



**PFMA
2022-23**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on Water and Sanitation**

10 October 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.



Consuming unsafe water



Schools using pit latrines, no basic amenities

Crossing rivers without bridges



CONTINUED MISUSE of state resources and persistent weaknesses in systems of transparency, accountability and performance are of significant concern for citizens of South Africa broadly

THE NEGATIVE IMPACT on the lived reality of South Africa's people is the most important story represented by the numbers, findings and audit outcomes.

Heavy duty goods transported through roads



Learners learning under trees



Overcrowded hospitals



High influx of illegal immigrants

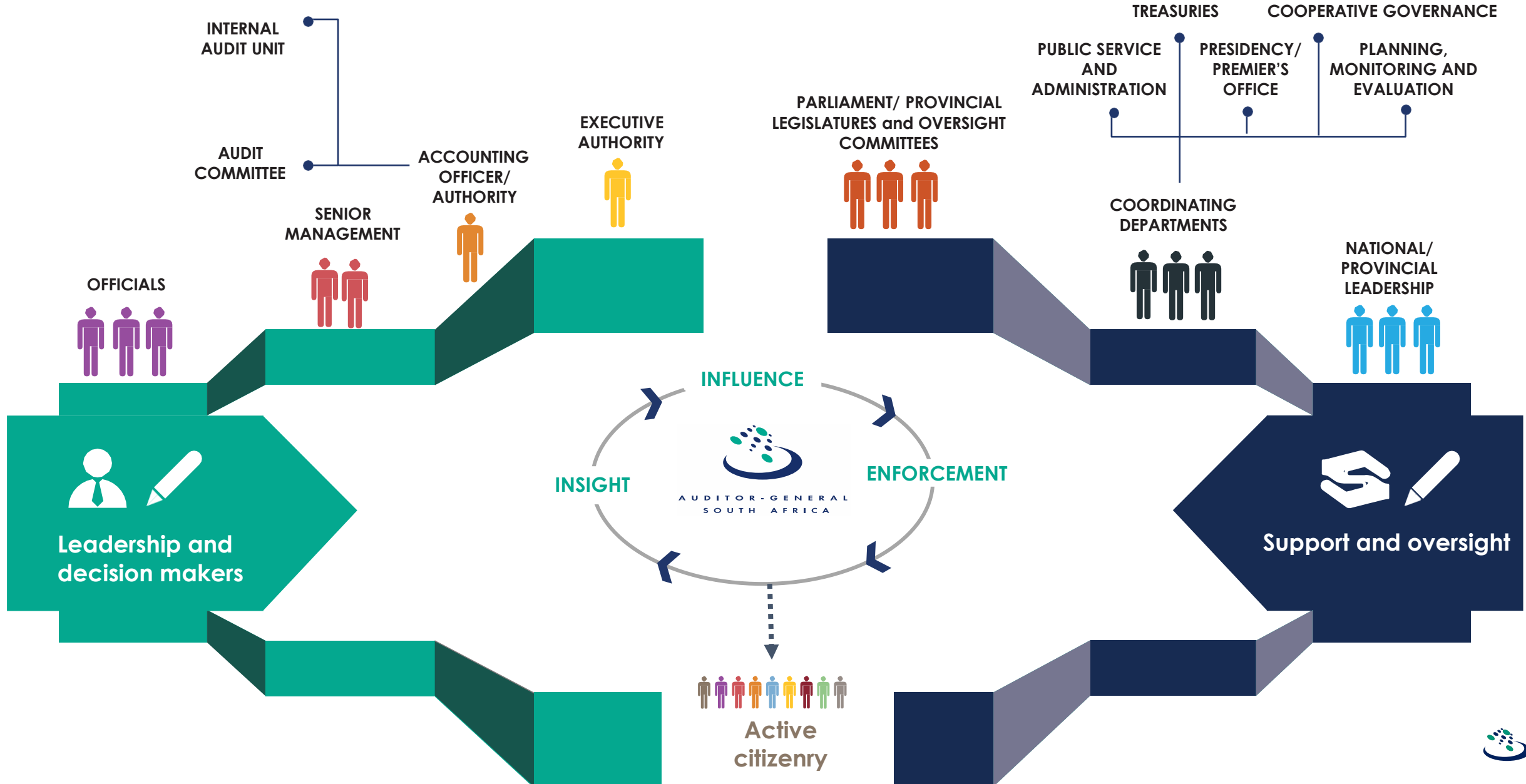


Living in mud houses and shacks



Load shedding

All have a role to play in accountability ecosystem



Improvement over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2019-20 FIRST YEAR OF ADMINISTRATION	0	4	0	0	0	0	4
2021-22	1	3	0	0	0	0	4
2022-23	1	3	0	0	0	0	4

MOVEMENTS FROM PREVIOUS YEAR:
 4

FROM FIRST YEAR OF ADMINISTRATION:
 1  0 

Water Research Commission (WRC)

Department of Water and Sanitation (DWS)
 Water Trading Entity (WTE)
 Trans Caledon Authority (TCTA)

None

None

None

Submission of financial statements by legislated date for portfolio remained at **100%**

The audit outcomes of the portfolio reflect an **overall stagnation** in audit outcomes from the prior year. DWS received an unqualified audit opinion with material findings on predetermined objectives and compliance. WTE and TCTA also remained stagnant with an unqualified audit opinion with material findings on matters of compliance. We commend WRC for maintaining its clean audit opinion.

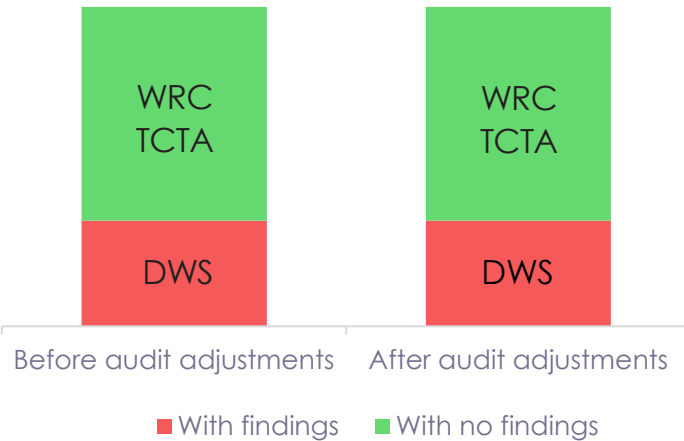
The portfolio achieved 1 improvement since the 1st year of administration as WRC moved from unqualified with findings to clean



Portfolio performance



Quality of performance reports before and after audit*



Findings: Planning for service delivery

- No findings on usefulness or completeness of relevant indicators were identified

Findings: Reporting

- DWS- PPI 3.5.1 - Percentage scheduled maintenance projects completed as a proportion of planned maintenance projects - An achievement of 45% was reported against a target of 50%. However, the audit evidence did not support this achievement. We could not determine the actual achievement, but we estimated it to be materially less than reported. Consequently, it is likely that the underachievement on the target was more than reported.

