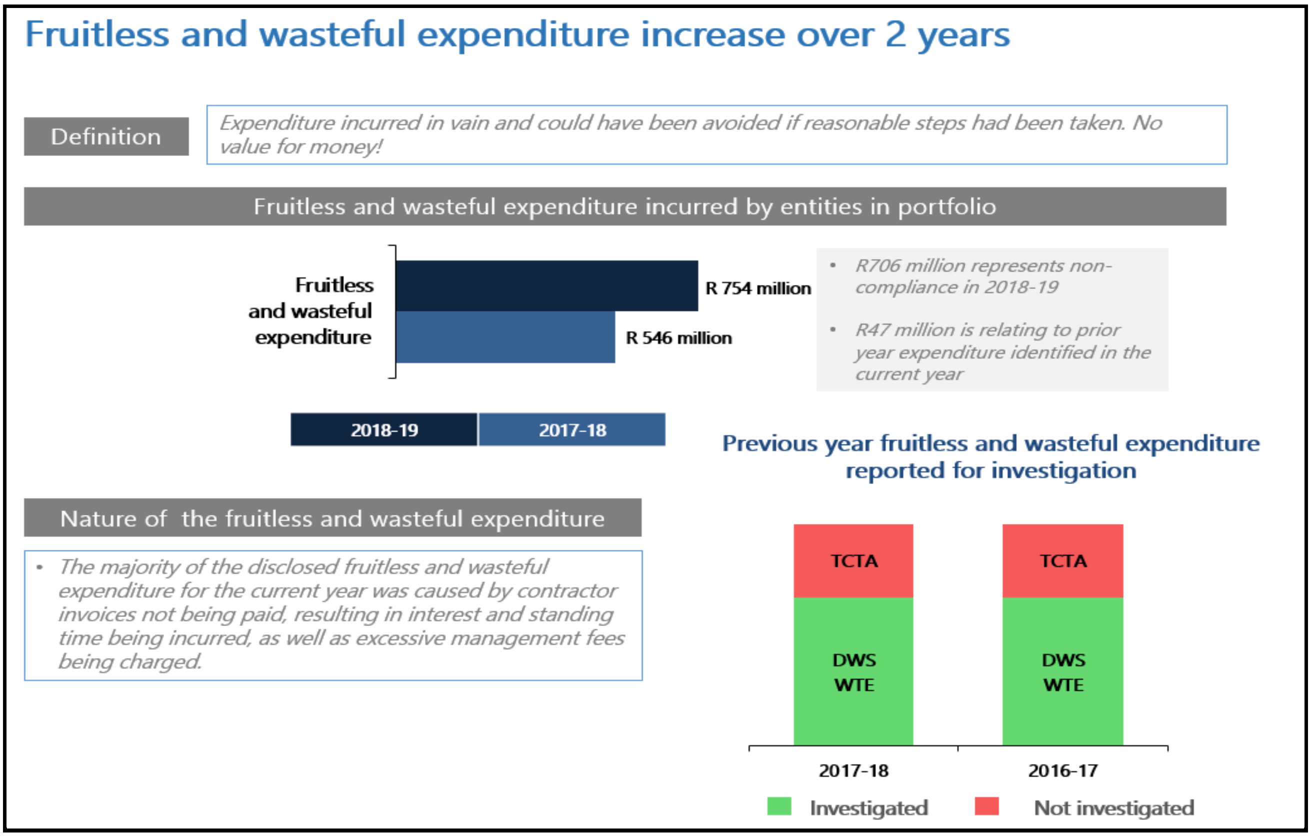
The total balance of irregular expenditure as disclosed in the financial statements amounted to R748 621 523 (2017/18 R667 283 532). The major contributors that contributed to the Irregular expenditure are as follows:

