



PERFORMANCE SNAPSHOT



Submission rate of financial statements

2017-18: 11% (1)

2016-17: 11% (1)

Number of auditees for which financial statements is still outstanding(Overberg).

Late sign offs

2017-18: 22% (2)

2016-17: 0% (0)

Auditees signed off after 31 October 2018 for which financial statements submitted by 31 August.



Audit outcomes

2017-18: *Slight regression*

2016-17: *Clear regression*



Media sensitivity

2017-18: 22% (2)

2016-17: 11% (1)

Auditees attracting negative media attention.

Outcomes per audit area:



Financial statements



Compliance



Performance reports



Irregular expenditure

2017-18: R 341 million

2016-17: R 294 million



EXECUTIVE SUMMARY

1

Overall, the audit outcomes for 2017-18 regressed compared to that of 2016-17, where an initial regression was noted during the audit take-backs, when all nine water boards were subjected to a focussed and improved coordinated audit approach focussing on the areas of risk noted in the water sector. Five (55%) water boards were financially unqualified with material findings and three (33%) were qualified, with 1 (11%) audit outstanding.

The only notable movement in audit outcome was at **Bloem Water which regressed from a clean audit** to financially unqualified with a material non-compliance matter as a result of material amendments having to be made to the financial statements submitted for audit. Management utilised incorrect supporting documents (progress reports signed by engineers as opposed to practical completion certificates) to capitalise assets and resulted in incorrect classification of capital expenditure between completed projects and work-in-progress. We also provide further details on the qualifications at Lepelle Northern Water, Mlhathuze Water and Sedibeng Water; under the summary of audit outcomes section.

2

Significant audit effort was also required to maintain the financially unqualified with material audit findings audit outcomes status at Rand Water, which is currently the largest water board. A number of significant audit findings were reported during the audit to which management only responded with the necessary veracity and rigour towards the end of the audit, *despite numerous early engagements*. These interventions successfully averted a regression, however specific attention is required to address these proactively as we acknowledge that many related mainly to matters open to interpretation of and/ or incorrect application of accounting standards and legislation. Contestations on findings regularly encountered could also be attributed to the fact that management performance bonuses are driven by financial information KPIs, which were mostly adversely affected upon certain material adjustments made to the submitted financial statements.

Although the Umgeni, Amatola and Magalies water boards obtained financially unqualified outcomes, **their action plans have not yielded any success in addressing the material findings reported** on the areas of compliance and/ or predetermined objectives to progress to clean audit status. At Magalies, a number of key vacancies such as chief financial officers' were filled during the year. A different stance and approach to consequence management is required at these entities to ensure improvement.

3

By 31 December 2018, **only the audit of Overberg Water Board was outstanding** for both the 2016-17 and 2017-18 financial years. The financial statements for 2016-17 were submitted on 3 August 2018 and we had anticipated completing the audit by 7 December 2018. This did not materialise due to the number and timing of the audit adjustments and the volume of supporting information coupled with the CFO position being vacant and no board being in place. Management requested a postponement to January 2019. The 2016-17 audit was finalised on 25 January 2019, which was a qualification.

The financial statements for the 2017-18 financial year were submitted on 31 August 2018 and the audit was anticipated to be completed by 31 January 2019, however with the extension on the finalisation of the 2016-17 audit, this was also impacted and a new date will be communicated and agreed to between management and the auditors.



The **overall status of internal control** is concerning, especially insofar as it relates to the lack of financial management disciplines. The financially unqualified water boards' internal control environment was not sufficient in preventing these entities from incurring material findings on matters of non-compliance with legislation and / or predetermined objectives, therefore exposing these entities to potential regression.



The quality of submitted **performance reports remained stagnant** with most of the entities being reported on their inability to produce credible and reliable performance reports.



All of the entities audited did not comply with legislation. The primary driver for this poor status of compliance, was non-compliance with SCM legislation. Although a decrease was noted in the amount, the overall balance of irregular expenditure incurred remained high at the water boards, emphasising the need for proper consequence management.



Financial Health status remained fairly stable, however some cause of concern was noted on the time which lapsed for creditor payments to be effected. Same applied for the collection period of outstanding debt with the majority of water board customers consisting of municipalities. This poor working capital management also resulted in certain water boards incurring negative cash flows from operating activities.



