

# **BRIEFING TO THE NATIONAL COUNCIL OF PROVINCES (NCOP) ON FINANCIAL MANAGEMENT IN PHOKWANE, DIKGATLONG & JOE MOROLONG MUNICIPALITIES**

**NCOP Provincial Week  
27 October 2020**



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# Overview

- The 6<sup>th</sup> Administration has placed municipalities in the province on top of the agenda since Municipalities are central in the Vision of this Administration;
- Municipalities were designed to operate as business entities – revenue collection is at the heart of financial sustainability in municipalities
- However, there are serious embedded institutional challenges that continue to exist at municipalities. These problems are generic in nature across our municipalities and these three focus municipalities in this report are not an exception;
- To date, two Municipalities are under S139 intervention (Renosterberg and Phokwane) clearly signalling our intentions to confront these problems with much vigour and Political Will;
- There is greater acknowledgement at the political leadership level that problems in municipalities are mainly political and therefore more political guidance is required;



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# Overview

- Key critical and technical posts remain vacant in most municipalities;
- Failure by most municipalities in the province to implement “Recommendations” of Provincial Treasury (PT) result in unfunded mandates and cash flow problems;
- The drive of the Province to improve our infrastructure capacity and capabilities through a re-configured Department of Public Works will benefit our municipalities to improve infrastructure delivery in municipalities
- The PT is currently finalising the “Strategy to Support Municipal Failures” which is intended address most of the problems in our municipalities



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# Phokwane Local Municipality



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# AUDIT OUTCOMES

| Audit outcomes | 2016/17       | 2017/18       | 2018/19           |
|----------------|---------------|---------------|-------------------|
|                | Qualification | Qualification | AFS not submitted |

The audit opinions remained stagnant over the 2 years for which the audits were finalized.

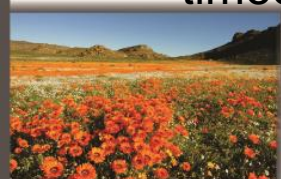
| Qualification/disclaimer paragraphs | 2016/17 | 2017/18 | 2018/19           |
|-------------------------------------|---------|---------|-------------------|
| No of issues in audit report        | 16      | 14      | AFS not submitted |

The number of issues raised in the audit report reduced from 16 to 14



# Prescribed information

- NCPT developed Monitoring tool and issued instruction note to direct submission of information.
- The tool aim to measure financial compliance to accomplish good corporate governance as required by MFMA.
- It contains a number of key performance indicators identified which aims:
  - To assist the AO to maintain an adequate system of internal control.
  - Aim to improve monthly, yearly reporting, closure of financial records and audit outcomes; and
  - To assist Provincial Treasury in identifying the type of assistance required by the municipality
- The indicators cover revenue, expenditure, assets and liabilities:
- Guidance issued on the compilation of audit action plan and AFS preparation plans to ensure that issues raised in audit reports are addressed timeously and AFS submitted on time



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# Advantages of Submission of prescribed information

- ❑ Compliance with laws and regulation
- ❑ Good governance
- ❑ Improved and sustained audit outcomes
- ❑ Improved revenue collection rates
- ❑ Improved control environment in line with new AG methodology
- ❑ Efficient management of key financial management indicators, FMCMM
- ❑ Adherence Back to basics principle



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# Monitoring tool and Audit Action Plans

The municipality never submitted the required information i.t.o. the prescribed dates

| MUNICIPALITY | Monitoring<br>Tool: Due 15<br>October 2019 | Monitoring<br>Tool: Due 15<br>Jan 2020 | Monitoring<br>Tool: Due 15<br>June 2020 | Monitoring<br>Tool: Due 15<br>July 2020 |
|--------------|--|--|---|---|
| Phokwane     | Outstanding                                | Outstanding                            | Outstanding                             | Outstanding                             |

| MUNICIPALITY | AUDIT ACTION<br>PLANS DUE: 31<br>JANUARY 2020 | AUDIT ACTION<br>PLANS DUE: 15<br>June 2020 | AUDIT ACTION<br>PLANS DUE:<br>July 2020 |
|--------------|---|--|---|
| Phokwane     | Outstanding                                   | Outstanding                                | Outstanding                             |



# Funded/unfunded Budgets

| Municipality | 2019/20 Adopted Budgets | 2019/20 Special Adjustment Budgets | 2020/21 Adopted Budgets | 2020/21 Special Adjustment Budgets |
|--------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| Phokwane     | ☹️                      | 😊                                  | ☹️                      | ☹️                                 |

