



National Assembly of Seychelles

FINANCE AND PUBLIC ACCOUNTS COMMITTEE

**EXAMINATION OF THE PUBLIC UTILITIES
CORPORATION PERFORMANCE AUDIT REPORT
OF THE AUDITOR GENERAL**

***'Effectiveness in managing the Supply and
Distribution of Water'***

**THIRD REPORT OF FPAC
5TH ASSEMBLY
2013**

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1. INTRODUCTION

1.1 THE FINANCE AND PUBLIC ACCOUNTS COMMITTEE

The Finance and Public Accounts Committee (FPAC) is appointed by the National Assembly of Seychelles by the legal requirements of the Constitution of the Republic of Seychelles, the Standing Orders and the Rules of Procedure for Committees as the institutional mechanism for reporting on the effectiveness and efficiency of public financial management by the Government.

Aside from its Annual Report which is produced from examining the Report of the Auditor General on the annual accounts of the Government, the FPAC has the mandate to scrutinize the Performance Audit Reports of the Auditor General of a particular Ministry, Department or Agency which is financed by the Government with public money.

1.2 COMMITTEE COMPOSITION

The seven-members of the Committee are appointed by the National Assembly as soon as practicable after the beginning of each session of the Assembly.

The current Committee appointed by the 5th Assembly is chaired by the Leader of the Opposition and its composition is as follows:

- Hon. David Pierre – *The Chairperson*
- Hon. Charles De Commarmond – *The Vice-Chairperson*
- Hon. Marc Volcere
- Hon. Nichole Barbe
- Hon. Sebastien Pillay
- Hon. Lenny Lebon
- Hon. Jeniffer Vel

Committee business is supported and facilitated by National Assembly Secretarial and Advisory personnel and is further assisted through the advice and guidance of the Auditor General.

1.3 CONTACT

All correspondence relating to this report or other matters within the scope of the FPAC should in the first instance be addressed to:

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2. OBJECTIVES AND METHODOLOGY

In July 2012, the Auditor General published a Performance Audit Report on the Public Utilities Corporation *'Effectiveness in Managing the Supply and Distribution of Water.'* This assignment covered a five year period ending May 2012 and in accordance with Section 13 of the Auditor General Act, 2010.

The overall objective of this performance audit was:

'To examine and report on how effectively the Public Utilities Corporation was managing the supply and distribution of water to its customers.'

The report of the Auditor General centred its enquiries in three-areas:

- i. Public Utilities Corporation Management;
- ii. Public Utilities Corporation Water Supply Network; and
- iii. Public Utilities Corporation Project Management and the Procurement of Seven Desalination Units.

The full report can be found at: <http://www.oag.gov.sc/downloads>

The Committee conducted a hearing on the content of the Performance Audit Report of the Auditor on the Public Utilities Corporation on 22nd May 2013.

The verbatim transcript of the hearing can be found at: http://nationalassembly.sc/index.php?option=com_content&view=article&id=961&Itemid=82

The Public Utilities Corporation was represented at the hearing by:

- Mr. Philippe Morin – *Chief Executive Officer:*
- Mr. Joel Valmont – *Deputy Chief Executive Officer*
- Mr. Wingate Mondon – *Chief Commercial Officer*
- Mr. Steve Mussard – *Managing Director for Water & Sewerage*
- Mr. Ravin Sunassee – *Project Director*
- Mr. Jalangan Visvanathan – *Chief Financial Officer*
- Mr. Anil Singh – *Managing Director for Electricity*

Examination of the Public Utilities Corporation Performance Audit Report of the Auditor General

The Office of the Auditor General was represented at the hearing by:

- Mr. Marc Benstrong - *Auditor General*
- Mr. Gamini Herath – *Deputy-Auditor General*
- Mrs. Marie-Lise Pierre – *Audit Manager*
- Ms. Hillary Rene- *Auditor*

The issues and related recommendations of the Public Utilities Corporation Performance Audit Report of the Auditor General and the responses from the Public Utilities Corporation are summarised in the table shown at **Annex I**.

Annex II provides detailed information on the supplementary questions by the Committee and the responses of the Public Utilities Corporation.

3. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Committee was impressed with the preparation that the PUC had done in advance of these hearings. The CEO and his team were able to provide either immediate assurance to the Committee, or undertakings that documentary evidence would be provided to the Committee to show that the concerns in the Performance Audit Report of the Auditor General have already been or were currently being addressed.

It was apparent to the Committee that many positive changes had taken place in the previous 15-months at operational and management levels within the PUC and the Committee would encourage the PUC to continue along this constructive path.

The Public Utilities Corporation has a maximum of one month from the date of the approval of this report by the National Assembly to respond to the recommendations of the Committee.

The recommendations of the Committee on the Public Utilities Corporation Performance Audit Report of the Auditor General are derived from the evidence from the hearing and subsequent documentation received from the Public Utilities Corporation.

From the responses to queries raised in the performance audit report, the Committee is of the view that the methodology for conducting audit of this nature has to be strengthened. There is a need for the audit to consider specific areas and to connect value for money with performance in those areas.

