**3. Report of the Select Committee on Co-operative Governance and Traditional Affairs, Water, Sanitation and Human Settlements on Proactive Oversight Visit to Makhado Local Municipality in Monitoring and Assessing the Implementation of 2017/18 Post Audit Action Plan, dated 26 November 2019**

**1. Background and Overview**

1.1 The Select Committee on Co-operative Governance and Traditional Affairs, Water, Sanitation and Human Settlements, having monitored the implementation of 2017/18 Post Audit Action Plan of Makhado Local Municipality, reports as follows:

1.2 On June 2018, the Auditor-General released the 2017/18 Municipal Performance Audit Outcomes of all the South African Municipalities. The general report dealt with the audit outcomes of the South African Local Government for the financial year ended 30 June 2018.

1.3 As part of ensuring executive accountability and conducting parliamentary oversight, the Select Committee resolved to conduct a proactive oversight to Makhado Local Municipality in Limpopo Province on 24 October 2019.

**2. Objectives of the Proactive Oversight to Makhado Local Municipality**

2.1 To engage with the Office of the Auditor-General on the 2017/18 performance audit outcomes of the Municipality.

2.2 To receive briefings on the support provided by the Department of Cooperative Governance and Traditional Affairs (CoGTA) to the Municipality.

2.3 To receive a briefing on the support provided by South African Local Government Association (SALGA) to the Municipality.

2.4 To get a presentation on the implementation of post audit action plan developed by the Municipality, in dealing with the concerns and recommendations of the Auditor- General

**3. Composition of the Delegation**

3.1 The Select Committee delegation was composed of the following Members of Parliament and officials: Hon A Gxoyiya (ANC) Northern Cape; Hon IM Sileku (DA) Western Cape; Hon G Michalakis (DA) Free State; Hon S Shaikh (ANC) Limpopo, Hon S Zandamela (EFF) Mpumalanga; Hon MP Mmola (ANC) Mpumalanga, Hon TSC Dodovu (ANC) North West; Mr TM Manele (Committee Secretary); Mr N Mfuku (Content Adviser); Mr B Mahlangeni (Researcher); Ms J le Roux (Researcher) and Ms S Skosana (Committee Assistant).

**4. General Overview of the Proactive Oversight Visit in Makhado Local Municipality**

4.1 On 24 October 2019, the delegation of the Select Committee interacted with the Office of the Auditor-General in Limpopo, the Department of CoGTA, the senior official of the South African Local Government Association (SALGA) and the Mayor and Senior Management of Makhado Local Municipality.

4.2 The Office of the Auditor-General in Limpopo briefed the delegation on the 2017/18 performance audit outcomes of the Local Municipality.

4.3 The Department of CoGTA briefed the delegation on the support provided to the Municipality. The presentation focused on the budget funding status; audit trends; submissions of annual financial statement; use of consultants; section 32 expenditure; key audit challenges and support provided to the Municipality.

4.4 The senior official of SALGA briefed the delegation on the support provided to the Municipality. The presentation focused on the municipal audit support programme; summary of audit findings; and support provided to the Municipality.

4.5 The Municipality briefed the delegation on the municipal audit action plan to deal with the concerns and recommendations made by the Auditor–General. The presentation focused on the audit findings; root causes, unauthorized, irregular expenditure and fruitless expenditure; VBS Investment and recovery plan and consequence management.

**5. Presentation by the Office of the Auditor-General on the 2017/18 Performance Audit Outcomes of Makhado Local Municipality**

5.1 The audit findings demonstrated that the Municipality provided misstatement of opening accumulated depreciation; difference identified on presentation of cash flow statement; asset not physically verified; depreciation charged for PPE items not accurate; prior period error disclosed not reconciled to adjustment disclosed under prior period note.

5.2 The Municipality had irregular expenditure of R31 158 043.00; unauthorized expenditure of R164 328 776.00 and fruitless and wasteful expenditure of R606 305.00.

5.3 The root cause of audit findings included lack of asset management system; failure to prepare regular, accurate and complete financial and performance report that are supported and evidenced by reliable information.

