



**PFMA
2021-22**

Budgetary review and recommendations report

Portfolio committee on Water and Sanitation

11 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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



VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability





water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



WATER
RESEARCH
COMMISSION

National

Regional

Local

Resource management and development

Intergovernmental arrangements

Komati Basin Water Authority - KOBWA
Lesotho Highlands Water Project (LHWP)
Orange-Senqu River Commission (ORASECOM)

Catchment management agencies



Water user associations



Resource development, bulk infrastructure and distribution



Trans-Caledon Tunnel Authority (TCTA)



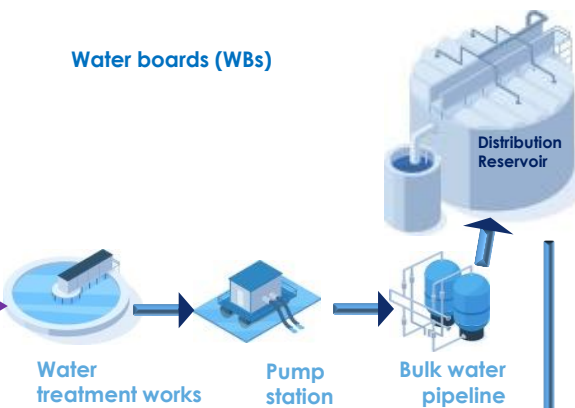
The Water Trading Entity (WTE)

Strategic Customers



Bulk infrastructure and distribution

Water boards (WBs)



Mining



Manufacturing



Strategic Customer

Distribution, Waste removal, treatment and reuse

Municipalities (WSA's)

Customer facing services



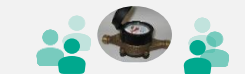
Reticulation



Abstraction -> Storage and treatment -> Distribution

MUNICIPAL WATER SUPPLY VALUE CHAIN

**Orange arrows = upstream competition
**Green arrows = retail competition

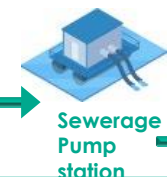
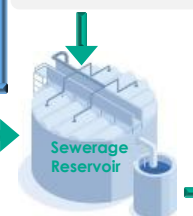


Customer facing services

Disposal

Treatment

Collection



Impacts on aquatic environment and downstream water users

Impacts on aquatic environment and downstream water users

**Resource Development,
Bulk infrastructure
and distribution**



The Water Trading Entity (WTE)



**Trans-Caledon
Tunnel Authority (TCTA)**



Dam

Strategic Customers



Agriculture



Energy



WTE's main functions relate to the development, operation and maintenance of specific water resources infrastructure and managing water resources in specific water management areas. It is the goal of the WTE management to achieve financial sustainability and independence to reduce reliance on the fiscus.



TCTA is charged with financing and implementing bulk raw water infrastructure projects. It is an agency of the National Department of Water and Sanitation (DWS), which is responsible for the country's water resources in respect of usage, equitable allocation and distribution. TCTA assists the government in its pursuit of water security for South Africa and in realising its constitutional obligation of ensuring universal access to this essential resource for all citizens. It is a specialised liability management body the government uses to finance and build dams and transfer schemes.



Agriculture

Raw water is provided to farmers via WTE or via the water User Associations (WUA) Agriculture is the largest water use at 61%. Agricultural consumption is largely unmetered, and there are concerns about unauthorised abstraction and water wastage in the sector. In addition, agricultural users pay a much lower tariff than other users of untreated water and the relatively cheap water has not incentivised the adoption of water efficient irrigation practices. DWS provide assistance to small farmers through paying for their water bills, through the development of sustainable irrigation schemes, or revitalization of existing one, if resources are available. (transfer to poor farmers).



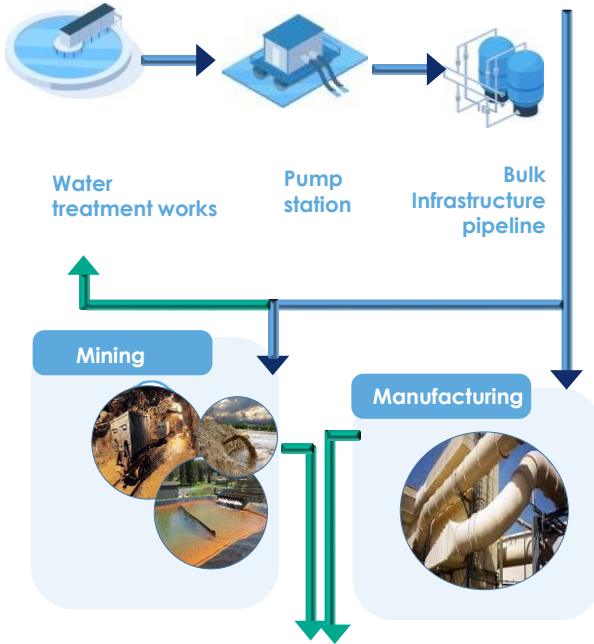
Water resources are at a premium in the country and Eskom's two power stations on the Orange River are the only conventional hydroelectric schemes of significance in the country. Gariep and Vanderkloof Power Stations are situated on the border of the Eastern Cape and Free State; and the Northern Cape provinces respectively; and built adjacent to the Gariep and Vanderkloof Dams in the country's summer rainfall region. Their electricity feeds into the Eskom national grid to supply power for peak and emergency demand periods, as well as baseload energy when excess water poses a flood risk.



Roles and responsibilities – bulk infrastructure and distribution

Bulk infrastructure and distribution

Water boards (WBs)



Impacts on aquatic environment and downstream water users

To provide water services to other water services institutions (water service authorities, water boards, water service providers and water service committees) within its service area in terms of Section 29 of the Water Services Act No 108 of 1997

The primary activity of a water board is to provide water services (bulk and reticulation) to other water services institutions (WSIA). It may also undertake other activities but only if:

- it is not likely to limit the water board's capacity to perform its primary activity;
- it is not likely to be to the financial prejudice of itself, any WSI, existing consumers, and other users serviced by it within its service area;
- it is in accordance with its board's policy statement; and
- it is provided for in its business plan

Mining

Mine Water Management policy: the policy seeks to balance the mining sector's economic development with the protection and ensuring sustainable use of water resources in a manner that is beneficial to all.

Water provided to mines can consist of raw water or treated water. The raw water will be provided by WTE and the treated water will be provided by water boards.

Acid mine drainage - mines waste disposed to ecosystem normally contaminate the rivers used as disposal sites: Acid mine drainage is a project implemented by TCTA on behalf of WTE through a Ministerial Directive.

