



MTHONJANENI MUNICIPALITY

OVERSIGHT REPORT ON 2019/2020

21 REINHOLD STREET MELMOTH

Table of contents

1. Foreword of the chairperson	3
2. Introduction	4
3. Background	5
4. Legislative Mandate	5
5. Purpose of the Oversight Report	6
6. Functions of the Oversight committee	6
7. Composition of the Oversight Committee	6
7.1 Membership	6
7.2 Authority and Power	8
7.3 Meeting schedule	8
8. Oversight Report of the MPAC	8
8.1 Introduction	8
8.2 Background	8
8.3 IDP Process	9
8.4 Budgetary Process	9
8.5 SDBIP Process	9
8.6 Annual Report 2019/2020	9
8.7 Comments and submission of the public	13
9. Resolution taken by Council	13
10. Reporting	13
11. Supply Chain Management	13
12. Integrated Development Plan (IDP)	13
13. Action plan in response to Auditor General's comments	15
14. Conclusion	50

1. FOREWORD OF THE CHAIRPERSON

The Council of Mthonjaneni Local Municipality has the responsibility to oversee the performance of the Municipality, as required by the Constitution, the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA). On 03 December 2020, Council considered the Draft 2019/20 Annual Report of Mthonjaneni Local Municipality and referred the Report to the Municipal Public Accounts Committee for review and the drafting of this Oversight Report.

The Oversight Report is the final major step in the annual reporting process of a municipality. Section 129 of the MFMA requires the Council to consider the Annual Report and to adopt an Oversight Report containing the Council's comments on the Annual Report. The Oversight Report is therefore clearly distinguished from the Annual Report. The Oversight Report is a report of the Municipal Council and follows consideration and consultation on the Annual Report by the Council itself.

The Municipal Public Accounts Committee of the Mthonjaneni Local Municipality fulfills the oversight role of Council. The mandate of the Municipal Public Accounts Committee includes an analysis of the institution's Annual Report and the development of appropriate recommendations to Council.

Cllr. D.F. Xulu
Chairperson

2. INTRODUCTION

Section 151 (a) of the Constitution of the Republic of South Africa, 1996 as amended, vests both legislative and executive authority of the Municipality on the Council. This means that Council has the responsibility to oversee the work of the Executive and the Administration of the municipality. The oversight responsibility of the Council is meant to ensure that there are checks and balances in the running of the municipality and the delivery of the services to the community.

Section 152 (a) of the Constitution of the Republic of South Africa, 1996 as amended, states that the object of local government is:

“To provide Democratic and Accountable Local Government for communities”

In the light of this provision, it becomes the responsibility of all political and administrative office bearers to promote the culture of accountability within the entire institution and any municipal entity of which the municipality has sole or shared responsibility or ownership and to seek to give effect to the provisions of the Constitution.

The submission of the Annual Report and the Annual Financial Statements (AFS) to the Council is a step towards attainment of fully accountable governance and enables the Council to exercise its leadership role in ensuring accountable local government. The submission of the oversight report on the AFS and the Annual Performance Report is an area in which the Council must play a meaningful role in terms of ensuring;

- That the Executive and the Administration comply with the requirements of the Municipal Finance Management Act (MFMA) 2003 and other relevant legislation in terms of reporting.
- That the Annual Report reflects that the municipality has lived up to its goals and strategies in terms of delivering services to the community as set out in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP).
- That the resources of the institution are applied in an efficient and economic manner to deliver services to the community.
- That the communities and community organization are afforded an opportunity to participate in evaluation of the performance of the municipality as required in terms of Section 16 of Municipal Systems Act.

The Council of Mthonjaneni Local Municipality in considering mechanism to do effective oversight in terms of the Act resolved to appoint a Municipal Public Accounts Committee (MPAC) to exercise the oversight function of Council on behalf of Council and report progress in terms of Section 79 of the Municipal Structures Act. The terms of Reference of SALGA include the consideration of the Annual Report and preparation and presentation of an oversight report to the Council for adoption.

The 2019/2020 annual report of Mthonjaneni Local municipality was tabled in Council on 29 March 2021. This was done in compliance with section 127 (2) of the MFMA, 56 of 2003 which states that the mayor of the municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control.

The final step of reporting is for the municipality to consider and adopt the annual report in light of the findings contained in the oversight report. In terms of the new guidelines, the oversight report must be compiled by MPAC in consultation with members of the community and other stakeholders.

3. BACKGROUND

The oversight role of Council is an important component of the financial reforms and it is achieved through the separation of roles and responsibilities between Council, the Executive Committee and Administration. Good governance, effective accountability, and oversight can only be achieved if there is a clear distinction between the functions performed by the different role players.

Non-executive Councillors are required to maintain oversight on the performance of specific responsibilities and delegated powers that they have given to the Executive Committee. In other words, in exchange for the powers in which Council have delegated to the Executive Committee, Council retains a monitoring and oversight role ensuring that there is accountability for the performance or non- performance of the municipality.

The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight:

- ❖ Approval of budgets;
- ❖ Approval of Budget related policies; and
- ❖ Review of the Annual Report and adoption of the Oversight Report.

4. LEGISLATIVE MANDATE FOR THE OVERSIGHT REPORT

Section 129 of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires the council to consider the annual reports of its municipality and to adopt an oversight report containing the councils comments on each annual report. The oversight report is the final major step in the annual reporting process of the municipality.

