

Budgetary Review and Recommendation Report (BRRR) of the Portfolio Committee on Water and Sanitation on the Annual Reports and Financial Statements of the Department of Water and Sanitation and its Entities for the 2021/22 Financial Year, Dated 18 October 2022

The Portfolio Committee on Water and Sanitation (hereinafter the Portfolio Committee), having considered briefings by the Auditor General of South Africa and the Department of Planning, Monitoring and Evaluation on 11 October 2022, the Department of Water and Sanitation (hereinafter the Department) on the 11 October 2022 and its entities, namely: the Trans-Caledon Tunnel Authority (TCTA) and the Water Research Commission (WRC) and the Catchment Management Agencies on 13 October 2022 for the 2021/22 financial year, reports as follows:

1. INTRODUCTION

1.1 Mandate of the Portfolio Committee on Water and Sanitation

The Constitution of the Republic of South Africa, 1996, empowers the National Assembly, through its Portfolio Committees, to ensure that executive organs of the state to the national sphere of government are accountable to it. It further empowers the National Assembly to maintain oversight of the national executive within a particular sector, which is water and sanitation. Parliament's mission governs the work of the Portfolio Committee and vision, the rules of Parliament and constitutional obligations as they refer to the protection of the environment, specifically water resources, through the entire water value chain.

The Portfolio Committee's mandate is premised on the five constitutional mandates of Parliament: processing legislation, conducting oversight, ensuring public participation, processing international agreements and facilitating cooperative governance within the Intergovernmental Relations Framework.

1.2 Purpose of the Budgetary Review and Recommendation Report

The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) (the Money Bills Act) sets out the process that allows Parliament, through its committees, to make recommendations to the Minister of Finance to amend the budget of a national Department. In October of each year, portfolio committees must compile the Budgetary Review and Recommendation Reports (BRRRs) that assess service delivery performance given the available resources, evaluate the effective and efficient use and forward allocation of resources, and make recommendations on the forward use of resources.

2. Mandate, Legislation and National Imperatives underpinning the work of the Department

For the 2021/22 financial year, the Department of Water and Sanitation undertook many activities to deliver on its mandate and legislative obligations of ensuring water security for basic needs and economic development and ensuring delivery of water and sanitation services for all South Africans. Legislative compliance guiding the work of the Department includes the National Water Act, Water Services Act, Water Research Commission, and the Constitution enshrined in the Bill of Rights, sections 10, 24 (a), 27(1)(b) and section 27(2)¹. The Public Finance Management Act and National Treasury Regulations define compliance and adherence to financial prescripts.

The country's National Development Plan and the Medium-Term Strategic Framework determine the Department's activities. The National Water and Sanitation Master Plan, launched in November 2019, forms the bedrock of the water and sanitation developmental agenda in line with the African Union's Vision 2063 and the United Nations Sustainable Development Goals, Goal Number 6, impacting the delivery of water and sanitation.

¹ Section 10 – everyone has inherent dignity and the right to have their dignity respected and protected; section 24(a) – everyone has a right to an environment that is not harmful to their health or well-being; section 27(1)(b) – everyone has the right to have access to sufficient water and section 27(2) – the state to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of everyone's right of access to sufficient water and dignified sanitation.

2.1 Overview of the work of the Department of Water and Sanitation in the 2021/22 Financial Year

The Foreword by the Minister, Statements by the Deputy-Ministers and Report of the Accounting Officer captured in the Annual Report 21/22 Year – Vote 41: Department of Water and Sanitation captures the centrality of water resources management and water services provision in South Africa within a complex and challenging water scarce semi-arid country. Low rainfall, low dam levels, limited underground aquifers, water scarcity and significant water transfers from neighbouring countries have resulted in the Department of Water and Sanitation (the Department) working to resolve tough trade-offs of demand and supply between agriculture, key industrial activities such as mining and power generation, increased population, and impacts of climatic variations such as drought and climate change.

An important consideration for the Department in the year under review centred on the provision, management, operations and maintenance of bulk water and sanitation infrastructure and water service provision within concurrent competencies between national and local government institutions. The roles and responsibilities of institutions at different spheres of government within the entire water value chain raise some complexities in the water sector in that the reporting structure is challenging and requires more cooperation between different spheres.

Managing challenges and finding a blend of solutions requires strong institutional structures, with systematic programmes and plans that have both the financial and non-financial capabilities to evaluate achievements and non-achievements across the water value chain. Institutional structures to support the work of the Department in attaining its mandate and legislative obligations include the Trans-Caledon Tunnel Authority, the Water Research Commission, Water Boards and Catchment Management Agencies. The Department delineated three programmes, Administration, Water Resources Management, and Water Services Management, to underpin its work.

In summary, although the Department of Water and Sanitation received an unqualified audit outcome, it encountered several challenges in financial management, such as awaiting approval for condonations, irregular expenditure (Main Account – R9.3 billion and Water Trading Entity – R8.1 billion), and under-expenditure (R2.5 billion). The main reasons for the under-expenditure related to infrastructure procurement, whereby similar processes for procuring Goods and Services were used within the infrastructure and construction units and deemed inappropriate.

The Portfolio Committee commends the Department of Water and Sanitation on attaining several achievements under its new administration. For the 2021/22 financial year, the department was transparent on the historical challenges of irregular expenditure inherited from the previous administration through its quarterly reporting sessions to the Portfolio Committee. It provided measures to rectify and mitigate future transgressions. The current challenges faced in respect of irregular expenditure, debt collection and critical work that needed to be done to ensure due process followed in the finalisation of cases, improving debt collection strategies and reducing debtors' days were the standing agenda items as part of the quarterly briefings by the Department.

