

**MUNICIPAL PUBLIC ACCOUNTS COMMITTEE**

**OVERSIGHT REPORT**

**ANNUAL REPORT 2016/2017**

**LESEDI LOCAL MUNICIPALITY**

**MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) MEMBERS**

- Cllr S J Mnyakeni (ANC) - Chairperson
- Cllr T M Gamma (ANC)
- Cllr R Mchunu (ANC)
- Cllr S Twala (ANC)
- Cllr G C Holtzhausen (DA)
- Cllr S H A C Paul (DA)
- Cllr M Boshoff (EFF Plus)
- Cllr A.Z Abdullah (EFF)

## **FOREWORD OF CHAIRPERSON**

The 2016/17 financial year was marked with difficult activities leading to the election in municipalities. The Committee with aquaintable knowledge in conducting the oversight work over the Executive and administration. All members understand the number of issues raised by the Office of the Auditor-General on the Annual Report 2016/17 financial year. Our fundamental principles of democracy of which the government has contracted with the electorate is to be accountable and transparent. The committee note that the Annual report compilation was in line with the reporting template as developed and approved by the National Treasury. The challenges that the municipality is facing that remains a thorny issue in deepening democracy and promoting accountability and transparency, is non-compliance with legislation according to the findings of Auditor-General.

Effective administrative accountability must have the following elements:

- Financial and asset management of the Municipal Council must be good and controls to be in place and effective;
- Independent financial audits should have reflected a good quality and adequately followed up by management;
- Audit committees should be functional and above reproach and citizen representation should have clear roles and functions
- Ensuring that the public funds are safeguarded and properly accounted for;
- Conducting all service and administrative activities in accordance with the applicable law, regulations and standards; and
- Delivering services in an economical, efficient and effective manner, and strengthening service delivery performance, by establishing and seeking to achieve targets and meeting community expectations and outcomes within the confines of the budget.

### **Legal Framework**

Every committee of Council's work is guided by applicable legislation and policies of which the MPAC is not unique amongst those Council committees when performing its oversight work. The annual oversight is compiled in terms of Section 129 (1) of the Municipal Finance Management Act, No. 56 of 2003 which read as follows: "The Council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the Council-

- (a) has approved the annual report with or without reservations;
- (b) has rejected the annual report; or
- (c) has referred the annual report back for revision of those components that can be revised."

The Municipal Finance Management Act (MFMA), Circular No 32, stipulate clearly the way the overall financial activities of the council should be handled with and more emphasis on the functionality of the oversight committee.

### **Stakeholders**

During the process of oversight, COGTA and Gauteng Treasurer were key Stakeholders in compiling this report. The committee has also extended the invitation to the office of the Auditor-General as a Stakeholder. It is also recommended that the community stakeholders should be engaged over the findings and the outcome on the Annual report for 2016/17 as part of deepening democracy and promoting transparency and accountability.

### **Committee Meetings and the work of the committee**

The Municipal Public Account Committee tabled its activity plan before Council for approval as a way of outlining its business. It is so unfortunately that those activity plan were not implemented due to unavailability of the resources for MPAC. The terms of reference were also submitted to Council for approval which clearly define the work of the committee.

The committee is also guided by the Intergovernmental Protocol Framework in convening its meetings as a way of avoiding unnecessary clashes with other committees and structures supporting the committee. The Committee held 6 meetings, where out of 6 of these meeting 5 of them did form a quorum. In 2016/2017 only one Workshop conducted for capacitating committee members.

The committee has realized that the municipality has slightly improved from its initial audit findings as per the report of the Auditor-General. The findings of Auditor-General indicate that the municipality has decrease in the number of irregular expenditure in 2016/2017 and a slight decrease in 2016/2017 of unauthorized expenditure and fruitless and wasteful expenditure. Subsequent to that the committee felt that there is a need for drastic action to monitor the mitigation plans developed according to the applicable section 32 of the Municipal Finance Management Act and constant oversight to be conducted to detect non-compliance as early as possible.

On the same note the Auditor-General, for the audit of 2016/2017 financial year, indicated that the MPAC should exercise its oversight responsibility to ensure that the municipality move towards achieving clean administration. The committee in its previous report for 2015/2016 financial year recommended measures to deal with non-compliance to legislation of which the report is available to indicate whether those recommendations were implemented by management as requested by Council. It is the work of the committee to satisfy its responsibility by ensuring that there is effective and efficient oversight as mandated by Council in line with applicable legislation is undertaken.

The MPAC chairperson attended the Launch of National Association of Municipal Public Accounts Committees (NAMPAC) which is expected to oversee all the work of MPAC's in the Country and to ensure that all members have the same capacity to undertake oversight.

