

# EPHRAIM MOGALE

## LOCAL MUNICIPALITY

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### EXTRACTS FROM THE MINUTES OF THE 7<sup>TH</sup> SPECIAL COUNCIL MEETING OF EPHRAIM MOGALE LOCAL MUNICIPALITY HELD ON THURSDAY THE 31<sup>ST</sup> MARCH 2016

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FILE/S: 9/1/1

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SC7/01/2016 OVERSIGHT REPORT OF ANNUAL REPORT 1 JULY 2014 TO 30 JUNE  
2015 9/1/1

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#### RESOLVED

1. That the Council having fully considered the circulated Annual report for the period 1 July 2014 to 30 June 2015 and representations thereon, adopts the oversight report.
2. That council review of organizational structure; and amongst others, a consideration is made to have Asset Management as a standalone unit with a divisional manager and adequate number of subordinates. Once the process is finalized and approved; the filing of vacancies in that unit will be of high priority
3. That the steering committee made of directors and chaired by the Mayor /EXCO member responsible for Budget and Treasury will hold meetings every three weeks to report on the progress made in the implementation of the action plan and Internal audit unit assign one internal auditor to conduct follow-up audits on a weekly basis to verify and corroborate with evidence the progress reported in the steering committee meetings. Such internal audit reports will be presented and discussed in the steering committee meetings.
4. MPAC's recommend that the following process of implementation with regard controls to Outsourcing:
  - o Develop a policy/strategy on use of consultants and have it approved by council.
  - o Develop a standardized memo/proposal to be used when requiring use of consultant. The template will incorporate useful information such as cost effectiveness, formal needs assessment etc.
  - o Provide officials with workbooks to document skill transferred and have the workbooks monitored.

5. That the oversight report be made public within seven days of adoption of the report
6. That council approve report template with the recommendations.
7. That council approves report with reservations
8. That the Council instructs the Municipal Manager to implement the decision accordingly.



**L.B. MODISHA  
SPEAKER**

**31 MARCH 2016**

**FINALISATION BY:**

Referred to Manager WP .....by Municipal Manager



**M.M. Mathebela  
Municipal Manager**

31/03/16

**Date Received**

## **PURPOSE**

To table to Council the Municipality's Annual report for the period 1 July 2014 to 30 June 2015 and the Oversight report for adoption

## **BACKGROUND**

The council at its meeting held on 25 January 2016 resolved:

- That the Council take cognizance of the circulated Annual report for the period 1 July 2014 to 30 June 2015.
- That the Council approves that the report be made public and invites the local community to submit representations in connection with the annual report for 2014/15.
- That the annual report be submitted to the Auditor-General the relevant provincial treasury and the provincial department responsible for local government.
- That MPAC prepare an oversight report on the annual report for 2014/15 before 31 March 2016
- That the Audit Committee chairperson tables the Audit reports to every ordinary Council sitting.
- That the Council instructs the Acting Municipal Manager to implement the decision accordingly.

## **COMMENTS**

The Speaker's office embarked on a program in 16 February 2016 to 19 February 2016 to consult the community on the annual report and the comments received was given to MPAC

The annual report was tabled on 25 February 2016 at Council meeting for council to consider the oversight report

The Annual report was checked by the AG and amendments made according to advise from AG and signed by AG, a copy of which is attached

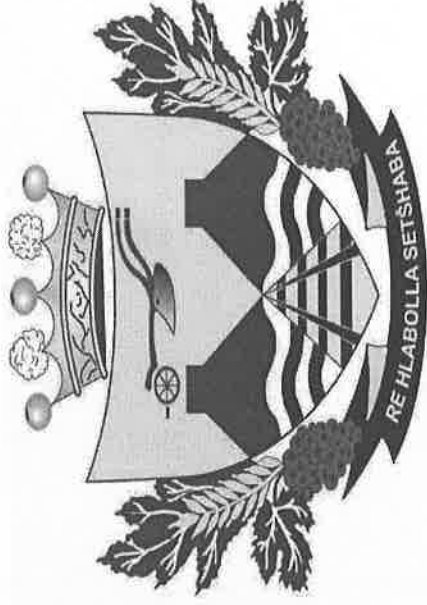
Attached also is the oversight report from MPAC and report writing

## **RECOMMEND TO RESOLVE**

1. That the Council having fully considered the circulated Annual report for the period 1 July 2014 to 30 June 2015 and representations thereon, adopts the oversight report.
2. That council review of organizational structure; and amongst others, a consideration is made to have Asset Management as a standalone unit

with a divisional manager and adequate number of subordinates. Once the process is finalized and approved; the filing of vacancies in that unit will be of high priority

3. That the steering committee made of directors and chaired by the Accounting officer will holds meetings every three weeks to report on the progress made in the implementation of the action plan and Internal audit unit assign one internal auditor to conduct follow-up audits on a monthly basis to verify and corroborate with evidence the progress reported in the steering committee meetings. Such internal audit reports will be presented and discussed in the steering committee meetings.
4. That to address this challenge raised by AGSA on the work executed; the accounting officer appoint a service provider responsible for AFS on a multi-year contract
5. MPAC's recommend that the following process of implementation with regard controls to Outsourcing:
  - o Develop a policy/strategy on use of consultants and have it approved by council.
  - o Develop a standardized memo/proposal to be used when requiring use of consultant. The template will incorporate useful information such as cost effectiveness, formal needs assessment etc.
  - o Provide officials with workbooks to document skill transferred and have the workbooks monitored.
6. That the oversight report be made public within seven days of adoption of the report
7. That council approve report template with the recommendations.
8. That council approves report with reservations
9. That the Council instructs the Acting Municipal Manager to implement the decision accordingly.



## **Ephraim Mogale Local Municipality**

# **OVERSIGHT REPORT**

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**OVERSIGHT REPORT OF ANNUAL REPORT 1. JULY 2014 TO 30 JUNE 2015**

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**OVERSIGHT PROCESS FOLLOWED** .....

