



MFMA
2018-19

Briefing to the Portfolio Committee on CoGTA:

Matjhabeng Local Municipality

9 March 2021



AUDITOR - GENERAL
SOUTH AFRICA

Reputation promise

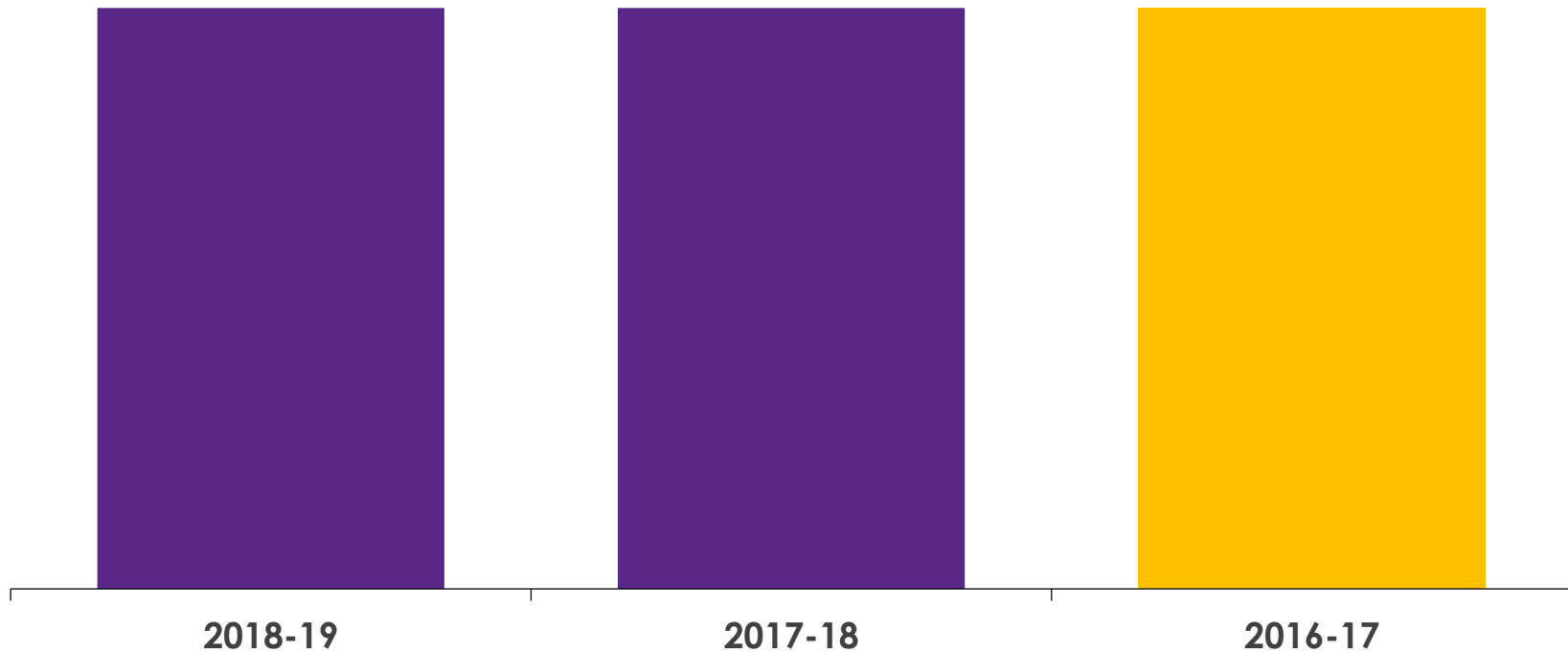
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



The 2018-19 audit outcomes



Audit outcomes over three years



The municipality's audit outcome remained stagnant at a qualification. The basis for qualification was a lack of preventative controls as well as slow response as more qualification areas were raised than in the previous year.

Financial statement preparation remains a concern. The following material misstatements identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently:

- Non-current assets
- Current liabilities
- Expenditure
- Disclosure items



Qualification areas

Service charges – sufficient appropriate audit evidence was not available as the municipality did not implement adequate processes and controls to ensure that consumers were correctly billed for services used.

Trade payables – sufficient appropriate audit evidence was not available owing to the status of the accounting records.

Property rates – the valuation roll used as the basis for charging property rates was not appropriate.

Contracted services – sufficient appropriate audit evidence was not available owing to the status of the accounting records.

