



AUDITOR - GENERAL
SOUTH AFRICA

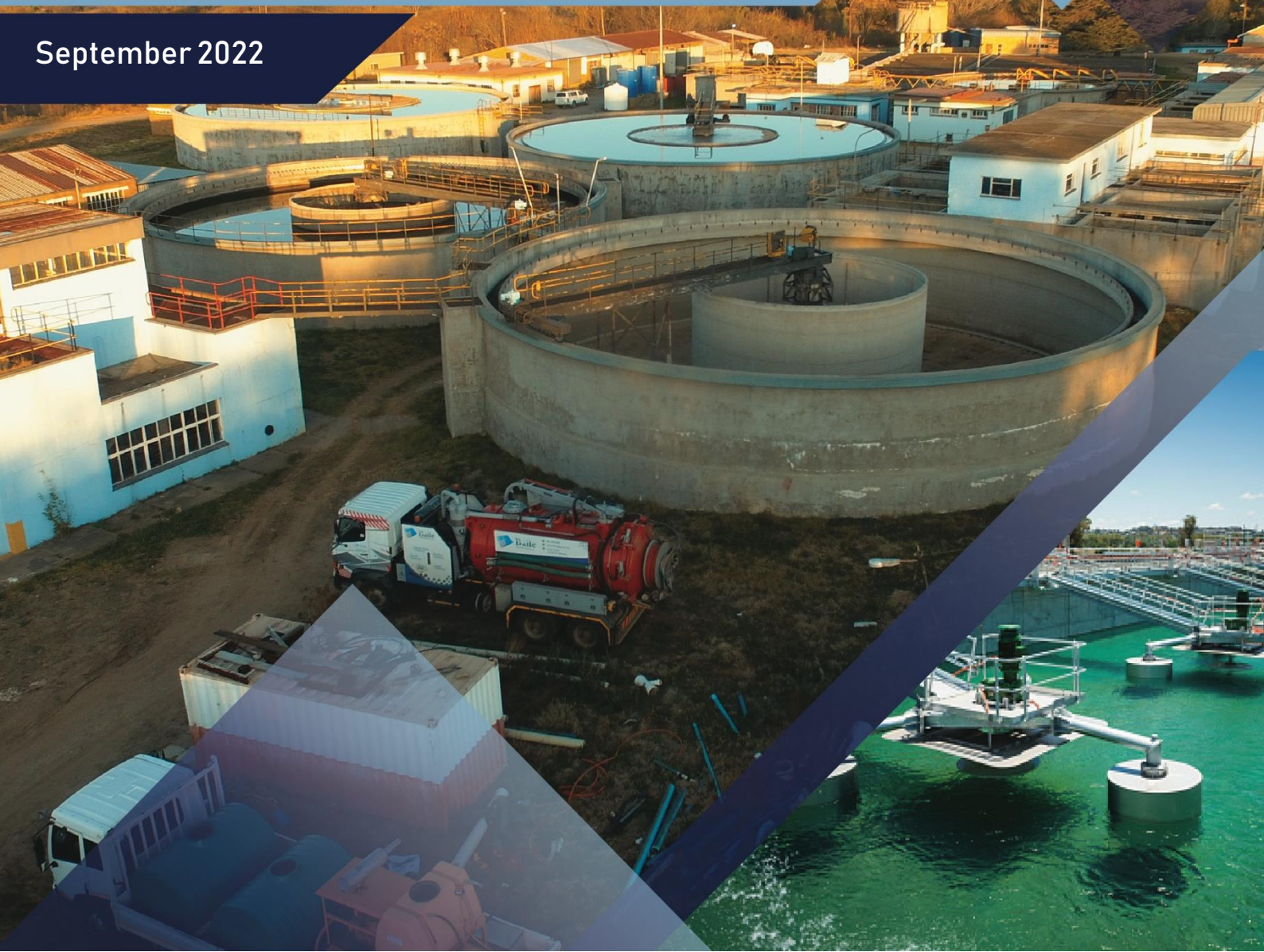
Auditing to build public confidence



WATER BOARDS:

consolidated report on 2020-21 audit outcomes

September 2022



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MESSAGE FROM THE AUDITOR-GENERAL

The Constitution establishes the basic right of access to sufficient water for everyone, and the National Development Plan 2030 recognises access to clean running water in all homes as a pivotal enabling milestone to the plan's success.

Water boards play an important role in providing water to all, and I am delighted to present this first-of-its kind report to Parliament and the public on the state of financial and performance management of South Africa's water boards.

Because the water boards' financial year-end of 30 June falls outside the period when we conclude on the national and provincial government audits, we do not include them in our messages in the consolidated general report on the audit outcomes of national and provincial government.

We noted a lack of proper coordination between the Department of Water and Sanitation and the water boards to drive the consistent formulation and reporting of key performance objectives that are set out in the National Water and Sanitation Master Plan. In addition, key objectives as set out in this plan, including providing quality water, reducing water losses, increasing investment, and upgrading and maintaining infrastructure assets, were not always achieved as reported in the annual performance plans. There was no coordinated effort to address the root causes that resulted in the non-achievement of some of these indicators at the water boards.

Before issuing this report, we engaged with the accounting authorities of all water boards and the accounting officer and executive authority of the department on our findings and recommendations. The department made commitments to make its support and intervention more consistent, systematic and effective. A comprehensive action plan was received from the accounting officer in this regard.

The sustainable provision of sufficient water has a direct impact on the lived reality of citizens, which is a key focus area for my office. We are planning to table a comprehensive water sector report incorporating insights from our audits across all three spheres of government in 2023.

I wish to thank the audit teams for their diligent efforts in helping us fulfil our constitutional mandate, and their commitment towards instilling a culture of performance, accountability, transparency and integrity in the public sector, which will ultimately result in a better life for the people of South Africa. I also wish to thank government leadership and officials for working with us during the audit process.

 13/09/2022

Tsakani Maluleke

Auditor-General



EXECUTIVE SUMMARY

The Constitution establishes access to safe drinking water as a basic human right, and the National Development Plan 2030 recognises access to clean running water in all homes as a pivotal enabling milestone for success. However, the ongoing public discourse on the global water crisis indicates that future supply will be constrained while quality is deteriorating.

This report shares the outcomes of our 2020-21 audits of South Africa's nine water boards, namely: Rand Water, Bloem Water, Magalies Water, Mhlathuze Water, Lepelle Northern Water, Umgeni Water, Amatola Water, Overberg Water and Sedibeng Water. Through this report, we provide relevant audit insights to Parliament, the minister and the Department of Water and Sanitation. We encourage the leaders in the water sector to use these insights and recommendations as a basis to improve their audit outcomes and address shortfalls in service delivery.

Water board performance

The main focus of this report is our review of the water boards' performance against key service delivery objectives included in their annual performance reports to get a better understanding of the challenges experienced in delivering on their service mandates, as set out in the Water Services Act. Credible performance reporting is essential to monitor the effectiveness of service delivery initiatives and commitments made. It is concerning that only four water boards (out of the nine audited) achieved more than 80% of their planned targets.


The minister of Water and Sanitation has determined that all water supply must meet the minimum requirements for safe drinking water laid out in South African National Standard 241¹. While all water boards measured and reported on the quality of bulk water provided during the year, only six complied with the standard, while three water boards only partially complied with certain specifications.

As a water-scarce country, South Africa must protect its water resources, both by managing pollution at the source and by preventing avoidable water losses, much of which are due to ageing infrastructure that is not properly maintained. The sector has also not defined a standard target for avoidable water losses for the water boards. Currently, each board sets its own standard based on varied information. But even by their own standards and targets, only four of the nine water boards achieved their water loss targets. In 2020-21, the sector reported a total of 74,6 million kilolitres lost (R794 million revenue lost).

Interruptions in water supply at a water board also directly affect the continuity of the supply of water that municipalities deliver to citizens, to industries operating in their service area, and to hospitals and other providers of essential services.

However, the water boards do not define, measure and report on water interruptions consistently, which does not align with citizens' lived experiences when it comes to the interruptions they regularly experience. Some water boards look at the number of days of interrupted supply as a percentage of possible supply days while others look at the number of days with interruptions, and one only looked at unplanned water interruptions of longer than 24 hours. Water boards must use consistent indicators that speak directly to service delivery objectives.

¹ SANS 241 is a drinking water specification that states the minimum requirements for clean drinking water to be considered safe for human consumption.



It is concerning to note that not all water boards included a measure to report on their contribution to the national objectives of extending their services. Only two were able to increase access to service, which is measured by the actual capital expenditure spend on planned expansion-related projects. Five were not able to achieve on the targets they set themselves while two did not include such a measure in their annual performance plan at all. Additionally, only three water boards achieved the targets set for the year on actual repairs against planned repairs.

Financial management

Overall, the financial health of the water boards improved slightly in 2020-21. While none of the water boards reported any cash shortfalls at year-end, we are still concerned about the time it takes for them to collect the money they are owed and pay their creditors.

Water institutions (water service authorities, water boards, water service providers and water service committees) must be financially sustainable to ensure they can continue to deliver water services. If they cannot collect the money they are owed in a reasonable time, then they cannot pay their service providers to maintain the key infrastructure required to deliver services and to properly fund future investments in infrastructure. They also struggle to operate effectively and efficiently to deliver services. Ultimately, poor financial health results in no water in the tap.

Audit outcomes

Overall, the audit outcomes for 2020-21 remained unchanged from 2019-20. The sector achieved two clean audits, with the outcomes for all other water boards either having regressed or stagnated. Credible financial statements are crucial to enable accountability and transparency; however, six water boards submitted poor-quality financial statements for auditing. Four of them were able to achieve unqualified opinions by correcting these errors.

Seven water boards also did not comply with key legislation, which resulted in material findings being reported on compliance with legislation. The main areas of non-compliance were quality of financial statements, procurement and contract management, expenditure management, consequence management and revenue management.

Irregular expenditure decreased by 41% from R3,2 billion in 2019-20 to R1,9 billion in 2020-21, while fruitless and wasteful expenditure increased by 12% from R264 million in 2019-20 to R296 million in 2020-21, with seven of the nine water boards reporting fruitless and wasteful expenditure for the year.

We issued one material irregularity notification to the accounting authority of a water board related to an award to a supplier that did not submit the lowest price. Based on the outcome of the investigations, disciplinary action should be taken against the responsible employees.

The root causes of the internal control deficiencies we identified in our audits for the seven water boards that did not receive clean audits were inadequate preventative controls, including the inadequate review of financial statements and annual performance reports, ineffective monitoring of audit action plans, and inadequate record management practices.