**1. LEGISLATIVE MANDATE FOR THE OVERSIGHT REPORT**

In terms of Local Government :Municipal Finance Management Act 56 of 2003 section 129 states that the Council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control and by no later than two months from the date on which the Annual Report was tabled in Council in terms of Section 127, adopt an Oversight Report containing the Council's comments on the Annual Report, which must include a statement whether the Council has:

- Approved the Annual Report with or without reservations;
- Rejected the Annual Report; or
- Has referred the Annual Report back for revision of those components that can be revised.

The Council of Ephraim Mogale Local Municipality has the responsibility to oversee the performance of the Municipality, as required by the Constitution, the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA). On 25 January 2016, Council considered the 2014/15 Annual Report of the Municipality and referred the Report to the Municipal Public Accounts Committee for review and the drafting of this Oversight Report.

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

The MFMA (Section 129 (1)) and National Treasury's (NT) Circular 32 direct and guide the oversight process and the preparation of the oversight report. Circular 32 recommends that Council establish an Oversight Committee to prepare an oversight report, in order

that all Councillors be provided with a more detailed and comprehensive analysis of the Annual Report than would have been practical otherwise. This assists Council in providing better oversight over municipal performance.

The Ephraim Municipal Account Committee members were appointed on the 17 July 2014 and it is comprised of the following members

<b>MPAC MEMEBRS</b>	
<b>1. Cllr M.G Phala</b>	<b>Chairperson</b>
<b>2. Cllr B.G Mashego</b>	<b>Member</b>
<b>3. Cllr M.J Mokonyane</b>	<b>Member</b>
<b>4. Cllr M.J Nchabeleng</b>	<b>Member</b>
<b>5. Cllr J.H Bogopa</b>	<b>Member</b>
<b>6. Cllr M.M Kekana</b>	<b>Member</b>
<b>7. Cllr S.C Mamogobo</b>	<b>Member</b>
<b>8. Cllr O.E Sebothoma (deceased) Replaced by J Kekana)</b>	<b>Member</b>
<b>9.Cllr K.N Kekana</b>	<b>Member</b>

The Municipal Public Accounts Committee met on the 02– 04 March 2016 at the Gooderson Sanrock , to consider and interrogate the 2015/16 Draft Annual Report against the legislative requirements and generate the Oversight Report with recommendations to Council.

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

The meetings of the Municipal Public Accounts Committee on the 2014/15 Annual Report, as reflected below, were open to the public and media to ensure a transparent and credible oversight process



## PUBLIC PARTICIPATION OF ANNUAL REPORT 2014/15

WARDS	VENUE	DATE	TIME	Presenters
<b>11,12,13</b>	Mabitsi community hall	16 Feb-2016	10h00	EXCO & All Cllrs
<b>14,15,16</b>	Morarela community Hall	18 Feb-2016	14h00	EXCO & All Cllrs
<b>8,9,10,</b>	Mamphogo	18 Feb-2016	10h00	EXCO & All Cllrs
<b>1-6</b>	Matlelerekeng satellite office	19-Feb-2016	10h00	EXCO & All Cllrs
<b>7</b>	Marble Hall Town Hall	19 Feb-2016	17h00	EXCO & All Cllrs

**2. Comments on the 2014/15 Draft Annual Report**

## 2.1 Comments on the Municipal Finance Management Act

Legislative requirement	Level of compliance
<p>a) The annual financial statements are to be compliant with the generally recognized accounting practices (GRAP)</p>	<p>EPMLM 2014/15 Draft Annual report contains the audited financial statements as presented to Council on the 25<sup>th</sup> January 2016.</p>
<p>b) The Auditor-General's Report is to be included in the Annual Report</p>	<p>complied</p>
<p>c) Explanations to be included that are necessary to clarify issues in connection with the financial statements</p>	<p>complied</p>
<p>d) An assessment on arrears on municipal taxes and service charges to be included</p>	<p>EPMLM 2014/15 Draft Annual report contained the said documents as presented to Council on the 25<sup>th</sup> January 2016.</p>
<p>e) Corrective action taken or to be taken in response to issues raised in the audit reports</p>	<p>Non-compliant</p>

## 2.2 Comments on Division of Revenue Act

Legislative requirement	Level of compliance
<p>a) The Annual Report to disclose:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Details of conditional grants received from national and provincial spheres;</li> <li><input type="checkbox"/> Details of conditional grants received from other municipalities; and</li> <li><input type="checkbox"/> Details of grants made to any organs of state</li> </ul> <p>b) The extent to which the conditions of the grants were met</p>	<p><b>Complied</b></p>
	<p>The extent to which conditions of the grants were met were not verified due to the non-availability of audited financial statements, Not all grant.</p> <p>Rollover money not send back to National treasury</p> <p>Refer to Page 08 - from 2014/2015 Draft Annual report</p>

### 2.3 Comments on Municipal Systems Act – Municipal Performance

Legislative requirement	Level of compliance
a) Has the performance report been included in the Annual Report?	<b>Non-complaint</b>
b) Have all the performance targets been included in the report?	<b>Non-complaint</b>
c) Is the Council and the Community satisfied with the performance?	The community is not satisfied with the performance of the municipality with regard to disclaimer opinion for the past three years and vacancies not filled as raised during the public participation on the 2014/15 draft annual report.
d) What actions have been taken and planned to improve performance?	Corrective measures were put in place to improve performance. (Audit action plan though audit steering committee).
e) Taking into account the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective?	The Audit Committee Report was included in the 2014/15 Draft Annual Report as presented to Council on the 25 <sup>th</sup> January 2016.
f) The annual report to have full information on projects implemented by the municipality.	The figures are convincing

## **2.4 Comments on other findings**

### **2.4.1 Contents of the report**

#### **2.4.2 Audited Financial Statements and the Auditor General's Report**

In terms of Section 127(2) of the Local Government : Municipal Finance Management Act no 56 of 2003 the annual report must be tabled in Council within seven (7) months after the end of the financial year which should include audited financial statements and the Auditor General's Report

**The EPMLM 2013/14 draft annual report contains the said documents as presented in the Council meeting of 25<sup>th</sup> January 2016**

#### **2.4.3 Submission of Annual Financial Statement for 2014/15**

The Local Government: Municipal Finance Management Act 56 of 2003 Section 126 (1) and the MFMA finance Management calendar states that the annual financial statements should be submitted by 31<sup>st</sup> August annually.

