

# O.R. TAMBO DISTRICT MUNICIPALITY (ORTDM)

Executive Mayor's Report to the  
Portfolio Committee

21 August 2020



O.R. TAMBO  
DISTRICT MUNICIPALITY



# Presentation Outline

- Introduction
- O.R. Tambo District Municipality Overview
- Financial Management: Revenue & Expenditure, with Covid19 Expenditure Breakdown
- Audit Outcomes
- Audit Action Plan Implementation
- Breakdown of Unauthorised, Irregular, Fruitless And Wasteful Expenditure
- District Administrative Capacity on Key Positions
- Audit Committee and MPAC Capacity, Functionality and effectiveness
- Conclusion



# 1: INTRODUCTION



# 1: Introduction

- The report is prepared for the state of O.R. Tambo District Municipality
- It gives the overview of the municipality, reflecting on the demographics and service delivery
- The report reflects on the district audit outcomes over the past years.
- It further outlines on how the municipality has been implementing the Post Audit Action Plan (PAAP)
- The report gives the municipal state of finances focusing on the COVID-19 expenditure and revenue collection
- It provides the breakdown of the unauthorized, irregular, fruitless and wasteful expenditure as per audit outcomes as well as consequence management.
- The report also presents the institutional capacity focusing on the personnel in key positions
- Lastly it focus on the capacity of Council committees such as the internal audit and effectiveness) and MPAC functionality.

## 2 : OR TAMBO DISTRICT MUNICIPALITY OVERVIEW



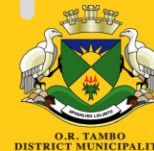
# Vision and Mission

**A prosperous, vibrant,  
innovative and people-  
centred district**

**Vision**

**To provide core sustainable services and support in fulfilling its mandate through a developmental local government approach. The O.R. Tambo District municipality shall pursue a socio-economic development agenda that will provide an improved quality of life and affirm the dignity of its people.**

**Mission**



# Municipal Goals & Strategic Objectives

## BASIC SERVICE DELIVERY & INFRASTRUCTURE

**Goal:** To promote integrated sustainable community livelihoods

**Goal:** To provide water and sanitation to every village/community

**Priority Area:**  
Municipal Health Services

**Priority Area:**  
Disaster Risk Management and Fire Services

**Priority Area:** Social Relief Housing

**Priority Area:**  
Quality of Water & Sanitation Services

**Priority Area:**  
Expansion of Water Services

**Priority Area:**  
Maintenance and Refurbishment of Non-functional Schemes (O&M)

**Strategic Objective 1:** To provide the best possible municipal health and environmental services to the population of the District

**Strategic Objective 2:** To promote a sustainable and integrated approach to Disaster Risk Management across the District

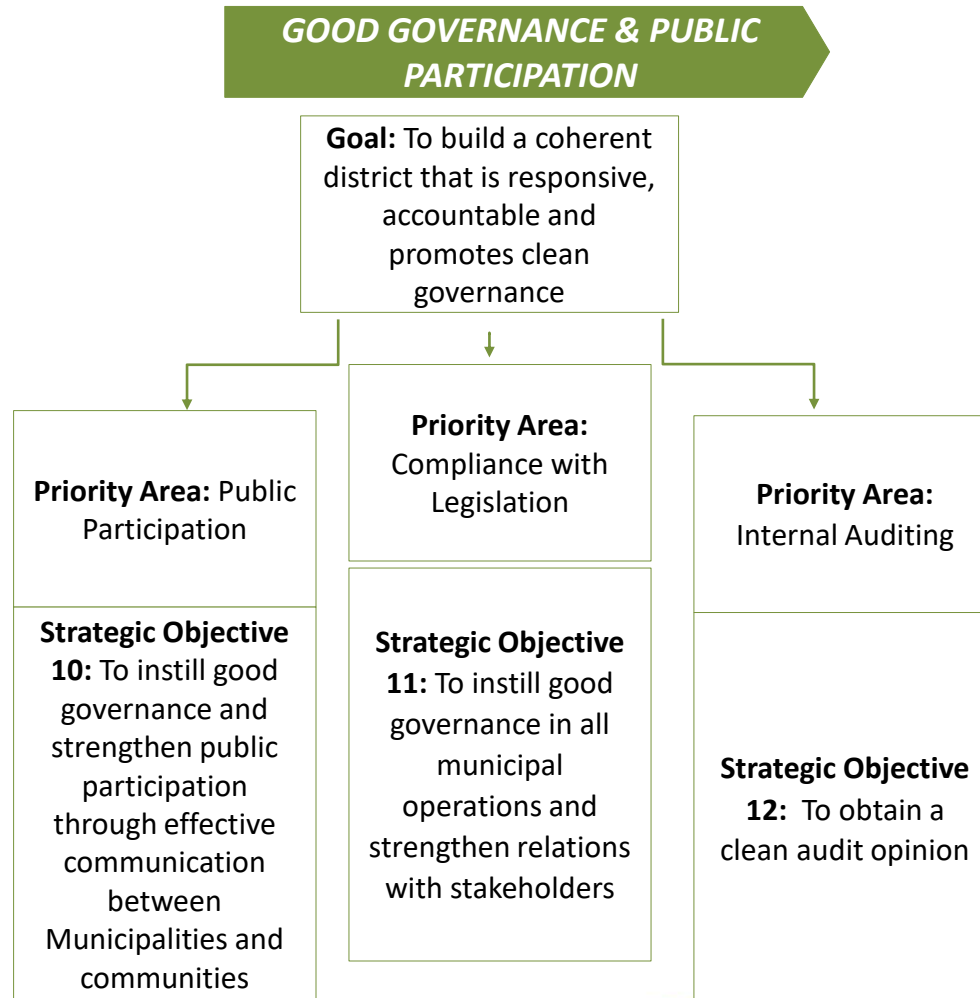
**Strategic Objective 3:** To establish the necessary support structures to improve the provision of Human Settlements on a continuous basis

**Strategic Objective 4:** To provide reliable water and sanitation services

**Strategic Objective 5:** To expedite the reduction of water and sanitation backlogs

**Strategic Objective 5:** To expedite the reduction of water and sanitation backlogs

# Municipal Goals & Strategic Objectives





# Municipal Goals & Strategic Objectives

## LOCAL ECONOMIC DEVELOPMENT

**Goal:** To promote rapid and sustainable economic growth within the limits of available natural resources

**Priority Area:** Economic Infrastructure Development

**Priority Area:** Blue Economy, Enterprise and Cooperatives Development, Forestry Development, Afforestation & Processing,