Call to action

Although we are concerned about the sustainability of water supply and quality, we have noted some successes, especially relating to financial management. Some water boards responded appropriately to audit recommendations and these good practices should be replicated where concerns and challenges remain.

Failure to leverage these best practices will not only result in the continued loss of revenue or a deterioration in water supply and quality, but will also negatively affect the lives of ordinary citizens, which sit behind the numbers, unmet objectives and targets, and ongoing dialogue about the water crisis. Although clean audits are important, the focus should be more on how South Africans are either afforded or robbed of their dignity over avoidable remediable actions.

We recommend that management and those charged with governance of the water boards continue to closely monitor the budgeting process, financial management and cash-flow projections, and ensure that appropriate initiatives are implemented to maintain the water boards' positive liquidity positions, while also planning and consistently monitoring for enhanced service delivery.

INTRODUCTION

Water boards are key contributors to the water delivery value chain. Their main responsibility is to sanitise raw water supplied by the Water Trading Entity and supply the clean water to municipalities responsible for ensuring access to water services, also referred to as water service authorities. Municipalities purchase the water in bulk from the water boards and then take responsibility for the infrastructure and processes necessary to ultimately supply water to their end-users, including residents, industries and farmers.

Water boards report to the minister of Water and Sanitation (referred to as the minister in the rest of the report) through the Department of Water and Sanitation (the department). The minister is responsible for creating and dissolving water boards and for determining which areas a water board will serve.

This report provides insights on the performance of water boards, their financial management and audit outcomes. We also include recommendations for the water boards to strengthen their financial and performance management and improve their audit outcomes.

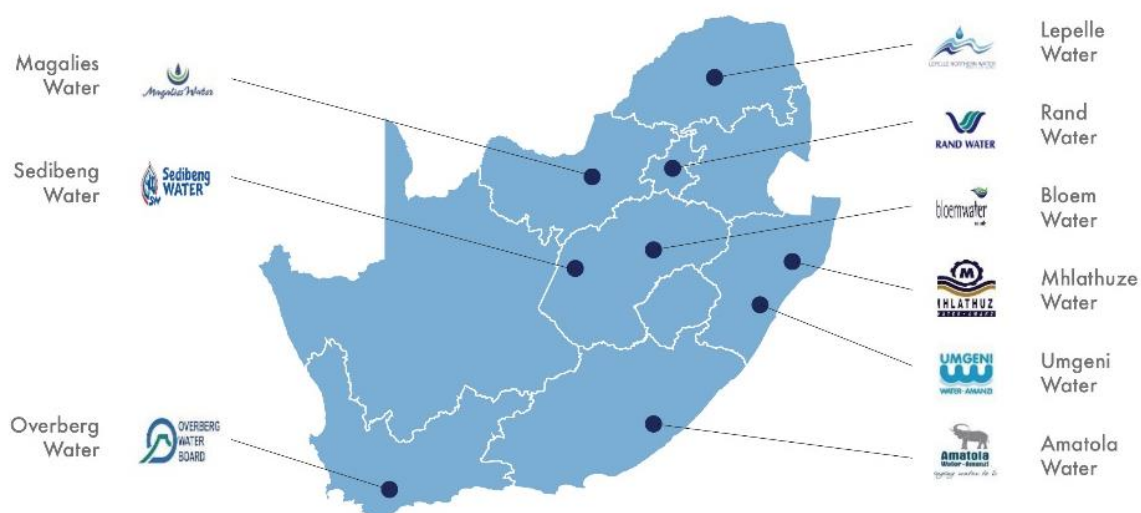
Water boards' responsibilities – bulk infrastructure and distribution

A water board's main activity is to provide water services (bulk and reticulation) to other water service authorities within its service area in terms of section 29 of the Water Services Act.

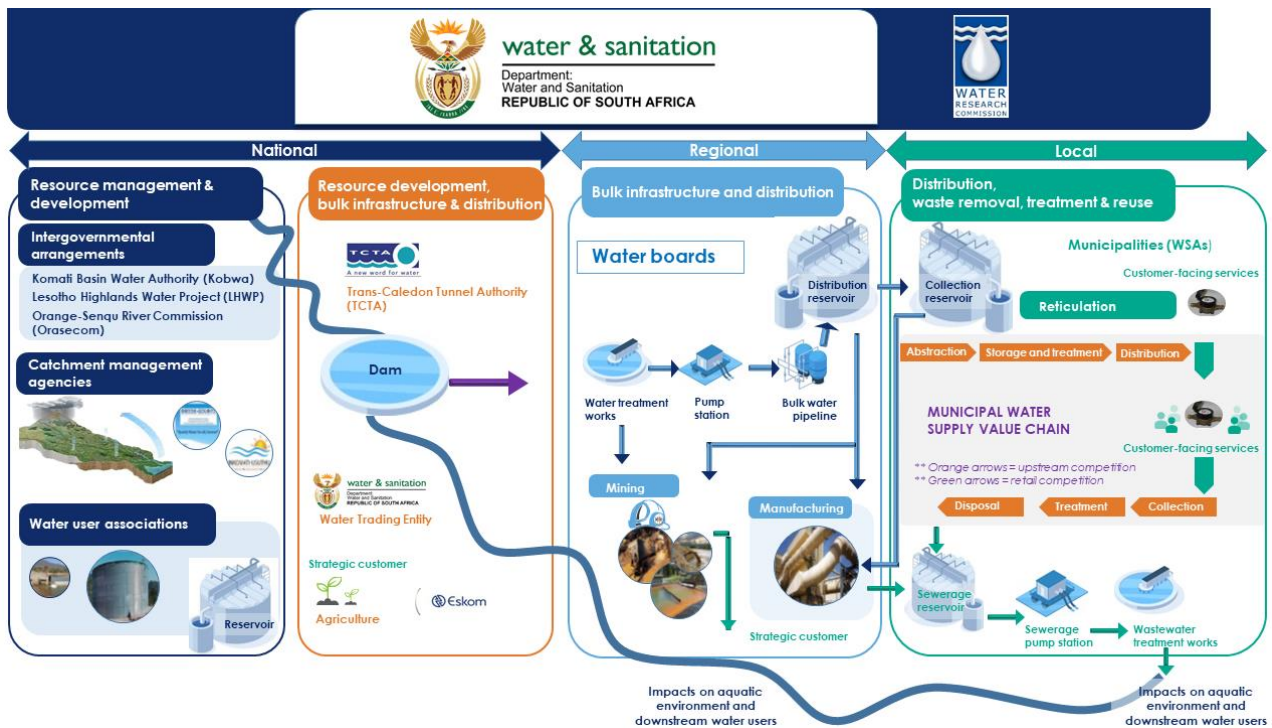
It may also carry out any other relevant activity, but only if:

- it is not likely to limit the water board's capacity to perform its main activity
- it is not likely to financially disadvantage the water board or any water service authorities, existing consumers or other users it services within its service area
- it is in line with its board's policy statement
- it is provided for in its business plan.

Location of water boards



Water delivery value chain



Background

Legislative mandate

The Constitution of South Africa establishes that all citizens have the basic right of access to sufficient water and requires the state to take reasonable measures, within its available resources, to achieve this.

Water boards operate under specific laws and regulations, including the Water Services Act and the Public Finance Management Act, and report to the minister through the department. The minister is responsible for creating and dissolving water boards and determining which areas a water board will serve.

The Water Services Act establishes that

- everyone has a right to access basic water supply and basic sanitation
- every water services institution must take reasonable measures to realise these rights
- every water services authority must, in its water services development plan, provide for measures to realise these rights.

The Act also instructs water boards to provide water services to other water service authorities in their service areas and allows them to extend their services in certain instances if they have the capacity to do so.

There were nine water boards in South Africa for the 2020-21 financial year. However, in January 2022, the minister announced that Sedibeng Water would be dissolved and that its functions, assets and liabilities would be taken over by Magalies Water and Bloem Water, as gazetted on 26 July 2022. The remaining eight water boards are responsible for providing bulk water services by sanitising raw water supplied by the Water Trading Entity and supplying clean drinking water to various water service authorities for them to supply to communities and industries.

According to the Water Services Act, when performing its activities, exercising its powers and carrying out its duties, a water board must achieve a balance between:

- a) providing efficient, reliable and sustainable water services
- b) making the best use of available resources
- c) being financially viable
- d) promoting the efficiency of water service authorities
- e) bearing in mind the needs of water service authorities, consumers and users
- f) taking into account national and provincial policies, objects and developments
- g) acting equitably, transparently and fairly
- h) complying with health and environmental policies
- i) taking reasonable measures to promote water conservation and water demand management, including promoting public awareness of these matters.

The Act also states that a water board is financially viable if it can:

- a) repay and service its debts
- b) recover its capital, maintenance and service costs
- c) reasonably provide for asset depreciation
- d) recover the costs associated with repaying capital from revenues (including subsidies) over time
- e) reasonably provide for future capital requirements and expansion.

National Water Summit

The National Water Summit took place in February 2022 with the aim of understanding the challenges that interfere with providing effective and efficient water and sanitation services. All water sector leaders attended the summit to discuss the challenges affecting the management of water as a scarce resource as well as delivery of water to end users. The goal was to develop a comprehensive plan to reform the water sector. Some of the key challenges relevant to water boards, highlighted by the various commissions, are as follows:

- The southern African region is warming drastically, at about twice the global rate. Climate change is likely to reduce rainfall and increase evaporation, which will reduce the amount of available water. All water institutions (water service authorities, water boards, water service providers and water service committees) must therefore implement appropriate water conservation and water demand management policies and procedures, including managing and monitoring water losses.

This makes the mandate of the Water Research Commission – to conduct relevant and timely research that the sector can use to plan – even more important. Having access to relevant, up-to-date information will also help the sector execute its plans to effectively respond to changes.

- The state of South African rivers and dams is deteriorating due to pollution. The country must protect its scarce water resources by preventing or managing pollution at the water source. When there is poor water quality at the source, water boards must spend more on water sanitation.

In August 2020, the department reported to the portfolio committee that many wastewater treatment plants in Gauteng (including 15 plants reported on in the City of Tshwane) were releasing 'final effluent not complying with the discharge standard'.

- Water shortages in the country are exacerbated by the key challenges of:
 - governance – weak councils, poor leadership and mismanagement at water institutions, and
 - technical capacity – lack of support from national and provincial government and an inability to recruit and retain engineers and technologists, mainly at the municipal level.