**The EPMLM annual financial statements were submitted on time**

#### **2.4.4 Recommendation from the Audit Committee**

In line with Section 166 of the Local Government : MFMA 56 OF 2003 the Audit Committee is responsible for advising Council, political office bearers, accounting officer and management staff of the municipality on matters relating to performance management.

Section 121(3) (j) of Local Government: Municipal Finance Management Act, states that the annual report of a Municipality must include any recommendations of the Municipality's Audit committee.

**The EPMLM 2014/15 draft annual report contain recommendations from the Audit committee as presented in the Council meeting of 25<sup>th</sup> January 2016**

**2.4.5 Action Plan on issues raised by the Auditor General**

Section 121 (3)(g) of the Local Government: Municipal Finance Management Act 56 of 2003 states that the annual report of a municipality must include particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d).

**The EPMLM 2014/15 Draft Annual Report as presented to Council on the 25<sup>th</sup> of January 2016 was include the Action Plan on issues raised by the Auditor General.**

**2.4.6 Municipal own entity (SDA)**

**2.4.7 Comments from the Public**

Section 75(1)(c) of the Local Government : Municipal Finance Management Act states that the Accounting Officer of the municipality must place the annual report on the municipal website.

**The EPMLM draft annual report for 2014/15 financial year is not yet placed on the municipal website.**

Section 127 (5)(a) (i) and (ii) states that immediately after the annual report is tabled in council in terms of subsection (2) , the accounting Officer must make public the annual report and invite the local community to submit representations in connection with the annual report.

**The report was made public from the 16 February 2015 and closed on the 29 February 2016 for public comments and representations.**

The National Treasury: MFMA Circular 32 as released on 15 March 2006 on Oversight on the Annual Report states all meetings of Council and the oversight committee at which an annual report is considered must be open to the public and a reasonable

time must be allowed for discussion of any written submissions received and for members of the community and organs of state to address the meetings.

**The Municipal Public Accounts Committee conducted public participation meetings on the EPMLM 2014/15 Draft Annual Report between the 16 February 2016 to 19 February 2016 where all wards within the Municipality participated. The invitees were, ward committee members, community development workers and members of the public.**

#### **2.4.7.1 COMMENTS OR REPRESENTATIONS FROM THE PUBLIC**

##### **2.4.7.1.1 Water and Sanitation Services**

- Annual report to be submitted before actual date
- Water supply to be improved
- Flag Boshielo water plant to be upgraded.

##### **2.4.7.1.2 Local Economic Development**

- Local economic strategies should focus on sustainable agricultural projects to reduce unemployment rate in the EPMLM.
- The EPMLM should partner with mines and big businesses to develop plans for creation of employment opportunities.
- Tourism sector should provide employment opportunities.
- Contractors on site should be regularly monitored to avert labour disputes and non-completion of projects.

### **2.4.7.1.3 Corporate Services**

- Vacant posts to be filled in terms of the Municipal organogram.
- The issue of gender representation and disabled people should be prioritized for employment opportunities.

### **2.4.7.1.4 General**

- Indigent register must be reviewed annually
- The rate of under spending is increasing annually
- High rate of unemployment

## **2.5 GENERAL FINDINGS**

### **FORMAT AND CONTENTS**

**2.5.1** Key service delivery information on provision of water. Sanitation and electricity is not reflected in the draft 2014/15 annual report

**2.5.6** The 2014/15Annual Report does not reflect the Municipality's By-Laws and the list of developed or reviewed policies for the year under review

## **3 Recommendations**

The EPMLM MPAC recommends:

- 3.1 That council review of organizational structure; and amongst others, a consideration is made to have Asset Management as a standalone unit with a divisional manager and adequate number of subordinates. Once the process is finalized and approved; the filing of vacancies in that unit will be of high priority
- 3.2 That key service delivery information on water, sanitation and electricity be detailed as per ward.
- 3.3 That the steering committee made of directors and chaired by the Accounting officer will holds meetings every three weeks to report on the progress made in the implementation of the action plan and Internal audit unit assign one internal auditor to



conduct follow-up audits on a monthly basis to verify and corroborate with evidence the progress reported in the steering committee meetings. Such internal audit reports will be presented and discussed in the steering committee meetings.

3.4 That to address this challenge raised by AGSA on the work executed; the accounting officer appoint a service provider responsible for AFS on a multi-year contract

3.5 MPAC's recommend that the following process of implementation with regard controls to Outsourcing:

- Develop a policy/strategy on use of consultants and have it approved by council.
- Develop a standardized memo/proposal to be used when requiring use of consultant. The template will incorporate useful information such as cost effectiveness, formal needs assessment etc.
- Provide officials with workbooks to document skill transferred and have the workbooks monitored.

**3.6 That council approves the 2014/15 draft annual report with reservations.**

## **ANNEXURE A**

### **OVERSIGHT PROCESS FOLLOWED**

- In compliance with legislation, EPMLM tabled the 2014 / 2015 Draft Annual Report on 25<sup>th</sup> January 2016 at Ephraim Mogale Local Municipal Chamber.
- Council referred the EPMLM 2013/14 Draft Annual report to MPAC on 25<sup>th</sup> January 2016 for oversight and the generation of the oversight report as required by the MFMA
- MPAC met on the 03<sup>th</sup> – 04<sup>th</sup> February 2015 at the Sanrock Lodge, Modimolle to consider and interrogate the 2014/15 Draft Annual Report against the legislative requirements and generate the Oversight Report with recommendations to Council.
- The report was made public from the 02 February 2016 and closed on the 29 February 2016 for public comments and representations.
- MPAC conducted public participation meetings on the EPMLM 2014/15 Draft Annual Report between the 16 March 2016 to 19 March 2016 wherein all wards within the Municipality. The invitees were, ward committee members, CDW and members of the public.
- MPAC convened for a special meeting on 24 February 2016 to consider the Draft Oversight Report on the 2014/15 Draft Annual Report.