- ❖ The oversight report must include a statement whether the council:
- ❖ Has approved the annual report, with or without reservations;

- ❖ Has rejected the annual report; or
- ❖ Has referred the annual report back for revision of those components that can be revised.

5. PURPOSE OF THE OVERSIGHT REPORT

The purpose of the oversight report is to provide comments and recommendations to Council on the Annual Report for the financial year ended 30 June 2020, as required in terms of section 129 of the Local Government: Municipal Finance Management Act, No.56 of 2003.

In terms of the SALGA guide, MPAC must consider the annual report and prepare the oversight report to be submitted to Council for purposes of adopting the oversight report and in preparing the draft oversight Report, MPAC must consider all representations in connection with the annual report received from the local community.

6. FUNCTIONS OF THE OVERSIGHT COMMITTEE

The functions of the Oversight Committee are to:

- ❖ Undertake a review and analysis of the Annual Report.
- ❖ Invite, receive, and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- ❖ Consider written comments received on the Annual Report from the public consultation process.
- ❖ Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- ❖ Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report.
- ❖ Preparation of the draft Oversight Report, taking into consideration, the views and inputs of the public, representative(s) of the Auditor-General, organs of state, Council's Audit Committee -and Councillors.

7. COMPOSITION OF OVERSIGHT COMMITTEE

7.1 Membership

The Oversight Committee is a committee of Council established under Section 79 of the Municipal Structures Act, 1998. Section 79, allows for the co-option of advisory members to a Committee of Council, who are not members of the Council.

Due to the separation of roles and responsibilities, between Council and the Executive (Mayor and Executive Committee) it is not appropriate that members of the Executive Committee be members of the Oversight Committee.

Oversight Committee is composed of the Municipal Public Accounts Portfolio Committee (MPAC):

- ❖ Cllr D.F. Xulu (Chairperson)
- ❖ Cllr S.P. Buthelezi
- ❖ Cllr N.N. Nzuza
- ❖ Cllr N.P. Shobede
- ❖ Cllr Z.A. Sibiya
- ❖ Cllr T.F. Zincume
- ❖ Dr T.I. Nzimakwe (Audit Committee Chairperson)
- ❖ Mr P.P Sibiya (Municipal Manager)

7.2 Authority & Power

The Oversight Committee is delegated the responsibility to conduct meetings and to hold public hearings to receive and hear public submissions on the Annual Report, on behalf of Council.

Timely notice of all meetings should be given and all meetings held by the Oversight Committee must be open to the public and minutes of the meetings must be submitted to Council meetings.

7.3 Meeting Schedule

The 2019/2020 Draft Annual Report submitted to Council at its meeting on 03 December 2020, was referred to the Oversight Committee subject to a few minor enhancements to the Report as per the Executive Committee's recommendation. The community was advised through the Municipal website of the Council meeting held on 03 December 2020 where the Draft Annual Report for 2019/2020 financial year was tabled and also of the availability of the Annual Report and were invited to submit representations on the Report.

There were no members of the community who attended this Council meeting.

The Draft Annual Report was available at the municipal library and all municipal offices and was also submitted to the Auditor-General, Provincial Treasury and the Department of Cooperative Government and Traditional Affairs.

8. OVERSIGHT REPORT OF THE MPAC (MUNICIPAL PUBLIC ACCOUNTS COMMITTEE) ON THE ANNUAL REPORT OF MTHONJANENI MUNICIPALITY FOR THE FINANCIAL YEAR 1 JULY 2019 TO 30 JUNE 2020

8.1 INTRODUCTION

The Annual Report is submitted to Council by the Accounting Officer and the Executive Mayor and is part of the process for discharging accountability by the executive and administration for their performance in achieving the goals and objectives set by the municipality for the financial year. The Oversight Report is considered to be a report of the Municipal Council reflecting on the Annual Report.

Council is responsible to oversee the performance of the municipality as required by the Constitution, the Municipal Finance Management Act, Act No 56 of 2003 (MFMA), and the Municipal Systems Act. The oversight responsibility of council is particularly important for the process of considering annual reports. In terms of Section 129 (1) of the MFMA, the Council of a municipality must consider the annual report of the municipality and adopt an oversight report containing the council's comments on the annual report.

8.2 BACKGROUND

The Draft 2019/2020 Annual Report was tabled to Council on 03 December 2020, reporting on the Municipality's performance for the period 1 July 2019 until 30 June 2020. By doing so, Council complied with Section 133 of the MFMA that stipulates that the Mayor must table the draft Annual Report in Council within 7 months after the end of the financial year, i.e. by the end of January 2021.

Council is legally compelled to engage with and finalize the Annual Report within 9 months after the end of the financial year, which is before 31 March 2021.

Tabling the draft Annual Report signifies the start of the public participation period stipulated in Section 127(5) of the MFMA and Section 21 of the Systems Act. Public comments on the 2019/2020 Annual Report were awaited from the public from 01 January 2021 to 28 February 2021.

The draft Annual Report was placed on Council's website and made available at municipal offices and library at 21 Reinhold Street, Melmoth. Annual Reports were also submitted to the offices of the Auditor-General, Provincial Treasury and the MEC for Local Government.

No public input was received. The draft Annual Report was tabled to the MPAC that acts as Council's Oversight Committee to prepare an Oversight Report on the Annual Report for 2019/2020.

The minutes of the meeting of the MPAC is attached as Annexure B.