**Strategic Objective 6:** To boost agriculture contribution and improve food security in the District

**Strategic Objective 7:** To provide support to entrepreneurs, create employment opportunities and boost investment to grow the district economy

## FINANCIAL VIABILITY AND MANAGEMENT

**Goal:** To manage the financial viability of the O.R Tambo District Municipality through sound management and good governance

**Priority Area:** Revenue Management

**Strategic Objective 8:** To effectively and efficiently manage and grow the district municipality's revenue through a mix of revenue management, enhancement and protection strategies

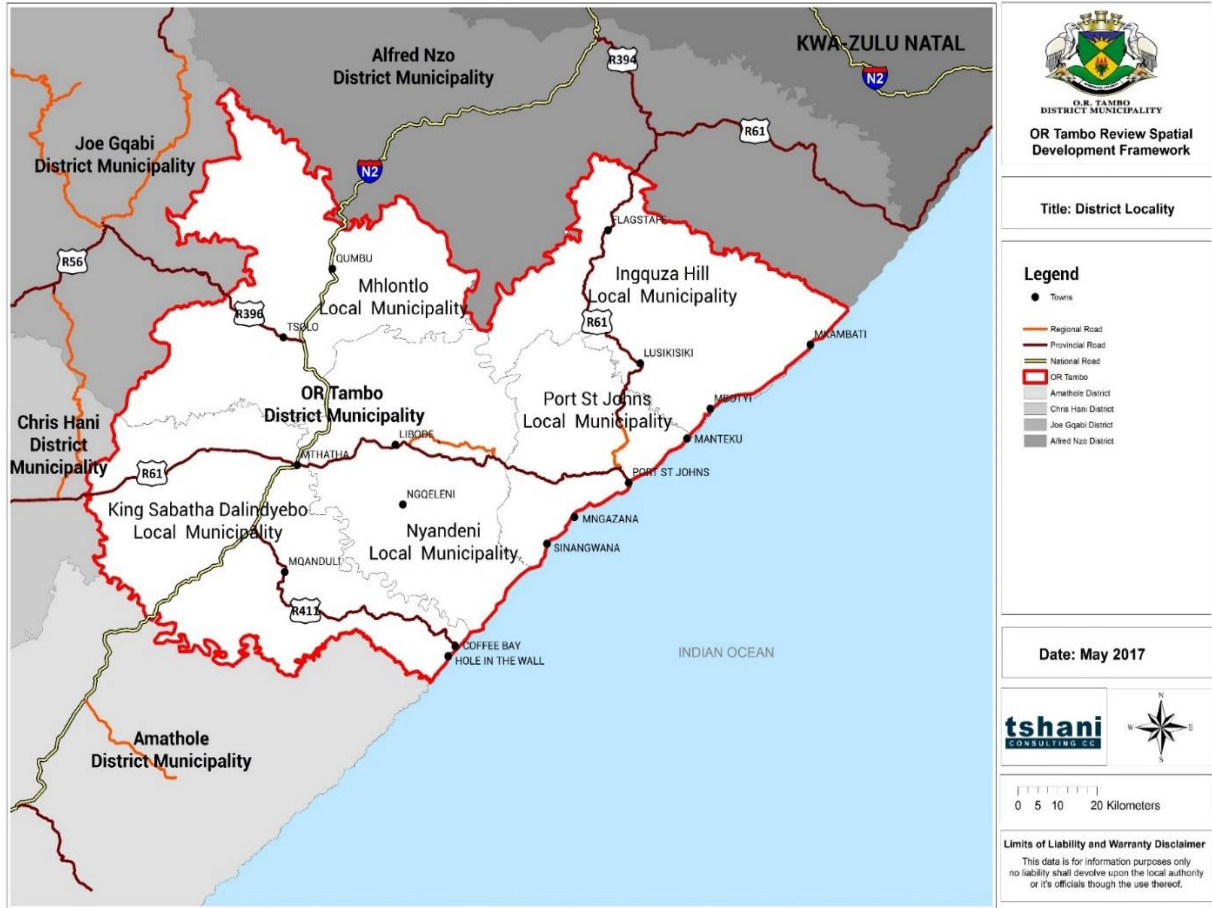
## MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

**Goal:** To develop, transform and capacitate the O.R Tambo District Municipality and its local municipalities to ensure effective and efficient resource utilisation making it capable of delivering its mandate.

**Priority Area:** Employee Relations (Institutional)

**Strategic Objective 9:** To provide effective and efficient human resource, corporate administration support and internal safety and security

# Locality



- OR Tambo District Municipality is one of 6 District Municipalities in Eastern Cape Province
- Classified as a C2 municipality the district:
  - Is largely a rural municipality – approx. 93% of residents live in rural settlement areas
  - Comprises 5 Local Municipalities
    - King Sabata Dalindyebo
    - Mhlontlo
    - Nyandeni
    - Port St Johns
    - Ingquza Hill



# Population

## OR Tambo – Population, 2008 -2018

TABLE 1. TOTAL POPULATION - O.R.TAMBO, EASTERN CAPE AND NATIONAL TOTAL, 2008-2018  
[NUMBERS PERCENTAGE]

	O.R.Tambo	Eastern Cape	National Total	O.R.Tambo as % of province	O.R.Tambo as % of national
2008	1,360,000	6,580,000	49,500,000	20.6%	2.7%
2009	1,370,000	6,620,000	50,300,000	20.6%	2.7%
2010	1,380,000	6,680,000	51,100,000	20.7%	2.7%
2011	1,390,000	6,740,000	52,000,000	20.7%	2.7%
2012	1,410,000	6,800,000	52,900,000	20.7%	2.7%
2013	1,420,000	6,870,000	53,700,000	20.7%	2.6%
2014	1,440,000	6,930,000	54,600,000	20.7%	2.6%
2015	1,450,000	7,010,000	55,500,000	20.7%	2.6%
2016	1,470,000	7,080,000	56,400,000	20.7%	2.6%
2017	1,480,000	7,150,000	57,200,000	20.7%	2.6%
2018	1,500,000	7,220,000	58,100,000	20.8%	2.6%
Average Annual growth 2008-2018	<b>1.01%</b>	<b>0.94%</b>	<b>1.61%</b>		

