

REPORT OF THE INDEPENDENT AUDITORS TO THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY ON THE COMMUNITY WATER SUPPLY AND SANITATION PROGRAMME CWSS FOR THE YEAR ENDED 31 MARCH 2003

We have audited the documents and records maintained by the Department of Water Affairs and Forestry (DWAF) which relate to the Community Water Supply and Sanitation Programme (CWSS) with reference to the agreed-upon terms of reference.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the statement of cash receipts and disbursements of the CWSS is free of material misstatement. An audit includes:

- ❑ examining, on a test basis, evidence supporting the amounts and disclosures in the statement of cash receipts and disbursements;
- ❑ assessing the accounting principles used and significant estimates made by management; and
- ❑ evaluating the overall statement of cash receipts and disbursements presentation.

We believe our audit provides a reasonable basis for our opinion.

The DWAF's policy is to prepare the accompanying statement on the cash receipts and disbursements basis. On this basis, revenue is recognised when received rather than on the accrual basis, and expenses are recognised when paid rather than when incurred.

Audit opinion

In our opinion, the statement of cash receipts and disbursements (as provided in Addendum A) fairly present, in all material respects, the financial position of the CWSS at 31 March 2003 and its activities for the year then ended.

Emphasis of matter

Without qualifying our opinion above, we draw attention to the fact that significant uncertainty exists relating to the registration status of the CWSS project for Value Added Taxation (VAT) purposes. CWSS is not budgeted for under the operating account of DWAF. Expenses on the CWSS are therefore classified as capital expenditure as opposed to operational expenditure and, as such, may not qualify for deductible expenses as defined by Section 1 of the VAT Act 89, of 1991.

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PROGRAMME CWSS.
for the year ended 31 March 2003**

In accordance with our terms of reference, we further report as follows:

- ❑ The CWSS has materially complied with all aspects of section 21 of the Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (Act No. 29 of 1999) (PFMA). All monies received from foreign donors were deposited in the Reconstruction and Development Programme (RDP) account with National Treasury and these funds were transferred to the Paymaster General (PMG) account when requested by the DWAF.
- ❑ The DWAF has materially adhered to all specific conditions as set forth in the respective financing agreements on the CWSS with due regard given to the legality, regulatory and conformity requirements.
- ❑ We could not completely verify the accuracy of quarterly reports submitted to donors. These reports are based on the most correct information available at the time the report is drafted, but a record of how these reports are prepared was not available for review. We were able to reconcile the total expenditure per financial management system (FMS) to the total of all quarterly reports submitted during the period. We were, however, not able to reconcile FMS expenditure per quarter per province to the information included in the quarterly reports for these criteria.
- ❑ Our detail selections did not identify instances where the 'value for money' of payments appears questionable.
- ❑ Our detail selections did not reveal any instances where invoices were submitted for payment twice. Except for those items reported in Addendum B, sufficient controls appear to be in place to ensure that payments are properly authorised and to mitigate the risk of invoices being double paid.
- ❑ Except for those items reported in Addendum B, expenses incurred appear to have been in terms of valid and approved business plans.
- ❑ Except for those items reported in Addendum B, expense amounts are supported by approved internal documentation and external documents that verify the amount was spent as noted above. Supporting documentation for expenditure totalling R2 557 698 could not be located and verified for audit purposes.
- ❑ The DWAF appears to have proper policies and procedures in place for all expenses incurred.

