

# MOPANI DISTRICT MUNICIPALITY

## MUNICIPAL PUBLIC ACCOUNTS COMMITTEE



### **OVERSIGHT REPORT ON THE 2018/19 ANNUAL REPORT REPORT DATE: 30 JULY 2020**

**Vision**

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

**Confidential**

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## 1. Introduction

The 2018/19 Draft Annual Report for Mopani District Municipality was tabled in council on the 31<sup>st</sup> January 2020. Subsequently the report was referred to Municipal Public Accounts Committee (MPAC) for oversight responsibilities. MPAC was to comply with legislation and to eventually table an oversight report before council on the 31<sup>st</sup> March 2020.

This Timeline could not be adhered to due to the National Lockdown level 5 as announced by the State President Mr Cyril Ramaphosa on the 21<sup>st</sup> March 2020, in response to curbing the spread of the COVID-19 Pandemic. Ultimately, the Oversight Report is tabled before Council in its sitting dated 30 July 2020 in compliance with the prescribed Legislation.

Public notice on the availability of the 2018/19 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 were also advertised in the various media due to COVID-19 Regulations. This oversight report is therefore an account of the execution of processes as per the council resolution.

## 2. Background

In terms of the MFMA Act no 56 of 2003 - Circular no 11 and no 32, MPAC is required to oversee the Annual Report of the Municipality. The Annual Report, inclusive of the AFS for the 2018/19 financial year and the AG report were submitted to MPAC for oversight and scrutiny. As mandated by Council in its sitting dated 31 January 2020, Resolution no **OCN/11/2020** to probe the presented Annual report, MPAC has fulfilled the obligation and a series of activities unfolded in the run up towards producing this oversight report

## 3. Legal Framework

MPAC as a committee of Council is guided by *inter-alia* the following Legislation:

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. 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 convened on the 04<sup>th</sup> February 2020 to adopt a process plan. A meeting was convened between MPAC and Audit Committee on the 21<sup>st</sup> January 2020 for information sharing regarding the 2018/19 draft annual report. On the 05<sup>th</sup> – 07<sup>th</sup> March 2020 MPAC had a session to probe the referred draft annual report with a view to develop a questionnaire for responses by the executives. The questionnaire was distributed on the 22<sup>nd</sup> March 2020. The executives had responded to the written issues raised. Public hearing was successfully convened on the 23<sup>rd</sup> July 2020.

During the public hearing, the executives were requested to provide portfolio of evidence supporting the information provided. MPAC was to engage on the provided information as part of producing the draft oversight report.

Two engagements were unleashed in the form of written responses and public hearing. Both activities were successfully executed. Projects site visit was conducted on the 06<sup>th</sup>, 09<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> March 2020. Projects visited included: Ramotshinyadi, Joppie-Mawa, Thapane, Makhuva, Selwane, Iketleng, Ramaroka, Ditshosing, Sefofotse, Metz and Thabina to Lenyenye. The committee met again on the 24<sup>th</sup> March 2020 to engage on the submitted POEs and to finally adopt the draft oversight report. Hence, 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 support.

#### **5. Public hearing**

The public hearing was conducted on the 23<sup>rd</sup> July 2020 in Mopani Council Chamber and Virtually through various forms of media including, but not limited to Facebook

live-streaming and Microsoft TEAMS. Invites were issued to the following stakeholders:

- Executive Mayor
- Speaker
- Chief whip
- Members of Mayoral Committee
- Chairpersons of Portfolio Committees
- 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
- Department of Cooperate Governance, Human Settlement & Traditional Affairs (CoGHSTA)
- Risk Committee Chairperson
- Risk Committee Chairperson
- MPAC Chairpersons and support staff from local municipalities
- 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.

## **6. Issues from the Public Hearing/ Findings**

MPAC was engaging on the issues raised by the AG in the 2018/19 draft annual report as findings. This means that the public hearing was premised on the AG findings. Some issues raised had similarities with those raised in the previous financial years.

### **6.1 CASHFLOW**

#### **1. ISS 85: COMAF 125.**

AG noted the difference between the amount audited for cash flow and the cash flow presented in the cash flow statement.

The amount of R 20 552 234 that does not appear in the GL, and therefore the origin is unknown;

Cash generated has the following differences:

Annual Financial Statement R 337 583 323, Amount Audited R 351 534 096 and the total difference amounts to R28 347 80;

Consumer debtors were presented under receivables from exchange transactions, therefore these are duplicated;

There is also an unexplained difference of R13 662 185;

- ❖ Management response was that the differences was not monetary in nature, it was due to different method of calculations.
- ❖ MPAC is of the opinion that, although not monetary in nature it is a finding that recurring and need to be resolved. Different method of calculations should yield the same outcome.

## **6.2 COMMITMENTS**

### **1. ISS 67: COMAF 81 NON SUBMISSION OF REQUESTED INFORMATION**

Information requested through requests **47** and **87** for commitments were not submitted for audit, Management did not respond to the AG in this respect.

- ❖ Management response to MPAC was that the time frame for responding, which was given by AG was not enough for SCM to investigate and locate where the payment voucher was sitting, this is confirmation of poor record management which is one of the most important aspects towards achieving clean Audits;

This is a recurring finding and MPAC has been registering its concern on the issue of record keeping since inception.

### **2. ISS 82-COMAF 99: COMMITMENTS SCHEDULE NOT COMPLETE**

Seven contracts were not accounted for in the commitment Register for financial year 2018/19, therefore commitments as per financial statements are understated;

Management managed to clarify Three (3) contracts to AG and seven (7) remained a finding.