CLOSING REMARKS OF THE MPAC CHAIRPERSON

Finally, I would like to commend my fellow Municipal Public Accounts Committee members for their hard work and commitment. I would also like to thank the Speaker and the Officials for their support in the Oversight process, especially the Municipal Manager and the Chief Internal Auditor who provided strategic support in this process. A word of thanks must also be given to the Office of the Auditor-General and the Audit Committee for their input in the Annual Report and oversight processes.



MPAC Chairperson

DATE 24/03/2016

# EPHRAIM MOGALE LOCAL MUNICIPALITY

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**TO : CHAIRPERSON OF THE COUNCIL**

**FROM : MPAC COMMITTEE  
EPHRAIM MOGALE LOCAL MUNICIPALITY**

**DATE : 18 March 2016**

**SUBJECT: MUNICIPAL PUBLIC ACCOUNT COMMITTEE (MPAC) REPORT**

**1. PURPOSE OF THE REPORT.**

The primary objective of this report is to report to the Council of Ephraim Mogale Local Municipality on the findings by MPAC after scrutinizing and interrogating 2014/2015 Annual report.

**LEGISLATIVE BACKGROUND.**

Members of EPMLM MPAC are guided by the following pieces of legislation to consider and scrutinize the 2014/2015 Audit report.

- a) Municipal Finance Management Act 56 of 2003
- b) Municipal Systems Act 32 OF 2000
- c) Municipal Structures Act 117 of 1998

**2. DISCUSSION**

In an endeavour to consider and scrutinize the 2014/2015 Audit report, MPAC requested responses from Accounting Officer. MPAC had session on 16 March 2016 to interrogate questions

NO	Findings (questions)	Response by Accounting Officer	Recommendation to council
1.	<p>AG gave the municipality a disclaimer opinion. This has been the opinion for the past three years.</p> <p>What is the real root cause of the staggering results? In the prior year it was reported that there is action plan which will be discussed on a quarterly basis with Exco, however, the audit results hasn't improved from prior year. The internal control environment and internal control for financial and performance reporting remain a key drivers of the disclaimer opinion and non-compliance with laws and regulations.</p>	<p><i>What is the real root cause of the staggering results?</i>                      Not addressing issues raised by AGSA during the 2012/13 audit outcome                      - The action plan for issues raised by AGSA in 2012/13 recorded a 100% implementation rate. The progress report was not implemented for accuracy.                      - During audit for 2013/14 AGSA withdraw from audit citing materially misstated AFS.                      - Then, it was only during the year reported on that AGSA audited 2013/14 AFS and 2014/15 AFS simultaneously and there found that the action plan for 2012/13 was not implemented and</p>	<ul style="list-style-type: none"> <li>• That the steering committee made of directors and chaired by the Accounting officer will holds meetings every three weeks to report on the progress made in the implementation of the action plan.</li> </ul> <p>That the Internal audit unit assign one internal auditor to conduct follow-up audits on a monthly basis to verify and corroborate with evidence the progress reported in the steering committee meetings</p>

issues thereon affected 2013/14 AFS which ultimately had a bearing on 2014/15 audit.

In other words; the fact that the municipality was not audited during the 2013/14, denied municipality to rectify issues raised on 2012/13(which were reported to have been addressed) and the issues raised in 2013/14 and thus having a bearing on the 2014/15 audit.

What progress has been made with action plans to address audit issues?

To date, 48 out of 134 findings have been resolved and 18 are in progress but not yet verified by the internal audit.

Who is monitoring this plan to ensure that it yields positive returns

The Internal Audit Unit monitors the implementation of the Audit Improvement action plan through the following:

- **Audit Steering Committee Meetings**

The steering committee made of directors and chaired by the Accounting officer will hold meetings every three weeks to report on the progress made in the implementation of the action plan.

What progress has been made with action plans to address audit issues?

Who is monitoring this plan to ensure that it yields positive returns

What will the accounting officer do differently to in the current year (Financial year 2015-16) overcome this crisis and to ensure the municipality receives clean audit report?

- That the council review of organizational structure to have the Asset Management as a standalone unit with a divisional manager and adequate number of subordinates. Once the process is finalized and approved; the filing of vacancies in that unit will be of high priority

**- Follow-up audits**

Internal audit unit assign one internal auditor to conduct follow-up audits on a monthly basis to verify and corroborate with evidence the progress reported in the steering committee meetings. Such internal audit reports will be presented and discussed in the steering committee meetings

What will the accounting officer do differently to in the current year (Financial year 2015-16) overcome this crisis and to ensure the municipality receives clean audit report?

The following measures are already and/or will be put in place to ensure improvement of audit opinion:

**- Continuous Audit steering committee meetings**

Previously, the audit steering committee meetings were constituted and held only during the time of Audit. Now, the committee will continue to hold meetings every three weeks to monitor the implementation of the action plan.

**- Multi-year contract for service provider responsible for AFS.**

Previously, municipality was appointing service providers to assist with preparation of AFS on an annual basis and the appointment was always done towards year-end (June). This strategy was ineffective as service providers were always chasing tight deadlines and thus compromising the quality review process; and secondly, the contract period would end just after the audit; not allowing the service provider to participate in addressing issues raised by the AGSA on the work executed.

To address this challenge; the accounting officer now appointed a service provider responsible for AFS on a multi-year contract (xx years). The appointment was made in June 2015 and the consultant has since been on site on a daily basis assisting with addressing issues raised by the AGSA in the previous audit. The consultant is also busy preparing the half-year AFS which will build-up to the year-end AFS. This will allow ample time for quality review and thus ensuring credible and timely submission to AGSA

- Establishment of Asset Management Unit

In terms of the current organogram, asset management is located under SCM and the



highest position therein is accountant. This proves to be ineffective given that both SCM and Asset Management have huge load of activities which need to be undertaken throughout the year; the divisional manager's time is consumed mainly on SCM activities (which are mostly legislative requirements) and as a result asset management activities are not given sufficient time until at year end when they are carried out to fit into the AFS.