- Between 2018/19 to 2019/20 the municipality has been tabling unfunded budgets
- The municipality adopted an unfunded budget in 2019/20 FY however, the situation changed during the forced correction of budgets the budget became funded due to the ES that was going to be withheld.
- Currently the municipality is finalising the budget which be taken to Exco for adoption
- Municipalities are not allowed to adopt unfunded budgets, they are supposed to rework their budgets until a funded position is realized,



# Equitable share allocation

Formula has four main parts:

- **Part 1:**

- Basic services component funds the delivery of free basic services and

- **Part 2:**

- Institutional component funds admin costs

- **Part 3:**

- Community services component funds general municipal services

- **Part 4**

- Revenue adjuster ensuring equal revenue allocation based on municipal needs.



**Free basic services**  
**Free basic services**  
**R68,073 million**

**R435 per month**  
**(recommended rate**  
**per household)**

**INSTITUTIONAL**  
to assist with  
administrative cost  
focus specifically on  
council allowance

**COMMUNITY**  
**SERVICE** to fund  
community services  
e.g. Parks and  
recreational

**REVENUE ADJUSTER**

The total allocation for the 2020/21 financial year amounts to R107,449 million



# Free Basic Services

## Free Basic Services 2020/21

| Number of HHs | % of HHs that are poor       | Number of poor HHs          |   |                |
|---------------|------------------------------|-----------------------------|---|----------------|
| 19918         | 65%                          | 13040                       |   |                |
| Services      | Averages monthly Charge (NT) | NT Allocation 2020/21 R'000 | Municipal Allocation 2020/21 MTRF R'000 | Variance R'000 |
| Water         | R 144.86                     | 22 668                      | 20 609                                  | 2 059          |
| Electricity   | R 93.66                      | 14 656                      | 6 848                                   | 7 808          |
| Refuse        | R 89.61                      | 14 022                      | 11 124                                  | 2 898          |
| Sewerage      | R 106.90                     | 16 727                      | 14 973                                  | 1 754          |
| <b>Total</b>  | <b>R 435.03</b>              | <b>68 074</b>               | <b>53 554</b>                           | <b>14 520</b>  |

Data Source: Section 71

The municipality received a total amount of R68,074 million for the provision of free basic services for the 2020/21 financial year. This is based on calculation making provision to subsidise 65% or 13040 poor households in the municipal area. The municipality only budgeted R53,553 million, resulting in a shortfall of R14,520 million.

The inability to adequately provide for indigents highlights inefficiencies in indigent management and budgeting processes.

The above poses a risk as it might lead to an increase in municipal outstanding creditors for Bulk water and Electricity, as the municipality will be unable to adequately sustain the provision of free basic services.



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# Revenue Performance

## Revenue Performance as at June 2020

| <b>Municipal Services</b> | <b>Adjusted Budget</b> | <b>Actual Revenue</b> | <b>% Actual Revenue</b> |
|---------------------------|------------------------|-----------------------|-------------------------|
| Property rates            | 25 451                 | 25 871                | 101.7%                  |
| Electricity revenue       | 92 802                 | 78 657                | 84.8%                   |
| Water revenue             | 43 810                 | 33 190                | 75.8%                   |
| Sanitation revenue        | 19 840                 | 14 136                | 71.3%                   |
| Refuse revenue            | 19 740                 | 9 742                 | 49.4%                   |
| Transfers and subsidies   | 134 304                | 115 281               | 85.8%                   |
| Other revenue             | 46 883                 | 36 040                | 77%                     |
| <b>Operating Revenue</b>  | <b>382 829</b>         | <b>312 917</b>        | <b>81.7%</b>            |

Data Source: Section 71

Total billed revenue amounts to R312,917 million. Property Rates revenue is reported as 101% of total budget followed by Transfers and subsidies at 85%, Electricity at 84%, Other revenue at 77%. Water 75% and Sewerages and refuse at 71% and 49% respectively.

Refuse revenue reported at 49% might jeopardise the ability of the municipality to adequately provide services as income from the provision of the service will be low.

