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14 July 2020

The Honourable MP Ms A F Muthambi

Chairperson – Portfolio Committee on Co-operative Governance and Traditional Affairs

Parliament of the Republic of South Africa
P.O Box 15, Cape Town, 8000

Dear Honourable Chairperson

ORTDM CFO'S RESPONSES TO PORTFOLIO COMMITTEE ON CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

In a meeting of the 10 July 2020 held virtually on MS Teams in parliament I was tasked to give my version of events presented to the Portfolio Committee on Co-operative Governance and Traditional Affairs pertaining to general financial management issues in the O R Tambo District Municipality (ORTDM). The issues that I have a reason to believe that they are going to provide relevant information to the Portfolio Committee are itemised under the sub-headings below.

1. ALLEGATION ON HOARDING INVOICES FROM AMATOLA WATER TO THE VALUE OF R36.7m

The allegation is that I am the reason why the loss was incurred because I kept the invoices in my office and refused to pay them. I refute this allegation and I am not the root cause of the under-spending of RBIG by Amatola.



On the 23 January 2020, there was a meeting called by the Honourable Executive Mayor in her office between ORTDM and Amatola Water. The objective of the meeting was for Amatola Water to report on advances paid to Amatola Water as well as performance on the RBIG for the period ending 31 December 2019 (refer to ANNEXURE 1 – Amatola Water Report). Amatola Water presented that the total advances as at 31 December 2019 amounted to R143.9m. Expenditure to date for the period ending 31 December 2019 amounted to R81.3m. Upon the high-level analysis of Amatola Water report I found that the expenditure reported for the period ending 31 Dec 2019 of R81.3m did not agree with O.R Tambo's expenditure reports for the same period. According to ORTDM records the expenditure report for the same period ending 31 Dec 2019 amounted to R56.8m which gave rise to a difference of R24.5m. At this juncture I therefore requested the Audited AFS of Amatola Water for the period ending 30 June 2019 and the detailed expenditure analysis from July 2019 to Dec 2019 so that I can provide an informed analysis and advice.

Upon realisation of the difference of R24.5m, the meeting was then adjourned, and the Executive mayor requested that the technical team led by the MM and the CEO of Amatola reconcile the figures.

I can confirm that I did receive the Audited AFS of Amatola and on Note 9 I picked that advances made to Amatola are R218.3m excluding VAT, whereas in ORTDM the prepaid expenses recognised was R105m as per the Audited AFS. Which was a further mis-alignment. I then discovered further that in most instances professional consulting engineers had certified advance payment certificate as though its work done and the user department also confirm the basis of the claim as the work done.

The advances were therefore not explicit as advances but were rather declared as work done. It is not possible for the finance team to detect advances when they are submitted for payment because their payment certificates are always submitted at the last moments for payment for the purposes of reporting to the transferring departments.

But with the benefit of hindsight, I suspected and made follow-up and found out that there were projects paid with no work done on the ground, yet the payment certificates were submitted and declared as though its work done. Furthermore, in most instances, the certificates are submitted as Material On Site (MOS) and upon follow up, there was no material on site and no supporting documents such as delivery notes and photos when I requested such. This mostly caused a lot of conflict and resulting to me and my staff being regarded as interfering with the affairs of project management and project implementation.

On the 16 April 2020. I was invited to a meeting chaired by the honourable Executive Mayor of which I was not informed about the agenda of the meeting to know what is expected of me. In that meeting, in attendance was the Chief Executive Officer of Amatola, CFO of Amatola, Acting Executive Manager and for ORTDM was the MM, Director MM's Office, the MMC BTO, MMC Water and Sanitation and other junior officials. During the meeting I was accused that I did not process payments amounting to R16m which caused Amatola Water to underspend and not meet their planned targeted expenditure. As I was not well informed of the agenda prior the meeting, I did not have the required information at hand. After the meeting I then went to check records and discovered that the said R16m is actually R16.7m which is made up of the following:

Implementing Agent (IA)	Main Contractor	Invoice Date as per IA	Approval Date by Director Water Services and MM	Submission Date to BTO by user Dpt.	Payment Date	Amount
Amatola Water	Ruwacon	19/12/2019	29/01/2020	31/01/2020	05/02/2020	R12 622 924.00
Amatola Water	Water Skills	19/12/2019	29/01/2020	31/01/2020	05/02/2020	R1 587 560.36
Amatola Water	GIBB	19/12/2019	29/01/2020	31/01/2020	05/02/2020	R1 734 231.00
Amatola Water	GIBB	13/12/2019	29/01/2020	31/01/2020	05/02/2020	R 705 498.78
						R16 650 214.14

As depicted in the table above, it is crystal clear that the invoices were kept by the user department for about six weeks which is approximately 45 days after the date they received the invoices from the IA. Of which I was grossly accused of negligence and misconduct caused by the user department. The BTO processed these invoices in less than SEVEN days upon receipt.