Committee Recommendations to the Public Utilities Corporation:

- i. The Public Utilities Corporation will provide a clear Strategic Plan of the Corporation.
- ii. The Public Utilities Corporation will provide detailed information on how it plans to conduct a formal risk assessment and risk management of projects.
- iii. The Public Utilities Corporation will provide the full cost value for procurement of further items and works required to install and fit the 7 desalination plants into the PUC water network (a request made to POU on 2nd August, 2011) and the costs of new projects that aid water supply during the drought in 2012 (a request made to POU on 19th March, 2012).
- iv. The Public Utilities Corporation will ensure that it has a comprehensive procurement policy that is well documented.

ANNEX I: PUBLIC UTILITIES CORPORATION'S RESPONSES TO THE RECOMMENDATIONS OF THE AUDITOR GENERAL

| PERFORMANCE AUDIT REPORT REFERENCE | RECOMMENDATION | PUC RESPONSE | EVALUATION OF RESPONSES |
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| <p>1. The Public Utilities Corporation (PUC) should control its operational costs more rigorously. Page 4-5</p> | <p>1. As a matter of priority, the PUC should review and assess its operational costs to identify potential efficiency savings. The PUC should allocate corporate responsibility for reviewing efficiency.</p> | <p>The PUC reported that it has and continues to improve its control over costs including the using of zero-based budgeting; reducing overtime and transport expenditures; monthly and quarterly financial reporting from all parts of the organisation; and quarterly financial returns to the Board.</p> | <p>This response would appear to indicate that the recommendation has been implemented.</p> |
| <p>2. The PUC is a large organisation with varied responsibilities and, consequently, has a great need for a strategic way of working. Page 4-5</p> | <p>2. The PUC should consider developing a clear strategy to co-ordinate existing and new initiatives related to the Water Development Plan, as well as other operational activities. The strategy – short and medium term – should support a more proactive approach, particularly when associated with specific and measurable objectives that will enable performance measurement.</p> | <p>The PUC reported that it considered that it did have adequate documented plans and strategies for the effective management of strategic and operations objectives; i.e. Business Plan, Statement of Corporate Intent, Financial Model and CEO's Plans and Targets.</p> | <p>This response would appear to indicate that the recommendation has been partly implemented; however, given the vast amount of documents, the Committee recommends that a clear Strategic Plan is developed.</p> |

| PERFORMANCE AUDIT REPORT REFERENCE | RECOMMENDATION | PUC RESPONSE | EVALUATION OF RESPONSES |
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| <p>3. The PUC has not recognised the importance of defining and managing the risks associated with providing a continuous water supply to consumers and with the implementation of existing and future projects. Page 4-5</p> | <p>3. The PUC should develop a risk awareness and assessment approach that results in risk management plans and processes. An immediate priority is the undertaking of a systematic risk assessment with senior individuals designated as the responsible risk manager(s), to ensure that responsibility is clearly allocated and effectively discharged.</p> | <p>The PUC has conducted a risk assessment in all divisions.</p> | <p>This response would appear to indicate that the recommendation has been implemented.</p> |
| <p>4. The PUC should build on its current efforts and establish a sustainable approach to water leakage management. Page 4-5</p> | <p>4. The PUC should establish the financial costs and benefits of leakage control and the scope for reducing costs through technological advances. The PUC is uncertain about how much it costs to control leakage and the value of water that can be saved as a result.</p> | <p>The PUC responded that they have considerably upgraded the Project Management Unit to deal solely with water leakage. This Unit has professional and technical personnel who are leading the efforts to reduce loss through water leakage.</p> <p>Project Neptune is designed to reduce losses through water leakage and has a number of projects that will be financed by the EIB/AFD loans of approximately €36.7 million.</p> <p>It was stated that the capacity of PUC Water Network has been enhanced</p> | <p>This response would appear to indicate that the recommendation has been implemented.</p> |

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| | | through bringing in a Non-Revenue Water Engineer and Water Network Engineer to ensure high level of supervision and greater sophistication in dealing with the issues of water leakage and non-revenue water. | |
| 5. The PUC should prioritise the replacement of out of date water meters based on effective meter age analysis. Page 4-5 | 5. The PUC should draw up a formal structured programme for the regular testing and replacement of water meters. The PUC should analyse the data available to set realistic and priority targets for meter replacement that will enable maximisation of revenue. | <p>The PUC reported that the EIB/AFD loans, which support Project Neptune, has a component for replacement of water meters and a structured programme for regular testing of water meters is currently being developed.</p> <p>The PUC also stated that in 2013 they have imported 4,000 new water meters and have another 4,000 on order.</p> | This response would appear to indicate that the recommendation has been implemented. |
| 6. The PUC should ensure that there is proper and strengthened project management. Page 4-5 | 6. For all projects, the PUC should ensure that the project management and accounting units are in place, set realistic objectives and timescales for delivery and seeks detailed and competitive tenders. This might require the PUC to buy in relevant skills to influence project design and | The PUC reported that the strengthened Project Management Unit will be heavily engaged in tendering, evaluation and award of contracts and as such PUC considers that for general and routine procurements the laws are being followed. However, the PUC did acknowledge that there are cases where pressure to maintain the provision of services has and will require non-competitive tendering. | This response would appear to indicate that the recommendation has been implemented. |