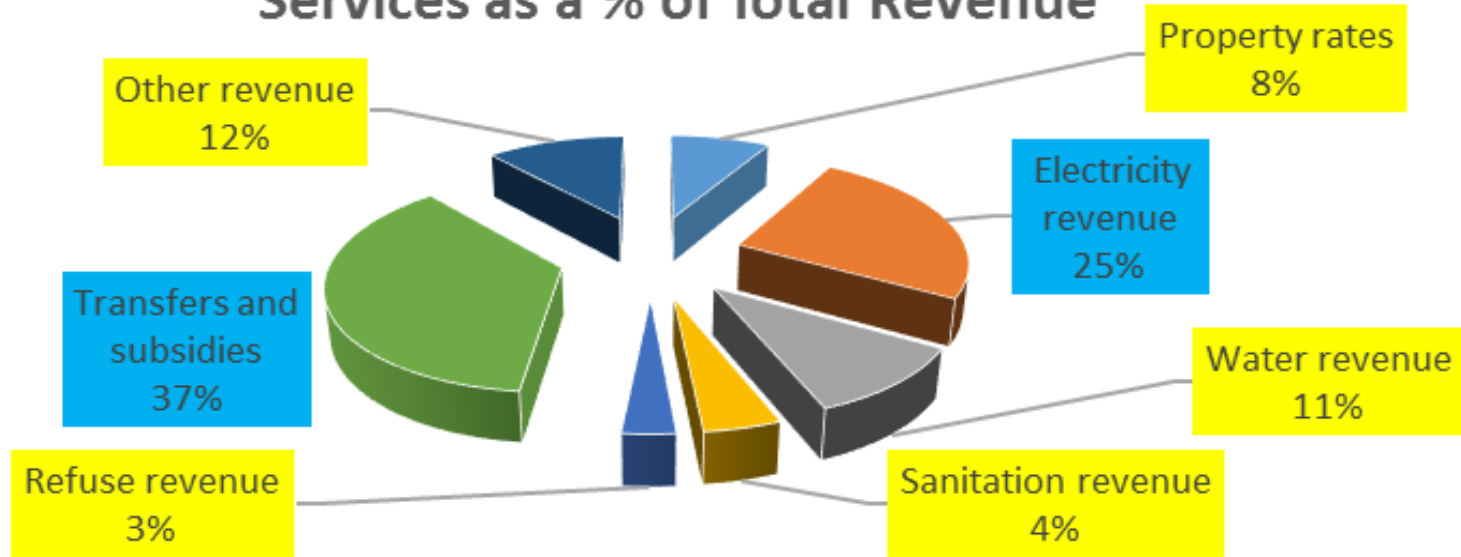
The municipality reports revenue billed and not revenue received, this distorts reporting and ability to determine the viability of the municipality



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# Revenue Performance

## Services as a % of Total Revenue



Data Source: Section 71

The municipality is grant reliant and highly dependent on the ES other than generating own revenue. The Highest contributor to municipal revenue is Transfers and subsidies at 37 % of total revenue followed by Electricity revenue at 25%.

Property Rates is reported at 8% of total revenue, this however is expected to increase in the 2020/21 financial year as the municipality renewed the municipal valuation roll.

Refuse removal is the lowest contributor to total revenue reported at 3% .



# Expenditure Performance

## Operating Revenue and Expenditure

|                                   | 2019/20            |                 |                    |   |
|-----------------------------------|--------------------|-----------------|--------------------|---|
|                                   | Budget             |                 | Year to Date       |   |
|                                   | Main appropriation | Adjusted Budget | Actual Expenditure | Total Expenditure as % of adjusted budget |
| <b>R thousands</b>                |                    |                 |                    |   |
| Employee related costs            | 106 514            | 91 514          | 76 824             | 84%                                       |
| Remuneration of councillors       | 7 286              | 7 286           | 5 810              | 80%                                       |
| Debt impairment                   | 28 078             | 50 379          | -                  | 0%  |
| Depreciation and asset impairment | 14 528             | 14 528          | -                  | 0%  |
| Finance charges                   | 150                | 150             | -                  | 0%  |
| Bulk purchases                    | 70 571             | 140 000         | 293 730            | 210%                                      |
| Other Materials                   | 12 057             | 13 574          | 5 219              | 38%                                       |
| Contracted services               | 16 123             | 13 123          | 12 047             | 92%                                       |
| Transfers and subsidies           | 1 095              | -               | -                  | 0%  |
| Other expenditure                 | 14 445             | 15 540          | 6 246              | 40%                                       |
| <b>Surplus/(Deficit)</b>          | <b>270 847</b>     | <b>346 095</b>  | <b>399 877</b>     | <b>116%</b>                               |

Data Source: Section 71

- The highest expenditure was reported under bulk purchases of water and electricity at 210%, which constitutes overspending of the adjusted budget by 110%. This is an indication of poor budgeting or incorrect reporting. Followed by contracted services and remuneration of Councillors at 80% of the adjusted budget.
- Employee related costs were reported at 84% of the adjusted budget, this can be attributed to the vacant positions within the municipality. Although the employee costs are excessive at 84% as opposed to the norm of 25-40%, it should be noted that critical posts remain vacant i.e CFO, Director Technical services
- No spending was reported under finance charges, depreciation and debt impairment as at 30 June 2020, this relates to poor state of financial management and reporting.



