

BUSHBUCKRIDGE LOCAL MUNICIPALITY



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1. PURPOSE OF THE REPORT

The main purpose of this report is to recommend to Council the consideration and correction of the 2016/17 Annual report and to adopt an oversight report containing Council's comments on the Annual report in terms of Section 129 (1) of the Local Government : Municipal Finance Management Act, 2003 (Act no.56 of 2003).

2. BACKGROUND

2.1. Legal Requirements

Section 121 (1), (2) and (3) of the MFMA determines that:-

121 (1) Every Municipality and every municipal entity must for each financial year prepare an annual report in accordance with this Chapter. The Council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.

2.2. Municipal Public Accounts Committee

The Municipal Public Accounts Committee is the mechanism through which Council exercises oversight over the management and expenditure of public funds. Council must provide assurance to the public that public monies and assets are being managed properly and that value for money is being rendered by public sector institutions in their spending of public funds. Municipal Public Accounts Committees are established in terms of section 79 of the Municipal Structures Act to conduct oversight functions.

2.3. Purpose of the Annual Report

The purpose of the Annual Report is:-

- a) To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;
- b) To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and
- c) To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

2.4. Annual Report Requirements

The annual report of a municipality must include:-

- a) The annual financial statements of a municipality, and in addition, if section 122 (2) applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of section 126 (1);
- b) The Auditor-General's audit report in terms of section 126 (3) on those financial statements;
- c) The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act;
- d) The Auditor-General's audit report in terms of section 45 (b) of the Municipal Systems Act, Act 32 of 2000;
- e) An assessment by the municipality's Accounting Officer of any arrears on municipal taxes and service charges;
- f) An assessment by the municipality's Accounting Officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue from each source and for each vote in the municipality's approved budget for the relevant financial year;
- g) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) (d);

h) Any recommendation as determined by the municipality

2.5. Submission and Tabling of the Annual Report

In terms of section 127 (5) of the MFMA, the Accounting Officer must immediately after the annual report is tabled, make public the annual report, invite the local community to submit the representations in connection with the annual report and submit the annual report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

The annual report of the municipality for the 2016/17 financial year was tabled in the Council at its meeting held on **24th January 2018** in terms of section 127 (2) of the Local Government: Municipal Finance Management Act, 2003. **In the minutes of the Council meeting held on the 24th January 2018, Council resolved that:**

- Council adopt the Annual Report 2016/2017.
- The Annual report 2016/17 be made public for comments by the community.
- The Municipal Manager forward the Annual Report 2016/2017 to the MEC: Cooperative Governance and Traditional Affairs, MEC: Finance and Auditor-General South Africa.
- The Annual Report 2016/2017 be posted on the Municipal website.
- MPAC to write an Oversight Report on the Annual Report 2016/17 as required by sections 32 and 129 of the Municipal Finance Management Act.

3. PROCESSES FOLLOWED BY MPAC

3.1. *The MPAC adopted the following approach:*

- The Committee considered the Annual Report 2016/2017 of the municipality and noted that the compilation of the report was done according to the legislated requirements.
- Memorandum was forwarded to the Accounting Officer with preliminary question for written responses.

3.2. SITE VISITS

MPAC visited projects as follows:

Cunningmore to Agincourt Water Reticulation:

- The Annual Report 2016/17 indicates that there is a water reticulation from Cunningmore to Agincourt of which it is misleading, it is a bulk water supply (**See attached annexure C**).
- The bulkline is passing through communities that is not servicing and this is causing the communities to tamper with the bulkline.
- There is a reservoir in Cunningmore that is not working as it leaks (**See the attached annexure A**).

Dwarsloop dumping site

- Our oversight uncovered that the dumping site is not conducive hence it is closed for rehabilitation for future usage. As a result, the Dwarsloop Regional Office are dumping in Casteel. We discovered that the gate was stolen in December 2017 and it is now in police custody since the suspects are awaiting trial.

Bushbuckridge dumping site (Mphenyatsatsi)

- There is no guard house and security personnel to safe guard the site.

Lillydale Park

- The park was supposed to have been completed by end of March 2017. In our 2015/16 oversight report, our findings did not correspond with what was in the Annual Report.
- We revisited the park to conduct oversight and our findings shown a progress in the development of the park as the netball court has been completed, electricity and plumbing done, bins installed, playing equipment is available, trees planted, gazebos, there is a drilled borehole, installed Jojo tank (**See attached annexure B**) and braai areas.
- Even in its state, the park does not have sustainability.
- Even though grass cutters were bought, there is a challenge in the maintenance of the park
- Is there a plan for the usage of the park
- The capacity of the borehole is of low volume as it is not able to pump enough water.
- The capacity of the Jojo tank is also small

Dwarsloop Traffic Office

- The building itself is complete but we discovered that there are visible signs of cracks on its front elevation even though the building has not been used.
- The ablution block has not been constructed, only a slab. The contractor who was appointed is said to have underquoted and decided to abort the project, hence the ablution block is only at slab level.