Receivables from exchange transactions – sufficient appropriate audit evidence was not available owing to the status of the accounting records.

Employee related cost: Overtime – sufficient appropriate audit evidence was not available owing to the status of the accounting records.

Payments received in advance from consumer receivables – the municipality recognised items that did not meet the definition of a liability as part of payments received in advance from consumer receivables.





Performance reporting

The usefulness and reliability of the reported performance information for the following programmes as presented in the annual performance report were evaluated:

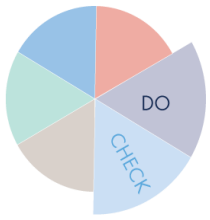
- KPA 2 – Basic service delivery and infrastructure investment

Material findings were raised in respect of the usefulness and reliability on KPA 2 – Basic service delivery and infrastructure investment as follows:

- The reported achievements in the annual performance report were not consistent with the planned and reported indicators and targets.
- Sufficient appropriate audit evidence for the reported achievements for 30 of the 65 indicators under KPA 2: Basic Service Delivery and Infrastructure Investment was not available.
- The annual performance report did not include the comparison between the year under review and the previous year's planned and actual performance for all indicators.
- The annual performance report did not include measures taken to improve performance for all indicators.
- Reported achievement in the annual performance report did not agree to the supporting evidence provided, resulting in material differences.

Material misstatements were identified on KPA 2 – Basic service delivery and infrastructure investment and were not corrected by management.





Disregard for compliance with legislation

Non-compliance areas

Findings on compliance with key legislation



- With no findings
- With findings

Annual financial statements and annual report

- The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of the MFMA.
- The annual financial statements were not submitted within two months of the end of the financial year.

Strategic planning and performance management:

- A performance management system was not adopted.

Revenue management:

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

Liability management:

- An effective system of internal control for liabilities (including a liability register) was not in place.

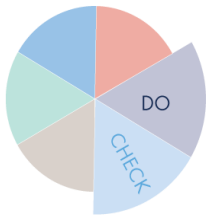
Expenditure management:

- Creditors not paid within 30 days and payments were made from the bank account without approval from the MM or CFO.

Human resource management:

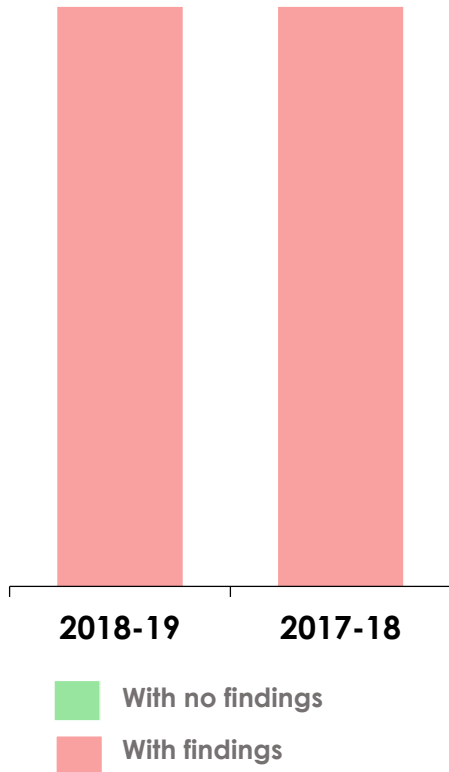
- An approved staff establishment was not in place
- Appropriate systems and procedures to monitor, measure and evaluate staff performance were not developed and adopted.





Disregard for compliance with legislation (continued)

Findings on compliance with key legislation



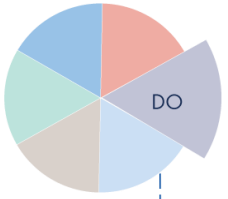
Non-compliance areas

Consequence management:

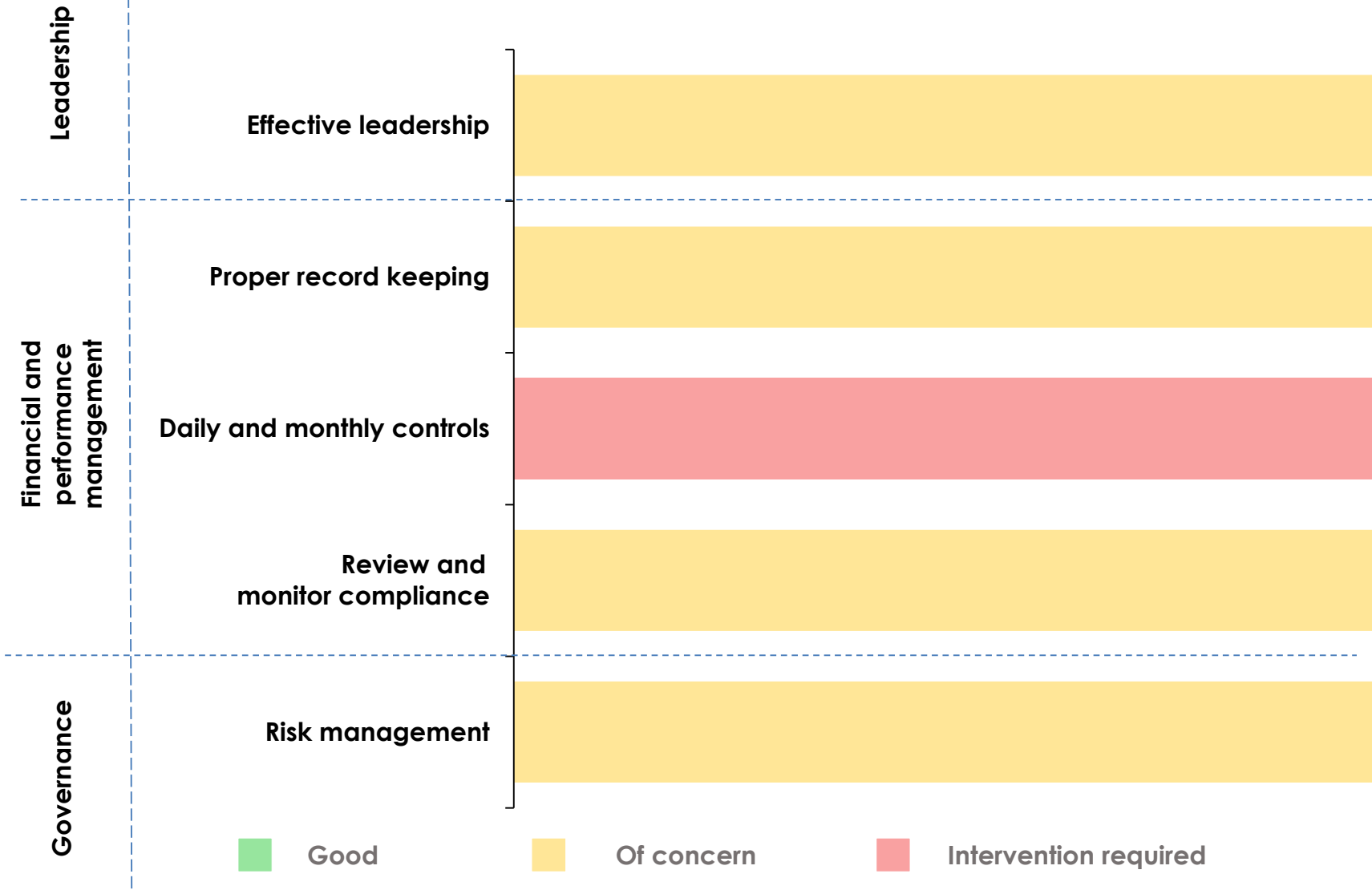
- Some unauthorised, irregular as well as fruitless and wasteful expenditure were not investigated.
- Allegations of misconduct against officials were not investigated.

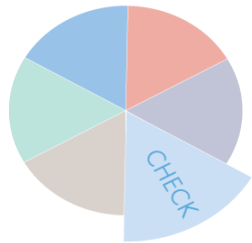
Procurement and contract management:

- Lack of evidence that all contracts were awarded in accordance with legislative requirements.
- Goods and services were procured without obtaining the required price quotations or inviting competitive bids
- Some contracts and quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order.
- Some construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB).
- Lack of evidence that all extensions or modifications to contracts were approved by a properly delegated official.
- The performance of some contractors or providers was not monitored monthly.
- Contract performance and monitoring measures and methods were not sufficient to ensure effective contract management.

