

VICTOR KHANYE LOCAL MUNICIPALITY
APPROVED
OVERSIGHT REPORT
FOR 2018-2019 FINANCIAL YEAR

TABLE OF CONTENT

Introduction

MPAC Establishment

Statement of Purpose of the Oversight Report

Process of leading to the adoption Annual Report and the Oversight Report

Summary of matters raised with the administration

Responses by administration on the questions and Committee observation and audit remedial action

Key comments by the Executive Mayor

Key comments by the Accounting Officer

Summary of components that require to be revised

Minutes of the meeting of the Oversight Committee

Recommendations

1. INTRODUCTION

In accordance with the provisions of Section 79 (1) (a) (b) and (c) of the Municipal Structures Act 1998 a municipality may establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its Powers and appoint the members of such committee from among its members. Furthermore Section 79 (2) of the Municipal Structures Act, 1998 provides the framework and guidelines within which such committees of council shall operate. During the 2009 Association of Public Accounts Committee (APAC) Conference in Badplaas a resolution was taken stating that the Conference supports the establishment of Municipal Public Accounts Committees (MPACs) in each municipality in the Province as part of improving financial management and accountability at local level.

Thus in order to enhance, promote and consolidate the oversight role of the Council over the executive, the Department of Cooperative Governance and Traditional Affairs having consulted the National Treasury and SALGA, has instructed that all municipalities establish MPACs. The focus of the MPAC will be to assist Council to hold the executive to account and to ensure the effective and efficient use of municipal resources.

2. ESTABLISHMENT MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

The MPAC committee was established by Council resolution number **S19/08/2016** in terms of section 79 of Municipal Structures Act, 117 of 1998. This is an oversight committee and consists of the following members:

- Cllr Sekhukhune (Chair)
- Cllr Malomane T
- Cllr Nyathi L
- Cllr Bath D
- Cllr Thombeni M
- Cllr Semake K
- Cllr Smith A
- Cllr Thumbathi

3. STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

Section 129 (1) of the Municipal Finance Management Act (56 of 2003) provides 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 the 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.

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

National Treasury issued Circular 32 on 15 March 2006 on the preparation of Oversight Reports and Circular 63 that provides guidelines on the processes to be followed in the adoption of the Oversight Report, to which this report conforms.

The Oversight Report is a separate product from the Annual report. The Annual Report is submitted to the Council by the Accounting Officer and the Executive Mayor and is part of the process for discharging accountability by the executive and administration for their performance in achieving objectives and goals set by the municipality in the relevant financial year. The Oversight Report follows consideration and consultation on the Annual Report and is considered to be a report of the municipal council.

4. PROCESS OF LEADING TO THE ADOPTION ANNUAL AND OVERSIGHT REPORT.

Tabling of the Draft Annual Report at the Council meeting	21 January 2020
Submission of the Draft Annual Report to the Auditor-General	31 July 2019
Notice inviting Public comment on the Annual Report.	25 January 2020
Approval of the Oversight Report.	11 June 2020
Submit the Annual Report and Oversight Report to the Auditor-General, COGTA and Treasury	12 June 2020
Publication of the oversight report within 7 after approval	12 June 2020

5. SUMMARY OF MATTERS RAISED WITH THE ADMINISTRATION

The Committee would like to commend Administration for the effort put in developing the Annual Report that is compliant to Treasury Guidelines. In the process of analysing the Annual Report the following comments and questions were raised and forwarded to the Accounting Officer.