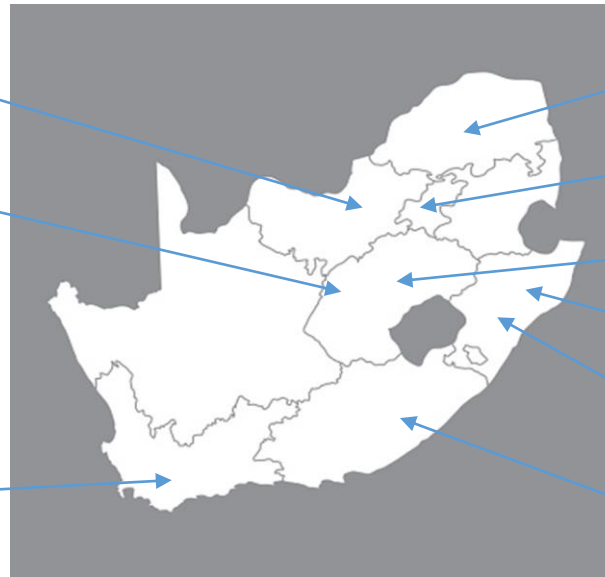
Magalies Water



Sediberg Water



Overberg Water



Lepelle Northern Water



Rand Water



Bloem Water



Mhlathuze Water

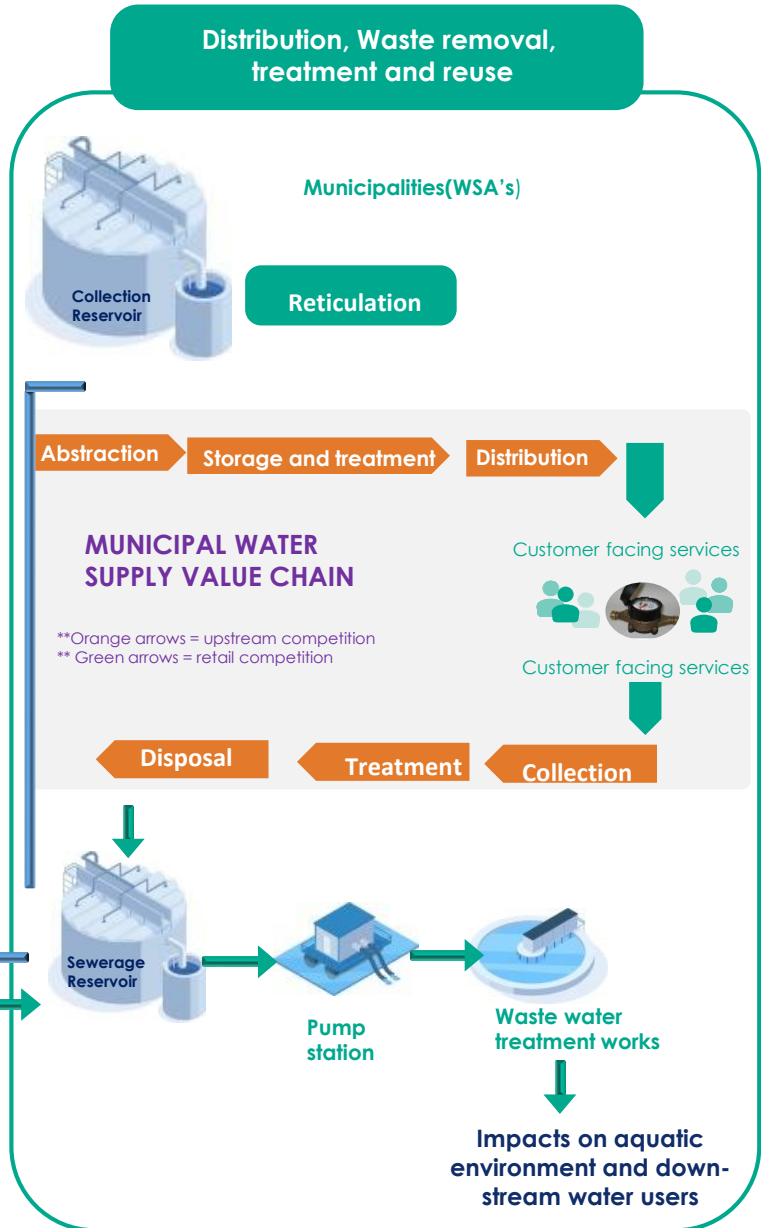


Umgenti Water



Amatola Water



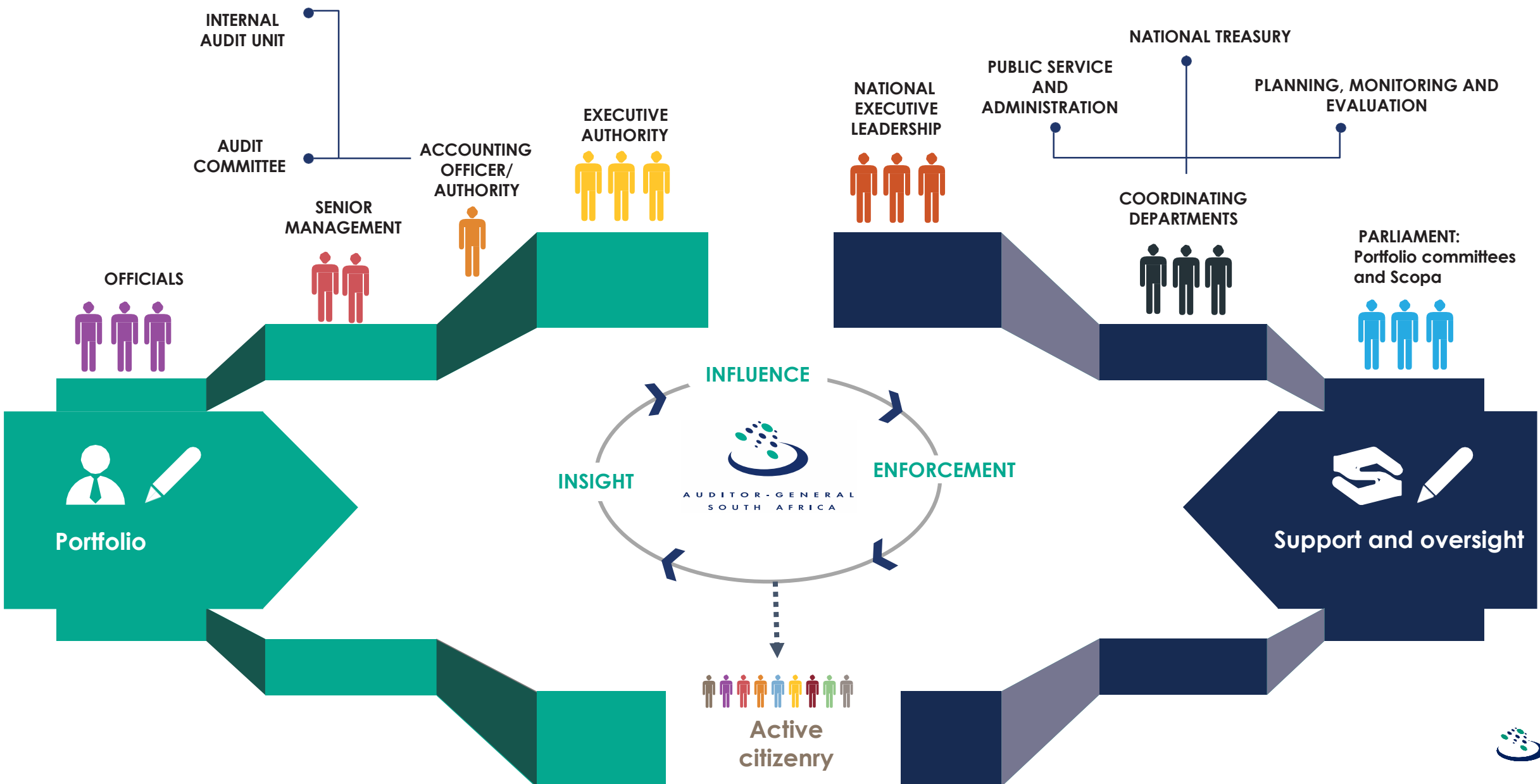


Water Service Authority
 Water Service Authority, defined as any municipality responsible for ensuring access to water service in the Act, may perform the functions of a Water Service Provider, and may also form a joint venture with another water services institution to provide water services. In providing water services, a water services authority must prepare a water service development plan (WSDP) to ensure effective efficient, affordable and sustainable access to water services. The WSDP should be in line with the catchment management strategy of that water management area. The plan provides a linkage between water services provision and water resources management.

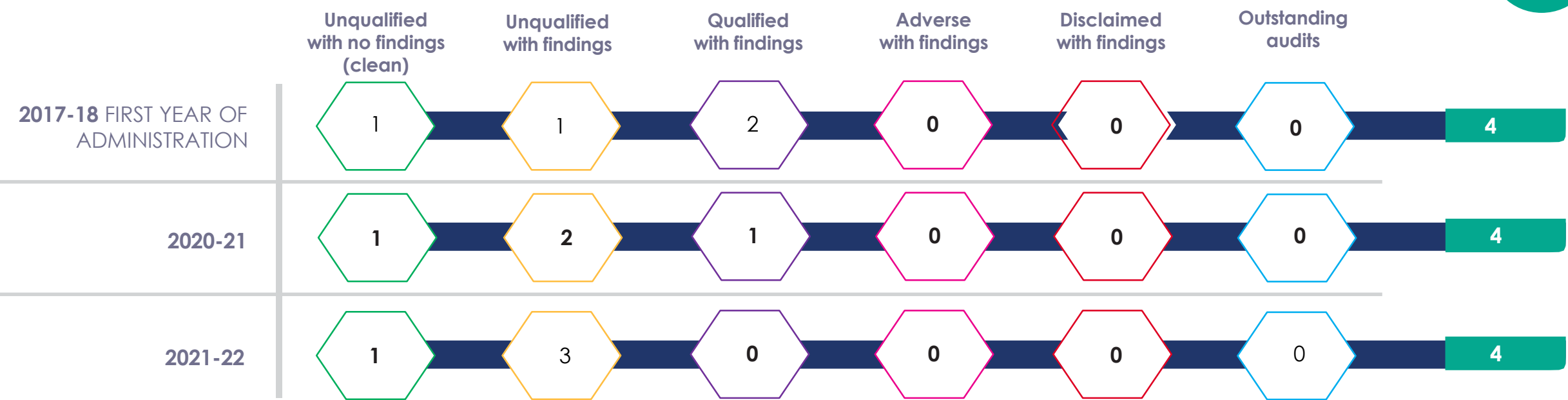
Water Service Provider (WSP):
 The main duty of a water service provider is to provide water services in accordance with the constitution, the Water Services Act and by-laws of the water services authority and in terms of any specific conditions set by the water services authority in a contract. The main objectives of the Water Services Act (Act 108 of 1997) incorporate providing for the right of access to basic water supply and sanitation necessary to secure sufficient water and an environment not harmful to human health or well-being. Act also establishes the institutional arrangements for water services provision, and sets out the responsibilities for each of the institutions.