Water sector status: The **status of the water sector** as lead by the Department of Water and Sanitation (DWS) and the Water Trading Entity (WTE) **remains a cause for concern.** Due to maladministration of finances at the DWS and WTE in previous reporting periods, minimal to no funds are available to fund current service delivery plans as current funds are directed only at servicing old debt. The availability of water to all communities in future is at risk due to the inability to fund maintenance of current water infrastructure as well embarking on critical new projects.

Governance and impact: Continued to remains a concern due to the majority of water boards not having functional boards throughout the audit period or having had their boards dissolved after the 2017-18 financial year-end by the executive authority. This was exacerbated by the executive not making timely appointments of boards, in certain instances. The **impact of this could be seen in transgression of policies and regulations, mainly in the SCM environment.**

Umgeni, Mhlathuze and Overberg did not have boards appointed at the 2017-18 financial year end whilst the term of Bloem and Magalies water board ended after the 2017-18 financial year end.

Even more concerning is the instability and vacancies in critical management positions. The chief financial officer (CFO) positions of Amatola and Overberg were vacant as at financial year-end. For Overberg this resulted in delayed submission of annual financial statements (AFS) and at Amatola, material amendments had to be made to submitted financial statements.

The CEOs of Mhlathuze and Sedibeng were suspended at year end with persons acting in the positions. Both these water boards had qualified audit outcomes.

Accountability in action

To assist the sector with implementing our recommendations, we have used the plan+do+check+act cycle in our root cause analysis. The model highlights four fundamental building blocks to continuously improve the sector's processes, outcomes and services, which will strengthen its accountability. These can be summarised as follows:



PLAN: Spend sufficient time to clearly define the targets that should be achieved by the entities in terms of audit outcomes, service delivery and financial health using, among other, audit action plans, strategic and annual performance plans, annual budgets, and project plans.

DO: Entities should strengthen their financial and performance management systems through ensuring that the basics for a good internal control environment are in place, namely effective leadership, audit action plans, proper record keeping, daily and monthly disciplines, and the review and monitoring of compliance.

CHECK: Monitoring by the different assurance providers to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved is essential.

ACT: There should be consequences for transgressions, a lack of action and poor performance.

Movement over the previous year is depicted as follows:

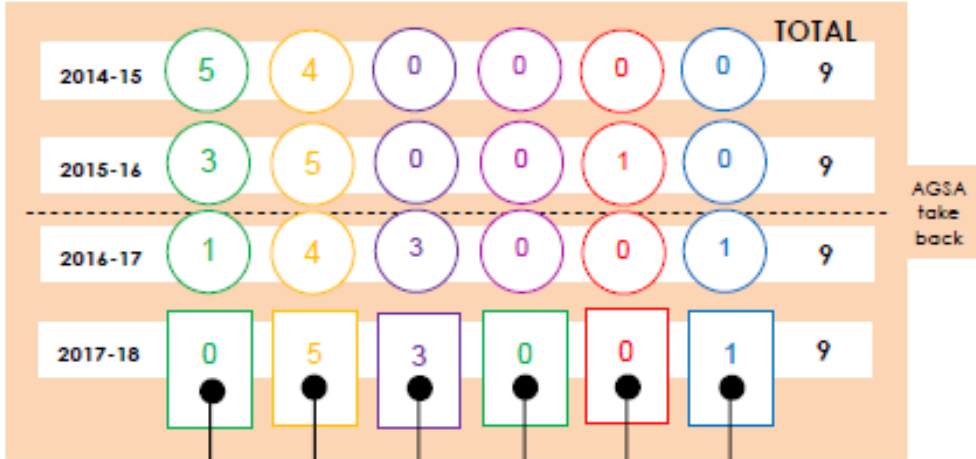
- ▲ Improved
 - ▶ Unchanged
 - ▼ Regressed
- Movement of 5% or less: ▲ slight improvement ▼ slight regression