Impact

- Failure to properly implement scheduled maintenance projects will result in a deterioration of the life-span of the identified assets, requiring substantial investments in new infrastructure when it cannot be utilised any longer. In addition, water infrastructure not properly maintained results in the substantial loss of water as leaks occur throughout the water delivery process i.e. dams, reservoirs, pipelines etc. This is a scarce resource that our country cannot afford to lose.

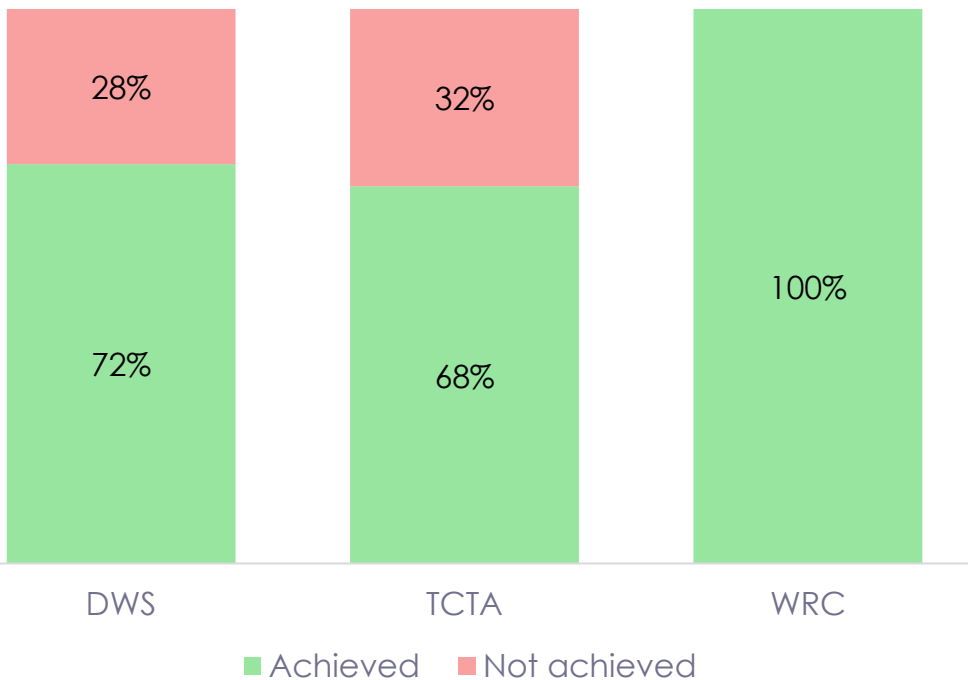
*WTE plans and achievements are included in the annual performance documents of the department



Key targets in medium-term strategic framework for portfolio

Timeframe for water use license applications reduced by 50% by 2020 (150 days)
 16 main stem rivers monitored for implementation of Resource Directed Measures (i.e. classification, resource quality objectives and the reserve) by 2024
 12 221 bucket sanitation systems eradicated in formal areas
 Number of water treatment works assessed - 1 010 every 2 years – alternating with Green Drop assessments
 53 bulk water infrastructure projects completed
 No. of wastewater treatment works assessed - 963 every 2 years alternating with Blue Drop assessments
 An approved National Sanitation Integrated Plan implemented - 2 implementation reports per annum
 Number of dam safety rehabilitation projects completed - 9 dams' rehabilitation projects

Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23



Key targets not achieved include:

DWS and WTE

- Timeframe for water use license applications reduced by 50% by 2020 - **currently 110 days to process applications**
- No. of bulk water supply projects completed - **47 completed over MTEF period**
- No. of bucket sanitation systems eradicated in formal areas - **696 achieved**
- Number of dam safety rehabilitation projects completed - **1 completed**

TCTA (Presidential projects)

- MCWAP – 2A: Award of main construction contract
- BRVAS: Award of design and build tender

Impact of targets not achieved

- The delays in the finalisation of projects **cause significant harm or undue hardships** to the communities intended to benefit from these projects, including the bucket eradication and BRVAS and MCWAP projects. This also results in significant costs increases over a period.
- Delays in turn-around times for approving water use licences has economic consequences for applicants and can affect the food .
- Delayed dam safety projects places lives of surrounding community members at risk.



Achieving key performance targets – summarised information from performance report

DWS

Performance indicator	Target	Actual performance	Reason for non-achievement
Number of existing bucket sanitation backlog systems in formal settlements replaced	10798	0	There were several challenges linked to the project including: procurement for goods and services, Labour and SMME disputes Inclement weather
Number of bulk raw water projects under construction	4	2	Tzaneen- Delay in the submission of the application for the Construction Permit to the Department of Employment & Labour. ClanWilliam - Delays with the procurement of goods and services has resulted in the delay in the recommencement of construction activities
Percentage of applications for water use authorisation finalised within regulated period	80%	69%	Currently officials that are performing the water use authorisation function are also performing other functions. The Department is still in the process of finalising recruitment of officials dedicated to the water use authorisation function. Also, the function is also being performed in calendar days
Number of bulk raw water projects in preparation for implementation	4	1	Nwamitwa Dam- Delay in the receipt of the signed dam boundary line drawings and the resultant delay in the completion of the land schedules Coerney Dam - Delay in the appointment of the PSP to carry out the design work Foxwood dam - Delay in the appointment of the PSP to undertake the design and construction supervision
Number of dam safety rehabilitation projects completed	2	0	Nkadimeng Dam- - Due to additional scope of work to address dam safety risk Marico Bosveld Dam - Due to additional scope of work to address Dam Safety Risk
Percentage scheduled maintenance projects completed as a proportion of planned maintenance projects	50%	45% (473 of 1046)	New term contractors were appointed midway through the financial year and required some time to acclimatise with the departmental procedures.
Percentage unscheduled maintenance projects completed as a proportion of planned	≤30%	35% (364 of 1046)	The extended period without access to maintenance contractors, caused a deterioration which exacerbated the backlog.
Number of WSAs assessed for compliance with the requirements of the No Drop Regulatory Programme	144 WSAs assessed	0 WSAs assessed (Draft No Drop Watch report)	Low submission rate from the WSAs as 42 of the 144 had submitted for assessment
Number of large regional bulk infrastructure project phases under construction	67	65	Driefontein BWS Ph 2 of 3: The project RBIG commitment ceiling has been reached. There is no allocation for the current financial year. The project is about 99% complete and the contractor moved off-site due to the municipality's failure to pay its invoices. Nebo Ph 3 of 3: The contractor vacated site due to financial challenges.
Number of large regional bulk infrastructure project phases completed	13	5	CHDM Cluster 4 Phase 4 and 5: the poor contractor performance delayed the completion of these projects. Ngwathe BWS Phase 3 of 3: community strikes, relating to 30% sub-contracting, the project has lost many days that have affected the completion time Driefontein BWS Ph 2 of 3: the contractor moved off-site due to the municipality's failure to pay its invoices. Empuluzi phases 3B, 5, 6: Delays by the contractor to finalise the works as affected by flooding
Number of water supply systems assessed for compliance with Blue Drop	1035	979	When conducting the assessments, it was found that some water supply systems were decommissioned and thus could not be assessed