### **Capacity Building**

The capacity for the committee should be built through engagements with the office of the Auditor General, Gauteng Provincial Government, National Treasury, Provincial Treasury, Gauteng COGTA, NAMPAC and also through SALGA workshops. The office of the Speaker is to assist with capacity building and training as required in capacitating all Councilors across party lines. Additional capacity building training needs to be done for the committee through educational institutions.

### **Challenges**

Lack of capacity in relation to:

- Resources (Tools of trade, Office Space)
- Budget

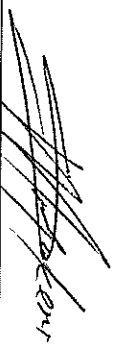
- Lack of adequate oversight in ensuring that remedial actions as outlined by Auditor-General and required process according to relevant legislation is implemented to eliminate the ongoing irregular, unauthorized, fruitless and wasteful expenditure and hence the establishment of disciplinary board is critical to address the misconduct within the institution.

### Conclusion

The oversight committee as the committee of the Council has to conduct its affairs in a manner that is geared towards improving performance of the municipality and strengthening transparency and accountability. Even though the municipality has not realized the Operation Clean Audit (OPCA) objective, the committee also wants to advise the management to commit their efforts to good governance and accountability and to achieve the objective of the municipality through following applicable legislation, regulations and policies.

Finally, I wish to congratulate the commitment, the unity and contribution made by the committee members, management and the Speaker's office in providing this committee with the support from the inception until to date.

The municipality needs to move with speed towards enhanced service delivery and financial accountability to accomplish the clean audit that it dearly wishes to achieve. This can be inter-alia be achieved through the implementation of the AG remedial action, establishment of disciplinary board and this committee's recommendations and instructions.



Cilr S. J Myakeni  
MPAC Chairperson (Lesedi Local Municipality)

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GLOSSARY

AFS	-	Annual Financial Statements
AG	-	Auditor General
ANC	-	African National Congress
APAC	-	Association of Public Accounts Committees
CFO	-	Chief Financial Officer
CAPEX	-	Capital Expenditure
CPIX	-	Consumer Price Index
DA	-	Democratic Alliance
E-PMS	-	Electronic Performance Management System
IDP	-	Integrated Development Plan
MEC	-	Member of Executive Council
MFMA	-	Municipal Finance Management Act
MPAC	-	Municipal Public Account Committee
MSA	-	Municipal Systems Act
OPEX	-	Operating Expenditure
OPCA	-	Operation Clean Audit

## 1. PREAMBLE

The oversight report covers the period 2016/2017 financial year and started off with a broad outline of the objectives of the Municipal Public Account Committee (MPAC). The Lesedi Local Municipality - MPAC committee set out to achieve the following objectives to determine that:

- There is no maladministration, fraud or corruption in the administration or in the Council
- There is legal compliance whenever required
- That the municipality gets value for money whenever money is spent
- That the budget and IDP is properly aligned
- That there is proper service delivery in all areas of our jurisdiction and always take into consideration the needs of the people, needs established through public participation.
- That the impact of our report will be of such a nature, that it is useful to Council and that in the final analysis, the committee is able to advise the Council correctly.

The methods used by the committee in preparing the oversight report include the convening of meetings where the Annual Report, IDP, SDBIP and all supporting documentation should be scrutinized.

The government departments were invited to clarify on the views regarding the overall performance of the institution and they briefed the committee on important issues which were not considered during the 2015/16 financial year with regard to financials, pre-determined objectives etc.

The Auditor-General provided a broad outline on the gaps and key strategic areas which the municipality could not do correctly and require further scrutiny and interventions. Questions were formulated on specific areas of concern raised by different stakeholders of government and members of MPAC.

Accordingly the oversight report will cover: The Integrated Development Plan, Annual Report; Auditor- General's Final Management Report, policies of Council according to the checklist used by National and Provincial Treasury in assisting local government when performing its oversight work.

## 2. LIST OF DOCUMENTS

A list of documents were considered in the process of finalization the oversight report, not all documents will be attached to the report, only those documents that had a direct bearing on the work of the committee are attached. Other documents can be found in the Office of the Speaker for inspection or perusal and for the purpose of transparency and the promotion of good governance. Attached are the following:

- Annexure A - Minutes of the meetings of the Municipal Public Accounts Committee
- Annexure B - Questions compiled for the management and the Responses to the questions



### 3 TIME FRAMES FOR ANNUAL REPORT

The following outlines the major steps in the Annual Reporting process indicating responsibilities and dates prescribed in the Municipal Finance Management Act and Municipal Systems Act.