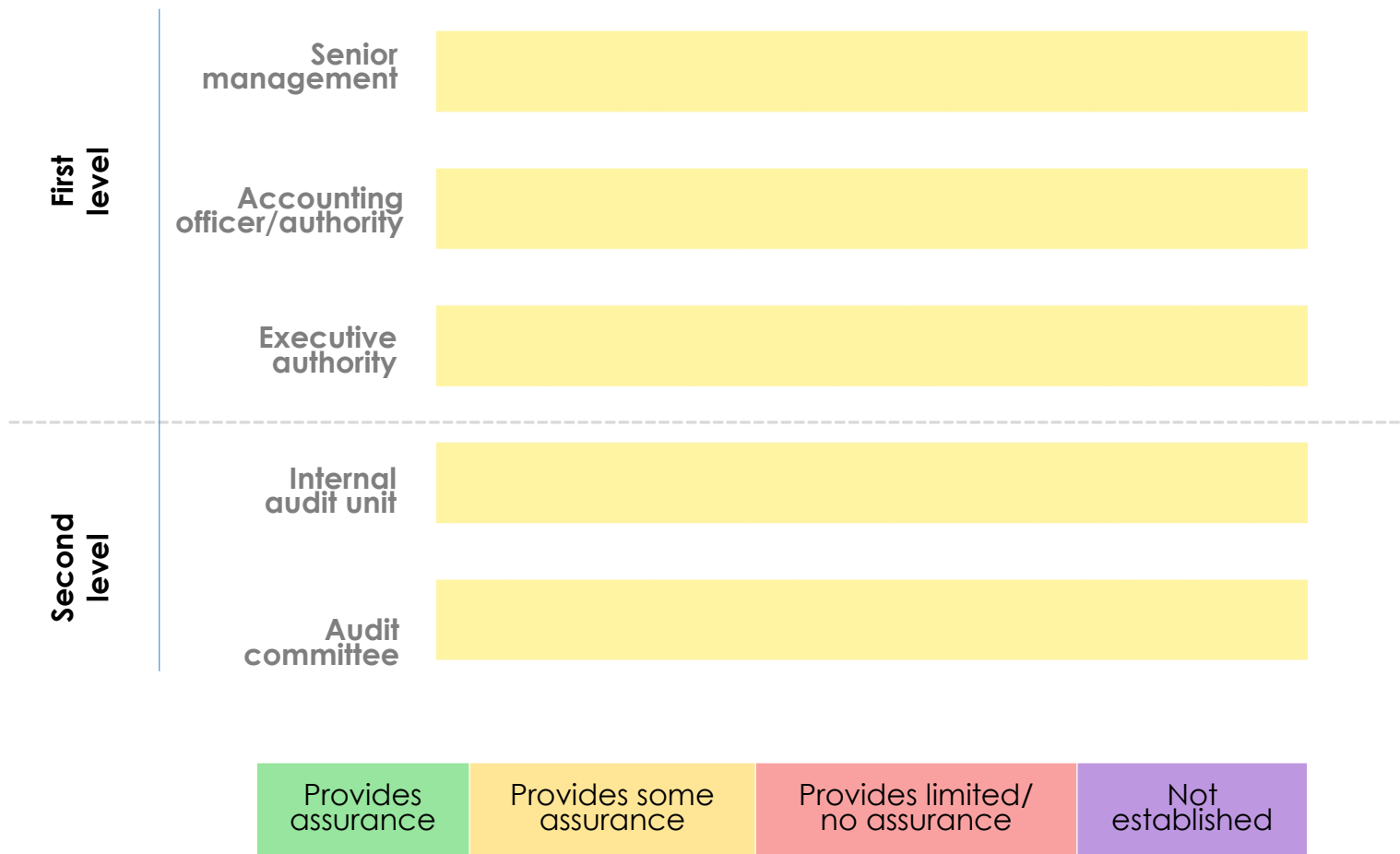


Status of internal control





Assurance provided



Management and delivery of key programmes



Service delivery

Mmamahabane fire station was constructed in Ventersburg in August 2015 at a cost of R14 787 794. Although the building has been completed and commissioned, the fire station has not been operational since its construction as the municipality does not have the resources to staff or equip it.