- ❖ Management response to MPAC was that the contracts were for Engineering Consultants which is based on estimates, for which the Municipality was not aware that their Expenditure leads to commitment in nature.

### **3. ISS 83-COMAF 99: DIFFERENCE BETWEEN THE COMMITMENTS REGISTERS AND THE UNDERLYING RECORDS (PRIOR YEAR)**

AG noted the differences between the Commitment register and the re-calculated amount as per payment vouchers partially submitted to support prior year statements for sixteen (16) contractors.

- ❖ Management noted the finding and promised to review the commitment schedule;
- ❖ Management response to MPAC was that after submission of payment vouchers AG requested SCM procurement documentation to support the listed amount, the information was relating to three (3) financial year period, therefore it was cumbersome to compile and it leads to limitations on the part of the audit.

MPAC is concerned about poor record Management which contributed towards a recurring negative audit opinion in most of the findings in the institution.

## **6.3 EMPLOYEE COSTS**

### **1. ISS 136 -COMAF 137: REMUNERATION OF MANAGEMENT ABOVE UPPER LIMITS (Irregular Expenditure)**

AG identified annual packages amounting to R 279 053,75 (Irregular Expenditure) to six (6) Officials (Municipal Manager and Senior Managers) during the year 2018/19, which is above the upper limits approved by the Minister;

In addition to the above, there was a back-pay relating to the cost of living adjustments of 6 % for 2016/17 and 7.36 5% for 2017/18 which was in June 2019, this resulted in irregular expenditure amounting to R 84 003 ,32;

One senior Manager was appointed on the 1<sup>st</sup> November 2018 achieved basic competency level, the concurrence letter from the MEC also acknowledges the basic achievement level with remuneration package of R 932548, however, the remuneration offers granted to the Manager was for the mid-point remuneration package of R 1022885;

One Senior Manager was overpaid an amount of R 147 777,32 instead of R 1 096 262,00

- ❖ Management did not respond to the AG in this regard,
- ❖ Management response to MPAC was that the Gazette for Upper Limits came into effect in December 2017, the mentioned Officials were already appointed when the mentioned Gazette was effective; (NB: the AG in this regard was referring to Gazette no 42023 of the 8<sup>th</sup> November 2018 with special reference to section 7 and 8. In his response during the Public hearings, the Accounting Officer acknowledged the finding and promised that the overpayments would be recovered.

## **6.5 IMMOVABLE ASSETS**

### **1. ISS 90 -COMAF 112: COMPLETE ASSETS INCORRECTLY CLASSIFIED AS WIP**

Eleven projects amounting to R 109 011 678 were completed but still classified as WIP;

- ❖ Management's response to AG was that the completion certificates were not attached by DWS on the final payment certificate

### **2. ISS 111 COMAF 134: ASSETS ON THE FLOOR COULD NOT BE TRACED TO THE ASSET REGISTER**

Six (6) Assets amounting to R29 226 311 ,85 belonging to MDM could not be traced to the asset register (Boreholes and reservoirs);

Management did not provide any responses to AG in this regard.

Management's response to MPAC was that the finding was issued towards the conclusion of the audit as a result there was oversight from Management Team in providing the responses as they were occupied with finalizing adjustments.

The above mentioned findings are recurring, additionally prior year assets amounting to R 40 464 252 were incorrectly classified as WIP. MPAC is concerned because same responses were given in the previous years and yet nothing was done to improve the finding.



## **6.6 OPERATING EXPENDITURE**

### **1. ISS 59 -COMAF 80: PAYMENTS NOT MADE WITHIN THIRTY (30) DAYS**

Twenty-nine (29) payments were not made within thirty (30) days. In some instances, requisitions were not signed by the CFO as evidence of review

- ❖ Management agreed with the finding and promised to rectify going forward.
- ❖ Management's response to MPAC was that late payment of invoices was caused by lack of centralized entry points for submission of invoices by suppliers.

MPAC is concerned about poor SCM systems within the Municipality, this was also raised in the previous financial years

Payments of invoices completed without the signature of the CFO should be a call for consequence Management by the Municipality.

### **2. ISS 101 -COMAF 102: NO SYSTEM IN PLACE TO VERIFY THE OCCURANCE OF BULK PURCHASES**

There is no system in place to verify water charges by MDM to DWS and LNW.

- ❖ Management's response to AG was that they have distributed water to households amounting to R200 000 000, to which AG still insisted that there is no system to validate the monthly revenue collection
- ❖ Management's response to MPAC was that meters receiving water from DWS and LNW will be functional to take daily readings and that once invoices are received from bulk water suppliers, they are verified against daily water readings.

### **3. ISS 142 -COMAF 52: GENERAL LEDGER FROM THE LOCALS NOT IN AGREEMENT WITH THE MDM GENERAL LEDGER**

Expenditure is overstated by R13 379 780 .10, however, Ba-Phalaborwa is resolved. Maruleng finding is incorrect and the actual difference is R155 139 18. An amount of R315 030 ,77 for Letaba was incorrectly captured as positive instead of negative. The remaining uncorrected misstatement is R13 379 780.10

- ❖ Management's agreed with the finding and requested an additional time for adjustments.
- ❖ Management's response to MPAC was the R315 3030, 77 as per Letaba GL was not captured at all in the MDM GL, reason being that the original GL submitted by MDM did not have such amount. GLM updated its GL at the last minute and did not share with MDM.