The MPAC appointed in terms of sections 33 and 79 of the Municipal Structures Act, 1998 to prepare an Oversight Report to Council before 24 March consists of:

- ❖ Cllr D.F. Xulu (Chairperson)
- ❖ Cllr S.P. Buthelezi
- ❖ Cllr N.N. Nzuza
- ❖ Cllr N.P. Shobede
- ❖ Cllr Z.A. Sibiya

- ❖ Cllr T.F. Zincume
- ❖ Dr T.I. Nzimakwe (Audit Committee Chairperson)
- ❖ Mr P.P Sibiya (Municipal Manager)

The MPAC has pleasure in submitting this Oversight Report to Council for approval.

8.3 IDP PROCESS

The IDP reflects the strategic direction and goals set by Council, and the MPAC is satisfied that the IDP process conformed to statutory requirements with regards to broad-based public participation and consultation through inter alia ward committees, workshops and imbizo's.

8.4 BUDGETARY PROCESS

The MPAC is satisfied that the budgetary process, based on and informed by the IDP, conformed to statutory requirements with regards to broad-based public participation and consultation through, amongst others, ward committees, workshops and imbizo's.

8.5 SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP) PROCESS

The MPAC is satisfied that a Service Delivery and Budget Implementation Plan (SDBIP), that is the service delivery targets linked to performance contracts for senior management and staff below them, was duly approved by the Executive Mayor.

8.6 ANNUAL REPORT 2019/2020

Observations and recommendations:

The MPAC committee made the following observations and recommendations in respect of the Annual Report for the reporting year 1 July 2019 to 30 June 2020:

(i) The Municipality's maintenance budget is still well below the accepted industry norm of 8%, impacting negatively on the performance, lifespan and effective maintenance of the municipality's assets. It should however be remembered that staff cost is not reflected under maintenance and should this be included in MSCOA, the picture may improve. Council did allocate a greater monetary allocation towards the maintenance budget in the current financial year and this should be continued to ensure that preventative maintenance can be done.

Excellent asset management enabled Council to curb their electricity loss up to 9%. The Municipality should focus on pro-active maintenance that will extend their assets' lifecycle.

(ii) Council's asset management improved by drafting and maintaining an asset register, while preparations were made to ensure the alienation of unused assets.

(iii) Debt collection remains a major challenge, even more so in the Eskom service delivery areas, where there is no formal agreement in place to allow for curbing electricity purchases as a means of collecting outstanding debt. Council should continue their debt collection initiatives and SALGA should be encouraged to put pressure on the relevant National and Provincial Authorities to speed up the conclusion of a service level agreement with Eskom that would allow municipalities to effectively act on outstanding debt. Outstanding debt in Eskom service delivery areas impacts negatively on the financial sustainability of municipalities such as Mthonjaneni and seeking a solution should be prioritized. That being said the Municipality was able to have a considerable increase in the debtor's balance over a 90 days period

(iv) With the assistance of inter-governmental role players, a long term financial plan for Mthonjaneni Municipality was developed, taking into consideration accurate levies for services, debt collection and controlling mechanisms such as prepaid metering for electricity. This resulted in the first steps being taken to implement corrective tariffs in respect of the sewerage services during the 2019/2020 financial year. It is imperative that the Municipality increase its own revenue to meet the objective of sustainability and to become less dependent on third party funding such as grants. The municipality is currently in a favourable financial position.

(v) The Municipality should seek to find a balance between building up a healthy financial reserve against the need for improved service delivery and addressing the existing backlogs within our communities that cannot be addressed through external funding options.

(vi) Mthonjaneni municipality has increased its capital budget to spend from R39 683 million to R 49 423 million in order to address backlog of electricity in some other wards that are within the jurisdiction of Mthonjaneni local municipality and also to address the under budgeting in the admin building project.

(vii) The capital programs of Mthonjaneni municipality is funded from National and Provincial grants and subsidies and from accumulated cash backed reserves that are not committed for any other purposes.

(viii) Though a number of temporary jobs were created under the Expanded Public Works Programme the Municipality can further stimulate their local economy and enhance capital spending by appointing local contractors do undertake certain maintenance or construction projects. This should be investigated by management.

(ix) The Municipality's human resource and capacity constraints must be considered against the inherent risks that these shortages pose within the municipality's operations. The continuous high vacancy rate of critical positions place unfair and unsustainable pressure on existing staff, hamper segregation of duties and responsibilities and undermine accountability and governance.

The risks posed by not having sufficient capacity and resources in Disaster Management and Fire Fighting speaks for itself and cannot be over emphasized. Council should ensure that the inherent risks in human resource vacancies and

essential systems and equipment remain at an acceptable level and where not, that those vacancies should be filled and systems and equipment be acquired. It is however noted, that some progress has been made in this respect.

(x) As the Abakus financial system was found non-compliant the municipality had to change to a MSCOA compliant financial accounting system, placing a huge human resource and financial burden on the Municipality. This is a proven risk area that is constantly monitored by Council, management and Provincial and National role-players. The Provincial and National Role Players should however take note of the challenges in this respect and provide support to all municipalities to ensure that they are legally compliant.

(xi) Emphasis should be given to the holistic, equitable and sustainable development of the Municipal area. Spatial Development should not only deal with land use matters such as addressing illegal use of land, but should also support realistic and sustainable development that would bridge the economic and physical divide between North and South in a manner that promotes local economic growth, skills development and job creation while protecting and upholding the precious cultural and historic assets and unique character of our towns and neighbourhoods. The Municipality should prioritize the drafting of a new zoning scheme as well as an integrated human settlement plan, that enhances neighbourhood development and address the infrastructure backlogs in the respective towns.