Source: IHS Markit Regional eXplorer version 1803

Source: IHS Markit Regional eXplorer, 2019



O.R. TAMBO  
DISTRICT MUNICIPALITY



# Households

## OR Tambo – Number of Households, 2008 -2018

TABLE 6. NUMBER OF HOUSEHOLDS - O.R.TAMBO, EASTERN CAPE AND NATIONAL TOTAL, 2008-2018  
[NUMBER PERCENTAGE]

	O.R.Tambo	Eastern Cape	National Total	O.R.Tambo as % of province	O.R.Tambo as % of national
2008	295,000	1,650,000	13,500,000	17.9%	2.2%
2009	306,000	1,690,000	13,900,000	18.0%	2.2%
2010	309,000	1,710,000	14,100,000	18.1%	2.2%
2011	312,000	1,730,000	14,400,000	18.1%	2.2%
2012	317,000	1,750,000	14,700,000	18.1%	2.2%
2013	320,000	1,760,000	15,000,000	18.1%	2.1%
2014	322,000	1,780,000	15,300,000	18.1%	2.1%
2015	328,000	1,810,000	15,700,000	18.1%	2.1%
2016	336,000	1,850,000	16,100,000	18.2%	2.1%
2017	345,000	1,900,000	16,400,000	18.2%	2.1%
2018	355,000	1,940,000	16,700,000	18.3%	2.1%
<b>Average Annual growth 2008-2018</b>	<b>1.86%</b>	<b>1.64%</b>	<b>2.13%</b>		

Source: IHS Markit Regional eXplorer version 1803

Source: IHS Markit Regional eXplorer, 2019



O.R. TAMBO  
DISTRICT MUNICIPALITY



# Economy

## Gross Domestic Product

**R 40.7 bn**

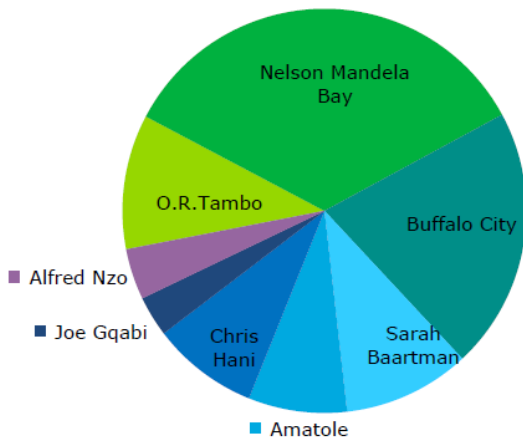
Current prices

**0.8%**

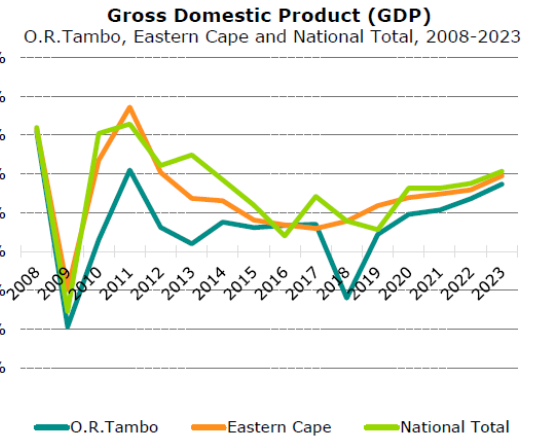
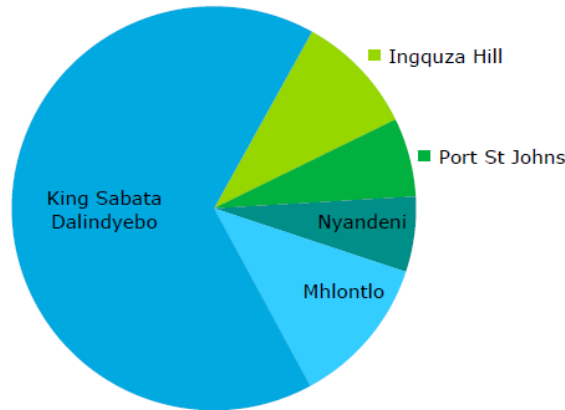
of national GDP

	O.R.Tambo	Eastern Cape	National Total	O.R.Tambo as % of province	O.R.Tambo as % of national
Agriculture	0.5	6.7	106.1	6.7%	0.43%
Mining	0.1	0.4	350.9	16.6%	0.02%
Manufacturing	1.8	43.6	572.9	4.2%	0.32%
Electricity	1.4	9.0	166.0	15.4%	0.83%
Construction	1.2	13.3	170.3	9.0%	0.70%
Trade	8.5	67.9	652.7	12.5%	1.30%
Transport	2.2	30.3	426.7	7.3%	0.52%
Finance	7.2	61.4	854.4	11.7%	0.84%
Community services	14.3	102.7	1,041.3	13.9%	1.37%
<b>Total Industries</b>	<b>37.1</b>	<b>335.3</b>	<b>4,341.3</b>	<b>11.1%</b>	<b>0.86%</b>