QUESTIONS	ROOT COURSE	REMEDIAL ACTION	TIMELINES	RESPONSIBLE PERSON
1. What is the municipality doing in detail to PREVENT high electricity and water losses?	<p>1.Electrical unit</p> <ul style="list-style-type: none"> • Old meters and Current Transformer (CT) settings not set correctly. • Municipal buildings, pump stations, WWTW's and water treatment plants are not metered and it results in the electricity, which is unaccounted for. 	<ul style="list-style-type: none"> • The electrical unit has a service provider on site to replace old meters. The first phase was with Meter Audit for the top 50 customers. • Bulk Check meters installed in the main incoming sub-stations. • Most customers were changed from conventional to prepaid meters. This program is on-going • Energy management system was suggested as a solution in consolidating the municipal consumption versus loses. This is budgeted for 2020/2021 F/Y • All water meters are being replaced by pre-paid water meters. • All bulk meters have been replaced • Intermittent water supply to Botleng Ext. 3 -7 • Telemetry installed at Sundra, Eloff and Botleng reservoirs 	<ul style="list-style-type: none"> • On-going process from July 2018 until date with a 7% improvement of the losses compared to 22%. • Completed in December 2019 • On-going • Dec 2020 	<ul style="list-style-type: none"> • Deputy manager electro technical • Deputy manager Electro Technical • Deputy manager Electro Technical • Deputy manager Electro Technical

	<p>2. Water Unit</p> <ul style="list-style-type: none"> • Old water meters • Residential water leaks in Botleng Ext.3 • Overflowing of reservoirs • Old infrastructure 	<p>and monitored by WTP operators</p> <ul style="list-style-type: none"> • Pressure switches and ARV to be installed on the Modder Bee old AC pipeline • Water loss awareness and survey conducted • Water Conservation and Water Demand Management Plan to be developed 	<ul style="list-style-type: none"> • Dec 2019 • Ongoing • Dec 2020 	<ul style="list-style-type: none"> • Deputy Manager Water and Sanitation • Deputy Manager Water and Sanitation
--	--	---	---	--

			<ul style="list-style-type: none"> • Ongoing – to continue during level 1 of COVID19 • Funding required 	<ul style="list-style-type: none"> • Deputy Manager Water and Sanitation • Assistant Manager Water and Sanitation • Deputy Manager Water and Sanitation
2. Page 222 of the AFS has not been signed by the MM	The Municipal Manager signed the first draft of the Annual Financial statement that was submitted to the Auditor	The municipal manager to sign all the annual financial statement even the final one which is to be stamped by the Auditor General South Africa	31 st August 2020	CFO

	General south Africa on the 31 st August 2019.			
3. Page 225 shows 2017 and not 2018	The opening balance for 2017 is part of the prior year adjustment it is included to have a correct amount for the 2018 FY as per GRAP 3	N/A	N/A	N/A
4. On page 225 a purchase of 30 million was done for an investment property. a. Was the correct MFMA procedure followed? b. Who authorized this purchase? c. Can all paper work related to the purchase of the above mentioned property for 30 million be provided?	People demanded the place to stay	On 25 September 2018 municipal council on its meeting revised the said resolution of 2015 on item A11/09/2015, with an item number A008/09/2018 and resolved that since the municipality had an outstanding "VAT refund" from SARS approximately R24 million, subsequently to an unsuccessful request from Dept. of Human Settlement, the municipal council resolved that "VAT Refund" be used to fund such property.	31 July 2020	MM
5. On page 225 – Please provide all documents related to the R305 637.00 – proceeds of sale from investment property?	Disposal of assets land	The municipality by the end of its financial year must disclosed all the land that was sold and also transfer for the construction of RDP	30 June 2019	CFO

<p>6. On page 225 – Provide all detail and documents on the long service award amount of R 50 354</p>	<p>GRAP 25 is used for the recognition of the long service award.</p>	<p>The municipality by the end of its financial year which is June each year must appoint an expert (Actuarial) that is used to calculate employee related provision as at 30 June each year.</p> <p>The Actuarial assist the municipality to disclose the past year or future projected liability and post-retirement medical aid plan in terms of Grap 25.</p>	<p>30 June 2019</p>	<p>CFO</p>
<p>7. On page 227 – provide all relevant information and documents on Public Contributions and donations to the value of R 5 951 691</p>	<p>The public contribution and donation are from Nkangala district municipality. These were the programs and projects they had budgeted for the Municipality for 2018/19 FY and were recognised as Public Contribution to the municipality at year-end.</p>	<p>During 2018/2019 Financial Year the districts donated the refuse removal truck for R2.1 Million & other operating expenses such as Disaster Management awareness campaign, SCM Debtors verification system, Valuation & Outsourced internal audit etc.</p>	<p>30 June 2019</p>	<p>CFO</p>