3

SUMMARY OF AUDIT OUTCOMES

OVERALL REGRESSION IN AUDIT OUTCOMES

OVERALL AUDIT OUTCOMES



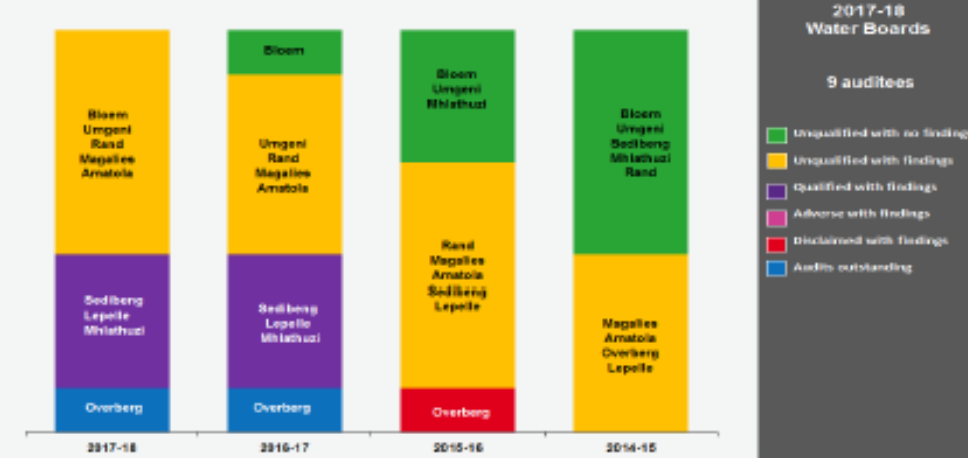
CLEAN AUDIT MOVEMENTS

Concerning trend of steady regression in clean audit outcomes to none in portfolio for the year.

TOTAL BUDGETS OVERVIEW

	Green	Yellow	Purple	Pink	Red	Blue	Totals
Revenue	R-	R18,0b	R2,6b	R-	R-	R-	R20,6 billion
Total Expenditure	R-	R14,1b	R3,2b	R-	R-	R-	R16,8 billion
Total Assets	R-	R44,4b	R12,1b	R-	R-	R-	R56,6 billion
Total Liabilities	R-	R14,9b	R2,5b	R-	R-	R-	R12,4 billion
Retained Earnings	R-	R28,4b	R5,2b	R-	R-	R-	R33,6 billion

Regression in audit outcomes over four years – Water Boards



DETAIL MOVEMENTS

Detail list of auditee outcomes movements over the past 4 financial years.

Audit challenges resulting in late finalisation

The financial statements of Rand Water were submitted for audit on the 15th of August 2018, which was before the legislated deadline, but the audit could only be finalised on the 31 October 2018. This delay in finalisation was due to **rigorous engagements on contentious accounting matters which were subject to consultation**. Despite having reported certain matters, **specifically relating to SCM and Assets**, during the interim audit, engagements to ensure a consistent understanding and an agreed approach by all parties only occurred towards the end of the audit.

The audit of Sedibeng Water was signed only off on the 12th of November 2018 due similar **late engagements despite early escalation and reporting of key findings**. SCM transgressions resulted in irregular expenditure being reported. The auditee management contested these, resulting in a late consultation by the auditee with the National Treasury on whether certain transactions result in irregular expenditure or not. The outcome confirmed the reported irregular expenditure.

At Lepelle Northern Water, the audit report could only be signed off on the 15th of November 2018 **due to the poor quality of financial statements which were presented for audit** on 31 August 2018. The auditee had **concerns with their financial reporting systems** during the submission period and figures on the submitted financial statements did not balance. Allowance was provided to at least **amend the most glaring inaccuracies in the financial statements** to increase the usefulness of these financial statements to provide a better informing view of financial governance processes at the auditee. The financial information system of the auditee was also hacked by hackers who demanded a ransom be paid to them in order to release the entity's information, during the finalisation phase of the audit. Management refused to pay the ransom and rather invested reconstructing the information from back-ups through the use of service providers. Management has acknowledged the system exposure and deficiencies and will improve on security measures and more regular backups to avert any such future risks and exposure.

Significant audit areas



FINANCIAL STATEMENTS



SLIGHT REGRESSION IN QUALITY OF PUBLISHED FINANCIAL STATEMENTS

Quality of submitted AFS

The quality of submitted AFS mainly regressed as Bloem Water had to make material adjustments to their submitted AFS and Lepelle Northern Water had an increase on qualifications matters from the prior year.

Bloem Water capitalised incomplete projects based on documentation that was not appropriate to use for this purpose and thus made expenditure classification errors.