To address this challenge, the accounting officer has instituted a review of organizational structure; and amongst others, a consideration is made to have Asset Management as a standalone unit with a divisional manager and adequate number of subordinates. Once the process is finalized and approved; the filling of vacancies in that unit will be of high priority. *(In the mean-time, asset management activities are part of the work scope agreed upon with the consultant responsible for AFS.)*

Why are assessment of impairments, residual values and useful lives not performed?

Basis of disclaimer as stated by the AG report  
Property, plant and equipment not assessed for impairment and annual assessment of residual values and useful lives also not performed

- Furthermore, it is stated in the AG reports that adjustments amounting to R793 054 824 (2014 prior period error: R788 573 861)
- Why are assessment of impairments, residual values and useful lives not performed?

It was reported that there is a balance of R695 927 108 (2014: R695 725 623) of infrastructure assets that have not been

depreciated separately as required by accounting standard for property, plant and equipment (GRAP 17).

- Does the municipality lack basic accounting skills within the finance division?

- How far is the municipality in terms of implementing quarterly or half yearly financial statements as recommended by the AG?

As indicated above, the understaffing in asset management and the inappropriate location thereof result in some key asset management activities not being appropriately executed. Amongst such activities was continuous assessment of impairment of assets. The activity was only done at year end, and due to pressed timeframes, quality review on the activity was compromised resulting in deficiencies which were only detected by the AGSA during the audit.

Does the municipality lack basic accounting skills within the finance division?

- The process of depreciating infrastructure asset separately is what is called "Unbundling". It's an exercise which requires both engineering and accounting techniques which currently the municipality (and many other municipalities like ours) does not possess. The exercise was outsourced to the consultant that was appointed for updating the asset register. The AGSA had concerns with some of the aspect of the work executed by the consultant which resulted in the finding being raised.

	<p>The AG reported that the land and equipment belonging to the municipality were not recorded in the asset register and financial statements</p> <ul style="list-style-type: none"> <li>• What are controls that are in place to ensure all assets are recorded and traceable? How is the collaboration between the finance team and internal audit in ensuring that physical verifications of assets are done on a regular basis</li> <li>• It is a concern that the internal audit division was reported to be understaffed, what are the plans to ensure that the unit is fully capacitated?</li> </ul> <p>The AG reported that land was incorrectly recorded as investment property instead of inventory and that some items of investment properties were not recorded in the asset register. Reconstruction and Development Programme (RDP) houses amounting to</p>	<p>However; going forward, the municipality will appoint the relevant service provider early, to allow for ample quality review; and the terms of reference for the appointment will be tightened through the functionality criteria to ensure that service providers with good, relevant and traceable track record is appointed.</p> <p><u>How far the municipality in terms of implementing quarterly or half yearly financial statements as recommended by the AG?</u></p> <p>The half yearly financial statements are currently being prepared and should be finalized by the end of the 3<sup>rd</sup> quarter.</p> <p>As indicated above, the current structural arrangement with regard to assets management was found to be ineffective. Now, the establishment and capacitating of the Asset Management Unit will address all concerns relating to and strengthen controls over the assets of the municipality. Activities such as physical verification of assets and update of asset register will be done on a regular basis.</p>	
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R5 583 000 (2014: R5 460 000) were incorrectly recorded as investment property. AG could not obtain sufficient supporting documentation for Cash and cash equivalents, payable recorded in the financial statements and revenue from property rates is understated by R3 305 159

Lastly cash flow statements not prepared according to the accounting standard.

- Did the chief financial officer review the financial statements submitted for audit to ensure that they are supported by adequate documentations?

- Where the financial statements submitted to audit committee for review?

- We recommend that the municipality review the competencies and skill of the finance division and also ensure that when consultants are used there is transfer of skills.

It is a concern that the internal audit division was reported to be understaffed, what are the plans to ensure that the unit is fully capacitated?

The Internal Audit Unit has been capacitated with the appointment of the Chief Internal Auditor and the Internal Auditor. In addition; the proposed organogram make some future considerations to further capacitate the unit.

Did the chief financial officer review the financial statements submitted for audit to ensure that they are supported by adequate documentations?

Yes! However, the appointment of service provider was done a bit late resulting in tight

timeframes which compromised the level of internal quality review.

Where the financial statements submitted to audit committee for review?

Yes! However, the appointment of service provider was done a bit late resulting in tight timeframes which compromised the level of internal quality review.

MPAC's recommendation is in order; and it is in line that the municipality is in the process of implementation the following controls with regard to Outsourcing:

1. Develop a policy/strategy on use of consultants and have it approved by council.
2. Develop a standardized memo/proposal to be used when requiring use of consultant. The template will incorporate useful information such as cost effectiveness, formal needs assessment etc.
2. Provide officials with workbooks to document skill transferred and have the workbooks monitored.

<p>2.</p>	<p><u>Non-compliance with MFMA</u>  <u>Unauthorized expenditure</u>  The AG reported that the municipality incurred expenditure in excess of the budget resulting in unauthorized expenditure being understated by R4 571 522. The municipality did not have adequate systems in place to identify and report on all unauthorized expenditure incurred</p> <ul style="list-style-type: none"> <li>• MPAC is concerned that this issue was also reported in the prior year and hasn't been addressed.</li> <li>• What actions plans are being put into place to ensure that the municipality will not incur unauthorized expenditure in the current year?</li> <li>• Who is the responsible official for this unauthorized expenditure? What actions are being taken by the municipality to ensure consequences for transgressions?</li> </ul> <p><u>Irregular expenditure</u>  Irregular expenditure amounting to R22 359 589 incurred by the municipality and in contravention of MFMA Section 125, the particulars of such irregular expenditure not disclosed in the financial statements.</p>	<p>The reported figure was disputed and AGSA have since agreed to refer the matter to their "Project Champion", and then the figure will be reduced accordingly to R200 000 which emanated from overspending on depreciation.</p> <p>The overspending on depreciation is caused by the fact that the municipality does not have Asset Management Unit which could monitor performance of depreciation and then advise municipality timely to allow for adjustment. As a result overspending was only detected at year end.</p> <p>To address this, municipality has proposed for the review of organogram with the establishment of Asset Management Unit.</p>
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This is also a recurring issue, in the prior year AG reported the R33 million for irregular expenditure which was not disclosed.