<p>8. On page 275 – point 30 under Contracted services. Business and Advisory- amount R 7 449 391 . This is double the amount for 2018. Please provide detailed report on what comprises the amount of R7 449 391.00 and attach all relevant documentation.</p>	<p>The municipality had a challenge on debt collection and capacity on annual financial statement preparation.</p>	<p>The municipality appointed the following service provider using a segment: Contracted services business & Advisory: Zandile management services, Moreko & IPES-Utility management for debt collection for all consumers with long outstanding debts.</p>	<p>30 June 2019</p>	<p>CFO</p>
		<p>Secondly, the municipality appointed Umnotho BC Services for the preparation & training of finance team for AFS.</p>		
		<p>During the financial year it happen that the segment that was used during the year is incorrect, then after closing the financial year in June 30, AFS team embarked on period 13 as per financial system to make necessary adjustment on all segment and make sure that the correct segment for any transaction for AFS purposes is adjusted accordingly.</p>		
<p>9. On page 275 – point 30 under Contracted services - Catering services – amount of R 1 153 970. Please provide a detailed report what comprises</p>	<p>The municipality budget for each department in terms of mSCOA segment. Each department has its own expenditure for different activity under this segment.</p>	<p>The municipality following National Treasury guidelines budget small amount on catering especially on for public participation meeting that normally take more hours.</p> <p>Therefore the amount reflected at the end of the financial year was</p>	<p>30 June 2019</p>	<p>CFO</p>

the amount of R 1 153 970.00.		adjusted correctly because of misclassification during the year.		
<p>10. On page 275 – point 30 under Contracted services – Security services amount of R 13 511 111. Please provide a detailed report what comprises the amount.</p> <p>- Can we have Security Company SLA regarding recovering costs in the area of their responsibility.</p>	The municipality has a security company to all its premises to ensure that the municipal assets are safeguarded.	<p>The municipality appointed security company to safe guard its assets.</p> <p>Therefore on a monthly basis within different departmental segment the security company is paid.</p> <p>The appointment letter and relevant document are available at SCM offices for further verification.</p>	30 June 2019	Act. DIR Social Services
<p>11. On page 276- point 30 under Contracted services continued..</p> <p>- Maintenance of building facilities – amount of R 910 750. Please provide a detailed report what comprises the amount of R 910 750. Attach SLA and all necessary documentation</p>	The municipality budget for each department in terms of mSCOA segment. Each department has its own expenditure for different activity under this segment.	<p>The following segment were used for different department however during the financial statement preparation, all items or services not captured to the correct segment should be or was moved to the correct segment by means of journal that is processed on period 13.</p> <p>In this case the expenditure was captured under:</p>	30 June 2019	CFO

pertaining to this amount.		Corporate Services - Property Services but was moved during AFS preparation to the correct segment.		
<p>12. On page 276-point 30 under Contracted services continued..</p> <p>- Maintenance of equipment – amount of R 3 219 159. Please provide a detailed report what comprises the amount of R 3 219 159. Attach SLA and all necessary documentation pertaining to this amount.</p>	The municipality budget for each department in terms of mSCOA segment. Each department has its own expenditure for different activity under this segment.	<p>The following segment were used for different department however during the financial statement preparation, all items or services not captured to the correct segment should be or was moved to the correct segment by means of journal that is processed on period 13.</p> <p>(Sewerage, Fleet Management, Forces Traffic and Street Parking, Cemeteries, Funeral Parlours, Crematoriums, Community Hall Facilities etc.)</p>	30 June 2019	CFO

13. On page 276-point 30 under Contracted services continued..- Main tenance of unspecified assets – amount of R 21 945 740. Please provide a detailed report what comprises the amount of R 21 945 740.	The municipality budget for each department in terms of mSCOA segment. Each department has its own expenditure for different activity under this segment.	The municipality within each department budgeted for certain services under this section. Waste Water Management Sewerage, Road Transport – Roads, Electricity Electricity Distribution Community & Social Services - Other Social Water - Water Distribution:	30 June 2019	All Directors