Lepelle was qualified on Property, Plant and Equipment (PPE) in 2016-17 whereas in addition to this, material misstatements were reported on payables, cash flow, statement of changes in net assets and commitments in 2017-18 due to a breakdown in controls surrounding the preparation and submission of AFS. Consultants appointed to clear the prior qualification matters, especially on PPE, finalised their processes late adversely impacting opportunity for proper reviews.

Sedibeng Water was again qualified on irregular expenditure and receivables. They managed to clear prior year qualifications on payables and PPE, but had additional qualification matters relating to the prior period error disclosure and an aggregate material misstatement impacting operating profit in 2017-18. The chief financial officer also spent most of the financial year acting as chief executive.

Mhlathuze managed to address prior year concerns raised on PPE and irregular expenditure, but attained a new qualification on receivables in 2017-18 as a result of vacancies in key positions in the finance department.



PERFORMANCE REPORTS



SLIGHT IMPROVEMENT IN QUALITY OF PUBLISHED PERFORMANCE REPORTS

Quality of performance information

Although the number of entities with material findings in the current year (50% - 4/8) has reduced from the prior year (63% - 5/8), **the reported performance information was still not useful and/or reliable at some water boards** due to systems and processes that enable reliable reporting of achievement against the indicator not being adequately designed and/ or the implementation thereof not being monitored to achieve reliable reporting. These deficiencies were specifically reported at Lepelle, Magalies, Sedibeng and Amatola.



COMPLIANCE WITH KEY LEGISLATION



INCREASE IN NON-COMPLIANCE

MOST COMMON NON-COMPLIANCE AREAS

Movement

2017-18

2016-17

		Movement	2017-18	2016-17
	Quality of financial statements		63% (5/8)	63% (5/8)
	Management of procurement and contract management		63% (5/8)	63% (5/8)
	Prevention of U,I,FW expenditure		75% (6/8)	75% (6/8)

In additional to the material non-compliance matters above, **ineffective consequence management was also reported at 37% (3/8)** of the water boards due to disciplinary steps which were not take against officials who made or permitted irregular and/ or fruitless and wasteful expenditure. This **resulted in the overall regression** noted above.

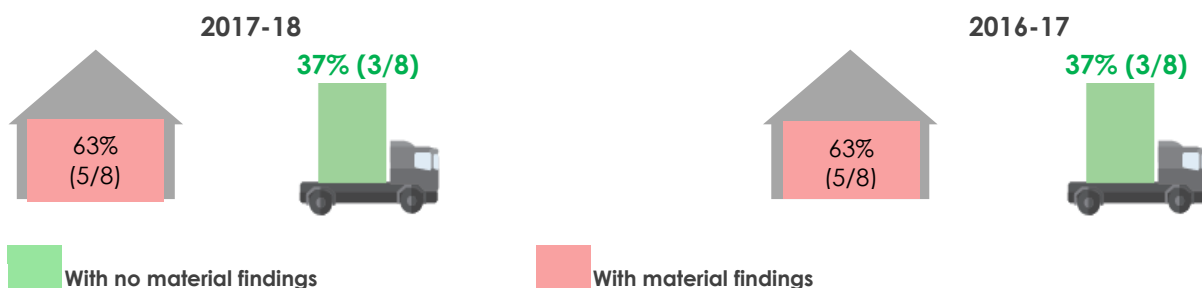


SUPPLY CHAIN MANAGEMENT (SCM)



INCREASE IN MATERIAL NON-COMPLIANCE WITH SCM LEGISLATION

SUPPLY CHAIN MANAGEMENT



Concerns were identified in the procurement processes followed by Water boards, bearing in mind that as Schedule 3B entities Water boards are guided mainly by implementation of their own policies on



supply chain management (SCM) which are only required to be designed to ensure that procurement happens in a manner that is fair, equitable, competitive and cost effective.

Some procurement did not comply with such requirements due to no proper process being followed whilst in other cases a process was followed which was flawed e.g. preference point scoring was not applied or was applied but the bid awarded to a tenderer that did not score the highest points in the process.

Procurement of infrastructure is further guided by the Construction Industry Development Board (CIDB) and it was found that some contractors appointed did not qualify to perform the services contracted for in accordance with CIDB regulations.

