

Portfolio Committee on Water and Sanitation

PFMA
2021-22

14 March 2023



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.

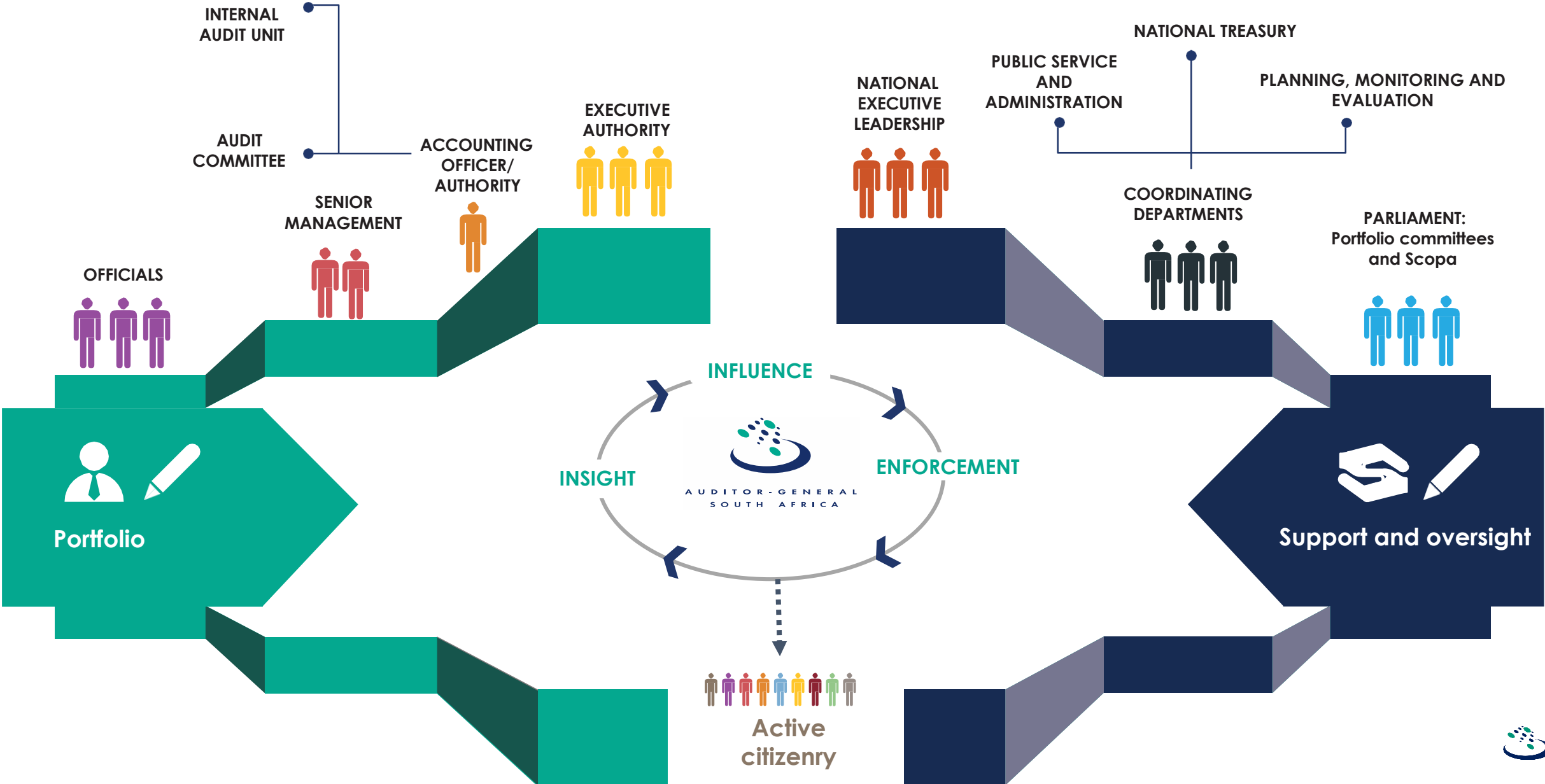


VISION

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



All have role to play in national government accountability ecosystem





water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



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)