<p>Attach SLA and all necessary documentation pertaining to this amount.</p>		<p>Therefore several contractor were appointed for example on Roads Transport: supply & delivery of Asphalt and under Waste water management sewerage- at Mandela area a contract was appointed for sewer services.</p> <p>Irhalane appointed for assisting on water pump etc.</p> <p>All document for further verification is available at SCM office</p> <p>During the financial year it happen that the segment that was used during the year is incorrect, then after closing the financial year in June 30, AFS team embarked on period 13 as per financial system to make necessary adjustment on all segment and make sure that the correct segment for any</p>		
---	--	--	--	--

		transaction for AFS purposes is adjusted accordingly.		
--	--	---	--	--

--	--	--	--	--

<p>14. On page 276-point 31 under Contracted services continued..- Consumables – amount of R 10 241 803. Please provide a detailed report what comprises the amount of R</p>	<p>The municipality must have a budget for technical services for stores which include a variety of items, such as material & supplies, zero rated (Petrol & Diesel) & also consumables.</p>	<p>The municipality budget for material & supplies under technical services and also consumables to make sure that any parts or pump that might be required for any fixing of municipal infrastructure is available at its stores.</p> <p>Zero Rated relate to Petrol for all municipal vehicles.</p> <p>The municipality had contractor appointed for stores item and the</p>	<p>30 June 2020</p>	<p>CFO TECDIR</p>

<p>10 241 803. Attach SLA and all necessary documentation pertaining to this amount.</p>		<p>other one appointed for Petrol & Diesel.</p>		
		<p>During the financial year it happen that the segment that was used during the year is incorrect, then after closing the financial year in June 30, AFS team embarked on period 13 as per financial system to make necessary adjustment on all segment and make sure that the correct segment for any transaction for AFS purposes is adjusted accordingly.</p>		

<p>15. On page 276-point 31 under Contracted services continued..- ICT Expenses– amount of R 14 968 742. Please provide a detailed report what comprises the amount of R 14 968.72. Attach SLA and all necessary documentation pertaining to this amount.</p>	<p>The municipality must have ICT unit for all software & hardware technological services.</p>	<p>The municipality appointed the following service providers for IT related services:</p> <p>Accolade Engineers, Adapt IT & Sivutha Amalangabi Trading for licences for software services such as computers or laptops.</p> <p>Forek Institute of Technology provide the service of external employees to assist the IT section since the municipality only have one municipal employee within the section.</p> <p>Vodacom, for cell phone allowance</p> <p>Dido is for photocopying Macheen</p> <p>Unics Technology provide internet for financial system and also telephone</p> <p>Sebat financial system, Munsoft, Vesta & Muncom system.</p>	<p>30 June 2019</p>	<p>MM</p>
		<p>During the financial year it happen that the segment that was used during the year is incorrect, then after closing the financial year in June 30, AFS team embarked on period 13 as per financial system to make necessary adjustment on all segment and make sure that the correct segment for any transaction for AFS purposes is adjusted accordingly.</p>		

<p>16. On page 276-point 31 under Contracted services continued..</p> <p>- Travel – local – amount of R 2 763 450. Please provide a detailed report what comprises the amount of R 2 763 450. Attach SLA and all necessary documentation pertaining to this amount.</p>	<p>The municipality during its budgeting process budget for employees & councillors for Travel & subsistence allowance.</p>	<p>The municipality budget for Travel & subsistence allowance for those employees who are having allowance in terms of their position & also budget for travelling for employees using their own transport if attending meeting or training and also for accommodation, When preparing AFS the disclosure for employee related costs must be in details to reflect how much was paid for each component under employee related costs.</p>	<p>30 June 2019</p>	<p>CFO</p>
	<p>The municipality I terms of AFS must disclose the amount that was due by</p>	<p>The municipality had both bulk purchases (Eskom & Rand Water) outstanding as at 30 June 2019 and</p>	<p>30 June 2019</p>	<p>CFO</p>