Prescribed Dates	Actions	M/F/M/A (MSA)	Responsibility of	Compliance
31 August	Submit municipality's AFS to Auditor-General	S126(1)(a)	Municipal Manager	Complied
31 August	Submit municipal entity AFS to parent municipality and to Auditor-General	S126(2)	Municipal Entity Accounting Officer	Complied
30 September	Submit consolidated AFS to Auditor-General (municipalities and entities)	S126(1)(b)	Municipal Manager	Complied
31 October and quarterly thereafter	Auditor-General submits to Parliament and the provincial legislature names of any municipalities, which have failed or continue to fail to submit AFS.	S133(2)	Auditor-General	Complied
Within three months of receiving AFS (30 November or 31 December)	Audit report returned to Municipal Manager	S126(3)	Auditor-General	Complied
On receipt of audit report	Municipality must address any issues raised by the Auditor-General and prepare action plans to address issues and include these in annual report. Provide copy of report to Audit Committee	S131(1)	Municipal Manager. Mayor must ensure compliance by municipality	Complied
Immediately after annual report is tabled	Annual report made public and local community invited to submit representations.	S127(5)(a) (MSA) S21A and B	Municipal Manager	Complied
Immediately after annual report is tabled	Annual report submitted to Auditor-General, relevant provincial treasury and provincial department responsible for local government in the province.	S127(5)(b)	Municipal Manager	Complied
When meetings held to discuss the annual report	Attend meetings to respond to questions concerning	S129(2)(a)	Accounting Officer of municipality and entity	Complied

Prescribed Dates	Actions	MEWA (MSA)	Responsibility of	Compliance
Following meetings to discuss the annual report	Submit copies of minutes of the meetings to the Auditor-General, provincial treasury and provincial department responsible for local government	S129(2)(b)	Accounting Officer of municipality and entity	Complied
Within two months of report being tabled (31 March)	Council to have considered the annual report and adopted an oversight report	S129(1)	Council	Non compliance Pending the submission of the oversight report within the prescribed time frame as outlined in the reporting cycle, as per extension granted.
Within seven days of adoption of oversight report	Make public the oversight report	S129(3)S21A-MSA	Accounting Officer	Will be complied with pending the adoption of the oversight report.
Within seven days of adoption of oversight report	Submit to the provincial legislature, the annual report of municipality and entities and the oversight reports on those annual reports.	S132(1)& (2)	Accounting Officer	Will be complied with pending the adoption of the oversight report.
Ongoing	Monitor compliance with submission of reports to provincial legislature	S132(3)	MEC for local government in the province	To be complied with

Prescribed Dates	Actions	MEMA (MSA)	Responsibility of	Compliance
Within 60 days of receiving annual reports	Report to provincial legislature any omissions by municipalities in addressing issues raised by the Auditor-General	S131(2)	MEC for local government in the province	To be complied with
Annually	Report to Parliament on actions taken by MEC's for local government to address issues raised by Auditor-General on municipal and entity AFS	S134	Cabinet responsible for local government member for local	Not applicable to municipality

#### 4 OVERSIGHT FRAMEWORK

The oversight framework as attached contains the following key aspects:

##### 4.1. Integrated Development Plan

##### **Was the IDP tabled before the Council?**

The municipality adopted the IDP for 2016/2017 financial year during Council meeting held on 24 May 2016 under Council Resolution LC:MC 62/05/2015.

##### **Was there any compliance with regard to the format and components and timelines?**

The IDP did comply with the provision made in the Municipal Systems act, s (26) with regard to the components.

##### **Alignment to the budget**

There was no alignment with regard of IDP to SDBIP, evidence to that is the finding from the Auditor General on the targets which were not met due to misalignment. The misalignment of the projects committed in the IDP to the SDBIP is still a challenge and the municipality should organize training for its employees as part of capacity building.

#### 4.2. The IDP contains MEC comments for 2016/2017 financial year as follows:

After the adoption of the IDP 2016/2017, the Lesedi Local Municipality submitted its five year IDP to the MEC for Local government for comments. Below are the comments from the MEC for COGTA and Human Settlement to the Lesedi IDP:

#### COMMENTS

#### SUSTAINABLE DEVELOPMENT GOALS

South African as a member state of the United Nation has an obligation to implement the Sustainable Development Goals (SDGs) as adopted by the Sustainable Development Summit on the 25th September 2015. The implementation of the SDGs would go a long way in assisting the country and the province to tackle broader socio-economic challenges experienced such as poverty, unemployment and inequality.