All have role to play in national government accountability ecosystem



Audit outcomes 2020-21 – 2021-22



MOVEMENTS FROM PREVIOUS YEAR:
 1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
 2 ↑ 0 ↓

2017-18
WRC
2020-21
WRC
2021-22
WRC

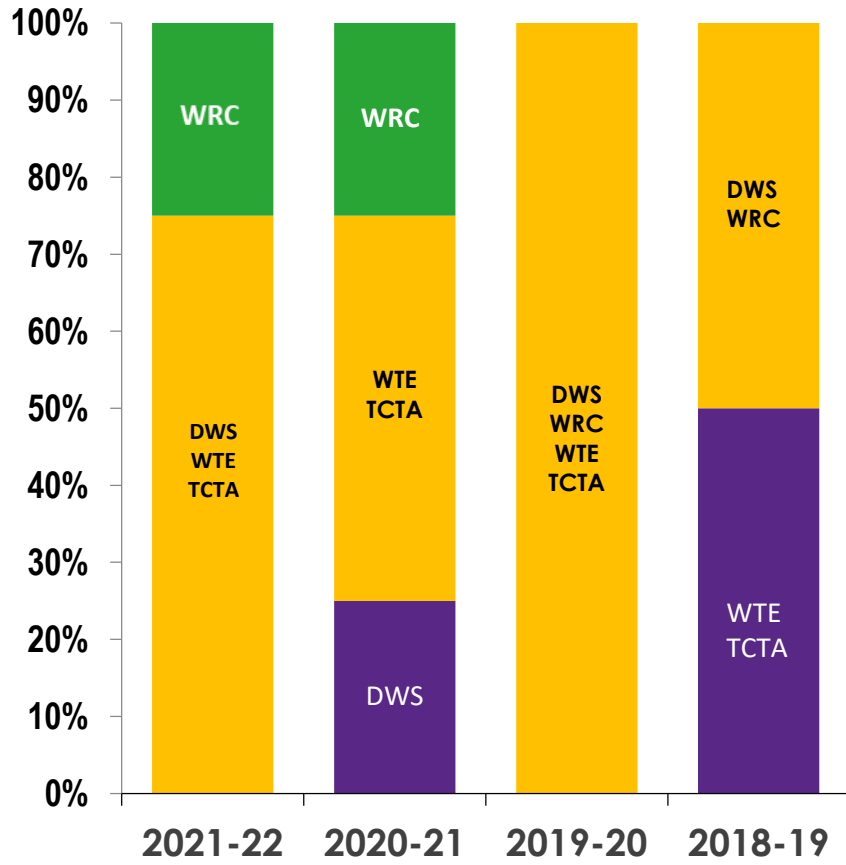
2017-18
TCTA
2020-21
WTE, TCTA
2021-22
DWS, WTE, TCTA

2017-18
DWS, WTE
2020-21
DWS

Outstanding audits
None



Overall improvement on the audit outcome & recommendations



Overall, an improvement as DWS moved from a qualified opinion in the PY to an unqualified audit outcome.

- WRC- We commend WRC for maintaining its clean audit opinion. Financial and performance management reporting controls and disciplines should be leveraged on to assist the other entities.
- DWS – also effectively dealt with its qualification on training expenditure and payables. It must continue to strengthen internal controls to prevent material errors in the accounting for various disclosure items. Training of responsible staff members is necessary to prevent the incurrence and recurrence of irregular expenditure. We noted the positive change in management of department and the priority to finalise investigations. However, we recommend that irregular expenditure analyses continues to be prioritised and that significant allegations against officials be fast tracked to ensure that consequence management is effectively and appropriately implemented, in line with the recommendations made through the various investigations conducted.
- WTE – audit outcome remained stagnant from the prior year and it was prevented from progressing to clean audit outcomes by inadequate improvements in the overall control environment and ineffective monitoring of audit action plans. Controls on compliance with legislation must be strengthened. Furthermore, reviews of the financial statements should be enhanced to ensure that quality reliable financial statements are produced.
- TCTA - remained stagnant from the prior year and requires controls on compliance with legislation to be strengthened, audit actions plans to be effectively implemented and monitored to prevent repeat findings and proper quality reviews of financial statements prior to submission for audit to prevent material misstatements being corrected through the audit.

Key portfolio matter (LHWP project controls): Continued engagements with the GOL, through the LHWC, to ensure that the overpayment of Royalties on the LHWP is concluded and accounted for appropriately. The executive authority and accounting officer must also ensure adequate and timely documentation supporting the LHWP transactions is received monthly through the LHWC from the LHDA, to ensure accurate and complete financial reporting. This will support credible and timely decision-making.

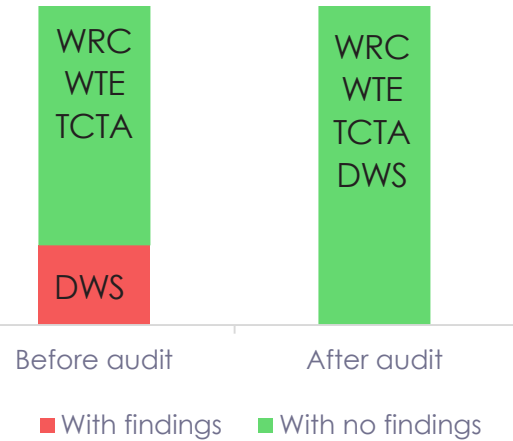
Audit outcomes are indicated as follows		Movement	
Unqualified with no findings	Unqualified with findings	▲ (Green)	1
Adverse with findings	Disclaimed with findings	▼ (Red)	0
Qualified with findings	Outstanding audits	▶ (Yellow)	2



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

We analysed the National Water and Sanitation Master Plan, the strategic plan, the annual performance plan and linked this to the Medium Terms Strategic Framework (MTSF) and the Estimates of National Expenditure.

One (1) key indicator in the MTSF was not included in the annual performance plan of the department - "Eradication of bucket sanitation system".

In the current financial year, the department had allocated R292 638 000 from Regional Bulk Infrastructure Grant (RBIG) for bucket eradication in Free State and North Cape.

However, only R48 939 000 (17%) was spent. There was no indicator in the annual performance plan to measure this key priority of the department.

Findings: Reporting

No material findings were raised on the usefulness of predetermined objectives and the reliability of the reported information by management.

Impact

The delay in finalising this project means that a significant part of the South African population continues to experience the hardships of using a bucket system in the 21st century.

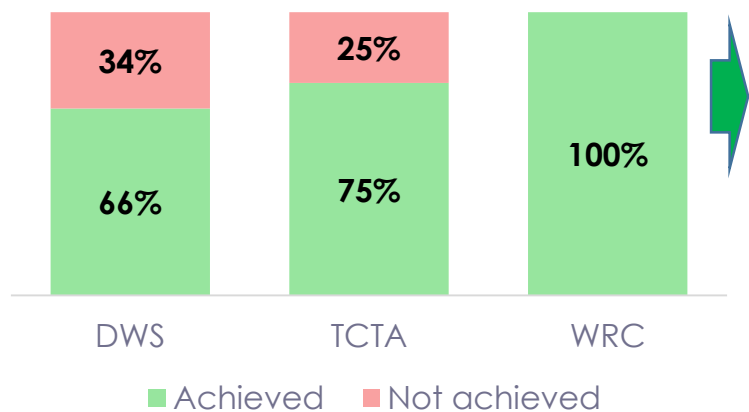
Overall, the lack of inclusion of the target resulted in inadequate or lack of proper planning for the implementation of the project, no monitoring of the implementation which resulted in slow / poor implementation.

The reporting on and monitoring of this key government priority is critical to ensure corrective action is taken as required to achieve the targets set by government for the overall eradication of the bucket sanitation system. The lack of proper sanitation directly affects the dignity of the citizens.



A.2 Performance against targets

Achievement of annual targets as reported in Annual Performance Report (all indicators) – 2021-22



In terms of section 40(3)(a) of the PFMA, WTE is required to prepare an annual performance report. The performance information of the WTE was reported in the annual performance report of the Department of Water and Sanitation. The usefulness and reliability of the reported performance information was tested as part of the audit of the reported performance of the Department of Water and Sanitation.

- The department achieved 65% of its target overall. This can be primarily linked to the significant underspending noted. The department materially underspent the budget by R2 531 million which included R244 million on programme 1, R117 million on programme 2 and R2 171 million on programme 3.
- Leadership must conduct a full root cause analysis of the drivers for this, with appreciation of the impact of Covid on contracting and project implementation.

Programme	Final Appropriation	Actual expenditure	Employee Cost	Good & Services	Transfers	Capital Assets	Prog vs Total appropriation	% Appropriation vs Exp	AOPO Targets achieved	Material AOPO finding
<u>ADMINISTRATION</u>	1 960 017	1 716 499	791 547	832 099	31 734	61 068	11%	88%	67%	No
<u>WATER RESOURCE MANAGEMENT</u>	3 616 600	3 499 861	611 665	214 021	2 619 330	54 733	20%	97%	59%	No
<u>WATER SERVICES MANAGEMENT</u>	12 158 440	9 987 154	339 024	427 038	6 763 247	2 457 609	69%	82%	71%	No
TOTAL	17 735 057	15 203 514	1 742 236	1 473 158	9 414 311	2 573 410	100%	89%	66%	



A.3 Achieving key performance targets – summarised information from performance report

Indicators	5 year MTSF target	3 year totals (2019/20 , 2020/21 and 2021/22)		
		MTSF Target over 3 years	DWS Own target over 3 years	DWS achievement of own target over 3 years
Number of of bulk water supply projects implemented (completed)	53	32	69	42 (61%)
No of dams rehabilitated projects and new dams constructed.	9 Dam rehabilitation projects	5	9	1 (11%)
No. of bucket sanitation systems eradicated in formal areas (* - note previous slide 11)	12 221	7 333	23 019	1 284 (6%) (Performance for 2 years as no reporting for indicator in 2021-22)

Observations from the key performance targets analysis:

- We commend the department for having set targets greater than that required by the MTSF for the **number of bulk water supply projects implemented**, but it **fell short of this target by 39% (27/69)**. Compared to the initial MTSF target, it has achieved 131% (42/32).
- The department has also not achieved the set targets for the **number of dam rehabilitation projects and new dams constructed as the achievement rate is at 11%**.
- The department materially underspent the budget by R2 531 million which included R244 million on programme 1, R117 million on programme 2 and R2 171 million on programme 3. The underspending on programme 3 mainly relates to underspending on the RBIG grant impacting on the completion of infrastructure projects.
- The root causes for non-achievement of these indicators primarily relate to inadequate project management, inadequate supervision of contractors resulting in the late identification of poor performance of contractors and protracted supply chain management processes.
- For the **number of bucket sanitation systems eradicated in formal areas**, the department set a target of 23 019 over 2 years (2019-20 and 2020-21) which is significantly more than the targets set by the MTSF of 7 333, however the department achieved only 6% (1 284/23 019) of the target that they set. *As noted earlier, we are concerned that the department did not set any targets for the programme for the 2021-22 financial year.* The project is planned to be completed in the 2022-23 financial year. Targets have been included in the 2022-23 annual performance plan,





Backlogs in the provision of water services

Impact:

This results in water not being delivered to households and businesses as needed.

