



SEKHUKHUNE
District Municipality

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**THE MUNICIPAL PUBLIC ACCOUNTS
COMMITTEE (MPAC)'S OVERSIGHT
REPORT ON THE
DRAFT ANNUAL REPORT FOR THE
2018/2019 FINANCIAL YEAR**

**SEKHUKHUNE DISTRICT
MUNICIPALITY (SDM) & SEKHUKHUNE
DEVELOPMENT AGENCY (SDA)**

MARCH 2020

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1. STRATEGIC THRUST

The Municipal Public Accounts Committee (MPAC) is a Committee of Council established in keeping with the dictates of section 79 (1) (a) of the Local Government: Municipal Structures Act 117 of 1998 with the primary aim of performing Council's oversight functions over the municipality and its entity as well as promoting the democratic accountability of elected municipal officials to the people.

2. OBJECTIVE

To submit to Council in terms of section 129 of the Municipal Finance Management Act 56 of 2003, (MFMA) the oversight report on the Annual Report of the Sekhukhune District Municipality (SDM) and its municipal entity for the 2018/2019 financial year. Section 129 of the MFMA provides a regulatory framework for the performance of oversight functions on the annual report. It places an obligation on Council to consider the annual report and to adopt an oversight report within two months from the date on which it was tabled in Council in terms of section 127 of the MFMA.

3. BACKGROUND

In terms of section 121(1) of the MFMA and section 46 of the Municipal Systems Act 32 of 2000 (MSA), every municipality and its municipal entity must prepare an annual report for each financial year. It further states that the Council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.

Based on the above, Council is vested with the responsibility to oversee performance of its municipality. This oversight responsibility of Council is particularly important for the process of considering the annual report for each financial year. The annual report provides the SDM with an opportunity to report on the financial and non-financial performance of the municipality and its entity. The performance of the SDM is reported against the commitments outlined in the Integrated Development Plan (IDP) and other internal planning documents. The purpose of the annual report is to:

- provide a record of the activities of the municipality or municipal entity;
- provide a report on the municipality's performance against the budget;
- provide information in support of revenue and expenditure; and,
- promote accountability to the local community for the decision-making.

The SDM Council has delegated the MPAC the responsibility to perform oversight functions on the annual report in terms of 129 of the MFMA. This responsibility is further elaborated in Circular No. 32 of the MFMA. The ultimate function of the MPAC is to exercise oversight on the management of the public funds allocated to the municipality and its entity. This function is thus enabled through the analyses of the SDM's 2018/2019 Annual Report referred to the MPAC by Council at its meeting held on the 30 January 2019 for oversight purposes.

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It is important to note that Circular 32 prescribes that the oversight report on the annual report must include a statement indicating whether Council has –

- approved the annual report with or without reservations;
- rejected the annual report; or
- referred the annual report back for revision of those components that can be revised.

4. OVERSIGHT METHODOLOGY

The following methodology was followed by the Committee:

- The 2018/2019 draft annual report of the SDM was tabled in Council on the 30 January 2020 and referred to MPAC for oversight and scrutiny. An advertisement was placed in various newspapers inviting the public and stakeholders to submit comments on the annual report;
- A copy of the annual report was also published on the SDM website and distributed to all traditional authorities in the district;
- A process plan to guide the execution of MPAC activities on the annual report was developed;
- A review of the annual report was conducted by the Committee for a comprehensive analysis;
- A meeting was held with the Office of the Auditor-General (AG), Limpopo for a discussion / briefing on the AG's report for the 2018/2019 financial year and the final management report to SDM; and,
- A public hearing on the 2018/2019 annual report was held in order to promote democratic accountability.

5. MPAC KEY FINDINGS

- 5.1 The municipality received a qualified audit opinion from the Auditor-General (AG) in respect of the 2018/2019 financial year, which represents a regression from the unqualified audit opinion it has received for five consecutive years;
- 5.2 The Sekhukhune Development Agency (SDA) received an unqualified audit opinion from the AG for the 2018/2019 financial year;

- 5.3 All the six matters raised by the AG in respect of the municipality, which have a material impact on the opinion, are repeated findings. This is an indication of the inadequacy of consequence management mechanisms in the municipality, coupled with an obvious culture of impunity for wrongdoing. In addition, it is a confirmation of a lack of commitment on the part of the senior management team to address the AG's repeated findings;
- 5.4 There is no proper record keeping in the municipality, which has contributed to the qualified audit opinion by the AG as he could not obtain the reliable supporting documents or performance information required from the senior management team;
- 5.5 The municipality recorded a significant underperformance in relation to its service delivery targets, with only 74% of its predetermined objectives achieved during the reporting period;
- 5.6 Contract management in the municipality is glaringly poor, with several payments made to suppliers despite the lapsing of contract periods. This matter is also attributable to the lack of consequence management and the culture of impunity for wrongdoing to which reference was made hereinabove;
- 5.7 The municipality incurred unauthorised expenditure amounting to a staggering **R194 744 628.00** during the reporting period;
- 5.8 The municipality incurred irregular expenditure amounting to a whopping **R74 775 996.00** during the reporting period as a result of non-compliance with Regulation 38 of the MFMA;
- 5.9 The municipality incurred fruitless and wasteful expenditure amounting to **R513 313.00** during the reporting period as a result of interest charged on overdue accounts;
- 5.10 Material losses suffered by the municipality amounted to **R60 682 242.00** during the reporting period as a result of water losses / spillages;
- 5.11 The AG has identified several employees (Officials and Councillors) of the municipality with an undeclared conflict of interest in that these employees have relatives / business associates doing business with the State in contravention of the supply chain management policy of the municipality;
- 5.12 There were material misstatements in the municipality's Annual Financial Statements (AFS) despite the fact that these were compiled by a team of consultants appointed by the municipality at a significant cost.

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6. CHALLENGES

The following challenges are noteworthy:

- 6.1 The current practice of tabling the draft annual report in Council at the end of January is problematic. It is best practice to ensure that the draft annual report is tabled in Council during the month of December each year. This will grant the MPAC sufficient time to perform its oversight functions on the annual report;
- 6.2 The Committee interacted with the Office of the Auditor-General in Limpopo to discuss the AG's report as well as the final management report. That said, however, some of the information / evidence relating to the alleged conflict of interest by the municipality's employees is still outstanding;
- 6.3 The Committee struggled to obtain detailed AFS from the SDA in respect of the 2018/2019 financial year; and,

7. MPAC RECOMMENDATIONS

After a careful consideration of the 2018/2019 annual reports of the municipality and its entity, the following recommendations are made:

- 7.1 That Council approve the 2018/2019 Annual Report without reservations;
- 7.2 That Council direct the Executive Mayor to initiate a process of disciplinary action against all members of the municipality's senior management team for their failure to implement the Auditor-General's repeated material findings, which have resulted in the regression of the AG's audit opinion on the municipality after five consecutive years of unqualified audit opinions;
- 7.3 That the implementation of recommendation 7.2, *supra*, be carried out in strict accordance with the Disciplinary Regulations for Senior Managers, 2010; and,
- 7.4 That Council allow the MPAC to thoroughly investigate all unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality during the 2018/2019 financial year, in terms of the provisions of section 32 (2) of the MFMA.

CLLR. SEFALA KUKIE RAESSEJA ELIZABETH



20/03/2020