<p>17. On page 277- point 30 under Contracted services continued. .- Payables from exchange transactions – amount of R 231 255 349. Please explain what this means and how do you get to this figure?</p>	<p>the municipality to all suppliers by the end of June each year.</p>	<p>also small creditors that were not paid by 30 June 2019 but should be paid after June 2019 which normally is a new year to the municipality,</p> <p>In terms of AFS such amount must be disclose as Payable from Exchange transaction.</p>		
<p>18. On page 282- point 42 under .- Operating leases – amount of R 2 229 471. Please provide all lease agreements and the necessary documents pertaining to these leases.</p>	<p>The municipality had photocopying machine and rental vehicles for fleet services under technical department</p>	<p>The municipality appointed TWO services provider:</p> <ul style="list-style-type: none"> ➤ Dido is providing the municipality with photocopying machine ➤ Fleet Horizon, is providing the municipality with backies that is used for municipal services. 	<p>Appointment letter & SLA available in SCM Offices for further verification</p>	<p>MM TECDIR</p>

19. On page 284-Contingencies-please provide dates of these litigations and why they have not been resolved’.				
20. Page 290-Please confirm there is no monies outstanding from Cllr Sekhukhune	For the Financial year 2019/2020, there is no money outstanding as at 30 April 2020,			
21. Please attached detailed list of all municipal employees	<p>There are 9 employees renting on municipal properties and their rental amount is deducted on their payroll:</p> <ul style="list-style-type: none"> ➤ Selemane EB ➤ Mgidi S ➤ Bolton FJC ➤ Sathekge ML MRS 			

renting municipal properties and what they are owing on their municipal accounts	<ul style="list-style-type: none"> ➤ Kganyago MM ➤ Ntuli NA ➤ Mashigo TA ➤ Ntuli ZG ➤ Khumalo M Mr 			
22. AG report (114) fencing project how did PMU issue letter of completion without proper inspection cut across all identified projects	It was an oversight to issue a completion certificate for the fencing of the landfill site project without a total project value.	A new completion certificate was issued clearly stating the total project values. All other projects completion certificate were issued showing the total project value.	December 2019	Assistant manager Project Management Unit
23. Regarding all CFO department and failure to do ones responsibility as managers what consequences were taken against managers responsible for day to day responsibility. For example failure to do monthly reconciliation	Change of system during the financial year Non- submission of correct information by the managers	Monthly meeting for the submission of reconciliation check by Deputy and signed by the CFO. Training of the managers on the new system working together with the service provider to ensure transfer of skills.	31 st May 2020 and ongoing	Assistant Managers Deputy CFO CFO

Failure to review AFS before submission				
24. To all outsourced responsibilities or contracts on Finance department can we be empowered who does what?	The outsourced services happen when the municipality does not have internal capacity but require further assistant & training.	Under Financial Services, the municipality appointed service provider for Debt Collection such as Zandile Management service, Moreko & IPES_Utlity and also Umnotho BC Consultant for financial statement preparation and skill transfer.	Ongoing until the end of the contract. For any further verification document are available at SCM office.	CFO

6. KEY COMMENTS BY THE EXECUTIVE MAYOR:

We as a municipality we are proud to produce this report that indicates the milestone of which we have met in delivering services to our people in the financial year under review. Our vision is inspired by the national vision of moving South Africa forward in order to tackle with the aim of addressing the triple challenges which are unemployment, poverty and inequalities. We continue with our vision of being a prosperous Mpumalanga Western Gateway City for a cohesive developed community.

As stated by his Excellency, President Cyril Ramaphosa in his 2018 state of the nation address when he said” we are one people, committed to work together to find jobs for our youth, to build factories and roads, houses and clinics, to prepare our children for a world of change and progress, to build cities and towns where families may be safe, productive and content. We are determine to

build a society defined by decency and integrity that does not tolerate the plunder of public resources, nor the theft by corporate criminals of the hard earned savings of ordinary people.

We have committed ourselves to the principles of Batho pele which is the cornerstone in how we go about servicing our people. All the achievements are as a result of unity displayed by all stakeholders that is councillors, administration and the community. It is a collective effort that we have achieved all that we have in their financial year and for that we are grateful.