29 January 2007

**STATEMENT OF RECEIPTS AND DISBURSEMENTS OF THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY'S COMMUNITY
WATER SUPPLY AND SANITATION PROGRAMME CWSS
for the year ended 31 March 2003**

ADDENDUM A

GRANTS RECEIVED	FUNDS AND	Total foreign currency	Foreign currency unit	Date transferred to PMG account	RDP account R	PMG account R	Total R
Received for project							
Programme 5							1 451 191 391
<input type="checkbox"/> Government funds					-	1 133 063 392	1 133 063 392
<input type="checkbox"/> Expected donor funds					318 127 999	-	318 127 999
Programme 7 ⁽²⁾							48 219 000
Total funds received for project							1 499 410 391
Less expected donor funds							(318 127 999)
Received in PMG account from foreign donors							260 106 581
<input type="checkbox"/> European Commission		2 000 000	Euro	31/01/2003	-	18 184 000	18 184 000
<input type="checkbox"/> Kingdom of the Netherlands		1 477 279	Euro	31/01/2003	-	15 000 000	15 000 000
<input type="checkbox"/> European Commission		21 365 239	Euro	27/03/2003	-	200 000 000	200 000 000
<input type="checkbox"/> European Commission		1 602 393	Euro	27/03/2003	-	15 000 000	15 000 000
<input type="checkbox"/> Kingdom of the Netherlands		945 721	Euro	27/03/2003	-	9 602 657	9 602 657
<input type="checkbox"/> Republic of Ireland		266 462	Euro	28/03/2003	-	2 319 924	2 319 924
Received in RDP account from foreign donors not transferred to PMG							23 339 353
<input type="checkbox"/> European Commission		2 023 368	Euro	N/a	19 025 000	-	19 025 000
<input type="checkbox"/> Republic of Ireland		495 538	Euro	N/a	4 314 353	-	4 314 353
Funds carried forward							1 464 728 326

**STATEMENT OF RECEIPTS AND DISBURSEMENTS OF THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY'S COMMUNITY
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for the year ended 31 March 2003**

ADDENDUM A

FUNDS AND GRANTS RECEIVED	Date transferred to PMG account	RDP account R	PMG account R	Total R
Funds carried down				1 464 728 326
Funds carried forward from previous periods (prior to 1 April 2002)				27 981 008
<input type="checkbox"/> Transferred to PMG account: European Commission	23/04/2002	-	10 300 932	10 300 932
<input type="checkbox"/> Transferred to PMG account: Republic of Ireland	28/03/2003	-	17 680 076	17 680 076
Interest accrued on current year funds		11 425 511	-	11 425 511
Net interest accrued on funds transferred from prior periods		10 225 025	-	10 225 025
				1 514 359 870
Less:				
<input type="checkbox"/> Funds transferred for Programme 7 ⁽²⁾				-
<input type="checkbox"/> Rollover funds allocated and spent in previous periods				(10 300 932)
<input type="checkbox"/> Rollover funds allocated for use in future periods				(4 314 353)
<input type="checkbox"/> Unallocated funds not transferred to PMG account				(19 025 000)
<input type="checkbox"/> Interest accrued not used on project				(21 650 536)
Funds available per CWSS delegation				1 459 069 049

**STATEMENT OF RECEIPTS AND DISBURSEMENTS OF THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY'S COMMUNITY
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for the year ended 31 March 2003**

ADDENDUM A

PROJECT DISBURSEMENTS	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Eastern Cape	26 426 528	70 994 322	47 554 472	72 058 445	217 033 767
Kwa-Zulu Natal	79 633 874	104 241 968	39 222 614	116 608 399	339 706 855
Limpopo ⁽³⁾	47 531 806	47 097 320	59 592 036	135 511 885	289 733 047
Head Office	3 763 289	13 453 374	11 481 765	19 552 878	48 251 306
Free State	6 717 728	1 118 255	3 476 046	18 709 164	30 021 193
Mpumalanga	5 139 418	29 293 447	29 638 266	-4 645 836	59 425 295
Northern Cape	495 269	1 426 680	5 363 844	4 521 145	11 806 938
North West	12 042 211	25 579 390	26 711 023	66 468 324	130 800 948
Western Cape	488 180	56 789	130 402	2 383 671	3 059 042
	182 238 303	293 261 545	223 170 468	431 168 075	1 129 838 391
Transfers to District Municipalities ⁽³⁾					219 142 667
Transfers to Capital expenditure overhead cost					110 393 365
Programme 7 – Professional and specialist fees ⁽²⁾					38 040 234
Total disbursements per CWSS financial delegation					1 497 414 657
Net funds utilised from subsequent periods					(38 345 608)
Funds received in PMG account in April 2003					(23 339 353)
Net deficit					(15 006 255)