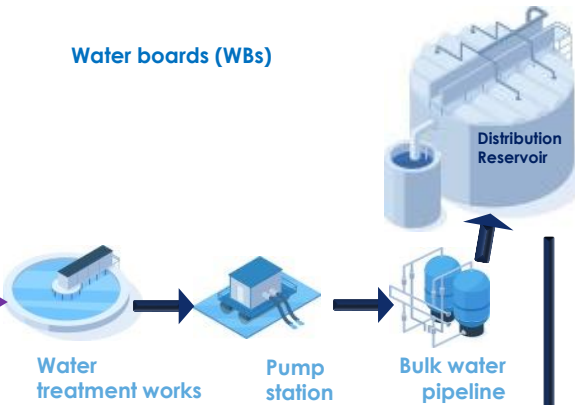
The Water Trading Entity (WTE)

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



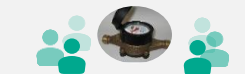
Reticulation



Abstraction -> Storage and treatment -> Distribution

MUNICIPAL WATER SUPPLY VALUE CHAIN

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

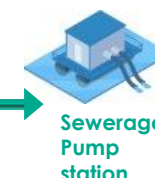
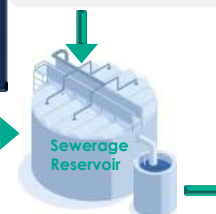


Customer facing services

Disposal

Treatment

Collection



Impacts on aquatic environment and downstream water users

Impacts on aquatic environment and downstream water users

Material irregularities




MI process implemented at:

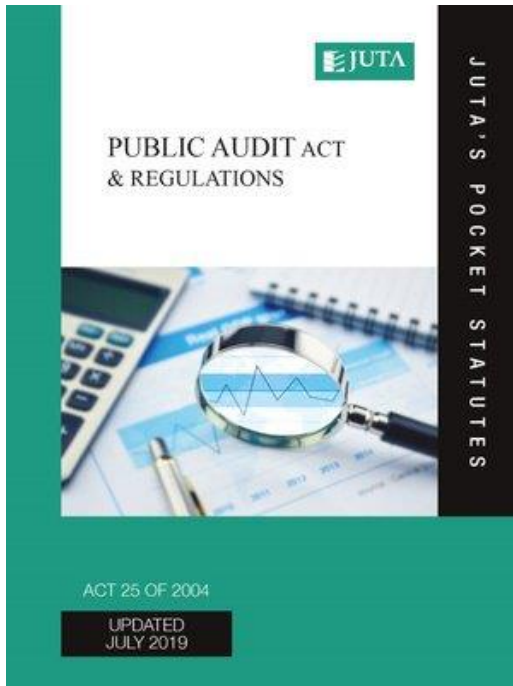
- Department of Water and Sanitation - (1)
- Water Trading Entity - (2)
- TCTA - (0)

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

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



In accordance with the regulations, the submissions to address the material irregularity notifications must address the following:



- The circumstances that led to the material irregularity
Thus, was an investigation conducted into the matter?
- Whether these circumstances still exist and, if so, what steps have been taken to ensure they no longer exist.
Thus, addressing the matter that it no longer occurs - strengthening internal controls.
- The steps that have been taken and/or will be taken to prevent any further losses, and their outcomes, if any.
Thus, strengthening internal controls to ensure this matter does not occur again.
- The steps that have been taken to address the material irregularity, and their outcomes, if any.
Thus consequence management:
 - The steps that have been taken and/or will be taken to **identify the person(s) responsible** for the material irregularity, and their outcomes, if any.
 - If the person responsible for the material irregularity was identified, **the steps** that have been taken and/or will be **taken against the person**, and their outcomes, if any.
 - The steps that have been taken and/or will be taken **to prevent a re-occurrence** of the material irregularity.
- Any other relevant information pertaining to the material irregularity that the AO/AA must submit.



Identified MIs – next steps and responsibilities

1 AO/AA is dealing with MI

AO/AA... implements the committed actions to address the MI and improves controls to prevent recurrence

AGSA... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

2 MI is referred to a public body

AO/AA... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

3 Recommendation included in audit report

AO/AA... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

4 Remedial action issued

AO/AA... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days



Executive and oversight

Executive... monitors progress and supports AO/AA in addressing the MI and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls

Oversight... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing remedial action and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes

1

AO/AA is dealing with MI

DWS

The AO is dealing with the MI appropriately – awaiting court proceedings

WTE

The AO is dealing with both MIs appropriately – Legal processes have been initiated

2

MI is referred to a public body

No MIs have been referred to public bodies



Oversight

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Oversight

Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.