Furthermore, the R12 622 924.00 depicted in the table above is one of the hidden advances made to the implementing agent under the pretence of Material on site.

2. ADVANCE/UPFRONT PAYMENTS MADE BEFORE COMMENCMENT OF THE PROJECT

The paragraphs below are therefore an analysis and proof of a number of advance payments made under the pretence of work done.

2.1 VALOTONE 94cc AND PHOENIX TANKS (PTY) LTD - ANNEXURE- MM 07

On the 05th September 2019, an amount of R3,185,782.26 was paid to Valotone 94cc in respect of an amount of R2,053,467.60 and Phoenix Tanks (PTY) LTD for an amount of R1,040,314.66 before commencement of the relevant works. The tanks were delivered although the payment certificate states material on site. The voucher, does not make any mention of payment in advance for any kind of service but rather presented as Material on site of which the tanks were not on site (copy of voucher attached as **ANNEXURE- MM 07** for reference). The Director for Water Services and Municipal Manager affirmed the validity of the payment to confirm that there was value for money on the **payment approval form**, and the project manager did affirm the confirmation of the work done. This payment was in respect of Mhlontlo Cluster 1 Water Supply Contract No SCMU 68-18/19.

Furthermore to this, I had a privilege to visit the site with the Hawks on Friday the 10th July 2020. At the site it was discovered that indeed the tanks were still not on site and the main contractor had already left the site and the project cost already paid in full. In addition to this, it was discovered that the pumps were only delivered on site in February 2020 even though the full project cost payment was made in September 2019. In the same payment voucher, there is correspondence from Ziinzame Consulting Engineers (Pty) Ltd which confirmed that the certified works are complete dated 17 July 2019.

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above.

2.2 RUWACON (PTY) LTD - ANNEXURE- MM 08

On the 5th February 2020, a TAX INVOICE received from Amatola Water amount to R12,622,924 was paid for the purported work done by a contractor called Ruwaccon (Pty) Ltd (as reflected in the payment approval form signed by MM and Head of Department). Project Title is called KSD PI Water: Construction of 15ml Signal Hill Reservoir 4. According to the breakdown attached to the voucher, R12,021,832.48 was for construction and R601,091.62 was for PIA fees charged by Amatola Water. According to the REQUEST FOR PAYMENT document of Amatola Water, the Chief Executive (CE) of Amatola Water has approved the payment of R12,021,832.48. GIBB has also written to Amatola Water for the payment to made to Ruwaccon. The TAX

INVOICE submitted by Ruwacon (Pty) Ltd dated 29 November 2019 (No trace of COVID-19 in South Africa at this stage) reflected that the goods paid were in respect of total work done amounting to R1,886,760.30 and Material on site amounting to R8,730,269.65, as well as deduction of retention amounting to R191,499.75. The payment certificate No.2 also shows a nett amount payable to Ruwacon amounting to R12,021,832.48. The payment certificate has certified by GIBB that the work has been satisfactorily and that the quantities are correct in the certificate. Voucher is herewith attached as **ANNEXURE- MM 08**.

It is important to note that a TAX INVOICE cannot be issued in a case where its an advance, or for goods not yet delivered. Thus once a supplier issues a tax invoice it is to declare that goods have been received and in order.

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above.

2.3 GCINASONKE - ANNEXURE- MM 05

On the 30th April 2019, an amount of R10,361,500 was paid in a rush to contractor by the name of Gcina Sonke Engineers CC. The Director for Water Services and Municipal Manager affirmed the validity of the payment to confirm that there was value for money on the payment approval form, although the project manager did not affirm the confirmation of the work done. As specified in the payment certificate, this payment was in respect of claim No.01 for Mqanduli Secondary Bulk Scheme Contract 2. Upon perusal of the supporting documentations, there is tax invoice dated 30 April 2019 with funny description that say "TOTAL BROUGHT FORWARD TO FORM AN INVOICE", which amounted to R10,361,500. However, in support of the said invoice, there was an attached correspondence from Ziinzame Consulting Engineers (Pty) Ltd which confirmed that the certified works are complete dated 29 April 2019. There was also an attachment of interim certificate No.1 dated 30 April 2019 with a description of work done to date amounting to R1,905,500 excluding VAT and 80% of material on site amounting to R7,485,600 excluding VAT. There was no proof that there was value for money in the form of delivery notes for the material on site and there was nothing from the supplier of materials to confirm that contractor has bought the material including the relevant quantities. In addition to this, there are no delivery notes supporting payment for the said invoice and yet the consulting engineer had signed a confirmation letter for works done. I have got a reason to believe that the payment made to Gcina