(xii) Local economic development initiatives should not be restricted to EPWP, CWP and labour intensive projects, but should facilitate catalyst projects such as Agri Parks, the establishment of dried fruit facilities, the fostering of “new wealth” businesses and the strengthening of the social core through socio-economic and public/private partnerships for example the social lab projects identified in conjunction with the University of Stellenbosch together with the local communities. Whenever such projects are undertaken the necessary goals and objectives, support, training, coaching and control mechanisms should be put in place in order to guarantee success.

(xiii) Speed law enforcement on the R66, that runs through our municipality, and within all residential areas must be strengthened. The Average Speed over Distance cameras do not sufficiently mitigate high speed on the R66 and visible speed law enforcement on the R66 and in all build-up areas must be prioritized to improve road safety. Law enforcement and fine collection did improve significantly during the reporting year after.

(xiv) Refuse removal and management; - phasing out of septic tanks and long drops in the Municipal area; - Master Plans should be developed and/or updated at regular intervals for each part of the Municipality’s core services; - fleet management should be prioritised

(xv) The ward committee system is functioning well and all participants are capacitated to ensure that they do possess the necessary skills and knowledge to serve the community. Supporting staff were appointed for the respective ward committees in three out of the four ward committees. There are shortcomings in the

understanding of communication channels and the feedback and reporting exercises that may hamper the flow of information and service delivery. Council should therefore revisit their ward committee policy as well as their client service policies and procedures.

(xvi) Though the public participation efforts of the Municipality are commendable, the quarterly feedback meetings to the community must be enforced.

(xvii) Communication remains challenging though a wide array of communication mechanisms is used. When public comment and participation is required, Council must continue to ensure a representative view is obtained and guard against politicking and gate-keeping. It is however true that the Mthonjaneni communities is geographically challenged and very diverse with different communication needs and preferences and that more can still be done in order to reach more of Mthonjaneni Municipality's residents. Dedicated support to this function should be prioritized and the ward committee policy should take cognizance of the respective engagements needs and practices of their communities.

(xviii) Council took the lead in ensuring that their community is kept informed by hosting a one hour radio program on a local radio station, once per quarter. This improved the overall knowledge of the community, supporting citizen capacitation. Other municipalities within the District are now looking to follow this example of Mthonjaneni Municipality.

(xix) As no public comment on the draft Annual Report was received during the commentary phase, Council should in future undertake a road show as part of their feedback meetings to the community where the draft report can be highlighted.

(xx) The unqualified Audit opinion obtained by the Municipality for the reporting period under review is something that Council, management and the community can be very proud of.

(xxi) The MPAC wishes to congratulate Council, Management and staff with their performance in that regard during the reporting year and encourage them to work even harder towards obtaining a clean report in future.

8.7 COMMENTS AND SUBMISSIONS BY THE PUBLIC

The MPAC noted that no comments were received from the public and find this very disappointing. It is suggested that the Executive Mayor host a road show specifically highlighting the Annual Report content in future instances and that this be done in the second week after the adoption of the draft Annual Report.

9. RESOLUTIONS TO BE TAKEN BY COUNCIL:

Council, having fully considered the Annual Report 2019/2020 Mthonjaneni Municipality and representations thereon, and subject to and with due regard to the observations and suggestions contained in this MPAC Report resolves: (a) To adopt the Mthonjaneni Municipality Oversight Report for 2019/2020 in terms of section 129 of the Municipal Finance Management Act; and (b) To approve the Annual Report 2019/2020 in terms of section 129 of the Municipal Finance

Management Act without reservations but with the correction that the unqualified audit status reflected in the Annual Report be changed throughout to reflect their Clean Audit status. (c) That this report with all its annexures be submitted to the Auditor General, the Provincial Treasury and the KZN Department for Local Government and in terms of section 129(2) of the MFMA. (d) That the implementation of measures recommended in section 4 of the Oversight report be investigated. (e) That the 2019/2020 Oversight Report of Mthonjaneni Municipality be made public in terms of Section 129(3) of the MFMA and be submitted to the KZN Legislature in terms of Section 132(2) of the MFMA.

Approved as bona fides proof of discussions at the meeting.

10. Reporting

The department has done a noticeable improvement as far as reporting on financial matters to other stakeholders (e.g. internal departments, provincial, national and other stakeholders), we have achieved almost hundred (100%) percent on reforms as required by National Treasury and compliance departments, this evidenced by relevant circulars informing municipalities on such reporting compliance.

11. Supply Chain Management

100% MIG spending due to improved supply chain processes and payment of consultants and contractors on time (even lesser than 30 days).

12. Integrated Development Planning (IDP)

As a local government institution, the Mthonjaneni Municipality has adhered to municipal development policies such as the Municipal Systems Act, which state that all municipalities are obliged to undertake an IDP process to produce IDP's. In doing so, the Municipality has considered the relevant legislative requirements and the IDP Framework Guide during the process.

The 2019/2020 IDP was developed in-house and the Representative Forum Meetings were held at the Municipal Offices and the strategic planning session was held in May. The municipality undertook an intense public participation process through ward committee meetings that were held once a month in all thirteen wards, road shows were held in April where each ward held its own meeting, as well as stakeholder meetings that were conducted for the ratepayers in May. This was done to ensure that the people themselves were active participants in the identification of needs, priorities and strategies for the development of communities. The IDP was adopted on 27 June 2019.