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| | <p>implementation. An additional benefit is that the PUC can use these skills to build capacity amongst national staff.</p> | | |
| <p>7. For the full range of projects, the PUC should ensure that a risk assessment is undertaken or develop approaches that would mitigate potential contractual risks. Page 4-5</p> | <p>7. The PUC should embed risk management into every project and manage risk proactively at all stages. Probable costs associated with a risk maturing should be calculated and reported to the Board if the likelihood of a risk maturing changes.</p> | <p>The PUC responded that this issue will be addressed.</p> | <p>This response indicates that action needs to be taken by PUC. It is dealt with in an earlier recommendation in this report by the Committee to the PUC.</p> |
| <p>8. The PUC should develop a stringent procurement policy. The policy for the purchase of high value items ought to be in line with the Procurement Act in force. Page 4-5</p> | <p>8. The PUC should ensure that open bidding is the norm in order to secure competitive and economic benefits, as compared to direct bidding where there is only one supplier.</p> | <p>The PUC stated that in fact they do have a comprehensive procurement policy and that evidence of this is the establishment of a Procurement Unit. It is possible, stated by the PUC, that at the date of the audit, a procurement policy may not have been available; however, this is no longer the case.</p> | <p>This response and the establishment of a Procurement Unit does not fully indicate that the recommendation given by Audit has been implemented. The Committee has therefore dealt with it in an earlier recommendation in this report.</p> |
| <p>9. PUC should regularly review the progress of on-going projects.</p> | <p>9. There should be regular reviews of progress with appropriate decision-making</p> | <p>The PUC stated that with the establishment of a Project Management Unit and a Procurement Unit that more comprehensive project cycle</p> | <p>This response would appear to indicate that the recommendation has begun to be</p> |

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| Page 4-5 | and action when necessary. The report should include justifications for any variances against milestone dates. Finally, there should be evaluation of projects and suppliers to ensure that the PUC learn lessons that will inform future procurement practice. | management routines are now taking place. | implemented. |
| 10.The PUC should strengthen the leadership of water projects by putting in place programmes that build project management capabilities. The PUC has in-house capability but frequent changes in executive leadership, staff continuity and clarity of roles has impacted on projects. Page 4-5 | 10.The PUC should ensure that project roles and decision-making processes are clear and consistent, and develop a comprehensive training strategy for staff. | <p>The PUC responded that it does now have a better idea of succession planning and they are aware of the need for this.</p> <p>Part of the EIB and AFB loans are dedicated to developing capacity at project management level and this should also address this recommendation.</p> <p>The PUC also stated that it does ensure that all staff does have a clear understanding of their roles and responsibilities.</p> | This response would appear to indicate that the recommendation has begun to be implemented. |

**ANNEX II: SUPPLEMENTARY QUESTIONS BY THE COMMITTEE AND RESPONSES
OF THE PUBLIC UTILITIES CORPORATION**

| REPORT REFERENCE | COMMITTEE QUESTIONS | PUC RESPONSE | EVALUATION OF THE RESPONSE |
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| 1.7 | 1. Why did Government cease the grants they were giving to PUC for operational expenses as from 2008? | <i>'It was because of economic reform. PUC was expected to be self-financed, put it this way and we were told that, 'look you would need to be able to collect sufficient revenue for you to meet your own, at least your own operational costs', and this is why if you look back in history you will see that around that time there was an increase in tariffs.'</i> | This response fully answers the Committee's question. |
| 1.8 | 2. Apart from 2010, why was the PUC experiencing huge losses from 2006 until 2011 despite the continuous increases in revenue? | <i>'Because the fuel prices were sky-rocketing.'</i> <i>'And other costs also, because you see you have the depreciation of the rupee at that time, the rupee devaluated and all your imports, most of our requirements we have to import. With the devaluation of the rupee, we needed a lot more rupees to buy almost the same spare parts. So, the whole escalate was out of control and that is why we endured this situation that you are rightly pointing out.'</i> <i>'PUC for many years has been selling its services below what is costing it to deliver and this still applies today, with water, with sewerage.'</i> | This response fully answers the Committee's question. |
| 1.9 | 3. Were the grants in financial aid given by Government not useful in reducing these losses | <i>'It's a long time back this, but some R50 odd million for operational expenditure. Ok, and this was given to us to</i> | This response fully answers the Committee's question. |