Sonke Engineers CC was in vain and at a loss to the Municipality. Payment voucher number #98689 is attached as ANNEXURE- MM 05

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above.

2.4 UHURU CIVILS - ANNEXURE- MM 06

On the 30th May 2019, an amount of R9,938,647.53 was paid to contractor by the name of Uhuru Civils. The Director for Water Services and Municipal Manager affirmed the validity of the payment to confirm that there was value for money on the payment approval form, the project manager also affirmed the confirmation of the work done. This payment was in respect of claim No.01 for Mqanduli Secondary Bulk Scheme Contract 6. Upon perusal of the supporting documentations, there is tax invoice dated 29 May 2019 which amounted to R9,938,647.53. There was an attached correspondence from Ziinzame Consulting Engineers (Pty) Ltd which confirmed that the certified works are complete dated 28 May 2019. The invoice for this amount was also supported by a payment certificate issued by Ziinzame Consulting totalling to R9,938,647.53. The payment certificate included 80% of material on site amounting to R7,987,502.20 which is also supported by an unsigned table for material on site with a total valued of R9,984,377.75. This material on site schedule is supported by a quotation from Mphayi Construction amounting to R6,351,389.05 Vat Inclusive dated 22 May 2019 and a tax invoice from Motown Centre amounting to R4,461,430.75 dated 23 May 2019. The supporting documents for material on site does not tally with the schedule for material on site. Upon enquiry from the two suppliers (Mphayi construction and Motown Centre) it appears that the contractor never paid them as per attached quotations however the suppliers indicated that they only delivered half each of the required material. There was no proof that there was value for money in the form of delivery notes for the material on site. I have got a reason to believe that the payment made to Uhuru Civils was in vain and at a loss to the Municipality. Payment voucher number #99512 is attached as ANNEXURE- MM 06.

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above

2.5 KSD MUNICIPALITY INFRASTRUCTURE R91m PROJECT ANNEXURE- MM 02 & ANNEXURE – MM03.

On the 30th November 2018, an amount of R91,182,737.79 was paid to Amatola Water on behalf of a KSD Municipality: Infrastructure Department. Project Title is called KSD PI Water: Infrastructure: To abstraction from Mthatha Dam, Highburry and Thornhill WTW upgrade. According to the breakdown attached to the voucher, R100,936,827.17 was for construction and R5,046,841.33 was for PIA fees charged by Amatola Water thus totalling to R105,983,668.53 and does not tally to the amount paid. According to the REQUEST FOR PAYMENT document of Amatola Water, the Chief Executive Officer (CEO) of Amatola Water has approved the payment of R100,936,827.17. According to the Budget Quotation submitted by KSD Municipality: Infrastructure Department, the project cost for the work amounts to R100,936,827.17. In terms of the "PAYMENT APPROVAL FORM FOR PROJECTS ONLY" at O R Tambo District Municipality(ORTDM), the officials of ORTDM, namely Municipal Manager and Director Water Services approved the claim of R91,182,737.79 as having checked and found in order, as well as the work for which payment claimed as having been inspected. The project manager has also signed to affirm the work done for the project. There was no proof that there was value for money in the form of delivery notes for the Mechanical & Electrical Equipment.

In addition to the above, as per Auditor General's COAF 18, there was also no submission made to the Office of the Auditor-General as required to prove value for money and the District Municipality had to recognise a prepayment of R105,983,827.17 as an audit adjustment to the Annual Financial Statements for the year ended 30 June 2019 as well as prior year (Refer to page 3 of 4 in ANNEXURE MM 02.1) . The District Municipality should have applied for a roll-over of this amount in particular and this amount is likely to be lost through the deduction from Equitable Share in November 2020.