**Gross Domestic Product (GDP)**  
Eastern Cape Province, 2018



**Gross Domestic Product (GDP)**  
O.R.Tambo District Municipality, 2018



# Unemployment

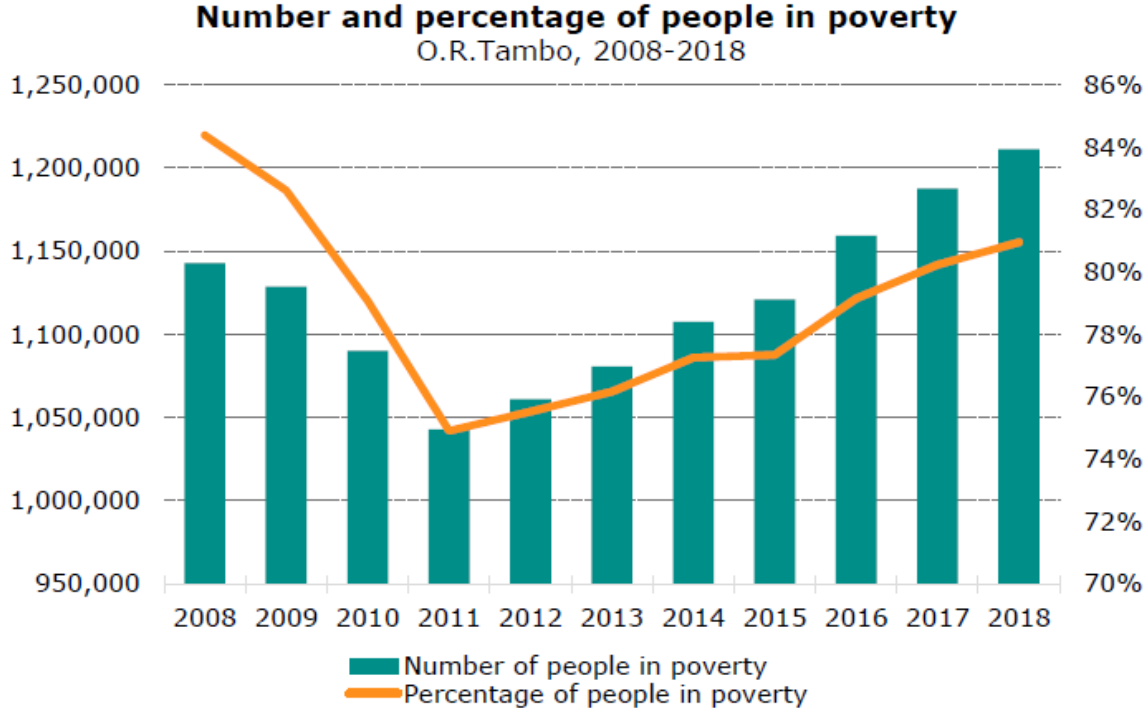
	O.R.Tambo	Eastern Cape	National Total	O.R.Tambo as % of province	O.R.Tambo as % of national
2008	82,700	499,000	4,340,000	16.6%	1.90%
2009	80,700	494,000	4,370,000	16.3%	1.84%
2010	78,600	493,000	4,510,000	15.9%	1.74%
2011	76,300	500,000	4,600,000	15.3%	1.66%
2012	82,100	524,000	4,730,000	15.7%	1.73%
2013	89,300	559,000	4,900,000	16.0%	1.82%
2014	94,500	585,000	5,110,000	16.1%	1.85%
2015	97,800	602,000	5,350,000	16.2%	1.83%
2016	108,000	653,000	5,710,000	16.5%	1.89%
2017	126,000	736,000	6,020,000	17.1%	2.09%
2018	139,000	786,000	6,120,000	17.6%	2.26%
<b>Average Annual growth</b>					
2008-2018	<b>5.30%</b>	<b>4.66%</b>	<b>3.48%</b>		

Source: IHS Markit Regional eXplorer version 1803





# Poverty



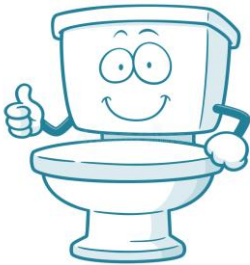
Source: IHS Markit Regional eXplorer, 2019



# Basic Service Delivery in Numbers



*Access to above minimum service levels= 141 453 (43%)*  
*Access to below minimum service levels= 157 320 (52.7%)*  
*No access= 84 139 (28.2%)*



*Access to above minimum service levels= 64 059 (21%)*  
*Access to below minimum service levels= 234 793 (79%)*  
*No access= 18 763 (6%)*



*Human settlements is a provincial competence.*  
*Housing backlog = + 158 000*



*Energy for lighting= 61 083*  
*Energy for lighting and other purposes= 196 831*  
*None = 63 839*



# **3 : FINANCIAL MANAGEMENT: REVENUE & EXPENDITURE, WITH COVID19 EXPENDITURE BREAKDOWN**

# REVENUE

The collection rate from April to June 2020 is as follows :-

	APRIL	MAY	JUNE	TOTAL FOR QUARTER
BILLING	R29.6 million	R26 million	R22.8 million	R78.4 million
COLLECTIONS	R5.1 million	R7.5 million	R6.4 million	R19 million
COLLECTION RATE	17%	29%	29%	24%

- The collection rate for the fourth quarter of 2019/20 financial year was very low with 17% for April, and 29% May and June 2020.
- The sum of bills for the fourth quarter amounted to R78 million, whilst the sum of the collection amounted to R19 million resulting to a collection rate of 24% for the fourth quarter in total.
- The main contributor for the low collection was the Covid19 lockdown regulations which halted some activity during stage(s) 5 to 3.

# Revenue

Revenue collected from April to June 2020 is as follows:-

	Projections	Actual Outcomes
Service Charges	R 82 594 335	R 79 129 540
Interest on Investment	R 4 244 219	R 6 525 652
Interest on Outstanding Debtors	R 7 500 000	R 7 611 182
Grants Operating	R 4 201 000	R 4 401 435
Grants: Capital	R -	R -
Other Revenue	R 48 470 670	R -
<b>TOTAL</b>	<b>R 147 010 224</b>	<b>R 97 667 809</b>

# COVID-19 Expenditure

- It is worth to note that the Office of the Executive Mayor has been asking for the COVID-19 expenditure report since April.
- The said report was never received until the Executive Mayor came across the report that was shared by the CFO in a meeting that was called by the AGSA on the 07<sup>th</sup> August 2020.
- The District Municipality received a Disaster Relief Grant in order to assist in the procurement of COVID-19 related expenditure.
- Worthy to note that COVID-19 Expenditure report has not went under the scrutiny of the Mayoral Committee and has not been tabled to Council because of inability by the CFO to produce the referred report with unit prices.
- The institution is in the process of sourcing unit price for every item procured as guided by the National treasury regulations.

# COVID-19 Expenditure Cont..

Spending on the grant depicted as follows:-

Disaster Relief Grant Received	-	R4 201 000
Expenditure Incurred	-	<u>R3 196 877</u>
Unspent to date	-	<b>R1 004 123</b>

*\*There are invoices still outstanding related to COVID 19 procurement.*

The spending on the Disaster Relief Grant comprises of:

Discription	Amount	Procurement
Hand sanitizers, face musks and sheilds, fumigation and contamination	2 372 376.97	Term Contracts and SCM Reg 36
Installation of sanitafing booths in all municipal entrances	824 500.00	Scm Reg 36
<b>Total</b>	<b>3 196 876.97</b>	

# COVID-19 Expenditure – Cont..

Outside of the Disaster Relief Grant, the District Municipality incurred COVID-19 expenditure funded by the municipal equitable share amounting to