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| | before it was ceased? | <p><i>ensure that PUC at least break-even, keep its neck, for operational expenditure keep its neck above water and that's it. In so far, capital expenditure was concerned we were allocated a sad R10 million for PUC every year. Ok, and this changed in 2009 when Suez came, they started getting R50 million, R200 million and so on. Ok, so one cannot say really that PUC was getting a lot of help and we were doing wonders with R10 million Mr. Chair.'</i></p> | |
| 1.10 | 4. What difficulties are encountered by the PUC in managing and controlling direct operating expenditures? | <p><i>'When you have an organisation with a fuel bill which represent at those days I think almost 80% of its cost structure, there isn't much one can do in terms of cutting back cost, because you can squeeze a few employees here, you can cut back on how much you use vehicle there but as soon as you remove whatever abuses there is if you do any further cuts you reduce on your efficiency of providing the services.'</i></p> <p><i>'Now, on top of that we have a situation where we are selling our services for water at a price today which is lower than what it is costing us to produce.'</i></p> | This fully answers the Committee's question. |
| 1.11 | 5. <i>'The PUC is facing considerable challenges in sustaining operating profits without subsidies or freedom to increase</i> | <p><i>'The real viable alternative, there's one only; we have to increase the tariff. We are undertaking an exercise to reduce our cost, to cut back</i></p> | This fully answers the Committee's question. |

| REPORT REFERENCE | COMMITTEE QUESTIONS | PUC RESPONSE | EVALUATION OF THE RESPONSE |
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| | <p><i>tariffs both of which are subject to Government decision-making.’ What do you think would be an alternative to this issue?</i></p> | <p><i>on abuses, but this Mr. Chairman won’t bring PUC hundreds of millions of rupees of economies, maybe R10 million if I guess, and what is 10 million divide by 300 million units of electricity? Ok, it’s going to be a few cents. So, at the end of the day the problem with PUC is that for so many years it’s been selling its services at a price which is less than what it’s costing it to deliver. And the only viable way out of this situation now is to increase tariff.’</i></p> | |
| 1.15 | <p>6. <i>‘The financial management good practice approaches listed above will be challenging, although ultimately achievable.’</i> Do you agree with the statement by the Auditor General? In your opinion, is it achievable? (refer to paragraph 1.11 and 1.14)</p> | <p><i>‘Yeah, I agree. It is achievable yes, but we have a lot of hard work ahead and we need resources in the form of manpower which I explained about.’</i></p> | This fully answers the Committee’s question. |
| 1.17 | <p>7. Does PUC currently have an effective organizational structure in place?</p> | <p><i>‘Yes, I think so, because we have since reviewed the structure, we have brought changes for example by unbundling Commercial from Finance where we have now a dedicated Commercial Unit which is more able to respond to customer’s requirements. We have also set up within the Finance Section a Procurement Unit and we’ve boosted that unit. In addition, we have set up a PMU, a Project Management Unit.’</i></p> | This fully answers the Committee’s question. |

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| | | <p><i>There was one there before but it was in a rudimentary format if you want. So, all these changes have been done and they've been done in fact in association with EIB and AFD, we've not done that on our own, we did that in consultation with the two organisations because they are fairly peculiar about, as I mentioned earlier on they're very interested to see PUC boosting its management capabilities, as part of the Project Neptune there would be capacity building which will come in the near future, I hope sometime early next year.'</i></p> | |
| 1.17 | 8. Particularly what concerns do you have with the organizational structure? | <p><i>'Yeah, two basically; one is that you need the right people to go into the right place, we need high calibre people and locally they are not available. In creating new positions which will help us to be able to discharge our duties and responsibilities more effectively you need the right people.'</i></p> | This fully answers the Committee's question. |
| 1.17 | 9. What impact has it had on employee morale? | <p><i>'I meet my staff every day, I have meetings with them, I walk among them, I discuss with them what is happening in PUC, I have regularly meetings. They will always tell you, you could do better for them, they want more money, they want you to be more relaxed in your way you have control over the situation. But there is a line that you have to draw, there's</i></p> | This fully answers the Committee's question. |

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| | | <p><i>a balance, you have to draw up a balance. So, overall when I look at my staff I believe that they are treated properly. Yes, we are disciplined, we impose on them certain demands but overall their morale when I speak to them appears to me to be good, ok, especially given what we've been trying to do for them in terms of assessing them properly last year for a bonus and following that up with whether they deserve an increment or not and also a promotion or not.'</i></p> | |
| 1.18 | 10.Are there mechanisms in place to reduce the management gaps at senior management level and key operational levels? | <p><i>'I've gone over that, I've answered that question.'</i></p> | This fully answers the Committee's question. |
| 1.18 | 11.Is there a specific strategy the PUC is using to attract people to fill in the vacancies in the areas mentioned? | <p><i>'We have what I would call it a rudimentary plan which we are planning to look into it in more details, but we can provide you what we have right now.'</i></p> | The documents provided partly answers the question. |
| 1.19 | 12.Does PUC currently have a succession plan? | <p><i>'Basically, what we're doing is that we're going to attach them – returning Seychellois graduates - with the expatriates and also to fill other vacant positions so that at least we have this succession to be able to have a succession arrangement to take place.'</i></p> <p><i>'We are scarce on locals, on graduates that is why we are</i></p> | This fully answers the Committee's question. |