Achieving key performance targets – summarised information from performance report

TCTA

Performance indicator	Target	Actual performance	Reason for non-achievement
Reaching of project critical milestones as reflected in the project plan	MCWAP – 2A: Award of main construction contract	MCWAP – 2A: The main construction contract was not awarded.	In terms of National Treasury Instruction Note No.3 Section 8.4 the procurement process could not be initiated until funding had been secured
	BRVAS: Award of design and build tender	BRVAS: The design and build tender was not awarded	The outcome of the conceptual designs concluded in February 2022 resulted in a significant increase in the project implementation timelines and capital cost estimate to completion. The significant increase in the project capital cost estimate necessitated the review of the adopted design and build contracting strategy.
Operate and maintain the plant to meet the minimum operating volumes	<p>Eastern Basin: An average daily volume of treated water of between 80% and 90% of the max treatment capacity of 100 MI/d, including planned outages, calculated over the full year.</p> <p>Adjusted for any force majeure or other events outside TCTA's control.</p>	<p>Eastern Basin: An average daily volume of treated water of 21 MI/d (21%) of the max treatment capacity of 100 MI/d calculated over the full year.</p> <p>No adjustments were made as no force majeure or other events outside of TCTA's control occurred in the period.</p>	The Eastern Basin AMD Plant was not in operation from 01 April 2022 to 17 December 2022 due to the failure of all the AMD pumps' motors. New AMD pump motors were sourced from the alternative supplier and delivered to the AMD Plant in November 2022. Two AMD Pumps with new motors were commissioned in December 2022 and thus the AMD Plant was brought back to operations on 17 December 2022, achieving less than 70% of the DWS agreed volumes. The last AMD Pump was commissioned in February 2023, thus enabling the AMD Plant to operate within the DWS agreed parameters of 80% to 90% of the max treatment capacity of 100 MI/d.
LHWP Delivery Tunnel North – Ensure infrastructure is operated and maintained to ensure sustainable water deliveries from Lesotho	Award tender for the PSP contract for the 2024 tunnel outage by 30 September 2022	<p>The tender for the PSP contract for the 2024 tunnel outage had not been awarded by 30 September 2022.</p> <p>The revised and improved tender document was developed and approved by the bid specification committee on 28 March 2023.</p>	The tender process for the PSP failed due to conflict of interest issue in the single response received.





DWS – RBIG Project Management

Impact:

The delays in the finalisation of projects cause **significant harm or undue hardships** to the communities that were meant to benefit from these projects.

During our visit to the communities that were meant to benefit from the project they highlighted **concerns with the water shortages and water quality** in their area.

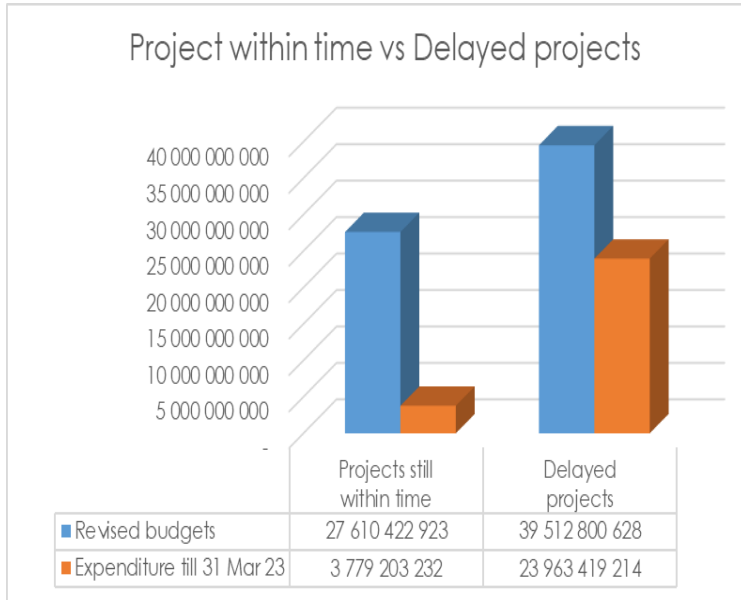
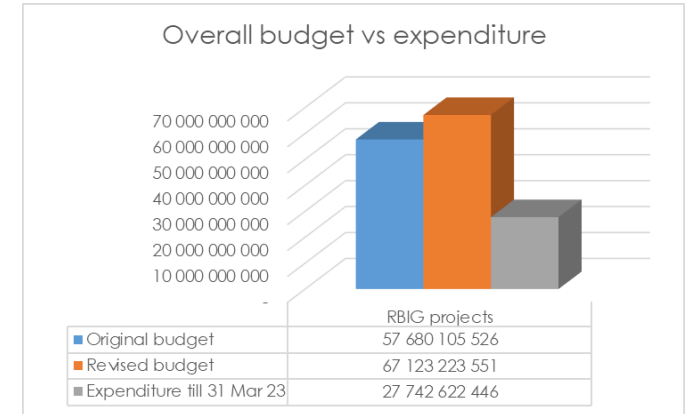
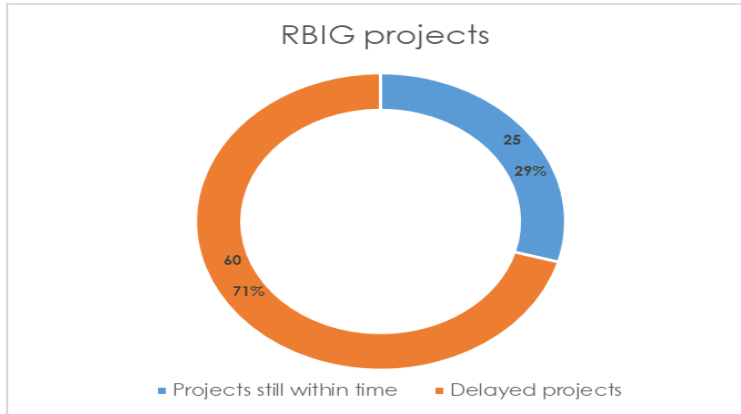
Cause:

- **Appointment of beneficiary municipalities** with history of poor financial controls and lacking adequate capacity
- **Poor performance of implementing agents** – inadequate contract management – no actions taken for poor performance
- **Poor performance of contractors not identified** in a timely manner.
- **Contractors abandon site** due to cash flow challenges or non-payment by municipalities
- **Delays in the procurement process** both to appoint contractors and also on procuring some of the materials
- **Access restrictions** by community leaders and protests by the community as they also want to be part or benefit from the project
- **Poor project management** both by the implementing agent and the department
- **Poor oversight and monitoring** by the department

Recommendations to Accounting Officer:

- The project management unit must be adequately capacitated with the right skills to drive the performance targets that have been set for RBIG projects.
- The project managers must properly monitor the performance of implementing agents and contractors. Corrective action must be implemented as may be necessary, including invoking penalty clauses.