4. OF CONCERN TO MPAC ARE THE FOLLOWING:

- a) The Accounting Officer seems not to take seriously the advice of the Auditor-General or follow the Audit action plan as issues raised by the A-G still keep on occurring.
- b) The Accounting Officer does not implement the recommendations of MPAC.
- c) **Since its establishment, MPAC has recommended that the office be equipped with a Researcher, a Secretary and tools of trade in order to be more effective and efficient but it has not been done, which makes it difficult for the one support staff (Admin Clerk) to make a simple task of printing a document as confidentiality will be jeopardized.**

5. GENERAL COMMENTS ON THE CONTENT OF THE ANNUAL REPORT

- All Councilors should play an active role in the thorough review of the annual report.
- While the 2016/17 Annual Report was drafted according to Circular 63 guidelines, there are many errors in the report which MPAC has noted that need to be corrected before the report can be submitted to the MEC: CoGTA and be made public.
- Efforts should be made to include public participation in the review of the annual report before it becomes public.

6. RECOMMENDATIONS

MPAC recommends that:-

- **The Committee be equipped with a Researcher, a Secretary and tools of trade in order to execute the MPAC mandate optimally.**
- We recommend that since the dumping site has been closed, that a guard house be constructed and security personnel be assigned to ensure that there are no illegal dumping near the site.

- We recommend that security personnel and staff to maintain the park be appointed to safeguard the municipal assets and ensure that the park brings value for money and development to the community of Lillydale and nearby villages.
- We recommend the construction of a guard house and security personnel at Mphenyatsatsi dumping site.
- We recommend that the process to construct the ablution block be monitored in order to provide service to our communities.
- Council having fully considered the 2016/17 financial year's Annual Report of the Bushbuckridge Local Municipality adopts the 2016/17 Oversight Report.
- Council approves the annual report with corrections.
- Council further compels the Accounting Officer to ensure that concerns raised by MPAC on the report receive his full attention.

7. CONCLUSION

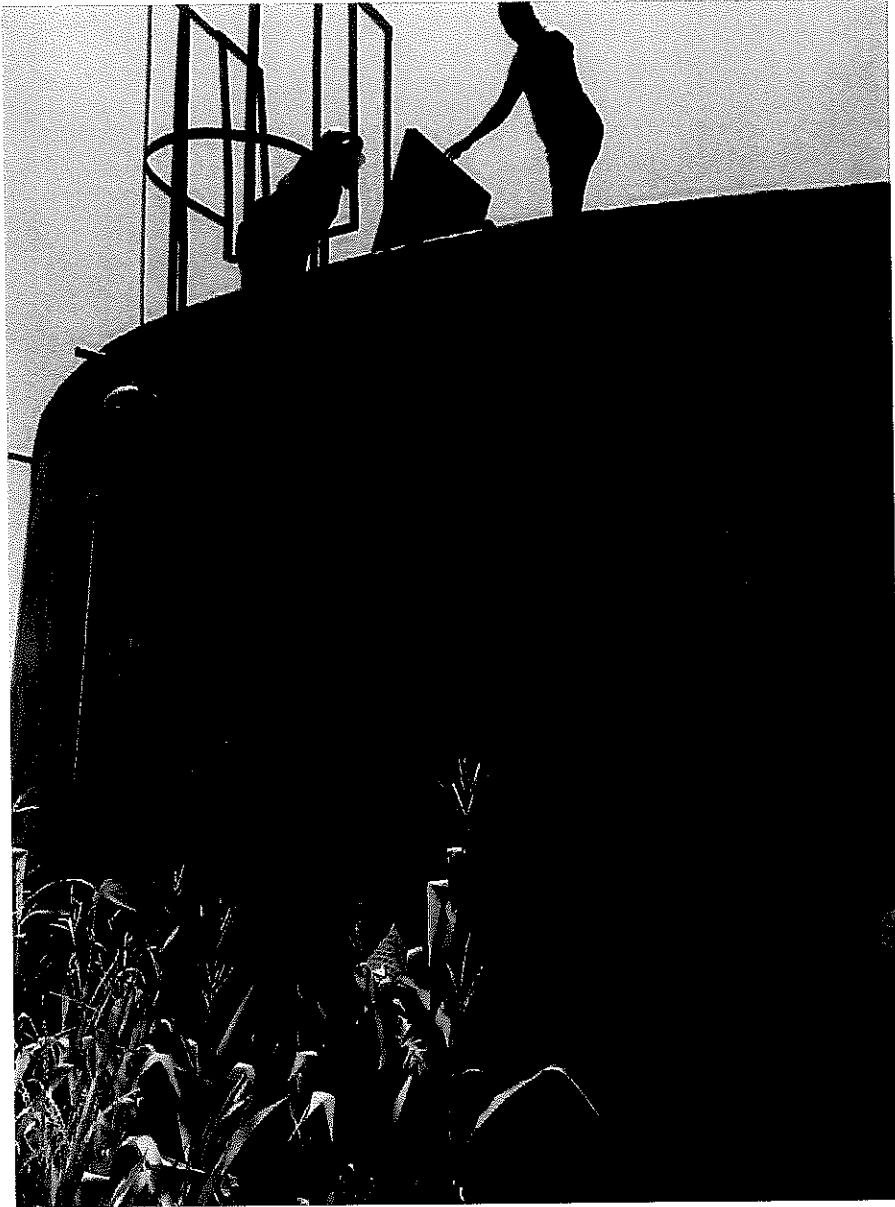
MPAC would like to appreciate the cooperation of the Honourable Councillors and officials who assisted during the process of oversight visits.