13. ACTION PLAN IN RESPONSE TO AUDITOR GENERAL'S COMMENTS

MTHONJANENI LOCAL MUNICIPALITY – AUDIT ACTION PLAN 2019/2020 FINANCIAL YEAR

Type of Opinion Current Year (2019/2020) : Unqualified

Type of Opinion Previous Year : Unqualified

INTRODUCTION

For an action plan to properly produce the desired results, the transactions need to be divided into the two main classes:

(a) Financial Matters – which can be addressed in retrospect

(b) Non-financial Matters – This may not be adjusted in retrospect. For example if a deadline was not met, nothing can be done in retrospect but measures must be in place to avoid that in future.

Addressing (a) leads to a financially unqualified report whilst addressing both (a) and (b) leads to a clean audit report.

Having a disclaimer may entail prioritizing (a) so as to improve the audit opinion.

Nature Of Audit Query	Audit Query	Audit Response (Quarter 1)	Audit Response Progress (30 April 2021)	Audit Response Progress (31 May 2021)															
1. Irregular expenditure/Fruitless and wasteful expenditure incurred in the prior year was not prevented from recurring in the current year	<p>Section 62(1)(d) of the MFMA requires that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorized irregular or fruitless and wasteful expenditure and other losses are prevented.</p> <p>a) Irregular expenditure due to the bid adjudication committee not being composed appropriately was incurred in the 2018/19 year as well as the 2019/20 year as per the table below:</p> <table> <tr> <th></th><th colspan="2">2018/19</th><th colspan="2">2019/20</th></tr> <tr> <th>Transgression</th><th>Rand Value</th><th>Number of Instances</th><th>Rand Value of new instances</th><th>Number of new instances</th></tr> <tr> <td>Regulation 29(2) non-compliance – BAC Composition</td><td>22 377 430</td><td>15</td><td>2 424 355</td><td>6</td></tr> </table>		2018/19		2019/20		Transgression	Rand Value	Number of Instances	Rand Value of new instances	Number of new instances	Regulation 29(2) non-compliance – BAC Composition	22 377 430	15	2 424 355	6	<p>ACTION TO BE TAKEN</p> <p>The municipality appointed the senior manager from Nkandla Municipality as per the amendment to serve on our bid adjudication committee in June 2020 and the BAC committee is now well constituted.</p> <p>Interest on overdue accounts to be closely monitored.</p>	The senior manager has been appointed, as the appointment letter has been submitted for review. However we did not receive the BAC minutes for further verification. Internal Audit is currently performing a review of Supply Chain Management.	
	2018/19		2019/20																
Transgression	Rand Value	Number of Instances	Rand Value of new instances	Number of new instances															
Regulation 29(2) non-compliance – BAC Composition	22 377 430	15	2 424 355	6															

	<p>Similar non-compliance was reported in the previous year</p> <p>b) Fruitless and wasteful expenditure due to interest from overdue accounts was incurred as follows in the 2018/19 and 2019/20 financial years:</p> <table><tr><td></td><td colspan="2">2018/19</td><td colspan="2">2019/20</td></tr><tr><td>Transgression</td><td>Rand Value</td><td>Number of Instances</td><td>Rand Value</td><td>Number of instances</td></tr><tr><td>Interest on overdue accounts</td><td>341 816</td><td>34</td><td>990 712</td><td>28</td></tr></table> <p>The expenditure manager did not implement a control to track invoices upon receipt to confirm that invoices are paid timeously to avoid the incurring of interest.</p>		2018/19		2019/20		Transgression	Rand Value	Number of Instances	Rand Value	Number of instances	Interest on overdue accounts	341 816	34	990 712	28	<p>Responsible Official</p> <p>SCM MANAGER , DB Mlondo ,MEFR, A Shandu, CFO, NM Myeni</p> <p>Target Date</p> <p>30 April 2021</p>	Interest on overdue account being monitored.	
	2018/19		2019/20																
Transgression	Rand Value	Number of Instances	Rand Value	Number of instances															
Interest on overdue accounts	341 816	34	990 712	28															
2. Irregular expenditure/fruitless and wasteful expenditure incurred in the prior year was not investigated or recovered from liable persons	<p>In accordance with section 32(2) b of the MFMA, the municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure, In the case of irregular or fruitless and wasteful, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.</p> <p>a) Irregular expenditure incurred in years before the 2018/19 year was not investigated to determine if any persons were liable and if any monies were to be recovered from liable persons. The details are as follows:</p> <table><tr><td>Opening balance of irregular expenditure from prior years</td><td>87 923 008</td></tr><tr><td>Amount written off as irrecoverable (relating to 2018/19 year irregular expenditure)</td><td>28 696 843</td></tr><tr><td>Balance of irregular expenditure incurred before 2018/19 year not investigated or where audit evidence for investigation has not been supplied</td><td>59 26 165</td></tr></table>	Opening balance of irregular expenditure from prior years	87 923 008	Amount written off as irrecoverable (relating to 2018/19 year irregular expenditure)	28 696 843	Balance of irregular expenditure incurred before 2018/19 year not investigated or where audit evidence for investigation has not been supplied	59 26 165	<p>ACTION TO BE TAKEN</p> <p>In the last MPAC meeting held on 9 December 2020, the Municipal Manager was mandated to initiate investigation into Unauthorized, Irregular, and Fruitless & Wasteful Expenditure. Therefore, the process of investigation is still work in progress.</p>											
Opening balance of irregular expenditure from prior years	87 923 008																		
Amount written off as irrecoverable (relating to 2018/19 year irregular expenditure)	28 696 843																		
Balance of irregular expenditure incurred before 2018/19 year not investigated or where audit evidence for investigation has not been supplied	59 26 165																		