- Who is the responsible official for these irregular expenditures?
- Why is the municipality consistently deviating from supply chain management and MFMA processes?
- What actions are being taken by the municipality to deal with this matter and what corrective measures are being

The irregular expenditure emanate from prior year contracts which AGSA found to be irregular, and were continued into the year reported on. In terms of their rules; If AGSA find a contract to be irregular, all the money that will be paid as a result of that contract in the following years will also be regarded as irregular.

Municipality is deviating from the SCM processes only in the events allowed for by the regulations and where it is practically impossible to follow the processes. Even in instances where AGSA raised findings; substantiating evidence to prove the municipality's position to have believed that deviation was necessary is available. AGSA would only proceed to raise the findings either as principle matters and/or on technicalities and professional judgment which is subjective.

The nature of irregular is such that emanate from lack of skill on the part of bid committees; and to address this, municipality has budgeted for trainings on SCM and SCM role players are continuously being sent to trainings.

taken to ensure that it does not occur in the future?

Fruitless and wasteful expenditure

The AG identified fruitless and wasteful expenditure amounting to R94 310 which was not recorded in the underlying records. The municipality did not quantify and disclose the full extent of the unrecorded fruitless and wasteful expenditure

The fruitless and wasteful expenditure is as a result of interest expenditure levied by Eskom for late payment. Municipality received posted-invoices late due to strikes in post office. To remedy this going forward; the municipality held a meeting with Eskom with the intention to enter into an SLA on means of operation. Amongst other, municipality proposed that invoices be e-mailed and that it be agreed that in the event the date of invoice differs with the date of e-mail, the date of e-mail should be the once considered.



<p>3. AG emphasized in the audit report that the municipality has material uncertainty regarding the recoverability of the outstanding debt amounting to R25 567 096</p> <p>How effective is the credit and debt division of the municipality and what processes are being put into place to recover the debt outstanding? Where any debt handed over to collection agencies for collection?</p>	<p>The municipality did not have the dedicated official to deal with credit control. However, a position of credit control officer has been advertised to strengthen the unit.</p> <p>Municipality had debt collection agency; however there were contractual disputes which led to termination. The municipality is now in the process of appointing a debt collecting agency.</p>	<ul style="list-style-type: none"> <li>• That the Municipality should appoint a debt collection agency</li> </ul>
<p>4. <u>Predetermined objectives</u></p> <p>The AG reported that a total of 100% of the reported objectives, a total of 88% of the reported indicators and a total of 100% of the reported targets were not consistent with those in the approved integrated development plan</p> <p>It was also reported that targets set by the municipality were not smart (specific, measurable, achievable ,realistic and time bound)</p> <ul style="list-style-type: none"> <li>• How does the municipality ensure service delivery if targets planned are not consistent with what was planned in terms of the IDP?</li> </ul>	<p>Municipality was first to recognize/identify the issues raised in AGSA's report with regard to predetermined objectives. Both the IDP and SDBIP were corrected and then submitted to council for ratification. However, AGSA refused to recognize the ratified documents and carried out their audit of predetermined objectives based on the initial planning documents.</p> <p>Safe to say, the issues raised by AGSA have already being addressed in the ratified IDP/SDBIP. Furthermore, stringent internal quality review process is in place to ensure that the 2016/17 planning documents are free of error.</p>	<ul style="list-style-type: none"> <li>• That the appointment of the director: planning and economic development be finalised speedily.</li> </ul>

	<ul style="list-style-type: none"> <li>• What are the technical indicator descriptions not implemented by the municipality to ensured well defined indicator and targets?</li> <li>• Who is the responsible official and what actions are being taken by the accounting officer to ensure consequences for poor performance?</li> </ul>	<p>Lack of capacity in the planning department was the root cause for such substandard planning document. There was no director to champion the process of developing the planning documents and that resulted in late completion of stages/phases of the process and thus compromising the level of internal quality control reviews.</p> <p>Municipality is already at an advanced stage to fill the position of Director; Planning and Economic Development. The incumbent will be the champion and with adequate capacity in the department, it is hoped that the findings will not recur.</p>
<p>5. <u>Strategic Planning and Performance Management</u></p> <p>It was reported in the AGS report that the adopted integrated development plan (IDP) does not reflect and identify the municipal council's vision for the long term development of the municipality, and the key performance indicators and targets as required by sections 26 and 41 of the MSA, as well as Municipal planning and performance management regulation 2(1)(e).</p> <p>The municipality did not establish mechanisms to monitor and review its performance</p>	<p>Lack of capacity in the planning department was the root cause for such substandard planning document. There was no director to champion the process of developing the planning documents and that resulted in late completion of stages/phases of the process and thus compromising the level of internal quality control reviews.</p> <p>Municipality is already at an advanced stage to fill the position of Director; Planning and Economic Development. The incumbent will be the champion and with adequate capacity in the department, it is hoped that the findings will not recur.</p>	

management system, as required by section 40 of the MSA

And that the annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and MSA

- The executive mayor and municipal manager should sets the right tone at the top in terms of good governance and monitors management progress to prevent and detect non-compliance with laws and regulations.
- Who is the responsible official for the non-compliance?
- What actions are being taken by the municipality to deal with these matters?
- What corrective measures are being taken to ensure that it does not occur in future?