Overall reflections on audit findings



Delayed RBIG projects

- 71% of the total RBIG projects are delayed in terms of completion.
- Over the years, as the projects were delayed the initial budget continues to be revised. To date there is an increase of budget by R9,4 billion
- The spending on these projects is also not always aligned to the initial plan. Variations in scope can be due to poor planning.
- If the root causes for poor project management is not corrected, there is a risk that other projects may be similarly delayed.
- Significantly delayed projects identified in the prior year audit were still incomplete when followed up with the current year audit.



Mandate reflection linked to service delivery – Bucket eradication programme (BEP)



DWS – Sanitation – Bucket Eradication Programme

Table below illustrated the performance of the project over the MTEF period

MTEF period	Annual target	Achievement reported	Budgeted amount R	Expenditure incurred R	% of budget spent
2020/21	10798	592	R190,292,000	R1,661,730	1%
2021/22	-	-	R367,285,000	R15,178,979	4%
2022/23	10798	0	R504,302,000	R12,774,018	3%

Reflections on audit findings

The bucket eradication programme targeted 4 Provinces with bucket toilets in formal areas i.e. Eastern Cape, Free State, Northern Cape and the North West. Targets were achieved in 2 Provinces i.e. Eastern Cape and North West, with outstanding work in the Free State and in the Northern Cape.

During the audit we noted that the bucket eradication programme has been significantly delayed mainly due to poor project management by the department, poor performance by appointed contractors and delays in procurement processes by the department.

These delays significantly impact the communities this project intends to benefit as they continue to be deprived of access to basic sanitation.



Lived reality

Aspirations



Key message on service delivery- Infrastructure

Project details - Delays experienced in infrastructure projects

PROJECT	PURPOSE	START DATE	PLANNED COMPLETION DATE	REVISED COMPLETION DATE	REASON FOR DELAYS
Mokolo Crocodile Water Project (MWCAP 2A) – Limpopo (TCTA)	The project will provide water to aid industrialization in addition to supplying the increasing demand from the Lephalale Municipality due to population growth and provide Exxaro with additional water for their mining activities.	November 2013	September 2020	June 2024	<ul style="list-style-type: none"> Award of main construction contract by 31 March 2023 did not take place. The procurement process could only commence once funding has been obtained. Funding was not available to enable implementation according to the Project . The delays in finalizing the design capacity from 103 m3/a to 75 m3/a.
uMkhomazi Water Project – Ump 1 Kwa –Zulu Natal (TCTA)	The uMWP-1 will augment the Mgeni Water Supply System, which is the main water source that supplies over five (5) million people and industries in KZN.	April 18	March 2020	March 2024	<ul style="list-style-type: none"> The project is still in the feasible phase due to the fact that no work done on Project Preparation to improve the level of project and scope definition. The project was transitioned from Preparation to Implementation in April 2022 without following any gate readiness review process as part of Project Gate Governance The borrowing limit request was declined due to the water user agreements not signed by all the municipalities. eThekweni and Harry Gwala agreement still to be concluded (public participation process required in terms of Section 33 of the Municipal Finance)
Berg River Voëlvlei Augmentation Scheme (BRVAS) - Western Cape (TCTA)	To abstract and transfer excess winter flows from the Berg River and pump it to the existing Voëlvlei Dam, increasing the yield by 23 million m3 per annum.	August 2018	March 2020	Jan 2024	<ul style="list-style-type: none"> The conceptual designs were completed in February 2022 and the outcomes resulted in material changes in the project implementation timelines and project cost estimate to completion which was approved by the Board in April 2022. The project charter was revised and approved by the Board in April 2022. BRVAS Award of design and build tender was not completed by 31 March 2023, however EXCO approved the contracting strategy (design to build) in February 2023. The execution copy of the Implementation Agreement currently going through DWS internal processes for signing by the DG.
Mzimvubu Water Project – Eastern Cape (WTE)	Development of a conjunctive scheme comprising of 2 multi-purpose dams and associated bulk water distribution infrastructure for domestic and irrigation water supply as well as hydro-generation.	17 March 2021	15 November 2021	17 December 2024	<ul style="list-style-type: none"> Disputes between the service provider to perform the drawings and DWS. Invoices not paid and matter currently under court process. Non adherence to the service level agreement Standard operating procedures that addresses the formalities with regard to engagements with potential service providers were not established and communicated: including among others is confidentiality of information were not in place Inadequate project management
Raising of Clanwilliam Dam – Western Cape (WTE)	Upgrading of existing dam to stabilize distortion and augmentation of agricultural water supply to meet increasing demands	Not yet started	31 March 2021	28 May 2028	<ul style="list-style-type: none"> Delay in procurement of support contractors to assist DWS construction unit Inadequate project management Changes on minister resulting in instability and reprioritization of the projects



Key message on service delivery - Infrastructure

Key observations – infrastructure management and delivery

- The trading entity has been underspending in the augmentation fund, primarily due to delays in major projects. The main causes of the delays include protracted procurement processes, non-performance of contractors, lack of plant maintenance resulting in plant breakdowns, challenges with land acquisition, and poor project management.
- The value of significantly delayed projects disclosed in the financial statement is R3,47 billion in the 2022-23 financial year, while the carrying amount of assets under construction is R5,89 billion. 59% of projects are delayed. This is a significant increase compared to 33% in the prior year.
- the key root causes for delays as identified by the entity mainly relate to:
 - inadequate supervision of contractors
 - poor performance of contractors
 - Inefficient supply chain management processes.



Impact of delayed projects

- Critical water infrastructure projects are delayed which may affect **service delivery to the ordinary citizens and communities as beneficiaries of the water value chain.**
- Delays in projects requires **continuous revision of project milestones** and completion dates which could further result in **escalated costs**
- **Farmers not having enough water to irrigate** farms which impacts on exports (wines, citrus, etc.)
- **Health concerns of ordinary residents** if they are unable to access clean water.

Key recommendations and responses – infrastructure management and delivery

TCTA to prepare a **detailed action plan to address the root causes identified.** The planned actions must clearly assign responsibilities to responsible staff members within the entity together with timelines for implementation. The action plan must be monitored regularly, and corrective action taken to ensure achievement of planned project completion dates to assist with improving access to water.

Stringent project management controls to implemented to ensure that delays on projects are kept to a minimum.