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| | | <p><i>recruiting right now to get them and the aim is definitely for each expatriate to have as much as possible Seychellois under-studying them.'</i></p> <p><i>'PUC has over many years done a lot to train locals, the number of Seychellois Engineers who have left PUC they are numerous, we have them all over in IOT, in SeyBrew, overseas. We continually train and they leave us. Now I once was told, when I complained about that I was told, 'look don't worry too much you're rendering a service to the country.'</i></p> | |
| 1.20 | 13.Does the PUC now have a finalized Training Needs Analysis? | <i>'We have a document, a Training Needs Assessment which not covers only Training Needs Assessment but it looks at the weaknesses of PUC in the Water area especially.'</i> | The documents provided fully answers the question. |
| 1.21 | 14.Has the PUC implemented a training policy? | <i>'Yes, we have this but Electricity is not so much covered in that TNA, but we have this.'</i> | The documents provided fully answers the question. |
| 1.21 | 15.Why is PUC relying on expatriate expertise and not training its own staff? | <i>Already answered</i> | This fully answers the Committee's question. |
| 1.22 | 16.Are there no local experts who may be recruited instead of foreign experts, hence reducing the cost? | <i>Already answered</i> | This fully answers the Committee's question. |
| 1.26 | 17.What is the status of the Water Development Plan | <i>'We've received a big boost through this AFD/ EIB loan.</i> | This fully answers the Committee's |

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| | and is the plan receiving the necessary funding for its effective implementation? | <i>We have been talking for a long time with the Chinese Government to see if we can get help with some of the water network development which all falls under the Water Development Plan. We are looking at things like with the AFD for the La Gogue dam, so quite a bit of effort are on-going now but also we are supported by Government continually.'</i> | question. |
| 1.26 | 18.How is the plan monitored and do you have the most up-to-date implementation progress report? | <i>'Yes. A large proportion of the plan is being handled under the EIB/AFD loan by our Project Management Unit. We monitor to a large extent through the reporting that we do to the EIB, how we're setting up the Project Management Unit, how we are going to address the components that are under the Water Development Plan and overall at a much, a bit more higher level, not really very much at the plan itself but a layer above that we are reporting to the Ministry our plans and targets on a quarterly basis and it's their reflection of what they need to do in there based on the Water Development Plan.'</i> | This response fully answers the question of the Committee. |
| 1.28 | 19.If PUC does not have strategic priorities and business plans, then how do you measure the success rate of the various projects? | <i>'We would like to disagree politely with the Auditors that we don't have a plan as such, a priority as such, because I mentioned earlier on that we have sufficient documents to show that we have a framework for a plan. The fact that we don't have a</i> | The response partly answers the question. |

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| | | <p><i>document with a cover on it which says strategic plan doesn't mean that we don't know or have a strategic direction. The document we'll supply to the committee will show adequately we believe that we know which direction we're going.'</i></p> <p><i>'Now, how do we monitor ourselves, I just mentioned, ok we have every year we prepare a capital programme, ok for what we want to implement based on what is available to PUC in terms of resources. Secondly, this is monitored, we report to the Board of PUC progress of the projects. Thirdly, there is this quarterly report that we submit to Government.'</i></p> <p><i>'We believe that overall we have sufficient reporting documents that shows how much we are progressing, reasonably good enough to indicate what progress we are making and the fact that I repeat we don't have a strategic plan doesn't mean that we don't know which direction we are going.'</i></p> | |
| 1.29-1.32 | 20.Do you currently have in place a short term corporate plan or a strategic plan with objectives for the business or are you solely relying on the Water Development Plan as the strategic tool for PUC? | <i>'We have a Statement of Corporate Intent, it's been available for a while now, it's been submitted to everybody who wants to take a look at it, we shall submit it to the committee.'</i> | The documents provided fully answers the question. |

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| 1.35-1.36 | 21. Why has PUC never conducted a formal risk assessment and what difficulties have you encountered to develop a well-managed risk approach? | <i>'We have a risk assessment conducted, it was conducted I think in 2011. To be fair to the Auditors, I think it was not shown to them because PUC was in a bit of turmoil in the beginning of 2012. I had just arrived in PUC and there were a lot of things which I needed to find where I was really and this was over-looked. I'm not too sure whether the Auditor did not ask for it or what, but definitely it was not shown to them, but we can supply you with a copy. It shows priority, it shows the risk factors and we think it's sufficient enough to satisfy everybody.'</i> | The documents provided partly answers the question. |
| 1.37 | 22. What action has been taken by the Board and the PUC senior management to address this issue? | <i>'All our efforts, all our planning, everything we do gravitate around the fact that we understand our risk, our risk assessment has been carried out and what we do is to minimize our risk. We may not be able to eliminate all the risk, there are constraints for that but the fact is that all our efforts are aimed at reducing that, the risks.'</i> | The documents provided partly answers the question. |
| 2.7-2.8 | 23. How is PUC tackling the problem of increases in leakage in order to reach its target of Non-revenue Water of 24% in 2020? | <i>'We estimate that currently non-revenue water is 54% of total water production. We estimate that half of that 54% is to do with commercial loss, that means either the meter is not registering or somebody has tapped illegally or the Accounts system of PUC does not reflect what is out there in the system. Now, I'm pleased to report that efforts are on-going already now in the form</i> | This response fully answers the question of the Committee |