However, the Director-General stressed that the Department has developed and is currently implementing a turnaround and Financial Recovery Plan to address the following: timeous submission of annual financial statements to the Auditor-General South Africa and National Treasury as per the requirements of the Public Finance Management Act, timely submission of the Annual Report to Parliament, enhanced performance and consequence management systems, strategic leadership, institutional stabilisation, capacity and training, sustainable service delivery, infrastructure maintenance and development, improved financial management systems and implementation of new organisational structure.

3. Audit and evaluation of the work of the Department of Water and Sanitation by the Auditor-General South Africa and the Department of Planning, Monitoring and Evaluation

3.1 Auditor-General South Africa

The mission and vision of the Auditor-General South Africa are derived from the constitutional mandate, which views the institution as the supreme audit institution of South Africa. The institution was established by section 188 of the Constitution of the Republic of South Africa. The foundation of its work is to strengthen the country's democracy by overseeing and holding the Executive accountable by auditing, reporting, and ensuring good governance and accounting in the financial management to ensure public resources are being used for the benefit of the country's citizens.

The importance of water resources management and water provision in a developmental country cannot be overemphasised within the water sector. Compliance with the prescripts of the Constitution and ensuring attainment of Goal 6 of the Sustainable Development Goals, in providing citizens' access to basic services such as water and sanitation, with the state taking reasonable measures to attain this is a fundamental prerequisite across the entire water value chain in South Africa.

The audit outcomes of the four (4) entities, the Main Account and Water Trading Entity of the Department of Water and Sanitation, Trans-Caledon Tunnel Authority, and Water Research Commission between 2017/18 and 2021/22, show an incremental improvement. The 2017/18 audit produced two qualified audits with findings for the Department of Water and Sanitation and the Water Trading Entity, one unqualified audit with findings for the Trans-Caledon Tunnel Authority and a clean audit for the Water Research Commission. In the 2021/22 financial year, three entities, the Water Trading Entity, the Department of Water and Sanitation, and the Trans-Caledon Tunnel Authority, received an unqualified audit with findings and a clean audit for the Water Research Commission.

The overall significant findings and outcomes of the Water Trading Entity, the Department and TCTA related to issues of compliance with legislation, irregular expenditure, the non-attainment of predetermined targets in the annual performance plan and actual achievements, specifically in the areas of maintenance of infrastructure and non-compliance to updating the asset management plan as required by the Government Asset Management Act of 2018.

The resultant impact of not optimally maintaining infrastructure systematically could shorten the lifespan and increase new infrastructure costs. In this regard, the Auditor-General recommended that the Department relooks at the asset management plan to ensure infrastructure assets are appropriate management with an indication of the financial resourcing of the plan, which must be monitored and tracked. An overview of the audit outcomes for the Main Account, the Water Trading Entity, the Trans-Caledon Tunnel Authority and the Water Research Commission reflected the following:

- **Main Account**

The Department was qualified on training and development costs and the related payables for the 2020/21 financial year. It did not adequately reconcile the invoices from a supplier by the implementing agent with supporting evidence of learners trained in the War on Leaks Programme. In the 2021/22 financial year, the department cleared this qualification by reconciling the invoices received from the supplier. Through this process, management identified a possible overpayment with the department and the implementing agent currently engaging the supplier to recoup monies.

Material corrections to the financial statement continue to be reported as a material non-compliance matter with internal controls that need to be strengthened to prevent material errors in the accounting system for various disclosure items. In addition, non-compliance with supply-chain management legislation resulted in material irregularities in expenditure for the year under review. Delays in the investigation of irregular expenditure and allegations against officials resulted in delays in implementing consequence management.

During the year under review, the department incurred irregular expenditure amounting to R9.3 billion on the Main Account. On consequence management, the material non-compliance issues related to ongoing investigations, sanctions/recommendations not implemented for completed forensic investigations and failure to properly deal with allegations reported in the prior year.

- **Water Trading Entity**

The Water Trading Entity received an unqualified audit outcome with findings in compliance with legislation due to the lack of improvements in the overall control environment and ineffective monitoring of audit action plans. Controls around compliance with laws and regulations should be strengthened. Reviews of the financial statements should be enhanced to ensure they are free from material misstatements. The accounting officer ensures that documentation supporting the Lesotho Highlands Water Project is rectified.

The entity incurred irregular expenditure amounting to R8.1 billion. On consequence management, the material non-compliance issues related to ongoing investigations, sanctions/recommendation not implemented for completed forensic investigations and failure to properly deal with allegations reported in the prior year.

- **Performance audit on the Department of Water and Sanitation**

An assessment of **Programme 3 – Water Services Management** showed that the department set targets greater than those required by the Medium-Term Strategic Framework for the number of bulk water supply projects implemented but fell short of the target by 61 per cent. The Department also did not achieve the set targets for the number of dam rehabilitation projects and new dams constructed. The root causes for the non-achievement of these indicators 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 the target of 23 019 over two (2) years (2019/20 and 2020/21), which is above the targets set by the Medium-Term Strategic Framework. The department achieved only 6 per cent of the set target. Of concern was that the department did not set any targets for the programme for the 2021/22 financial year. One key indicator in the MTSF not included in the annual performance plan was eradicating the bucket sanitation system. In the year under review, the department allocated R292.6 million from the Regional Bulk Infrastructure Grant (RBIG) in Free State and Northern Cape, but only R48.9 million was spent.