Improve Project Implementation Methodology (PIM) to include gates and to develop a gate governance process.

Project control processes and procedures developed should be implemented eg, Cost estimating procedure ,Cost control procedure, Management of change procedure ,Scope management procedure ,Planning and scheduling procedure , Risk management procedure

Development and implementation of a Project Governance Delegation of Authority. Currently only the Project Procurement Strategy is approved by EXCO, Variations above R20 million by the CE and the Project Charter by the Board. All other critical Project Decisions are not catered for in the Strategic and Operational DOA's.

Procurement improvements plan developed by the CFO to prevent failed tenders, SCM competency and capacity issues to support Infrastructure Projects





Maintenance of infrastructure at WTE

Impact:

Lack of maintenance results in the trading entity unable to **fulfil its mandate of delivery of water to the communities, farmers, mines, companies, water boards, municipalities** due to aged and dilapidated infrastructure assets.

The entity may also experience **water losses** that were supposed to be delivered to their customers leading to **loss of revenue**.

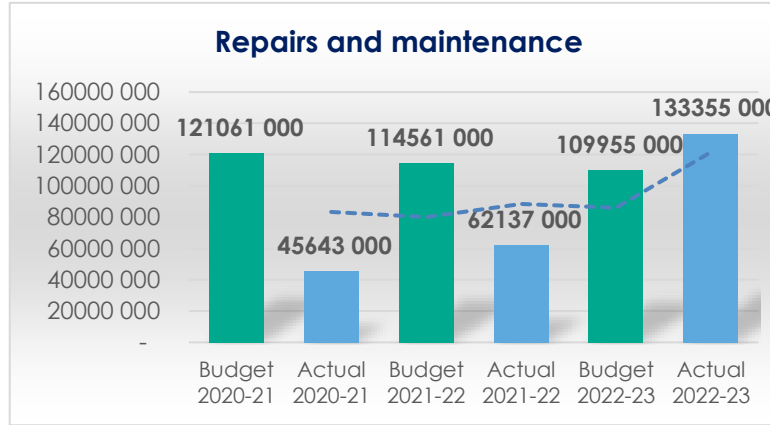
Cause:

- There is **no maintenance policy** in place to guide the maintenance of infrastructure assets
- **Asset management plan is outdated** and was last updated in 2018
- **Maintenance plan is not complete** and does not make reference to the asset number in the infrastructure asset register. In addition it was not in line with Government Immovable Asset Management Act (GIAMA).
- **Poor performance of contractors not identified** in a timely manner.
- **Delays in the procurement process** both to appoint contractors and also procuring some of the materials
- **Poor project management**
- **Poor oversight and monitoring** by the department

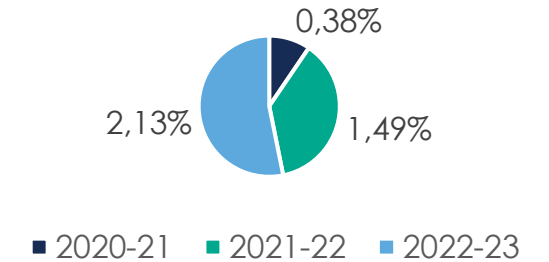
Recommendations to Accounting Officer:

- Improve conditional assessment of assets to identify assets that are in poor conditions timely.
- Supervision/ Monitoring of contractors to improve to ensure repair work performed is of the right quality.
- Supply Chain Management division to be adequately capacitated and the infrastructure procurement strategy to be implemented to limit delays in procurement.

Overall reflections on audit findings



Repairs and Maintenance as a % of Property, Plants and Equipment (Carrying Value)



Overall observation

Repairs and maintenance observations

- 42% of the trading entity's bulk water infrastructure assets are in a poor condition.
- Repairs and maintenance costs only amounted to 2.13% of the total infrastructure assets balance, lower than 8% prescribed by NT
- Maintenance budget was severely impacted by financial constraints experienced by the WTE in the 2018/19 financial year when the entity had an overdraft. The entity has since recovered from this however the maintenance budget is still significantly low. **Planned targets for maintenance were also significantly reduced and this has further contributed to the backlogs in maintenance**
- During 2022-23 financial year, **the entity adequately spent their maintenance budget.**
- The annual assessment of assets performed by management was incomplete (did not include all the assets). **Insufficient conditional assessment of assets may result in unplanned maintenance which often requires deviations from procurement process resulting in increased irregular expenditure** and lack of maintenance term contracts.
- Management is also **not appropriately supervising service providers on the job**. An instance was noted where a contractor was paid for repair work not fully performed, which resulted in **fruitless and wasteful expenditure and a material irregularity was raised.**





Water Quality – Blue and Green Drop watch reports

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

- Cause:**
- **No national action plan** to address the specific root causes identified by the blue and green drop reports
 - **Lack of adequate response by Water Service Authorities** to submit action plans as only 50% (168/334) submitted the required CAP's (Corrective Action Plans)
 - **Inadequate capacity at DWS** to review and monitor action plans of water service authorities
 - **Inadequate coordination** among responsible oversight entities (National Treasury, Cogta, provincial Cogtas, Salga, municipalities)

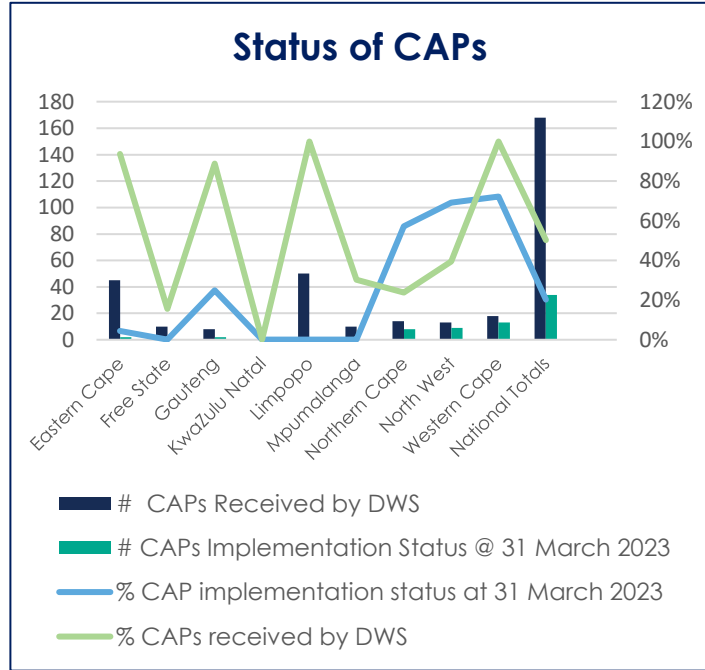
- Recommendations to Accounting Officer:**
- A national action plan must be developed and implemented by coordinating departments and entities, lead by the DWS to ensure that root causes identified are addressed in a timely manner.