The lack of skills is worsened by a lack of proper coordination during the planning phases of projects. Where proper planning is done, the plans may not be properly implemented due to a lack of skills and collaboration. This was evident with the Giyani project, where, despite bulk infrastructure worth over R3 billion being implemented through Lepelle Northern Water, the 55 villages targeted by the project still do not have water because there is no reticulation network to deliver it. Municipalities and water boards must work together with the responsible national and provincial oversight departments to address these challenges in the water sector.

- The ageing water infrastructure is worsened by a lack of funds to adequately maintain, refurbish or grow investment in infrastructure. The challenges for water institutions include that they cannot significantly raise revenue or borrow very much, and they do not use government grants effectively.

This leads to additional strain as the current infrastructure must deliver services to a growing number of beneficiaries, and increased costs to maintain the ageing infrastructure because of the added pressure to perform optimally all the time. Any downtime also has a noticeable effect on the citizens. Revenue cannot be increased significantly without also expanding current infrastructure, and prices for water are approved centrally by the minister.

The department, together with the National Treasury, must lead the sector in developing an action plan focused on the effective use of grant funding. This will help water service authorities and water boards to source the necessary funding for upgrading and expanding the national water infrastructure network.

- Financial performance can be directly linked to the state of infrastructure, with poor financial health resulting in no water in the tap. Water boards are also negatively affected by increasing debtor balances and lengthy debt-collection periods.

If water institutions cannot collect the money they are owed, they cannot pay their service providers to maintain the key infrastructure required to render services and to properly fund future investments in infrastructure. They also struggle to operate effectively and efficiently to deliver services. Water institutions must be financially sustainable to ensure the continued delivery of water services.

As the sector develops its action plans to address these challenges, we encourage the leaders in the water board sector to use these insights and recommendations to improve their audit outcomes and address shortfalls in service delivery. We will focus on the progress of the implementation of these actions and their impact as part of our overall reflections on the water delivery value chain next year.

WATER BOARD PERFORMANCE

The minister approved the water boards' corporate plans, which included the planned performance indicators and targets, before the start of the financial year. The department did not develop standardised indicators to allow all water boards to report consistently on their performance on key service delivery priorities. The analysis later in this section describes the differences in reporting we identified.

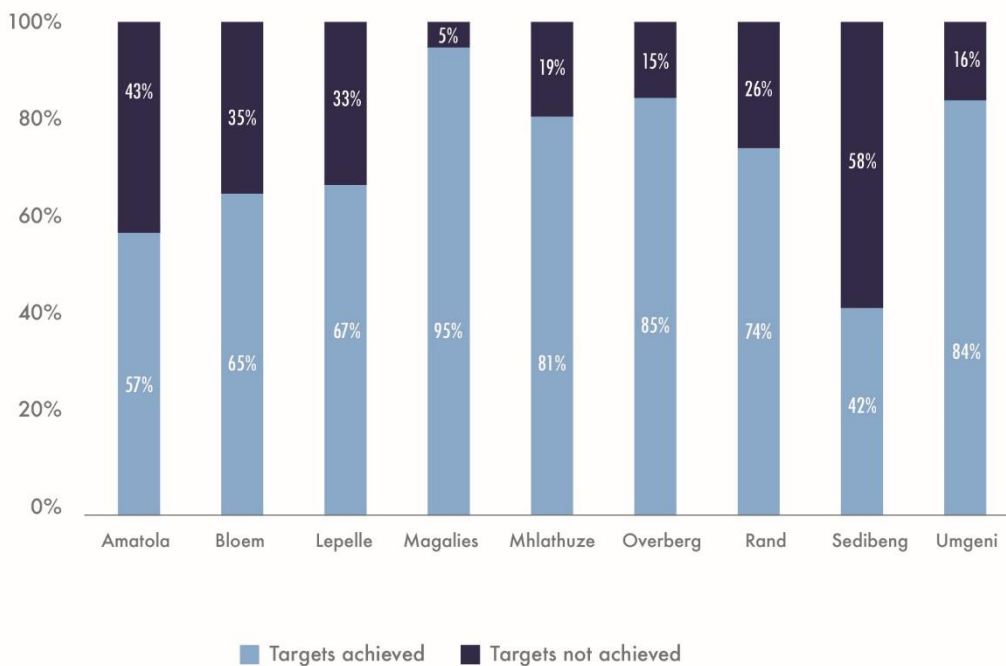
Credible performance reporting is essential to monitor the effectiveness of service delivery initiatives and commitments made. We identified **material errors in the annual performance reports of five water boards**:

- Bloem Water, Overberg Water and Mhlathuze Water were able to correct the errors and therefore had no material findings on performance information in their audit reports.
- Lepelle Northern Water could not provide proper proof of its performance for one indicator, which led to material findings being reported in the audit report.
- Sedibeng Water could not support the performance reported for two service delivery indicators that were not well defined and verifiable, which resulted in material findings on performance information being reported in its audit report.

Inaccurate, incomplete or unreliable information affects critical decisions that have to be made based on performance information prepared during the year, as the board and management could miss the opportunity to implement corrective actions due to inaccurate and unreliable information.

Water boards do not always achieve the targets they have set for themselves. **Overall, only four water boards achieved more than 80% of their planned targets** – Magalies Water (95%) Overberg Water (85%), Umgeni (84%) and Mhlathuze Water (81%).

Performance achievement of targets by each water board (2020-21)



In the remainder of this section, we analyse the performance indicators that are key for water boards to deliver on their mandate.



Compliance with water quality standards

South African National Standard (SANS) 241 specifies the minimum requirements for clean drinking water to be considered safe for human consumption. The minister determined that all water supply must conform to the requirements of this standard.

All nine water boards measured the quality of bulk water provided during the year and reported on this against the targets set, in line with the requirements of SANS 241.

6 of 9 water boards achieved water quality targets

Lepelle Northern Water, Overberg Water and Sedibeng Water partially complied with the specifications of the standard.

High-level reasons[†] for water boards not achieving set targets

Water board	Indicator	Target	Actual performance	Reason
Lepelle Northern Water	Micro-compliance	98%	96,9%	The non-compliance was due to a shortage of chlorine gas in the country, which resulted in a failure to meet the residual chlorine concentration. Because of the shortage, HTH chlorine was used to disinfect water instead of chlorine gas.
	Operational compliance	95%	94%	
Overberg Water	Acute health microbiological risk	97%	96,44%	Floods caused by heavy rain resulted in pipelines and reservoirs running empty, increasing the microbiological risk.
Sedibeng Water	Operational risk	95%	89%	Operational determinants did not comply with the set targets and standards as a result of design limitations at the Bogosina Water Treatment Plant and inadequate filtration at the Pelladrift Works Water Treatment Plant.

[†]Detailed information is available in the annual reports of the water boards.

In addition, Lepelle Northern Water was unable to provide adequate supporting evidence for the achievement reported in its annual performance report and to confirm the quality of water supplied to communities. This resulted in a material finding being reported in the audit report for this indicator.

Management of avoidable water losses

The sector has not defined a standard target for avoidable water losses at water boards. Currently, each water board sets its own standard based on varied bases and information. Lepelle Northern Water, Umgeni Water, Magalies Water and Mhlathuze Water all targeted avoidable water losses of less or equal to 5% and successfully achieved this result, as reported in their annual performance reports.

4 of 9 water boards achieved water loss targets

High-level reasons† for water boards not achieving set targets

Water board	Target	Actual performance	Reason for non-achievement
Amatola Water	14%	14,8%	Reasons for non-achievement include illegal connections on networks and pipelines that are not metered and thus not billed. Repairs to pipe breakages and level control units also took a long time.
Bloem Water	10%	13,02%	Hydrostatic pressure testing of the new ductile pipeline increases avoidable water losses.
Rand Water	4,5%	5,26%	Pipeline leakages were a major concern and the main reason for water losses.
Overberg Water	10%	14,72%	Severe floods caused by heavy rain resulted in burst water pipes, which increased avoidable water losses.
Sedibeng Water	10%	10,5%	Ageing infrastructure was not maintained and upgraded.

†Detailed information is available in the annual reports of the water boards.

South Africa's ageing water infrastructure network contributes to avoidable water losses.

Water losses incurred by each water board in kilolitres and rands lost (2020-21)



According to a 2017 benchmark study done by the department, the average South African consumes 237 litres of water a day. This means that the amount of water lost in 2020-21 was enough to last more than 862 000 citizens an entire year.



Reliability of supply

Water boards measured the number of days of interrupted supply either as a percentage of possible supply days or as number of days with interruptions.

5 of 9 water boards achieved uninterrupted supply targets

Four water boards that targeted between 0% and 3% of possible supply days and one water board that targeted zero days of interruption were able to achieve the targets set. The targets not achieved were as follows:

- Umgeni Water targeted zero days of interrupted supply and reported 10,45 days of interruptions due to burst water pipes and cable theft at raw water abstraction points (where water is taken from natural sources such as rivers and lakes).
- Overberg Water targeted zero days of interrupted supply and reported 17 days of interruptions due to burst water pipes resulting from floods caused by heavy rain.
- Sedibeng Water targeted zero days of interrupted supply and reported 19 days of interruptions due to ageing infrastructure.

Rand Water defined and measured its indicator differently from the other water boards, looking at unplanned water interruptions of longer than 24 hours. Therefore, it did not measure planned water interruptions and unplanned interruptions of less than 24 hours.

As a result, Rand Water reported zero unplanned water interruption days for the period reported, despite parts of the City of Johannesburg being without water for a week². The interruptions, reported by the water board to be a result of electrical problems, caused several reservoirs to run dry in various areas. The City of Johannesburg implemented contingency plans to lessen the impact. A similar event occurred in mid-March 2022, again causing several reservoirs to run dry and leaving citizens in affected areas without water.³

Although the accounting authority approved the indicator, the fact that Rand Water only measured unplanned interruptions and not all interruptions (including unplanned interruptions and those planned for scheduled maintenance) means that this does not reflect the experience of the citizens on the ground who are left without water. This was also evident during the planned shutdown in November 2020, where citizens were without water for three days.⁴

Water boards must use consistent indicators that speak directly to the service delivery objectives.