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| | | <p><i>of, I have explained earlier on the Project Neptune financed by the EIB, AFD, PUC itself has boosted its structure for transmission and distribution of network by hiring new Engineer, a leak detection team has been recruited, leakage detection equipment has been bought, this year, at the beginning of this year PUC has imported 4000 meters and another 4000 meters orders are being placed for right now in order to address that. And we have a team dedicated already now for non-revenue water to detect leaks and we hope that when the expert comes under the Project Neptune we are already geared ready to be able to maximise on the benefits that it will bring to the Corporation.'</i></p> <p><i>'Now, the fact that a lot of our non-revenue water is not in leaks, but it is to do with commercial loss we're also putting a lot of emphasis on the commercial side. We believe that setting up proper ERP, Enterprise Resource Planning System, a proper software, the right equipment, right training we should be able to be on top of the situation and have more control on the situation in order to reduce the non-revenue water.'</i></p> | |
| 2.11 | 24. Have these tasks been undertaken by the PUC? | <i>'Yes, I fully agree with that and we're doing it. For example, why have we found that non-revenue water is not</i> | This response fully answers the question of the Committee. |

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| | | <p><i>35% but it's 54%? It's because we have calibrated and put new meters at all our bulk points, bulk meters have been re-looked at now, all of them have been addressed and that is why we find now that 'look, we have more strong meters we have more water pumped into the system; so that's one thing, production level. At meter user point, we are replacing meters, we are replacing meters to address item number two and item number three, we're also in agreement with that, that is why PUC is trying to set-up the new ERP system, central to it will be the customer database, the billing system.'</i></p> | |
| <p>2.15-2.16</p> | <p>25.What steps has been taken thus far with respect to leak detection? Has the Engineer been recruited and/or has the old equipment been replaced?</p> | <p><i>'We've recruited a Non-Revenue Water Engineer and under him we have boosted the staff required to address leakages. He is supported on the other hand by another Engineer for Water Network who came not very long ago. In addition to that, this Non-Revenue Water Engineer is working closely with the new Commercial Department.'</i></p> <p><i>'We are looking at that to see how much we can invest in pipe replacement, areas of improvement for new meters, a laboratory for meters and obviously the component of capacity building will also come in to support the effort for non-revenue water by helping the new staff to develop a capability to handle</i></p> | <p>This response fully answers the question of the Committee.</p> |

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| | | <i>that and to continue with the effort.'</i> | |
| 2.20-2.21 | 26. Did you not consider hiring a contractor who would supply and install the water meters for an all-inclusive unit cost per installed meter? | Already answered | This fully answers the Committee's question. |
| 2.21- 2.23 | 27. Why has there been a reduction in the stock of meters and why has no action been taken to remedy this situation? | Already answered | This response fully answers the Committee's question. |
| 2.24 | 28. Why is PUC resorting to more expensive and difficult approaches to ensure supply, rather than putting efforts into more positive strategic and directed investment projects? | <i>'We are not putting effort only on desalination, we're putting effort both in addressing the issue of leakages and commercial losses. In addition, we are adding desalination capacity.'</i> | This response fully answers the question of the Committee. |
| 3.4 | 29. Do the 30 personnel in the Project Management Unit have clear job descriptions and do they understand their roles and responsibilities? | <i>'Yes they do. We have job description for each and every post in PUC especially the Project Management Unit, we've had to submit it to the EIB and they had to scrutinize it. I think what could be misleading here is the fact that there were 30 number of employees, member of staff in the Project Management Unit, but when in fact most of them were Pipe Fitters, Labourers working out there on projects, skilled members of staff and some Labourers. The real people in the office with the real capability to manage the projects would probably be 4 or 5 at that time.'</i> | This response fully answers the question of the Committee |

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| 3.5 | 30. With a team of 30 staff in the Project Management Unit, why was PUC unable to manage the project files in the correct manner? | <i>'Ok, yes there were these issues at that time but since we've now boosted the Project Management Unit, we've bring in more staff, we have files for each and every project and I constantly remind my Director for Project Management, in fact I was doing that the other day as we were going through these list of questions, and I got the assurances from him, 'yes, we are updating our files' and I even went as far as telling him to dedicate members of staff, Project Managers to be responsible for X number of files to ensure that it is always up-to-date, there's no room for negligence.'</i> | This response fully answers the question of the Committee |
| 3.10 | 31. Is HOH still providing services to PUC and does the services represent value for money? | <i>'HOH was not providing services as such to PUC, we could not call that services because they had got a contract from PUC to install a number of desalination plants and they were awarded a contract, first of all the contract for desalination plant went on open tender, there was the proper evaluation and approval was received from the authorities, the Tender Board, the POU and the contract was awarded to HOH to supply and install the equipment and they continue now to finalize the project in the form of commissioning and final tests. The project has been delayed Mr. Chairman because PUC itself often had asked HOH to differ certain works because we wanted to show that we had</i> | This response fully answers the question of the Committee. |