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# Capital Expenditure Performance

|  | Adjusted Budget | Actual Expenditure | Total Capital Expenditure as % of adjusted budget |
|--|-----------------|--------------------|---|
| <b>Municipal governance and administration</b> | <b>730</b>      | <b>27</b>          | <b>4%</b>   |
| Executive and Council                          | 250             | -                  | 0%  |
| Finance and administration                     | 480             | 27                 | 6%  |
| <b>Economic and Environmental Services</b>     | <b>-</b>        | <b>-</b>           | <b>0%</b>   |
| Road Transport                                 | -               | -                  | 0%  |
| <b>Trading Services</b>                        | <b>60 158</b>   | <b>19 573</b>      | <b>33%</b>  |
| Energy sources                                 | 14 958          | 472                | 3%  |
| Water Management                               | 10 200          | -                  | 0%  |
| Waste Water Management                         | 35 000          | 19 101             | 55%   |
|  | <b>60 888</b>   | <b>19 600</b>      | <b>32%</b>  |

- Spending on capital budget was very low at 32% of the adjusted budget as at 30 June 2020, as compared to the expected norm of 100% at year end.
- The highest expenditure was reported under trading services at 33%. This might be an indication of poor planning and poor project implementation by the municipality.
- The lowest spending was reported under Municipal governance and administration at 4% of the adjusted budget as at 30 June 2020.
- This status could be attributable either under reporting or actual poor performance



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# Conditional Grants Performance

NORTHERN CAPE: PHOKWANE (NC094)

|   | Division of revenue Act No.<br>16 of 2019 | Adjustment (Mid year) | Other Adjustments | Total Available 2019/20 | Year to date              |   | YTD                                  | Exp as % of Allocation by municipalities |
|---|---|-----------------------|-------------------|-------------------------|---------------------------|---|--------------------------------------|--|
|   |   |                       |                   |                         | Approved payment schedule | Transferred to municipalities for direct grants | Actual expenditure by municipalities |  |
| <b>R thousands</b>  |   |                       |                   |                         |                           |   |                                      |  |
| Local Government Financial Management Grant                     | 2 680                                     | -                     |                   | 2 680                   | 2 680                     | 2 680   | 775                                  | 29%                                      |
| Municipal Disaster Grant  | 119                                       | -                     |                   | 119                     | 119                       | 119   | -                                    | -  |
| Expanded Public Works Programme Integrated Grant (Municipality) | 1 142                                     | -                     |                   | 1 142                   | 1 142                     | 1 142   | -                                    | -  |
| Integrated National Electrification Programme (Municipal) Grant | 14 458                                    | -                     |                   | 14 458                  | 14 458                    | 14 458  | 2 044                                | 14%                                      |
| Water Services Infrastructure Grant (Schedule 5B)               | 35 000                                    | -                     |                   | 35 000                  | 35 000                    | 35 000  | 24 153                               | 69%                                      |
| Municipal Infrastructure Grant                                  | 26 265                                    | (11 980)              |                   | 14 285                  | 14 285                    | 14 285  | 7 413                                | 52%                                      |
| <b>Total</b>  | <b>79 664</b>                             | <b>(11 980)</b>       | <b>-</b>          | <b>67 684</b>           | <b>67 684</b>             | <b>67 684</b>                                   | <b>34 386</b>                        | <b>51%</b>                               |