Cause:

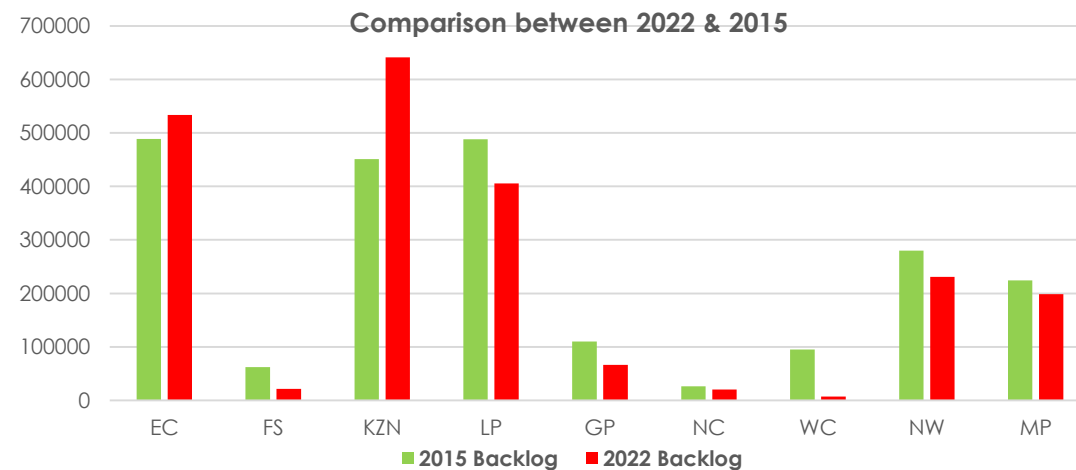
- **Provincial action plans were not developed for all provinces** as required by the National Water and Sanitation Master Plan (NW&SMP). No coordinated effort to reduce the backlogs identified in 2015.
- **Lack of coordination among responsible oversight entities** (National Treasury, Cogta, provincial Cogtas, Salga, municipalities)

Recommendations to AO/AA:

- Provincial action plans should be developed to address the current backlogs, with regular progress reporting by the executive authority.
- There should be coordinated efforts among the oversight entities, namely National Treasury, Cogta, provincial Cogtas, Salga and municipalities to participate in the development of appropriate action plans and to monitor the implementation of these action plans.

There has been little movement in addressing backlogs from 2015, as reported to the department in 2016 performance report, and these delays in the infrastructure projects result in water not being delivered to the households and businesses as needed.

Overall observation results of the mandate (service delivery) linked work



- Overall marginal decrease in backlogs of 4% (from 2.25 to 2.215 million households). This movement is not sufficient given the significant time lapse of seven (7) years from 2015 – 2022.
- **Increases in backlogs for Eastern Cape and KwaZulu-Natal.**





DWS – RBIG Project Management

Impact:

This impacts on equitable and quality access to water services by households and industries.

Cause:

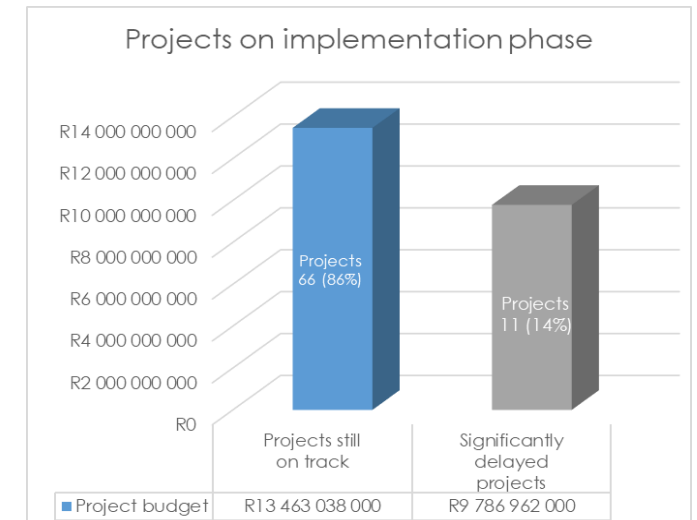
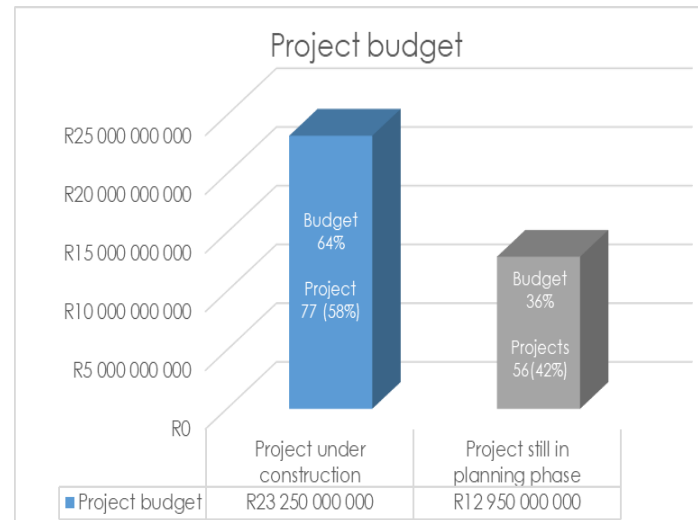
- **Inadequate supervision** of contractors by municipalities
- **Poor performance of contractors not identified** in a timely manner.
- Due diligence not effectively performed
- Protracted supply chain management process
- **Lack of integrated system for effective collation of data from all water services institutions to facilitate effective monitoring of infrastructure projects - significant reliance on manual processes (word and excel spreadsheets).**
- Lack of coordination among responsible oversight entities (National Treasury, Cogtas, provincial Cogtas, Salga and municipalities).

Recommendations to AO/AA:

- There should be proper project management to ensure that project delays are attended to.

Delayed RBIG projects impact on equitable and quality access to water services by households and industry.

Overall observation results of the mandate (service delivery) linked work



Delayed RBIG projects

- 11 out of 77 projects (14%) in the implementation phase experienced significant delays impacting on the planned completion dates.
- These 11 projects had an original budget of R9 786 962 000 and represented 42% of the budget of all projects under construction.



B.2 Mandate reflection linked to service delivery – RBIG Projects

Project details - Delays experienced in RBIG projects

PROJECT	PURPOSE	START DATE	PLANNED COMPLETION DATE	REVISED COMPLETION DATE	REASON FOR DELAYS	IMPACT ON SERVICE DELIVERY (based on needs assessments etc)
Masilonyana Bulk Water Supply	Phase 2: Refurbishment of Winburg Water Treatment Works. Construction of a bulk water supply pipeline from Theunissen to Winburg.	Nov 2013	Sep 2020	Jun 2024	<ul style="list-style-type: none"> Poor performance of contractors resulted in three (3) extensions New contractor appointed in August 2021 Construction suspended due to non-payment by the municipality 	37 586 households at the towns of Brandfort, Winburg, Theunissen and Verkeerdevlei were meant to benefit from the project. As a result the community is left with water shortages in those areas due to project delays which are expected to continue for an additional 2 years.
Giyani Water Services	This specific project consists of the establishment of a new bulk distribution system to supply 55 villages in Giyani.	Sep 2014	Sep 2022	Mar 2023	<ul style="list-style-type: none"> Poor performance of contractors Vandalism of infrastructure Unavailability of plant and material Capacity of contractor to deal with accelerated scope 	The slow progress in the project implementation will lead to further shortages in water supply to the 12 415 households across 55 villages who supposed to be benefitting from the project upon completions.
Mogalakwen a Bulk Water Scheme	Construction of raw and potable water pipeline systems to identified target areas, i.e. Waterberg DM, Capricorn DM (including Polokwane LM) and Sekhukhune DM	Aug 2007	Mar 2024	Not yet revised	<ul style="list-style-type: none"> Financial challenges by contractor resulting in business rescue proceedings. Termination process not yet finalised. Further delays expected 	94 457 households across 38 villages of Waterberg DM, Capricorn DM (including Polokwane LM) and Sekhukhune DM are meant to benefit from the project. As a result the communities are left with unreliable water provision in those areas due to project delays.