Observations from MI process

- Appropriate consequence management action initiated to address MIs (DWS, WTE)
- Disciplinary actions for DWS MI not yet finalised, noting that the employee has moved to another government entity that has taken over the process
- Court proceedings prolongs the process to recover the losses and to initiate consequence management timeously (DWS)
- One MI at WTE has been referred to the State Attorney
- One MI at WTE awaiting project to be finalised

Recommendations for portfolio committee

- To request regular and detailed feedback on the progress, so that the PC can monitor whether entities are on track in achieving desired outcomes / recover potential / actual financial losses to address the identified material irregularities.
- To request the entities to provide timeous, specific and regular progress reports on the implementation of effective consequence management processes.
- Ensure that the entities are also reporting to the committee on the rectification/ improvement of internal controls that resulted in the weaknesses which informed the material irregularities.
- Request the AO/AAs to provide assurance on the implementation of:
 - comprehensive risk management and mitigation processes, and
 - preventative controls.



Annexure – detail of MIs



MIs identified - Status description as at February 2023



Department (DWS)

Notified	Type	MI description	Status description as at July 2022 (AR Sign-off Date)	Status description as at February 2023	Next Step & responsibilities
17 July 2019	Prior year's MI Financial loss	Payment made to a consulting firm without evidence of work performed The financial loss to entity amounted to R17.9 million	<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. 	<ul style="list-style-type: none"> Disciplinary hearing on-going on 01-03 February 2023 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. 	



MIs identified - Status description as at February 2023



Water Trading Entity (WTE)

Notified	Type	MI description	Status description as at July 2022 (AR Sign-off Date)	Status description as at February 2023	Next Step & responsibilities
18 July 2019	Prior year's MI Financial loss	<p>Payment not made within 30days resulting in additional interest.</p> <p>The financial loss to entity amounted to R2.2 million</p>	<p>Accounting officer, on 4 July 2022, instructed the state attorney to issue summons for the recovery of R2 264 737 from the former officials.</p> <p>The entity received a response from the state attorney on 26 July 2022, indicating that the state attorney is in the process of appointment of an Advocate to assist in the matter.</p>	<p>On 19 October 2022, state attorney responded to the entity after having assessed submissions made by the requesting SSA to issue summons.</p> <p>State attorney indicated that the matter has prescribed in line with the section (11)(d) of the prescription act of ordinary debt which prescribes within 3 years period.</p> <p>Further SSA indicated that they can argue that the pandemic and declaration of national disaster interrupted the running of prescription.</p> <p>The matter is undergoing legal processes with the state attorney</p>	
08 December 2021	Prior year's MI Financial loss	<p>Site re-establishment and standing time fees</p> <p>The financial loss to entity amounted to R39 million</p>	<p>Investigation by PSP was finalised on 8 July 2022. Accounting officer committed to implement the following actions:</p> <ul style="list-style-type: none"> • Implement disciplinary action against implicated officials within the entity by 30 April 2023. After completion of the project. • Appoint a dedicated financial manager, by 01 September 2022, to the Hazelmere Dam Project to ensure that the financial controls are rigorously enforced 	<p>The permanent load cells were procured and installed. This procurement process was what delayed the project and resulted in significant standing time costs.</p> <p>The disciplinary processes have not yet been initiated, the investigation report recommended that these be only initiated after the construction is finalised.</p> <p>The dedicated financial manager on the project was appointed and monitored spending on the project.</p>	



Pro-active Reviews of APPs



Understand **preparation and revision process** of updated five-year plans and final draft annual performance plans

Determine whether the **prior year's material misstatements** were considered in new draft plan

Assess the **completeness of relevant indicators** relating to core functions prioritized for the scoped-in subject matter.