Conflict of interest was also identified at Sedibeng Water, where in some instances persons employed by the water board who had an interest in contracts awarded were, participants in the procurement processes to award these contracts. The employee, who is a mechanical superintendent, sourced a quotation and made the award valued at R195k to a company in which he owned 26%.



UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

Irregular expenditure

AUDITEE	Movement	Incurred in 2017-18	Incurred in 2016-17
Amatola	▼	18 656 000	9 447 000
Bloem	▼	1 131 459	-
Lepelle	▼	10 038 000	8 947 000
Magalies	▲	801 000	5 082 000
Mhlathuze	▲	64 520 000	108 127 000
Rand Water	▼	117 000 000	8 042 000
Sedibeng	▲	94 916 000	143 305 000
Umgeni	▼	33 969 000	11 361 000
TOTAL	▼	341 031 459	294 311 000

Fruitless and wasteful expenditure

75% (6/8) water boards reported fruitless and wasteful expenditure for the year under review amounting to R16 087 000 of which 69% (R11 806 000) was incurred by Rand Water.

An appointed contractor instituted legal action against Rand water for damages and loss of profit suffered as a result on inaccessibility to a work site at a municipality where the municipality was the beneficiary of the project.

Financial health status

Amatola Water and Bloem Water's collection of money from its debtors was inadequate, as there was a significant increase in the amount of provision for impairment of debtors. The impairment provision as a percentage of accounts receivable also increased in the current year as compared to the prior year.



Sedibeng and Lepelle were not able to pay creditors within the required payment periods and some creditors were outstanding for periods of several months. This was in addition to also having long outstanding debtors.

A number of these entities 12.5% (1/8) also incurred net deficits from their operations as their costs exceeded their revenue generation abilities. Other income as well as investment and finance income assisted two of these four entities to ultimately attain an overall net surplus.

Indicator / Water board	Amatola Water	Bloem Water	Lepelle NW	Umgeni Water	Rand Water	Magalies Water	Mhlathuze Water	Sedibeng Water
Creditor payment period >30 days	234	125	273	78	78	331	40	625
Debtor collection period (after impairment) >30 days	45	96	492	51	59	252	58	881
Debtors impairment provision as a percentage of accounts receivable (%)	75.3%	80,0%	23,7%	18,3%	19,0%	9,4%	2%	19.6%
A deficit for the year was realised (total expenditure exceeded total revenue)	No	No	Yes	No	No	No	No	No
A net current liability position was realised (total current liabilities exceeded total current assets)	No	No	No	No	No	No	No	No
A net liability position was realised (total liabilities exceeded total assets)	No	No	No	No	No	No	No	No
The year-end bank balance was in overdraft	No	No	No	No	No	No	No	No
Net cash flows for the year from operating activities were negative	No	No	Yes	No	No	No	No	No
Overall Assessment								

No intervention required
 Intervention required
 Concerning

A merger between Umgeni and Mhlathuze water was planned by the previous executive authority due to the close proximity in location of the entities in order to minimise costs towards board and management expenses. We inspected confirmation from the new executive authority that this intention was cancelled.

12.5% (1/8) of the water boards had net negative cash flows for the year as a result of unfavourable operating conditions and or investment in infrastructure and assets. The remaining entities enjoyed net cash inflows despite the long collection times of debtors. All the entities maintained favourable/ positive cash balances as at year end.

Management at Lepelle Northern Water could also not produce sufficient appropriate audit evidence for the various line items in the cash flow statement. This was due to management not performing an adequate reconciliation on the cash flow statement.

Management’s cash flow management initiatives and forecasts **must reflect and take into account** the current economic climate during planning and budgeting with specific **emphasis on recovery of debt strategies**. These must also be adequately supported in order for auditors to be able to confirm the reasonableness of the cash flows forecasted and the related assumptions, conditions and events.