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

Overall observation

BDWR - Out of 151 WSS sampled, 128 (85%) is found to be in 'average, good, and excellent' condition, whilst 23 (15%) is found to be in 'poor and critical' condition. The best overall performing water supply systems are found in Gauteng, followed by Western Cape and Eastern Cape. WSSs in poor and critical state are located in the Free State, Limpopo, Northern Cape, and North West.

GDWR - Nine Provinces and 334 municipal WWTWs were identified to be in critical state in 2022, receiving Green Drop scores below 31%. These municipalities were placed under regulatory surveillance in accordance with the Water Services Act (108 Of 1997) and required the WSIs to submit a detailed corrective action plan within 60 days from the publishing of the Green Drop 2022 Report.



We would like to commend the department for producing the green drop watch drop and the blue drop watch reports which keep the public and stakeholders informed and updated with information about the state of water and sanitation services in the country. The **reports identify** what needs to be done to address each of the **identified shortcomings**.
 A plan must be developed to address these root causes and recommendations.



Mandate reflection linked to service delivery – Water Losses



Water Losses

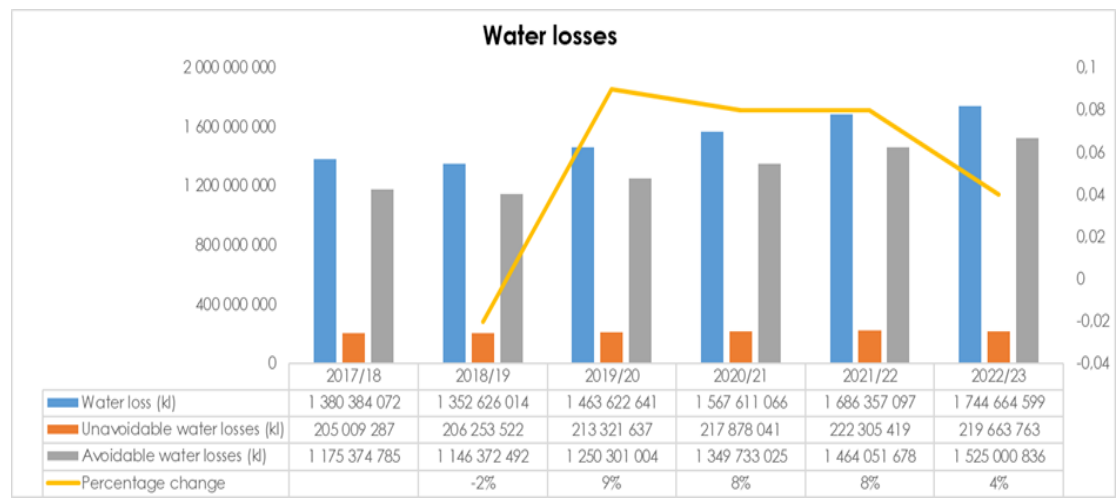
Impact:
Lack of adequate management of this scarce resource impacts on water availability in the short and long-term for drinking, farming and industrial use. Root causes not being addressed and therefore continued water and revenues losses.

- Cause:**
- **No water loss targets** set by the department to drive compliance by WSA's noting that currently as it stands the department has reconciliation strategies to monitor water demands which aims at reducing water demand.
 - **No evidence of review and monitoring** by the Department of action plans prepared by Water Service Authorities (WSAs) to address water losses
 - **No national action plans** prepared by the department to **address root causes of material water losses** in the system apart of the recommendation that are on the No drop report that are not even tracked for implementation however it's worth noting that currently the department at a high level regularly updates the water conservation and water demand management strategy which indirectly also address water losses
 - **Inadequate validation of water loss data submitted by Water Service Authorities** and the departments acknowledges this fact on their own No drop reports.
 - **No monitoring** of whether appropriate **action plans** are effectively **implemented by WSAs**

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

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

Overall observation results of the service delivery work



The above table depicts a picture that there is a general **increase of water losses**. The main root causes of water losses amongst others has been identified by the department as theft due to illegal connection; billing inaccuracies and leaks due to ageing infrastructure. A plan must be developed to address these root causes and recommendations.

Hypothetically, to put this number in context, the 1 525 million kilo-litres of avoidable water lost could serve 19.3 million people for a year

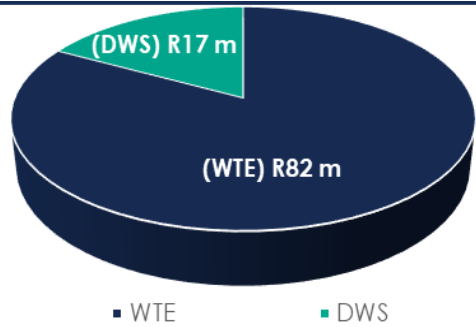
The **sector loses money spent** to treat water to become drinkable as well as the **opportunity cost** that could have been derived from the sale of water. Based on 2022/23 financial year this amounted to **R18.9 billion and R29.7 billion respectively**



Material irregularities



MATERIAL IRREGULARITIES



MI DESCRIPTION

DWS

1. Payment made to a consulting firm without evidence of work performed

WTE

1. Payment not made within 30 days resulting in additional interest paid.
2. Amounts paid to contractor for site re-establishment cost and standing time.
3. Payments made in vain for repair services not/not fully performed at various pump stations.
4. Delays in the construction of the raising of the ClanWilliam dam project resulting in financial loss due to site overhead costs.
5. Delays in the construction of the raising of the ClanWilliam dam resulting in likely harm to the public.



ACTIONS TAKEN BY AUDITEES

R0 m

Prevented financial loss from taking place

R49 m

Financial loss in process of recovery

R0 m

Financial loss recovered

4

Responsible officials identified and **disciplinary process** completed or in process

4

Investigations instituted

1

Stopped supplier contracts where money is being lost

2

Internal controls and processes improved to prevent recurrence

Observations from MI process

Consequence management steps are in the process of being implemented. Responsible officials identified and disciplinary action/ hearings in progress. **(DWS, WTE)**.

