

MOPANI DISTRICT MUNICIPALITY

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE



OVERSIGHT REPORT ON THE 2021/22 ANNUAL REPORT REPORT DATE: 31 MARCH 2023

Vision

To be the food basket of Southern Africa and the tourism destination of choice

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Chairperson's Foreword

It will not be a misstatement of facts to begin My expression by sincere gratitude to My colleagues in the committee for their undivided focus to compile a report of this magnitude in their pursuit of proper oversight. Though unpopular we have no doubt that the bar was properly positioned where it actually ought to be.

The main purpose of the MPAC is to exercise oversight over the executive functionaries of council and to ensure good governance in the municipality and in order for the MPAC to fulfil this oversight role, it needs to be provided with the necessary information and documentation to interrogate the actions of the executive, hence We further appreciate all the role-players who furnished us with all relevant evidence to positively contribute to this process.

It must be born in mind that the Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council with regard to the Annual Report and the preparation of an Oversight Report. Given the process required by Council to effectively undertake its oversight role, the establishment of the Municipal Public Accounts Committee (MPAC) of Council provides the appropriate mechanism through which Council can fulfil its oversight responsibilities. It is against this background that SALGA, as well as National Treasury and DCOG, promoted the establishment and effective functioning of Municipal Public Accounts Committees (MPACs)

This committee was therefore mandated by council during the 31st January 2023 sitting to probe the Annual Report, develop and table the Oversight report to council in less than two months and we therefore wish to present the compiled oversight report per your directive.

Cllr. MM Mukhabele

Chairperson: Municipal Public Accounts Committee (MPAC)

1. INTRODUCTION

The 2021/22 Draft Annual Report for Mopani District Municipality was tabled in council on the 31st January 2023. Subsequently the report was referred to Municipal Public Accounts Committee (MPAC) for oversight responsibilities as stipulated by Section 129(1) of the MFMA. MPAC was to comply with this and other legislation to eventually table an oversight report before council on the 31st March 2023.

The Oversight Report will, as a point of departure give a brief background by providing the relevant legislative prescripts guiding the compilation of the Oversight Report, outline processes that were followed, deadline for tabling and approval by Council.

Public notice on the availability of the 2021/22 draft annual report was placed on the local newspapers. The notice was for comments on the draft report by members of the public. Public notice on the public hearing was also advertised in various media platforms including the Letaba Herald, the Official Website of the Municipality and the Official Facebook Page of the institution.

The purpose of this oversight report is to therefore account to council for the execution and processes followed as per the assigned responsibility and resolution of council.

2. EXECUTIVE SUMMARY

The Annual Report, inclusive of the AFS for the 2021/22 financial year and the AG report were submitted to MPAC for oversight and scrutiny. As mandated by Council in its sitting dated 31st January 2023, resolution no **OCD/13/2023**, to probe the presented Annual report, develop and table the Oversight report to Council in less than two months from the date of the report, MPAC has fulfilled the obligation and a series of activities unfolded in the run up towards producing this oversight report.

3. LEGAL FRAMEWORK

The following Legislation is applicable to MPAC for improving the quality of annual reporting and Council Oversight:

1. *The Constitution of the Republic of South Africa, 1996*
2. *The Municipal Structures Act 32 of 2000*
3. *The Municipal Systems Act 117 of 1998*
4. *The Municipal Finance Management Act 56 of 2003.*

4. METHODOLOGY

The recommendations made in this report emanated from the information gathered and observations made during the processes followed and activities conducted by the committee which included and were not limited to Working sessions, committee meetings, project site visits, stakeholder's public participation engagements and the public hearings.

5. ACTIVITIES TOWARDS THE DRAFT OVERSIGHT REPORT

After the draft annual report was referred to MPAC, a series of activities unfolded in the run up towards producing an oversight report. The committee conducted the following activities listed below:

5.1 MPAC had its working session to probe the report from the 13th to the 17th February 2023 where;

- i. Day one, 13 - The representatives from the AGSA were invited to unpack the Auditor's report to the committee;

- ii. Day 2 to 5, 14th to 17th March 2023 - the committee started to probe the report while highlighting key focus areas for the development of a questionnaire;
- iii. The questionnaire was submitted to the Executives for written responses to be returned by the 9th March 2023;
- iv. Invitees to these sessions included the Audit Committee Chairperson, Deputy Manager PMS, Chief Risk officer, Internal Audit Unit, SALGA, CoGHSTA and Provincial Treasury as observers of the session;

5.2 Stakeholder's Public Hearing Engagements with relevant structures including the affected directorates with COMAF's affecting the Audit outcome, responsible Heads of Portfolios and Section 79 Committee Chairpersons responsible for the Portfolios where the COMAF's were identified were held on 01, 07, 09, and 10 of March 2023;

- 5.3 Project site visits were conducted on the 24th February 2023;
- 5.4 Meeting to analyze the responses was held on 13 March 2023;
- 5.5 Public hearing was held on the 14th March 2023;
- 5.6 Meetings to develop and ultimately adopt the report convened on 24, 27 and 30 March 2023.

