

STANDING COMMITTEE OF PUBLIC ACCOUNTS – REVIEW OF UNAUTHORISED EXPENDITURE

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WATER IS LIFE - SANITATION IS DIGNITY



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



PURPOSE

To brief the Standing Committee on Public Accounts on the Department of Water and Sanitation's unauthorised expenditure

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INTRODUCTION (1)

- The Department (inclusive of the Water Entities) has developed and is currently implementing a Turnaround and Financial Recovery Plan addressing *inter alia* the following:
 - Service delivery improvement
 - Improving performance and discipline/consequence management systems
 - Institutional stabilization
 - Organisational restructuring
 - Building internal capacity and staff training and development
 - Improvement of Supply Chain and Financial Management
 - Improved infrastructure maintenance and development
 - Improved leadership, ethics and organisational culture

INTRODUCTION (2)

- The Department was previously considered bankrupt, due to bank overdrafts, unfunded accruals and commitments
- As a result, the department owed the Trans-Caledon Tunnel Authority (TCTA), service providers and contractors more money than was available and operated on bank overdrafts
- The department was in a very poor financial position with negative audit outcomes
- There were many cases of corruption, unauthorised, irregular, fruitless and wasteful expenditure
- Implementation of the Turnaround Plan has resulted in the situation where the department is now in a healthy financial position. Incidents of irregular and unauthorised expenditure have been greatly reduced

INTRODUCTION (3)

- As part of its Turnaround and Financial Recovery Plan, the Department has been:
 - a) Strengthening internal controls to reduce the risk of future unauthorized, irregular and fruitless expenditure
 - b) Carrying out investigations (through internal audit) into historic unauthorized, irregular and fruitless expenditure and implementing the recommendations of the investigations, including taking disciplinary action, strengthening controls, recovering money in instances of financial loss and laying criminal charges
 - c) Seeking National Treasury condonation once the processes in b) above are completed and Parliament approval of unauthorised expenditure.
- The Department is in the process of dealing with all its historic unauthorized expenditure through the above processes
- The Department has not had any new unauthorized expenditure since the 2018/19 financial year

PART A: UNAUTHORISED EXPENDITURE OF DWS

UNAUTHORISED EXPENDITURE OF DWS (1)

- a) The Department's remaining uncondoned unauthorised expenditure is made up of two financial years (2016/17 and 2017/18), encompassing both the overspending of a vote and a main division within a vote
- b) The root cause on both financial years was non-compliance with section 39 (1) Public Finance Management Act (PFMA) which requires the accounting officer for a department to ensure that:
 - (a) expenditure of that department is in accordance with the vote of the department and the main divisions within the vote; and
 - (b) effective and appropriate steps are taken to prevent unauthorised expenditure.

Similarly, section 39 (2) states that an Accounting Officer, for the purposes of subsection (1), must - (a) take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote.

- c) Commitments in respect of the Bucket Eradication Programme were unfunded and similarly a directive issued on the War on Leaks programme was unfunded

UNAUTHORISED EXPENDITURE OF DWS (2)

- d) The War on Leaks programme was initially funded from the Water Trading Entity (WTE), which led to irregular expenditure for the WTE and contributed to the bank overdraft. As part of the corrective measures, the WTE had to refrain from spending on unfunded mandates such as municipal water services projects and War on Leaks programme. This led to the transfer of the War on Leaks programme commitments to the Main Account of the Department resulting in significant budget pressures and unauthorised expenditure.
- e) The audit reports of the Department and its Water Trading Entity were qualified including the following:
- **Department** had an overdraft of R119 million (2016-17: R193 million), cumulative unauthorised expenditure of R933 million (2016-17: R406 million); accruals and payables to the value of R2,005 billion (2016-17: R1,572 billion) as at 31 March 2018; and existence of material uncertainty that may cast significant doubt on the department's ability to continue as a going concern.
 - **Water Trading Entity** incurred a deficit of R573 million (2016-17: R3,764 billion) during the year ended 31 March 2018. The Entity incurred an overdraft of R1.412 billion (2016-17: R2.187 billion); accruals and payables to the value of R1.424 billion (2016-17: R1.519 billion) as disclosed in note 18 to the financial statement; and existence of material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. Furthermore, the entity's budget for 2018-19 was only approved on the 3rd of August 2018.