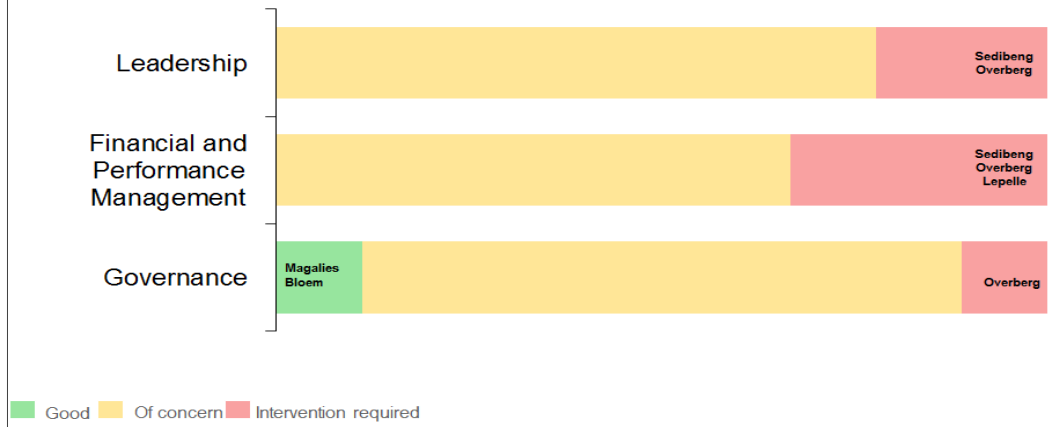


INTERNAL CONTROL



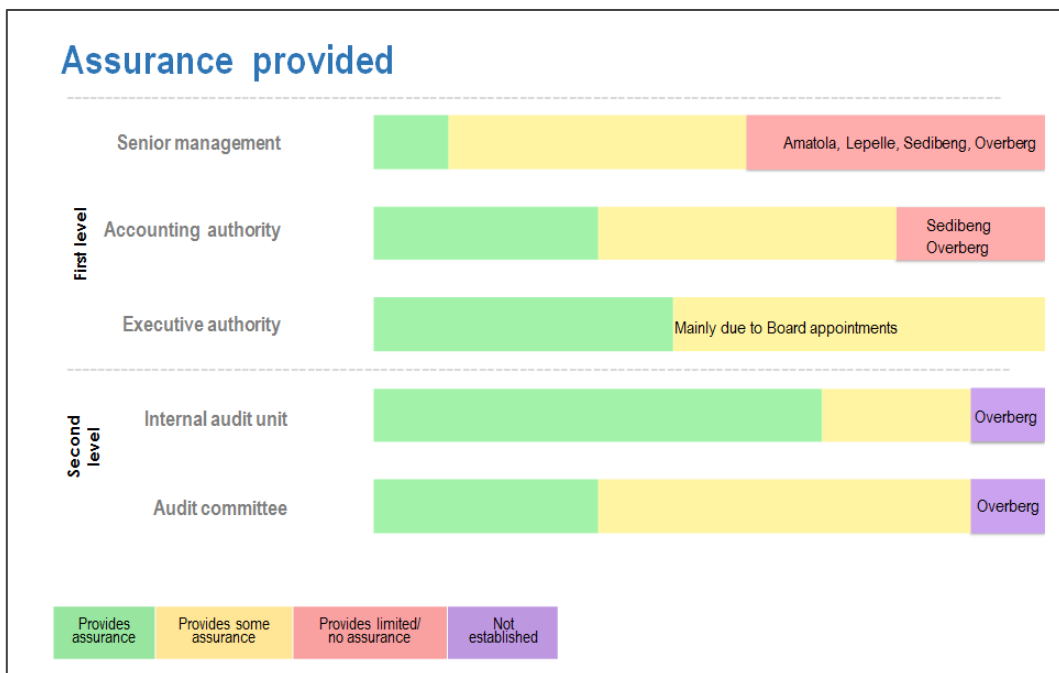
SLIGHT REGRESSION IN OVERALL STATUS OF INTERNAL CONTROLS

Status of internal control



ASSURANCE PROVIDERS

Assurance provided



Governance

Boards were appointed and were functional for the period under review at all of the water boards, **except for Mhlathuze and Overberg.**

The term of the board at Mhlathuze had expired and a new board was appointed during December 2018. This resulted in the acting CEO being responsible for operations and oversight at the water board in the absence of appointed board members.

The contracts of the board members of Overberg had been terminated by the minister during the previous financial year and the board had still not yet been replaced at the date of this report.