I have got a reason to believe that the payment made to Amatola Water for Agency Fees was in vain and at a loss to the Municipality, and furthermore what is bad was Amatola Water to claim professional fees of R5,046,841.33 for no work done. Payment voucher number #91748 is attached as ANNEXURE- MM 02.

On the 05th March 2019, an amount of R14,800,930.74 was paid to Amatola Water for electricity 10MVA as a basis of claim. Project Title is called KSD PI Water: Infrastructure. According to the breakdown attached to the voucher, R14,096,124.52 was for construction and R704,806.23 was for PIA fees charged by Amatola Water. According to the REQUEST FOR PAYMENT document of Amatola Water, the Chief

Executive Officer (CEO) of Amatola Water has approved the payment of R14,096,124.52. In terms of the "PAYMENT APPROVAL FORM FOR PROJECTS ONLY" at O R Tambo District Municipality(ORTDM), the officials of ORTDM, namely Municipal Manager and Director Water Services approved the claim of R14,096,124.52 as having checked and found in order, as well as the work for which payment claimed as having been inspected. The project manager has also signed to affirm the work done for the project. What was an anomaly was that the municipal manager wrote to Amatola Water on 25 February 2019 to initiate the transaction of no work done. The payment was more of pushing the RBIG expenditure mainly because of poor spending. There was no proof that there was value for money in the form of delivery notes for the Mechanical & Electrical Equipment. There was also no submission to the Office of the Auditor-General to prove value for money and the District Municipality had to recognise a prepayment of R14,096,930.30(included in R105,983,668.52) as an audit adjustment to the Annual Financial Statements for the year ended 30 June 2019 as well as prior year. The District Municipality should have applied for a roll-over of this amount in particular and this amount is likely to be lost through the deduction from Equitable Share in November 2020. I have got a reason to believe that the payment made to Amatola Water was in vain and at a loss to the Municipality, and furthermore what is bad was Amatola Water to claim professional fees of R704,806.23 for no work done. Payment voucher number #97396 is attached as ANNEXURE- MM 03

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above.

2.6 NTSONYINI NGQONGWENI DAM CONSTRUCTION

It has been discovered that the following payments to Liviero Civils and cessionaries (Rev2 light, Mthonyana Technologies & Folilox) were paid in advance as per the signed payment approval forms reflecting the following:

VOUCHER No.	CERTIFICATE / CLAIM No.	CONSULTING ENGINEER	BASIS OF CLAIM	AMOUNT PAID (R)	PAYMENT DATE
97974	02	Thuso Consultants	Work Done	20 642 498.95	29/03/2019
98690	03 (1 of 3)	Thuso Consultants	Work Done	4 690 703.61	30/04/2019
98688	03 (3 of 3)	Thuso Consultants	Work Done	60 000.00	30/04/2019

98691	03 (2 of 3)	Thuso Consultants	Work Done	374 118.00	30/04/2019
99442	04 (1 of 2)	Thuso Consultants	Work Done	5 031 100.00	30/05/2019
99446	04 (2 of 2)	Thuso Consultants	Work Done	60 000.00	30/05/2019
100204	05 (1 of 3)	Thuso Consultants	Work Done	71 875.00	27/06/2019
100201	05 (2 of 3)	Thuso Consultants	Work Done	60 000.00	27/06/2019
100202	05 (3 of 3)	Thuso Consultants	Work Done	40 490 348.56	27/06/2019
GRAND TOTAL				71,480,644.23	

The Director for Water Services and Municipal Manager affirmed the validity of the above stated payment approvals to confirm that there was value for money on the **payment approval form**.

Upon visiting the project with the Hawks on the 08th July 2020, it was discovered that the utilised advance payment is up to certificate #04 totalling to approximately R30.74m and thus the amount paid for works not yet completed to date is approximately R41m. This amount was paid on the 27/06/2019 and has not been undertaken as of to-date.