MPAC is of a view that lack of quarterly reviews leads to the misstatement in the findings.

## **6.7 RECEIVABLES**

### **ISS 116-COMAF: 24 (a) CONSUMER DEBTORS - AGE ANALYSIS DIFFERS TO DEBTORS STATEMENT OF ACCOUNTS**

The debtors for Ba-Phalaborwa and Maruleng are not included in the breakdown per Local Municipality

- ❖ Management agreed to the finding to AG of Ba-Phalaborwa, total gross debtors not agreeing to the total gross balance per age analysis. Management requested for permission to submit upon obtaining the final and correct age analysis for Ba-Phalaborwa.
- ❖ Management's response to MPAC was that the difference was as a result that the Auditor was not aware of the balance per statement of Accounts per Local Municipality, which also includes services which are being rendered such as refuse, electricity rates and taxes.

### **ISS 98 – COMAF: 130 (b) PROVISION FOR DOUBTFUL DEBTS- NO SUPPORTING BASIS OR SHCEDULES FOR PROVISION OF DOUBTFUL DEBTS RECOGNIZED IN RESPECT OF BA-PHALABORWA MUNICIPALITY**

AG was unable to determine the source for disclosure in the financial statement

## **6.8 REVENUE**

### **ISS 51 -COMAF 67: SIGNIFICANT DIFFICIANCIES IDENTIFIED TO SPENDING OF DROUGHT RELIEF FUND**

1. On cheque requisition 146768, the appointment letter is not consistent with the invoice and the requisition. The requisition is for equipping a borehole, complete, installation and erection of stands and pipeline at Khujwane Village, however, the appointment letter is for setting, drilling, testing equipping, construction of pipeline and storage facilities for R540 000. The supplier however, invoiced the Municipality R989 192.10, the supplier was paid R540 000.as per the appointment letter, it is unclear as to why the contractor invoiced R 989 192. 10.
  - ❖ Management did not respond to AG.
  - ❖ Management's response to MPAC was that the procurement process for boreholes are limited to R540 000 as per the adopted rates. The contractor invoiced R989 192.10 instead of R540 000 hence only R540 000 was paid.

The fact that the service provider claimed R989 192.10 proves that there was no service Level Agreement nor proper paperwork in its transaction.

2. On cheque requisition 144265, the Service Provider invoiced the Municipality an amount of R 1 008 732, 95. The invoice is dated 19/03/2019, there is a comment that "You are requested to make part payment of R600 000 only". This is signed by the municipal Manager and is dated 27/03/2019, there is an order of R 600 000 that is attached, signed by the Municipal Manager, however, it is not dated. It is not evident as to what lead to the part payment of R600 000. There is no certification that work was done.
  - ❖ Management did not respond to AG.
  - ❖ In response to MPAC, Management indicated that payment was done as per the instruction of the Accounting Officer.
3. On cheque requisition 1421193, payment was only accompanied by an invoice, it is not clear who directed the contractor to carry out the work, the cheque no above had paid an amount of R782 842.95. It is not clear how the contractor knew which work to carry out in the absence of a written directive from the Municipality.
  - ❖ Management did not respond to AG
  - ❖ Management's response to MPAC was that the matter is still under investigation and the Accounting Officer will act as per the recommendation of

the appointed Investigator. The Official has been suspended and the necessary disciplinary processes are unfolding.

4. On cheque requisition 142508, a Service Provider was paid before being officially appointed, *i.e.* invoices were paid before the date on the appointment letter. The invoice (MDM /RAT-01/18) dated 31/01/2019, however the appointment letter is dated 18/03/2019. The invoice was signed by the Director-Infrastructure on the 05/03/2019. The supplier was paid on the 07/03/2019, which is even before the date on the appointment letter.

- ❖ Management did not respond to AG
- ❖ Management's response to MPAC was that the matter is still under investigation.

5. On cheque requisition 144902, for R600 000 accompanied by an email from the MM's Secretary dated 9/04/2019.

It is not clear what legislative prescripts were followed to process the payment, whether necessary delegations were followed and if it's legally acceptable for the Accounting officer to approve payments telephonically.

- ❖ The Management response to MPAC was that the accountant only captures the payment and approval is sought from the CFO/Deputy CFO and Municipal Manager. There is no legislative prescript that stipulates timeline for processing of payments.

## **6.9 PROCUREMENT AND CONTRACT MANAGEMENT**

### **1. ISS 43 -COMAF 45: THE SUPPLIER DID NOT SUBMIT THEIR DECLARATION OF INTEREST (MBD4) HOWEVER THE MUNICIPALITY WENT AHEAD AND MADE AWARD**

Seven Service Providers did not submit their declaration of interest which resulted in Irregular Expenditure of R624 656.76

- ❖ Management's Response to AG was that they partially agree with the finding. Two of the seven companies were found to have submitted the required declarations, and the remaining irregular expenditure amounts to R 571 825
- ❖ Management's response to MPAC was that there is lack of review on SCM policies and procedures by the Accounting Officer.