- **Trans-Caledon Tunnel Authority**

The Trans-Caledon Tunnel Authority received an unqualified audit outcome with findings on compliance. Controls on compliance with laws and regulations should be strengthened, audit action plans should be effectively monitored to prevent repeat findings, and financial statements should be appropriately reviewed to ensure they are free from material misstatements before audit submissions.

The entity incurred irregular expenditure amounting to R32.9 million, an increase of 94 per cent compared to the prior year. Fruitless and wasteful expenditure amounting to R194 million. On consequence management, the material non-compliance issues related to ongoing investigations, sanctions/recommendations not implemented for completed forensic investigations and failure to properly deal with allegations reported in the prior year.

- **Performance audit on the Trans-Caledon Tunnel Authority**

On Objective 2: Operate and maintain designated projects to meet departmental requirements/specifications, two targets were not achieved, resulting in 28.5 per cent non-achievement. These relate to the tender documents to prepare for the tunnel outage of Phase 2 of the Lesotho Highlands Water Project, which was to be finalised in the 2021/22 financial year. Another area highlighted is related to the operation and maintenance of acid mine drainage by TCTA in the eastern, central and western basins. Due to the failure of motor pumps, no operations took place in the eastern basin from 2 February 2022.

- **Water Research Commission**

The Water Research Commission remained unqualified with no findings on compliance. The Auditor-General noted a strong internal control environment over the recording and reporting of financial and performance information and disciplined adherence to applicable legislation that assisted the entity in achieving a clean audit. The entity incurred irregular expenditure of R12.2 million, an increase of 100

per cent compared to the prior year. This is related to performance bonuses and salary increases not approved by delegations of authority as required by s56 of the PFMA.

3.1.3 Critical service delivery on assessing the management of infrastructure, water quality and water losses

For the water sector in the 2021/22 financial year, the Auditor-General identified specific focus areas in the water space, such as management and maintenance of critical infrastructure, water quality and water losses. This approach was intended to analyse the extent and impact of achievements and challenges found within the focus areas, which either enhance or limit critical service delivery of water and sanitation to citizens.

On **infrastructure management**, the Auditor-General found that between 2015 to 2022, a marginal decrease of 4 per cent in backlogs of access to basic water supply was attained. Other weaknesses related to delays in the completion of infrastructure projects, maintenance of infrastructure, no updating of the asset management plan since 2018 in contravention of the Government Immovable Asset Management Act of 2007, and no indicator identified to measure the progress made to correct backlogs in maintenance. The findings on **water quality** revealed that although the department developed a water services improvement plan to assist water services authorities, the plan did not address the root causes identified in the Blue and Green Drop reports. Water monitoring reports by the department revealed significant avoidable **water losses** within the jurisdictions of water services authorities.

3.2 Department of Planning, Monitoring and Evaluation

The Department of Planning, Monitoring and Evaluation, located its monitoring and evaluation of the work of the Department of Water and Sanitation and its Entities within the high-level objectives underpinning the National Development Plan and the outcomes approach highlighted in the Medium-Term Strategic Framework, 2019 – 2024. The National Development Plan envisages a South Africa that recognises the importance of secure and equitable access to water and sanitation as catalysts for socio-economic development, which requires the prioritisation of investments in basic water and sanitation infrastructure.

• Performance of identified outcome indicators

Based on the performance of the six (6) Outcome Indicators, the Department fulfilled its obligations in the following areas:

- Outcome 1: the protection and restoration of ecological infrastructure, which has ensured the implementation of interventions to protect water resources and ensure pollution control and rehabilitation.
- Outcome 4: water and sanitation services are managed effectively by developing strategies and support for water and sanitation services institutions and developing new infrastructure.
- Outcome 5: the enhanced regulation of the water and sanitation sector.
- **Performance against outcomes in the Medium-Term Strategic Framework**

The performance against the 2019/2024 Outcomes highlighted in the Medium-Term Expenditure Framework for the period 1 April 2021 to 31 March 2022; the following findings were captured and reflected. In respect of Access to improved basic services, the following was highlighted in Table 1 below:

| | | |
|---|---|---|
| 100% of Water Services Authorities receive acceptable scores on functional assessment in the Municipal Strategic Self-Assessment (MuSSA). | 100% assessed. 100% of five-year Municipal Priority Action Plans (MPAP) developed and implemented annually in the WSAs in priority districts | 76% (109 of the 144) municipalities completed their functional assessments. 18% of the MPAPs developed. 98 are required to develop the plan based on the MuSSA report. |
|---|---|---|

| | | |
|--|---|---|
| 90% access to adequate sanitation and hygiene. | Sanitation Situational Analysis Report – 2 implementation reports per annum on National Sanitation Integrated Plan. | The draft National Sanitation Integration Plan was developed, but no implementation plans were submitted. |
| 100% of wastewater treatment works are operational and functional. | 56 bulk water supply and sanitation projects completed. 963 wastewater treatment works assessed for Green Drop Regulatory requirements compliance alternating every 2 years with the Blue Drop Assessments. 260 non-compliant wastewater systems monitored. | 16 completed. 995 wastewater treatment works assessed. 460 wastewater systems monitored. |
| Amended Regulatory Framework on Water Ownership and Governance | Draft National Water Amendment Bill submitted to Cabinet for approval for public consultation. | National Water Amendment Bill submitted to the Office of the State Law Advisor for preliminary certification. |

- **Achievements and constraints in the water and sanitation sector**

The critical achievements noted by the Department of Planning, Monitoring and Evaluation related to the use of the Infrastructure Fund to improve the work of Programme 3 and the relaunch of the Green and Blue Drop reports. Although water and sanitation infrastructure development by the Department of Water and Sanitation was commended, DPME maintained that infrastructure dilapidation, as seen in the recent floods in Kwazulu-Natal, should be used as a basis for improving preventative maintenance and refurbishment of critical bulk water and sanitation infrastructure in the country.