During the submission of the questionnaire, the executives were requested to provide portfolio of evidence supporting the information and responses provided. MPAC was to engage on the provided information as part of producing the draft oversight report. The Accounting Officer promised to submit further supporting information which were due on 22nd March 2023, however, the promised information was not submitted to date.

It is on this note that MPAC would like to extend a word of appreciation to the Executives for their cooperation. These activities would not have happened had it not been because of their undivided support towards this exercise.

6. DELIBERATIONS EMANATING FROM THE ACTIVITIES CONDUCTED

The public hearing was conducted in hybrid format on the 14th March 2023 at Namakgale Town Hall in Ba-Phalaborwa and through the official Municipal Facebook live-streaming and Microsoft TEAMS. The Invites were issued to the following stakeholders:

- Executive Mayor – Attended Virtually through Teams
- Speaker
- Chief whip
- Members of Mayoral Committee
- Chairpersons of Section 79 Portfolio Committees
- Members of Council
- South African Local Government Association (SALGA)
- Community Development Workers (CDWs)
- District Ward Committee Forum
- Mopani District Municipal Management
- Limpopo Provincial Treasury
- Limpopo Legislature
- Auditor General South Africa
- Department of Cooperate Governance, Human Settlement & Traditional Affairs (CoGHSTA)
- Mopani District Municipal Risk Committee Chairperson
- MPAC Chairpersons and support staff from local municipalities
- MPAC Committee and support staff from Ba-Phalaborwa local municipality
- Mopani District Municipal Audit Committee Chairperson
- Community based organizations; and
- Members of the public (Invited through various media)

All the expected invited stakeholders attended through various media channels and the targeted audience exceeded expectations.

Due to other businesses of Council outside of the Province, the Executive Mayor delivered the closing remarks of the session through TEAMS.

7. ISSUES FROM THE PUBLIC HEARING/ FINDINGS

MPAC engaged on the issues raised by the AG in the 2021/22 draft annual report based on its findings. This means that the public hearing was premised on the AG's findings. Some issues raised had similarities with those raised in the previous financial years.

8. GENERAL OBSERVATIONS AND FINDINGS

There were ninety-seven (97) findings in the Auditor's report, of which, sixty (60) were matters affecting the Audit Outcome, thirty (30) were other matters as flagged by the AG's report. Out of the ninety-seven (97) COMAF's raised, MPAC found that twenty-three (23) were not responded to by management. During the public hearing, the Accounting Officer alleged that Management did respond to AGSA and prove was attached to the responses to MPAC. The committee found that only six (6) of the responded findings were attached and there was no evidence to corroborate that AGSA received the specified responses.

The Accounting Officer failed to provide information to the committee on the promised date of 22nd March 2023.

9. RECURRING FINDINGS

MPAC noted with serious concern findings that were recurring for more than a year. This is evident that there is no implementation of the Audit Action Plan by the Executives and monitoring by oversight committees;

10. AG FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>1. COMAF 6: HIGH LEVEL REVIEW OF AFS</p> <p>AG performed a high level review of the Annual Financial Statements 2021/22 misstatements were identified. We noted that AG has identified misstatements in the AFS in the Accounting Officer's Report, Statement of Financial Position, Statement of Financial Performance, Disclosures, and Statement in Changes in Net Assets, Cash Flow Statements and General Misstatements.</p> <p>According to AG the accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information. The accounting officer did not exercise due care in preparing the financial statements. The financial statements contain errors</p>	<p>1. The AFS were submitted late for second consecutive year, this despite the Accounting Officer having committed to Council in its sitting dated 30 September 2023 that the late submission would not affect the audit outcome;</p> <p>2. The review of the AFS was compromised and quality assurance was not properly performed;</p> <p>3. There was no fair presentation of the AFS yet we have consultants that are dealing with VAT on behalf of the Municipality;</p>	<p>MPAC recommends that:</p> <ol style="list-style-type: none"> 1. Management must prepare quarterly financial statements and submit to the Audit Committee for review; 2. The information submitted by the Local Municipalities to the District should be regularly reviewed for accuracy by Management prior consolidation to the quarterly AFS; 3. Management to submit progress on the implementation of the electronic filing system; 4. Management to ensure skills transfer to the Municipal officials;