No	Nature of irregular expenditure	Amount (R) 2018/19
1	Claims approved without the necessary prior approval	26 373 292
2	Variation orders not pre-approved by National Treasury	8 791 054
3	Appointment of service providers without following appropriate procurement process	6 996 565
4	Appointment of personnel without following due process	8 862 836
5	An unfair process followed to establish a legal panel	295 607
6	Sponsorship to DWS	3 000 000
7	Splitting of bid Oracle	1 192 300

The following are some of the irregular expenditures included in the schedule above:

1. The following are the major variations (claims) which were approved without National Treasury:
    a. AECOM (Claim) R2 542 823
    b. Basil Read (Claims) R7 953 467
    c. AECOM (Not a claim) R 593 317
2. The following are some legal firms appointed from a panel which was unfairly established:
    a. Faskens Attorneys R1 432 816
    b. Allen Overy Attrneys R 798 132
    c. Werkmans Attorneys R 287 713
    d. Bowman Gilfillan R 319 109
3. The following are examples of bid splitting:
    a. Sizaox R 148 500
    b. EOH Mthombo R 736 800
    c. Vhakondeni R 307 000
4. Some deviations where the reasons were not justifiable:
    a. Ultimate Recruitment (Less than three quotations obtained R 352 095
    b. PWC remuneration benchmark (Less than three quotations) R 382 779
    c. Vodacom (single sourcing, because TCTA already had a contract with vodacom) R1 977 023

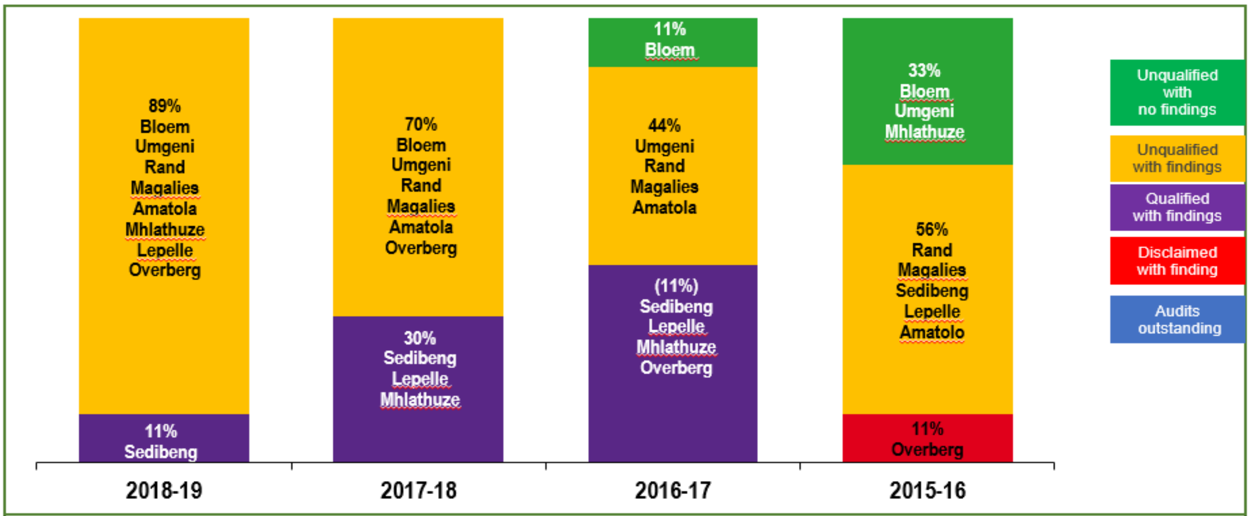
11.3 Fruitless and Wasteful Expenditure:



Fruitless and wasteful expenditure was considered to identify any wasteful expenditure which also had a non-compliance to determine whether there were any further material irregularities. 30 day payment non-compliance was identified and the related standing time / interest charged included in the fruitless and wasteful expenditure resulted in material irregularities – refer to number 6 above.