### **1. ISS 42 -COMAF 55**

THREE QUOTATIONS NOT SUBMITTED HOWEVER, THE MUNICIPALITY MADE AWARDS TO TEN (10) SUPPLIERS WITHOUT INVITING AT LEAST THREE WRITTEN QUOTATIONS

- ❖ Management's response to AG was that they agree with the findings and will make necessary adjustments

### **2. ISS 44 -COMAF 61**

COMPETATIVE BIDDING NOT FOLLOWED- THE MUNICIPALITY MADE AWARDS OF EIGHT PROJECTS AS INDICATED IN ISS:44 WHICH IS ABOVE R 200 000 WITHOUT FOLLOWING COMPETATIVE BIDDING PROCESSES

- ❖ Management's response to AG was that they agree with the findings and will make necessary adjustments

### **3.ISS 45 -COMAF 61**

DEVIATION REASONS NOT JUSTIFIED

- ❖ Management's response to AG was that they agree with the findings and will make necessary adjustments
- ❖ Management's response to MPAC on these findings was that There is lack of review on SCM policies and procedures by the Accounting Officer.

### **4. ISS 106 -COMAF 59:**

(a) BIDDER DID NOT SUBMIT AFS FOR THREE (3) YEARS

(b) ISS 105 -COMAF 59: FUNCTIONALITY POINTS INCORRECTLY AWARDED

(c) ISS 104 -COMAF 59: BIDDER INCORRECTLY AWARDED POINTS FOR BBBEE-TWO BIDDERS WERE AWARDED POINTS FOR BBBEE WHEN THEY WERE SCORED AS AN EME. THIS WAS DESPITE THE BIDDERS HAVING AN ANNUAL TURNOVER OF MORE THAN R 10 000 000 AT THE TIME OF ASSESMENT

- ❖ Management agreed with the AG finding

- ❖ Management response to MPAC was that the Accounting officer did not exercise due diligence when finalizing appointing Service Providers to ensure compliance with SCM regulations. The Accounting Officer failed to review all processes followed by SCM in the procurement of Goods and Services when appointment was done

#### **ISS 105 -COMAF 59 FUNCTIONALITY POINTS INCORRECTLY AWARDED**

#### **ISS 104 -COMAF 59**

(b) BIDDER INCORRECTLY AWARDED POINTS FOR BBEE-TWO BIDDERS WERE AWARDED POINTS FOR BBEE WHEN THEY WERE SCORED AS AN EME. THIS WAS DESPITE THE BIDDERS HAVING AN ANNUAL TURNOVER OF MORE THAN R 10 000 000 AT THE TIME OF ASSESSMENT

- ❖ Management agreed with the AG finding
- ❖ Management response to MPAC was that the Accounting officer did not exercise due diligence when finalizing appointing Service Providers to ensure compliance with SCM regulations. The Accounting Officer failed to review all processes followed by SCM in the procurement of Goods and Services when appointment was done.

#### **5. ISS 107 - COMAF 59**

COIDA CERTIFICATE SUBMITTED BY THE BIDDER WERE INVALID. COIDA CERTIFICATE SUBMITTED BY THE WINNING BIDDER WAS NOT VALID AS IT WAS REGISTERED UNDER THE NAME OF A DIFFERENT SERVICE PROVIDER

- ❖ Management agreed with AG on the finding
- ❖ Management's response to MAPC was that in future, when awards are to be done, SCM will ensure that submitted COIDA certificates are confirmed against the Labour website to ensure compliance to SCM regulations.

#### **6. ISS 108 -COMAF 59**

ALLOCATION OF SITES TO WINNING BIDDERS NOT TRANSPARENT. SIX (6) SERVICES PROVIDERS WERE AWARDED DIFFERENT SITES, HOWEVER, AG COULD NOT CONFIRM THE METHOD USED IN ALLOCATING SITES.

- ❖ Management agreed with AG on the findings
- ❖ Management's response to MPAC was the allocation of sites was done as per the recommendations of the Bid Adjudication Committee with the discretion of the Accounting Officer when issuing appointment letters.

The expenditures will be included in the 2019/2020 financial year irregular register and subsequently be disclosed in the AFS.

## **7. ISS 121 -COMAF 136**

WINNING CONTRACTOR NOT REGISTERED IN THE CIDB. FIVE CONTRACTORS WERE APPOINTED TO UNDERTAKE CONSTRUCTION WORK EVEN THOUGH THEY ARE NOT REGISTERED WITH CIDB

- ❖ Management did not respond to AG
- ❖ Management's response to MPAC was that the Accounting Officer made the final awards of contracts.

## **5. OBSERVATIONS**

### **5.1 RECURRING FINDINGS**

1. MPAC noted with serious concern findings that are 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;

2. The recurring findings reported are captured as follows:

- ❖ COMAF 114 on Annual Financial statements - 3 Financial years;
- ❖ COAMF 136 on annual report- 2 Financial years;
- ❖ COMAF 56 on Incomplete registers and errors in presentation for UIF- 2 Financial years;
- ❖ COMAF 65 on: PAYDAY user access right
  - User Access Management, no evidence of reviews
  - IT Governance - No approved IT strategic plan
  - No evidence of formal access to request documentation
  - Backup register and evidence to prove that the backups are done on weekly basis - (All the above findings on COMAF 65 recurred for 2 Financial years);