PART B: UNAUTHORISED EXPENDITURE 2016/17

Unauthorised expenditure 2016-17 financial year (1)

2016-17 Appropriation per Programme

Programme	Final Appropriation R'000	Actual Expenditure R'000	Variance R'000
Administration	1 547 743	1 504 930	42 813
Water Planning & Information Management	749 656	695 604	54 052
Water Infrastructure Development	12 130 318	12 082 462	47 856
Water and Sanitation Services	778 488	1 070 757	-292 269
Water Sector Regulation	318 392	281 685	36 707
Total	15 524 597	15 635 438	-110 841

- The Department exceeded the budget allocated to the vote by **R110.841** million due to overspending on Bucket Eradication Programme (**R292.269** million).
- In 2012, DHS commissioned an audit on the state of sanitation in South Africa and found that some provinces and communities were still using bucket toilets as a form of sanitation.
- The prevalence of buckets was found in 4 provinces including the Eastern Cape (7 237), Free State (32 042), Northern Cape (14 797) and North West (3 503) – Post 1994 close-out report.
- In 2014, the sanitation function (with the BEP programme that was already under implementation), was transferred from DHS to DWS upon proclamation of the new Department of Water and Sanitation.
- The scope of works included the replacement of the bucket toilets with a waterborne toilets, installation of a water and sewer reticulation network; connection to the bulk outfall sewer line; grey water network in 3 towns as a measure to conserve potable water. This scope of works is commonly referred to as “internal services.”
- The scope of works for BEP did not include the construction of outfall sewer lines (connecting the settlement to a pumpstation or direct connection to the Wastewater Treatment Works), refurbishment of existing pumpstations and construction of new pumpstations which contributed to the delays in completing the project
- Of the 52247 bucket toilets that had to be eradicated, 12221 toilets remain to be commissioned after the necessary bulk services are installed in the Free State and Northern Cape Provinces.

Unauthorised expenditure 2016-17 financial year (2)

Investigation outcomes

Conclusion:

- The Chief Director: National Sanitation Services mismanaged the budget that was allocated to the Bucket Eradication Programme resulting in material over-spending and unauthorised expenditure.

Recommendation:

- Disciplinary action should be taken against Chief Director: National Sanitation Services for mismanaging the budget that was allocated to the BEP resulting in material over-spending and unauthorised expenditure.

Implementation of recommendations:

- The relevant line manager was officially charged with misconduct in July 2017. The disciplinary hearing commenced on 27 July 2017 and was completed in July 2019; whereafter the Presiding Officer found that the said employee did not act contrary to the Department's policies relative to the charges pursued against him.
- The Presiding Officer ruled that there was insufficient proof that the employee deliberately, willfully and/or negligently caused the Department's financial loss in the management of the Bucket Eradication Programme. He was found not guilty on all charges levelled against him.
- In hindsight, DWS should have managed this disciplinary process better and more diligently.

Contributing factors to the unauthorised expenditure 2016-17 financial year

- The Bucket Eradication Programme was not properly planned when it was initiated by the Department of Human Settlements.
 - There were no proper feasibility studies for the programme.
 - Contractors were appointed without engineering designs being done
 - The estimated costs for the whole programme were not calculated, and hence the budget for the programme was insufficient.
 - There was no planning for upgrading of the waste water treatment works to deal with the additional sewage load resulting from increased numbers of connections to the water-borne sanitation systems.
- DWS also did not properly manage the programme when it took it over.
 - Contractual commitments exceeded the available budget.
 - The Department has since put in place improved controls to prevent overcommitments against available budgets (both within the SCM unit and the legal services unit before contracts are approved for signing).

PART C: UNAUTHORISED EXPENDITURE 2017/18

Unauthorised expenditure 2017-18 financial year (1)

Appropriation per Programme			
Programme	Final Appropriation	Actual Expenditure	Variance
	R'000	R'000	R'000
Administration	1 649 851	1 998 676	-348 825
Water Planning & Information Management	738 252	653 262	84 990
Water Infrastructure Development	12 844 465	12 146 247	698 218
Water Sector Regulation	374 881	308 053	66 828
Total	15 607 449	15 106 238	501 211

- Programme 1: Administration – The overspending of **R348.825** million was mainly due to expenditure incurred on the War on Leaks (WoL) Programme which was implemented without budget allocation.
- The Department embarked on the (WoL) Programme, with the main objective of reducing water losses.
- To support this objective, 15 000 youth would be trained in requisite skills; and would ultimately qualify for job opportunities that would contribute towards the improvement of the percentage annual average of water losses
- The Executive Authority issued a directive to Rand Water to manage the programme, and EWSETA was requested to do the training
- The delivery model was based on a three-phased approach for the recruitment, training and deployment to municipalities of plumbers, artisans and water agents. Planning for the three phases was as follows:
 - The first phase would have an intake of 3 000 learners with training from 2015 to 2018
 - The second phase would have an intake of 7 000 learners with training from 2016 to 2019
 - The third phase would have an intake of 5 000 learners with training from 2017 to 2020.
- Training was concluded after the implementation of phase 2, with 6964 learners having been trained.
- The Directive to Rand Water was withdrawn with respect to Phase 3.
- A Closeout Report is awaited from EWSETA, but there are delays due to the ongoing mediation process between EWSETA and the appointed Training Servicer Provider.