Slow response in implementing recommendations from investigations conducted. While steps have been taken by the accounting officer, there is still slow response in implementing some disciplinary actions. **(WTE)**

In some cases, the accounting officer has actively demonstrated willingness to see the processes through by instructing the state attorney to issue summons for the recovery from former officials of the entity. **(WTE)**

Management have made award of tenders to service providers to commence Clanwilliam dam project to prevent further losses and delays. **(WTE)**

The accounting officer implemented some internal controls to strengthen the efficient and effective monitoring of the performance of service providers against set deliverables and the review of appropriate verifiable supporting documents (Internal controls improved to prevent re-occurrence). **(DWS)**

Recommendations for portfolio committee

- Regularly engage the accounting officer and executive authority (at least quarterly) on the steps taken to/and or implemented to address the material irregularities identified.
- **The committee must request the department and its entities to focus on the implementation of proper and timely preventative controls to avoid any future potential matters that may give rise to material irregularities (MIs).**



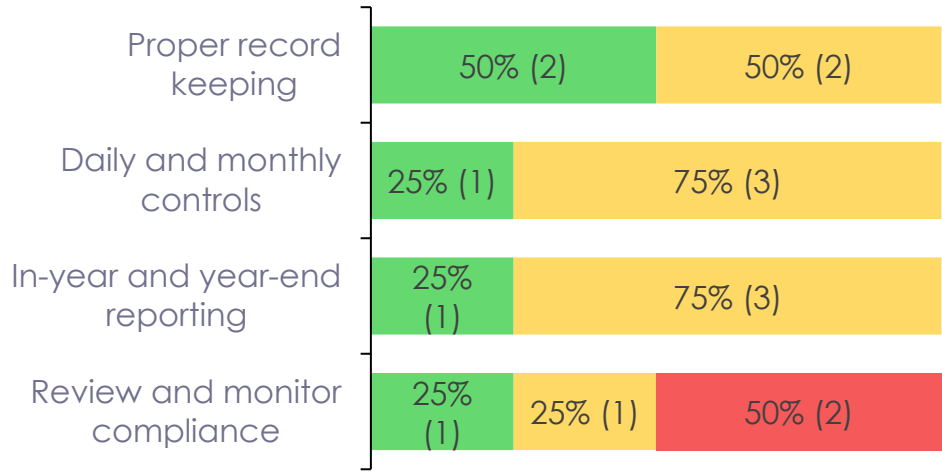


**Financial management
and compliance**

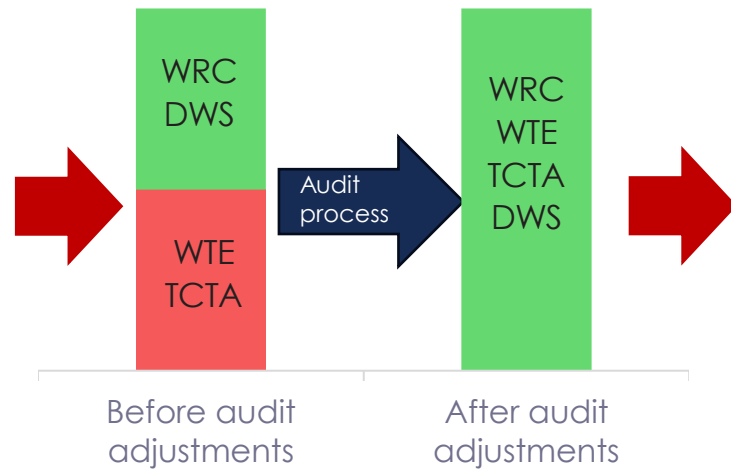


Impact on quality of financial statements submitted for auditing

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Outcome

Material misstatements were subsequently corrected resulting in the entities receiving unqualified audit opinions

Impact

- The financial statements for WTE and TCTA were submitted with material errors that were identified during the audit process. The correction of these material errors were allowed during the audit process.
- Inadequate financial management controls results in inaccurate information being available to management during the year, based on which critical in-year management decisions are made.





2022-23



● No material findings ● Material findings



Most common areas of non-compliance

DWS WTE TCTA

Procurement and contract management

X

Quality of financial statements

X

X

Prevention of irregular, unauthorised, and fruitless and wasteful expenditure

X

X

Effecting consequences

X

X

X

X Previous year's finding addressed

X New finding identified in 2022-23

X Repeat finding



Status of compliance with legislation on procurement and contract management



2022-23



MOVEMENTS FROM PREVIOUS YEAR:
4 →

FROM FIRST YEAR OF ADMINISTRATION:
1 ↑ 3 →

● With no findings ● With findings ● With material findings

Details of procurement findings	WTE
Uncompetitive and unfair procurement processes	R27 m
Prohibited awards to employees	No findings
Prohibited awards to other state officials	No findings
Limitations on audit of awards selected for testing	No findings

We did not identify any instances where payments were made for goods and services that were not received or were of poor quality



National Treasury Instruction No. 4 of 2022/2023: **PFMA Compliance and Reporting Framework** (Instruction) which came into effect on **03 January 2023**, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA

Public objective of the Instruction note is to prescribe the **principles and compliance reporting requirements** for PFMA institutions to the Public Finance Management Act, 1999 regarding **unauthorised, irregular and fruitless and wasteful expenditure** (UIF&WE).

Framework

The new framework brought **significant changes** in relation to the disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE). These changes are as follows:



- 1** **Movement** in the disclosure note of IFWE has been moved from annual financial statements to the annual report.
- 2** **PFMA institutions** will only disclose IFWE incurred in the current year, with a one-year comparative analysis.
- 3** **Historical balances (i.e., opening balances)** have been completely removed from the annual financial statements

Message to portfolio committee

The fact that the disclosure of IFWE (historical balances and movements) is **no longer required on the annual financial statements** and **no audit assurance** is provided thereon, the oversight structures would need to engage **directly with the information disclosed in the annual report** to exercise their oversight.

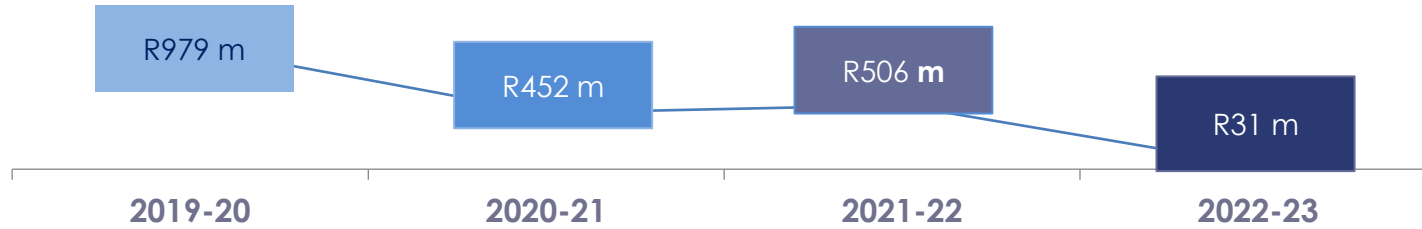
AGSA refined its audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report

There is a clear messaging in the audit report on reliability of the IFWE disclosure in the annual report

The objective was to ensure that we could still be in a position to report to users of the AFS in cases where these historic balances of IFWE are not complete and accurate. This had no impact on the audit opinion.