- ❖ COMAF 50: Retention register not agreeing to the financial statements and the trial balance -2 Financial years;
- ❖ COAMF 10: Inconsistency between planned targets per SDBIP and APR; and presentation inconsistency between the APR and the SDBIP- 3 Financial years;
- ❖ COMAF 70: Incorrect opening balances - 3 Financial years;
- ❖ COMAF 29 & 36: performance Indicators not well defined PMDC- 3 Financial years;
- ❖ COAMF 43: Significant difference between APR and supporting documents submitted for Audit- 3 Financial years;
- ❖ COMAF 101: AOPO LED strategic objectives -3 Financial years;
- ❖ COAMF 86: No justifiable reasons for not inviting all contractors on the approved panel of contractors-2 Financial years;
- ❖ COMAF 24 & 84: Consumer Debtors, difference between the financial statements and the debtors age analysis, inconsistencies in the notes and not classified account payables-2 Financial years;
- ❖ Accumulated surplus – difference between the general ledger and the AFS -4 Financial years;
- ❖ Presentation of prior period errors -2 Financial years;
- ❖ Contract Management deficiencies-3 Financial years;
- ❖ Difference between the listing and supporting documents- 3 Financial years;
- ❖ Contracts not signed by both the Municipality and Service Providers- 5 discovered;
- ❖ Projects recorded without contract numbers- 7 discovered
- ❖ Three Investigation reports were not tabled in Council and this results in wasteful Expenditure- 3 Financial Years;
- ❖ Lack of update on implementation of Council resolutions- 3 Financial years;
- ❖ Two public Protector Reports not referred to MPAC and the status of implementation thereof not tabled in Council.

## **5.2 OBSERVATIONS ON PRIOR YEAR MATTERS**



1. MPAC has also observed that out of the 19 Recommendations from the previous year, the six (6) tabled below were not addressed:
  - i. That there be monitoring by the Executives and relevant committees to all Service providers;
  - ii. That the Audit Action Plan be seriously intensified and engaged in all Portfolio Committees for the purpose of monitoring the progress on implementation thereof;
  - iii. That the internal financial control system or measures be activated amongst others to prevent financial misconduct and further duplication of payments to service providers, as well as unnecessary overspending on Budget;
  - iv. That the investigations on the entire population be conducted to identify the root causes regarding the duplicated payment on Boreholes (as per ISS 28 and 112);
  - v. That consequence Management be applied to all those who approved the unauthorized expenditure without following due processes;
  - vi. That Council ponder on budgeting towards the intervention on records management programmes, this should have started in the new financial year (2019/20);
2. In the past Council engagements, MPAC made several submissions regarding the tabling of quarterly deviations for purposes of investigations and this was not done;
3. The use of Regulation 32 denies the Local business opportunities and the Municipality is also unable to collect revenue through the sale of tender documents;
4. MPAC is concerned with the continuous incorrect calculations in the remuneration of Councillors and Officials; as well as miscalculations in the payment of S&T, which has an adverse impact on the Financial Management of the Municipality as well as poor psychological and economic well-being of the Individuals concerned;
5. Expenditure patterns for the current year has deteriorated immensely by % as compared to the previous year;

6. This calls for Oversight Committees to play their oversight role in expenditure patterns;
7. In our annual Report AG findings are categorized as follows: there are 62 matters affecting the Audit Outcome, 85 other matters, 33 Non-compliance with Legislation, 72 misstatements in the financial statements and 23 misstatements in Annual Performance Report.

## 6. RECOMMENDATIONS

MPAC recommends that:

1. All Oversight Committees should play their role of oversight on observation No. 7 in order to achieve a clean Audit;
2. All Recommendations from previous year(s) as tabled in Council by MPAC be addressed as a matter of Urgency;
3. Council must approve, the Accounting Officer should monitor the implementation of Action plans to address internal control deficiencies;
4. The Accounting Officer must ensure that risks are periodically identified, assessed and effectively mitigated;
5. The following aspects must be properly considered and be made available to Council prior commencement of all new projects above R 1 000 000:
  - 7.1 Risk Assessment Report and
  - 7.2 Community Consultation Report
6. Pre-planning and prioritization of projects should be done as per quarter to allow processes of SCM and also to speed up Municipal spending patterns;
7. There must be proper and improved project management system which takes into consideration the following:
  - 7.1 Designs
  - 7.2 Planning
  - 7.3 Implementation
  - 7.4 Monitoring and Reporting (See attached Simplified Project Proposal Annexure C)
8. The Project Management systems mentioned above, should be made available to relevant Portfolio Committees for oversight purposes;

9. The Accounting Officer must ensure that the PPR 2017 and pre-qualifying conditions stipulated in RFQ and Bid documents are considered when evaluating tenders in order to avoid non-compliance and payments relating to the appointment of security contracts should be disclosed as irregular;
10. Skills Audit should be carried out and consequence management should apply to officials in the Finance Department who continuously miscalculate remuneration of Councillors and officials as well as the payment of S&T. A comprehensive report in these regard must be submitted to MPAC before the next Council sitting (These errors continued from the past financial years);
11. Treasury Regulation no 17 and 25(7A) should be considered when evaluating tenders in order to avoid non-compliance;
12. Management must resolve the dissatisfaction of the AG concerning journals amounting to R42 101 459 that were processed in the inter-municipal account and submit evidence to MPAC;
13. The Accounting Officer should put measures in place to reduce over-reliance on consultants by drafting a consultancy reduction plan as well as detailed GAP analysis prior to appointment of consultants;
14. Financial Statements should be thoroughly reviewed against the financial records prior to the final sign off by the Accounting Officer;
15. Asset Management should ensure that the AFS are supported by a complete set of accounting records;
16. The Accounting Officer should ensure that internal controls provide reasonable assurance that all expenditures are necessary, appropriate, paid promptly and reported (COMAF 80);
17. There should be consequence Management for reporting of performance that is not credible and also for the disregard of applicable laws and regulations by officials involved in making awards;
18. On AOPO (Basic Service Delivery) there should be review of indicators together with happy letters to ensure that the correct information is reported. Disciplinary Action should be taken against officials and politicians where beneficiaries received VIP toilets even though they were not on the initial allocation list;