In order to actualize the SDGs, the Gauteng Province Government has embarked on a process of developing GCR- wide indicators that would be mainstreamed into the TMR and subsequently be reflected in municipal IDPs. To date, the GCR-wide indicators have been presented to HOD's Lekgotla and EXCO and are in the process of being finalized and endorsed by the provincial political leadership. The indicators, upon approval, will respond directly to the unique development challenges facing the Gauteng City-Region and will thus assist the province to develop a uniform focus in designing responsive programmes to tackle its socio-economic challenges more effectively in line with the Sustainable Development Goals.

Most importantly, the indicators will guide the process of establishing measurable baseline, targets and allocation of resources when implementing programmes and projects. At the moment, Gauteng COGTA is grappling with issues relating to what the best approach in incorporating the SDG's into IDPs would be, as well as what impact this will have on their respective broader development trajectory. The inclusion of the GCR-wide indicators in the municipality's IDP is important for two reasons. Firstly, the notion that the IDP is a list of projects downplays the concept of integrated development planning and value of efficient use of limited resources in a given locality. Thus, the inclusion of the said indicators in IDPs will strengthen our efforts of planning alignment, monitoring and evaluation as well as assists in measuring the impact of our plans. Your municipality is therefore urged to enquire and reflect on the importance of the SDGs for its own area of jurisdiction, while COGTA upon the adoption of the final indicators will guide municipalities on the integration of those indicators into

#### RESPONSE

The LLM will consider the alignment of SDGs in the IDP 2017/18 and report against such, as it may be required by the province. The LLM will also participate in the forums that will be established by the Gauteng CoGTA to ensure that SDGs are achieved.

The municipality has managed in conjunction with CoGTA to review and establish the By-Laws with regard to Land Use management. However, the municipality should be capacitated to deal with the enforcement of these by-laws. Furthermore, the municipality is in the process of promulgating the remaining by-laws.

## IDPs. INTEGRATED URBAN DEVELOPMENT FRAMEWORK(IUDF)

The IUDF is government's position on how urban development should take place in the context of an increasingly urbanized country (AND WORLD) where it is envisaged that by 2050 more than 80% of the world's population will be living in cities- with South Africa not being an exception. The IUDF is spearheaded by the national Department of Cooperative Governance (DCoG) and is a response to the post-2015 Sustainable Development Goals, particularly to Goal 11: Making cities and human settlements inclusive, safe, resilient and sustainable. Thus a key thrust and outcome of the IUDF is spatial transformation where effective management of the process of urbanization is strongly advocated, and this is captured in its nine policy levers. The fourth generation of IDPs will have to articulate and align to each of the policy levers as expressed in the IUDF.

According to the Gauteng City-Region's (GCRO) 2013 Quality of Life Survey, 95% of respondents stated that they had not heard of Integrated Development Plans. Of the 5% that indicated their awareness of IDPs, more than half of them had still not participated in IDP processes despite this knowledge. The lack of knowledge of IDPs leads to poor participation in IDP process, which implies that communities are not active in shaping development in their communities. In through its Public Participation Unit, is encouraged to focus on the primary problem, which is the lack of awareness of IDPs.

It is envisioned that the more people and communities are aware of the IDPs, they would be in a better position to meaningfully participate in IDP processes. Figure 2 below demonstrated the depth of this problem. In 2016, according to the GCRO survey, it is notable how public participation has significantly dropped across the province. This emphasizes the need for collaboration between the municipality and the Department in finding innovative ways that would not only raise awareness on the IDP and its importance for the citizenry of the municipality, but also on the value of participating in IDP processes.

The LLM supports the URBAN Framework with policies that are geared toward correcting the apartheid spatial planning of disintegrating the communities. The LLM has adopted the Zone of integration to ensure that all its communities are well integrated and can access the available amenities irrespective of their racial or economic background. Hence, the development such as Obed Nkosi Housing Project came into being to close the gap that existed between the white and black area. Heidelberg X23/26 is another case in point. Furthermore, the LLM also promotes the infilling and densification in urban areas to maximize the potential held by the spaces available within the area.

## **EVIDENCE-BASED PLANNING**

From a statistics perspectives, IDP's have improved a great deal in terms of compliance. That is having statistics visible and included in the IDP document(s). The challenge, however has been the inconsistency of data sources, inconsistent or irrelevant indicators as well as the absence of bench-marks. While it is not incorrect for municipalities to use statistical data reports from other sources, it is a legislative requirement that such data must meet specified minimum requirements to be considered official, as illustrated for instance, in the gazette Statistics Framework. Municipalities are therefore cautioned against using data that has not been verified as this may lead to ill-planning and subsequent mismanagement of our already limited resources.