Unauthorised expenditure 2017-18 financial year (2)

Investigation outcomes

Conclusions:

- The directive to Rand Water to implement the War on Leaks programme was signed by the Executive Authority on 24 April 2015. At that time, the programme was not in the approved business plan for the financial year 2015/16 and was not budgeted for. However, the former Director General approved a request from the former Chief Financial Officer on 25 July 2015, requesting to use R650 million from the account of the Water Trading Entity for the War on Leaks programme. This was in contravention of Treasury Regulations paragraph 91.7.1. and led to irregular expenditure for the WTE and contributed to the bank overdraft.
- As part of the corrective measures, the WTE had to refrain from spending on unfunded mandates such as municipal water services projects and War on Leaks programme. The War on Leaks programme was then transferred to the Main Account of the Department resulting in significant budget pressures and unauthorised expenditure.

Recommendations:

- The former Director-Generals and former Acting Director-Generals should be held accountable and responsible for the unauthorised expenditure.

Implementation of recommendations:

- Only one official is still working for the Department with the others having resigned or on retirement.
- After considering representations from the remaining Official, the Director-General, on 14 October 2022, decided not to pursue disciplinary action (for now) pending the outcome of an application by the SIU for a proclamation to investigate the matter. The employee was informed accordingly.

Contributing factors to the unauthorised expenditure 2017-18 financial year

- The War on Leaks programme was initially funded from the Water Trading Entity (WTE), which was irregular. This led to the transfer of the War on Leaks programme commitments to the Main Account of the Department resulting in unauthorised expenditure
- Similarly to the Bucket Eradication Programme, the War on Leaks project was not properly planned
 - There was no proper feasibility study for the project.
 - There were no formal commitments from the municipalities to hire the learners.
- The former accounting officers and chief financial officers of the department should not have allowed the programme to be funded from the WTE (these officials had resigned or retired by the time DWS wanted to initiate disciplinary action).
- The Department has since put in place control measures to ensure that the revenues received in the WTE are only used for authorized purposes (which relate to national water resource functions, not to water services functions).

PART D: FINANCIAL RECOVERY PLAN

Financial Recovery Plan overview

Broad strategies	Key outputs	Status
Funding and budget management	Implementation of audit action plans	Internal and External Audit Action Plans were developed and are being implemented.
	Zero balance on overdraft	Positive bank balance achieved for both Accounts.
	Implementation of debt collection and revenue enhancement strategy	Implementation of Revenue enhancement strategy, credit control and intergovernmental relations.
Expenditure control, financial governance and accountability	Implementation of the accruals and payables management plan	Prior years' accruals and payables have been reduced through payments made from reprioritised budgets.
	Fruitless and wasteful expenditure condonations and remedial measures.	Preventative measures have been implemented to ensure that no further incidents are reported.
	Irregular expenditure condonations and remedial measures report	Irregular expenditure was incurred on running contracts which were declared as irregular in the previous financial years. Dedicated capacity has been assigned to expedite investigations, disciplinary proceedings and condonations processes.
	Report on implementation of exit strategies on irregular contracts	Legal review of irregular contracts is in progress. This includes work by the SIU and Legal Services.
Alignment of strategic intent	Align strategy, annual performance plans (APP) and budgets	Strategy and APP have been aligned to Estimates of National Expenditure, Procurement Plans and Project Implementation Plans.
Capital budget and asset management	Comprehensive reconciliations of assets and liabilities to enable maintenance of proper accounting records for management and reporting purposes.	Status reports have been compiled for infrastructure assets with remedial actions. Annual engineer's reviews are also being compiled with remedial actions