19. The SDBIP should form the basis for APR. Management should ensure that there are adequate reviews of the APR and applicable strategic objectives per SDBIP are disclosed;
20. The institutional strategy and performance division should develop processes to ensure that the APR is supported by credible information, controls over data collection, collation, validation and reporting of Performance Information needs to be strengthened to ensure the prevention of misstatements in the APR;
21. All deviations be submitted to MPAC quarterly for the purpose investigation;
22. Management should ensure compliance with Section 46 of the MFMA by ensuring that there is comparison between current and prior year performance, measurement taken to improve performances are disclosed for targets not achieved. Management must also ensure that the measures are backed up by relevant supporting documents, measures taken should not just be general statements;
23. All Council Resolutions implementation progress be tabled in Council quarterly;
24. Progress on implementation of Action plans be a standing item in all Portfolio Committee meetings;
25. Allocation of Tools of Trade for the MPAC Chairperson be fast-tracked to enable effective running of the committee and for the protection of sensitive information as discussed in the Committee;
26. Council approves the 2019/20 Draft Annual Report without reservations;
27. Council adopts the oversight report on the 2019/20 Annual Report as tabled by MPAC;
28. The Oversight Report be submitted to relevant Oversight Structures such as the Auditor General, Provincial Treasury, Provincial Legislature, SALGA and CoGHSTA,

  
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Cllr Nkhwashu M.C

MPAC Chairperson

30/07/20

  
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Date

## ANNEXURE A

### Names of Municipal Public Accounts Committee Members

Cllr Nkhwashu M.C - Chairperson  
Cllr Zandamela N.H  
Cllr Moshole S.P  
Cllr Mashele J.G  
Cllr Maluleke T.M  
Cllr Hlungwani I

## Annexure B

### **PROJECT VISITS REPORT**

MPAC during the session on AR Processes picked some projects on the AG's findings report that adversely affected audit outcome, following the AR processes the committee has conducted the projects visits. The following projects were visited:

#### **1. KAMERSRUS PHASE 1**

##### **A. INADEQUATE SUPERVISION BY THE MUNICIPALITY**

Variation to the amount of R633 205 55.50 was never brought to Council for approval as required by section 116(a) of the MFMA. Environmental impact assessment was conducted by the terminated consultant, however, this assessment was performed on a different site and nowhere near where the facility was built. The Municipality paid R122 076,02 for this assessment. The Municipality accepted the mechanical and electrical designs which could not fully function upon completion and commissioning. N.B This was evident by the commissioning and the Assessment report by the replacement consultant. The assessment recommended that the Municipality should redesign, retrofit the existing plant to make it fully functional, safe and compliant. The

estimate cost amounted to R216 486 5.55. The Municipality paid 0R1 471 596.30. For the design development stage of the facility.

#### **B. WATER USE LICENSE (WULA)**

The Municipality only applied for the water use license after achieving the practical completion. The absence of the water use license presents the risk of the operation of the treatment plant being delayed. It will therefore not be possible for the treatment plant to operate without the WULA approval.

#### **C. INACCURACIES OF QUANTITIES AND ALLOWANCE PAGE 144.**

The measurement of some quantities during construction increased excessively e.g. quantities for hard rock increased by 681% R 1 735 871.00 which indicates lack of comprehensive planning. In addition, the Municipality paid R348 627 .97. For the Geotechnical investigation. However, no evidence of the Geotechnical investigation was provided in this case. The cost was increased.

N.B The Municipality should ensure that claims are assessed against BOQ and assessed for reasonability to ensure that claims are valid.

#### **D. COMMISSIONING**

The project achieved practical completion on 2 April 2018, approximately 18 months after practical completion, the project had not yet been commissioned. As a result, some of the mechanical and electrical equipment were likely to fall out of the warranty period before they were commissioned.

## **2. KAMERSRUS PHASE 2**

### **A. DELAYS**

The site was handed over on the 24<sup>th</sup> June 2015 with completion scheduled to be on the 24<sup>th</sup> June 2016. The project was visited in October and it was still not completed, yet the Contractor was still on site.

Reasons for the delay:

- Community Court Interdict
- Delays on the approval of the revised designs
- Delay on suspension of works

Delays had resulted in additional costs amounting to R300 7779.13 (excluding VAT)

## **B. PROFESSIONAL FEES**

CV Chabane was appointed as engineer for designs and contract administration. On the 22<sup>nd</sup> September 2017 their services were terminated as a result of non-compliance. The court order ruling passed in March 2016 however; the Municipality did not ensure that the consultant adheres to the ruling as a matter of urgency. (The Consultant was required to survey the area amongst other deliverables). He was paid R475 0163 53. For the professional services rendered. In addition, they were also paid R349 491 .22. for the surveys.

## **OBSERVATIONS**

- ✚ MPAC has observed that the Municipality payed for sub-standard work in Kampersrus Phase 1;
- ✚ There is risk of incurring additional costs upon commissioning should the facility not be functional;
- ✚ The time related cost are deemed to be Fruitless, and Wasteful Expenditure.

## **RECOMMENDATIONS**

MPAC recommends that:

- ✚ The Municipality should apply for the Water Use License for Kampersrus Phase 1;
- ✚ The Municipality should hold the consultant accountable and claim against their professional indemnity insurances to recover any losses that the Municipality incurred;
- ✚ The Municipality should ensure that projects are commissioned upon achieving practical completion to ensure that all equipment are commissioned within the defects liability period;
- ✚ The accounting Officer should investigate and hold Officials accountable for the Fruitless and Wasteful Expenditure amounting to R4 591 237.27.