**STATEMENT OF RECEIPTS AND DISBURSEMENTS OF THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY'S COMMUNITY
WATER SUPPLY AND SANITATION PROGRAMME CWSS
for the year ended 31 March 2003**

ADDENDUM A

SUMMARY OF DONOR FUNDS RECEIVED AND UTILISED IN THE 2002/2003 YEAR

	Government	European Commission	Netherlands	Ireland	Total
Funds received for 2002/2003 financial year	1 133 063 392	252 209 000	24 602 657	20 000 000 ¹	1 429 875 049
Programme 7 – Professional and specialist fees ⁽²⁾	48 219 000	-	-	-	48 219 000
Funds utilised ⁽³⁾	(828 902 573)	(267 483 291)	(22 888 930)	(10 563 597)	(1 129 838 391)
Transfers to District Municipalities ⁽³⁾	(219 142 667)	-	-	-	(219 142 667)
Transfers to Capital expenditure overhead cost	(110 393 365)	-	-	-	(110 393 365)
Programme 7 – Professional and specialist fees ⁽²⁾	(38 040 234)	-	-	-	(38 040 234)
	(15 196 447)	(15 274 291)	1 713 727	9 436 403	(19 320 608)

¹ Amount comprise R2 319 924 and R17 680 076

² Programme 7 expenditure comprises only Professional and Specialist Fees.

³ Transfer payments and Government funds were adjusted to exclude invalid transfer payments of R7 348 000 in the Limpopo region, refer Addendum B

INCORRECT USE OF FMS CODES

Audit finding

We noted that various FMS reports did not correspond, the reason being that expenditure incurred in the year, R166 183 and R97 498 was processed to the United Kingdom (UK) and France codes, respectively, although no funds were received from the UK or France.

The DWAF expected to receive funds from France, hence these codes being opened. Although the funds were not received, the codes were not closed and were thus incorrectly used by the regions.

Consequence

The above resulted in incorrect allocation of expenditure. FMS reports prepared for UK, France, Netherlands and European Union (EU) were incorrect. This resulted in reports prepared from FMS being incorrect.

The above also complicated the monitoring of total expenditure per donor.

Audit recommendation

Codes should only be open for use for the time that funds are received from a specific donor. An independent senior person should review all reports on a monthly basis to ensure that the correct allocations are used.

Management comment

On the 1st of April 2003, the Department moved from FMS to BAS. BAS does not allow any payments to go through if there is no budget. The National Programme manager (Dirk van der Boon) will review all reports on a monthly basis and ensure that the correct allocations are used.

NOTE: We adjusted the figures for inclusion in addendum A to indicate correct funds spend per donor.

TREATMENT OF VALUE ADDED TAX

Audit finding

Donor-funded projects are registered for value-added tax (VAT). The VAT portion of expenses incurred on these projects can be claimed back from the South African Revenue Service (SARS). We noted instances where the VAT on donor-funded project expenses was not recorded separately, but expensed. The European Community Finance Agreement stipulates that donor funds may not be utilised for the finance of any local taxes. It was also noted that at the end of the financial year, when expenses were journalised from exchequer funds to donor funds, VAT was not excluded.

We also identified expenses on non-donor funded projects where VAT was recorded separately and claimed as an input deduction from SARS. Non-donor funded projects are generally not registered for VAT.

Consequence

The current accounting treatment of VAT on donor-funded projects prevents the efficient recovery of VAT inputs. This may constitute a contravention of the European Community Finance Agreement. The DWAF may be liable for interest and penalties on VAT inputs claimed on non-donor funded projects, as the projects are not registered as VAT vendors.