	<p>b) Fruitless and wasteful expenditure incurred in the prior year was not investigated to determine if any persons are liable. The details are as follows:</p> <p>c)</p> <table><tr><td>Opening balance of fruitless expenditure from prior years</td><td>56 504</td></tr><tr><td>Fruitless and wasteful expenditure relating to 2018/19 year</td><td>341 816</td></tr><tr><td>Total prior years' fruitless and wasteful expenditure</td><td>398 320</td></tr></table> <p>d) Unauthorised expenditure incurred I prior years has not been investigated. The details are as follows:</p> <table><tr><td>Opening balance as previously reported</td><td>33 129 821</td></tr><tr><td>Closing balance</td><td>33 129 821</td></tr><tr><td>Movement</td><td>0</td></tr></table> <p>Council and MPAC did not perform this legislated duties to investigate irregular and fruitless and wasteful expenditure tabled by management to determine the recovery thereof or if any persons are liable, in compliance with the MFMA.</p>	Opening balance of fruitless expenditure from prior years	56 504	Fruitless and wasteful expenditure relating to 2018/19 year	341 816	Total prior years' fruitless and wasteful expenditure	398 320	Opening balance as previously reported	33 129 821	Closing balance	33 129 821	Movement	0	<p><u>Responsible Officials</u></p> <p>MM, MR SIBIYA</p> <p><u>Target Date</u></p> <p>30 May 2021</p>		
Opening balance of fruitless expenditure from prior years	56 504															
Fruitless and wasteful expenditure relating to 2018/19 year	341 816															
Total prior years' fruitless and wasteful expenditure	398 320															
Opening balance as previously reported	33 129 821															
Closing balance	33 129 821															
Movement	0															
3. Consistency – Reporting for indicators is not based on planned targets	<p>In accordance with the municipal systems act 41(1)(a) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed:</p> <p>a) set appropriate key performance indicators as a yardstick for measuring performance, including</p>	<p><u>ACTION TO BE TAKEN</u></p> <p>Agree- we will ensure that APR is reviewed adequately so as to</p>														

outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan.

In addition, it is also required in terms of the Municipal Financial Management Act circular 13 and FMPPi that the key performance indicators and annual targets in the Service Delivery and Budget Implementation Plan and Annual Performance Report of the municipality should be consistent

The table below set out discrepancies identified in the annual performance report which deviate from the requirements described above, and as an effect the annual performance report is not achieving consistency with the SDBIP.

Indicator per SDBIP	Target per SDBIP	Reported performance	Auditors Comments
Ensure the gravelling of 5.3km -Nungwini rural Gravel Road in Ward 1 by 31 December 2019	Gravelling of 5.3km - Nungwini rural Gravel Road in Ward 1 by 31 December 2019	extension was granted to contractor	- The reported performance is a reason for non – performance - The Kilometres completed by 31 December 2019 have not been reported on
Ensure the gravelling of 5.5km - Manzawayo Gravel Road in Ward 5 by 31 December 2019	Gravelling of 5.5km - Manzawayo Gravel Road in Ward 5 by 31 December 2019	extension was granted to contractor	- The reported performance is a reason for non – performance - The Kilometres completed by 31 December 2019 have not been reported
Ensure the gravelling of 1.7km - Mfule Gravel Road in Ward 4 by 31 December 2019	Gravelling of 1.7km - Mfule Gravel Road in Ward 4 by 31 December 2019	Practical complete was issued	- The Kilometres completed by 31 December 2019 have not been reported
Ensure the rehabilitation of a total of 2.8km urban roads in wards 3 by 31 December 2019.	2,5 kilometres of urban road to be rehabilitated by 30 June 2020	Practical complete was issued	- The Kilometres completed by 31 December 2019 have not been reported

ensure that it agrees with the SDBIP and the relevant adjustments should be made to the APR.