One of the significant constraints in the water and sanitation in South Africa, according to the DPME, relates to the dysfunctionality of water boards with weak governance, municipal debt, and inefficiencies in financial management, which result in ineffective operations and poor maintenance of water quality infrastructure.

4. Overview of the work of the Department of Water and Sanitation

4.1 Financial and non-financial performance of the Department (Main Account and Water Trading Entity)

A high-level summary of the financial and non-financial performance of the Department of Water and Sanitation for the year under review in Table 1 below reflects that the final appropriation amounted to R17.7 billion, with Administration allocated R1.9 billion, Water Resource Management – R3.6 billion, Water Services Management – R12.1 billion.

The actual expenditure for each of the Programmes – Administration with R1.7 billion, Water Resource Management with R3.4 billion, and Water Services Management at R9.9 billion. This translates to a percentage spend of 88, 97, 82 of the three programmes with a total of 89 per cent. The department underspent the budget by R2.5 million, which includes R244 million for Programme 1, R117 for Programme 2 and R2.1 million for Programme 3.

The Department requested to roll over the qualifying 2021/22 unspent funds of R381 million to the 2022/23 financial year. This would allow for the completion of various identifiable, committed, contracted and accrued projects and activities which began in the previous financial year under the Water Resources Management programme.

Table 1: Expenditure trends and targets attained for the 2021/22 financial year

| Programme | Final appropriation | Actual expenditure | Employee cost | Goods and services | Transfers | Capital assets | Total appropriation percentage | % expenditure | Achieved targets |
|----------------------------|---------------------|--------------------|------------------|--------------------|------------------|------------------|--------------------------------|---------------|------------------|
| Administration | 1 960 017 | 1 716 499 | 791 547 | 822 099 | 31 734 | 61 068 | 11% | 88% | 67% |
| Water Resources Management | 3 616 600 | 3 499 861 | 611 665 | 214 021 | 2 619 330 | 54 733 | 20% | 97% | 59% |
| Water Services Management | 12 158 440 | 9 987 154 | 339 024 | 427 038 | 6 763 247 | 2 457 609 | 69% | 82% | 71% |
| Total | 17 735 057 | 15 203 514 | 1 742 236 | 1 473 158 | 9 414 311 | 2 573 410 | 100% | 89% | 66% |

Source: Presentation by the Auditor-General, 11 October 2022

As mentioned earlier, irregular expenditure and debt owed by municipalities formed the basis of engagements and report-back sessions to the Portfolio Committee during the quarterly reporting sessions of the financial and non-financial performance of the Department. The tracking and monitoring of progress on the finalisation of matters related to irregular expenditure and debt collection within the Main Account, Water Trading Entity and Trans-Caledon Tunnel Authority is an important oversight objective of the Portfolio Committee. Irregular expenditure of R9.3 billion on the Main Account and R8.1 billion on the Water Trading Entity, with under-expenditure amounting to approximately R2.5 billion in the financial year under review.

In terms of achievements of annual targets as reported in the Annual Performance Report (all indicators) for the year under review, the Department of Water and Sanitation achieved 66 per cent, with 34 per cent not achieved, the TCTA achieved 75 per cent, with 25 per cent not achieved and a 100 per cent achievement of the Water Research Commission.

4.1.1 MAIN ACCOUNT

The Department spent R15.2 billion of its final appropriation of R17.7 billion for the year under review. **Programme 1: Administration** underspent an amount of R243.5 million or 12 per cent, which was mainly due under:

- Compensation of employees: the reduced rate of filling vacancies remains within the medium-term expenditure framework budget limits, and filling funded critical posts is being expedited. The accelerated recruitment plan and organisational structure alignment initiatives are being implemented.
- Goods and Services: the savings realised on amounts budgeted for accommodation, consultants (projects), information technology-related services and reduced international travelling due to government-enforced COVID-19 lockdown restrictions.

The performance information related to Programme 1: Administration reflected an achievement of 67 per cent of planned targets, with an overachievement on filling of vacancy posts for engineers and scientists by filling 854 vacancies. Other targets that were achieved included: 91 safety and security assessments for facilities and installations conducted, 99 information technology systems, implementation of 93 per cent of the financial recovery plan and reduced debtors' days to 105 days. Targets on SMME procurement was 26 per cent on qualifying small enterprises and 27 targeted procurement spent on exempted micro enterprises.

On Programme 2: Water Resource Management, the Department underspent R116.7 million primarily due to the following:

- Compensation of employees: the reduced rate of filling vacancies to remain within the medium-term expenditure framework budget limits, and the filling of all funded critical posts expedited.
- Goods and services: there are various planned projects/activities, namely, the appointment of a Professional Service Provider to design a National Digitised Water and Sanitation Monitoring System, the appointment of a PSP for the national water balance perspectives for South Africa, the development of the National Water Resource Strategy and term contract for the development of the disaster management level two (2) plan, which are at various procurement stages.
- Payments of capital assets: the under-spending is mainly attributable to delayed spending on office furniture, equipment and desktops/laptops at various procurement stages.

The performance information related to Programme 2: Water Resource Management reflected: An achievement of 63 per cent of its planned target. The key achievements incorporate the update of the National Water and Sanitation Master Plan, climate change risk and vulnerability assessment completed for Phongola-Mzimkhulu, Berg-Olifants and Breede-Gouritz water management areas, implementation plan for the Thukela water resources classes and resources quality objectives, the completion of the Conceptual Framework for the Sanitation Integrated Plan, Annual Performance Plans and quarterly reports for 2 CMAs, TCTA and WRC evaluated and Draft Bill for establishing National Water Resources Infrastructure Agency developed.