Annual irregular expenditure



Top contributors



Completeness of irregular expenditure

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

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

Impact of irregular expenditure incurred

No value for money: R0 m

Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive: WTE: R27 m , TCTA: R3 m

Limitation of scope: : R0 m

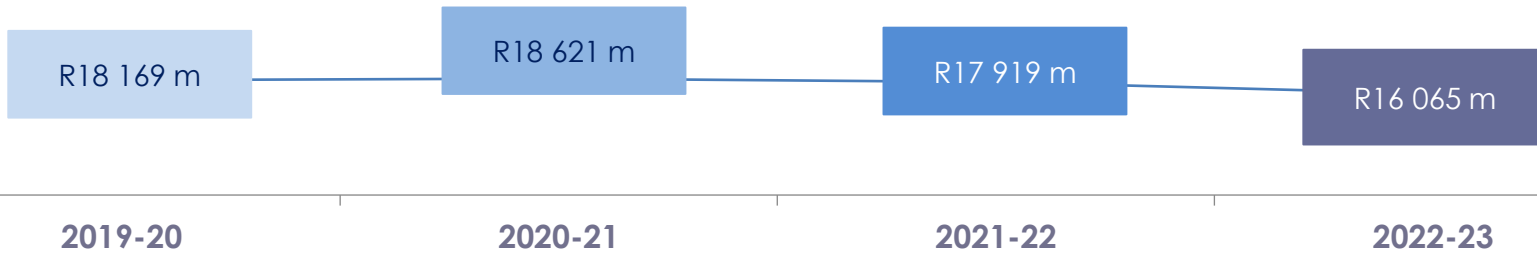
Other: DWS: R1 m (Employee costs related non-compliance)

Impact not yet assessed: R0 m



Consequence management – dealing with irregular expenditure

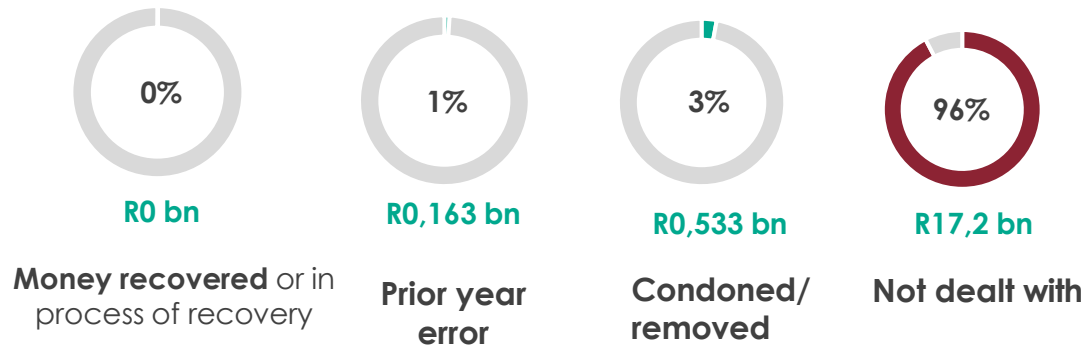
Closing balance of irregular expenditure continues to decrease



Reliability of IE balance

- IFWE historical balances not received:
- Not applicable.
- Material inconsistencies were identified
- Not applicable

How have auditees dealt with irregular expenditure



Top 2 contributors (R17,2 bn) to irregular expenditure not dealt with constitute 96% of R17,92 bn



Reasons for IE not dealt with:






1. Investigated and awaiting condonement
 - DWS
2. Investigation in progress Recommendations from investigations not timeously implemented
 - DWS
 - TCTA
 - WRC
3. Not yet investigated
 - DWS
 - WTE
 - TCTA



Conclusions and recommendations



In 2021-22, we recommended the following:

-  The executive authority, supported by the accounting officer to take effectiveness of steps to finalise the recalculation of the net benefit rate relating to the royalty payments made to the government of Lesotho (GOL)
-  Continuous monitoring of compliance with legal and regulatory provisions to avoid non-compliance findings, especially as it relates to the supply chain management environment to prevent irregular expenditure
-  Timeous monitoring and oversight over the proper implementation of action plans to address both internal and external audit findings be performed to avoid repeat findings. Ensure financial statements are appropriately reviewed and in line with accounting framework.
-  Detailed action plans which address challenges affecting management of water quality risks at Water Services Authorities and water losses at Water Services Authorities should be developed and implemented
-  Strengthen project management controls over the implementation of significant RBIG projects to complete delayed projects as soon as possible.

 Implemented  In progress  Not implemented

Overall reflections on implementation of recommendations:

- The accounting officer, supported by the LHWC and a management expert, has recomputed the net benefit rate of the LHWP. The recomputed rate was presented to the AG and is currently under review.
- Improvements were noted in the monitoring of compliance with legal and regulatory provisions relating to supply chain management. The portfolio has significantly reduced irregular expenditure incurred during the year.
- Improvements were noted in the quality of financial statements submitted by DWS.
- The department has developed a water services improvement plan to assist with improving service delivery at municipalities. The plan includes important initiatives for the sector, including:
 - Coordination with NT, COGTA, MISA and SALGA to develop appropriate action plans to address the root causes for challenges with water infrastructure, water quality and water losses
 - Development of a national regulatory dashboard for municipalities to allow for individual focused action plans to improve performance.
 - Review legislation to strengthen the department's oversight role/enforcement rights
 - Capacity building at municipal level for water service managers
- Significantly delayed projects identified in the prior year were not completed in the current year, despite revisions to completion dates

Root causes, recommendations and commitments

Key root causes

- Lack of national action plans to address the root causes identified for water quality risks and water losses at water service authorities.
- Non-implementation of an appropriate procurement strategy for the procurement of infrastructure goods/services.
- Lack of appropriate supervision/ monitoring of implementing agents and contractors to ensure construction/ repair work performed is of the required quality.
- The AO did not implement adequate and timely consequence management processes. Financial management controls were not adequate to prevent material errors in the submitted financial statements.

Key recommendations

- Continue to effectively implement the water services improvements programme, with a strong emphasis on collaboration with other responsible government entities, including NT, COGTA, MISA and SALGA. National action plans must be developed to assist the WSAs.
- A procurement strategy aimed specifically at procurement of infrastructure goods and services should be implemented at the WTE.
- Management should appropriately supervise/monitor implementing agents and contractors to ensure construction/ repair work performed is of the required quality
- Continue to monitor implementation of consequence management processes. Financial management controls must be strengthened to prevent material errors in the financial statements submitted for audit.

Commitments by executive authority

- The water services improvement plan will continue to be prioritised to ensure that planned milestones are achieved in order to improve service delivery.

Overall message to portfolio committee

- 1 Engage the accounting officer and executive authority on the steps taken to/ and or implemented to address the material irregularities identified.
- 2 Engage the accounting officer and the executive authority on the challenges experienced with the management of projects, which impacts on service delivery objectives and on the action plans developed to address the root causes of water losses and water quality risks.
- 3 Engage the accounting officer on progress made with the implementation of the water services improvement plan, including co-ordination with NT, COGTA, MISA and SALGA.
- 4 Continue to follow up on the implementation of consequence management and the action plans implemented by management to improve financial management controls.



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