From the IDP assessments this year, there is also a growing concern on the absence of a demographic illustration of trends or patterns of the population within a given municipal area. The entry of a quantity of sexes, ages, race and so forth are essential to understand the development needs and quantities required, in planning for development. This type of a data set also informs probable indexes, such as life expectancy, demographic dividend, labour force, population growth, birth and death rates, migration patterns, and so on.

Moreover, municipalities should be able to appreciate the importance of their area's population pyramid. This is important as the shape of a population pyramid for a specific municipal area informs the probable trends in the current and likelihoods in the future. Municipalities are encourage to study these statistical dynamics as strategic intentions must be grounded in empirical data. With limited resources and the rapid economic trends that impact on the social well-being of communities, good use of statistics is a prerequisite.

The municipality is using the Stats SA as a primary source of our statistical data, though such data dates back to 2011. The LLM is in the process of procuring the services of data suppliers such as Global Insight to be used as a secondary source and to have a sense of projections. However, such data information does not come cheap, considering the financial constraints. We request that the province should assist the municipality in procuring such services.

### **4.3 Service Tariffs**

Service tariffs were communicated to the community members through IDP public participation. Further the tariffs were published in the newspapers and notice board as required by relevant legislation for comments from the public and thereafter the tariffs were gazetted.

#### 4.4 Auditor General's Report

Findings of the Auditor General are as follows:

Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
<b>Cash flow Statements</b>										
1.	Cash flow statements includes non-cash transactions	✓					✓		1	In progress
<b>Distribution losses</b>										
2.	Differences between the amounts disclosed in the financial statements and distribution losses schedules.	✓					✓		0	In progress
<b>Revenue</b>										
3.	Exceptions identified in the revenue CAAT's report.	✓					✓		1	In progress
<b>Predetermined Objectives</b>										
4.	% completion of the 5 Mega litre reservoir constructed at Endicott in quarter 1 & 2. (Cumulative): Supporting document submitted not reviewed.		✓				✓		0	In progress
5.	Key Performance Indicator not meeting the "SMART" criteria - % completion of service delivery projects.		✓				✓		0	In progress
6.	Reported achievements in the annual performance report are not reconciling to the quarterly performance reports.		✓				✓		0	In progress

Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
7.	Numerator and denominator used to calculate the key performance indicator is not accurate and complete.		>					>	0	In progress
8.	Reported achievement per APPR not agreeing to supporting documents - % of total rental stock lease agreements.		>					>	0	In progress
9.	Human Resource Development Strategy: Key Performance Indicator not agreeing to supporting documents.		>					>	0	In progress
10.	Number of students who have been assisted: Key Performance Indicator not agreeing to supporting documents.		>					>	0	In progress
11.	Number of job opportunities created through EPWP: Key Performance Indicator not agreeing to supporting documents.		>					>	0	In progress
12.	% completion of KwaZenzele Sewer Plant: Key Performance Indicator not agreeing to supporting documents		>					>	0	In progress
13.	% completion of the 5 Mega litre reservoir constructed at Endicoot in quarter 1 & 2. (Cumulative): Supporting document not reviewed.		>					>	0	In progress
14.	% completion of KwaZenzele Sewer Plant upgraded in quarter 2, 3 & 4 within the available budget: Supporting document submitted not reviewed.		>					>	0	In progress
15.	Key Performance Indicator not agreeing to supporting documents - % completion of the 5 Mega litre reservoir.		>					>	0	In progress



Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
16.	Key Performance Indicator not agreeing to supporting documents – completion of cemeteries upgraded at Ekuthuleni and Ekuphumleni and Number of water samples taken.		>					>	0	In progress
17.	Key Performance Indicator not meeting the "SMART" criteria - % completion of cemeteries upgraded at Ekuthuleni and Ekuphumleni.		>					>	0	In progress
18.	Key Performance Indicator not meeting the "SMART" criteria - % of amenity service requests attended to as per the applications received in each quarter.		>					>	0	In progress
19.	% of amenity service requests attended to as per the applications received in each quarter. (Maximum Threshold) budget: Supporting document submitted not reviewed.		>					>	0	In progress
20.	% implementation of activities as per the Early Childhood Development (ECD) implementation plan per quarter. (Cumulative): Supporting document submitted cannot be verified.		>					>	0	In progress
<b>Compliance</b>										
21.	Payments to suppliers not settled within 30 days.			>				>	1	In progress
22.	Splitting of quotations for supplier who were awarded multiple times for the similar goods or services.			>				>	0	In progress

Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of (previous years) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
23.	Awards to person in the service of the state.			>			>		0	In progress
24.	Awards to close associates/partners of persons in service of the state.			>			>		0	In progress
25.	Submission of compulsory documents after tender closing date.			>			>		0	In progress
26.	Expired contracts that are currently on month to month.			>			>		1	In progress
27.	Deviations not reported to Council or disclosed in notes to the annual financial statements.			>			>		1	In progress
28.	Bidders capability and capacity to provide goods or service not assessed.			>			>		0	In progress
29.	Deviations reasons not justifiable.			>			>		1	In progress
30.	Contract awarded to bidder to bidder not evaluated in terms of the Preferential Procurement Policy Framework Act.			>			>		0	In progress
<b>ANNEXURE B: Other Important Matters</b>										
31.	Employees benefit obligation: Non-compliance with GRAP 25 – Employee benefits.	>					>		0	In progress
32.	Incomplete disclosure of deviations.	>					>		0	In progress
33.	Commitments not disclosed in the Financial statements.	>					>		0	In progress

Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
34.	Expenditure incurred exceeds approved contract value.				✓		✓		0	In progress
35.	Assets disclosed as disposals without prior approval of Council.				✓		✓		0	In progress
36.	Safe guarding of Assets			✓			✓		0	In progress
37.	Employee costs – Possible fruitless and wasteful expenditure.				✓		✓		0	In progress
38.	Employee costs: Reconciliation of Councillor's remuneration.				✓		✓		0	In progress
39.	Remuneration of Councillors: reconciliation does not agree to the amount stated in the Annual Financial Statement.	✓					✓		0	In progress
40.	Key Performance Indicator not agreeing to supporting documents – Total Number of Indigent households registered by the year end.		✓				✓		0	In progress
41.	Budget not aligned to IDP and SBBIP.				✓		✓		0	In progress
42.	Revenue from Fines understated.				✓		✓		0	In progress
43.	Incomplete disclosure of expenses				✓		✓		0	In progress
44.	Incorrect classification of undeposited receipts.	✓					✓		0	In progress
45.	Inadequate review and follow-up on undeposited receipts.				✓		✓		0	In progress

Finding no.	Finding	Classification					Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters		
46.	Use of consultants.  <b>General IT Controls</b>				>		>	0	In progress	
47.	Inadequate review of administrator's activities on e-Venus.  <b>Project Management</b>				>		>	0	In progress	
48.	Inadequate verification of bank account numbers before processing supplier payment.  <b>Project Management</b>				>		>		In progress	
49.	Shortcomings identified in project management for building of the reservoir in Vischkuil and the bulk pipeline upgrade in KwaZenzele.  <b>ANNEXURE C: Administrative Matters</b>				>		>	0	In progress	
50.	% completion of the 5 Mega litre reservoir constructed at Endicott in quarter 1 & 2. (Cumulative): Inaccurate supporting evidence submitted.		>				>	0	In progress	
51.	Leave provision misstated by number of days.  <b>ANNEXURE C: Performance Management and Reporting framework</b>	>					>	0	In progress	
52.	Presentation and disclosure of the annual performance report.			>				0	In progress	
53.	Performance management policy does not comply with Performance Management Regulation 7.			>				0	In progress	

Finding no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report Other important matters	Administrative matters			
54.	Performance management policy does not comply with Performance Management Regulation 13 and MSA 41.			>					0	In progress	
55.	Performance management policy does not comply with Performance Management Regulation 13(2)(c) and MSA 41(1)(d).			>					0	In progress	
56.	Performance management policy does not comply with MSA 41(1)(e).			>					0	In progress	
57.	Performance management policy does not comply with MSA 39.			>					0	In progress	
58.	Performance management policy does not comply with MSA 40.			>					0	In progress	

The above findings of Auditor-General indicate that there is non-compliance with certain legislation, regulations and policies. These significant findings are as result of insufficient monitoring systems, lack of accountability and unwillingness to take necessary corrective measures (consequent management) to ensure that employees take responsibility for their actions.

#### 4.5. Annual Report.

The final draft Annual Report was tabled during the Council meeting of 31 January 2018. The process of tabling the Annual Report to Council indicates that the municipality did comply with the requirements of Municipal Finance Management Act.

According to the Oversight Report Framework, the Annual Report is required in terms of s (46) and s (121) and s (129) of the Municipal Finance Management Act, no 56 of 2003, to include all components on the template of which the Annual Report of the municipality has according to those requirements on the template.