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>that were not detected and corrected prior to the submission of the financial statements for audit. This is in contravention of MFMA 62.1 (b) and Section 122(1) of the MFMA. Furthermore, the statements were not prepared as required by GRAP 1 Par 17 and Par 8.</p>	<p>4. The implementation, monitoring and evaluation of the SLA continues to be compromised;</p> <p>5. The Accounting Officer in his responses to MPAC during the Public hearings said that the Municipality cannot account for SARS errors as they are calculated on an accrual basis, and that information has been lost due to systems migration</p>	<p>5. Management must update Council on the Municipality's plan to make up for the information that was allegedly damaged and lost during systems migration.</p>
<p>ISS.99-COMAF 70: Statement of Comparison of Budget and Actual Amounts - 1. Bulk purchases amount disclosed on the Statement of Comparison of Budget and Actual does not agree to the approved budget.</p>		
<p>AG identified a difference of R540 071 000,00 between the bulk purchases amount disclosed under approved budget column on the Statement of Comparison of Budget and Actual Amounts on the approved budget.</p>	<p>1. Management did not apply due diligence and monitoring during compiling, approval and submission of the Budget;</p>	<p>1. Management must ensure that the proposed budget is quality assured for possible errors prior approval by Council and submission to the Provincial Treasury</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>The amount disclosed does not agree with the amount recorded on the approved budget. The Accounting Officer however confirms that this error emanated from a capturing error</p>		
<p>3. ISS.116-COMAF 81: Use of Consultants -</p>		
<p>The Municipality has spent a total amount of R33 148 358 on Financial Reporting Consultants dealing with Preparation of AFS, Asset Register Preparation and VAT returns. In its Strategic Planning Session, Management resolved to face out over-reliance on Consultants.</p> <p>AG's finding is that Management did not perform Gap analysis when appointing the Consultants and to this Management did not respond.</p>	<ol style="list-style-type: none"> The Municipality is ranked the highest in the province for over-reliance on consultants, however, has a highest record of adverse and disclaimer audit opinions; The Municipality did not perform Gap analysis when appointing the Service Providers; The implementation of skills transfer is not being monitored; In his response to the committee during the Public hearings, the 	<ol style="list-style-type: none"> Management to ensure that there is a clause for recoverability where consultants fail to assist the municipality in achieving the desired audit outcome; Management must perform monthly VAT reconciliation to ensure accuracy during AFS preparations