Author:

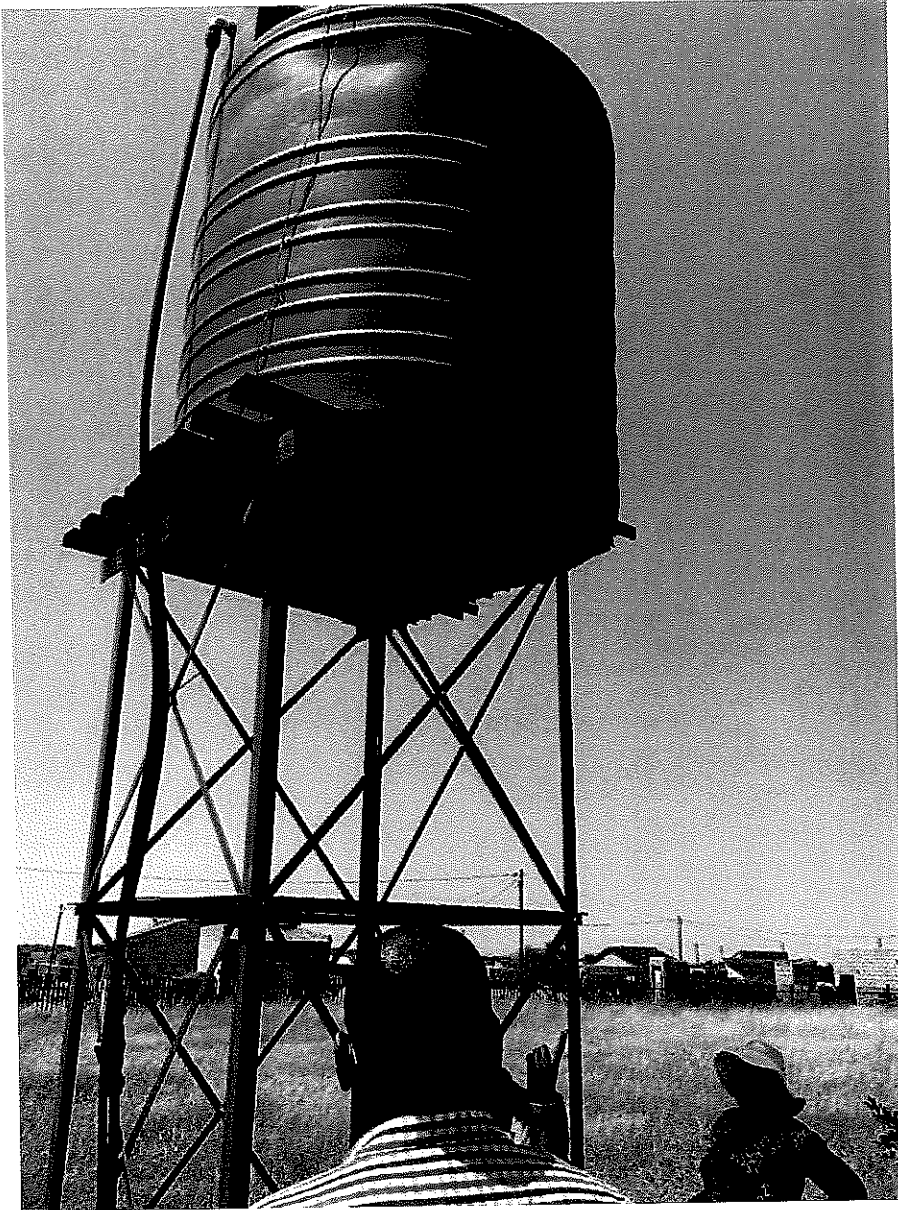
Cllr A.M Mapiyeye

MPAC Chairperson

ANNEXURE A



ANNEXURE B



ANNEXURE C

Sl. No.	Particulars	17-Sep	Aug-27	17-Sep	Aug-27	17-Sep	Aug-27	17-Sep	Aug-27
1	CV Chabre & Associates	2,843,362.80	3,657,915.10	6,501,277.90	6,501,277.90				
2	CV Chabre & Associates	2,214,072.74	3,784,027.61	5,998,100.35	5,998,100.35				
3	CV Chabre & Associates	3,784,027.61	5,998,100.35	9,782,128.00	9,782,128.00				
4	CV Chabre & Associates	5,998,100.35	9,782,128.00	15,774,256.00	15,774,256.00				
5	CV Chabre & Associates	9,782,128.00	15,774,256.00	25,556,384.00	25,556,384.00				
6	CV Chabre & Associates	15,774,256.00	25,556,384.00	41,330,640.00	41,330,640.00				
7	CV Chabre & Associates	25,556,384.00	41,330,640.00	66,887,024.00	66,887,024.00				
8	CV Chabre & Associates	41,330,640.00	66,887,024.00	108,217,664.00	108,217,664.00				
9	CV Chabre & Associates	66,887,024.00	108,217,664.00	175,104,728.00	175,104,728.00				
10	CV Chabre & Associates	108,217,664.00	175,104,728.00	283,219,456.00	283,219,456.00				
11	CV Chabre & Associates	175,104,728.00	283,219,456.00	458,343,912.00	458,343,912.00				
12	CV Chabre & Associates	283,219,456.00	458,343,912.00	741,563,368.00	741,563,368.00				
13	CV Chabre & Associates	458,343,912.00	741,563,368.00	1,199,907,336.00	1,199,907,336.00				
14	CV Chabre & Associates	741,563,368.00	1,199,907,336.00	1,941,814,704.00	1,941,814,704.00				
15	CV Chabre & Associates	1,199,907,336.00	1,941,814,704.00	3,131,629,408.00	3,131,629,408.00				
16	CV Chabre & Associates	1,941,814,704.00	3,131,629,408.00	5,073,443,816.00	5,073,443,816.00				
17	CV Chabre & Associates	3,131,629,408.00	5,073,443,816.00	8,204,897,632.00	8,204,897,632.00				
18	CV Chabre & Associates	5,073,443,816.00	8,204,897,632.00	13,278,795,264.00	13,278,795,264.00				
19	CV Chabre & Associates	8,204,897,632.00	13,278,795,264.00	21,483,592,896.00	21,483,592,896.00				
20	CV Chabre & Associates	13,278,795,264.00	21,483,592,896.00	34,762,390,752.00	34,762,390,752.00				
21	CV Chabre & Associates	21,483,592,896.00	34,762,390,752.00	56,245,783,600.00	56,245,783,600.00				
22	CV Chabre & Associates	34,762,390,752.00	56,245,783,600.00	92,008,174,400.00	92,008,174,400.00				
23	CV Chabre & Associates	56,245,783,600.00	92,008,174,400.00	148,253,568,000.00	148,253,568,000.00				
24	CV Chabre & Associates	92,008,174,400.00	148,253,568,000.00	246,507,136,000.00	246,507,136,000.00				
25	CV Chabre & Associates	148,253,568,000.00	246,507,136,000.00	403,014,272,000.00	403,014,272,000.00				
26	CV Chabre & Associates	246,507,136,000.00	403,014,272,000.00	649,521,408,000.00	649,521,408,000.00				
27	CV Chabre & Associates	403,014,272,000.00	649,521,408,000.00	1,052,542,816,000.00	1,052,542,816,000.00				
28	CV Chabre & Associates	649,521,408,000.00	1,052,542,816,000.00	1,702,085,232,000.00	1,702,085,232,000.00				
29	CV Chabre & Associates	1,052,542,816,000.00	1,702,085,232,000.00	2,754,628,464,000.00	2,754,628,464,000.00				
30	CV Chabre & Associates	1,702,085,232,000.00	2,754,628,464,000.00	4,509,256,928,000.00	4,509,256,928,000.00				
31	CV Chabre & Associates	2,754,628,464,000.00	4,509,256,928,000.00	7,263,885,392,000.00	7,263,885,392,000.00				