B.2 Mandate reflection linked to service delivery – RBIG Projects

Project details - Delays experienced in RBIG projects

PROJECT	SCOPE	START DATE	PLANNED COMPLETION DATE	REVISED COMPLETION DATE	REASON FOR DELAYS	IMPACT ON SERVICE DELIVERY (based on needs assessments etc)
Nebo Bulk Water Scheme	Nebo Plateau in Sekhukhune is an area that suffers from severe water shortages. The existing water sources are not sufficient to supply even basic water services to the population.	2008	MAR 2020	Jan 24	<ul style="list-style-type: none"> Dispute between municipality and contractor Subsequent abandonment of works, legal claim and cancellation of contract. Poor performance by the engineer Financial challenges of contractor – resulting in business rescue proceedings Project on hold awaiting approval of additional costs to appoint consultants and contractors 	153 villages of Jane Furse, Monsterlus and Ga-Masemola are meant to benefit from the project. As a result the communities are left with water shortages in those areas due to project delays.
Madibeng Bulk Water Supply	During 2010, Madibeng Local Municipality declared a crisis with regards to the quality of bulk water supply from the Brits Water Treatment Works (WTW).	Oct 2010	Dec 2022	Not yet revised	<ul style="list-style-type: none"> Contractor disestablished site at 66.98% NT did not approve a variation order for contract. Investigation undertaken recommends termination of the contractor. Process is at mediation stage with the contractor – as part of the termination process in the contract. 	160 431 households of Madibeng are meant to benefit from the project. As a result the communities are left without access to quality water in those areas due to project delays.
Mafikeng South Bulk Water Supply	The project aims to increase the capacity of the water treatment works and to improve the bulk water distribution to the region.	Jan 2014	Sep 2021	Mar 23	<ul style="list-style-type: none"> Non-performance by SMMEs SMME financial constraints Poor performance by SMMEs Delays by contractor for mechanical and electrical works 	61 800 households of City of Mahikeng and its peri-urban villages, within the Mahikeng Local Municipality, located in the Ngaka Modiri Molema District are meant to benefit from the project. As a result the communities are left with water shortages in those areas due to project delays.





Project Life Cycle Reviews

Impact:

Poor project management results in delayed delivery of water services to affected communities and in some cases, unnecessary increases in costs.

Cause:

- **Leadership instabilities and inadequate internal control environment at Sedibeng Water** resulting in information not being provided/available to allow for audit of Vaal Gamagara.
- **Lack of adequate oversight and project management at WTE resulting in F&W expenditure and additional costs being incurred.**
- No testing of the market to ensure market related prices are contracted for exposing the projects to inflated prices.
- **Lack of adequate oversight and project management at TCTA** resulting in possible F&W expenditure and additional costs being incurred, which could have been used differently to implement projects.

Recommendations to AO/AA:

- The department must develop an action plan to address the root causes of poor project management.

Slow response to address the root causes of poor project management as identified in prior year audits.

Overall observation results of the mandate (service delivery) linked work

Project	Budget	Key findings (*)
Mzimvubu (Alfred Nzo – EC)	R15 bn	No value for money received (R131m), due to overpayment of goods and services.
Vaal Gamagara (Pixley ka Seme DM – NC)	R18 bn	Limitation of scope at Sedibeng Water Board
Mdloti River Development Projects: raising Hazelmerre dam (Illembe DM, KZN)	R620 m	Fruitless and wasteful expenditure R26m Additional project costs resulting from inadequate project management – R103m
Sedibeng Regional Sanitation Scheme	R1.2bn	Limitation of scope – information not provided
Phase 2A of the Mokolo Crocodile River (West) Augmentation Project (Lephalale Municipality, LP)	R12.36 bn	No finding
Olifants River Water Resources Development Project - Phase 2C (ORWRDP-2C) (Waterberg DM, LP)	R2.5 bn	Equipment procured not utilised – R5.5m – possible F&W expenditure not investigated. Staff houses not procured at reasonable and competitive rates – possible F&W expenditure not investigated.
Vaal River System including Phase 2 of the Lesotho Highlands Water Project (Emfuleni, GP)	R32 m	Access to information related to this project remains the biggest stumbling block to assess value for money due to the jurisdiction challenges (in a sovereign country).

(*) Some of these are being assessed for material irregularities.



B.4 Mandate reflection linked to service delivery - Infrastructure



Maintenance of infrastructure

Impact:

Lack of maintenance of current infrastructure contributes to avoidable water losses incurred and affects the reliable delivery of water services. Inadequate maintenance will result in a shorter life span of assets and therefore increased costs in replacing assets sooner and will result in dilapidated infrastructure that may not be able to meet the demands of the population.

Cause:

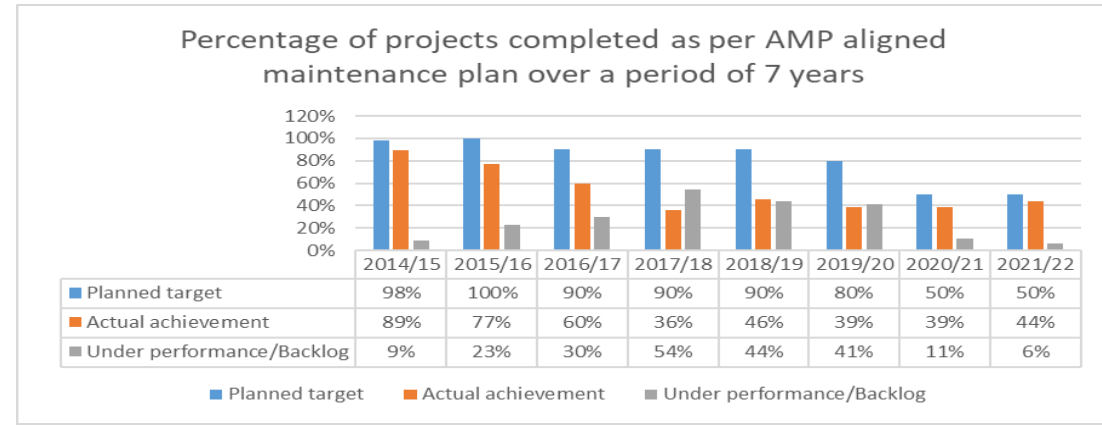
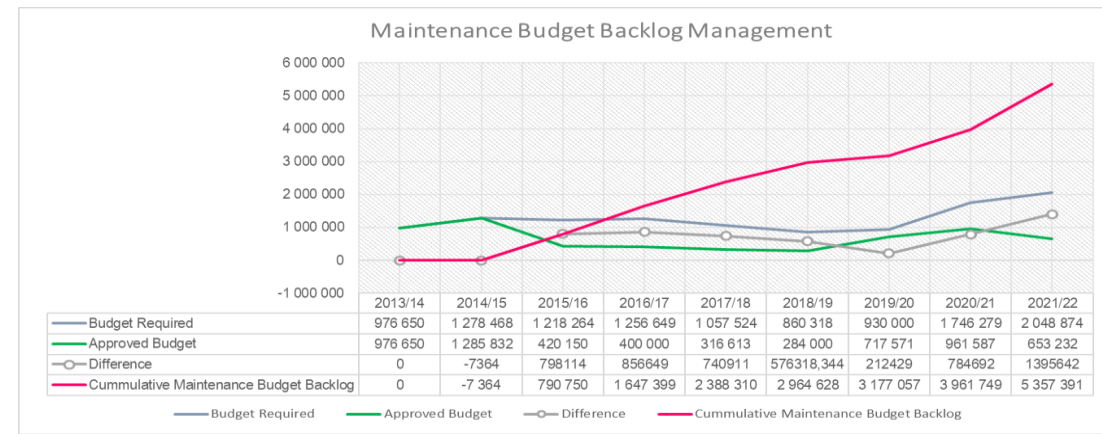
- The **asset management plan has not been updated since 2018**, as required by GIAMA.
- **Financial constraints prevent optimal maintenance**, however no indicators and targets set for addressing back-logs in maintenance. Backlogs are not adequately tracked and maintained.
- **Lack of an integrated system** for the effective management of infrastructure maintenance.

Recommendations to AO/AA:

- It is recommended that the asset management plan is updated to reflect current and back-log maintenance required.

Allocated financial resources are not sufficient to ensure maintenance of infrastructure including backlogs, resulting in dilapidated infrastructure that may not be able to meet the demands of the population.

Overall observation results of the mandate (service delivery) linked work



Other observations impacting the maintenance of infrastructure:

- Approved budget for maintenance significantly less than expected maintenance requirements
- In addition, the targets set for maintenance reflects a decreasing trend to 50% of planned maintenance and the non-achievement of targets set.





