**1. Report of the Select Committee on Co-operative Governance and Traditional Affairs, Water, Sanitation and Human Settlements on Proactive Oversight Visit to Musina Local Municipality in monitoring the implementation of 2017/18 Post Municipal 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 Municipal Audit Action Plan of Musina Local Municipality, the Select Committee reports as follows:

1.2 On June 2018, the Auditor–General of South Africa 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 Musina Local Municipality in Limpopo Province, on 23 October 2019.

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

2.1 Engage with the Office of the Auditor-General on the 2017/18 Performance Audit Outcomes of the Municipality.

2.2 Receive briefings on the support provided by the Department of Cooperative Governance and Traditional Affairs (CoGTA) and South African Local Government Association (SALGA) to the Municipality.

2.3 Assess the implementation of the 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 S Shaikh (ANC) Limpopo; Hon G Michalakis (DA) Free State; Hon TSC Dodovu (ANC) North West; Hon S Zandamela (EFF) Mpumalanga; Hon M Mmola (ANC) Mpumalanga; 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 Musina 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 Mayor and Senior Management of Musina Local Municipality.

4.2 The Office of the Auditor-General in Limpopo briefed the delegation on the 2017/18 performance audit outcomes of the Municipality. The presentation focused on the audit opinion history, summary of qualification areas, key focus areas and summary of the root causes.

4.3 The Department of Cooperative Governance and Traditional Affairs briefed the delegation on the support provided to the Municipality. The presentation focused on the municipal challenges and support provided to the Municipality.

4.4 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 previous auditor general reports, 2017/18 audit findings, water supply, waste water treatment, overall challenge and proposed interventions.

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

5.1 Performance indicators were not well defined and planned target specific in clearly identifying the nature and required level of performance. No supporting evidence provided that clearly defined the nature and required level of performance to support the reported achievement of indicators. This was due to a lack of technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported.

5.2 The reported indicator in the annual performance report was not included in the SDBIP. Inadequate record keeping system to enable reliable reporting. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. The Auditor-General was also unable to further confirm the reported achievements by alternative means.

5.3 There was no clear and logical link between the indicators and targets listed below and the strategic objective to which it relates. The indicators focused on monitoring reports, while the strategic objective aimed to achieve service delivery.

5.4 The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. The Municipality appointed consultant to compile the financial statements however there were material misstatements identified on the financial statements. The quality of financial statements submitted for audit remained a concern. The financial statements were not adequately reviewed.

5.5 The quality of Annual Performance Report (APR) submitted for audit is a concern. The APR contained numerous errors that could not be supported, and inconsistencies were noted.

5.6 Reasonable steps were not taken to prevent irregular expenditure amounting to R21 734 708, and to prevent fruitless and wasteful expenditure amounting to R2 948 074.

5.7 The Municipality is facing challenges in its financial sustainability, as there are significant trade payables that are not being paid on time. Furthermore, the Municipality’s inability to collect revenue and pay for the day to day operational expenses also impact negatively on the financial sustainability.

5.8 Unauthorised, Irregular and fruitless and wasteful expenditure incurred by the Municipality were not investigated to determine if any person is liable for the expenditure. Allegations of financial misconduct against senior managers were not always tabled before council.

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

6.1 Assisted with the restructuring of the debt repayment plan signed between the Municipality and Eskom to ensure that it is affordable.

6.2 Assisted with the Financial Recovery Plan assessment and monitoring implementation thereof.

6.3 Assisted the Municipality with technical indicators description.

6.4 Conducted workshop on awareness on performance management systems.

6.5 Conducted audit on meter readings, and replace old meters.

6.6 Monitored section 41 reports in respect of honouring Eskom debt.

6.7 Assessed the results of distribution network audit and provide guidance.

6.8 Guided the Municipality on preparation of the tariffs structure from the draft level to budget, including Municipal Property Rates Act tariffs.

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

7.1 The Municipality has developed a Post Audit Action Plan to deal with concerns raised, root causes identified and recommendations made by the Auditor-General in the 2017/18 local government audit outcomes.

7.2 The Municipality has in terms of the developed audit action plan established a Financial Misconduct Board to ensure that proper investigation is undertaken as required by section 32 of the Municipal Finance Management Act.

7.3 The Municipality has made an undertaking that it will not issue any credit card to the officials, without council resolution and approval.

7.4 The municipal management will ensure that all outstanding and new allegations of financial mismanagement are table before the municipal council.

7.5 The management will ensure that contracts signed, especially were skills can be transferred, will include a performance clause to ensure all relevant municipal officials are well trained and knowledgeable.

7.6 The Accounting Officer will ensure that all Unemployment Insurance Funds (UIF) incurred during the year is reported in writing to all relevant department and stakeholders.

7.7 The Supply Chain Management Unit (SCM) will ensure that all the required SCM documents are properly filled and safe guarded, so that they are easily retrievable when required for auditing.

7.8 The municipal performance information will be audited and reported on a quarterly basis, and that the Manager for SCM will ensure compliance with SCM Regulation 36(2).

**8. Observations of the Select Committee: AGSA Presentation**

8.1 The Select Committee has observed and noted that in terms of the performance audit report, the main common root cause to be addressed by the Municipality include inadequate controls implemented for preparation of financial statement and performance information, inadequate consequences for poor performance, daily controls for recording and reconciling of transactions were ineffective; audit action plans were not properly monitored and implemented; and lack of control measures to monitor compliance with laws and regulations.