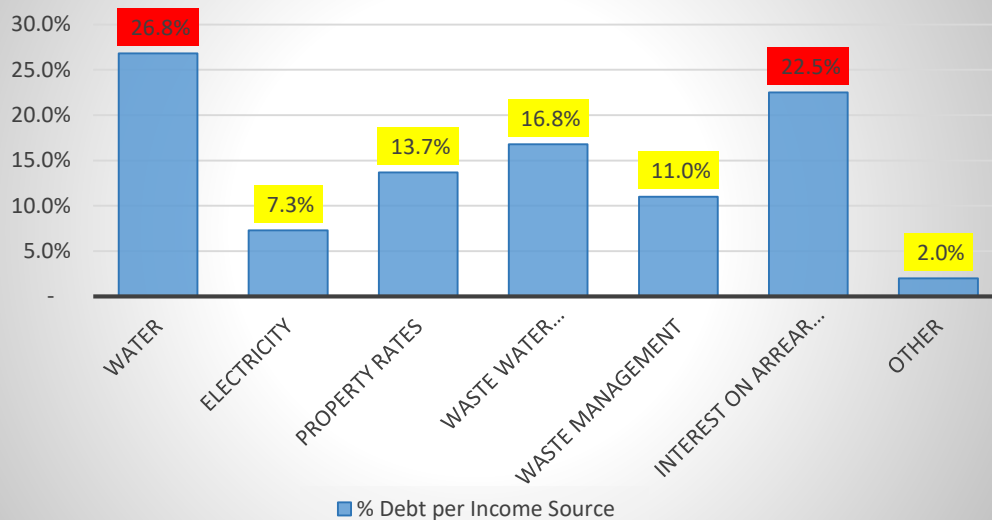
- The municipality was allocated R26. 265 million in direct conditional grants for the 2019/20 financial year, which was reduced by R11, 980 million for MIG during the stopping and reallocation process, the total allocation was adjusted to R67,684 million
- due to:
  - The Council could not agree on project list
  - Slow spending
  - Use of grant money for other purposes
- The highest expenditure was reported under WSIG at 69%,
- National Treasury approved application amounting to R20.3 million



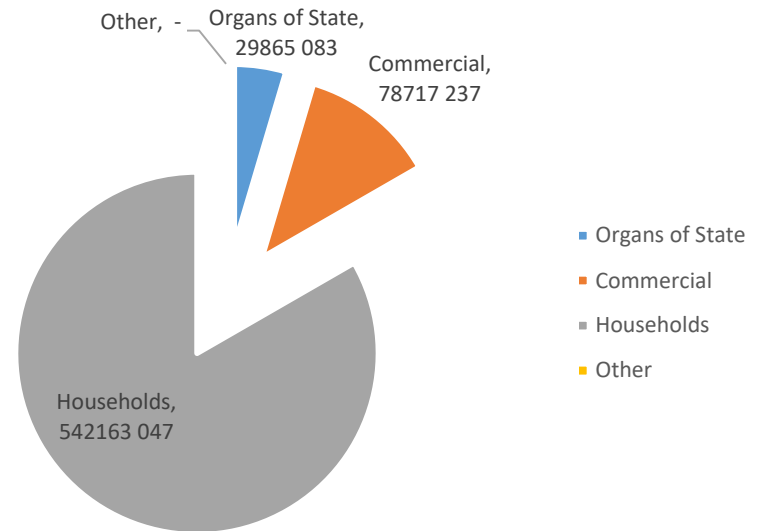
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# Debtors management

## % Debt per Income Source



## Total Debt per Customer Group



Data Source: Section 71

- Total debt owed to Phokwane municipality amounts to R 650.745 million, with Household debt attributing to the largest amount at R542.163million, followed by commercial debt R78.717 million and Organs of State amounting to R29.865 million.
- Outstanding amount for water accounts for the largest percentages debt at 26%, followed by interest on arrear accounts at 22.5%.
- An amount of R602 million outstanding for more than 90 days.



# Bulk Creditors

## Eskom Outstanding Debt

| 31-60 days                    | 61-90 days     | 91 + days              | Total           |
|-------------------------------|----------------|------------------------|-----------------|
| <b>R 10,700</b>               | <b>R 0,293</b> | <b>R 125,410</b>       | <b>R136,405</b> |
| Payment Arrangement           |                | Honour / Not Honouring |                 |
| No signed payment arrangement |                | N/P                    |                 |

## Vaalharts water Debt –R'000

| Current        | 30 days        | 31-60 days     | 61-90 days     | 91 + days       | Total           |
|----------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>R 1,496</b> | <b>R 2,358</b> | <b>R 2,922</b> | <b>R 2,023</b> | <b>R 44,632</b> | <b>R 46,655</b> |

## Sedibeng Water

| Current        | 30 days        | 31-60 days     | 61-90 days     | 91 + days       | Total            |
|----------------|----------------|----------------|----------------|-----------------|------------------|
| <b>R 1,682</b> | <b>R 3,632</b> | <b>R 2,125</b> | <b>R 2,746</b> | <b>R 98,992</b> | <b>R 109,177</b> |

| Payment Arrangement   | Honour / Not Honouring |
|---|------------------------|
| Payment Agreement with Vaal harts water<br>No payment agreement with Sedibeng water | Honoured               |

Data Source: LG Data Base



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# Bulk Services Creditors

## Bulk Electricity:

The municipality owe Eskom a total of R136,405 million as at September 2020. The municipality does not have a signed re-payment agreement, however has negotiated to pay the current account for a period of six months and renegotiate the re-payment agreement.