Responsible Official

SMP, MR KUNENE

Target Date

30 June 2021

	Ensure the eradication of electrification backlogs in Mthonjaneni by providing 500 new connections to households in Thubalethu Township, for the first time by 30 June 2020 Multi-year project	500 connections completed by 30 June 2020	Pole planting has commenced do note that the connection will commence one units are completed	- The connections completed by 30 June 2020 as per the target have not been reported															
4. Unauthorized expenditure not disclosed	<p>MFMA act define unauthorized expenditure in relation to a municipality, as expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3), and includes—</p> <p>a) overspending of the total amount appropriated in the municipality’s approved budget;</p> <p>b) overspending of the total amount appropriated for a vote in the approved budget; expenditure from a vote unrelated to the department or functional area covered by the vote;</p> <p>Overspending has been identified in vote one, two, three, four and eight which totals to R 16 791 876 which has not been disclosed as unauthorised expenditure:</p> <table><thead><tr><th></th><th>R</th></tr></thead><tbody><tr><td>Vote 1 - Executive and Council</td><td>533 817,14</td></tr><tr><td>Vote 2 - Vote 2- Finance and administration</td><td>9 879 383,19</td></tr><tr><td>Vote 3 - Community and social services</td><td>4 018 903,59</td></tr><tr><td>Vote 4 - Public safety</td><td>1 246 331,23</td></tr><tr><td>Vote 8 - Waste management</td><td>1 113 441,35</td></tr></tbody></table>					R	Vote 1 - Executive and Council	533 817,14	Vote 2 - Vote 2- Finance and administration	9 879 383,19	Vote 3 - Community and social services	4 018 903,59	Vote 4 - Public safety	1 246 331,23	Vote 8 - Waste management	1 113 441,35	<p><u>ACTION TO BE TAKEN</u></p> <p>Finding is noted as part of the audit plan to address this issue, overspending on votes will be prohibited directly from the system before the order is issued and monthly budget vs actual assessments will be performed going forward.</p> <p><u>Responsible Official</u></p> <p>MEFR, A SHANDU</p> <p>CFO, NM Myeni</p> <p><u>Target Date</u></p> <p>30 April 2021</p>	<p>Through observation we verified that, overspending on votes are authorized by the CFO. However, currently, the authority has been delegated to Manager Reporting.</p> <p>Inspected the budget statements and noted that there is expenditure which exceeds budget and thus need to be disclosed appropriately.</p>	
	R																		
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5. Indigent discrepancies identified	Section 64 of the MFMA requires that the accounting officer of a municipality is responsible for the management of the revenue of the municipality. The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy including having and maintaining a management, accounting and information system which-	<u>ACTION TO BE TAKEN</u> The register will be reviewed urgently and updated with all the queries that have been raised on these findings will be eliminated. Appointment of a service provider who will assist with vetting and application process of indigent register will be speed up. Indigent register and application process will be reviewed annually without fail. A check will be done to ensure if any beneficiaries that benefited from indigent rebates incorrectly will be calculated and reversed to increase revenue and receivables accordingly. <u>Responsible Official</u>	No progress to date													
	(i) recognizes revenue when it is earned;															
	(ii) accounts for debtors; and															
	(iii) accounts for receipts of revenue;															
	and that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.															
The indigent register was reviewed utilising computer aided auditing techniques (CAATS) which highlighted the following exceptions:																
	<table><tr><th>FINDING</th><th>CAATs reference</th><th>Number of debtors per the CAATS</th></tr><tr><td>1</td><td>Indigents listed as a deceased person on the NPR database.</td><td>91 Records</td></tr><tr><td>2</td><td>Indigents where the ID number could not be found on the NPR database.</td><td>139 Records</td></tr><tr><td>3</td><td>Indigents in the employment of one or another government department or organisation.</td><td>85 Records</td></tr></table>	FINDING	CAATs reference	Number of debtors per the CAATS	1	Indigents listed as a deceased person on the NPR database.	91 Records	2	Indigents where the ID number could not be found on the NPR database.	139 Records	3	Indigents in the employment of one or another government department or organisation.	85 Records			
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3	Indigents in the employment of one or another government department or organisation.	85 Records														

	4	Indigents that has an interest in suppliers of government and/or municipalities.	1 Records	CFO : N Myeni, RM: NHLEKO <u>Target Date:</u> 30 April 2021		
	5	Indigents with an ID Number duplicated on the indigent register.	4 Records			
	6	Spouses of indigents that has an interest in suppliers of government and/or municipalities.	1 Records			
	Due to the possible invalid indigent status of debtors above, there is a possible material understatement of revenue and understatement of receivables to the municipality due to the invalid rebates granted to consumers. The municipality should determine the total of the rebates applied to invalid indigents and ensure that the appropriate remedy is instituted to recover lost monies.					
6. Maximum prices for COVID-19 procurement exceeded	As per MFMA circular number 102, the purpose of the circular was to: 1.2 Advise of emergency procurement procedures to deal with the Covid 19 pandemic, which was declared a national state of disaster (The Disaster) on 15 March 2020; 1.3 Avoid the abuse of the supply chain management (SCM) system to deal with the disaster; 1.4 advise of procurement procedures of Covid 19 PPE items and cloth masks for ease of supply by small, medium and micro enterprises and create an environment for stimulation of local supply and manufacturing; and 1.5 set the maximum prices to be paid by municipalities and municipal entities for selected Covid 19 PPE items and cloth masks.			<u>ACTION TO BE TAKEN</u> The finding Noted, Currently we do not have a challenge of sourcing service providers and adhering to regulated prices for Covid19 PPE. The challenge was experienced in the first	Internal Audit is currently performing a comprehensive review of the Covid-19 expenditure.	