Water Losses

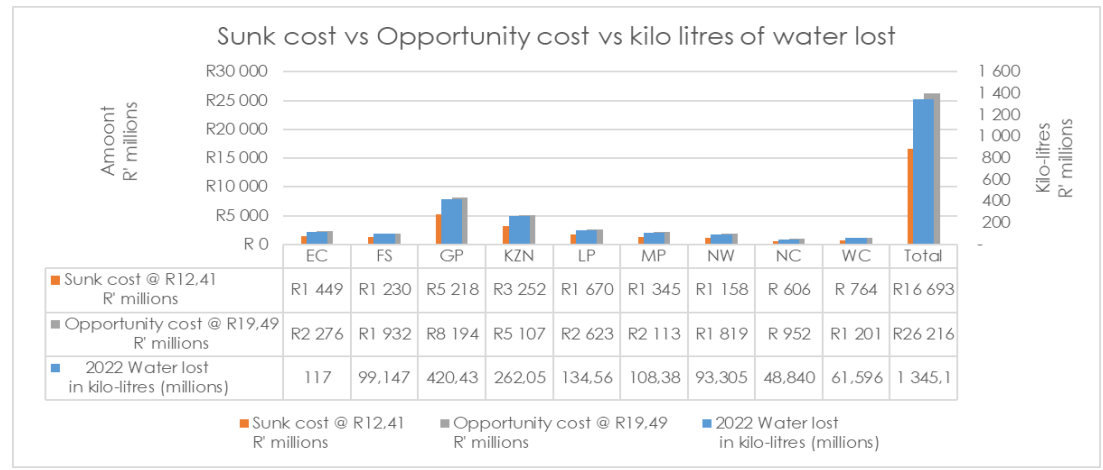
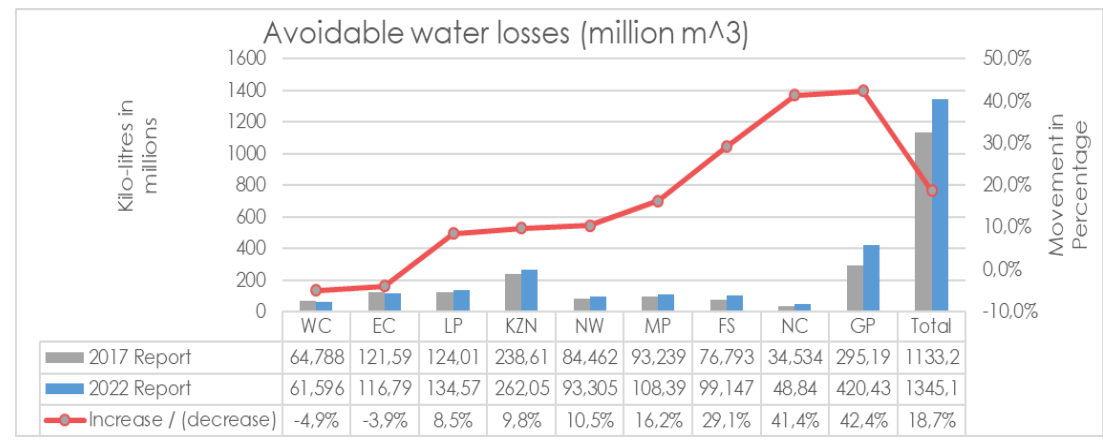
Impact:
Lack of adequate management of this scarce resource impacts on water availability in the short and long-term for drinking, farming and industrial use. Toot causes not being addressed and therefore continued water and revenues losses.

- Cause:**
- **National action plans were not developed to address the root causes** identified by the department. The department has indicated that the responsibility for addressing these root causes lies with the water service authorities themselves.
 - **Leaks due to aging infrastructure** that is not adequately repaired and/or maintained
 - Billing inaccuracies and illegal connections
 - The department was unable to demonstrate that the War on Leaks programme had any impact on curbing water losses despite the significant investment in training.

- Recommendations to AO/AA:**
- A national action plan must be developed and implemented by coordinating departments and entities, lead by the DWS to ensure that root causes identified are addressed in a timely manner.

Lack of a national action plan to address water losses resulting in the root causes at WSAs not being addressed and therefore continued water and revenues losses.

Overall observation results of the mandate (service delivery) linked work



Water monitoring reports prepared by the department revealed significant avoidable water losses at water service authorities that impact on the availability of scarce water supplies and, also impact on the revenue lost by water service authorities.





Water Quality – Blue and Green Drop

Impact:

Citizens are provided with water that does not meet the minimum quality standards and may pose a health risk to the citizens if not addressed in a timely manner.

Cause:

- **No national action plan** to address the specific root causes identified by the blue and green drop reports
- **Lack of adequate response by Water Service Authorities** to submit action plans 60 days after publishing the report
- **Lack of adequate capacity at DWS** to review and monitor action plans of water service authorities
- **Lack of coordination** among responsible oversight entities (National Treasury, Cogta, provincial Cogtas, Salga, municipalities)

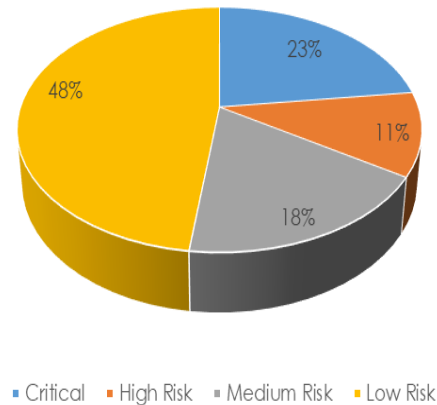
Recommendations to AO/AA:

- A national action plan must be developed and implemented by coordinating departments and entities, lead by the DWS to ensure that root causes identified are addressed in a timely manner.

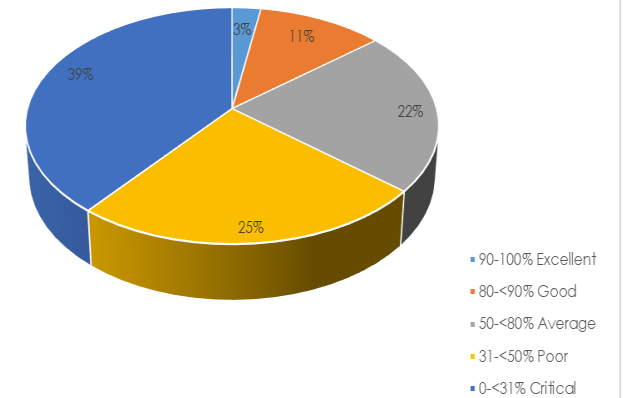
Lack of a national action plan to address the root causes of water quality risks as identified in the blue drop and green drop reports.

Overall observation results of the mandate (service delivery) linked work

National Blue Drop Risk Rating profile



WWTWs in the Green Drop score Ratings



The blue drop progress report identified key root causes at water services authorities i.e. insufficient resources (staff), chemical supplies, spares and vehicles to ensure optimal operations of rural schemes, lack of design capacity, lack of daily flow metre readings, lack of calibrated flow metres, insufficient budgets to appoint suitably qualified staff, amongst others. These must be addressed as far as practically possible, with the necessary speed through proper planning and coordination.



C. Findings on Flood Relief – eTHEKWINI METRO



WATER TANKERING SERVICES



Overflowing manhole used as source of water in KwaDabeka

Impact

Residents in affected areas were not timeously provided with water and in some instances resorted to using unsafe water, overpricing and water wastage.

Cause

No coordination and monitoring of water tankering services in affected areas. Poor condition of some water tankers.

Actions/Recommendations

eThekwini Metro: Develop a comprehensive needs assessment; develop and implement a policy to manage water tankers.

KZN Cogta: Improve coordination between all three spheres to increase effectiveness of relief initiative.

DWS: Management renegotiated contract terms with service providers to renegotiate the costs of services provided. This means that the value for the service paid will be received through the extension of the term.

Many areas of KZN left without water due to water infrastructure damage
198 water tankers used to provide water tanker services to affected communities – **30** water tankers selected for auditing

Response to providing water to residents in affected areas to meet basic human needs was inadequate as many communities went days before water was made available

Delays experienced in supply of water: Water not received for at least 1 day and not received for more than 3 days as confirmed by 83% (25/30) and 57% (17/30) of communities, respectively (eThekwini Metro).

Poor coordination and integration: Three spheres (eThekwini Metro, KZN Cogta and DWS) did not ensure resources were used effectively. Information flow for decision making ineffective and resulted in poor coordination.

Inadequate needs assessment to determine water required. Civil society organisation identified similar findings (eThekwini Metro).

Poor condition of tankers: Leakages from tanker hoses and defects on three water tankers (eThekwini Metro).

Used emergency as reason for not following adequate process with no progress after similar pricing challenges identified during covid-19 audits. Higher prices paid compared to other spheres of government (DWS) – refer to actions where this is being addressed.