### **3. Mokwasela Scheme:**

It was found that the project is complete but is not serving any purpose to the community at large. The dysfunctionality of other boreholes of the village has

an adverse effect on the supply of water to some areas in the village. After intervention, the project is still not operating at its full capacity. There is therefore a need for another intervention which should start with the engagements.

**Challenges:**

- ✚ Boreholes were drilled according to the scope of work but not equipped.
- ✚ Pipes are left out by flood because there were not in depth.
- ✚ Problem of soil erosion.
- ✚ Upon testing, water was tested from the truck not from the elevated steel tank. Which means that there was no proper testing of water.

**Recommendations:**

- ✚ That the retention money of the contractor must not be released until they go back on site and do proper work as per their scope of work.
- ✚ That a public participation be conducted.

**4. Iketleng Borehole Development:**

The project is complete and the surrounding villages are receiving water from the project except one village called Mollong there not receiving even drop of water. And according to the ward councillor and steering committee the project was supposed to be done in that village.

**Challenges:**

- ✚ Poor Communication with the ward councillor.
- ✚ Seating allowance of steering committee members not paid up to date.
- ✚ The project came to a wrong village.

**Recommendations:**

- ✚ All the retention money before paid there must be a community meeting.

**5. Ramaroka to Ditshosini Reticulation and House Connection:**



The project is complete; however, it is not functional, it was a six months' project funded by the MIG. Its scope of work was to refurbish the pump house and change it to concrete and installation of 161-yard connection of steel taps.

#### **Challenges:**

- ✚ Out of three boreholes in that village only 1 borehole that is functional. however, there are two other boreholes that has water they only need equipment and energizing in order to support the existing one.
- ✚ Delay in receiving written approval of additional fund from the DWS.
- ✚ Training of local labourer were not done.

#### **Recommendations:**

- ✚ Before the retention money can be paid to the contractor the workshop for labourer must be done.
- ✚ That the additional of two boreholes is needed.
- ✚ To FastTrack the enegirsing of the Boreholes.

#### **6. Sefotse Reticulation Phase 2A,2B and 2C:**

They completed 683-yard connection was done. However, there are some challenges in order for the community to receive water they must wait for phase 2E to unfold.

(a) **Phase 2D:** The project is at advance stage to be completed but it has some challenges its completion date is 11/05/2020.

- Waiting for the engineer to come and specification of steel pipes.
- Blasting not yet done because of dawn tool of workers.

(b) **Phase 2E:** This phase is at advance stage to be finished, its initial completion date is 20/06/2020.They have drilled 8 boreholes that can cater all the phases, however the engineer left the site due to non-payment since January 2020. And the contractor of this project does not have financial muscle.

#### **Recommendations:**

- ✚ That all these phases must be finished within this financial year to avoid irregularities.

**7. Selwane Water Supply Phase 1B.** The project was completed in August 2018, however upon its completion it has some challenges its scope of work was construction of water reticulation network at Nondweni Village, 350 kl steel elevated tank at Mukhwanana Village and 435kl steel elevated tank at Nyakelang Village:

**Challenges:**

- ✚ Out of 51 taps installed only 7 are working.
- ✚ Issue of illegal connections.
- ✚ The main pipe was burst before the project hand over but not replaced.

**Recommendation:**

- ✚ That the contractor must do an investigation and correct all the challenges raised before retention money can be paid.

**8. Selwane Water Phase 2C:** The project started on the 13 November 2019 its completion date is 18 March 2020 it is a three months' project. Its scope of work is Installation of the Reticulation including communal taps and repair works as the existing reservoirs and installation of 36 stand taps, Inlet and Outlet holes.

**Challenges:**

- ✚ Stand pipes are not assisting the community due to illegal connections.

**Recommendations:**

- ✚ That the infrastructure Portfolio Committee to find a way of dealing with the issue of stand pipes to in yard connections.

- This project was started on the 10<sup>th</sup> December 2018. The expected date is 10 December 2019. The area is not reticulated. It was commissioned but cannot operate because there are no operators.
- It has a contingency of R26 866 780, 93.
- The project has created 26 jobs and 8 are youths.
- Eskom application was done and follow-ups were being made for installation.

### **9. Metz Rehabilitation, Upgrading of 3.9 km of internal water reticulation network:**

The project was started on the 01 June 2018 and its initial completion date was 31 August 2018. The completion date was extended to 03 October 2018 due to the additional work given to the contractor. The additional work was for sealing and Fencing. The contractor was penalized, and the final completion was 16 April 2019.

The project installed 30 stand pipes, the source of this project is boreholes.

#### **Challenges:**

- ⬇ The project came to a wrong village whereas there is one other village called Rakoma they don't even have drop of water, this is because of non-communication with the ward councillor when projects are handed by Mopani District Municipality. Other than that, there was a value for money in this project because they receive water.

#### **Challenges:**

- ⬇ Two 10 000 litres jojo tanks were erected at Rakoma Village with a drilled borehole that it has lot of water but not equipped and energized since 2018.