**R9.5 million.**

The expenditure comprising of the following:-

Discription	Amount	Procurement
Hand sanitizers, face musks and sheilds, fumigation and contamination	2 604 588.94	Term Contracts and SCM Reg 36
Testing and Screening	522 675.00	Scm Reg 36
Installation of sanitafing booths in all municipal entrances	521 353.60	Scm Reg 36
Hire of water tankers to deliver water to communities	5 863 181.50	Tender and scm reg 36
<b>Total</b>	<b>9 511 799.04</b>	

# COVID-19 Expenditure – Cont..

The total expenditure related to COVID- 19 amounts to **R12.7 million** from the:-

Disaster Relief Grant	-	R 3 196 877
Equitable Share	-	<u>R 9 511 799</u>
<b>Total Expenditure</b>	-	<b>R12 708 676</b>

<b>Discription</b>	<b>Amount</b>	<b>Procurement</b>
Hand sanitizers, face musks and sheilds, fumigation and contamination	4 976 965.91	Term Contracts and SCM Reg 36
Testing and Screening	522 675.00	Scm Reg 36
Installation of sanitafing booths in all municipal entrances	1 345 853.60	Scm Reg 36
Hire of water tankers to deliver water to communities	5 863 181.50	Tender and scm reg 36
<b>Total</b>	<b>12 708 676.01</b>	

# COVID-19 Expenditure – Cont.. Unit Price

Name of Service Provider	Masks	Face Shield	Gloves	Sanitisers	Goggles
Wongalam Trading	100 Box ( 50 in each box ) @R1850.00		100 Boxes @R1695.00	25L @ R2520.00	R 45,95
Aminachem				5L @ R391.30	
HSV Logistics	R 19,85		1 Box (100 of gloves) @ R98.25	100ml spray @ R42.18	
Uluntu Developers					R 55,00
Sinembasa Trading	R 26,08	R 93,91	R 69,57		
Debe Cleaning				20L @ R2250.00	
Sithetshu Trading				20L @ R2000.00	



# COVID-19 Expenditure – Cont..

- The District has a total of 54 water tankers carting water to needy areas and intervening to COVID-19.
- The tankers are as follows:-
  - 12 tankers were received from the Department of Water and Sanitation
  - 10 water tankers were hired by the District as a means to address water supply where there were no services and drought areas
  - 26 water tankers were specifically hired for the intervention during COVID-19

## Hiring water tankers to cart water during Covid–19 costed R5.8 million

- Through SCM regulation 36, twenty-six service providers were appointed for a period of three months for the carting of water to various communities within the district.
- The service providers were requested to fill tanks that were donated by the Department of Water Affairs in response to the COVID19 demand for water, as well as those that were purchased.
- Across the district the tanks equals to 888.

## 26 service providers managed to deliver water to LMs as follows

- 6 water tankers delivered water in KSD Local Municipality
- 5 water tankers delivered water in Mhlontlo Local Municipality
- 5 water tankers delivered water in Ingquza-Hill Local Municipality
- 5 water tankers delivered water in Port St Johns Local Municipality
- 5 water tankers delivered water in Nyandeni Local Municipality

Explanations on the total of R12.7 million are as follows:

## **Personal Protective Equipment (PPE) - R4.9 million**

- Some of the PPE was solicited from service providers which had existing term contracts for the supply and delivery of cleaning material;
- Some of the PPE was procured through SCM regulation 36, which provides for the deviation of Supply Chain Management processes. The deviation was due to the fact that the PPE was for an emergency.

## **Testing and screening - R 522 675. 00**

- Employees and councilors were screened and tested for covid 19. A total number of 606 employees and councilors were screened and tested.

## **Sanitization Booths – R1.3 million**

- The Municipality, at 23 entrance points, has sanitization booths installed.
- These booths are installed at the Municipality Offices in Mthatha as well as various satellite offices across local municipalities.
- These booths are installed with a sensor that allows for the sanitization of each individual as they walk through the booth.

# 4: MUNICIPAL AUDIT OUTCOMES



# District-wide Audit Outcomes

Name	2014/2015	2015/2016	2016/17	2017/18	2018/19
<b>ORTDM</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Ntinga ORTDM Development Agency</b>	Unqualified	Clean	Unqualified	Unqualified	Unqualified
<b>KSD municipality LM</b>	Qualified	Qualified	Unqualified	Qualified	Qualified
<b>Mhlontlo LM</b>	Qualified	Unqualified	Unqualified	Unqualified	Qualified
<b>Port St Johns LM</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Port St Johns Development Agency</b>	Unqualified	Unqualified	Unqualified	Qualified	Qualified
<b>Ingquza Hill LM</b>	Clean	Clean	Clean	Qualified	Disclaimer
<b>Nyandeni LM</b>	Unqualified	Clean	Unqualified	Unqualified	Unqualified

# ORTDM - Audit Outcomes

O.R. Tambo District Municipality Qualification Matters				
2014/2015	2015/2016	2016/2017	2017/2018	2018/19
Qualified	Qualified	Qualified	Qualified	Qualified
<ul style="list-style-type: none"> <li>Property, plant and equipment;</li> <li>Consolidation of material subsidiary;</li> <li>Irregular expenditure;</li> <li>Fruitless and wasteful expenditure;</li> <li>Material losses;</li> <li>Financial instruments;</li> <li>Payables from exchange transactions corresponding figure; and</li> <li>Aggregation of immaterial uncorrected misstatements</li> </ul>	Irregular Expenditure from prior years, going as far back 2012-2013	Irregular Expenditure (completeness of irregular expenditure register)	<ul style="list-style-type: none"> <li>Commitments</li> <li>Property, Plant and Equipment</li> </ul>	<ul style="list-style-type: none"> <li>Irregular expenditure;</li> <li>Commitments;</li> <li>Property, Plant and Equipment</li> </ul>

# Auditor General Report 2016– 2018/19

Department	Audit Finding				Reasons for finding and progress
		16/17	17/18	18/19	
Budget and Treasury	Irregular Expenditure	a	-	a	<p>The municipality did not fully record irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(1) of the MFMA. This was due to the expenditure incurred in contravention of the supply chain management (SCM) requirements not being detected and appropriately disclosed in the financial statements.</p> <p>The Management Audit Action Plan was developed in January 2019 and the Municipality is currently addressing the findings.</p>
Budget and Treasury Water and Sanitation	Property Plant and Equipment	-	a	a	<p>The municipality did not have adequate systems of internal control for reconciling transactions and events to the financial statements.</p> <p>Projects that were completed at year end were not transferred from work in progress to infrastructure. The Management Audit Action Plan was developed in January 2019 and the Municipality is currently addressing the findings.</p>