	<p>Purchases were made which were related to COVID-19, that exceeded the maximum prices as set out in Annexure A of the MFMA circular number 102.</p> <p>Management did not ensure that goods and services were procured at reasonable prices</p>	<p>three months of the pandemic.</p> <p>Remedial action:</p> <p>AG Recommendation will be implemented.</p> <p><u>Responsible Official</u></p> <p>SCM Manager : D Mlondo</p> <p>CFO : N Myeni</p> <p><u>Target Date:</u></p> <p>30 April 2021</p>		
<p>7. No evidence for advertisement of bids on the municipal website</p>	<p>SCM Regulation 22(1)(a) requires for an SCM policy to determine the procedure for the invitation of competitive bids which must stipulate that any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating local, the website of the municipality or municipal entity or any other appropriate ways (which may include advertisement in the Government Tender Bulletin)</p> <p>For the following competitive bids that were awarded by the municipality, advertisements on the municipality's website were not found by the auditor. Evidence for advertisement on the website was requested from the municipality and it was not received. Please see the table below:</p>	<p><u>ACTION TO BE TAKEN</u></p> <p>Municipal website is outsourced, advertisement of bids will be monitored</p> <p><u>Responsible Official</u></p> <p>MR : D Mlondo</p>	<p>Through engagements with Management, we learned, notification is sent to the webhost to upload advert and also that the CFO has requested that brand partner allow the municipality to have the back end access so that they can place adverts on the website</p>	

	<table><tr><th>Tender Number</th><th>Description</th><th>Service Provider</th><th>Award Value</th></tr><tr><td>M01</td><td>Supply & Delivery of Technical Services Protective Clothing and Uniform</td><td>Bargain Uniforms</td><td>450 093,9</td></tr><tr><td>M02</td><td>Development of Roads Maintenance Plan and Policy</td><td>BI Infrastructure Cons.</td><td>664 930</td></tr><tr><td>M03</td><td>Supply, Delivery & Offloading of Refuse bags</td><td>Snobho (Pyt) Ltd</td><td>Rates-based</td></tr><tr><td>M04</td><td>Supply & Delivery of Cooperatives Material</td><td>Chico Man Trading</td><td>1 075 000</td></tr><tr><td>M05</td><td>Supply, Installation & Maintenance of Traffic Cam.</td><td>TMT Services & Sup.</td><td>Rates-based</td></tr><tr><td>M18</td><td>Transportation of waste from Melmoth transfer station</td><td>uHaqane MI</td><td>1 361 464</td></tr></table> <p>The SCM manager did not ensure that adverts for bids made on the website, where these were made, are kept on the website or that evidence existed for posting of adverts on the municipality's website</p>	Tender Number	Description	Service Provider	Award Value	M01	Supply & Delivery of Technical Services Protective Clothing and Uniform	Bargain Uniforms	450 093,9	M02	Development of Roads Maintenance Plan and Policy	BI Infrastructure Cons.	664 930	M03	Supply, Delivery & Offloading of Refuse bags	Snobho (Pyt) Ltd	Rates-based	M04	Supply & Delivery of Cooperatives Material	Chico Man Trading	1 075 000	M05	Supply, Installation & Maintenance of Traffic Cam.	TMT Services & Sup.	Rates-based	M18	Transportation of waste from Melmoth transfer station	uHaqane MI	1 361 464	<p>CFO : N Myeni</p> <p>Target Date:</p> <p>30 April 2021</p>	<p>themselves, no progress with regards to the request.</p> <p>Internal Audit is currently performing a review of Supply Chain Management.</p>	
Tender Number	Description	Service Provider	Award Value																													
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8. Disaster Recovery Plan not tested	<p>A Disaster Recovery Plan (DRP) was in place; however, it had not been tested by the municipality to assess its effectiveness in recovering critical IT resources in the event of a disaster. Furthermore, the DRP requires updating as the server rooms have been merged into a single room and the DRP needs to be reflective of that.</p> <p>Without testing the DRP, the municipality may not be aware of any shortcomings in the plan and will not be able to assess its effectiveness in an objective and quantifiable manner. If the DRP is not reflective of the current IT environment at the municipality it may not be an adequate reference to</p>	<p><u>ACTION TO BE TAKEN</u></p> <p>DRP Implementation and testing will be outsourced because of lack of internal capacity.</p>																														

effectively to restore IT systems. The risk has however not materialized during the 2019-20 year as there were Disaster no disruptions during the year that required the DRP to be invoked.

DRP to be updated

Responsible Official

**IT Manager: S
Mthimkhulu**

CFO : N Myeni

Target Date:

30 May 2021

14. CONCLUSION

The Oversight Committee commends Council, the Municipal Manager, the Senior Managers and all staff at Mthonjaneni Local Municipality on the strides made towards good governance and encourages the Municipality at large towards the achievement of a clean audit in the current financial year. Emphasis is made on the work to be performed in the areas of supply chain management, planning and reporting on financial and performance information as well as the 2020/ 2021 financial year must target focused attention in this area.

Having performed the following tasks:

- ❖ Reviewed and analysed the Annual Report;
- ❖ Considered comments representations received;
- ❖ Received and considered Council's and the Audit Committee views and comments on the annual financial statements and the performance report; and
- ❖ Prepared the draft Oversight Report, taking into consideration, the views and inputs of the public, representatives of the Auditor-General, organs of state, Council's Audit Committee and Councillors;

The Oversight Committee has pleasure in presenting the Oversight Report to Council to consider the following resolutions and then to be forwarded to the relevant Departments and Provincial Legislature:

RESOLVED TO RECOMMEND

1. That Council having fully considered the Annual Report of the Mthonjaneni Local Municipality for the 2019/2020 Financial Year adopts the Oversight Report for the 2019/2020 Financial Year.
2. That the Oversight Report for 2019/2020 financial year be made public in accordance with Section 129(3) of the Municipal Finance Management (Act 56 of 2003).
3. That the Oversight Report be submitted to the Provincial Legislature in accordance with Section 132(2) of the Municipal Finance Management Act 56 of 2003.

SIGNED AT Melmoth ON THIS ____ DAY OF MAY 2021