These are some of the major targets that were met for this programme. The Department failed to achieve the following: the draft regulations for water allocation, the development of the independent economic regulator and the regulated time for finalisation of water use authorisations.

On Programme 3: Water Services Management, the Department underspent R2.171 billion mainly due to the following:

- Compensation of employees: the reduced rate of filling vacancies to remain within the medium-term expenditure framework budget limits, filling all funded critical posts is being expedited.
- Goods and services: the integrated Vaal River System pollution remediation intervention project has not proceeded as quickly as intended (operational expenditure related to labour, purification, security, transportation and management of bio-solids, operations and maintenance of infrastructure and consumables) in Emfuleni Local Municipality. The project is currently being accelerated. The department has approached the National Treasury requesting an R104.5 million unspent budget to be rolled over to the 2022/23 financial year.
- Payments of capital assets: the under-spending is mainly attributable to the unresolved disputed invoices, community-related challenges and contractual disputes, outstanding work certification and verification at year-end.

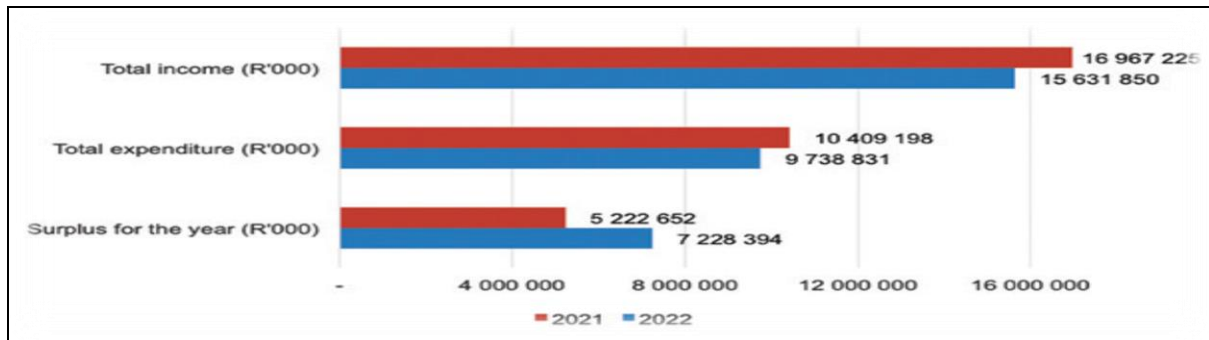
The performance information related to Programme 3: Water Services Management show that the programme achieved 72 per cent of its planned targets. The department managed to collect water balances for 8 large water supply systems; conducted the National Report on Municipal Strategic Self Assessments (MuSSA) within the Water Services Authorities, metros and secondary cities, developed the National Municipal Integrated Priority Action Plan report, developed the Draft National Sanitation Integrated Plan and the Draft National Faecal Sludge Management Strategy for on-site sanitation. In addition, the department developed the 2022/23 bulk water tariffs, evaluated and monitored 459 water supply systems for compliance against the regulatory requirements, evaluated shareholder compacts/business plans for 9 (nine) water boards, drafted due diligence reports for two (2) regional water utilities (Magalies and Amatola), 831 jobs created through RBIG projects. The programme failed to meet the target of developing the Draft Water Services Amendment Bill and finalising the Water Conservation and Water Demand Strategies Frameworks.

4.1.2 WATER TRADING ENTITY (WTE)

The Water Trading Entity is divided into the Water Resources Management Unit and the Infrastructure Branch. The Water Resources Management Unit deals with water resource management functions, primarily to address the use, conservation, and allocation of water resources in a manner that is sustainable and equitable for the benefit of the people that reside in the relevant management areas. The Infrastructure Branch deals with the development of new infrastructure as well as operations and maintenance of existing infrastructure with operations under integrated systems and bulk water schemes.

4.1.2.1 Operational expenditure

As shown in Figure 1 below, the financial statement of performance of the Water Trading Entity reflects an operating surplus of R7.2 billion for the period ended 31 March 2022. The operating surplus increased from R5.2 billion in the 2020/21 financial year to R7.2 billion in the 2021/22 financial year. The expenditure reflects a reduction of R670 million when compared to the prior year.



As reflected in Figure 1 above, the total expenditure decreased by 9 per cent during the period under review. This amounts to R10.4 billion in the 2021/22 financial year compared to R9.7 billion in the 2021/22 financial year, which is attributed to the reversal impairment of assets under construction amounting to R530 million.

Other important considerations in the operational performance of the Water Trading Entity comprise the following:

- The operating expenditure for the 2021/22 financial year amounted to R3.9 billion. Employee costs decreased by 5 per cent, with depreciation, amortisation and impairment decreasing by 62 per cent from R2.2 billion in the 2020/21 financial year to R1.3 billion in the 2021/22 financial year.
- Liquidity status: the current ratio of the entity has increased from 3:75:1 in the 2020/21 financial year to 5:19:1 in the 2021/22 financial year, which indicates that the entity has sufficient liquid assets to meet its short-term financial obligations.
- The entity has a positive cash flow amounting to R6.7 billion, attributed to increased augmentation allocation and revenue collection.
- The revenue for the Water Trading Entity for the year under review reflected an increase of 8.7 per cent of the revenue from water sales compared to the prior year due to improved project allocation. The augmentation allocation during this period amounted to R2.063 billion, and other revenue amounted to R1.3 billion.
- By the end of the financial year under review, the cash and cash equivalent reflected a favourable balance of R2.1 billion. The entity has implemented measures to follow up on the recoverable debts and implement cash flow management strategies while complying with the 30-day payment period as prescribed in the Public Finance Management Act.
- The debtors' day analysis shows less improvement from 247 days in 2020/21 to 308 days in 2021/22 due to non-payment by various municipalities. Steps have been taken to recover the outstanding debt. The debtor's collection days indicate that the entity has cash tied on the outstanding accounts.