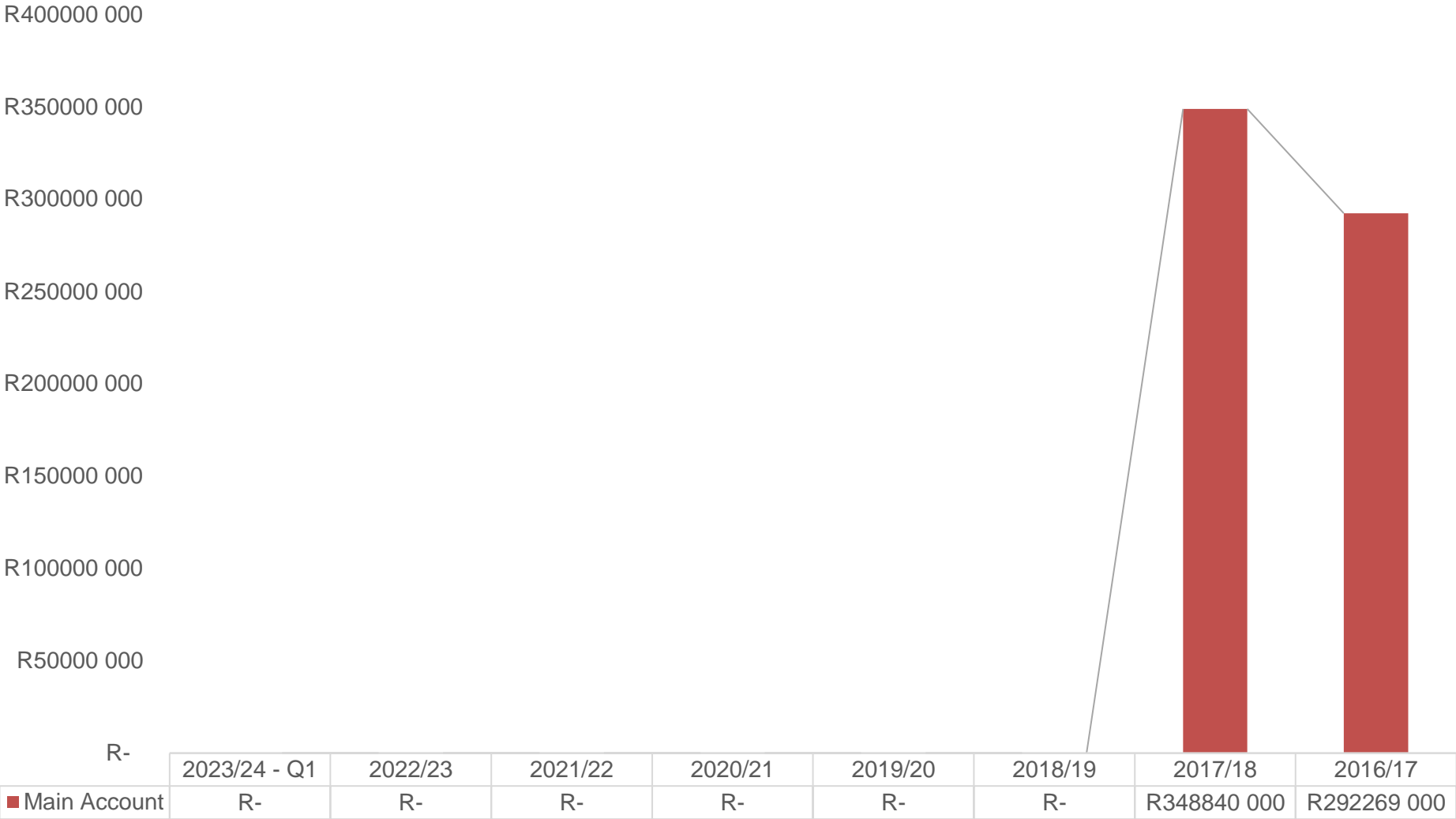
Other interventions to strengthen financial controls

- Continuous improvement of the control environment including implementation of preventative controls which limits the possibility of an undesirable outcome within projects, programmes, finance and supply management of the Department.
- Delegations, policies and standard operating procedures have been strengthened. For example, no commitments without appropriate confirmation of funds, no improper expenditure may be recorded on the financial system without proper assessment / investigation and approval.
- Enforcing accountability at all levels of the organisation and implementation of consequence management.
- Training, support and empowerment of bid committees, staff responsible for key supply chains and payment processes.
- Training and development initiatives including fraud awareness campaigns.
- Internal Audit conducted 98 awareness sessions during the period 2019/20 to 2022/23 wherein 2 585 officials were trained about anti-fraud and corruption measures, as follows:

Period covered	No of Sessions	Number of Officials
2019/20	22	900
2020/21	13	159
2021/22	30	502
2022/23	28	850
2023/24	5	174
Total	98	2585

Unauthorised Expenditure Trend Analysis (Annual Movement)

Annual Movement Analysis



Conclusion

- Trend analysis of improper expenditure is reflecting a decline in incidents of unauthorised, irregular, fruitless and wasteful expenditure.
- Measures are in place to eliminate unauthorized, irregular, fruitless and wasteful expenditure including finalization of all the investigations to enable condonations in line with National Treasury Instruction notes.
- An exit strategy on irregular contracts is also being implemented to ensure that the current incidents of irregular expenditure resulting from prior years' contracts are terminated.
- Stringent cash and banking management controls are being implemented including the liability management (commitments, accruals and payables).
- Progress has been made on disciplinary and investigation matters including continued engagement with various law enforcement agencies.
- The Department is collaborating with the SIU for all the SIU investigations into the old unauthorized and irregular expenditure. In some cases, this has resulted in the Department recovering substantial amounts of money, e.g., R413.121 million recovered from the SAP contract. EOH has agreed to pay back R191.883 million, inclusive of interest, over a period of 36 months.

THANK YOU