5.4 The Municipality failed to implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible to support financial and performance reporting.

5.5 The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of the section 122(1) of the MFMA.

5.6 The Municipality appointed consultant to compile financial statements, however, there were material misstatement identified on them. The quality of the financial statements submitted for auditing remains a concern.

5.7 The financial statements were not adequately reviewed by the audit committee and internal audit as they were submitted late. Both the audit committee and internal audit expressed concerns on the quality of the financial statements.

5.8 The quality of the annual performance report for audit also remains a concern. The annual performance report contained achievements that could not be supported. Inconsistencies were noted between the planned indicators in the Service Delivery Budget Implementation Plan (SDBIP), Integrated Development Plan (IDP) and Annual Performance Report (APR).

**6.** **Presentation by the Department of Cooperative Governance and Traditional Affairs on Support Provided to Makhado Local Municipality**

6.1 Makhado improved from an adverse audit opinion to qualified audit opinion and has the potential for improvement. The Municipality complied with the with legislative requirements for annual financial statements submission in the past three years, by 31 August to the Auditor-General’s Office.

6.2 The Municipality relied on consultants for the preparation of the financial statements and GRAP asset register. The challenge remains the vacancy rates in the Budget and Treasury Offices.

6.3 Provincial Treasury and Provincial CoGTA will embark on a programme to build capacity in municipalities to prepare the AFS. In relation to UIF, the Municipality did not follow proper tender processes, VBS investment and expense incurred to roads belonging to another entity.

6.4 The root cause of the municipal irregular expenditure relates to the non-compliance to SCM legislation and severe financial constrains/unfunded mandates. The Municipality as the result faced by challenges in respect of unauthorized, irregular, fruitless and wasteful expenditure and multiple appointments on infrastructure projects, without terminating previous service provider, led to litigation.

6.5 Assisted the Municipality with technical indicators description; conducted workshop on awareness on performance management system; guided and support the Municipality on the development of credible complaint asset policy and register and guidance on preparation of the tariffs structure from the draft level to budget, including Municipal Property Rates Act tariffs.

6.6 Encourage participation of mayor’s during the audit process and also during the compilation of AFS Period. Strengthen of audit steering committee meeting for monitoring of process plans and improve communications amongst directorates steering committee meeting for monitoring of process plans and improvement of records management system, and ensure availability of source documents to support financials during audit.

**7. Presentation by the South African Local Government on the support provided to Makhado Local Municipality**

7.1 The Provincial Sanitation Task Team Members undertook a site visit to the local municipality’s waste water treatment works and it was not in good working conditions. SALGA then wrote a letter to the Municipality for remedial action.

7.2 SALGA assisted the Municipality with job evaluation and grading of jobs and in the process, assisted the Municipality with salary alignment and job descriptions.

7.3 As functionality of the local labour forum is one of the major challenges faced by municipalities, the Association reported that it had supported the Municipality with matters related Local Labour Forum (LLF) and performance management.

7.4 The other support to the Municipality reported by the Association included implementation of best practice framework on revenue, credit and debt; improvement of revenue collection; preparation of compliant annual financial statements and fixed asset registers.

**8. Presentation by Makhado Local Municipality on Municipal Audit Action to deal with 2017/18 Municipal Audit Outcomes**

8.1 The Municipality has in pursuit, to improve the audit opinion implemented, preparation of audit report and post audit action plan.

8.2 The Accounting Officer has formed an Audit Steering Committee composed of all Directors, Internal Audit Unit; Managers; Provincial Treasury and Provincial Department of CoGTA to consider progress on the implementation of Post Audit Action Plan (PAAP).

8.3 The Accounting Officer has put in place internal control systems to ensure that monthly reconciliation of key financial control systems is done without any compromise.

8.4 The Municipality has implemented the SCM check list to monitor compliance with SCM Regulations.

8.5 The interim financial statements have been prepared to check management readiness to the preparation of the annual financial statements, and the interim annual financial statements has been submitted to the Auditor-General for review.