5. OVERVIEW OF THE WORK OF SUPPORTING ENTITIES WITHIN THE DEPARTMENT OF WATER AND SANITATION

5.1 Trans-Caledon Tunnel Authority

The Trans-Caledon Tunnel Authority (TCTA) was established in 1986 to finance and build the Delivery Tunnel North of the Lesotho Highlands Water Project. In 1994, a directive was received to fulfil the financial obligations of the Government of South Africa, in terms of the Treaty on the Lesotho Highlands Water Project, on the water transfer components in Lesotho.

Trans-Caledon Tunnel Authority received an unqualified audit outcome with findings for the 2021/22 financial year. The findings related to irregular expenditure of R839 million for the year under review, and fruitless and wasteful expenditure of R194.8 thousand.

For the year under review, TCTA devised three (3) broad pre-determined objectives, as follows:

Outcome 1: implement capital projects in accordance with the timelines agreed with DWS, Outcome 2: operate and maintain designated projects to meet DWS requirements and Outcome 3: raise funding for implementation of infrastructure and manage debt within the approved borrowing time. Seventy-seven (77) per cent of the predetermined objectives were achieved.

5.2 Water Research Commission (WRC)

The Water Research Commission operates and accounts for its activities in accordance with the Public Finance Management Act and is listed as a schedule 3A public entity. The primary function of the WRC is to promote coordination, cooperation and communication in water research and development, establish water research needs and priorities, promote the effective transfer of information and technology, and enhance knowledge and capacity building within the water sector.

The WRC had a total income (including levy and leverage) of R417.4 million during 2021/22. Levies made up 67 per cent of the WRC's income. The WRC achieved an unqualified audit in 2021/22.

Several performance highlights for 2021/22 included the conclusion of several research projects, such as the launch of a micro-hydropower to provide electricity for the rural community of Kwa-Madiba in the Oliver Tambo District Municipality. In terms of targets achieved, 110 Research and Development Innovation projects were initiated, with 113 finalised in the year under review.

5.3 Catchment Management Agencies (CMAs)

Catchment management agencies are established in terms of section 80 of the National Water Act and are responsible for managing water resources within the defined catchment areas. The CMAs ensure water resource management at a regional or catchment level with the involvement of the local communities.

5.3.1 Breede-Gouritz Catchment Management Agency

The Breede-Gouritz Catchment Management Agency manages water resources in the diverse climatic area of the Breede-Gouritz Water Management Area. The strategic objectives of Breede-Gouritz for the year under review included water resource planning, water use management, institutional and stakeholder relations, water allocation reform, water resource protection, strategic support, and management and governance.

The achievements for the financial year under review included efficiency in water use application processing within the regulated timeframe, which supports the social and economic benefit of their stakeholders, implementing the river rehabilitation projects, removal of alien vegetation in the river riparian areas, installation of rainwater storage tanks at various communities to provide localised catchments.

The total operating expenditure for the agency increased from R70.836 million to R78.501 million in the financial year under review. The increase is attributed to the increase in operational expenses and employee-related costs. The augmentation allocation from the Department of Water and Sanitation amounted to R40.6 million, an increase of R1.9 million compared to the prior year.

The revenue from the catchment management charge reflects an increase of 9 per cent (49.02 million) compared to the prior year (45.032 million), which is attributed to increasing the catchment management charges and the agency ensuring efficiency in its billing. The debtors' collection days reflect an increase of 424 days in 2021/22 compared to 390 in the previous year. The increase in the number of days is due to the decrease in collecting revenue from significant customers who owe the agency.

The agency received a qualified audit opinion with findings. The basis of qualification related to the agency's failure to prove the existence of water users and uncorrected material misstatements.

5.3.2 Inkomati-Usuthu Catchment Management Agency

The Inkomati-Usuthu Catchment Management Agency (BGCMA) is a water management institution in the Inkomati-Usuthu Water Management Area (WMA) in Mpumalanga Province. In the year under review, the Agency achieved 89 per cent of its predetermined performance outcomes, with 66 per cent overachieved, 22 per cent achieved and 11 per cent not achieved.

The agency attained financial results which defined its operations as a going concern, with a solvent balance sheet with a net surplus of R4.9 million. In the financial year, the agency managed its working capital, which safeguarded its ability to meet its short-and long-term liabilities. In relation to financial performance against financial sustainability, the agency successfully implemented responsive cost containment strategies while improving already defined revenue streams. Consequently, these initiatives aided a 16 per cent increase in revenue and market related 8 per cent in overall expenditure. The agency obtained an unqualified audit opinion.

The challenges identified by the agency relate to low debt recovery levels, funding constraints due to non-paying and slow-paying users, limitations of the pricing strategy, which limit full cost recovery of costs, pollution of resources and non-finalisation of the verification and validation process due to ongoing litigation.