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| | | <p><i>as much as possible sufficient desalinated water to supply to the network. So, often as a result of those requests the work has fall back, but we are satisfied now that the project is being wrapped up now and I'm pleased to report all the plants are in working order, for HOH.'</i></p> <p><i>'We are satisfied that it is all being done satisfactorily and as it's been pointed out here value for money.'</i></p> | |
| 3.10 | 32.What were the conditions that were not met to enable the PUC to access donor body grant and loan funds? | <i>'In order for you to get the loan there are many conditions to be fulfilled and I can report now that these conditions have been fulfilled and we expect the loan disbursement to start any moment soon.'</i> | This response fully answers the question of the Committee. |
| 3.10 | 33.Are these conditions now in place and does the PUC now have access to donor body grant and loan funds? | Answered in PUC response to question 32. | This response fully answers the question of the Committee. |
| 3.12 | 34.Why were the proper procurement processes not followed for the purchase of the desalination units? | <p><i>'I don't think PUC did not follow the procedure, PUC did in fact the PUC has a document which says, by the POU, that 'I approve for you to undertake the project, to procure the desalination plant at a given price', it is clear indication that the PUC's followed the procedure otherwise it would have not got an approval.'</i></p> <p><i>'However, the way the procurement was done, it was</i></p> | This response fully answers the question of the Committee. |

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| | | <p><i>done on an emergency basis’.</i></p> <p><i>‘PUC went to the POU and said ‘I have an emergency situation here, we need to procure those desalination plants, can I have your permission, it’s going to cost us that much’.</i></p> <p><i>‘Why was it such urgency? The rivers were dry, there were no water in the dams left and PUC saw itself in dire situation first, there was no water to give the public or hardly any water, there was Jeux Des Iles hanging over our heads and also I must add there was other national events of immense importance that were about to take place in the country, for example there was an election.’</i></p> | |
| 3.17 | 35. Since the PUC recognized the pattern of drought in Seychelles, why were no risk management awareness and assessment procedures implemented in order to find an alternative to the typical pattern in dealing with drought events? | <p><i>‘We don’t think it is a true representation, I’ve gone over that, we don’t think it’s a true representation of the situation out there in PUC. Yes, we have been through a number of droughts, but PUC has responded to those situations. PUC has initially brought in a certain amount of desalination plant in the early 2002, 2001 and the efforts were on-going to tap into rivers as much as possible. But we came to the realisation that, ‘look, facing the drought every year we need more desalination plants’. Now, often you have solution to a problem but you don’t have the resources to implement the solution and a</i></p> | This response fully answers the question of the Committee. |

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| | | <p><i>typical case here is this. I mean, we've seen that prior to 2009 PUC was getting R10 million a year, what do you do with R10 million a year for capital programme? So, it doesn't mean that we all of a sudden one morning decided that we need desalination plant, let's buy from Tornado and HOH, it was that we know we need it, we knew very well we need it, but we would only get it when there was the resources, the money to invest.'</i></p> <p><i>'But there's no alternative Mr. Chairman, and where is it that there was no risk management awareness? We've conducted a risk assessment, which was conducted I think in the early 2009, before that PUC knew very well where were its risks, ok it was there on paper.'</i></p> | |
| 3.21 | 36.If there was no business case, no proper project management structure and no prospect of an open tender process, how did PUC calculate its benefits towards the procurement of the desalination units and ensure that it was receiving value for money? | Already answered. | This response fully answers the question of the Committee. |
| 3.27 | 37.Why and how did PUC decide that the procurement of the desalination units was a | <i>'But the Water Development Plan Chairman already had in it a component of desalination capacity. If we</i> | The documents provided fully answers the question. |

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| | sustainable solution to the drought events if this investment strategy was not included in the Water Development Plan? | <i>can provide you with a soft copy of that report, that Water Development Plan and all over it in report number two, it's clearly included in the planning to add more desalination. So, when I read the question I was a bit surprised to see that it says here that it was not included in the Water Development Plan. This is a mistake, it's not the case.'</i> | |
| 3.31 | 38. What happened to the operation of the 3 skids after 6 th and 7 th November 2011 if the Providence plant and equipment was only a temporary solution? | <p><i>'After it rained we found that there was no need to have the skids running and to have the 7 containerised plants running'.</i></p> <p><i>'These 3 skids are presently not working, we have purposely kept them out because we want to redeploy them very soon, if you check the Nation you would have seen Expressions of Interest in there to re-locate the skids, one to Praslin, one to La Digue and one we're going to redeploy it here on Mahe. So, the process is on-going to do that'.</i></p> <p><i>'I'm hoping by early next year they would be fully deployed, because we have to go through the process of procurement, which is the lengthy process.'</i></p> | This response fully answers the question of the Committee. |
| 3.32 | 39. Why did the PUC seek the approval from the Minister on 14 th June 2011 one-week after this purchase had been | <i>'The financing of these containers involved a capital grant allocated to PUC at that time.'</i> <i>'And PUC was to inject the whole yearly capital</i> | The response fully answers the question. |