32	CV Chabre & Associates	4,509,256,928,000.00	7,263,885,392,000.00	11,817,770,784,000.00	11,817,770,784,000.00				
33	CV Chabre & Associates	7,263,885,392,000.00	11,817,770,784,000.00	19,081,646,176,000.00	19,081,646,176,000.00				
34	CV Chabre & Associates	11,817,770,784,000.00	19,081,646,176,000.00	30,899,416,960,000.00	30,899,416,960,000.00				
35	CV Chabre & Associates	19,081,646,176,000.00	30,899,416,960,000.00	50,001,063,136,000.00	50,001,063,136,000.00				
36	CV Chabre & Associates	30,899,416,960,000.00	50,001,063,136,000.00	80,892,080,000,000.00	80,892,080,000,000.00				
37	CV Chabre & Associates	50,001,063,136,000.00	80,892,080,000,000.00	131,783,143,040,000.00	131,783,143,040,000.00				
38	CV Chabre & Associates	80,892,080,000,000.00	131,783,143,040,000.00	212,675,286,080,000.00	212,675,286,080,000.00				
39	CV Chabre & Associates	131,783,143,040,000.00	212,675,286,080,000.00	344,350,572,160,000.00	344,350,572,160,000.00				
40	CV Chabre & Associates	212,675,286,080,000.00	344,350,572,160,000.00	557,025,858,240,000.00	557,025,858,240,000.00				
41	CV Chabre & Associates	344,350,572,160,000.00	557,025,858,240,000.00	914,051,716,480,000.00	914,051,716,480,000.00				
42	CV Chabre & Associates	557,025,858,240,000.00	914,051,716,480,000.00	1,471,077,574,720,000.00	1,471,077,574,720,000.00				
43	CV Chabre & Associates	914,051,716,480,000.00	1,471,077,574,720,000.00	2,385,155,149,440,000.00	2,385,155,149,440,000.00				
44	CV Chabre & Associates	1,471,077,574,720,000.00	2,385,155,149,440,000.00	3,860,310,323,880,000.00	3,860,310,323,880,000.00				
45	CV Chabre & Associates	2,385,155,149,440,000.00	3,860,310,323,880,000.00	6,245,620,647,760,000.00	6,245,620,647,760,000.00				
46	CV Chabre & Associates	3,860,310,323,880,000.00	6,245,620,647,760,000.00	10,501,241,295,520,000.00	10,501,241,295,520,000.00				
47	CV Chabre & Associates	6,245,620,647,760,000.00	10,501,241,295,520,000.00	16,746,861,943,280,000.00	16,746,861,943,280,000.00				
48	CV Chabre & Associates	10,501,241,295,520,000.00	16,746,861,943,280,000.00	27,258,113,886,560,000.00	27,258,113,886,560,000.00				
49	CV Chabre & Associates	16,746,861,943,280,000.00	27,258,113,886,560,000.00	44,006,227,830,080,000.00	44,006,227,830,080,000.00				
50	CV Chabre & Associates	27,258,113,886,560,000.00	44,006,227,830,080,000.00	71,264,341,716,640,000.00	71,264,341,716,640,000.00				
51	CV Chabre & Associates	44,006,227,830,080,000.00	71,264,341,716,640,000.00	115,530,683,433,280,000.00	115,530,683,433,280,000.00				
52	CV Chabre & Associates	71,264,341,716,640,000.00	115,530,683,433,280,000.00	186,795,025,150,920,000.00	186,795,025,150,920,000.00				
53	CV Chabre & Associates	115,530,683,433,280,000.00	186,795,025,150,920,000.00	302,590,050,301,840,000.00	302,590,050,301,840,000.00				
54	CV Chabre & Associates	186,795,025,150,920,000.00	302,590,050,301,840,000.00	489,385,075,453,680,000.00	489,385,075,453,680,000.00				
55	CV Chabre & Associates	302,590,050,301,840,000.00	489,385,075,453,680,000.00	791,770,150,607,360,000.00	791,770,150,607,360,000.00				