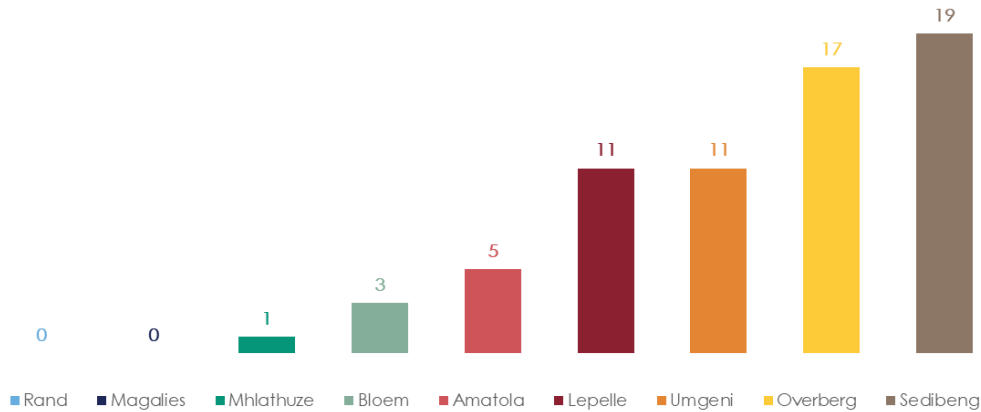
² [Some Johannesburg areas still without water for a week \(ewn.co.za\), 25 October 2020.](#)

³ [Rand Water's ongoing interruptions leave Johannesburg residents fuming \(ewn.co.za\), 19 November 2021.](#)

⁴ [Planned water supply interruption due to Rand Water maintenance \(City of Ekurhuleni\), 20 November 2020.](#)

We determined the actual number of days that citizens had to endure water interruptions based on an analysis of the reliability target.

Days with water interruption as reported by water boards (2020-21)



Interruptions in water supply at a water board directly affect the continuity of services municipalities deliver to end-users, including citizens, industries and hospitals. In addition to the obvious inconvenience of trying to source water from other locations, this can have a significant impact on the health of citizens waiting for water services to be restored. The interruptions also affect the productivity of industries in the service area, including the ability of hospitals and other essential services to operate effectively and efficiently.

Increased access to services

Water boards measured their contribution to the national objectives of extending their water services to households and other users that lack these services. The key indicator for this is actual capital expenditure (capex) spending on planned expansion-related projects.

Increased access to service by each water board (2020-21)



Overberg Water and Umgeni Water excluded this performance indicator from their annual performance plans, which creates inconsistency in the water boards' reporting.



High-level reasons† for water boards not achieving set targets

Water board	Target	Actual performance	Reason for non-achievement
Amatola Water	70%	58,1%	Covid-19 lockdown regulations affected progress of contracts for all projects. Materials such as steel, valves and pipelines did not arrive on time. Manufacturers required 50% payment to be made upfront before manufacturing the materials needed for the project, which is against the conditions of the contract.
Lepelle Northern Water	75%	70%	We noted instances of social challenges where access to sites was a challenge due to labour issues or community matters.
Rand Water	15%	0%	No work was done because the water board did not receive any requests from external parties for non-bulk water projects within Rand Water supply.
Magalies Water	90%	59%	The delays were due to compliance with the stringent wayleave conditions for crossing the R101 and Apies River.
Mhlathuze Water	90%	26,65%	There were delays in project implementation due to the impact of covid-19 restrictions on the capital implementation plan in the last quarter.

†Detailed information is available in the annual reports of the water boards.

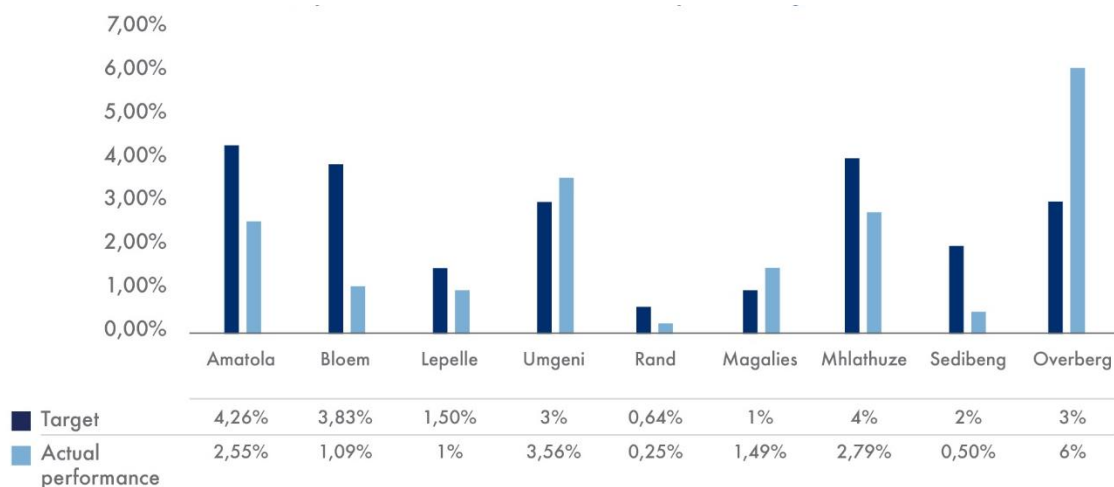
These delays in critical infrastructure projects required to increase access to services and deliver water ultimately result in citizens being without water.

Asset management

Repairs and maintenance

The water boards set targets for repairs and maintenance planned during the year. The targets were set as either a percentage of investments and property, plant and equipment (assets), or a percentage of spending on budgeted repairs and maintenance. Three water boards (Umgeni Water, Magalies Water and Overberg Water) achieved the targets set for the year.

Repairs and maintenance as a percentage of assets (2020-21)



High-level reasons† for water boards not achieving set targets

Water board	Reason
Amatola Water	Significant delays in the procurement process for materials and spares contributed to the delays in planned repairs.
Bloem Water	Scheduled maintenance was deferred due to poor collection of debts from municipalities, which affected cash availability.
Lepelle Northern Water	There was a shortage of technical resources to carry out repairs and maintenance.
Rand Water	Underspending was mainly because spending was redirected to refurbishment and replacement.
Sedibeng Water	There was not enough cash available to attend to regular maintenance.
Mhlathuze Water	Maintenance work was not carried out according to maintenance plan because of vacancies in the maintenance unit and disruptions due to the impact of covid-19.

†Detailed information is available in the annual reports of the water boards.

Delays in complying with a maintenance plan can cause water supply interruptions when infrastructure breaks down, as well as avoidable water losses, which directly affect the revenue generated by the sector.

Capital projects

The water boards have been struggling to implement the targeted projects as planned for the past few years, a situation that was made worse in 2020-21 by covid-19.

Magalies Water, Mhlathuze Water and Overberg Water did not set targets for performance for all capital projects in progress in their annual performance plans (targets were set for expansion projects only). This creates another inconsistency in the water boards' reporting.

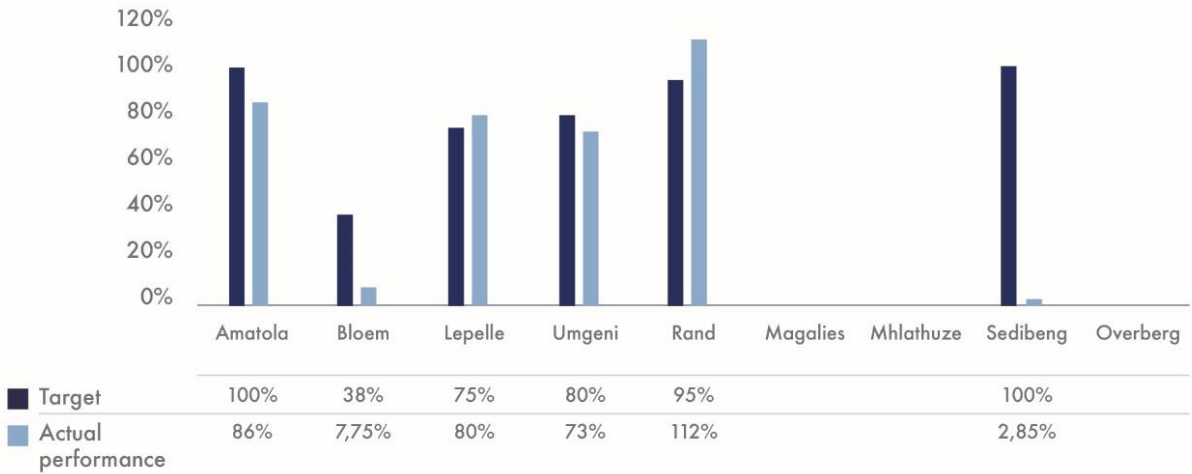
Lepelle Northern Water and Rand Water were able to spend in line with their capex plans.

High-level reasons† for water boards not achieving set targets

Water board	Target	Actual performance	Reason
Amatola Water	R450 million (100%)	R386 million (86%)	Covid-19 lockdown regulations affected contract progress for all projects.
Bloem Water	38%	7,75%	The water board was affected by the impact of covid-19 and continued funding challenges due to non-payment by municipalities. It continues to engage with the department to assist with project funding.
Sedibeng Water	R126 million (100%)	R3,6 million (2,85%)	There was a lack of cash to implement capital projects.
Umgeni Water	80%	73%	The capex programme was negatively affected by covid-19 lockdown restrictions, some contractors going into business rescue, lengthy appeals, and deferral of certain projects.

†Detailed information is available in the annual reports of the water boards.

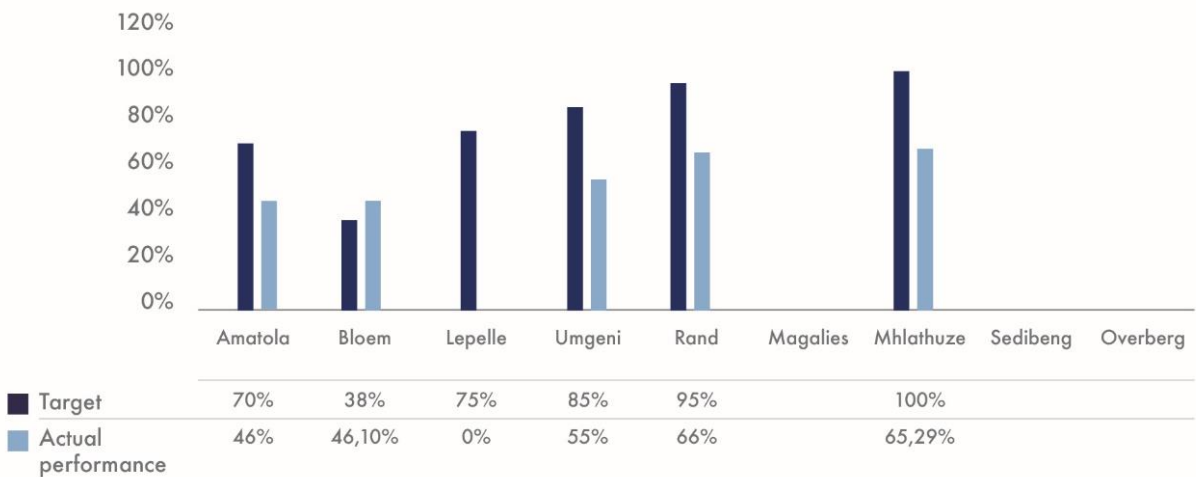
Project expenditure within targeted budgets (2020-21)



Six water boards experienced delays in completing their capital projects.