#### **4.6. Specific Grants**

The municipality on its own cannot be in a position to provide services without receiving help in the form of grants from other spheres of government. The grants at the level of the local Municipality are grants such as:-

- Municipal Infrastructure Grant;
- Government grants and subsidies;
- Equitable shares;
- Provincial grants;
- Neighborhood Grants;
- DLG Grants;
- Health subsidy;
- Finance Management grant;
- Agriculture grant;
- Rural coordination grant;
- Human Settlement Development grant;
- Integrated National Electrification grant;
- Municipal Infrastructure grant;
- Public Transport Infrastructure grant;
- Social Infrastructure grant, and
- MSIG grant
- 

The committee noted that during 2015/2016 financial year the grant money of about R6,6 million was held and in the 2016/2017 financial year the same has happen in which the grant money in the region of R3,8 million was withheld. The committee is of the view that the municipality is not planning well when coming to implementation of budget.

#### **4.7. Circular 32.63 and 11 of National Treasury**

The Municipal Public Account Committee is guided by the above mentioned regulation in doing and completing its work and it will also expect the municipality to fully adhere to the objective as set out of promoting good governance and enhancing transparency and accountability.

#### **4.8 Misstatements**

The committee felt that management should on a monthly or quarterly basis table financial for the consideration of MPAC and Audit Committee. The process will alleviate the current ongoing findings in which there are misstatements after misstatements.

#### **4.9 Predetermined Objectives, Performance Management and Reporting**

The committee felt that the management must ensure that all three documents, IDP, Budget and SDBIP are aligned in order to avoid repeated or recurring findings from Auditor-General. There are regulations which compel the municipality to adhere to and the committee is requesting management to adhere to such legislation to reduce the number of non-compliance. The committee further request management to use the MFMA calendar filing system to adhere to deadlines in submitting required reports to Council and other spheres of government. Contract management or performance assessment of contractors should be undertaken.

#### **4.10 Compliance to regulations**

The committee once more realized that there is ongoing tendency of non-compliance to legislation, regulations and policies. The tendency stem from 2012/2013 financial year and to date the municipality is unable to comply with laws and policies. SCM processes, performance management and alignment of IDP should be made a priority in order for the municipality to comply.

#### **4.11 Unauthorized, irregular, fruitless and wasteful expenditure**

The committee felt that the above mentioned expenditures are not helping the municipality to realize the clean audit and the matters are not addressed according to remedial action as requested by Auditor-General. The committee which to recommend that the establishment of Disciplinary Board will assist the municipality to eliminate the uncertainty.

The Auditor-General in its findings indicates that there were transgression identified on unauthorised, irregular and fruitless and wasteful expenditure that must be investigated to determine whether any official is liable for losses incurred as a result of the unauthorised, irregular and fruitless and wasteful expenditure. Further the Auditor-General recommends that disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.

The municipality has realized the expenditures mentioned above as a result of the contravention of SCM legislation. The root causes of the lack of effective prevention and detection of irregular expenditure are:

- Inadequate controls over contract management
- Lack of effective implementation of supply chain management policies and procedure to improve compliance with applicable laws and regulations
- Lack of implementation of consequence management.

The lesson learned from this is that the remedial action recommended by Auditor-General were not implemented hence the recurring and rise in irregular expenditure. The failure has resulted that the municipality to experience similar recurring findings in which the municipality incurred irregular expenditure in the prior 2013/2014, 2014/2015 financial year and the municipality did not investigate further to determine if any person was liable for the expenditure as required by section 32(2)(a)(i) of the Municipal Finance Management Act.

This is supported by section 32(2) (b) of Municipal Finance Management Act which state that a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure in the case of irregular or fruitless and wasteful expenditure, is, after investigation by council committee, certified by the council as irrecoverable and written off by the council.

The municipality during the audit process, the Auditor-General found that the municipality has been making payments for printers which are not in use and are sitting idle which resulted in fruitless and wasteful expenditure. Section 32(1) of Municipal Finance Management Act, Act 56 of 2003 stipulates that: *“Without limiting liabilities in terms of common law or other legislation”* and further in subsection (d) the act state that *“any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure”*. The recommendation of Auditor-General is that the municipality should hold the person responsible accountable.

The management should register on quarterly basis irregular expenditure if there is any according to circular 68 as provided by National Treasury. The committee further felt that since the municipality is unable to implement the remedial action recommended by Auditor-General, the committee is of the view that the Council must request the Executive Mayor to appoint a service provider to conduct a forensic investigation by end of June 2017, and the report must be presented to the MPAC.

#### **4.12 Consequent management**

The committee felt that matters of non-compliance to laws according to findings of Auditor-General there is a need for remedial action as alluded to by Auditor-General. The municipality should work within the prescripts of laws governing the municipalities. Consequent Management is the remedial action or corrective measure according to the finding of Auditor-General that must be instituted which contain steps like disciplinary measures and recovery from the person liable after an investigation has been conducted. The committee is of the view that management must begin with immediate effect with the process of ensuring that the Auditor-General recommended remedial actions are implemented and a report within three months must be submitted to MPAC.