6. OBSERVATIONS AND RECOMMENDATIONS

The following observations with concomitant recommendations were devised by Members of the Portfolio Committee in response to deliberations of presentations:

6.1 Irregular expenditure and under-expenditure

The tracking and monitoring of progress on the finalisation of matters related to irregular expenditure and debt collection within the Main Account, Water Trading Entity and Trans-Caledon Tunnel Authority (TCTA) is an important oversight objective of the Portfolio Committee.

While the Members of the Portfolio Committee welcomed the improved progress in the audit outcomes of the Main Account and Water Trading Entity and TCTA, the irregular expenditure of R9.3 billion on the Main Account and R8.1 billion on the Water Trading Entity, was viewed as a concern. Furthermore, the R2.5 billion in under-expenditure across the department's programmes negate departmental attempts to improve good governance and improved financial management. The under-expenditure has a direct link to the non-completion of critical bulk infrastructure projects to ensure access to water and sanitation services.

6.1.1 *The Department and TCTA should provide a progress report with concrete timeframes on action plans to address the above matters.*

6.2 Bulk infrastructure development

The under-spending of the Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant was noted as a serious concern by the Members of the Portfolio Committee. The importance of addressing the construction, maintenance and operations of bulk water and sanitation infrastructure at the national and local spheres of government was emphasised. Members of the Portfolio Committee maintained that it was important for the Department to monitor the ongoing contractual disputes, lapsing of contracts, which impacted the progress of projects and delays in the commencement of construction activities that need to be seriously addressed. This is related to delays on the Vaal River System Remediation Programme, uMzimvubu Dam, and other major wastewater and water projects.

6.1.1 *The Department should provide the timeframes of the recovery plan to facilitate progress on incomplete projects.*

6.3 Condonation of irregular expenditure and finalisation of investigations on irregular expenditure

Although the Members of the Portfolio Committee accepted the responses of the Department in respect of the condonation of irregular expenditure, such as recouping funds and instigating disciplinary measures, including charges of fraud and corruption by transgressing officials, Members maintained this long-standing matter be resolved.

6.3.1 *The Department should, on a quarterly basis, provide a progress report on recouping funds and work on finalising the disciplinary cases, with information on National Treasury's processes.*

6.4 Weaknesses in procurement policies and supply chain management systems and non-adherence to policy

The Portfolio Committee welcomed the assurance by the Department that it is implementing a procurement strategy anchored on a financial recovery plan. The plan aims to improve the overall financial environment, including improving the audit opinion within the portfolio. The plan also includes implementing the Infrastructure Procurement Strategy to improve procurement within the department and its implementing agents to fast-track implementation at the project level and increase efficiency.

However, concerns were raised on the department's non-adherence to its policy in respect of bid evaluation not undertaken in accordance with the advertised evaluation criteria, and change of scope of work after the bid was awarded without approval by the delegated official.

6.4.1 *The Department should brief the Portfolio Committee on implementing its procurement strategy plans and strengthen its adherence to policy so that Members can effectively track progress on work undertaken to strengthen its financial recovery plan.*

6.5 Key recommendations highlighted by the Auditor-General and the Department of Planning, Monitoring and Evaluation

Members of the Portfolio Committee noted the following key recommendations to the accounting officers by the Auditor-General and the Department of Planning, Monitoring and Evaluation. They stressed the importance of the Department addressing these matters:

- **Auditor-General**
- Detailed action plans to be devised to address challenges affecting implementing key projects, and managing infrastructure projects at the Water Trading Entity.
- Management of water quality risks 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 to avoid repeat findings.
- Continuous monitoring of compliance with legal and regulatory provisions to avoid non-compliance findings.
- Ensure financial statements are appropriately reviewed in line with the accounting reporting framework requirement.
- Continue focusing on consequence management to complete all investigations and cases of irregular, fruitless, and wasteful expenditure.
- Expedite negotiations with the government of Lesotho on royalties related to the Lesotho Highlands Water Project.
- **Department of Planning, Monitoring and Evaluation**

The DPME recommended the following for consideration:

- To ensure critical infrastructure investments in the water sector with an allocated capital expenditure budget appropriately spent on identified projects within the planned project timelines across the three spheres of government.

- The department to establish mechanisms to address the backlog on the maintenance and refurbishment of critical infrastructure across the board.
- The Department, in collaboration with the Department of Cooperative Governance and Traditional Affairs and MISA supports the urgent need for municipalities to attend to water leaks.
- To fast-track the implementation of the National Water and Sanitation Master Plan to address water security in the country in respect of water investment planning, maintenance of water infrastructure and water quality management.
- To support the efficiencies of water boards.

6.4.1 *The Department of Water and Sanitation should provide a progress report, with timeframes, on strategies to implement the recommendations of the Auditor-General.*

6.5 Strategies to deal with audit outcomes

The Portfolio Committee appreciated the emphasis by the department to devise strategies to deal with audit outcomes, which comprise the following:

- Implementing a turnaround and financial recovery plan which incorporates stabilisation of the Department (leadership, ethics and organisational culture, staff training and development), improvement of systems of internal controls, and preventative measures against fraud and corruption.
- Trend analysis of improper expenditure to ensure a decline in irregular, fruitless and wasteful expenditure.
- Improved planning and implementation of infrastructure procurement strategy.
- Measures are taken to eliminate irregular, fruitless and wasteful expenditure to be supported by preventative control measures.
- The implementation of an exit strategy on irregular contracts to ensure the current incidents of irregular expenditure from the prior year are terminated.
- Completion of an integrated water sector value chain support and intervention measures to improve water service delivery.