# Auditor General Report 2016– 2018/19 – Cont..

Department	Audit Finding	Recurring Finding			Reason for finding and progress
		16/17	17/18	18/19	
Budget and Treasury Water and Sanitation	Commitments	-	a	a	<p>This was due to a lack of systems and processes in place at the municipality to ensure that commitments are correctly disclosed.</p> <p>The Management Audit Action Plan was developed in January 2019 and the Municipality is currently addressing the findings.</p>



# 2016/17 AUDIT OPINION

During this financial year, the Municipality received a Qualified Audit Opinion from the AGSA with only one qualification item. The qualification item was the Irregular Expenditure (completeness of irregular expenditure register). Qualification is based on the fact that the AG audited submitted schedule of Irregular Expenditure and found that there were some items of expenditure that were supposed to be in the schedule that were not included in the schedule, namely the qualification paragraph was: “Irregular Expenditure

The municipality did not disclose all its irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 57 to the consolidated and separate financial statements was materially understated in respect of amounts incurred during the year that were identified during the audit process. I was unable to determine the full extent of the misstatement for the disclosed amount of R679,9 million in note 57.”

# 2017/18 AUDIT OPINION

In the 2017/18 financial year the Municipality received a Qualified Audit Opinion from the AGSA with two qualification items. The items were Commitments and Property, as well as Plant and Equipment.

## ***Commitments***

The municipality did not adequately recognize its contractual commitments for the acquisition of property, plant and equipment as required by GRAP 17: Property, plant and equipment (PPE). This was due to a lack of systems and processes in place at the municipality to ensure that commitments are correctly disclosed. Consequently, commitments disclosed in note 46 to the consolidated and separate financial statements were overstated by R579,3 million for this particular year and in 2016/17 by R936,1 million.

## ***Property, plant and equipment***

The municipality did not adequately assess the condition of the assets to determine whether there were any indications that its infrastructure assets may be impaired, as required by GRAP 17: Property, plant and equipment and GRAP 21: impairment of non-cash generating assets.

In the 2018/19 financial year, the Municipality received a Qualified Audit Opinion from the AGSA with three qualification items. The qualification items were Irregular Expenditure; Property, Plant and Equipment; and Commitments.

## **Irregular Expenditure**

The municipality did not fully record irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(1) of the MFMA. This was due to expenditure incurred in contravention of the supply chain management (SCM) requirements not being detected and appropriately disclosed in the financial statements. The Auditor General was unable to determine the full extent of the irregular expenditure disclosed in the Financial Statements.

## Property Plant and Equipment

The municipality did not adequately recognise property, plant and equipment items in accordance with GRAP 17: *Property, plant and equipment*. Infrastructure assets that were not completed (Infrastructure Work In Progress (WIP) were incorrectly disclosed as completed infrastructure assets and some infrastructure assets that were completed in the prior year were incorrectly disclosed as transfers in the current year.

Some of these infrastructure assets were further recorded at incorrect amounts. Consequently, infrastructure assets disclosed in note 9 were overstated and infrastructure the WIP was understated.

Additionally, depreciation included in the statement of financial performance was understated and accumulated depreciation disclosed in note 9 to the consolidated and separate financial statements was overstated.

Some of these infrastructure assets were further recorded at incorrect amounts. Consequently, infrastructure assets disclosed in note 9 were overstated and infrastructure WIP was understated by R268,9 million (2017-18: R312,8 million). Additionally, depreciation included in the statement of financial performance was understated and accumulated depreciation disclosed in note 9 to the consolidated and separate financial statements was overstated by R16,4 million

## **Commitments**

The opinion on commitments was due to the lack of systems and processes in place at the municipality to ensure that commitments are correctly disclosed. A restatement was made to rectify the prior year misstatement, but it could not be substantiated by adequate supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitments corresponding amount stated at R410,8 million in note 41 to the consolidated and separate financial statements

# Repetitive Audit Findings

The Municipality has had the following audit findings for three consecutive years:

1. Material losses due to water losses.
2. Material losses due to service debtors
3. Money owed by the municipality not always paid within 30 days
4. Procurement processes not correctly followed
5. The performance of some of the contractors or service providers not monitored

- For the year under review, the municipality reported an amount of R 1,350,754,625.00 in irregular expenditure
- The reported balance emanates from an opening balance of R 3,151,477,633.00 from the 2017/2018 financial year
- The total irregular expenditure incurred during the year ended 30 June 2019 amounted to R 981 044 090

- The above amount is further broken down as follows:
  - R 570 023 877 (current year expenditure)
  - R 411 020 213 (prior year periods expenditure)
- The current year amount is attributable to:
  - Disagreement with the AG because of quorum for the Bid Adjudication Committee (BAC). The AG insisted that a minimum of four senior managers including the CFO must sit for quorum to be met.
  - Disagreement with AG on the fair distribution of work to various contractors
  - Awards to people in the service of the state as the municipality does not have systems in place in order to detect them
  - Bids awarded after the validity period had expired.
- Had there been no dispute, the current years irregular expenditure would have been R 98,569,639 as the BAC sat as per the SCM policy approved by council.



- The municipal council wrote off R 2 781 767 097 of the irregular expenditure. This was subsequent to the irregular expenditure being investigated and found to have been incurred for transactions that proved value for money and benefit.
- The municipality set aside an amount of R 229 410 425.75 for consequence management

# AUDITED IRREGULAR EXPENDITURE CONT..

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<b>Details</b>	<b>Amount</b>
Opening Balance	3,151,477,633.00
Add: Irregular Expenditure	981,044,090.00
Current Year Expenditure	570,023,877.00
Previous years expenditure	411,020,213.00
Less: Amount Written Off	-2,781,767,097.00
Closing Balance	1,350,754,626.00



## **5: BREAKDOWN OF UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXEPNDITURE**

# Breakdown of the Unauthorised, Irregular, Fruitless and Wasteful Expenditure

## i) IRREGULAR EXPENDITURE

- It is critical to note that of the **R1 350 754 625, 00** Irregular Expenditure balance as at 30 June 2019 are the following amounts:
  - Remaining prior years' balance amounting (prior years) to **R369 710 535**
  - 2018/19 Irregular Expenditure amounting (current year) to **R981 044 090,00**
  - The current year expenditure is due to noncompliance with SCM processes as indicated below;

Amount	Description
<b>R570 023 877</b>	Irregular Expenditure relating to current financial year contracts.
<b>R411 020 213</b>	Irregular Expenditure relating to contracts awarded in prior year periods.
<b>R981 044 090</b>	<b>TOTAL</b>

# **Breakdown of the Unauthorised, Irregular, Fruitless and Wasteful Expenditure – Cont..**

## **FRUITLESS AND WASTEFULL EXPENDITURE - R19,463,186**

The amount is made by prior year figure, interest paid and salaries paid to terminated EPWP employees.