Vacancies existed in key executive management positions at the following water boards:

Water board	Vacant key positions
Amatola	Director: Planning and Development.
Lepelle	CFO (retired 30 June 2017 and acting CFO in place which was appointed in June 2018). Finance Manager and General Manager: Corporate Services.
Sedibeng	CEO and Executive for Shared Services(SCM).
Magalies	Head of strategic management vacant and CAE (appointed on the 1st July 2018).
Mhlathuze	Permanent CEO suspended, Interim CEO was appointed as accounting authority until the new board appointment recently in December 2018. At year end the company secretary position was vacant, position was filled after year end but before finalisation of the audit.
Overberg	CFO vacant. CFO was suspended with payment from 29/01/2017 and was formally terminated on 07/02/2018.

Media sensitive auditees

Lepelle Northern Water received **significant negative media attention** during the audit period pertaining to the delays and halting of the **infrastructure project which were meant to supply the Giyani community with water.** The project was initiated in 2015-16 as an emergency intervention by the DWS but has only been partially completed to date. A number of findings, non-compliance with SCM legislation resulting in irregular expenditure, were reported by the audit team, specifically at the Department of Water and Sanitation as the principle. Investigations, including by the Special Investigating Unit (SIU) have been lodged and were on-going at the date of this report with a number of cases also handed over to the Police by the department.

The **president also proclaimed an investigation at the Umgeni water board** into corruption and maladministration during January 2019.

Concluding remarks and summary of key messages

These water boards play an integral role in the delivery of water services to the citizenry in the water value chain of South Africa. Accountability is of paramount importance. This will ensure that public officials are accountable for the decisions and actions taken while executing their assigned roles and responsibilities.

The take back of water board audits has allowed us to broaden our perspective with regards to the delivery of water infrastructure and services. Our focussed audit procedures has also unveiled concerns which are generally experienced on these projects related to inappropriate supply chain management practices and inadequate practices in terms of planning and reporting on performance.

A number of these matters were also highlighted and reported on during the 2016-17 PFMA audit cycle of the water boards, **it was anticipated that the management of water boards may require time to implement and maintain the necessary internal controls to address the concerns identified and raised to not only improve but also sustain such improved audit outcomes.** Certain water boards, such as Mhlathuze have reduced the number of qualifications areas and others such as Sedibeng have not been successful in reducing the number of qualification areas and Bloem regressed, thus rendering **the overall progress of the water boards portfolio stagnant.**

Continuous and early engagement and follow-ups will be critical on the progress by management to implement remedial action in order effect to improvement for the 2018-19 cycle. **(PLAN)**

The executive authority and management should exert particular focus, effort and attention on the following key areas of concern, which should continuously be on their radar, to ensure improvement in the financial performance, compliance and service delivery of these entities:



- Implement proper procurement internal controls to comply with SCM legislation to curb and prevent incurring irregularities in procurement specifically non-compliance to required competitive bidding processes, appointment of suppliers who do not meet the required CIDB grading requirements and awards to bidders who did not score the highest preference points, at the majority of water boards. **(DO)**
- Continue with appointments should be made at board and key management levels to ensure stability in the control environment of these water boards and implementation of adequate financial management controls and long-term strategic direction. **(ACT)**
- Boards and chief executive officers should be held accountable for the delivery and financial results of these entities, and there must be immediate and effective consequences for poor performance and transgressions, especially those who permit or incur IFW expenditure. **(ACT)**
- Recovery of debt owed to them by municipalities, inhibits certain water boards to fully service their operational expenditure needs, which have to be funded from this revenue. Specific and focussed debt recovery strategies are required to be implemented by management to ensure sufficient levels of cash flow is maintained to ensure uninterrupted continuation of operations which does not compromise service delivery. **(CHECK)**
- Oversight by the department, minister and parliamentary committees responsible for these water boards should include strong in-year monitoring and ensuring that governance policies and practices in place, are properly monitored. **(CHECK)**

The challenge of the DWS to also provide funding for certain projects to be implemented on its behalf combined with the concerning recoveries, has also further exasperated the ability of the certain of the water boards to deliver timeously on projects committed to and to ensure the construction of infrastructure and thus access to water in remote areas. This will require improved and focussed intensive stakeholder engagement; and better coordination and collaboration from all the relevant role players within the sector who are responsible for the business of providing this basic need to the citizens.



ACCOUNTABILITY ↓ = **SLOW/NO RESPONSE** ↑
BY MANAGEMENT