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
	Accounting Officer maintained that there is still a need for the use of consultants.	
<p>ISS.20 -COMAF 3: Revenue from non-exchange transactions</p>		
<p>AG noted that the Revenue from non-exchange transactions amount presented in the AFS does not agree to the amount as per the grant register provided. Management did not provide the adjusting journals when resubmitting of the adjusted AFS, further did not submit the adjusting journals within the agreed time of 3 working days to AG despite being given a chance to do so.</p>	<p>1. During the MPAC Public hearings, the Accounting Officer responded that the delay in responding to the AG within stipulated time emanates from the unspent R 36 0909 000;</p> <p>2. This finding is recurring from the 2020/21 Audit report where it clearly stipulates that the unspent grant was R-BIG and there were still no supporting documents for the expenditure;</p> <p>3. Management did not develop proper recording system to ensure easy</p>	<p>1. That the unspent R-BIG of the R36 090 000 be repaid to the National Treasury;</p> <p>2. That the Accounting Officer to provide Council with detailed plan per budget on how the amount in question will be returned.</p> <p>3. MPAC further recommends for external investigations for the expenditure of the R-BIG</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
	retrieval of information when required.	
COMAF 49: No Approvals for New Items Claimed (Kamojou), Payment for Duplication of Work (Kamojou & Bicacon) and Work Not Utilised		
<p>It was noted on payment certificate No. 09 that the contractor claimed for items amounting to R4 244 121 (excl. vat) and R4 880 739, 15 (incl. vat) which were not included in the original bill of quantities. The municipality provided an approved variation order however the items detailed were not part of the approved items. Management disagrees with the findings since the items are part of the original scope.</p> <p>It was noted on the payment certificates of the two contractors i.e. Bicacon trading's payment certificate no. 10 and Kamojou Pty (Ltd) payment certificate no. 09, that there was a duplication of a significant proportion of the works completed by the first and second contractor.</p>	<p>1. Management misled Council into approving designs that were not going to provide the objectives of service delivery;</p> <p>2. The Accounting Officer responded to the committee during the public hearings that a case was opened with the SAPS for theft of material on-site;</p> <p>3. The committee was further assured by the Technical Services directorate during the engagements with the committee that other</p>	<p>1. MPAC further recommends for external investigations for the implementation of the project dating back to its inception date;</p> <p>2. The outcome of the SAPS case and the case number be submitted to MPAC;</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>Management agreed with the finding on wasteful and fruitless expenditure</p> <p>AG noted that the pump station and motor control centre (MCC) building completed by Bicacon trading were not utilised for its intended purpose. The expenditure to date paid to Bicacon was R12 992 201.20, however as per the site visit by AG, none of the works completed by Bicacon was utilised.</p> <p>Management disagree because the change of an engineer always attracts various changes due to the liability factor.</p>	<p>materials were taken to the Municipal stores for use in other projects;</p> <p>4. Observations 2 & 3 above are contradictory and the committee observes a possibility of a cover-up</p>	
<p>COMAF 32, COMAF 48 AND COMAF 63 - LIMITATION OF SCOPE</p>		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>The information requested by AG was not submitted within three days from the date of receipt of the request(s) for information as stipulated in the engagement letter. This finding is recurring for the third consecutive year. The Accounting Officer made a commitment to MPAC during the 2022 Public Hearings that the finding will never repeat. He further promised Council in its sitting dated 30 September 2023 that late submission of AFS will not affect the Audit Outcome. Management did not respond to AG on the finding.</p>	<p>1. Management receives RFI's and COMAF's and ignore until response and submission due date;</p> <p>2. Management in its response to MPAC during the public hearings responded that requests by AG are overwhelming as they request for many items at the same time, this shows that Management is not ready to cooperate with AG and perform their daily duties as expected;</p> <p>3. Management further responded that there is business Engineering currently assisting the Municipality with record keeping</p>	<p>1. That Council be updated on the scope of work for the appointed Business Engineering;</p> <p>2. That Council be updated with proof of evidence, on the progress made by the appointed Business Engineering;</p>
COMAF 38 LIMITATION – COMMITMENTS, COMMITMENTS AND COMMITMENTS DIFFERENCES		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>Supporting documentation for some of the commitments requested were not submitted for audit. The payment vouchers submitted were incorrect.</p> <p>Projects not included in the Commitment register</p> <p>AGSA has noted that Management did not follow the correct framework for the submission of Annual Financial Statements as required by Section 122(1) of the MFMA, where the following differences were identified:</p> <ol style="list-style-type: none"> 1. Capital Commitment 2. Operational Commitment and 3. Limitation of scope <p>Management did not respond to this finding</p>	<ol style="list-style-type: none"> 1. This finding is recurring for the second consecutive year. In his response to the Committee during the 2022 MPAC Public Hearings the Accounting Officer made a commitment to rectify the situation; 2. We have observed the high level of attitude from the Management when responding to AG; 3. The Accounting Officer did not perform due diligence in executing his duties; 	<ol style="list-style-type: none"> 1. Management must improve on record keeping and contract management; 2. The commitment register must be reviewed and each item in the register should be verified for quality assurance; 3. That the commitment register be updated monthly and reviewed quarterly
<p>ISS.52-COMAF 62: Contingent liability assessment was not performed on a continuous basis</p>		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>AG found that the Accounting Officer did not perform an assessment to determine whether an outflow of resources embodying economic benefits or service potential has become probable or remote on continuous basis. Management did not respond to this finding.</p>	<p>1. The committee has learned through council records that the matters under discussion are still under investigations with the Law Enforcement Agencies</p>	<p>1. Legal Services should advise Council on the development of the investigations</p>
<p>ISS 64 - COMAF 92 Contingencies completeness</p>		
<p>AG has identified instances where management had not disclosed certain matters relating to contingent liabilities on Notes 42 of the Annual Financial Statement. (See page 116 of the MR).</p>	<p>1. MPAC has observed that there are elements of erroneous omission and removal of information from the AFS which may be deemed as serious neglect;</p>	<p>1. The Accounting Officer must ensure that the information that is in the AFS is accurate and compliant;</p>
<p>COMAF 11 - ISS.129 - Water distribution losses</p>		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>AG has identified that balances per current year's annual financial statements does not agree to the balance per inventory listing, consequently the annual financial statements were misstated by a total of R8 948 051, 67;</p> <p>Furthermore, In the prior year (2020-21 audit) AG reported that distribution losses were not disclosed, the current year's (2021-22) financial statements submitted for audit reflect a comparative amount for distribution losses. This was however, not considered on note 39 – prior period errors which resulted in the disclosure note being misstated by the amount of R24 152 398 being the amount for distribution losses. AG allowed Management the necessary adjustments to the finding, however it was still inaccurate.</p>	<ol style="list-style-type: none"> The SLA's with third parties are not implemented nor monitored, it is only existent on paper; The indigent policy in the Municipality is also not implemented as approved by Council and this is a huge non-performance by the Municipality as a Water Service Authority 	<ol style="list-style-type: none"> The Municipality must have quarterly engagements with third parties to ensure accurate consolidated figures on all transactions; The Municipality must include a budget for meters in the Water Treatment Plants to account for Water Distribution losses in the next budget cycle; The Municipality should align the methodology of doing water distribution losses with that of the AGSA and consider bench-marking with other District Municipalities for best practices on water distribution methodologies;