## **UNAUTHORISED EXPENDITURE - R14,637,683**

It is unauthorised expenditure per vote and grants.

# 4 : AUDIT ACTION PLAN IMPLEMENTATION



# Post Audit Action Plan (POP)

- After receiving the Audit Report, management sat on 16, 17 and 18 January 2020 to compile the Management Audit Action Plan (MAAP) which is a guiding document for management in addressing findings of the Auditor General.
- In compiling the MAAP, management took a resolution to focus on items affecting the Audit Report.
- The MAAP is monitored on a monthly basis by the Office of the Municipal Manager (Internal Audit Department) and is a standing agenda item in the Management Meetings and Audit Committee meetings.
- The MAAP was submitted to the Auditor General and National Treasury for consideration.
- It was also tabled to the Ordinary Council meeting held on 31 January 2020. The Current status as up to date is as follows;

# Post Audit Action Plan (POP) – Cont..

Finding	Progress	Status
Irregular Expenditure	<p>Management has complied with the requirements of the SCM regulations 29(2) as well as the SCM policy requirements, as currently all meetings are held with the required number of members where four senior managers including the CFO sit for each bid considered.</p> <p>Management ensures that all deviations meet the requirements and that management has ensured that this regulation is used to its minimum.</p> <p>Management ensures that all deviations meet the requirements and that management has ensured that this regulation is used to its minimum.</p> <p>Management has complied with the recommendation by AG and has developed the framework for fair distribution of work to address the finding.</p>	In progress
Property Plant and Equipment  Commitments	<p>This is the progress with other projects ;</p> <ul style="list-style-type: none"> <li>•Take each project file break all expenditure per financial year, per project name as well as project number</li> <li>•Break each project per contractor and consultant</li> <li>•Completion certificate with completion date have been obtained, but not all.</li> <li>•Water department is assisting in obtaining completion certificate where necessary</li> <li>•Some projects were identified that were not completed but withheld or contractor has been expelled from site and Water department is assisting with PoE's.</li> </ul>	In progress



# Post Audit Action Plan (POP) – Cont..

Finding	Progress	Status
Property Plant and Equipment  Commitments	Amatola Projects <ul style="list-style-type: none"> <li>•Amatola payments were made per allocations so we had to break down each payment into project name so as to match the completion certificates that were received late last year</li> <li>•Once the process is finalized all other registers e.g. Capital commitment, WIP and infrastructure asset registers will be corrected as they all depend to this exercise. The reports have been submitted to Water for their assistance with proposed deadlines.</li> </ul> b) The prior year findings will be addressed by the above approach. c) Infrastructure asset register is being updated. d) Liase with Water	In progress

## Amatola Projects

- Amatola payments were made per allocations so we had to break down each payment into project name so as to match the completion certificates that were received late last year
- Once the process is finalized all other registers e.g. Capital commitment, WIP and infrastructure asset registers will be corrected as they all depend to this exercise. The reports have been submitted to Water for their assistance with proposed deadlines.
- The prior year findings will be addressed by the above approach.
- Infrastructure asset register is being updated.
- Improved relations between BTO and Water Services department

# CONSEQUENCE MANAGEMENT

- The council established section 32 committee of the MFMA to investigate irregular expenditure that occurred from 2012 to 2016.
- Certain amount was identified and a recommendation was made to council to condone on the following basis:
  - Contract between Amatola Water which was not inline with SCM regulations
  - Use of SCM regulation 32 – misunderstanding of the regulation
  - Historic irregular expenditure that was caused by vacuum in management.
- However the committee and the MPAC made referral to Municipal Disciplinary Board to investigate a certain amount that had no supporting documents and lack of reasoning for causes of irregular expenditure.
- The MDB as established by council is busy with the investigation of financial irregularity in order to ensure that where necessary there is recovery of those costs

# 6: DISTRICT ADMINISTRATIVE CAPACITY ON KEY POSITIONS

# Fit for Purpose Organisational Structure

DESIGNATION LEVELS	TOTAL NUMBER OF POSTS	POSTS FILLED	POSTS FILLED (%)
Municipal Manager	1	1	100%
Section 56 Positions	11	11	100%
<b>TOTAL</b>	<b>12</b>	<b>12</b>	<b>100%</b>

Section 54 and 56 positions are 100% filled with 50/50 gender distribution.

Key positions :-

- a) The Municipal Manager contract is still active ( on suspension)
- b) Chief Financial Officer contract active
- c) Director Water Services contract still active

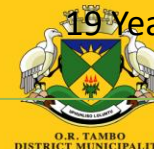
Below these positions there are relevant capacity to stir the functions.



# INSTITUTIONAL CAPACITY

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POSITION	NAME	HIGHEST QUALIFICATION	FIELD OF STUDY	WORK EXPERIENCE	EXPERIENCE IN SENIOR MANAGEMENT YEARS
Municipal Manager	Mr. O.N. Hlazo	Master's Degree	Water Care, Public Administration	34 years	13 Years 4 Months
Chief Financial Officer	Mr. M.E. Moleko	Honour's Degree	Accounting	26 years	11 Years
Director Corporate Services	Mr. F. Mphako	Master's Degree	Human Resources, Politics	28 years	13 Years
Director Office of the Municipal Manager	Mr. B.B. Matomela	Honour's Degree	Public Administration	30 years	14 Years
Director Office of the Executive Mayor	Ms. B.N. Mbatane	Master's Degree	Land Use Planning	22 years	16 Years
Director Rural, Economic and Development Planning	Ms. P.A.X. Dunywa	Master's Degree	Commerce, Business Administration	26 years	13 Years
Director Water Services	Mr. A. W. Vellem	Honour's Degree	Engineering	27 years	19 Years