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| | <p>approved by the Procurement Oversight Unit?</p> | <p><i>grant into this procurement, so we warranted the approval of the Minister ... for us to move in that direction, follow all due process for procurement, get the approval of the National Tender Board and then seek for the financing side to inject in our capital grant from the Government into that project, you need a final go from the Minister.'</i></p> <p><i>'This is what the practice was then, normal practice nowadays is the Board approves the capital project financing.'</i></p> | |
| <p>3.34-3.36</p> | <p>40. Is it normal practice for PUC to pressure the Procurement Oversight Unit for approval of its requests and use either emergency or urgency procurement so as to avoid compliance with the Procurement Act?</p> | <p><i>'No, we're not employing such practice at all. If it's a national emergency we would go to them and explain'.</i></p> <p><i>'We have to because we have a whole population on our heads putting pressure on us. It's inevitable that we are human being after all and we would go and try to share this pressure, not to put it as such I would say share it with the Procurement Oversight Unit.'</i></p> | <p>This response fully answers the question of the Committee.</p> |
| <p>3.37-3.38</p> | <p>41. As per Figure 15 and Annex 3, on both occasions (2nd August and 19th March) when PUC requested approval from Procurement Oversight Unit to carry out the necessary works to install, operate and accommodate the 7 desalination units no</p> | <p><i>'I have no explanation for this'.</i></p> | <p>The written response provided does not answer the question of the Committee and the Committee has made a recommendation for the cost values to be given.</p> |

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| | budget costs were provided, why is that? | | |
| 3.37-3.38 | 42. Was the PUC Board aware of the decisions being taken by the then CEO and did they approve it? | <i>'I have discussed this with my Chairman and I will send you his reply.'</i> | The written response provided fully answers the question of the Committee. |
| 3.44 | <p>43. Does the PUC agree that it failed to:</p> <ul style="list-style-type: none"> • Avoid unnecessary purchases of desalination units which are not even in operation? • Ensure a good deal with an overpriced investment using the public's money which failed in less than 1 year down the line? | <p><i>'First question, no we don't agree, we think the purchase of the desalination plant was needed given the situation which I've explained and we want to report that the plant was operational immediately after it arrived here. It was operational for 2 months, I repeat this and then it was stopped because it rained and then early January when I returned to PUC I remember the first priority was let's get the plant back in a mode of temporary operation, because we needed them and the permanent installation would follow after that. And this has happened, the plants are now permanently installed and they are running except for one, and this is because of our own purposely delayed it because we don't want to do beach well until we make sure we've got it perfect.'</i></p> <p><i>'We did carry out an assessment and there is a table that we can send to you.'</i></p> <p><i>'The key factor in all this was availability and the ability of the supplier to give us the number of containerised plant'</i></p> | The response provided fully answers the question of the Committee. |

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| | | <p><i>that we require’.</i></p> <p><i>‘Looking at it now in retrospect, I believe that the decision was not a bad decision to go for desalination.’</i></p> | |
| 3.45 | 44.What is the current operational status of the seven desalination units? | <i>‘The Operational status is; the one at Belombre, we’ve put it on hold and the rest, the 6, there’s 4 at Providence and 2 at Perseverance they are working. As I repeated, we still have to improve, we’ve asked Tornado to do some modification and improvement on the intake equipment only.’</i> | This response fully answers the question of the Committee. |
| 3.51 | 45.Has any steps been taken to improve the condition of the desalination plants at Anse Boileau and Providence? | <i>‘They are working well, they are efficient, they are showing good reliability and apart from the GRP tank issue Chairman, there is a sand filter tank which needs to be addressed because there are some issue with showing some cracks in some locations, there’s no reason for us to be unhappy with this project.’</i> | This response fully answers the question of the Committee. |
| 3.52 | 46.Has PUC managed to recruit its own expert? | <i>‘Yes, we have recruited an Electromechanical Engineer to assist with the electromechanical aspect of it, we have a young Seychellois he’s been in the company for 2 years, he’s been with HOH and Tornado for a very long time now during the project implementation, so he will continue to look after the plant.’</i> | This response fully answers the question of the Committee. |
| 3.53-3.54 | 47.Has any approach been | <i>‘Yes, firstly it is small, but I</i> | This response fully |

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| | <p>made to the Management of Banyan Tree and Eden Island to analyze the operation and management of their desalination plants and learn effective lessons on how to improve those of the PUC?</p> | <p><i>am a bit puzzled to find here that PUC is required to go and look at those desalination plants in order to be able to run its own, often we are coming to the rescue of these people.'</i></p> <p><i>'We're not proud to the point where we don't want to listen to others, but really we think that there is not much for us to learn, because at the end of the day they experience the same problems, staff issue, ok, spare parts and so on.'</i></p> | <p>answers the question of the Committee.</p> |
| <p>3.55</p> | <p>48. Is there a training plan currently in place and in progress between PUC and Tornado?</p> | <p><i>'We have an agreement in the contract for them to provide us training both technical training and operational training, in fact operational training is ongoing now. We have staff with Tornado who are working with their staff to learn to operate the plant and then there will also be, once the project is completed what is called technical training to look overall at the plant.'</i></p> | <p>The documents provided fully answers the question of the Committee.</p> |

Examination of the Public Utilities Corporation Performance Audit Report of the Auditor General

Membership of FPAC, 5th Assembly:

Hon. David Pierre



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Chairperson

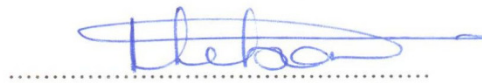
Hon. Charles De Commarmond



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Vice-Chairperson

Hon. Lenny Lebon



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Member

Hon. Nichole Barbe



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Member


Hon. Sebastien Pillay



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Member

Hon. Marc Volcere



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Member

Hon. Jeniffer Vel



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Member