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
		<p>4. The Water and Sanitation Directorate together with the BTO must have quarterly bi-laterals for comparison of water transaction figures received from the local municipalities</p>
<p>COMAF 07 - ISS.14 - Differences between the fixed asset register and the annual financial statements COMAF 08 - ISS.15 - Differences between the fixed asset register and the annual financial statements (Depreciation and amortization) and COMAF 09 - ISS.16 - Differences between the fixed asset register and the annual financial statements (Impairment loss - note 26 and note 8)</p>		
<p>AG identified material differences between the annual financial statement and the fixed asset register. The Financial statement disclosure note for property plant and equipment were not reconciled to the finalised and reviewed fixed asset register;</p>	<p>1. Management committed to MPAC during the 2022 Public hearings that all financial transactions including asset and inventory will migrate to mSCOA by 01 July 2022, however, to date there is no progress;</p>	<p>1. Management should update Council on progress in the full implementation of mSCOA for financial transactions;</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
ISS 33. COMAF 31 - Leased assets are depreciated over the lease term instead of the estimated useful life		
ISS 34. COMAF 31 - Leased assets transferred to other PPE at the end of the lease term at fair value.		
ISS 27. COMAF 27 - Prior period error corrections on infrastructure assets not accounted for on work-in-progress assets		
<p>AG noted that there are no reconciliations performed between the GL and fixed asset register to ensure the correctness of property plant and equipment as presented in the financial statements as required by Section 122(1). The Accounting Officer did not ensure that there are processes in place for the transfer of assets to the respective categories.</p> <p>This finding highly contributed to the 2020/21 Disclaimer finding.</p>	<p>1. MPAC has noted the appointment of the accounting firm together with the expected interim audit and will await the outcomes thereof.</p>	<p>1. Management must update MPAC on the developments and ultimately the outcome of the interim audit.</p>
ISS 8 - COMAF 02 – INVENTORIES		
AG identified differences between the financial statements and the underlying records. This finding is recurring for the second financial year.	In places such as satellite offices where inventory recording is taking place and managed, there is limited capacity in	1. All the offices responsible for inventory management, including