12 Water Boards

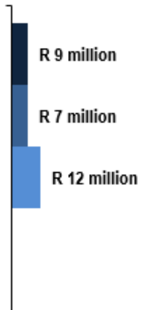
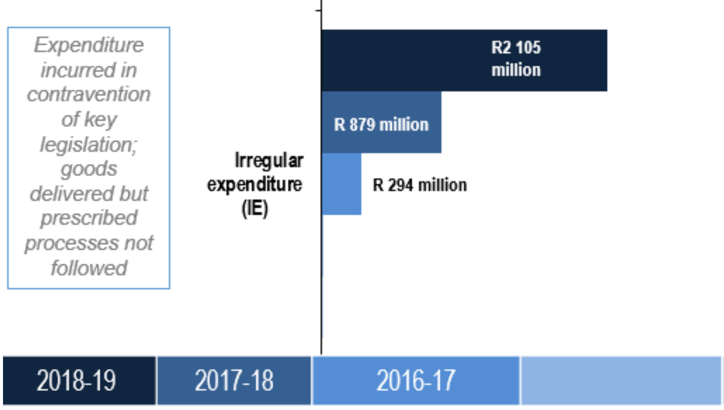
12.1 Water Board outcome



- An improvement occurred with Lepelle and Mhlathuze receiving unqualified audit reports
- Financial statement preparation remains a concerns as material adjustments are effected to AFS submitted for audit at all Water Boards
- Lepelle managed to clear the prior year qualifications on property plant and equipment (PPE), payables from exchange transactions, cash-flow statement, statement of changes in net assets and commitments.
- Mhlathuze managed to clear the qualification in the prior year on receivables.
- Sedibeng water was qualified again on irregular expenditure and trade and other receivables but received additional qualification areas for PPE, Payables, commitments, deferred income and aggregation misstatements.

12.1 Water Boards Irregular and Fruitless and Wasteful expenditure

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) 	• 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) 	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 term • 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 seven (7) Water Board due to effective steps not taken to prevent irregular expenditure*

The major contributors that contributed to the Irregular expenditure are as follows:

Entity	Irregular Expenditure (Totals)		Fruitless and Wasteful expenditure (Total)	
	2019	2018	2019	2018
Amatola	154 698 000	132 033 000	11 334	2 665
Bloem	4 897 000	1 131 000	-	-
Lepelle	38 768 000	31 213 000	2 474	2 454
Umgeni	229 545 000	33 241 000	5 283 000	5 527 000
Rand Water	960 449 000	138 161 000	470	11 864
Magalies	5 824 000	5 417 000	-	-
Mhlatuze	245 076 000	264 763 000	27 479	27 475
Sedibeng	419 885 000	229 673 000	3 013 000	1 160 000
Overberg	46 549 414	43 722 805	433 734	318 309
TOTAL	**2 105 691 414**	**879 354 805**	**8 771 491**	**7 049 767**

13 Key recommendations to the Committee:

We request and recommend that the committee consider the following actions to be implemented as part of the role oversight can play in facilitating an improvement in the financial and performance management, as well as the status of compliance of the department to improve audit outcomes, thereby ensuring good governance and administration of public funds:

- Engage the acting accounting officer and executive authority on the steps taken to/ and or implemented to address the material irregularities identified. SCOPA should insist that the department focussing on the implementation of preventative controls in order avoid any future potential matters that may give rise to Material Irregularities (MIs), especially since large amounts of procurement are incurred by the portfolio to implement service delivery objectives.

- Continuous engagement/ follow up with the executive authority on the appointment of a full-time director-general and relevant deputy directors-general, to assist in providing stability and direction for the department.

- Follow up with the acting accounting officer and the executive authority on consequence management. Management should speedily complete all investigations and cases of irregular and fruitless and wasteful expenditure in order to take appropriate action. Action should also reflect the severity of the transgressions noted to ensure effective consequence management.

- The department, through its executive and accounting officer, should provide regular feedback to oversight (SCOPA and PC) on the implementation of the financial turnaround strategies to arrest the financial health concerns noted and reported. These plans should have proper milestones and initiatives that will deal with the going concern uncertainty raised without compromising service delivery.