Environmental audit

- Poor environmental management, monitoring and enforcement at the municipality had a negative impact on the environment, its natural resource base and its sustainability. During audit visits to selected sites on 28 and 29 January 2020, serious non-compliance was noted at the waste landfill sites and waste relay station, next to roads, in public open spaces, and at the sewer purification works, inlet and pump station.
- The four waste landfill sites (Allanridge, Odendaalsrus, Welkom, Hennenman) and one waste station (Virginia) visited, do not comply with most licence conditions, the minimum requirement for waste disposal by landfill and other legislative requirements.
- General authorisations or waste use licenses and sewage treatment sampling results for the sewage purification works operated by the municipality were not submitted on request.
- Serious and continual raw sewage disposal into the immediate environment was noted at the Witpan, Odendaalsrus and Phomolong sewage purification works, the Kutlwanong sewage inlet works, the Allanridge (Nyakatlong) sewage pump station and at some sewer lines or release points.
- Some upgrade and repair needs were also noted at Hennenman sewage purification works, while the Whites sewage purification works and pump station had been discontinued for years due to uncertainty regarding sewage disposal practices.
- The key environmental management concerns resulted from serious and continual vandalism and theft, and a lack of resources including personnel, funding, vehicles, infrastructure and equipment – and their upgrade, maintenance and repair.
- Service delivery is directly affected where the assigned municipal powers and functions are not properly fulfilled. Furthermore, it will become increasingly difficult to maintain and deliver basic services based on the quality, availability and sustainability of the natural resource base within the municipality's jurisdiction.



Financial health and financial management



Financial health

- The municipality incurred a net loss of R1 442 912 352.
- Total liabilities exceeded total assets by R21 647 635.
- The municipality owed Eskom R2 493 130 642 (2018: R1 895 894 280).
- The municipality owed Sedibeng Water R2 943 695 563 (2018: R2 299 167 866).
- Material electricity losses of R122 116 273 (2018: R70 504 900) was incurred, which represents 27,98% (2018: 11,45%) of total electricity purchased, mainly due to tampering and theft.
- Material water losses of R462 844 267 (2018: R155 272 799) was incurred, which represents 77,07% (2018: 55,4%) of total water purchased, mainly due to leakages, burst water pipes, line losses, tampering and theft.

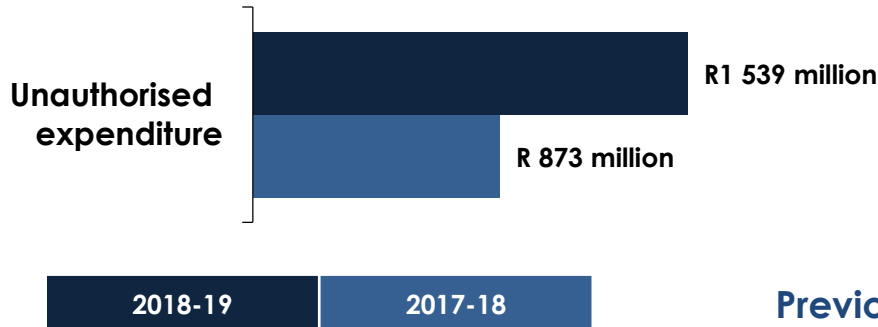


Unauthorised expenditure increased over two years

Definition

Expenditure not in accordance with the budget vote / overspending of budget or programme

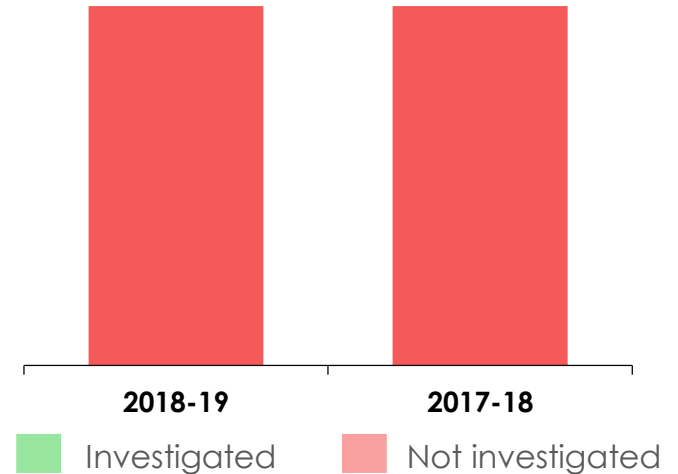
Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

The municipality incurred unauthorised expenditure due to overspending of the budget.