6.5.1 *The Department should, on a quarterly basis, provide a systematic approach to the outcomes and targets achieved in implementing strategies to deal with audit outcomes.*

6.6 Establishment of Regional Utilities and additional Catchment Management Agencies

The Department noted the concerns that Members of the Portfolio Committee raised on the institutional realignment by rationalising water boards to regional utilities as options to unlock the expansion of services and provide progress reports.

6.6.1 *The Portfolio Committee recommended that the Department fast-track water boards realignment to regional utilities and provide a progress report.*

6.7 Eradication of the Bucket System in Formal Settlements

The Portfolio Committee noted the shift in numbers with regard to the bucket eradication programme, but was concerned at the delay in completion of the remaining eradication of buckets in the Free State and Northern Cape. Of concern to the committee is the project's escalating costs due to procurement delays; and site challenges related to the inaccessibility of constructing toilets in certain areas, due to difficult geological terrains.

6.7.1 *The Portfolio Committee resolved that a non-negotiable timeframe, with a ring-fenced budget for this programme, should be prioritised.*

6.8 Verification and Validation of existing lawful water use

The purpose of the verification and validation is to verify all existing lawful use, determine the status of water use and water registrations, and determine the legality of new water uses. However, Members of the Portfolio Committee raised concerns about the discrepancies in the validation and verification system, in relation to the skewed water use allocation. Members

maintained that this must be continuously monitored as equity and efficiency challenges within the water use authorisations for acquiring water licences by small-impact users, mainly black farmers, are notably impacted.

6.8.1 *The Department should fast-track the verification and validation of existing lawful water use in all water management areas to ensure a speedy water allocation reform to address the water needs of the historically excluded and vulnerable groups. The Department should provide quarterly progress reports on water allocation reform across all water management areas.*

6.9 Dysfunctional wastewater treatment works and water supply works leading to pollution

Members of the Portfolio Committee reiterated their previous instruction to the Department and Entities that the deteriorating state of municipal wastewater and sewage treatment management in South Africa contributes significantly to pollution problems and exacerbates environmental and health problems.

6.9.1 *The Portfolio Committee recommends that the Minister, through the Department and Entities, work together with all three spheres of government, and optimally, using the parameters of the District Development Model, work out short, medium and long-term solutions to facilitate the progress of this major crisis.*

6.10 Mechanisms in place to mitigate the challenges of trade debtors and non-payment to the Water Trading Entity

Members of the Portfolio Committee noted that the Department must devise control measures and plans to address long-standing challenges of trade debtors and non-payment.

6.10.1 *The Portfolio Committee recommended that the Department present its action plans and control measures to recover monies owed to the Department and its Entities, and provide more details on the progress made by the Multidisciplinary Revenue Committee comprising the National Treasury, the South African Local Government Association, Department of Cooperative Governance and Traditional Affairs and municipalities, as part of an intergovernmental relations initiatives to address debt collection.*

6.11.1 Departmental contribution to job creation

Members of the Portfolio Committee maintained that the country's high unemployment rate necessitated the Department's need to contribute to creating jobs within the water and sanitation sector.

6.11.1.1 *The Portfolio Committee recommended that a progress report be submitted highlighting the initiatives undertaken to ensure increased job creation in the water and sanitation sector across the water value chain, specifically in communities where projects are being implemented.*

6.12 Rollover of unspent funds

Members of the Portfolio Committee raised a question on the rollover of unspent funds and its impact on projects.

6.12.1 *The Portfolio Committee recommended that the Department provide progress reports on financial recovery and turnaround strategies as part of departmental quarterly briefings, with input on rollovers as a critical component.*

6.13 The effectiveness of the ‘polluter pays principle’ in respect of compliance with water and environmental laws

The penalties meted out against polluters are within the scope of the necessary pieces of legislation, which defines the ‘polluter pays principle’ on compliance issues. Penalties meted out against polluters, and remediation of polluted areas require serious engagement with all relevant stakeholders in terms of conviction and the impact it has on the lives of affected citizens.

6.13.1 *The Portfolio Committee recommended that a written response be submitted on the number of transgressions of pollution of water sources, the action taken and the remedial and corrective action, and outcomes thereof for the 2020/21 to 2021/22 financial years.*

6.14 Transformation of irrigation boards to water user associations

The 1998 National Water Act pushed for a radical water resources management reform in South Africa. With regard to irrigation boards at the local level, which used to be managed by large-scale farmers, the Act moves toward transforming these into Water User Associations. The purpose of this change in the Act is expected to incorporate all users in the defined areas of jurisdiction, whether they have a formal water entitlement or not. The transformation enables better participation of historically disadvantaged individuals in managing water resources, and provides a basis for improving the local integrated management of water resources. However, the slow progress in transforming irrigation boards into water user associations was noted as a major concern by Members of the Portfolio Committee.

6.14.1 *The Department should provide a written submission progress in transforming irrigation boards to water user associations.*

6.15 Protection of ecological infrastructure, such as wetlands, to ensure the sustainability of built infrastructure

South Africa has invested significant funds in developing built bulk water and sanitation infrastructure across the water value chain, such as dams, reservoirs, wastewater works, wastewater treatment plants, etc., but lacking is the concomitant support and investment in strengthening ecological infrastructure to lengthen the lifespan of existing built infrastructure. Degraded ecological infrastructure can lead to reduced capacity and lifespan of dams, and increased costs of flooding, whereas well-maintained ecological infrastructure, can buffer human settlements and built infrastructure against the extreme events associated with climate change and play a crucial and cost-effective role in disaster risk reduction.

6.15.1 *The Departments of Environmental Affairs and Water and Sanitation should provide further information on approaches and strategies to strengthen ecological infrastructure in the country as part of mitigating against impacts of climate change.*

Report to be considered.