Magalies Water, Mhlathuze Water and Overberg Water did not set performance targets for overall project completion dates in their annual performance plans, which creates inconsistency in the water boards' reporting.

Overall project completion dates within target dates (2020-21)



Water boards with delays in completing projects†

Water board	Target	Actual performance	Reason
Amatola Water	70%	46%	Covid-19 lockdown regulations affected the progress of contracts for all projects.
Lepelle Northern Water	75%	0%	Long-outstanding social issues and delays in supply chain management processes resulted in delays.
Umgeni Water	85%	55%	The capex programme was negatively affected by covid-19 lockdown restrictions; some contractors going into business rescue, lengthy appeals, and deferral of certain projects.
Rand Water	95%	66%	There were challenges in contractor supervision and management.
Mhlathuze Water	100%	65,29%	There were delays in project implementation.

†Detailed information is available in the annual reports of the water boards.

Delays in planned capital projects significantly affect the delivery of critical water supply to citizens and place considerable strain on already ageing infrastructure, leaving it exposed to breakdowns and water leakages. This is worsened by failure to prioritise and spend on repairs and maintenance.

Recommendations to improve performance

To improve the performance of water boards, we recommend the following:

1. For credible and consistent reporting, the department must create standard indicators and targets that should be included in the corporate plans. This will ensure that all water boards are consistently working towards the priorities of government and that their performance can be monitored appropriately.
2. To improve the quality of performance management, management and the accounting authority should implement internal controls that will enable useful and reliable performance reporting. This will ensure that the water board adequately performs its role in achieving the constitutional right of access to sufficient water for all citizens.
3. Water boards must analyse the root causes of not achieving their targets and develop action plans to improve on these critical service delivery areas, as this directly affects the quality and availability of water.

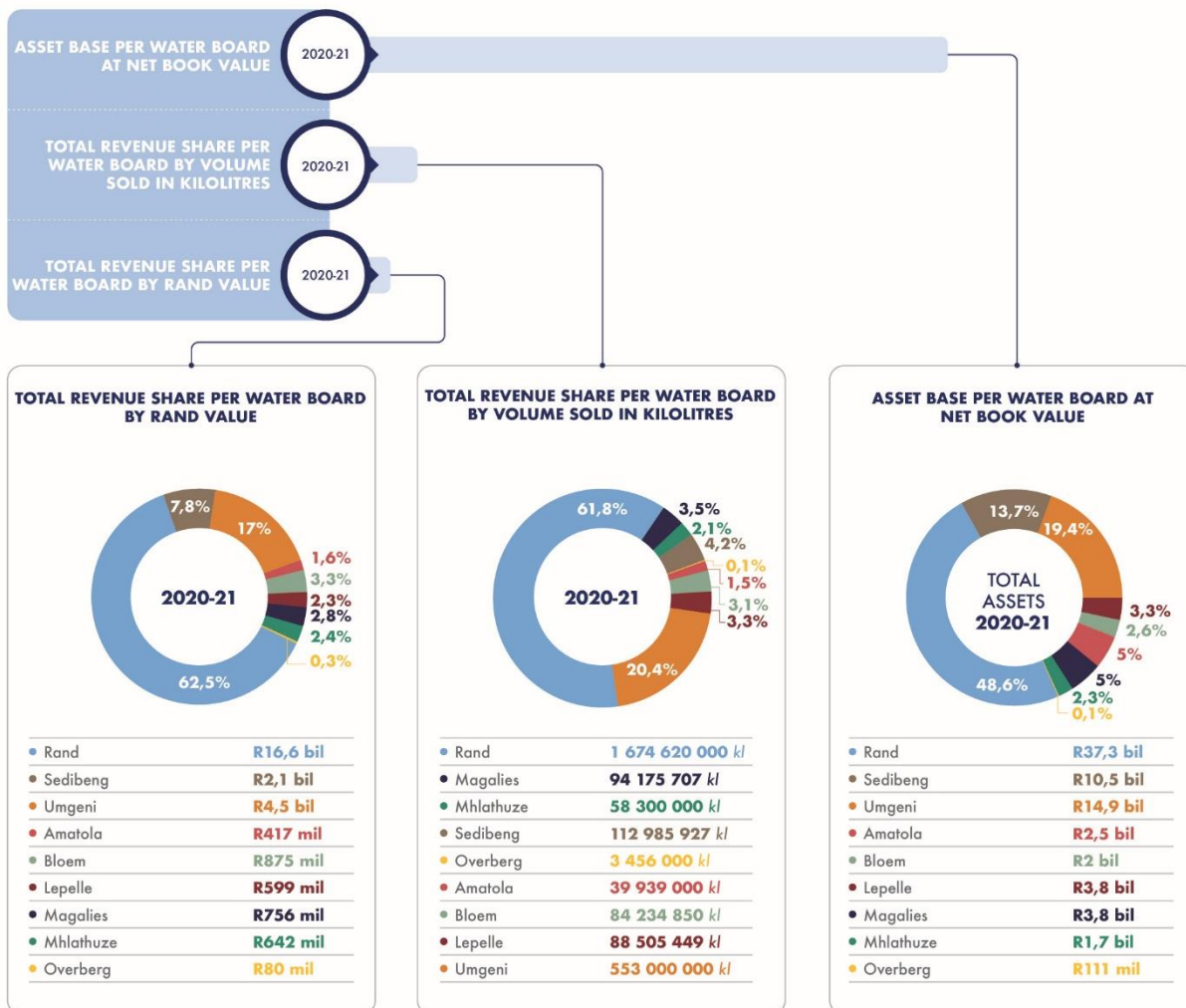
FINANCIAL MANAGEMENT

Each water board is self-funded and must submit a detailed five-year business plan outlining its activities, prices and forecasts of revenue and expenditure to the minister for approval. In 2020-21, the water boards earned R26,5 billion (compared to R26,2 billion in 2019-20) and spent R22,3 billion (compared to R22,2 billion in 2019-20).

The two largest water boards in terms of services, infrastructure and financial accounts are Rand Water and Umgeni Water. The figures for all water boards are shown in the graph on the following page.



Total revenue share (rands and kilolitres) and asset base by water board (2020-21)



Quality of financial statements

Credible financial statements are crucial for enabling accountability and transparency, but most water boards are failing in this area. Our main findings on water board financial statements are as follows:

- Sedibeng Water did not submit its financial statements for auditing by the legislated date.
- We identified material errors in the financial statements of six water boards, four of which were able to make corrections to the financial statements to achieve unqualified opinions. If we had not allowed for corrections, only three water boards would have produced financial statements that were reliable enough for the accounting authority and other decision-makers to use. The poorly prepared financial statements and significant activity to make corrections in response to the audit means that leadership makes financial decisions throughout the year based on financial information that is not credible.
- The errors we identified at Amatola Water and Sedibeng Water required management to take significant corrective action and so could not be corrected before the end of the audit process. As a result, these water boards received qualified audit opinions. Management must now correct these errors before submitting the next financial statements.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure increased by 12% from R264 million (2019-20) to R296 million (2020-21). Seven of the nine water boards (78%) reported fruitless and wasteful expenditure for 2020-21, amounting to R296 million. Sedibeng Water, Amatola Water, Umgeni Water and Lepelle Northern Water were responsible for 99,6% (R295 million) of this amount, as follows:

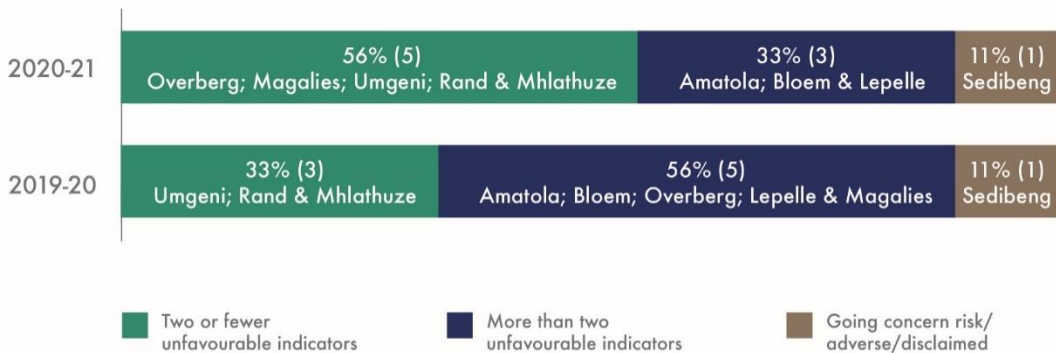
- Sedibeng Water – R268,34 million (interest and penalties)
- Amatola Water – R14,56 million (interest and penalties)
- Umgeni Water – R7,44 million (interest of R1,1 million and overpayment for goods and services of R6,3 million)
- Lepelle Northern Water – R4,37 million (interest and penalties)

We are busy evaluating some of this spending to see if it qualifies as material irregularities.

Financial health

Our audits included a high-level analysis of key financial health indicators at water boards. This analysis aimed to highlight key areas of concern so that management could align the corrective action plans to these areas.

Overall financial viability



The financial health of the water boards improved slightly, with Overberg Water and Magalies Water improving their financial health indicators by improving their liquidity positions.

A review of key solvency and liquidity ratios identified **significant challenges at Sedibeng Water**. The entity could not bring in enough money through revenue and expected receivables to settle its short-term obligations, which cast doubt on its ability to continue operating as a viable entity. The liquidity challenges were mainly because the water board could not adequately collect from its debtors, with the debtors' collection period reaching 1 541 days. This made it difficult for the water board to pay its debts when they fell due and, ultimately, led to it no longer being able to fund its day-to-day operations. Sedibeng Water's cash flow challenges contributed to it being dissolved just one year after the water board received a financial bailout of R277 million flowing through the department.