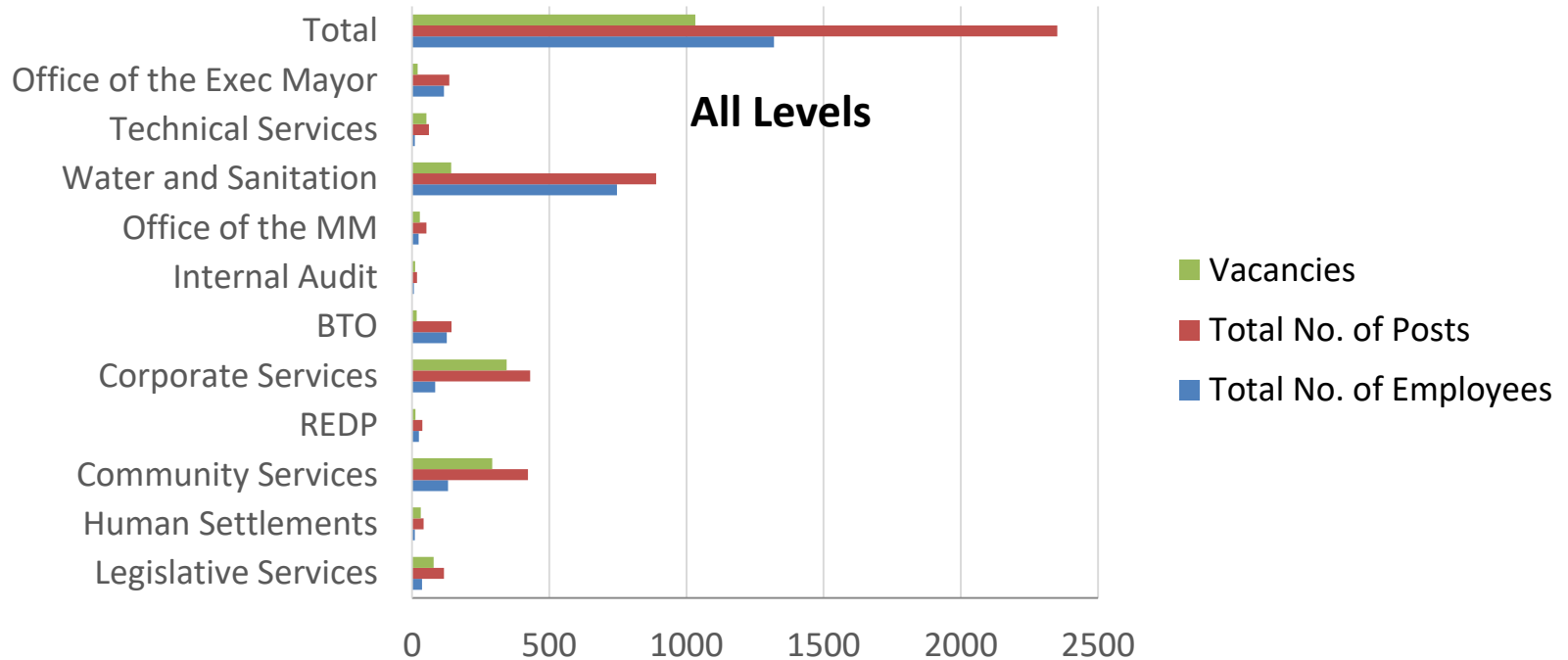


# MUNICIPAL ARRANGEMENT CONT...

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POSITION	NAME	HIGHEST QUALIFICATION	FIELD OF STUDY	WORK EXPERIENCE	EXPERIENCE IN YEARS
Director Community Services	Mr. L. Madzidzela	Master's Degree	Public Administration	32 years	13 Years
Director Technical Services	Ms. M. Ndwandwe	Bachelors of Technology	Engineering	20 years	12 Years
Director Human Settlement	Ms. N. Mnyanda	Post Graduate Diploma	Building Science, Management	15 years	05 Years
Director Internal Audit	Ms. S. Mandla	Bachelor's Degree	Accounting	28 years	07 Years
Director Legislative Services	Ms. T.N. Tseane	Master's Degree	Business Management	26 years	11 Years





- The total number of positions is 2352 (excludes EPWP and contract workers)
- There are 1 249 positions filled as at February 2020
- There are 1 103 positions vacant as at February 2020 (46% vacancy rate)
- Of the filled posts 506 are females and 743 are males



# 7: AUDIT COMMITTEE & THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE CAPACITY

The municipality has a function Audit committee composed of five members with the following skills as required by National Treasury MFMA Circular No. 65 of Municipal Finance Management Act No. 56 of 2003;

1. Engineer
2. Financial Expert
3. Performance Management
4. Legal expert; and
5. Internal Audit and Risk Management

The audit committee has held more than four audit committee meeting in the previous financial year.

It reports to council of on a quarterly basis. The audit committee also assist MPAC in some over-sighting activities as mandated by the Audit committee charter.

The new audit committee is in place after the term of the previous one has expired. They have already started their first meeting on 11 August 2020.

# Capacity And Functionality Of MPAC

The MPAC strives to fulfil its mandates as per the Committees Terms of Reference and Legislative prescriptions.

Currently, the committee does not have sufficient capacity in investigating Irregular Expenditure as the Committee shares its staff resources with the other Section 79 Committees of Council, e.g.

- The committee does not have a dedicated MPAC Manager;
- Researchers used in MPAC are also responsible for the other fifteen (15) Section 79 Committees;
- There is only one (1) Legal Adviser for the Department of Legislative Services, who is also responsible for other Committees including MPAC and Council;
- Internal Audit Department also does not have enough staff for provision of technical support, as they are also supporting the five local Municipalities under ORTDM jurisdiction.

# Capacity And Functionality Of MPAC

- However the committee is doing all its oversight duties as required, even under the difficult circumstances.
- The MPAC sits and advises the Council
- The Committee assists the Mayoral Committee especially on how to deal with irregular expenditure; and the investigation thereof, though not having an expert on the field
- It is safe to note that the Committee is very effective
- MPAC has referred its reports to the Municipal Disciplinary Board (MDB) for actioning
- MPAC is frustrated that it sees its decisions not being implemented by the Council
- MPAC report has been attached as Annexure 1 of the report

# 8: CONCLUSION

# Conclusion

- Over the term the District had particular focus on the good governance and financial management
- The municipality ensured that there is administrative capacity to ensure its objectives of accountability, management and ethical standards
- The irregular expenditure is one of the focuses for the institution in partnership with other entities ( National Treasury, COGTA and SALGA)

# THANK YOU