56	CV Chabre & Associates	489,385,075,453,680,000.00	791,770,150,607,360,000.00	1,283,545,225,811,200,000.00	1,283,545,225,811,200,000.00				
57	CV Chabre & Associates	791,770,150,607,360,000.00	1,283,545,225,811,200,000.00	2,075,290,451,622,400,000.00	2,075,290,451,622,400,000.00				
58	CV Chabre & Associates	1,283,545,225,811,200,000.00	2,075,290,451,622,400,000.00	3,358,585,677,433,600,000.00	3,358,585,677,433,600,000.00				
59	CV Chabre & Associates	2,075,290,451,622,400,000.00	3,358,585,677,433,600,000.00	5,434,171,354,867,200,000.00	5,434,171,354,867,200,000.00				
60	CV Chabre & Associates	3,358,585,677,433,600,000.00	5,434,171,354,867,200,000.00	10,868,342,712,734,400,000.00	10,868,342,712,734,400,000.00				
61	CV Chabre & Associates	5,434,171,354,867,200,000.00	10,868,342,712,734,400,000.00	21,736,685,425,468,800,000.00	21,736,685,425,468,800,000.00				
62	CV Chabre & Associates	10,868,342,712,734,400,000.00	21,736,685,425,468,800,000.00	43,473,370,850,937,600,000.00	43,473,370,850,937,600,000.00				
63	CV Chabre & Associates	21,736,685,425,468,800,000.00	43,473,370,850,937,600,000.00	86,946,741,701,875,200,000.00	86,946,741,701,875,200,000.00				
64	CV Chabre & Associates	43,473,370,850,937,600,000.00	86,946,741,701,875,200,000.00	173,893,483,403,750,400,000.00	173,893,483,403,750,400,000.00				
65	CV Chabre & Associates	86,946,741,701,875,200,000.00	173,893,483,403,750,400,000.00	347,787,966,807,500,800,000.00	347,787,966,807,500,800,000.00				
66	CV Chabre & Associates	173,893,483,403,750,400,000.00	347,787,966,807,500,800,000.00	695,575,933,615,001,600,000.00	695,575,933,615,001,600,000.00				
67	CV Chabre & Associates	347,787,966,807,500,800,000.00	695,575,933,615,001,600,000.00	1,391,151,867,230,003,200,000.00	1,391,151,867,230,003,200,000.00				
68	CV Chabre & Associates	695,575,933,615,001,600,000.00	1,391,151,867,230,003,200,000.00	2,782,303,734,460,006,400,000.00	2,782,303,734,460,006,400,000.00				
69	CV Chabre & Associates	1,391,151,867,230,003,200,000.00	2,782,303,734,460,006,400,000.00	5,564,607,468,920,012,800,000.00	5,564,607,468,920,012,800,000.00				
70	CV Chabre & Associates	2,782,303,734,460,006,400,000.00	5,564,607,468,920,012,800,000.00	11,129,214,937,840,025,600,000.00	11,129,214,937,840,025,600,000.00				
71	CV Chabre & Associates	5,564,607,468,920,012,800,000.00	11,129,214,937,840,025,600,000.00	22,258,429,875,680,051,200,000.00	22,258,429,875,680,051,200,000.00				
72	CV Chabre & Associates	11,129,214,937,840,025,600,000.00	22,258,429,875,680,051,200,000.00	44,516,859,751,360,102,400,000.00	44,516,859,751,360,102,400,000.00				
73	CV Chabre & Associates	22,258,429,875,680,051,200,000.00	44,516,859,751,360,102,400,000.00	89,033,719,502,720,204,800,000.00	89,033,719,502,720,204,800,000.00				
74	CV Chabre & Associates	44,516,859,751,360,102,400,000.00	89,033,719,502,720,204,800,000.00	178,067,439,005,440,409,600,000.00	178,067,439,005,440,409,600,000.00				
75	CV Chabre & Associates	89,033,719,502,720,204,800,000.00	178,067,439,005,440,409,600,000.00	356,134,878,010,880,819,200,000.00	356,134,878,010,880,819,200,000.00				
76	CV Chabre & Associates	178,067,439,005,440,409,600,000.00	356,134,878,010,880,819,20						