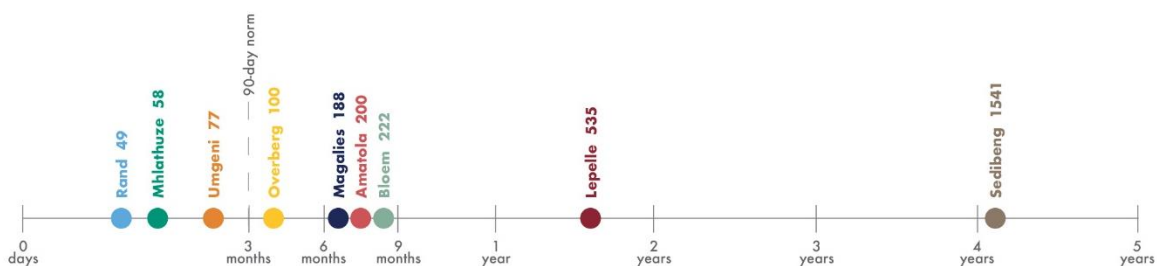
The overall financial status of water boards is analysed in the remainder of this section.

Key financial health indicators

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R193 million
Number of water boards with a deficit	2 (22%)
Creditors as a percentage of cash and cash equivalents >100%	22% (2)
Revenue management	
Debt-collection period >90 days	67% (6)
Average debt-collection period	330 days
Expenditure management	
Creditor payment period >30 days	100% (9)
Average creditor payment period (excluding retentions)	341 days

We are still concerned about the time it takes for water boards to collect the money they are owed and pay their creditors. Amatola Water, Bloem Water, Lepelle Northern Water, Magalies Water, Sedibeng Water and Overberg Water all had **debt-collection periods** of more than 90 days, and none of the audited water boards paid their creditors within the general norm of 30 days. The two that struggled the most were Lepelle Northern Water, which took 535 days (1,5 years) to collect on its debt, and Sedibeng Water, which took 1 541 days (4,2 years).

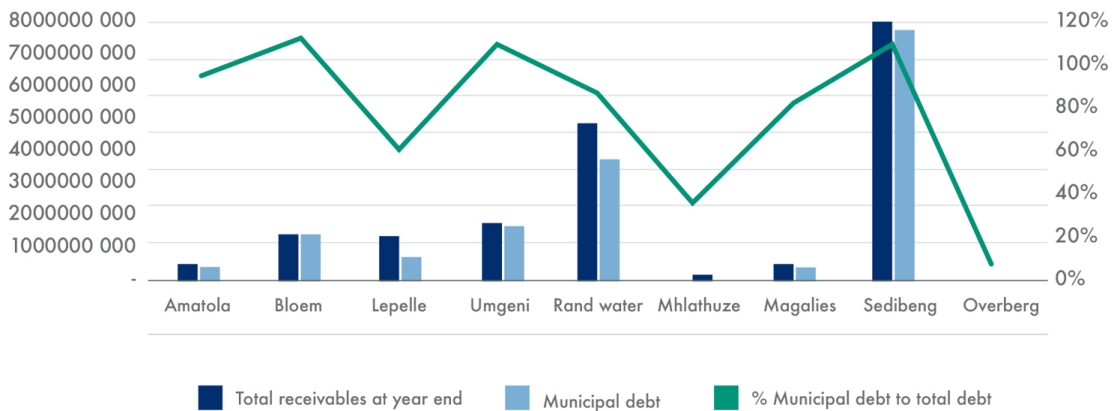
Debt-collection period by water board (2020-21)



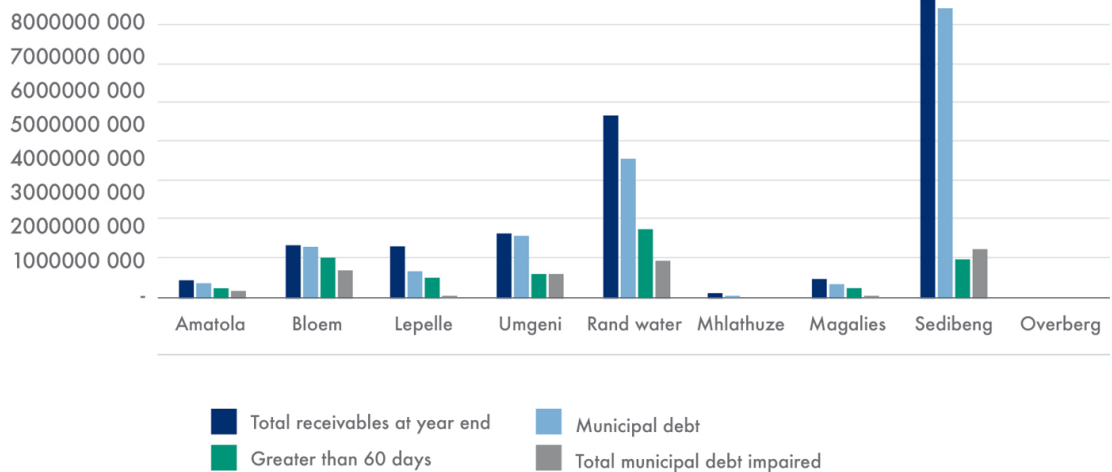
Municipalities are the main customers of water boards and accounted for most of their receivables (more than 80% of receivables at six of the nine water boards). The water boards experienced challenges with collecting these debts because of the worsening financial health in local government, as reported in the 2020-21 general report on local government audit outcomes.

In 2020-21, municipal debt of R14,2 billion (2019-20: R12,5 billion) represented 87% (2019-20: 85%) of the total receivables of R16,3 billion (2019-20: R14,7 billion). Thirty-six per cent (2019-20: 36%) of the total municipal debt was older than 60 days.

Composition of debtors (2020-21): percentage of municipal debt to total debt



Analysis of municipal debt (2020-21)



Water boards assessed whether they could recover these debts at year-end and impaired R3,5 billion (2019-20: R4,3 billion), representing 25% (2019-20: 34%) of the total municipal debt. Water boards that could not collect cash on time were often also unable to pay their suppliers on time. During the audit, we noted that the water boards are actively pursuing these debts through various settlement agreements.

The financial health assessment highlighted the following concerns around financial management:

- Two water boards recorded a **net deficit** during the period under review – Lepelle Northern Water (R96,6 million) and Amatola Water (R96,8 million) – as their operational costs and expenses exceeded the revenue they were able to generate.
- While none of the water boards reported cash shortfalls or bank overdrafts, we noted that both Lepelle Northern Water and Sedibeng Water did not have enough **cash available at year-end to cover their creditor balance**.
- The current ratio (**current assets to current liabilities**) measures a water board's ability to pay its short-term liabilities due within one year. This is an important indicator to assess whether the water board is properly managing its operations to allow it to continue to operate in a sustainable manner.

Six water boards maintained a current ratio above the general norm of 2:1. The remaining three were all below this norm – Amatola Water (1,43:1), Lepelle Northern Water (1,49:1) and Sedibeng

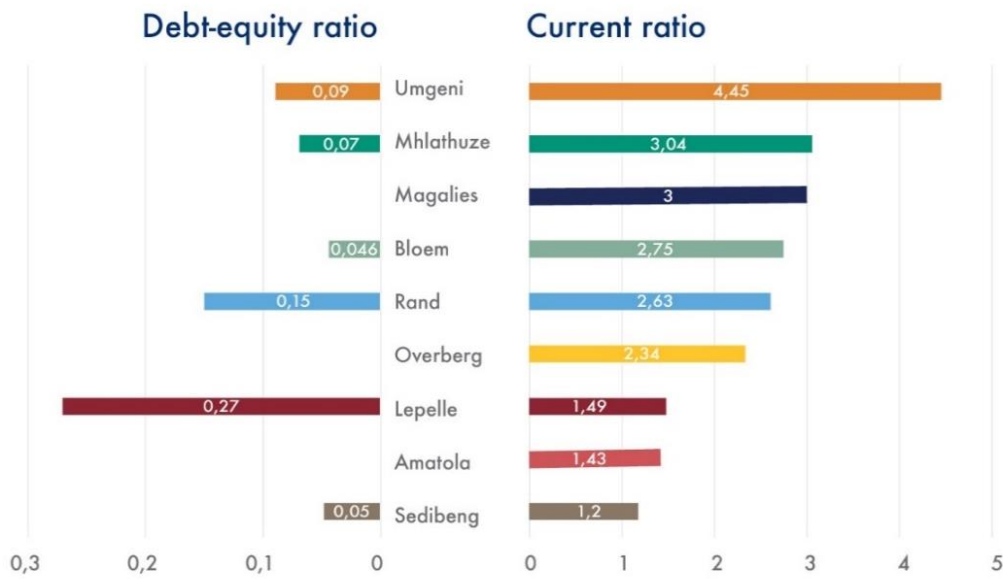


Water (1,2:1) – showing that they need to pay close attention to managing their cash balances to prevent future cash shortfalls. Because the ratios for these three water boards were above 1:1, they were not flagged as an indicator of going-concern challenges.

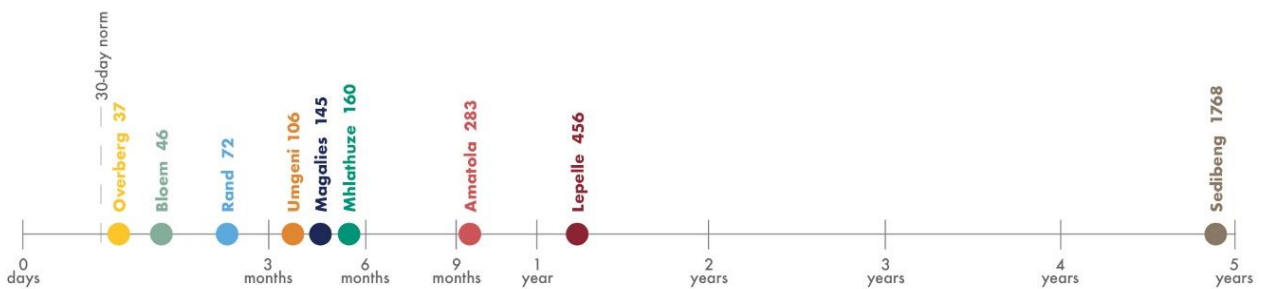
We recommend that management continue to closely monitor cash-flow projections and ensure that appropriate initiatives are implemented to maintain the positive liquidity positions of the water boards.

The **debt-equity ratio** measures the extent to which a water board uses debt to finance capital expenditure. A low debt-equity ratio indicates that a water board has sufficient funds in the form of equity to repay long-term debt and to sustain its operations in the long term. All water boards maintained a healthy debt-equity ratio of below 0,5:1.