## Bulk Water

**Vaalharts water:** The municipality owes the water service provider an amount of R46,665 million. The municipality has a re-payment agreement and is honouring it.

**Sedibeng Water :** The municipality owes the water service provider an amount of R109,177 million. The is currently not a signed re-payment agreement and no payments are made towards the current account.

Data Source: LG Data Base

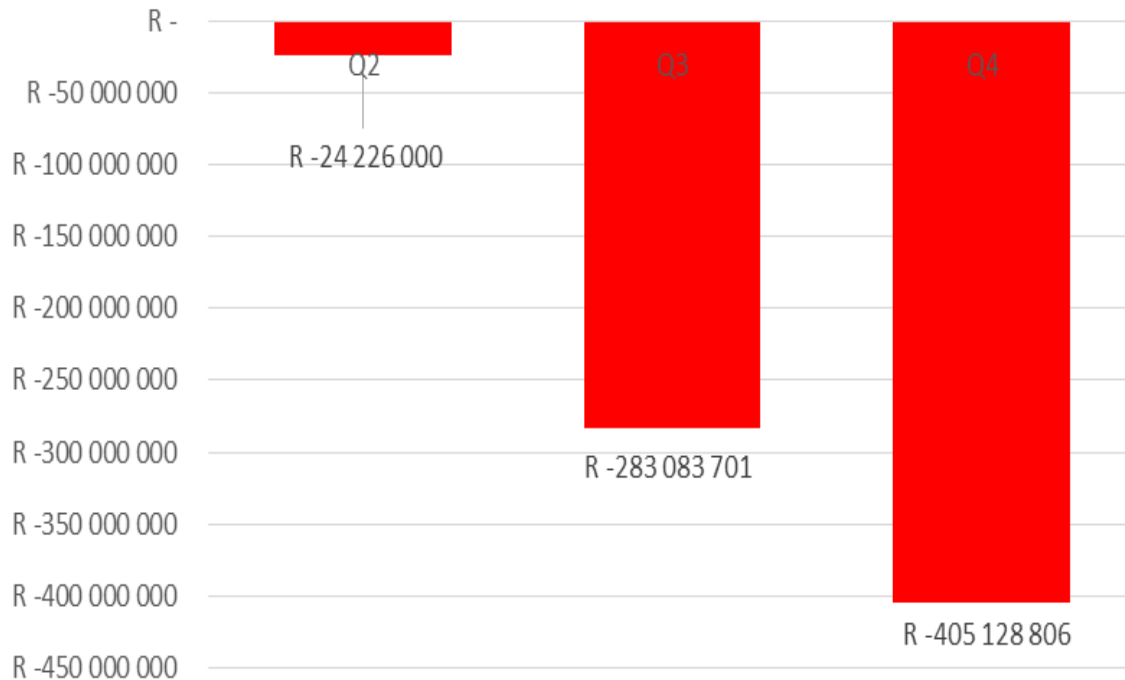


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# Financial Viability Net Cash Position

Phokwane Net Cash Balance  
Quarter on Quarter Comparison



The comparison is based on available information as signed off by Municipal Managers and CFO. The Phokwane Municipality reported a consistent negative Net cash balance from December 2019 to June 2020. The increase quarter on quarter is over **143%**.

Data Source: Section 71



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# Financial Viability Summary

| Municipality | Consistent Negative net Cash Balance (3 Quarter analysis) | Cash Cost Coverages (0-3 months) | Net Debtors Days (30 Days) | High Risk | Medium Risk | Low Risk |
|--------------|---|----------------------------------|----------------------------|-----------|-------------|----------|
| Phokwane     | ↓   | ↓                                | ≥500                       | ✓         |             |          |

The municipality reported negative net cash balance for three consecutive quarters, which increased during the third and fourth quarter of the financial year.

The municipality reported a cash cost coverages ratio of less than a month calculated at (-2). This indicates that the municipality will be unable to sustain operations if no revenue is received for even a month.

Net Debtors days is calculated at 1445 day, credit control and debt management process are not followed in the municipality.