## Annexure C

### Simplified Project Proposal

Large, complex mega-dollar projects that are outsourced by customers using a request for proposal result in contractors preparing and submitting comprehensive proposals that can be voluminous and detailed and include much of the information discussed in the previous section (Proposal Contents). However, many smaller or less complex projects may not require such extensive proposals. In other cases, contractors may even submit an unsolicited proposal prior to the customer's preparation of an RFP. In both of these situations, a simplified or basic proposal may be appropriate and sufficient. Such a proposal should include the following elements as a minimum:

1. *Statement of customer's need.* This should clearly describe the contractor's understanding of the customer's need or problem and reference any information or data to support the need. For example, if the customer has a need to expand by building a retail outlet in a certain geographic region, the contractor may reference some data on the emerging trends for such a retail outlet or the demographic data for the region where the store will be located. This will demonstrate to the customer that the contractor has made the effort to gather background data relative to the customer's need. In this section of the proposal, the contractor should try to quantify the customer's current condition or opportunity in order to establish a baseline for measuring project success.
2. *Assumption.* Sometimes the customer may not provide certain information in defining their needs, may be unintentionally ambiguous about an item, or perhaps may not even address an issue at all that the contractor thinks is significant and necessary to performing the project successfully. In such instances, it is appropriate for the contractor to state any assumption that may affect the contractor's scope, schedule, or price. An example might be that the customer would accept upgrading the user interface of all workstation from the current keypads to touch screen technology. Another case may be an assumption that all work regarding reconfiguring office space would be done on weekends to minimize disruption to workflow during normal work hours. Listing

assumption can also be away for the contractor to address topics that might make its proposal more competitive than that of another contractor.

3. *Project scope.* This should describe the contractor's approach to addressing the customer's need or solving the problem, define specifically what work task the contractors proposes to do, and outline how the contractor expects the customer to be involved throughout the project. This is the critical section for the proposal. It should be sufficient detail to convince the customer that the contractor's approach and how they will benefit the customer. An example is the contractor's stating that it will incorporate a unique design technique or use proprietary material that will result in significantly lower life cycle costs for the new system, Or it may be the contractor's mentioning how it will capitalize on its knowledge gained from successfully completing similar projects in the last five years.
4. *Deliverables.* The contractor must list all the tangible products or items it will provide on the customer during the performance of the project. Depending on the project, these can include such items a progress reports, concept designs, prototypes or mock-ups, specifications, reports, workbook, videos, brochures, a website, a database, hardware, a building, furniture, workshops, equipment and so on. The contractor need to assure that all deliverables will be done in accordance with the customer's acceptance criteria. The more descriptive and quantitative the contractor can be regarding the deliverables, the better it will demonstrate its knowledge and confidence in accomplishing the customer's project objective.
5. *Resources.* This discusses the type of expertise and skills that the contractor will utilize on the project, including any key subcontractors, consultants, or suppliers. This section provides another opportunity for the contractor to state any unique or competitive advantages, such as by highlighting the well-regarded expertise or experience of specific individuals who will assigned to the project. Other resources to mention might include the availability of unique equipment such as high-precision production equipment to manufacture components that must meet the customer's rigorous specifications or a proprietary environmental testing chamber to perform required acceptance tests. This portion of the proposal is very important because it allows the contractor to persuade the customer that the contractor has the right type of

resources available and the project management wherewithal to successfully established with the customer that will be based on timely and open communication and avoidance of any unpleasant surprises.

6. *Schedule.* This should include a list of key milestones with their target dates or cycle time from the start of the project. The more detailed it is, the easier it will be for the customer to see the well-thought-out plan. Providing a graphic depiction of the schedule in the form of a network diagram or bar chart could increase the customer's confidence in the contractor's ability to manage the project and provide all the deliverables in accordance with the customer's requirements.
  
7. *Price.* The contractor needs to indicate the bottom line price to perform the project. It is also important to include a discussion to convince the customer that the price is fair and reasonable for work the contractor is proposing to do. The emphasis should be on the value provided and not on how low, or "cheap," the price is. For example, the contractor should describe the unique things it brings the project that add value.

Sometimes the contractor may suggest several alternatives or options to the customer's basic requirements, and therefore provide a price for each option or alternative for the customer to consider. An example may be an option to increase the structural strength of a building during construction in order to make it less expensive to add several more floors in future.

8. *Risks.* If the contractor has concern about any risks that have a high likelihood of occurrence or a high degree of potential impact, then these risks should be pointed out to the customer. This will show the customer that contractor has experience and a realistic approach to performing the project and want to avoid surprises. An example of such a risk is that the location here the customer wants to build a child care center has a high likelihood of large rock formations under the top soil, which may prolong the excavation of the foundation, impact drainage, and affect the cost of the project. Another case may be the customer's requirement to use its existing software language in a project to

upgrade its information system, which may create a risk of the system becoming obsolete; this would make the information system more expensive to maintain, and it might be more expensive to hire people with knowledge of the outdated software.

9. Expected benefits. This is an important section of the proposal because the contractor can pull together information from the preceding sections and make a case to justify the “value” of the proposal in terms of expected quantitative benefits such as return on investment, payback, cost savings, an increase in productivity, reduced processing times, faster time-to-market, and so on. This is an excellent way to conclude the proposal on a positive note, emphasize the distinguishing features of the contractor’s proposal, and indicate the qualitative and quantitative benefits the customer will obtain if they select the contract to perform the project.

The focus of the proposal should be on quality of the content – clear, concise, and convincing – rather than quantity or number of pages. Many simplified projects proposals range from 4 to 8 pages, and they are usually less than 20 pages. It is appropriate to attach appendices such as resumes of key people who will be assigned to the project, back-up details for cost estimates, or a list of past-related projects and associated references.