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
	<p>terms of warm bodies and tools of trade;</p> <ol style="list-style-type: none"> 1. mSCOA Inventory Module which is able to do the calculation without hassle does exist but not in use; 	<p>satellite office should have internet facilities;</p> <ol style="list-style-type: none"> 2. All employees responsible for inventory management should receive appropriate tools of trade and training, including those stationed at the satellite offices; 3. A system should be developed and connected even in satellite offices to capture all inventory movements. 4. Expenditure should only be debited when the inventory is consumed/issued in line with the requirements of GRAP 12; 5. The municipality must migrate the inventory management to the mSCOA system
<p>COMAF 78 - SS 62 - Expenditure payment not paid within 30 days relating capital and current expenditure</p>		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
COMAF 41 - ISS 63 - Prior years invoice included in the current year expenditure		
<p>AG noted that transactions relating to expenditure incurred in the prior years were included in the current year expenditure resulting in Projected misstatement of R12 334 666.68 Management did not respond to this finding</p>	<ol style="list-style-type: none"> 1. MPAC has noticed that the due process were not followed; 2. Management promised to submit supporting information to MPAC on the 22nd March 2023 however, the information was not submitted. 	<ol style="list-style-type: none"> 1. That the CFO must regularly review the GL to ensure that the expenses are correctly classified
COMAF 40 - ISS 71 and COMAF 39 - ISS 72 - Misclassification of Expenditure within Expenditure and Assets Classified as Expenditure		
<p>AG noted that the municipality did not correctly classify expenses by nature. This finding is recurring for the third financial year. Internal controls that are in place seem to not be working.</p>	<ol style="list-style-type: none"> 1. The municipality insists on using internal controls that are not working 	<ol style="list-style-type: none"> 1. That the CFO must regularly review the GL to ensure that the expenses are correctly classified
COMAF 60 - ISS 73 - Expenditure not approved		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>It was noted that the expenditure management did not ensure that each transaction is supported and reviewed prior to approving the transactions on the system expenditure. Management did not ensure that each transaction is supported and reviewed prior to approving the transactions on the system.</p> <p>A total amount of R 2 516 000.00 was paid to Ntirimbyana Consulting and R2 524 194. 00 to Chango Enterprises were made on the 02/02/2022 and 01/12/2022 respectively without approval of the Expenditure Manager and the CFO.</p>	<p>1. During the public hearings, MPAC noted the negative response reports given to the Committee</p>	<p>1. The progress report on the consequence management applied must be submitted to MPAC within seven(7) days from the date of reporting in Council;</p> <p>2. MPAC recommends for the appointment of external investigation into this matter</p>
COMAF 24 - ISS 25 - Trade and other payables from exchange transactions: Misstatement in corresponding amounts		
COMAF 13 - ISS 26 - Misstatement in trade payables		
COMAF 66 - ISS 101 - Inter-municipal accounts - Difference between amounts in Mopani's annual financial statements and amounts on the local municipalities' annual financial statements		
<p>The management does not perform reconciliations of trade payables on a monthly basis to ensure that the balances presented in the annual financial statement</p>	<p>1. MPAC has learned that the Ba-Phalaborwa Local Municipality does not perform monthly</p>	<p>1. The Accounting Officer should ensure that the Annual Financial Statements are reviewed thoroughly</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>agrees to the balance as per the underlying supporting schedules</p> <p>The AGSA Identified differences from the financial year 2022 and 2021 between the adjusted annual financial statements of Mopani District Municipality and the local municipalities providing water related services on behalf of the Mopani District Municipality. Refer to the table on page 270 of the MR. This finding is recurring for the fourth financial year.</p> <p>In response to the Question referred to the Executives dated 23 March 2022, Management responded "Currently we have started with the reconciliations of inter municipal accounts on a monthly basis"</p>	<p>reconciliations hence the municipality would not have the information to include in the monthly reconciliations</p>	<p>by the CFO and the Audit committee against related information to ensure accuracy of the opening balances.</p>
<p>COMAF 69 - ISS 102</p> <p>COMAF 16 - ISS 7 Reported achievement per the APR does not agree to the achievement as per the schedule supporting the APR</p> <p>COMAF 57 - ISS 88 There is no evidence that the gravel roads graded are verified and certified by the supervisor or senior personnel to the graders as being graded before they are reported in the APR</p>		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>AG noted that there is no evidence to verify that senior personnel have verified and certified that the kilometers of gravel roads that are reported as graded are the actual kilometers graded.</p>	<p>1. MPAC has noticed that the graders in the municipality do not have odometer readings;</p> <p>2. The committee has also noted the odometer readings attached to the MPAC responses however, cannot be sure if the readings are accurate</p>	<p>1. The committee will further visit the graders for oversight purposes</p>
<p>COMAF 58 - ISS 90 - Unfair disqualification of bidders</p>		
<p>AGSA reviewed the bid evaluation report and noted that the bidders mentioned in the table in page 86 of the MR were disqualified for the following reasons:</p> <p>1. Tax Compliance - the listed bidders were only disqualified for an expired tax clearance. However upon inspection of the CSD reports of the bidders, it was noted that the bidders tax status indicated "Tax compliant" ;</p>	<p>1. The Accounting Officer and the CFO have given contradicting responses to the committee during the public hearings and engagement between the committee and the Budget and Treasury Office.</p>	<p>1. The minutes of the BEC must be submitted to MPAC within seven (7) days from the date of this report;</p> <p>2. Management should ensure that the evaluation of bids should be done in accordance with the advertised specifications and conditions on tender and evaluation criteria;</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>2. CIDB status - It was further noted from the BEC report that Zacks Business Enterprise was disqualified as the CIDB certificate expired. However, upon inspection of the CIDB grading verification history on CSD it was noted that the bidders CIDB status was active at the time of the bid.</p>		<p>3. MPAC recommends for further external investigation and report be submitted to Council.</p>
<p>COMAF 58 - ISS 91 - Cost estimate threshold used to disqualify bidders without evaluation</p>		
<p>AG noted Bids have been disqualified without being evaluated based on the budget threshold requirement which is not stipulated in the evaluation criteria, and this contravenes section 112 of the MFMA, Regulation 28 of the Municipal Supply Chain Management Regulations and MFMA circular 29. Having reviewed the BEC report, the AGSA could not find evidence that management applied the CIDB provisions during the evaluation process.</p>	<p>1. MPAC noted during the public hearings that Management did not include the irregular expenses in the UIFW/E register</p>	<p>1. MPAC recommends for further external investigation and report be submitted to Council</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>Furthermore, the evaluation process followed did not comply with National Treasury MFMA Circular no. 29 since the deviation by more than a predetermined range for the cost estimate was not a justifiable reason for the rejection of a bid. As a result of the unfair process followed during evaluation due to contravention of SCM and MFMA regulations, all payments made in relation to this contract must be regarded as irregular expenditure.</p>		
<p>COMAF 87 - ISS 124 - SCM testing of quotations</p>		
<p>AG identified the following issues on incorrect SCM processes not being followed while contravening Section 62(1) (a) of the MFMA:</p> <ol style="list-style-type: none"> Three quotations were not sourced and no deviation was recorded on the transactions in page 294 of the MR; No declaration of interest; 	<ol style="list-style-type: none"> The municipality did not follow due processes in the procurement of water purification chemicals; In response to the questions raised during the public hearings, management responded that there 	<ol style="list-style-type: none"> MPAC recommends for further external investigation into the irregular expenditure incurred and report be submitted to Council; The signed MOU must be submitted to MPAC within seven (7) days from the date of this report