#### 4.13 Human Resources

The committee felt that the municipality as a matter of urgency should approve the revised organizational structure.

#### 4.14 Audit Queries and Accounting Officer's responses to Auditor General Report and corrective measures taken

The action plan tabled by Accounting Officer as a mitigating factor to all Audit queries or as a corrective measure to findings of Auditor-General as part of the Annual Report as tabled is insufficient. The committee is of the view that identified non-compliance with legislation, regulations and policies are offences that required immediate attention from management and cannot be left unattended. The reluctance from management to act on the transgressors sent a negative message to other employees who abide by laws, regulations and policies.

The committee is of a view that management must implement the recommended remedial action by the Auditor-General seriously to change the municipality and to avoid the municipality to descend further or regress into a crisis. The Summary of the Action Plan is an annexure attached on the Annual Report.

#### 5. CONCLUSION

The Annual Report for the financial year 2016/17 was compiled through tabling of the Annual Report through different committees of the municipality. During the process of assessing the Annual Report the committee also identified grey area on the report and advice the administration to take make such changes to the report before it is tabled to the public. The committee will ensure that the institution is geared towards adhering to the relevant legislations, regulations and policies to realize clean audit outcomes. Most of all, the committee advise the municipality to implement the remedial actions as recommended by Auditor-General taking into account that there were non-compliance to legislation, regulations and policies to such an extent that the municipality is not improving on the findings of Auditor-General. The establishment of Disciplinary Board will come handy to the municipality in ensuring that corrective measures are implemented.

#### RECOMMENDATION

1. **That** the committee has fully considered the Annual Report for 2016/2017 financial year and the committee adopts and approves the report with reservations. MPAC recommends that council approve the oversight report contained herein.
2. **That** on the annual financial statements the committee recommend as follows considering that the findings are recurring and without any improvement of the municipal financial statements:

- 2.1 That the monthly and quarterly financial reports must be presented to MPAC and the Audit Committee for assessment to minimize recurring misstatements and findings as identified by Auditor-General.
  - 2.2 That the Financial statement needs to be reviewed monthly
  - 2.3 That the municipality must capacitate the budget section with required staff (minimum competency level) to deal adequately with annual financial statements.
3. That on predetermined objectives and performances of the municipality the committee recommend as follows considering that the findings are recurring:
    - 3.1 That the accounting officer must ensure that the IDP and SDBIP are aligned to avoid the repeated findings.
    - 3.2 That the municipality must comply with relevant legislation when conducting performance.
    - 3.3 That the municipality must use the MFMA calendar filing system to adhere to time lines to report on performance to Council.
4. That on non-Compliance with legislation, regulations and policies the committee recommend that the Accounting Officer must furnish MPAC with a full detailed quarterly report and action plan to It is disconcerting that the situation regarding the awarding of contracts to bidders that have not submitted the required declarations of whether they are employed or connected to any person employed by the state as required by SCM regulations.
  5. That on unauthorised, irregular, fruitless and wasteful expenditure the Disciplinary Board must be established and instructed to conduct an investigation before the end of June 2018, and submit a report to the MPAC.
  6. That on consequence management the committee recommend that management must begin with immediate effect the process of ensuring that the Auditor-General recommended remedial actions are implemented and a report must be submitted to MPAC within three months.
  7. That on the Internal / External Audit Committee function the committee recommends that on a quarterly basis a report on the work of the units must be furnished to the MPAC for monitoring.

8. **That** on human resource the committee recommends that the organogram as required by the Municipal Systems Act, be reviewed and approved by council and that MPAC be provided with full details of appointments outside of the existing organogram.
9. **That** on Audit Queries the committee concludes that the action plan presented by management is insufficient and does not address all non-compliance with legislation, regulations and policies and remedial action as recommended by the Auditor-General. In particular the 5 mega liter reservoir constructed at Ward 12 Endicott. Furnish MPAC with a detailed report before the end of June 2018, containing:
  - a) Contract price and actual amount spent.
  - b) Duration of the project. Was the period of the contract exceeded and by what period?
  - c) Was the penalty clause implemented and recovered from the contractor?
  - d) Is it operational? If not why not, and by when will it be operational?
10. **That** on the underspending of MIG funding of R3.8 million MPAC recommends that the responsible managers be identified and consequence management be applied and that a report be submitted by the MM to MPAC in this regard. MIG funding process reports of each department should be submitted to MPAC quarterly for monitoring to prevent recurrence of underspending.