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# Financial recovery plans

- The Financial recovery plan is at final stages
- The challenge has been the implementation and monitoring of these FRPs
- As Treasury we are refocusing on getting dedicated personnel who will be a rapid response team to proactively in addressing the problems in municipalities.
- In this regard we have dedicated resources to give this a priority



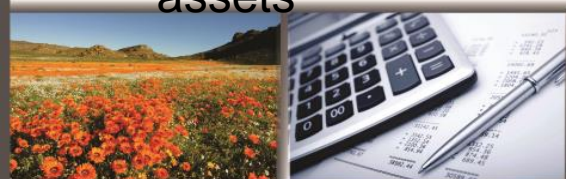
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# SCM and Asset Management

- SCM officials have not attended SCM related training in the past 12 months
- Bid committees are not composed according to prescriptions of the MFMA and subsequent Treasury Regulations.
- Provincial Treasury has implemented model SCM Policies, but the SCM policy of the municipality has not been approved by the municipality.
- The municipality does not have a dedicated Asset Management Unit in place but has two staff members under SCM.
- The municipality makes use of consultants in preparing the Fixed Asset Register (FAR) instead of internal staff.
- The municipality does not have a strategic maintenance framework in place that provides for continuity in asset maintenance
- The municipality does not have an approved planned maintenance schedule (manual or electronic) in place that is aligned to the condition assessment of its assets



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# UIF & W balances

| Phokwane                 | 2015/16            | 2016/17            | 2017/18            | 2018/19            |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| Unauthorised expenditure | 290 901 603        | 357 998 291        | 357 998 291        | 357 998 291        |
| Irregular expenditure    | 178 115 861        | 265 686 574        | 265 686 574        | 270 720 933        |
| Fruitless & Wasteful     | 1 218 339          | 8 517 972          | 8 517 972          | 8 517 972          |
| <b>Total</b>             | <b>470 235 803</b> | <b>632 202 837</b> | <b>632 202 837</b> | <b>637 237 196</b> |



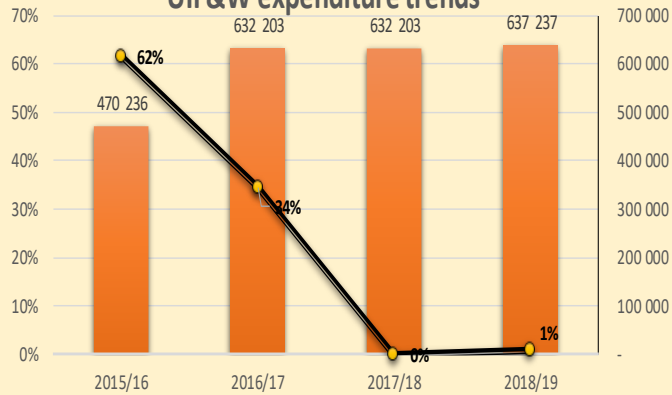
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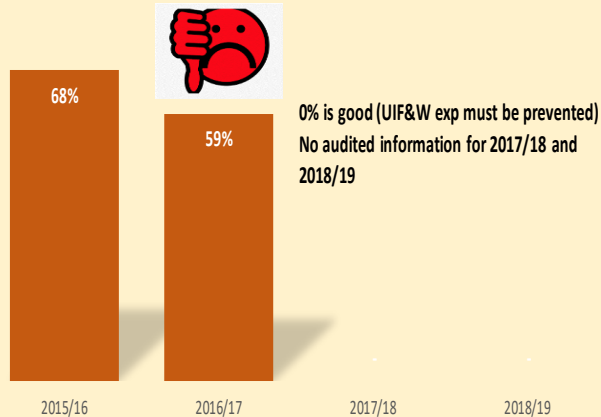
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# UIF&W EXPENDITURE TREND ANALYSIS

UIF&W expenditure trends



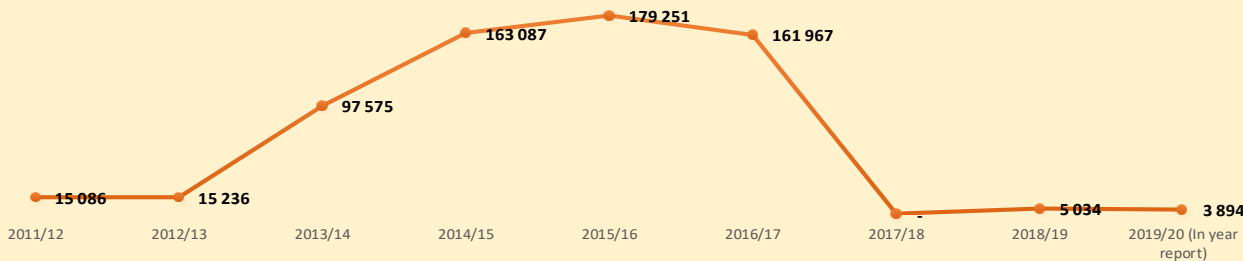
% of operational budget



- Accum total UIF&W exp is **R637 million**
- No audited figures for 2017/18 and 2018/19
- No action of over the years to investigate recoverability of IE