2.7 HAW & INGLIS CIVIL ENGINEERING (PTY) LTD ANNEXURE- MM01

On the 30th November 2018, an amount of R28,020,506.69 was paid to Amatola Water on behalf of a contractor called HAW & INGLIS CIVIL ENGINEERING (PTY) LTD. Project Title is called KSD PI:BULK WATER SUPPLY INFRASTRUCTURE. According to the breakdown attached to the voucher, R26,686,196.84 was for construction and R1,334,309.84 was for PIA fees charged by Amatola Water. According to the REQUEST FOR PAYMENT document of Amatola Water, the Chief Executive Officer (CEO) of Amatola Water has approved the payment of R26,686,196.48. GIBB has also written to Amatola Water for the payment to be made to H&I / HES JV for an amount of R26,686,196.48. According to the TAX INVOICE submitted by H&I / HES JV, the goods paid were in respect of construction of Thornhill clear water pump-station: Mechanical and electrical to the value of R26,686,196.48 The supporting document attached is a schedule of Mechanical & Electrical Equipment – Advance payment. In terms of the “PAYMENT APPROVAL FORM FOR PROJECTS ONLY” at O R Tambo District Municipality(ORTDM), the top official of ORTDM, B. Matomela approved the claim of R28,020,506.69 on behalf of both the Director Water Services and Municipal Manager as having checked and found in order, as well as the work for which payment claimed as having been inspected. The project manager has not signed to affirm the work done for the project. There was no

proof that there was value for money in the form of delivery notes for the Mechanical & Electrical Equipment. I requested my staff to request delivery notes from the user department and Amatola Water, but it was to no avail. I have got a reason to believe that the payment made to H&I / HES JV and Amatola Water was in vain and at a loss to the Municipality, I have got a reason to believe that the payment made to Amatola Water was in vain and at a loss to the Municipality, and furthermore what is bad was Amatola Water to claim professional fees of R1,334,309.84 for no work done. Payment voucher number #95277 is attached as ANNEXURE- MM 01

Upon visiting the project with the Hawks on Thursday the 09th July 2020, it was discovered that although the money was paid in November 2018, the items were delivered a year later and so far approximately 40% of the items delivered have been utilised and other items have not yet been delivered. It is purported that the remaining items are stored somewhere in Zwelitsha towards Bhisho. These are some of the instances where money is tied up on financing big companies instead of being utilised for service delivery to address huge back-logs. Funds are locked in prepaid expenses instead of service delivery and as such this implies that the Grant funding intended for service delivery remains unspent.

2.7 KHWALO'S CONSTRUCTION – ANNEXURE – MM 04

On the 30th April 2019, an amount of R9,990,000 was paid in a rush to contractor by the name of Khwalo's Construction. The Director for Water Services and Municipal Manager affirmed the validity of the payment to confirm that there was value for money on the payment approval form, although the project manager did not affirm the confirmation of the work done. This payment was in respect of claim No.01 for Mqanduli Secondary Bulk Scheme Contract 1. Upon perusal of the supporting documentations, there is tax invoice dated 30 April 2019 which amounted to R9,990,000. There was an attached correspondence from Ziinzame Consulting Engineers (Pty) Ltd which confirmed that the certified works are complete dated 30 April 2019. The invoice for this amount was not supported with any payment certificate from Ziinzame Consulting. The only supporting document is a unsigned table for material on site purchased from Amathole Pipe Systems and a photocopy of Tax Invoice issued by Amathole Pipe Systems amounting to R4,571,388 dated 29 April 2019 together with a Proforma Invoice from the same Amathole Pipe System of the same amount (R4,571,388). Upon enquiry from Amathole Pipe Systems whether there were any goods delivered to the project site, the response was that there was none. The other purported supporting documentation are the Bill of Quantities (BOQ) summary totalling to R13,750,784 which doesn't tally to the invoiced amount of R9,990,000. There was no proof that there was value for money in the form of delivery notes for the material on site. I have got a reason to believe that the payment made to

Khwalo's Construction was in vain and at a loss to the Municipality. Payment voucher number #98685 is attached as ANNEXURE- MM 04.

Noting the above stated facts and the submitted supporting documents, it is clear that there is an element of defrauding the system to cause the BTO paying for works not done as though its work done.

I wish to also state that I have made an affidavit with the Hawks on the issues stated above.

Upon visiting the project with the Hawks on Tuesday the 07th July 2020, it was discovered that the contractor is still busy constructing one of the reservoirs which should have been completed already.

SUMMARY OF ADVANCE PAYMENTS

	R(m)
VALOTONE 94cc AND PHOENIX TANKS (PTY) LTD	3.2
RUWACON (PTY) LTD	12.6
GCINASONKE	10.4
UHURU CIVILS	9.9
KSD LM MUNICIPALITY INFRASTRUCTURE	91.2
	14.8
HAW & INGLIS CIVIL ENGINEERING (PTY) LTD	28.0
LIVIERO CIVILS including Cessions	71.5
KHWALO'S CONSTRUCTION	9.9
	251.5

Yours in developmental local government



Moabi Moleko
Chief Financial Officer