Previous year unauthorised expenditure reported for investigation

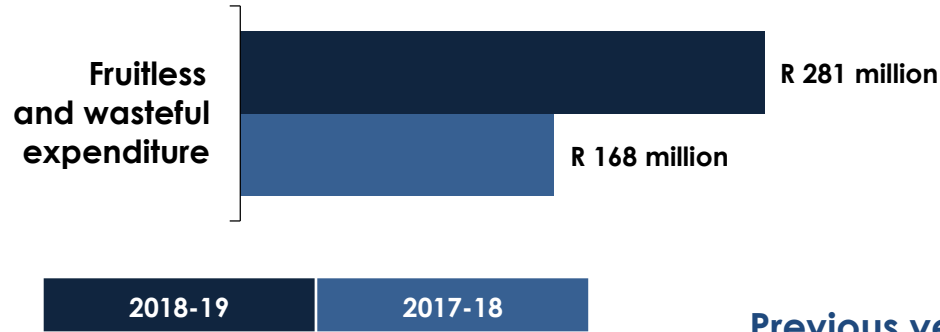


Fruitless and wasteful expenditure increased over two years

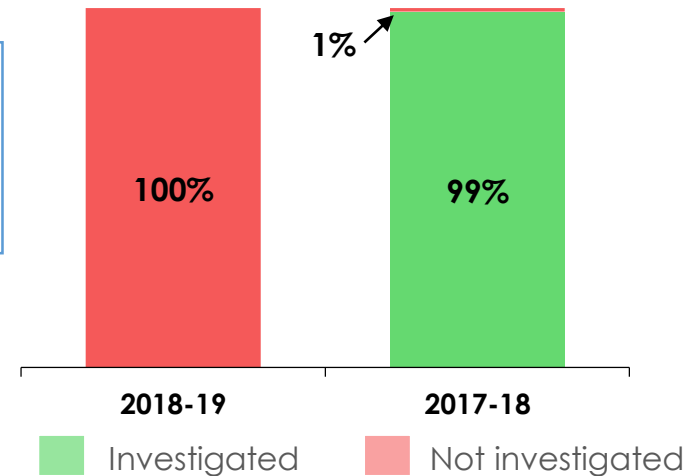
Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken – no value for money

Fruitless and wasteful expenditure incurred by entities in portfolio



Previous year fruitless and wasteful expenditure reported for investigation



Nature of fruitless and wasteful expenditure

Fruitless and wasteful expenditure relates to:

- R256 million relating to Eskom
- R16 million incurred due to interest on late payments.
- R7 million incurred due to late contributions to pension fund
- R2 million relating to payables from exchange transactions

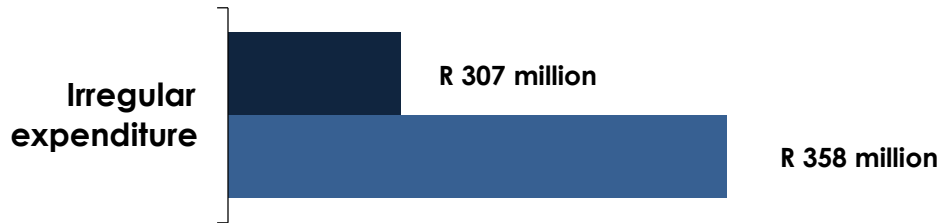


Irregular expenditure decreased over two years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



2018-19

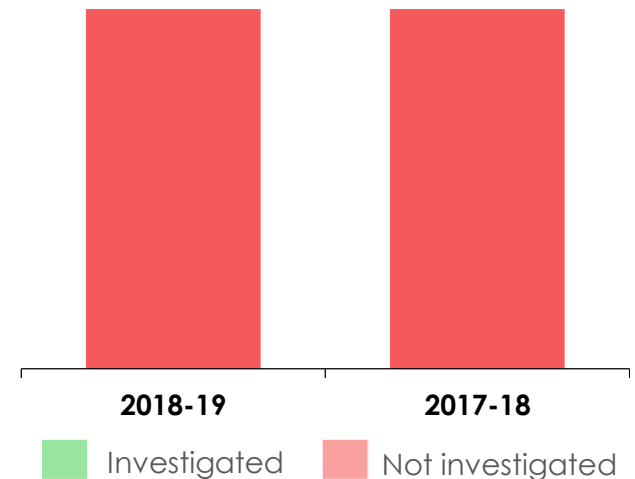
2017-18

Nature of irregular expenditure

The municipality incurred irregular expenditure of R307 million, which relates to SCM as follows:

- Procurement without competitive bidding or quotation process – R43.7 million
- Non-compliance with procurement process requirements – R251.3 million