Audit recommendation

The VAT portion of expenses incurred on donor-funded projects should be recorded in a separate VAT input account. VAT returns should be submitted when appropriate in order to claim back the VAT paid. VAT should not be claimed on non-donor funded projects not registered for VAT. When exchequer funds are moved to donor funds, special care must be taken to ensure VAT is then excluded.

Valued-added comment

The DWAF obtained opinions on the treatment of VAT from tax consultants. According to these the CWSS project is not budgeted for under the operating account of DWAF and therefore does not constitute the carrying on of an “enterprise” as defined in section 1 of the VAT Act (Act no.89 of 1991). Whether taxable supplies are made by the DWAF or not, will determine if input VAT can be claimed on any or all projects.

The DWAF should consider and explore the possibility of a liability, if VAT at the standard rate is charged on all funds received from the government. If services flow back to the government, the DWAF will be liable for VAT at standard rate on all funds received from the government; however, if not, the funds received will be zero-rated.

As this is a “grey area” the involvement of a VAT expert is recommended.

Management comment

Recommendation noted. The Chief Financial Officer will assist in a standard format on how to deal with this.

LACK OF ORIGINAL SUPPORTING DOCUMENTATION

Audit finding

Certain batches selected at head office and in the regions were not supported by appropriate original supporting documentation (including invoices and FMS forms). The following was noted:

- batches did not include the selected transactions (R1 026 608);
- batches did not include all or any supporting documentation (R1 213 961);
- batches could not be found (R105 862);
- Persal automated batches did not include any supporting documentation (R211 267); and
- Head Office and regional batches did not include original supporting documentation. Although regional offices claim they have sent the original supporting documentation to head office, these were not available at head office.

Consequence

The lack of original supporting documentation may result in invalid or duplicate recording of expenditure or payments being made. There is no appropriate audit trail to substantiate any queries nor is there sufficient supporting documentation with which to claim VAT. This is a contravention of the European Commission's agreement, which states that the DWAF must retain original supporting documentation at its Head Office.

Audit recommendation

Processes should be centralised, whereby the original documentation for all regions is sent to Head Office with a copy remaining in the region for control purposes. All transactions should be supported with appropriate original documentation and should be readily available. No payments should be made without the original invoice.

Management comment

Audit recommendation is noted. The Director Financial Management and Regional co-ordination directorate will improve the process of documentation. These batches will be traced. When necessary matters will be investigated and appropriate action taken.

It is not feasible to trace Persal entries to supporting documentation. The change in financial systems from FMS to BAS on the 1st of April 2003, addresses the above problem.

REALLOCATION JOURNALS

Audit finding

Numerous journals were processed to correct incorrect allocations arising from expenses initially being recorded in an incorrect project.

We noted instances where journals that were duplicated or processed to incorrect objective codes, were not supported by sufficient documentation nor the required approved instruction memo. As the journals did not include any supporting documentation, we could not conclude on the validity thereof.

Consequence

The volumes of reallocation journals could lead to the misallocation of funds as well as the manipulation of funds when a specific project is approaching the limit of its budget.

Audit recommendation

Care should be taken to ensure that expenses for projects are properly recorded to the relevant project. This is important to enable management to track the progress of the projects and to assist in identifying fruitless and wasteful expenditure.

The required supporting documentation, authorisation process and the cancellation of the journals once processed should be standardised across the regions. A review of journals by an independent senior person to ensure compliance with these procedures should be implemented.

Management comment

Recommendation noted. The standardised process of journals will be improved, including review of supporting documentation. Director Financial management and Regional co-ordination directorate will address the gaps.

CONTROLS PERTAINING TO EXPENDITURE INCURRED

Audit finding

We noted the following lack in controls pertaining to expenditure incurred:

1. Invoices were not always paid within 30 days.
2. Invoices were not always made out in the auditee's name (DWAF).
3. Supporting documentation was not stamped as "PAID", i.e. not cancelled, subsequent to payment.
4. Alterations were made on original supporting documentation, without any evidence of authorisation thereof (R2 327 962).
5. Payment advices and invoices were not properly approved for payment as indicated in the delegation of authority (R9 145 905). We also noted that the delegation of authority in Eastern Cape did not contain the most current specimen signatures.
6. Overtime claimed was not included in the overtime register, varied from register or paid out at incorrect rates.