The development of our municipality remains the priority for all of us and we shall forever create an enabling environment for the business community to come and invest here so that we can be able to create the needed jobs and increase the skills of our people to a level where they are able to compete with the whole world.

7. KEY COMMENTS BY THE ACCOUNTING OFFICER

The annual report intends to provide a record of the activities of the municipality for the reporting period 2018-2019 financial year. Secondly, the report gives account on the details of the various service delivery programmes managed by the municipal departments and how we have performed towards meeting the targets we set. We firmly believe that we are on track towards meeting the Vision 2030 Strategic Goals and Objectives set during the Strategic Planning in May 2012- one step at a time making our municipality “A Prosperous Mpumalanga Western Gateway City for a Cohesive Developed Community”.

The municipality received a Disclaimer audit opinion, mainly due to the asset register completeness, and accuracy of Property, Plant and Equipment which were materialistic. We have taken the opportunity in this Annual Report to reflect on what we have achieved and what remains to be done.

We wish to express our profound appreciation to Executive Mayor, Cllr. Buda and the Mayoral Committee for the leadership they have given to us and opportunity to serve the people of Victor Khanye Municipality. We also appreciate the support that we continue to receive from our different portfolio committees. The staff of the Victor Khanye Municipality continues to put in every effort to ensure our municipality executes its Constitutional mandate effectively and that we, individually and collectively, are able to contribute to making a difference in the quality of life in our communities.

8. KEY COMMENTS OF THE AUDIT COMMITTEE

The Audit and Performance Committee (APC), held a meeting on the 28 August 2019 to discuss the draft annual financial statements and unaudited annual report with the Accounting Officer, before submitting to the Auditor General. The Audit and Performance Committee (APC) was recommended that management must improve the set of draft annual financial statements provided as they did not meet acceptable standard.

The Audit committee wishes to indicate that it performed a review on the financial statements focusing among others:

- Significant financial reporting adjustments and estimates contained in the Annual Financial Statements;
- Clarity and completeness of disclosures has been set properly;
- Changes in GRAP standards;
- Quality and acceptability of and any changes in accounting policies and practice;

- Significant adjustments arising from the audit; and
- Reasons for major year to year fluctuations

The Audit and Performance Committee (APC) has further:

- Reviewed the Auditor General Management report and management response thereof
- Reviewed the municipality compliance with legal and regulatory provision and;
- Reviewed significant adjustments resulting from the audit.

The Audit and Performance Committee (APC) concurs and accepts the conclusions of the Auditor- General on the Annual Financial Statements be accepted and read together with the report of the

Auditor-General.

It is recommended that:

- There be an assessment of the capacity in terms of applying management responsibilities and leadership within the Budget and Treasury department.
- That management ensure that the financial management system used assists in improving reporting.
- That the quarterly financial statements be prepared and reviewed by Internal Audit and the Audit and Performance Committee.

That the use of external consultants aiming to be build capacity in the Budget and Treasury department must be monitored.

The Audit and Performance Committee (APC) acknowledges the co-operation and assistance by the Victor Khanye Local Municipality for coordinating the activities of the Committee.

The Audit and Performance Committee (APC) further acknowledges the commitment and the foundation on good governance that has been laid by the Honourable Executive Mayor Councillor E. Makhabane and her Council and further express gratitude to the Internal Audit staff for the support and commitment to the work of the Audit and Performance Committee.

The Chairperson of the Audit and performance committee remain confident that all matters that have been raised by the Internal Audit and Auditor General are receiving due consideration and intervention. We are committed to fully execute our oversight function to strengthening corporate governance.

9. SUMMARY OF COMPONENTS THAT REQUIRE TO BE REVISED

None

10. RECOMMENDATIONS OF THE MPAC (THAT):

1. Council, having fully considered the Annual Report for 2018/2019 financial year of the Municipality and representations made thereon, adopts the 2018/2019 Oversight Report; and
2. Council approves the 2018/2019 Annual Report with reservations due to the outcome of the audit report by Auditor General;
3. Council Request the Executive Mayor to report quarterly on progress made with the execution of corrective actions contained in the Oversight Report.