**9. Recommendation of the Select Committee: AGSA Presentation**

9.1 The Select Committee endorses the report of the Auditor-General and further encourages the Municipality to implement the drafted post audit remedial action plan, so as to deal with the root causes identified in the audit findings and recommendations of the Auditor-General.

**10. Observations of the Select Committee: Department of CoGTA Presentation**

10.1 The Select Committee has noted the recommendations of the Department that the Municipality should ensure the preparation of quarterly and half yearly annual financial statements, involvement of political leadership in the audit steering committees throughout the year; implementation of internal and external audit recommendations by management and improvement functional governance structures, which includes MPAC, Finance Portfolio Committees, Audit Committees and Internal Audit Unit Risk Management Committees to deal adequately with financial matters.

**11. Recommendation of the Select Committee: Department of CoGTA Presentation**

11.1 The Provincial Department of CoGTA should strengthen its support to the municipalities in order to deal with the concerns raised by the Auditor-General and monitor the implementation of the post audit remedial plan of the Municipality.

**12. Observations of the Select Committee: SALGA Presentation**

12.1 The Select Committee has noted that one of the Councillors denied during the meeting the report by SALGA that the Municipality was assisted with matters related to the functionality of the Local Labour Forum.

12.2 While welcoming the generic support initiatives provided to the municipalities in the province, the Select Committee has however noted the lack of portfolio of evidence from the presentation of SALGA on the support provided to the Municipality in respect of the concerns raised and recommendations made by the Auditor-General in the 2017/18 local government audit findings.

12.3 The Select Committee has further welcomed the commitment of the Association to provide differentiated support to perennial disclaimer municipalities; conducting workshops on revenue management, councillors oversight capacity development; record management training to address disclaimed audit outcomes; implementation of consultant management framework and development of processes to be followed by municipalities when encountering underfunding and unfunded mandates.

**13. Recommendations of the Select Committee: SALGA**

13.1 The South African Local Government Association should provide quarterly reports on the commitments made in providing continuous high impact support to municipalities in the province.

13.2 The South African Local Government Association, in collaboration with the Department of CoGTA to assist the Municipality with the application of the status of being Water Service Authority.

**14. Observations of the Select Committee: Makhado Local Municipality**

14.1 The Select Committee has noted with concern that the unauthorized, irregular and fruitless expenditure of the Municipality was as a result of budgeting project under capital budget instead of operational expenditure; loss of investment made with VBS mutual bank; bid committees not composed in line with the SCM Regulation; contract awarded using preferential points not calculated in accordance with PPPFA and late payment of Eskom, SARS and Telkom accounts.

14.2 The Select Committee has also noted with great concern the lack of consequence management and disciplinary action per recommendations of the Provincial Forensic Report against the former Municipal Manager and former Mayor; former Acting Municipal Manager and former Chief Financial Officer who participated in the investment on VBS Mutual Bank.

**15. Recommendations of the Select Committee: Makhado Local Municipality**

15.1 The South African Local Government Association, together with Limpopo Department of CoGTA should monitor the implementation of the recommendations of the forensic investigation report on the officials and politicians who participated in the investment to VBS Mutual Bank.

15.2 The Select Committee on Cooperative Governance and Traditional Affairs, Water, Sanitation and Human Settlements should, in collaboration with the Portfolio Committee in Limpopo Provincial Legislature, conduct a joint oversight during 2020 parliamentary period to monitor the implementation of the recommendations of the Auditor-General and the municipal post audit action plan.

15.3 The Municipality should forward a plan to the NCOP during the 2020 parliamentary first-term, on how it intends to phase-out the use of consultants, in order to build internal capacity.

15.4 For the Municipal Public Accounts Committee to be efficient and effective in holding the municipal executive accountable on the spending of public funds, it should be fully supported and capacitated by the Municipality.

15.5 The leadership of the Municipality should implement consequence management for those officials who deliberately or negligently resulted the Municipality incurring fruitless, wasteful and irregular expenditure, and other cases of financial misconduct.

Report to be considered.