Consequence

The above represent a contravention of the DWAF's policies and may result in the following:

1. Financial loss if the early payment discounts are not utilised.
2. Expenditure may not relate to DWAF projects and payment of invalid expenses could occur. There are also tax implications due to the fact that VAT input cannot be claimed.
3. Items may remain unpaid, or could be paid twice.
4. Alterations to authorised documents may nullify the authorisation process.
5. Unauthorised payments being made on invalid invoices.
6. Incorrect calculation and payment of overtime.
7. Contravention of the PFMA.

Audit recommendation

All departmental policies should be adhered to in order to ensure that controls conducive to accurate recording of valid expenditure are maintained:

1. Invoices should be paid within the stipulated period of 30 days.
2. A separate tax invoice in the name of the auditee should be requested from suppliers.
3. All invoices paid should be cancelled once paid, i.e. stamped "PAID".
4. Any alterations on documents should undergo the same authorisation procedures as the original documentation did.
5. Invoices should be checked and all payments should be authorised by the specimen signatories in the delegation of authority.
6. All overtime should be appropriately authorised to ensure that it is accurately calculated and is valid.

Management comment

Recommendation noted. This problem is being addressed and BAS system will reduce the risks, Director Financial Management will send a circular to deal with these matters.

PRE INVOICING OF SERVICES (Mpumalanga)

Audit finding

While reviewing supporting documentation for invoices received from the consultants to whom the project was outsourced, the following was noted: the invoices received from the third party suppliers/contractors were pre-dated. The invoice that was received from the consultants was dated within the period under review. The supporting documentation to the invoice was, however, dated after year-end. All instances identified were close to year-end. It therefore appeared as though the department/consultants were attempting to utilise funds budgeted for the current year for future costs.

Consequence

Funds are being allocated to projects without ensuring that the work has been performed. There is a risk that the funds could be utilised for a purpose other than they intended.

Audit recommendation

Projects where funds are allocated before the work is performed should be monitored on an ongoing basis to ensure that the work is in fact completed as intended.

Management comment

Recommendation noted. Management indicated that before funds are distributed to the various consultants/contractors, a reconciliation has to be handed in for the funds previously disbursed for the specific project. The reconciliation will indicate how the money was utilised. The reconciliation is certified by the engineers as work is physically performed.

Circular will be sent to all regions under DDG:OPS to remind the managers not to make any payments in advance.

BUSINESS PLANS

Audit finding

Business plans are prepared for each registered project. The business plans are evaluated and either approved or rejected at a Business Plan Appraisal Committee Meeting. The authorised business plan ensures that donor funds are only spent on valid projects. This in turn ensures that the DWAF's goals and objectives are met and that compliance with the various financing agreements is achieved.

We were unable to obtain the following business plans for specific projects in the Limpopo region and were thus unable to establish whether the business plan was authorised by the appraisal committee.

LP052	LP064	LP074	LP075	LP087	LP104
LP107	LP108	LP109	LP114	LP116	LP123
LP124	LP125	LP126	LP141	LP151	LP172
LP173					

In addition to the above the following business plans located were not approved:

LP007	LP015	LP032	LP035	LP053	LP058
LP078	LP 079	LP080	LP082	LP088	LP117
LP110					

In the Eastern Cape region business plans for each project are not kept at the regional office, but at the various municipalities in the region.

Consequence

This represents a contravention of the financial delegation. Effective project management cannot be achieved. Compliance by the municipalities with the various conditions stipulated in the business plan can also not be measured. If approved business plans are not available, it is impossible to determine whether certain expenses were incurred in terms of valid and approved business plans. The DWAF resources might not have been used in the most effective, efficient, economical and transparent manner.