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>3. Reasons for deviation recorded relating transactions on page 295 of the MR were not justifiable.</p> <p>4. According to AG, Management deviated from the process of following normal competitive bidding under the false presence of emergency, which resulted to an irregular expenditure of R 2 183 450.00 for example:</p> <p>You appointed Moremasefoko Trading and Zevofusion Pty (Ltd) for the supply and delivery of 40 l water purification chemicals at a total amount of R1 104 000.00 and R 270 250.00 respectively. AGSA reported that the deviation was as a results of management's inability to design and implement adequate controls to maintain the adequate stock level for chemical used for purifying water.</p> <p>In addition, you appointed Karabo Ya Africa for fumigation of snake repellent chemical spray at a</p>	<p>is a MOU signed with the Sekgosesese community radio station</p>	

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>contract amount of R375 000. 00. AGSA reported that the deviation was as a result of management's inability to implement controls to ensure seasonal snake fumigation on all affected Mopani District Municipality areas.</p>		
<p>COMAF 83 - ISS 126 - Non-compliance with the SCM regulation 36</p>		
<p>AG found the following irregularities in contravention of Regulation 36 of the MFMA resulting in material non-compliance with the requirements of the SCM regulation and an understatement of irregular expenditure by R16 070 747.39:</p> <ol style="list-style-type: none"> 1. There is no evidence indicating that the following Bids were advertised for more than 30 days as required by the SCM regulation; 2. There is no evidence indicating that the bid specification committee compiled the specifications for each of the following bids, furthermore, we could not confirm the basis on 	<ol style="list-style-type: none"> 1. Management promised to submit supporting documents to MPAC by 22 March 2023, however, no information was submitted to date; 	<ol style="list-style-type: none"> 1. That the outstanding information be submitted to MPAC within seven (7) days from the date of this report; 2. That the names and minutes of the Bid specification committee be submitted to MPAC within seven (7) days from the date of this report; 3. That external investigations be conducted on the irregular expenditure incurred.

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>which the Bid Evaluation Committee had evaluated bids listed on page 39 of the MR;</p> <p>3. There is no evidence indicating that the Bid Evaluation Committee has evaluated the Bids on page 40 of the MR.</p>		
<p>COMAF 85 - ISS 131 - No measures to rotate suppliers in pool of panel</p>		
<p>The municipality appointed 68 project consultants into the pool of consultants through a competitive bidding process. Only 68 out of 175 were appointed into the pool of consultants and there is no formally documented process that is being followed when allocating projects to different consultants. AG identified the following deficiencies with regard to the process that was followed to allocate projects to different consultants.</p>	<p>1. MPAC observed that there is no rotation in the allocation of projects to consultants in the pool of consultants.</p>	<p>1. That the SCM policy must be reviewed to provide more guidance in this;</p> <p>2. The Accounting Officer must establish detailed procedures to guide the municipality on how to use the panel of consultants to ensure that SCM processes are fair, transparent and cost effective</p>

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
1. There was no pre-determined criteria of allocating project to different consultants within the panel (See page 301 for the list)		
COMAF 33 - ISS 24 - Unspent conditional grants at year end not supported by cash in the municipality's bank account COMAF 33 - ISS 36 - Unspent conditional grant in the AFS does not agree to the auditor's recalculated unspent amount.		
AG noted that the municipality did not have adequate cash in the bank as at 30 June 2022 even though a portion of the grants received was unspent at year-end. Furthermore, the municipality was unable to demonstrate the split where they overspent on each grant to show where they underspent. We could not confirm the split by alternative means. Therefore, according to AG that implies that the unspent grants were used for other purposes other than what they were intended for. AG also noted that the unspent conditional grant in the general ledger when recalculated does not agree to the amount disclosed as per the financial statements amount	1. The committee has noted that there no plans in place to ensure that the unspent conditional grants are used for their intended purpose' 2. There is no evidence on how the R36 090 000 was spent.	1. That external investigations be conducted for the unspent R36 090 000 2. That the Financial Delegations policy be submitted to MPAC
COMAF 42 - ISS 54 - Revenue non-exchange - RBIG not used for its intended purpose		

AG FINDINGS	OBSERVATION	RECOMMENDATIONS
<p>AG noted that the revenue from non-exchange: RBIG - Covid 19 relief grant of (2021/22 R36 090 000) as stated on the 2021/22 financial statement was recognized without satisfying the conditions of the grant. The misstatement was previously reported in the 2020-21 audit report and on follow-up to the prior year misstatement AG requested supporting information where they requested for payment schedule and supporting documents relating to the spending of the grant. Payment schedule was not provided and supporting documents provided was not related to the RBIG spending, according to AG this indicates that RBIG was not used for its intended purpose. AG further requested supporting information for RBIG COVID-19 relief grant as reported on the financial statement at R36 090 004, AG inspected the supporting information provided and noted the expenses were not funded using the RBIG as such revenue should not have been recognized from RBIG as the conditions were not met.</p>	<p>1. The committee has noted that there no plans in place to ensure that the unspent conditional grants are used for their intended purpose;</p> <p>2. There is no evidence on how the R36 090 000 was spent</p> <p>3. Management responded to AGSA that they agree that there is no plan in place, however the condition of the allocation was done on the grant how the grant should be.</p>	<p>2. That external investigations be conducted for the unspent R36 090 000;</p> <p>3. That the Financial Delegations policy be submitted to MPAC;</p> <p>4. Management must submit the repayment arrangement with the National Treasury.</p>