Assess the **measurability, relevance and quality of the indicators** and targets planned (per scoped-in subject matter)



Enable insights to AA/AO, executive authorities and oversight through discussions of the pro-active findings

NOTE: Proactive review findings **will not have an impact on the audit conclusion** of the scoped in subject matter for the year under review (2022/23)



Programme	Measure	Annual Target	Auditors comment
Programme 2: Water Resources Management	National Water and Sanitation Master Plan updated	Draft update to National Water and Sanitation Master Plan	Indicator definition refers to measurement of the implementation of the plan however appropriate systems are not in place to measure implementation. Management subsequently corrected the technical indicator description to measure only the updating of the plan.
Programme 3: Water Services Management	No significant deficiencies regarding indicators and targets were noted		

Overall Key Findings:

- Technical indicator descriptions (TIDs) did not clearly indicate the means of verification and source of data for some indicators in programmes 2 and 3. The TIDs provide important details that facilitates the measurability and verifiability of indicators and targets. It is important that the TID adequately supports the reliable reporting of the indicators and targets.
- Management have made corrections to the draft APPs for audit findings raised



- Matters identified were discussed with TCTA officials on the 23 Feb 2023 and communicated as part of the interim audit. Formal responses to the findings are awaited together with the Board approved plans.
- In terms of TCTA's planning processes, Technical indicator descriptions (TIDS) are only prepared after the SHC is approved by the Board. We therefore did not consider measurability in line with the TIDS. We assessed measurability processes based on the auditors understanding of existing current business processes in place.
- Once TIDS are available we will conduct a detailed assessment on measurability
- DPME circular 6 of 2022 is not applicable to TCTA - Schedule 2 entity

The table below indicates objectives we performed pro-active reviews:

No.	Objectives	No. of measures	No. of targets	Findings of measurability (usefulness)
1	Raise funding for implementation of infrastructure	3	5	No
2	Implement capital projects on time, within budget, to the appropriate standards and in a sustainable socio/ environmental manner	1	3	No
3	Operate and maintain designated assets to meet DWS requirements/ specifications	3	7	Yes
4	Manage debt within the approved borrowing limit	1	1	No
5	Ensure organisational positioning for the planned Water Agency	1	1	No
6	Maintain the highest standard of internal control environment	3	3	Yes
7	Ensure that all IT systems are implemented to support the business	2	2	No
8	Position TCTA as a thought leader in critical aspects of water security	2	2	No
9	Embed team effectiveness to improve a performance culture that manifest as an agile organization.	1	1	No



Strategy objectives	Measure	Annual Target	Auditors comment
Operate and maintain designated assets to meet DWS requirements/ specifications (Scoped in objective for audit)	LHWP Delivery Tunnel North – Ensure infrastructure is operated and maintained to ensure scheduled water deliveries from Lesotho can occur	Implement scheduled annual operation and maintenance plan and limit unscheduled outages to ensure 100% delivery of annual scheduled volume	The target seems to measure three outputs in one which are: a) Implement scheduled annual operation and maintenance plan b) Limit unscheduled outages c) Ensure 100% delivery of annual scheduled volume It is not clear how the actual achievement is going to be measured for this target, which includes three targets in one.
		No target in shareholders compact.	The 2022/23 financial year shareholders compact included a target "award tender for PSP for the 2024 tunnel outage by 30 September 2022" however there is no target in relation to the outage in the 2023/24 shareholders compact. The operations and maintenance of delivery tunnel north includes the shutdown every 5 years as per treaty. It is a critical TCTA function that should be monitored and measured to ensure effective operations and ensure that there are no delays in implementation. Therefore we are of the view that there should be a target in relation to the shutdown/ tunnel outage due to its importance.
Maintain the highest standard of internal control environment (Objective not scoped in for audit)	Clear legacy irregular, Fruitless and Wasteful Expenditure	0% irregular and fruitless and wasteful expenditure incurred	a) The measure and target do not speak to each other (clearing vs no incurred) b) The quarterly key performance indicators also refer to "100% Compliance to the SCM policy in procuring of goods and services" which does not align to the target and does not give indicators towards reduction of legacy irregular, fruitless and wasteful expenditure. c) It is not clear what legacy means (as TIDS have not yet been prepared by the entity) d) Target is not time bound as there is no target date for clearing.
		Unqualified audit opinion in 2023-24 financial year.	There are two types of unqualified audits: a) Unqualified with findings (Financially unqualified with findings in compliance and/or predetermined objectives) b) Unqualified with no findings commonly referred to as clean audit (Financially unqualified with no findings in compliance and no findings in predetermined objectives). The target should be specific for which unqualified audit it relates to.



THANK YOU



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