Audit recommendation

There should be approved business plans for every project. The respective regions should keep the business plan for each project with only copies kept by the municipalities and Head Office. A system of control should be implemented to ensure that a record is kept of all business plans. This will ensure improved accessibility to business plans for future reference purposes.

Management comment

Agree that Business Plans listed above are missing. Measures will be put in place to ensure that in future no project will be implemented without an approved Business Plan.

Business Plan process will be streamlined and regions will be capacitated with the procedures. This will be addressed with all the regions.

INVALID TRANSFER PAYMENTS – LIMPOPO REGION

Audit finding

We could not find any indication that transfer payments for LP044 (R4 048 000) and LP016 (R3 300 000) have been paid to the Capricorn District Municipality. The municipality confirmed that they did not receive these funds. Amounts were, however, journalised from project expenditure to transfer payments.

Consequence

Amounts were journalised to expenses for payments never made. This understates the amount recorded to project expenditure while the transfer payments were overstated.

Audit recommendation

An independent senior person should review all transfer payments to ensure that valid supporting documentation exists. This is particularly important if the transfer payment is processed through a journal entry and not the payment advice to ensure that only valid transfer payments are accounted for.

Management comment

Recommendation noted. Electronic Fund Transfer and a letter from municipality confirming receipt of the money must be kept as proof of transfer payments. Written confirmation that the municipality didn't receive the money will be obtained. The correct procedure for journalising was addressed in a workshop that was held on 11/08/2003 and 12/08/2003. As a follow up, a circular will be sent to the regions to implement this.

NOTE: Expenses were not incurred hence journalising these amounts to transfer payments resulted in a credit in project expenses and a debit in transfer payments. We adjusted the figures in Addendum A to exclude invalid transfer payments thus eliminating both the debit and the credit entries.

TRANSFER PAYMENTS TO DISTRICT MUNICIPALITIES

Audit finding

Money authorised for spending per the financial delegation is allowed to be transferred to district municipalities (DMs) in accordance with the PFMA or the Division of Revenue Act, 2002 (Act No. 5 of 2002) (DoRA). The DMs will submit requests for transfer payments accompanied by an approved business plan to the DWAF. Transfer agreements relating to these requests are signed by the DWAF and the DMs.

For a number of transfer payments made to the DMs we were unable locate the following:

- Letter of request (LP157, KN203, KN204, KN227, KN235 and KN236).
- Written assurance certificate to ensure that the DMs have the necessary internal and financial controls to manage the funds.
- Transfer Agreements signed by the DWAF (MP180, MP182, MP183 and MP184).
- Electronic Funds Transfer (EFT) confirmation for payment (LP157).
- The letter of receipt from the DMs .
- The monthly reports received from the DMs to ensure that the funds have been spent in terms of the business plan (LP157, KN203, KN204, KN227, KN235 and KN236).

Consequence

If documentation is not maintained as detailed above, it may lead to money being misappropriated, not being paid over or being paid to the incorrect entity. This may result in contravention of the PFMA and/or DoRA.

Audit recommendation

The DWAF should ensure that the necessary documentation is maintained for all transfer payments that were made. This should include the following:

- letter of request;
- business plan;
- letter of approval of business plan;
- written assurance certificate to ensure that the DM has the necessary internal and financial controls to manage the funds;
- authorised transfer agreement;
- form 1084 with the necessary level of authorisation;
- supporting EFT document;
- letter of receipt from the municipality; and
- monthly reports to ensure that funds are spent in accordance with business plan.

Management comment

Recommendation noted. We will ensure that we obtain the documents listed above and agreements are signed accordingly. Regional co-ordination directorate will ensure the documents are obtained. The matter regarding monthly reporting will be investigated and corrective measures will be implemented to make sure that this reporting is done correctly. We will also ensure that these reports are obtained from the municipalities from the time money was received by them.