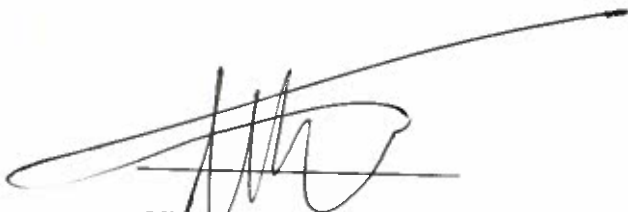
RECOMMENDATIONS ON FINDINGS

1. That Management to ensure implementation of the previous MPAC and Council resolutions;

RECOMMENDATIONS TO COUNCIL

Upon consideration of the Draft Annual Report and all its processes MPAC therefore recommends the following:

2. That Council take note of the Draft Oversight Report on the Draft Annual Report;
3. That Council deliberates on the report;
4. That Council adopts the report;
5. That Council upon all considerations approves the report without reservations;
6. That the report be published in the Municipality's official website;
7. That the report be submitted to the Provincial Legislature, CoGHSTA, SALGA, AGSA and the Provincial Treasury in terms Section 132(1) B of the Municipal Finance Management Act, 56 of 2003;
8. That the recommendations of the report be monitored and implemented by Management, Mayoral Committee and all relevant Portfolio Committees.
9. That the UIF/W expenditure report be submitted in the next council sitting.



Cllr MM MUKHABELE

MPAC CHAIRPERSON

31/03/2023

DATE

ANNEXURE A

Names of Municipal Public Accounts Committee Members

Cllr Mukhabele MM - Chairperson
Cllr Mkhabela DG
Cllr Mashele J
Cllr Morwathsehla MC
Cllr Bokisi GN
Cllr Hlungwani MP

Annexure B

PROJECT VISITS REPORT

MPAC during the session on AR Processes picked some projects on the AG's report findings that adversely affected the audit outcome. Strong emphasis was on the multi-year projects that have not been performing so well. The following projects were visited:

1. Mametja/Sekororo

The project is long overdue as it is at 75% progress with time elapsed of 97% as it is on the snail pace while it is not convincing that the community that are supposed to benefit from that project they will end up getting water.

The project started in March 2008 with an approved project value of **R 10,000 000.00** with its intended purpose of supplying 28 Villages with water. The Municipality appointed Chidaya Consulting Engineers to do the work, in July 2017 the Municipality terminated contract with Chidaya and appoint HWA Engineers for the design and project management of the project at a total amount of **R 40 000 000.00** with the new scope of work of the whole project despite going ahead with the scope that was

done by the terminated contractor. The project will be implemented into phases. Phase one of the project was

1. 19km bulk line DN350mm ductile iron from Richmond Farm to the Willows
2. 16 ML/d Water treatment works at the oaks
3. Command Reservoir at the Oaks
4. Storage reservoirs of 400KL at the Oaks and 300KL at Finale
5. Construction of Bulk line to the Oaks and Finale
6. Construction of bulk line from butswana to Santeng Village

The implementation of construction works of phase 1 of the project started in 2010. The project is not yet delivering water because it is incomplete and the main objective of MDM is to complete the project components of phase 1 and commence with the planning and implementation of phase 2

1. Construction of abstraction weir and pump station at Blyde River
2. Construction of Bulk line from Blyde River Pump station to farm Richmond
3. Construction of balancing reservoir at Santeng, Sedawa including bulk line connection

Sizing and design of bulk water (pipelines, service reservoirs and pump station infrastructure to the 28 villages)

OBSERVATIONS

1. That the designs that were developed by Chidaya were not utilized by the replacement consultant (HWA Engineers and Project as HWA Engineers and Project Managers were appointed for stage 1-6
2. That the pump station and Motor Control Centre (MCC) building completed by Bicacon Trading were not utilized for its intended purpose.
3. Cables from the MCC building had been stolen
4. The expenditure to date paid to Bicacon was R 12 992 201,20 for work not done.
5. That on quarterly reports for April and June 2022 that an amount of R 48 961 196,41 was paid to Chidaya which resulted to Fruitless and Wasteful Expenditure.

6. Management did not adequately plan for the project to avoid duplicate work that have certain items being unutilized and possible Fruitless and Wasteful Expenditure being incurred.

RECOMMENDATIONS

1. That a joint project site visit be conducted with the Water and Sanitation and Infrastructure Portfolio Committees;
2. MPAC recommends for external investigation on the poor performance on the Mametja/Sekororo RWS.