6.	<p><b>Conditional grants</b></p> <p>Municipal Systems Improvement Grant (MSIG) and Local Government Financial Management Grant (LGFMG) funds were retained for rollover to the next financial year without seeking the approval of the National Treasury, as required by sections 22(1) of the DoRA.</p> <p>Why was the rollover money not send back to National treasury?</p>	<p>It is a common and traditional practice amongst municipalities not to return the money back to NT. If the rollover is not applied for or not approved; the treasury normally offset the unspent conditional grants from the equitable share.</p> <p>However going forward; in such events that there be unspent conditional grant, the municipality will formally write to NT advising that the unspent conditional grant be returned through an off-set against the equitable share allocation.</p>	<p>That the Management should confirm with AGSA if the proposed action will amount to compliance.</p>
7.	<p><b>Human resource</b></p> <p>The AG reported that the municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the MSA.</p> <p>The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b).</p> <ul style="list-style-type: none"> <li>Is there any plan to address this challenge specially for the finance division and around</li> </ul>	<p>It was an omission that The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies; however almost all managers have achieved minimum competency through attended training</p> <p>The municipality has a system to monitor, measure and evaluate performance of senior management; but the system is not yet cascaded to lower staff. Performance of municipal departments is reviewed through Service Delivery and Budget Implementation Plan (SDBIP).</p>	

	<p>areas of supply chain management and pre-determined objective reporting</p>	<p>Almost all Supply Chain staff and Budget and Treasury Managers including Financial Interns have achieved the minimum competency.</p>	
<p>8.</p>	<p><b>Procurement and Contract Management</b></p> <ul style="list-style-type: none"> <li>• Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of <i>Supply Chain Management (SCM) regulation 16(b) and 17(b)</i>.</li> <li>• Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulation 19(a) and 36(1).</li> <li>• Contracts were awarded to bidders based on points given for criteria that</li> </ul>	<p><u>What happened and what should have happened?</u></p> <p>Quotations referred to here are the once obtained from hotels. The municipality does not have hotels in the database, and when they are invited to enlist they do not submit.</p> <p>The transaction referred to here is when municipality was procuring specialized equipment (bulldozers). The municipality deviated from the SCM process and procured the equipment directly from the manufacture. AGSA judged that even though the goods were specialized, they could have been procured through the normal SCM process.</p> <p>This is with regard to prior year contracts which resulted in the irregular expenditure above. The municipality advertised anticipating the prices to be within the range of 80/20, but all bidders priced within the range of 90/10 and municipality evaluated on 90/10 as guided by submissions.</p>	<p>That the Municipality should adhere to AGSA recommendations. Benchmarking with other municipalities should be done to check they rightfully deal with similar cases</p>

differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the *Preferential Procurement Regulations*.

This also refers to hotels which are not in the database, and when requested to submit the declaration forms they did not submit.

Is there a discrepancy that constitutes Maladministration?

As evidenced by the explanations above of what had transpired; incidents of non-compliance reported were pure due to professional judgment/decision making and does not constitute maladministration.

- Contracts and quotation were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

What is the remedy?

Continuous training as it is in trainings were case studies are discussed and the appropriate decisions for such cases are learnt.

- a. What happened?
- b. What should have happened?
- c. Is there a discrepancy that constitutes Maladministration?
- d. What is the remedy?
- e. What are the names of people or contractors involved?
- f. What actions/steps were taken to recover the costs incurred from implicated officials?
- g. What are the internal disciplinary actions taken against people who do not disclose their financial interest?

As evidenced by the explanations above of what had transpired; there is no need for disciplinary actions or costs recovery. In additions; items have already being reported to council as irregulars, and council if so wish; may refer the items to MPAC for full investigation and appropriate recommendation.

9.	<p><b>ORGANISATIONAL OVERVIEW</b></p> <p><b>DEVELOPMENT</b></p> <p>Human Resources Overview Pg 8 of annual report said total number of vacancies is 99</p> <p>Does the 99 vacancies included the following: 14 termination, 3 death, 3 retirement, 8 resignation &amp; 1 contract ended If yes!!</p> <p>1. Why is it taking long for management to fill the vacancies which were already active in the payroll?</p>	<p>Yes; mentioned vacancies include all vacant positions as mentioned.</p> <p>The processes of filling the vacant positions were implemented since the beginning of the 2015/2016 financial year; and that programme is about to be completed.</p>	<p>That the filling of budgeted vacancies should be finalised speedily.</p>
10.	<p><b>INTRODUCTION TO FREE BASIC SERVICES AND INDIGENT SUPPORT</b></p> <p>The Ephraim Mogale Municipality only provided Free Basic Electricity to the indigent. There is, however a need to review the indigent policy. The municipality has set a target of 2000 beneficiaries to receive Free Basic Electricity in the 2014/15 financial year and manage to provide for 1900 beneficiaries who are on the indigent register.</p> <ul style="list-style-type: none"> <li>• Why did the institution failed to allocate targeted 2000?</li> <li>• Who is the responsible official for the non-compliance?</li> </ul>	<p><u>Why did the institution fail to allocate targeted 2000?</u></p> <p>Communities were consulted through the municipality structures (Ward Councilors, Ward Committees and CDW) to have qualifying households enlisted as beneficiaries of indigent program. Only 1900 beneficiaries were identified and enlisted on the program.</p> <p><u>Who is the responsible official for the non-compliance?</u></p>	<p>Administration should lean from challenges encountered in previous outreach sessions and improve</p>