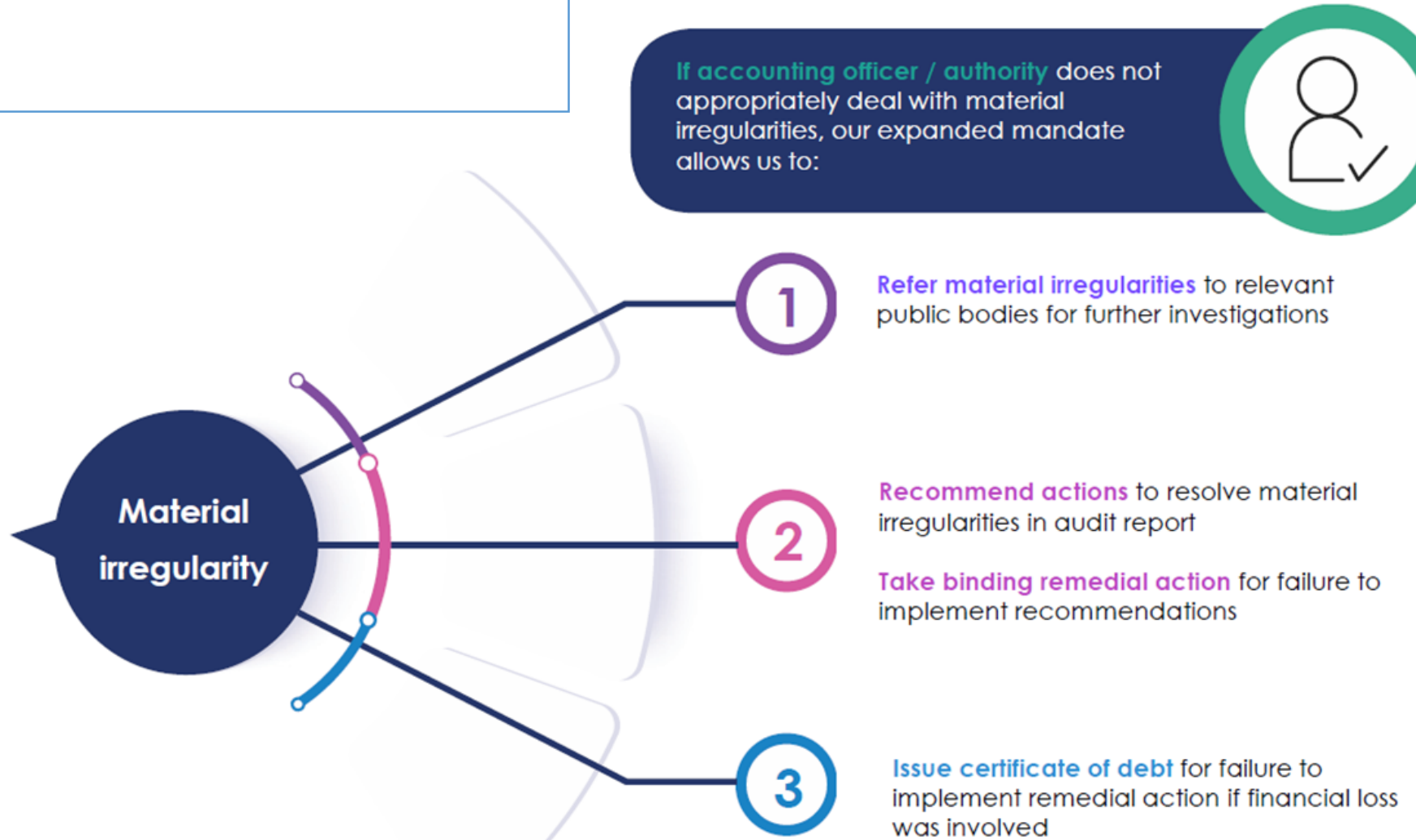
Material irregularities



The material irregularity (MI) process was implemented at the following auditees:

- Department of Water and Sanitation
- Water Trading Entity
- TCTA

means 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



Material irregularities identified



Department of Water and Sanitation

Notified	Type	MI description	Status of MI	Status description
Accounting officer	Actual Financial loss R17 900 954	Payment made to a consulting firm without evidence of work performed (DWS)	Will follow up during next year's audit	<ul style="list-style-type: none"> Disciplinary process included disciplinary hearing held on 19-21 July 2022 and is still in progress. A criminal case was opened on 17 July 2018 with South African Police Services and is still in progress. The accounting officer filed a combined summons with the High Court on 22 November 2018 to declare the contract invalid and recover the amount paid. The court case was still in progress at the date of the audit report.



Water Trading Entity

Notified	Type	MI description	Status of MI	Status description
Accounting officer	Actual Financial loss R2 264 737	<ul style="list-style-type: none"> Payment not made within 30 days resulting in additional interest (WTE) 	Will follow up during next year's audit	<ul style="list-style-type: none"> Investigation was conducted and finalized in June 2020, investigation found three former officials responsible for the loss. Legal opinion was obtained on 17 December 2020 stating that letters be written to the former officials concerned to make the payment within 30 days and failure to do so Legal Services should be instructed by the accounting officer to take the matter to the office of the State Attorneys. An opportunity was provided to the former officials to provide their representations on the loss, however, none was received. On 4 July 2022 entity instructed the state attorney to issue summons for the recovery of the loss from the former officials.
Accounting officer	Actual Financial loss R39 072 104	<ul style="list-style-type: none"> Amounts paid to a contractor for site re-establishment cost and standing time (WTE) 	Will follow up during next year's audit	<ul style="list-style-type: none"> An investigation was finalised on 08 July an independent service provider. The investigation identified three individuals representing the entity who were responsible for weaknesses in procurement processes and recommended that disciplinary process be effected to those employees. Accounting officer has committed to conduct disciplinary processes by April 2023.

Observations from MI process

- Consequence management steps are in the process of being implemented. Responsible officials identified and disciplinary action/ hearings in progress. **(DWS, WTE).**
- Financial loss in the process of recovery and monies recovered will be informed by the outcome of the pending court processes/ cases. **(DWS)**
- The accounting officer implemented some internal controls to strengthen the efficient and effective monitoring of the performance of service providers against set deliverables and the review of appropriate verifiable supporting documents (*Internal controls improved to prevent re-occurrence*). **(DWS)**
- Slow response in implementing recommendations from investigations conducted. While steps have been taken by the accounting officer, there is still slow response in implementing some disciplinary actions. **(WTE)**
- In some cases, the accounting officer has actively demonstrated willingness to see the processes through by instructing the state attorney to issue summons for the recovery from former officials of the entity. **(WTE)**
- Appointment of a dedicated financial manager, in process to ensure that the financial controls are rigorously enforced. **(WTE)**

Recommendations for portfolio committee

- Regularly engage the accounting officer and executive authority (at least quarterly) on the steps taken to/and or implemented to address the material irregularities identified.
- **The committee must request the department and its entities to focus on the implementation of proper and timely preventative controls to avoid any future potential matters that may give rise to material irregularities (MIs), especially since the portfolio :**
 - **incurs large amounts of procurement to implement service delivery objectives);**
 - **has a responsibility that directly affects the public and lack of implementation may cause harm to the public if they are provided with water;**
 - **Is responsible for the effective and efficient management of a scarce, material and public resource (water) and the lack of proper management thereof may result in material loss or misuse.**

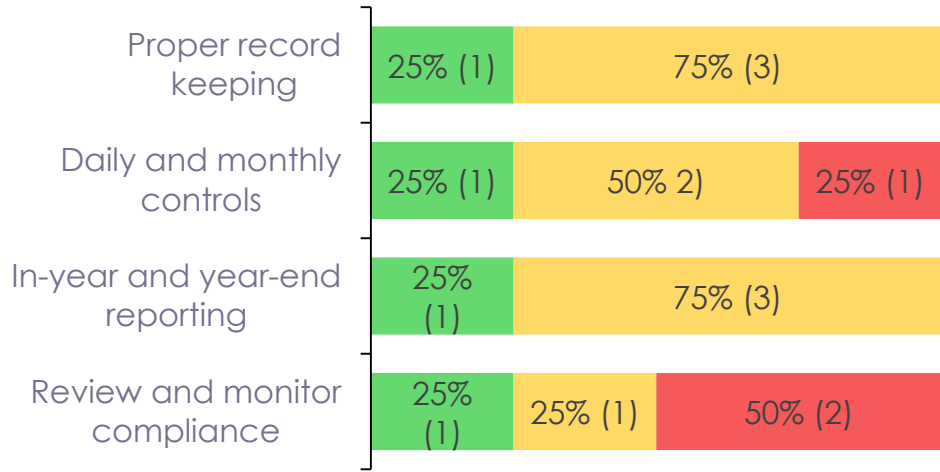




Financial management and compliance

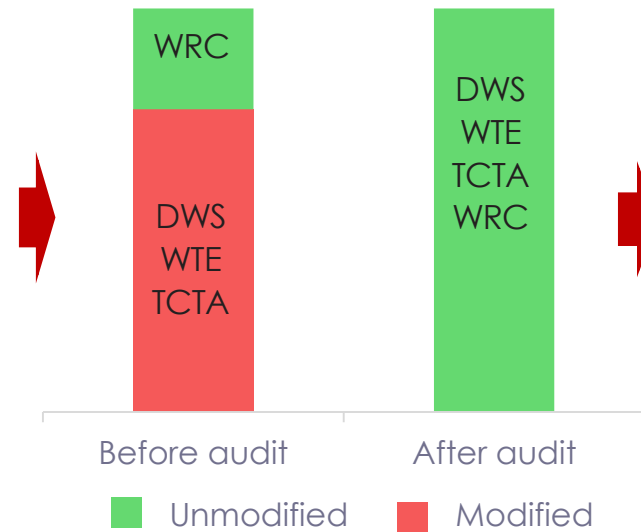


Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required

Impact on quality of financial statements submitted for audit



■ Unmodified
 ■ Modified

Main qualification areas

Material misstatements were subsequently corrected at 3 entities resulting in these entities receiving unqualified audit reports

Impact

- For three of the auditees, material errors were identified through the audit process and subsequently corrected by management, resulting in the unqualified audit opinions received.
- The internal control processes implemented by management did not identify or prevent these errors.
- During the year, important management and financial decisions were therefore made based on information that was not credible in certain instances.



Revenue



Expenditure



Debt-collection period >90 days at **WTE and TCTA** auditees

Average debt-collection period:

= **283 days for WTE**

= **328 days for TCTA**

No auditees had more than 10% of debt irrecoverable.

R150 million of expenditure was **fruitless and wasteful** (3 auditees)

Creditor- payment period > 30 days at **DWS, WTE and TCTA auditees**

Creditors greater than available cash at year-end at 0 auditees

Average creditor-payment period:

= **42 days for DWS;**

= **89 days for WTE; and**

= **193 days for TCTA**

Impact

0% auditees **ended year in deficit** (expenditure more than revenue)

Next year's budget will pay for expenditure of previous year(s) – at **0%** auditees it will be **more than half of their budgets**

0 (0%) auditees incurred **unauthorised expenditure**

No significant doubt in financial statements about ability to continue **operating as a going concern** in foreseeable future for all the entities in the portfolio.