Annexure D

MPAC Preliminary Questions to Executive

EMPHASIS OF MATTERS

1. **Restatement of corresponding figures**

as disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Questions

- a) In the 2015/16 Oversight report, the Accounting Officer mentioned that **“the municipality has attained an unqualified audit opinion and no prior adjustments will be effected”**. Why did the Accounting Officer restate the corresponding figures?

- Restatement of the corresponding figures was a necessity to ensure adherence to the GRAP standards and all reporting framework the municipality is expected to adhere to.
- The restatement was in relation to the interpretation of the reporting standards, which the municipality had initially thought to adhere to.

- b) Why did the Municipality fail to review its quarterly/ interim reports during the year to ensure that the final submitted financial statements are free of errors before submitting to the Auditor General?

- The municipality is on the course of improvement path and isolated incidents do occur. The review process is in place but not adequately so. Improvements were made in due course being the appointment of the Deputy Chief Financial Officer and the allocation of a budget to appoint an external independent reviewer.

- c) What measures is the Accounting Officer putting in place to ensure that all existing departmental committees including senior management review financial and performance reports before submitting for auditing?

- Timely reviews by The Deputy CFO, CFO, Internal Audit and Audit Committee
- The appointment of an external independent reviewer for the AFS before submission to AG
- Each directorates through their Director will review and ensure accuracy and appropriateness of the information to be submitted for audit purposes. This among other intervention strategies will be a precursor to ensure correct information is submitted for audit purposes.

2. Material Losses

As disclosed in note 44 to the financial statements, material losses of R104 247 042 (2015-16: R107 128 597) were incurred as a result of water distribution which represented 49% (2015-16: 52%) of the total water purchased.

Questions

- a) Why is the Accounting Officer failing to prevent material losses that occurs each year?

The municipality is in a rural area and much of the respective losses emanates from free basic water which is being supplied to the community. There are vast areas of villages which are receiving water but they are not yet formalised hence Council took a resolution not to bill all those until appropriate apportionment of responsibility can be

transferred to community members. Less than 25% of the Bushbuckridge residents are billed for water as they are in the formalised areas.

Water being a constitutional right to citizens cannot be denied to the community for reasons of lack of appropriate infrastructure. Processes to curb illegal water connections are being put in place to reduce the percentage loss. Quick repairs of water leaks is implemented. Water tankers also draw water from our municipal pipeline, and provide the water through to the communities free of charge. The municipality has also installed communal taps which are not metered.

Over and above the above reasons, the municipality is also billed for water not received by Rand Water amounting to over 34% of volumes billed.

- b) In the 2015/16 Oversight report, the Accounting Officer mentioned, "Processes to curb illegal water connections are being put in place to reduce the percentage loss". How effective are those processes?

The acceleration of the water reticulation projects and the municipality has also appointed By-Law officers to deal with illegal connections among other aspects of their duties. Although it is difficult to eradicate the illegal connections in full, this will be the first step in that direction. The private citizens are being asked at various platforms to report illegal connections.

3. Material Impairments

As disclosed in notes 7 and 9 to the financial statements, the consumer receivables balance was significantly impaired. The impairment of consumer receivables amounted to R519 223 058 (2015-16: R452 868 696), which represented 42% (2015-16: 48%) of the total consumer receivables. The contribution to the provision for debt impairment was R66 354 362 (2015-16: R111 689 682).

Questions

a) Aside of the municipality being in a rural set up, why are the receivables balance impaired each year?

[REDACTED]

Impairment of receivable it's a requirement as per GRAP 104. If some of the customers have not settled their accounts in full in that particular year, the municipality had to impair. The impairment of debtors is to present fairly the payment capability of each debtor despite the geographical location. The implementation of the credit control and debt collection policy was not effective during the financial year due to disputes with the service provider appointed to collect debts for the municipality.

b) In the 2015/16 oversight report, the Accounting Officer mentioned that they have "appointed a service provider for debt collection, enhance collection methods, regular delivery of basic services, implement Revenue Enhance Strategy" as measures to reduce the impairment. How effective are these measures?