	<ul style="list-style-type: none"> <li>• What actions are being taken by the municipality to deal with these matters?</li> <li>• What corrective measures are being taken to ensure that it does not occur in future?</li> </ul>	<p>Failure to reach the target of 2000 in this regard should not be seen as non-compliance. In fact, it could be due to the success of the municipality's process of identifying qualifying households. It should be noted that whilst municipality aims to reach all households which could be regarded as indigent, stringent controls should be incorporated into the process of identifying such to ensure that only, and only qualifying beneficiaries are enlisted on the program.</p> <p><u>What corrective measures are being taken to ensure that it does not occur in future?</u></p> <p>Municipality will continue to review the indigent register to ensure that the status of the enlisted is up-to-date and that additional qualifying households are included</p>	
11.	<p><b>3.5 WASTE MANAGEMENT (THIS SECTION TO INCLUDE: REFUSE COLLECTIONS, WASTE DISPOSAL</b></p> <p>Elanskraal, Leeuwfontein and Matlelereking council running in loss in rendering services</p> <ul style="list-style-type: none"> <li>• What corrective measures are being taken to ensure that collection of revenue has started?</li> </ul>	<p>Municipality has engaged with the communities which currently receiving service without paying, and proposals are being considered for a reasonable fee to be paid in exchange of the service.</p> <p>Parallel to that, municipality has embarked on a data-cleansing project to ensure the billing information is credible and would give rise to unnecessary disputes with regard to bills.</p>	<p>Public participation processes followed and publication of discussion documents should be done in accordance with the law to ensure that consultations with communities concerned regarding the payment of services rendered are finalised</p>



	<ul style="list-style-type: none"> <li>• What is the municipality doing to make sure that waste is collected in all areas targeted</li> </ul>	<p>Once the billing and collection challenges are resolved; the service will be able to sustain itself and that would allow for municipality to extend it to other communities.</p>	
12.	<p><b>Pg30 of annual report</b></p> <p>The total length of the road network under ownership of Ephraim Mogale Local Municipality is 1111, 9km, of which 974 km are gravel and 137.9 km are surfaced.</p> <ul style="list-style-type: none"> <li>• How much is spend on surfacing the internal street?</li> <li>• How many kilometres did the municipality manage to surface 2014/15?</li> </ul>	<p>R33 083 671.96 was spent on surfacing the internal street during the financial year reported on.</p> <p>5.8 km have been surfaced.</p>	
13.	<p><b>MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT</b></p> <p>Pg43 of annual report</p> <p>Service debtors to revenue –(Total outstanding service debtors/ revenue received for services)</p> <p>07-09-1</p> <ul style="list-style-type: none"> <li>• Why debt is increased?</li> <li>• The ratio not clear</li> </ul>	<p>The growth in the debt is as a result of property rate in the areas where municipality does not provide other services (e.g electricity) which can be used as leverages to enforce payment.</p> <p>Previously, municipality was leveraging on water services which we were providing on as an agency to the district. However, the district has since withdrawn from the agreement.</p> <p>And thus leaving the municipality with only Debt collecting agencies as tools which can be used to enforce payment.</p>	

		The ratio seeks to measure the growth of service debtors against the total collection.	
14.	<p>Annual report is misleading no maintenance done at Elandskraal &amp; Maibitsa stadium</p> <p>What is municipality doing to correct the situation?</p>	<p>The municipality is doing maintenance in the two stadiums mentioned. However; the main challenge is vandalism and theft.</p> <p>Municipality will look into improving security measures in the stadiums.</p>	<p>Management should visit the stadiums and strategies on the appropriate way of maintaining the property</p>
15.	<ul style="list-style-type: none"> <li>• What corrective measures are being taken to ensure that hawker stalls are not a white elephant?</li> <li>• Does management aware of state of hawker's stalls if yes what plans are in place to correct the situation?</li> </ul>	<p>Meetings are held with all the relevant stakeholders in an attempt to get the hawkers to shift to the hawker Stalls. Unfortunately the hawkers association is not attending the meetings and they informed the Business License Officer that they will not move to the stalls. A more direct approach on the moving of hawkers is needed with the assistance of SAPS and other stakeholders.</p> <p>Management is aware of the state of the stalls and the first 10 stall was fixed with electrical material. Planning section needs to implement the building and ablation facility repairs. There was also discussion to place security at the premises after these repairs</p>	<p>Management should inspect the hawker stalls and develop a strategy on how to utilise the property going forward</p>
16.	<p>Pg 40 of annual report</p> <p>The report on bursaries must clearly state their progress report.</p> <p>The policy must show how those beneficiaries would assist the</p>	<p>The bursars' progress is reflected yearly through their achievements in their studies and reflected in a tabular format.</p>	

	<p>The bursary policy objective is <i>"to increase the skill base within the municipal area jurisdiction, by awarding bursaries to competent and disadvantaged students in order to improve their standards of living and their competitiveness and thereby contributing towards the improvement of the south African economy."</i></p> <p>It is not necessarily the objective of the policy to have bursars assisting the municipality. Hence no requirement/obligation was placed on the bursars to repay the bursary by service of any kind. The bursary are viewed as one of the ways the municipality, as a member of one of the government spheres can contribute towards the broader government's objectives with regard to economic development.</p> <p>However, if MPAC strongly seeks to advance the "issue of bursary holders serving back", such can be deliberated on during the policy review. Considerations also need to be made with regard to the challenges such requirement will pose to the municipality in that it will not always be possible for the municipality to be able to accommodate the graduates when need to fulfill the obligation to serve back arise.</p> <p><u>Where bursaries awarded in terms of policies?</u></p>	<p>municipality after completing their studies</p> <p>Where bursaries awarded in terms of policies?</p>
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17.	<p>Why does it seem that the monitoring done on MIG projects is not done on own revenue projects (Internal Capital Funded Project). Why is performance of internal funded capital projects not satisfactory?</p>	<p>Yes; bursaries were awarded in terms of the policies. The policy was applied fully without compromise.</p> <p>The Own revenue projects are monitored same way as the MIG. The poor performance with regard to own revenue funds during the financial year reported on, is that the appointment of service providers for the projects was done late.</p> <p>Going forward; Management will continue to apply the forward planning principles which were applied and proved to be successful in the MIG projects relating to the financial year reported on.</p>	<p>Forward planning principles should be applied even on own revenue projects</p>
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## 1. CONCLUSION

## 2. PROPOSED RECOMMENDATIONS.

1. That the council must approve report template with the recommendations.

2. That the council instructs the Acting Municipal manager to implement the decision accordingly

**For Decision**



**MPAC CHAIRPERSON**

2016-03-24

**DATE**