Doubt whether auditees can continue as a going concern

None

None

None





2021-22



0 ↑ 0 ↓

● No material findings ● Material findings

Most common areas of non-compliance	WTE	TCTA	DWS
Procurement and contract management	X		
Quality of financial statements	X	X	X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X	X	X
Effecting consequences	X	X	X



Status of compliance with legislation on procurement and contract management



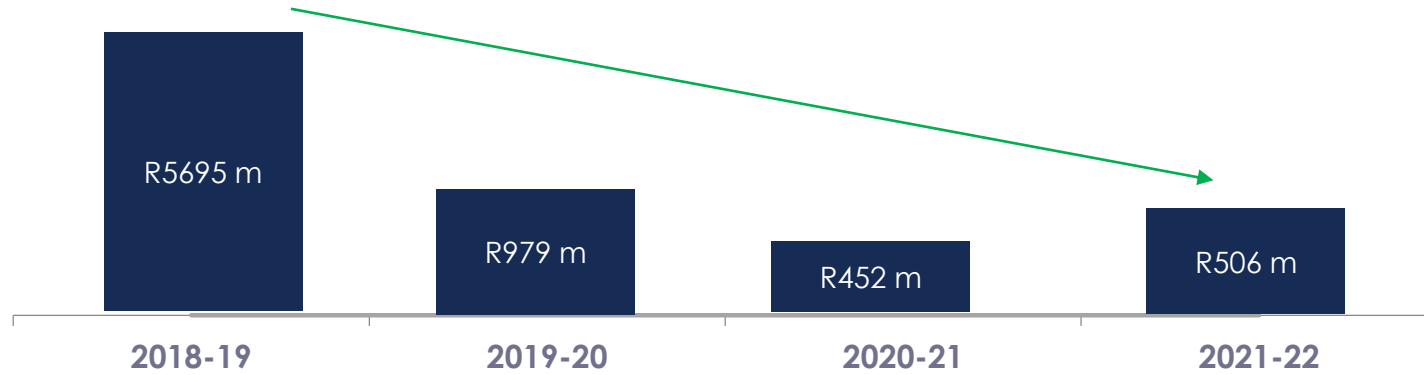
● With no findings ● With findings ● With material findings

Details of procurement findings	WTE
Uncompetitive and unfair procurement processes	X
Local content and production requirements not adhered to	X

Although goods & services were delivered, some of the five pillars of procurement in terms of section 217(1) were compromised namely transparency and competitiveness.



Annual irregular expenditure



Top contributors 21-22



Irregular expenditure is not complete

No material matters were reported on any entity's inability to completely disclose irregular expenditure not prevented and incurred. All entities completely disclosed the irregular expenditure incurred as detected (audit and management).

No material limitations were experienced in auditing procurement for the year under review.

Impact assessment of irregular expenditure incurred

No value for money: R 0m

Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness: 2021-2022 R506 million

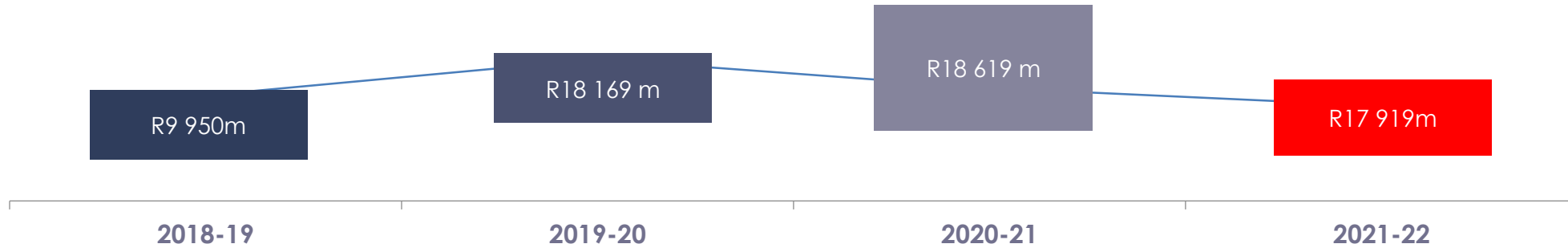
Limitation of scope: Not applicable

Other: Not applicable

Impact not yet assessed: Not applicable



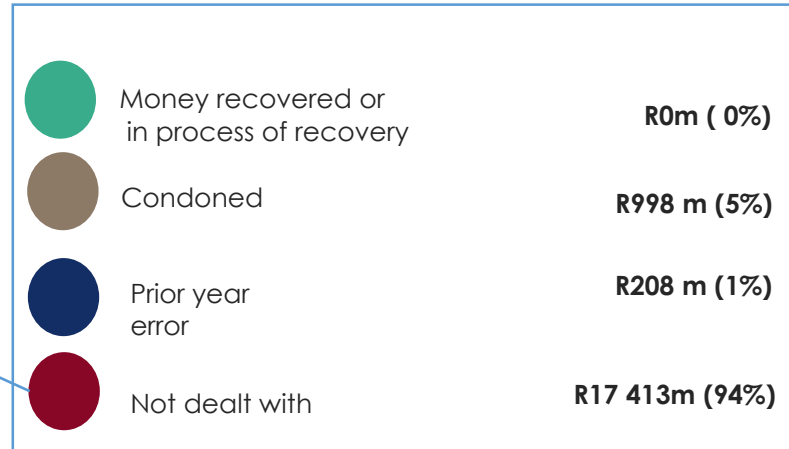
Slight reduction in closing balance of irregular expenditure



Top 2 contributors DWS, WTE (R16 607 million) to irregular expenditure not dealt with constitute 89% of R18 619 million



How have auditees dealt with irregular expenditure



Reasons for IE not dealt with:

- Delays in investigations due to covid-19
- Recommendations from investigations not timeously implemented





Transversal issues

Debtors collection

Creditors payment period



Impact



Failure by the entities to collect debtors might impact entities' ability to settle their debts when they fall due



Non-payment of creditors on time might attract penalties and interest resulting to fruitless and wasteful expenditure

No findings on compliance with legislation: 25% (1) (2020-21: 25% (1))

Unauthorised expenditure:
R0m (2020-21: R0m)

Irregular expenditure:
R 506m (2020-21: R452m)

Fruitless and wasteful expenditure:
R150m (2020-21: R159m)

Deficits at year-end:
R0m (2020-21: R0m)

Highest unauthorised expenditure
None incurred during the year.

Highest irregular expenditure
WTE– R240 m
DWS – R221m
TCTA-R33m

Highest fruitless and wasteful expenditure
WTE– R141m
DWS– R9 m

Highest deficits at year-end
None



Conclusions and recommendations



Overall root causes of significant findings in portfolio

- Lack of national action plans to address the root causes identified for poor project management of key infrastructure projects, water quality risks and water losses at water service authorities.
- Management did not adequately implement the review and monitoring controls that would prevent non-compliance with applicable laws and regulations relating to supply chain management.
- Management did not properly implement internal control procedures designed to identify and record accruals at year end, resulting in material correction of financial statements
- The accounting officer did not implement adequate and timely consequences management processes for irregularities identified and for allegations against staff members due to delays in completing investigations

Key recommendations to and commitments by Accounting officers and authorities

- Detailed action plans which address challenges affecting implementation of key projects, maintenance of infrastructure at WTE, management of water quality risks at Water Services Authorities and water losses at Water Services Authorities should be developed and implemented
- Timeous monitoring and oversight over the proper implementation of action plans to address both internal and external audit findings be performed to avoid repeat findings. There should be continuous monitoring of compliance with legal and regulatory provisions to avoid non-compliance findings
- Continuous monitoring of compliance with legal and regulatory provisions to avoid non-compliance findings. Ensure financial statements are appropriately reviewed and inline with IFRS

Commitments by Executive Authority

- Action plans to be developed to address the root causes identified for poor project management of key infrastructure projects, water quality risks and water losses at water service authorities.
- Implementation of the water services improvement plan will assist to allow closer monitoring of water service authorities by the department.
- Negotiations with government of Lesotho (GOL) on LHWP royalties will be expedited

Regular engagements with the executive authority and accounting officer. Commitments obtained from executive on 15 September 2022.



In 2020-21, we recommended the following:

- To ensure proper reconciliation of all payments made for training costs under the War on Leaks project to supporting evidence to ensure that payments are only made for actual training costs incurred.
- Requested the executive authority, supported by the accounting officer to take effectiveness of steps to finalise the recalculation of the net benefit rate relating to the royalty payments made to the government of Lesotho (GOL). The finalisation of these discussions will facilitate the determination of any potential overpayments made to GOL since 2007.

Overall reflections on implementation of recommendations:

- Reconciliations of all training cost payments were completed and an overpayment identified. Process of ensuring that no losses are suffered is underway.
- Slow progress in finalising the discussions and engagements related to the recovery of the possible overpayment on royalties to the government of Lesotho has been identified.

Key messages going forward: Water Portfolio

1

Engage the accounting officer and executive authority, at least quarterly, on the steps taken to/ and or implemented to address the material irregularities identified.

2

Continue to rigorously follow-up on the department's implementation of consequence management processes. Request detailed progress feedback from the executive authority and accounting officer.

3

Engage the accounting officer and the executive authority on how the portfolio plans to manage the challenges experienced with the implementation of key infrastructure projects, which impacts on service delivery objectives. Progress on the implementation of these initiatives should be reported to the oversight committees.

4

Proper progress must be reported by the executive and accounting officer on the implementation of the action plans developed to address the root causes of water losses and water quality risks.

5

Request the executive authority, supported by the accounting officer, to provide feedback on the effectiveness of the steps being taken to finalise the recalculation of the net benefit rate relating to the Royalties overpayments made to the Government of Lesotho.



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