Current ratio and debt-equity ratio (2020-21)



Creditor payment period



Overall, water boards took on average 341 days (excluding retentions) to pay their suppliers – significantly longer than the required 30 days. Those that took the longest to pay their creditors were:

- Sedibeng Water – 1 768 days (4,8 years)
- Lepelle Northern Water – 456 days (1,2 years)
- Amatola Water – 283 days
- Mhlathuze Water – 160 days

This exposed these water boards to interest and penalties on late payments, as included in fruitless and wasteful expenditure. It also had a negative effect on the supply chain ecosystem because suppliers that are not paid cannot maintain and operate their businesses to provide effective and efficient services. Suppliers may also not want to participate in future procurement at water boards that do not pay on time, which may affect the speed of service delivery.

If water boards can collect the money they are owed on time, they will be able to pay their suppliers on time.

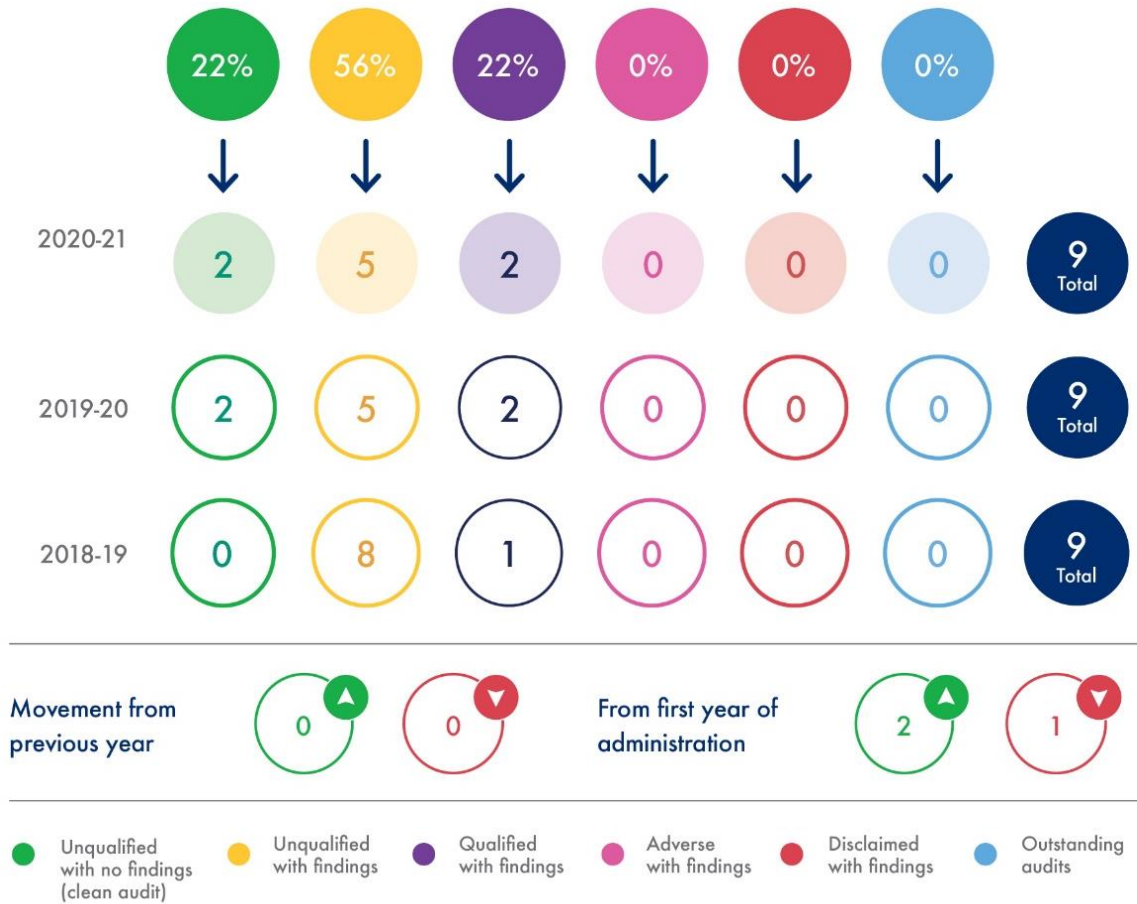
AUDIT OUTCOMES

Audit outcomes performance snapshot

	2020-21	2019-20	
Clean audits	2	2	
	2020-21	2019-20	
Financially unqualified financial statements	7	7	
	2020-21	2019-20	
No findings on performance reports	7	7	
	2020-21	2019-20	
No findings on compliance with legislation	2	2	



Audit outcomes – water boards



Overall, the **audit outcomes** for 2020-21 remained unchanged from 2019-20.

- Mhlathuze Water regressed from a clean audit to unqualified with findings on compliance with legislation. This was mainly because it did not maintain adequate internal control systems for reviewing financial statements and compliance with key legislation, especially procurement legislation.
- Five water boards (55,65%), including Mhlathuze Water, were financially unqualified with findings on compliance with legislation and/or findings on reported performance information.
- Amatola Water and Sedibeng Water both received repeat qualified opinions with findings on compliance with legislation and/or findings on the annual performance report, consistent with their previous year's audit outcomes.
- Overberg Water improved from unqualified with findings on compliance with legislation to a clean audit.
- Magalies Water successfully retained its clean audit status.

The good practices at Magalies Water and Overberg Water that led to improved audit outcomes were mainly related to improved internal controls and sound governance structures, which contributed effectively to combined assurance. This correlates with the high achievement of annual targets set in their annual performance plans (Magalies achieved 95% of its targets and Overberg 85%).

Seven water boards (Amatola Water, Bloem Water, Lepelle Northern Water, Mhlathuze Water, Rand Water, Sedibeng Water and Umgeni Water) did **not comply with key legislation**, which resulted in material findings being reported on compliance with legislation. The main areas of non-compliance were quality of financial

statements, procurement and contract management, expenditure management, consequence management and revenue management.

Irregular expenditure decreased by 41% from R3,2 billion in 2019-20 to R1,9 billion in 2020-21. The top three contributors to the irregular expenditure incurred during the year were:

- Umgeni Water – R511 million (39% of total expenditure, excluding employees cost)
- Rand Water – R301 million (32% of total expenditure, excluding employees cost)
- Sedibeng Water – R272 million (15% of total expenditure, excluding employees cost)

Irregular expenditure by water board for 2019-20 and 2020-21

WATER BOARD	Movement	Identified in 2020-21	Identified in 2019-20
Amatola Water	▼	R7 096 000	R6 027 000
Bloem Water	▲	R2 519 000	R4 117 000
Lepelle Northern Water	▼	R28 385 000	R11 887 000
Magalies Water	▼	R76 000	0
Mhlathuze Water	▼	R49 457 000	R824 000
Rand Water	▲	R1 030 968 000	R1 458 506 000
Umgeni Water	▼	R510 780 000	R712 954 000
Sedibeng Water	▲	R271 589 000	R1 029 154 000
Overberg Water	▲		R130 723
TOTAL		R1 900 843 000	R3 223 600 723

Amatola Water and Sedibeng Water were qualified on the completeness of irregular expenditure for both years. We could not determine the amount of the understatement based on the audit. Management must review the population of awards made from the first qualified accounting period to determine the amount of irregular expenditure that should be recorded in the financial statements.

The irregular expenditure balance increased from R5,3 billion to R7,2 billion in 2020-21. Only R52 million (1%) of the irregular expenditure reported in the previous year was condoned during the year (Lepelle: R546 000, Mhlathuze: R3 million, Overberg: R46 million and Rand Water: R2 million).

Significant delays in finalising investigations into instances of irregular and fruitless and wasteful expenditure incurred in the previous year led to the findings on consequence management at Umgeni Water (irregular expenditure), Sedibeng Water (irregular and fruitless and wasteful expenditure) and Amatola Water (irregular and fruitless and wasteful expenditure).

Weaknesses in financial management, internal controls, fraud prevention and legislative compliance could result in material financial losses at some water boards. The amendments to the Public Audit Act give us the mandate to report on these matters as **material irregularities** and to take action if accounting officers and authorities do not deal with them appropriately.

We notified the accounting authority of Umgeni Water of a material irregularity on 17 March 2021, relating to an R86 million award to a supplier for consulting services. The supplier was incorrectly evaluated and the award was not made to the supplier that submitted the lowest price, resulting in a financial loss of R3,56 million. Based on the outcome of the investigations, disciplinary action should be taken against the responsible employees. We will report on the progress on this material irregularity in the water board's 2021-22 audit report.

KEY ROOT CAUSES

We evaluated the root causes for internal control deficiencies identified in our audits for seven of the water boards (excluding Magalies Water and Overberg Water, which received clean audits) and reported these deficiencies in the water boards' management reports:

- **Inadequate preventative controls** to prevent non-compliance with procurement legislation
- **Inadequate review and monitoring controls** over the **preparation and review of financial statements**
- **Ineffective development, implementation and monitoring of audit action plans**
- **Inadequate record management practices** to ensure that information supporting the financial statements is readily available

Recommendations to address unfavourable audit outcomes

All audit findings are presented to, and discussed with, management, audit committees and accounting authorities. We communicated the following key recommendations as important matters that water boards should include in their action plans to help them improve on their overall audit outcomes.

Key recommendations for water boards

Water board	Key recommendations resulting from audit
Rand Water	The water board should address the lack of effective monitoring of supply chain management regulations to ensure compliance with key supply chain management legislation and reduce irregular expenditure. Effective systems should be put in place to ensure that all transactions have been recorded at year-end, which should be supported by a proper review of financial statements to ensure that these transactions are appropriately disclosed.
Umgeni Water	Management was slow to implement the recommendations made in the previous period, especially for proper reviews of financial statements. The accounting authority was also slow to implement corrective controls to prevent irregular expenditure and manage consequence management. Management and the accounting authority should implement our recommendations in a timely manner.
Bloem Water	The water board should address the lack of adequate review and monitoring of compliance with legislation. Leadership needs to increase the effectiveness of its oversight over financial and performance reporting, and compliance and related internal controls.
Mhlathuze Water	The water board should ensure that financial statements and performance reports are adequately reviewed to ensure the disclosed amounts reconcile with the underlying supporting evidence. Preventative controls to detect and prevent potential non-compliance with applicable laws and regulations need to be in place to prevent material instances of non-compliance.
Lepelle Northern Water	Management should ensure action plans are properly designed and implemented so that root causes are addressed and repeat audit findings can be avoided. Daily transaction processing should be scrutinised in detail to identify errors in the record-keeping system.
Amatola Water	The water board should focus on dealing with leadership instability (board and chief executive officer), stability of governance structures (audit committee) and vacancies in key positions. These gaps contributed to management's slow response to improve key controls and implement audit recommendations.
Sedibeng Water	No recommendations because the entity was to be dissolved and its assets and liabilities transferred to Magalies Water and Bloem Water from 1 July 2022.