Previous year irregular expenditure reported for investigation



2018-19

2017-18



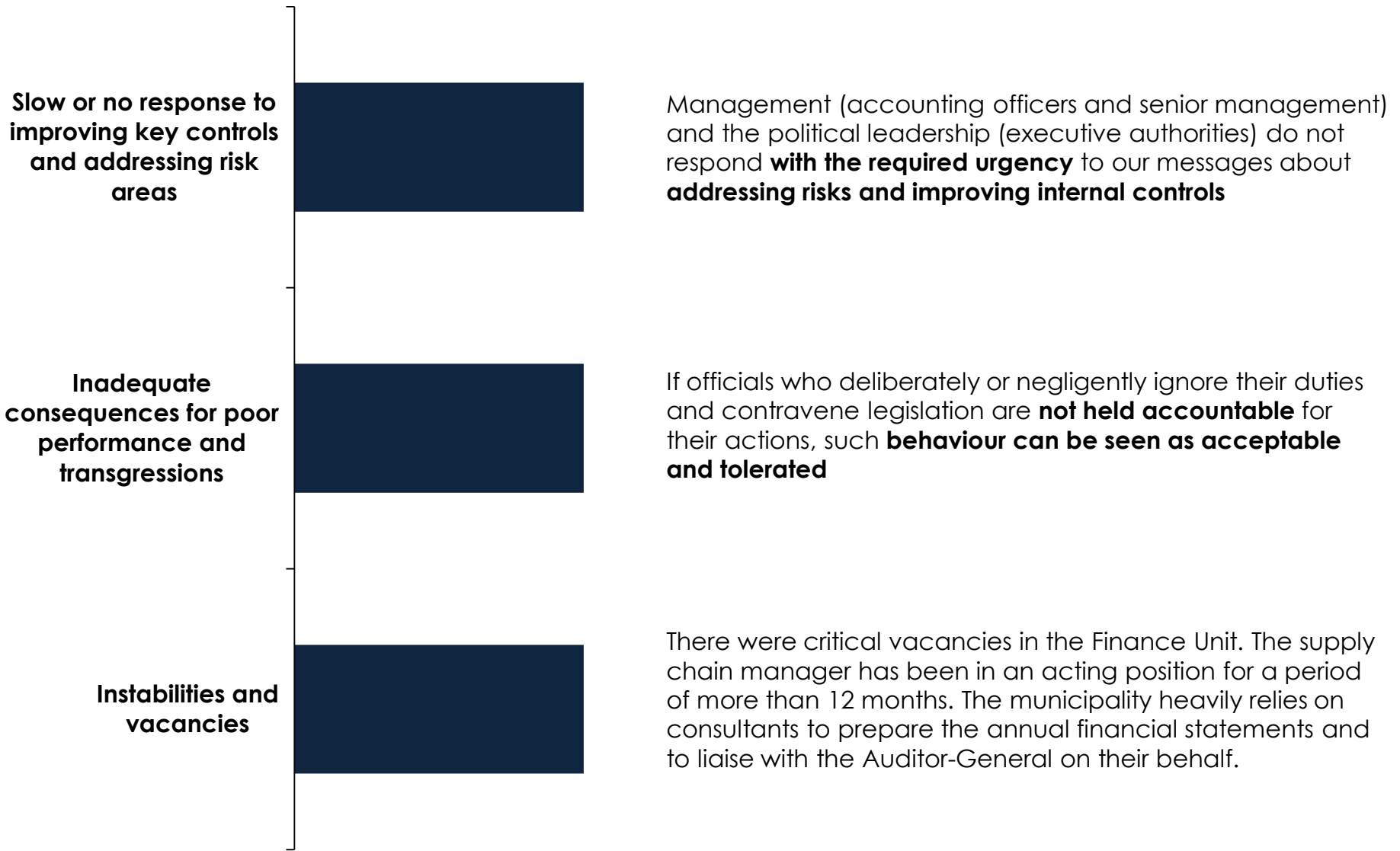
Investigated



Not investigated



Root causes



Key expansion of our mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud**, **theft** or **a breach of a fiduciary duty**



identified during an audit performed under the PAA that **resulted in or is likely** to result in ...

Impact



a **material financial loss**, the **misuse or loss of a material public resource** or **substantial harm to a public sector institution or the general public**





Material irregularity identified

Material irregularity identified

Nature of material irregularity

Interest due to Eskom: Fruitless and Wasteful Expenditure.

Nyakallong Storm Water System: Quality issues identified

Stage of material irregularity

At reporting date, the MI's were reported to the accounting officer and the responses were not received yet.