8.2 The Select Committee has noted the recommendation made by Auditor –General in order to improve the municipal performance. These include; leadership role in creating an environment of zero tolerance for non-compliance and transgressions, ensuring the implementation of the action plan to address audit findings; reviewing data or information submitted for audit purposes; reviewing financial and performance reports before submission for audit and confirm that this agrees with supporting schedules; implementing measures to prevent irregular expenditure; performing and reviewing monthly reconciliations and enhance consequence management.

8.3 The Select Committee has noted that the assessment and reporting on the use of consultants by the Municipality in preparing annual financial statements, was wrongly reported and the Municipality objected the reporting.

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

9.1 The leadership of the Municipality must ensure implementation and monitoring of the post audit outcomes action in order to address the concerns raised and recommendations made by the Auditor–General in 2018/19 financial year.

9.2 The leadership of the Municipality must ensure the implementation of consequence management and open criminal cases on matters related to the allegation of corruption, fraud and financial mismanagement.

9.3 The Accounting Officer of the Municipality should provide the quarterly reports on the implementation of the Post Audit Action Plan including payment arrangement with Eskom, improvement on revenue generation and reduction on expenditure and amount of money owed to the Municipality by sector departments and state owned entities.

9.4 The Municipal Public Accounts Committee of Musina should investigate unauthorised, irregular and fruitless and wasteful expenditure incurred by the Municipality, to determine if any person is liable for the expenditure. The Municipal Public Accounts Committee should also investigate allegations of financial misconduct against senior managers, and table the report to the council.

9.5 The Office of the Auditor-General should ensure provision of reliable and valid information on the use of consultants by the Municipality, in the preparation of annual financial statement.

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

10.1 The Select Committee has noted that in terms of the presentation made by the Provincial Department of Cooperative Governance and Traditional Affairs, Municipality has regressed from unqualified audit in 2016/2017 to qualified audit in 2017/18, although it has a potential to recover.

10.2 The Select Committee has further observed that in terms of the departmental presentation, the Municipality, including Makhado Local Municipality and Vhembe District Municipality, have complied with the legislative requirement for submission of annual financial statement in the past three years, by 31 August to the Office of the Auditor–General.

10.3 The Department of Cooperative Governance and Traditional Affairs has encouraged participation of mayor’s during the audit process and also during the compilation of annual financial statement.

10.4 The Select Committee has noted with concern the reliance of the Municipality on consultants to prepare GRAP asset registry and lack of portfolio of evidence on support in terms of section 154 of the Constitution by the Department to the Municipality.

**11. Recommendations of the Select Committee: Department of CoGTA**

11.1 The Department of Cooperative Governance and Traditional Affairs should provide continuous support in terms of section 154 of the Constitution, and provide portfolio of evidence on capacitation, strengthening and monitoring.

11.2 The MEC for Cooperative Governance and Traditional Affairs should consider instituting a forensic investigation in terms of section 106 of the Local Government: Municipal Systems Act on allegation of corruption, fraud and misuse of funds by senior officials.

**12. Observations of the Select Committee: Musina Local Municipality**

12.1 The Select Committee has noted that in terms of the audit outcomes, the Chief Financial Officer of the Municipality did not ensure that accurate and complete disclosure of irregular expenditure that is supported and evidenced by reliable information is prepared and reviewed.

12.2 The Select Committee has further noted that the Municipality failed to ensure external assessment on the work performed by the internal auditors for the past 5 financial years

12.3 The delegation of the Select Committee has also noted with concerns the huge amount of money owed to the Municipality by sector departments, including National Public Works, Department of Education, Health and Rural Development.

12.4 The Select Committee has further noted that the Municipality is currently providing water service on agency basis, as Vhembe District Municipality is the water authority.

12.5 The delegation of the Select Committee has noted that the Municipality is confronted with challenges related to water service authority, electricity capacity, land availability for public space, waste management and graveyard facilities.

**13. Recommendations of the Select Committee: Musina Local Municipality**

13.1 The Department of Cooperative Governance and Traditional Affairs (CoGTA) in collaboration with South African Local Government Association (SALGA) should support and monitor the leadership of the Municipality in ensuring the preparation of quarterly and half yearly annual financial statements.

13.2 The support by both the Department (CoGTA) and Association (SALGA) should also include involvement of political leadership of the Municipality in the audit steering committees throughout the year, implementation of internal and external audit recommendations by management and improvement of functional governance structures, which includes Municipal Public Accounts Committees, Finance Portfolio Committees, Audit Committees, Internal Audit Unit Risk Management Committees to deal adequately with financial matters.

13.3 The Department of CoGTA and SALGA to assist the Municipality on the application of the status of being Water Service Authority and funding from the Department of Energy to assist the Municipality to increase capacity of electricity supply.

13.4 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.

13.5 The Municipality should forward the NCOP its debt-collection report, during the 2020 parliamentary first-term programme.

13.6 The MEC for CoGTA in Limpopo should forward the NCOP, during the 2020 parliamentary first-term programme, the section 106 investigation report that was conducted in Musina Local Municipality.

Report to be considered.