Vacancies and instability in key positions affect performance, audit outcomes, sustainability and, most importantly, accountability.

At **Amatola Water**, the chief executive officer position has been vacant since late 2020 and the vacancy rate at senior management level was 30%. There was also no board between November 2020 and March 2021, and the appointed administrator was not present for the whole period. Finally, there was instability in the entity's audit committee, which did not exist for part of the year and thus did not execute its duties relating to monitoring the internal audit function.

At **Umgeni Water**, the High Court declared in October 2021 the minister's appointment of the interim board to be unlawful. The previous board commenced its duties in November 2021 after approval by Cabinet. The chief executive officer position was also vacant for the entire year under review, with the chief financial officer acting as chief executive officer for a portion of the year until her resignation in October 2021. As a result, an acting incumbent was appointed for the remainder of the year under review. At the date of this report, the position was still vacant with an acting incumbent in place.

Water boards should reflect on why the action plans developed and implemented in 2020-21 did not result in improved audit outcomes. Action plans are a key monitoring tool to focus corrective action on key root causes identified, to track management's progress in meeting key milestones, and to realign and adjust these plans as necessary to improve audit outcomes.

We recommend that accounting authorities, audit committees, and management:

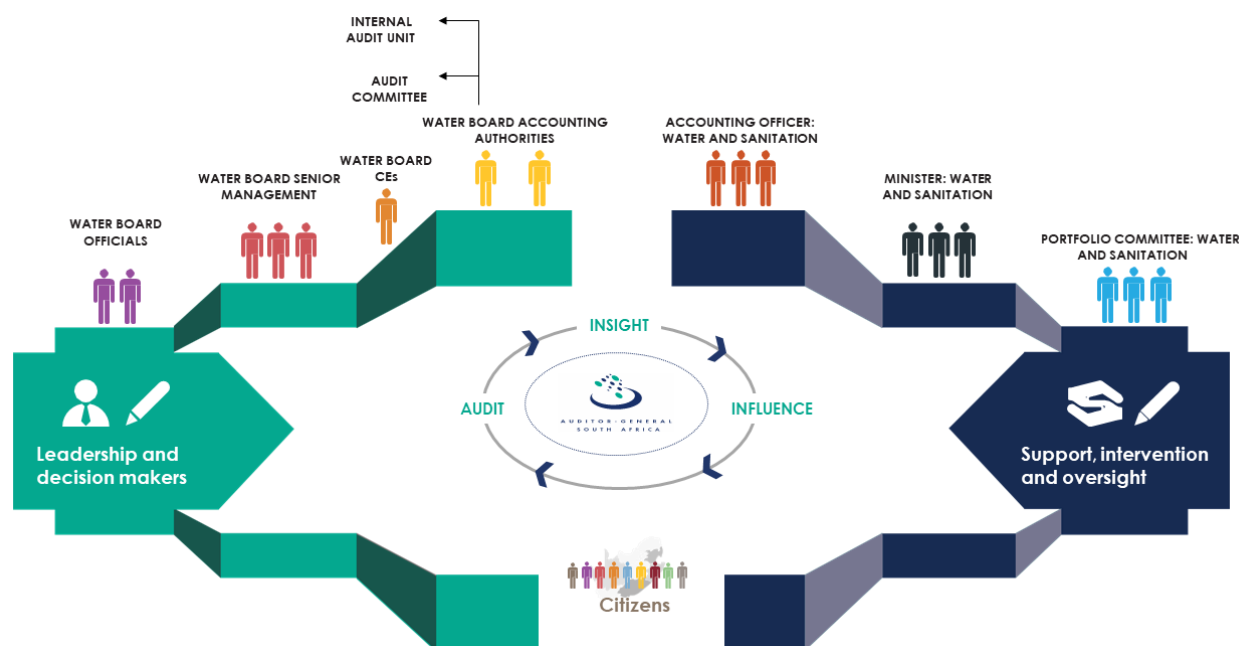
- **strengthen preventative controls** to ensure **compliance with procurement legislation**
- implement appropriate preventative controls to **minimise fruitless and wasteful expenditure**
- implement interventions to **effectively deal with debt-collection challenges**, not only to improve the cash flow and sustainability of the water boards, but also to support the sustainability of their service providers
- **thoroughly review the developed action plans** to ensure they address the root cause, and **ensure the plans are properly implemented** through effective monitoring.

We also recommend that audit committees continue to **improve effective monitoring and oversight** of management by effectively reviewing financial statements to improve the quality.

CALL TO ACTION

We call on all stakeholders to accelerate improvements in accountability. The improvements we seek do not only reside within the domain and responsibility of the accounting officer or authority and the auditors – they depend on the entire accountability ecosystem. This includes a multitude of role players at different levels – leadership and decision-making, support, intervention and oversight – who all need to play their part effectively to enable a culture of accountability in sustainable and meaningful ways.

Accountability ecosystem – water sector



We recommend that the different role players in the accountability ecosystem take the following actions to address the root causes highlighted in the previous section:

Senior management

Senior management should take ownership of internal control deficiencies that resulted in the findings in the audit report and should develop appropriate action plans to address the key root causes for the weaknesses reported and experienced. These action plans should also address the shortcomings in implementing key projects required for efficient and effective service delivery. Senior management should properly implement and execute the action plans, while internal audit tracks the progress of these plans and reports on this progress to those charged with governance, informed by timely and focused audits.

Audit committee

Audit committees should ensure that the action plans align with the improvements the water boards want to achieve before recommending or endorsing them to the water boards for approval. The committees should direct the focus of the internal audit functions when approving the internal audit plans to ensure that these plans properly include the key areas for improvement. Audit committees should then regularly monitor the execution of these approved audit plans (at least every quarter), providing assurance on the progress to the accounting authority for reporting to the executive authority and oversight.

Accounting officer or authority

The accounting officer or authority:

- should review and assess the appropriateness of all action plans to ensure that the root causes are adequately addressed. The water boards should ensure that the plans speak to the improvements they want to see in both governance and service delivery. The implementation of these plans must also be monitored regularly, and corrective action must be taken where necessary
- should ensure that non-compliance findings are investigated to determine whether there are indicators of any financial misconduct or misconduct in the supply chain management processes,

and that adequate and timely consequence management processes are implemented, including any disciplinary hearings where misconduct has been confirmed. These processes should also include a prompt determination of any loss suffered by the entity, especially irregular expenditure. The Public Finance Management Act legally requires boards to determine whether such expenditure must be recovered from the responsible official(s). Reports of progress on project implementation must clearly reconcile the impact of any shortcomings such as delays to the initial planned needs assessments that informed the project.

Executive authority / minister

The executive authority/minister:

- should regularly monitor progress on the implementation of action plans approved by the water boards and ensure that the accounting officer or authority and the water boards implement effective and timely consequence management, as required by the Public Finance Management Act
- should request regular feedback on the water boards' progress in implementing key infrastructure projects, to provide strategic leadership in case of any potential delays or escalating costs
- should ensure effective planning, coordination and direction of the water boards' efforts.

We recommend that all role players improve coordination between the organisations within the water sector.

The following matters require particular attention:

- Many projects are experiencing delays because the department has not paid its contractors, which then embark on go-slows, as was the case at Amatola Water. In some cases, as with Rand Water, the department did not make payments in time to allow the water boards to remain on track with the projects.
- In this report, we have noted some pockets of success, especially relating to financial management. Some water boards responded appropriately to our audit recommendations and these good practices should be replicated where concerns and challenges remain. The probability of success in sharing best practices and leveraging each other's successful processes is exceptionally high, as all these entities operate within the same sector and provide the same services. The department, the Water Trading Entity and the water boards should also use the fact that the water boards report to a single executive authority to drive consistency and improve coordination in planning and implementing projects.
- Leadership in the water boards, under the guidance and stewardship of the department, should create a culture that promotes effective financial and performance management, reduces irregular and fruitless and wasteful expenditure, and improves service delivery.
- Reporting in the sector is inconsistent because targets are not uniformly set, which makes it difficult to engage in meaningful planning based on a consistent data set. This affects key decision-making and may also pose concerns for consistent accountability discussions.

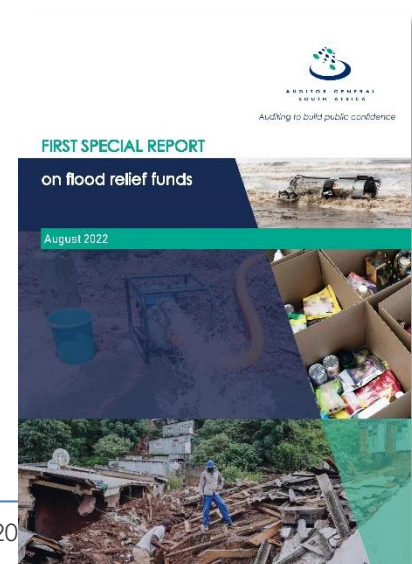
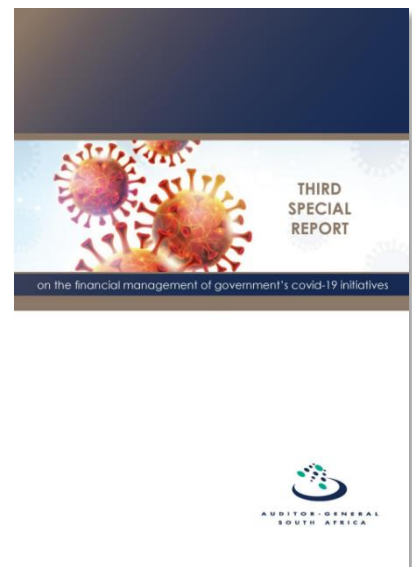
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Every year, the AGSA produces audit reports on all government departments, public entities, municipalities and municipal entities.

The outcomes of these reports are analysed in our general reports, which cover the Public Finance Management Act (PFMA) cycle for national and provincial government, and the Municipal Finance Management Act (MFMA) cycle for local government.

In 2020-21, we also produced three special reports on the financial management of government's covid-19 initiatives – two on initiatives in national and provincial government, and one on local government initiatives. In 2022, we produced a special report on the real-time audit on flood relief funding.

These and our other reports are available on our website (www.agsa.co.za).



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