[REDACTED]

- **Care-taker debt collectors were appointed in May 2017**
- **Revenue Enhancement Strategy was reviewed in September 2017 and approved by council in November 2017.**

c) If effective, why is there still an impairment?

[REDACTED]

It is effective because it is a requirement in terms of GRAP 104 for fair presentation.

d) If not, what is the cause?

N/A

4. Budget

Reasonable steps were not taken to prevent unauthorised expenditure amounting to R55 320 810, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by exceeding the capital votes.

Questions

a) Why did the Accounting Officer contravene section 62(1)(d) of the MFMA?

[REDACTED]

The unauthorised expenditure is mainly due to unplanned programmes being implemented as an emergency to address service delivery issues.

5. Revenue Management

A credit control and debt collection policy was not implemented, as required by section 96 (b) of the Municipal Systems Act of South Africa, 2000 (Act no. 32 of 2000) and section 62 (1)(f)(iii) of the MFMA.

An effective system of internal control for revenue was not in place as

required by section 64 (2) of the MFMA.

Questions

a) Why did the Accounting Officer contravene section 62 (1)(f)(iii) of the MFMA?

REDACTED

Due to inadequate capacity to implement the credit control and debt collection policy. The appointed provider was suspended due to court proceedings against the municipality. There is also inadequate infrastructure like repair of damaged water meters

b) Why did the Accounting Officer not put an effective system of internal control in place?

REDACTED

The municipality always improve the internal controls in line with the relevant applicable legislation. Constant and timely implementation of controls is to be adhered to. Procedure manuals were developed and implemented

6. Procurement and Contract Management

- Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c). **Similar non-compliance was also reported in the prior year.**
- Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13 (c).

- Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, contrary to SCM regulation 19 (a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36 (1). This non-compliance was identified in the procurement processes for a motor vehicle.
- Invitations for competitive bidding were not advertised for the required minimum period, in contravention of SCM regulation 22 (1) and 22(2). **Similar non-compliance was also reported in the prior year.** This non-compliance was identified in the procurement processes for the construction of water reticulation projects.
- Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. **Similar non-compliance was also reported in the prior year.** This non-compliance was identified in the procurement processes for the supply and construction of a package plant and a bridge.
- Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1) as some contracts were awarded to providers who had failed to perform satisfactorily on a previous contract with municipality during the last five years.
- The preference point system was not applied on some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000) (PPPFA) and treasury regulation 16A6.3(b). **Similar non-compliance was also reported in the prior year.**
- Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2 (1)(f) of the PPPFA and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the provision of telecommunication.
- Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB), in accordance with section 18 (1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25 (7A). **Similar non-compliance was also**

reported in the prior year. This non-compliance was identified in the procurement processes for the construction of water reticulation projects.

- Some commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by preferential procurement regulation 9(1).
- Sufficient appropriate audit evidence for some commodities designated for local content and production could not be obtained to determine if suppliers met the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 9(5).
- Bid documentation for the procurement of some commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1).
- Awards were made to providers who were in the service of other state institutions, in contravention of section 112 (j) of the MFMA and SCM regulation 44. **Similar awards were identified in the previous years and no effective steps had been taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).**

Questions

- a) Why does the Accounting Officer keep on contravening SCM Regulations as is done in the prior financial years?

██████████

The Country is under a series of transformation processes under SCM. Several Regulations have been amended. As such requires constant training to all those that are involved with SCM Processes. Previously, the municipality focused on the SCM officials instead of extending to all parties involved on the SCM processes e.g. End-Users and Bid Committee Members.

- b) Is the SCM unit still “inadequately capacitated” as previously reported in the 2015/16 oversight report?

[REDACTED]

All officials in the SCM Unit has been capacitated in accordance with the competence level required by the National Treasury.

7. Expenditure Management

- Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
- An effective system of expenditure control was not in place as required by section 65(2)(a) of the MFMA.
- An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred and to account for creditors, as required by section 65(2)(b) of the MFMA.
- Effective steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA. The value of R490 004 610, as disclosed in note 43, was not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by awards made to suppliers who did not score the highest points. Irregular expenditure amounting to R302 953 092 was incurred through the procurement processes for water reticulation projects.
- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R27 607 877, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on the late payment of bulk water purchases.

Questions

- a) Why did the Accounting Officer fail to prevent the above expenditure issues from occurring?

Response

- Failure to pay within 30 days is due to various reasons which could be due to any of the following;
 - a. Failure to submit the invoice within reasonable time
 - b. The time the invoice takes to reach the municipality from suppliers
 - c. The non-submission of supporting documentation relating to the invoice thus taking time to complete the whole process.
 - d. Cash flow constraints due to poor revenue collection
 - e. The process flow of the invoice submission, e.g, from PMU - Municipal Works – Finance (Budget, Projects, CFO) – MM - Payment

The municipality has improved the payment period to an average of 43 days as reported in the previous audit compared to 395 days.

- A documented effective system of control is under way to improve the operations in expenditure section.
 - The municipality did not have a proper-documented procedures indicating the flow of receiving invoices hence the outcome.
 - Irregular expenditure- the irregular expenditure were a result of emergency procurement to address key service delivery issues and curb community protests.
 - Due to the outstanding debt to Rand Water the interest thereof was significant.
- b) Why did the Accounting Officer allow the municipality to incur an irregular expenditure amounting to **R490 004 610**? The Accounting Officer must elaborate on the circumstances of each matter.

The irregular expenditure as per the AFS are a result of irregular listing as found by the AG in prior years and some were multiyear projects thus payments were done on those projects during the 2016/17.

Rand water also contributed significantly to the amounts for the 2016/17 due to non-compliance of their SCM processes as an implementing agent for Bushbuckridge LM.

- c) How did the overpayment of Councillors amounting to R2 065 552 come about whereas Councillors' salaries are supposed to be in line with their upper limits?

Response

Upper limits for a period of two years were not adjusted accordingly as per the government gazette.

- d) Are there any disciplinary measures taken against the official who miscalculated the councillors' salaries?

Response

The occurrence is under scrutiny to determine the causes behind the non-implementation of the government gazette regarding the upper limits. Once that process has been done, the matter will be dealt with.

- e) If yes, provide proof of action taken and if no, why?

Response

The matter is under scrutiny and once that has been finalised proper action will be taken thereof.

- f) Did the Accounting Officer take any disciplinary action against the official as required?

Response

The appropriate action will take place once all the relevant facts relating to the above have been adhered to.

- g) Can the Accounting Office provide a detailed breakdown of the Irregular Expenditure?

Response

Yes, report attached

- h) Why did the Accounting Officer contravene section 2(1) (f) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act no 5 of 2000), which requires that a contract be awarded to suppliers who scores the highest points?

[REDACTED]

The matter was referred for investigation to establish the facts surrounding these inconsistencies

- i) Why did the Accounting Officer fail to implement effective internal control measures to prevent the irregular expenditure?

[REDACTED]

The systems are in place however, the Auditor General always views the interpretation of section (36) of the SCM regulation differently. Emergency and practically impossible to follow SCM processes are some of the contentious issues with the AG.

- j) What progress has the Accounting Officer made towards implementing consequence management on the incurred irregular expenditure?

[REDACTED]

The Accounting Officer has sourced an external service provider to conduct full investigation to establish the causes so as to effect consequence management thereafter.

8. Asset Management

An effective system of internal control for assets was not in place as required by section 63(2)(c) of the MFMA.

Question

- a) Why did the Accounting Officer contravene section 63(2)(c) of the MFMA by not putting in place an effective system of internal control?

Response

The asset management unit exists in the budget and treasury department. The unit is tasked with reporting on funds spent to construct various municipal assets as well as the types of assets procured with the aim of helping employees perform their tasks with ease.

An up to date and GRAP compliant asset register is in place. Periodic asset verification takes place, which aims to ensure the existence of the assets as contained in the FAR as well as ensure assets are still with the users as originally allocated.

Repairs and maintenance is done as and when a need arise. Plans are underway to have a multidisciplinary team to develop repairs and maintenance plans which will inform the setting aside of funds for future repairs and maintenance.

Security companies have been appointed and deployed in critical work stations to assist with the safeguarding of municipal assets.

9. Liability management

- An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.
- An effective system of internal control for liabilities (including a liability register) was not in place as required by section 63(2)(c) of the MFMA.

Question

- a) Why did the Accounting Officer fail to put in place an effective system for liabilities as required?

RESPONSE

The flow of invoices was not closely monitored hence delays in recognition of liabilities. A register and automated process have been put in place and will help in dealing with the shortcomings identified.

10. Financial and Performance Management

AG noted that management of the municipality did not adequately review the annual financial statements and further did not implement adequate record-keeping to ensure that complete relevant and accurate information was accessible and available to support financial and performance reporting in a timeous manner.

- a. Why did the Accounting Officer fail to effectively implement controls over record keeping?

RESPONSE

Lack of proper storage facilities within the municipalities led to the ineffective records keeping and retrieval for audit purposes.

- b. What steps or measures has the Accounting Officer taken to correct the situation?

RESPONSE

The municipality have completed the construction of the municipal storage place, which will deal with proper record keeping of documents. And interns have been allocated to deal specifically with document control on a daily basis

AG noted that management of the municipality did not adequately review and monitor compliance with applicable laws and regulations; and further did not

implement adequate controls over daily and monthly processing and reconciling of transactions.

- a. Why did the Accounting Officer fail to ensure that management of the Municipality monitor compliance with applicable laws?

RESPONSE

The constant change in legislation, regulations governing the local government and interpretation was not adhered to timeously though processes are in place to ensure this will be speedily adhered to in the following years.

- b. What actions did the Accounting Officer take against management who failed to monitor compliance with applicable laws?

RESPONSE

The investigations of non-compliance with relevant legislation is under way and it's only upon conclusion that appropriate action will be taken.