In year reporting and controls

Only submitted 2018/19 and 2019/10 registers with annual figures for IE only

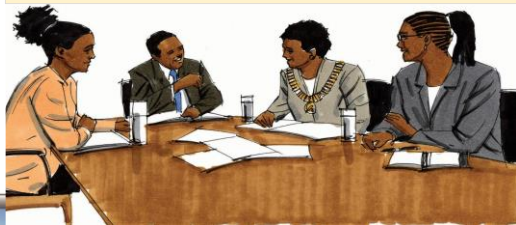


## Incident description

- Repair damage raw water pump
- Cleaning of Hartswater dumping site
- Annual service of pumps
- Hiring of excavator sewerage

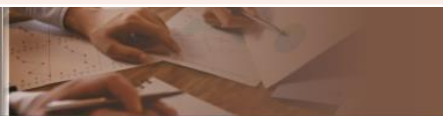
Root cause analysis not done (What, how, why)

There is no work done by PT in this municipality except for monitoring. Requested meetings not confirmed, no response to correspondence.



# UIF&W KEY ROLE PLAYERS

|                           | Provincial Treasury's observations   |
|---------------------------|--|
| Administrative leadership | <p>The administrator does not have full support of staff, hence issues of UIF&amp;W expenditure were not addressed.</p> <p>The 2019/20 audited AFS will reflect the extent that the administrator implemented preventive internal control measures.</p> <p>In year reports (per month) were not submitted for 2019/20 and only IE registers were submitted with the annual figures for 2018/19 and 2019/20 FY</p> <p>The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings is not implemented.</p> |
| Municipal Council         | No report  |
| MPAC                      | No report  |
| Disciplinary Board        | <p>DB was established - 3 year period lapsed in May 2019.</p> <p>PT issued a letter to follow-up re-appointment, no response to follow-up.</p> <p>The previous DB was not functional.</p>  |



# Corporate Governance structures

| Municipality | Risk Management Unit |                | Risk Management Committee |                | Internal Audit Unit |                | Audit Committee |                |
|--------------|----------------------|----------------|---------------------------|----------------|---------------------|----------------|-----------------|----------------|
|              | Existence            | Functionality  | Existence                 | Functionality  | Existence           | Functionality  | Existence       | Functionality  |
| Phokwane     | No                   | Not applicable | No                        | Not applicable | No                  | Not applicable | No              | Not applicable |



# Risk Management

## Risk Management Structures

- The Municipality did not establish a Risk Management Unit and Risk Committee over the years
- Prior to the Municipality being placed under administration, the risk management services were provided by NC Provincial Treasury team on an ad hoc basis

## Functionality of Risk Management

- Due to the absence of Risk Management structures, there is none implementation of risk management practices

## Provincial Treasury's observations in terms of Risk Management

- Risk management is not prioritized
- In most cases, core service delivery posts get prioritized, NCPT shall provide support in areas of Risk in the event the function does not make it to the priority list.



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# Internal Audit

## Existence of Internal Audit structures

- The Internal Audit Unit was de-established in 2019 following the resignation of the Head of Internal Audit.
- When the Municipality was put under administration, the intervention team took a decision to move the remaining Internal Audit officials to other sections within the Municipality
- The Audit Committee's term of office came to an end also in 2019, the absence of Internal Audit Unit had an impact in the processes of the re-appointment of the Audit Committee

## Functionality of Internal Audit structures

- Given the absence of Internal Audit structures, there is no internal audit work taking place



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# Internal Audit cont..

## Provincial Treasury's observations in terms of Internal Audit

- Currently the intervention team led by the Administrator have started the process of re-establishing the Internal Audit and Audit Committees
- There are constant consultations taking place between Provincial Treasury and the Intervention team to find ways of establishing Internal Audit structures



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# Dikgatlong Local Municipality



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# Audit Outcomes

## Audit Outcomes

| Audit Outcomes | 2016/17   | 2017/18    | 2018/19    |
|----------------|-----------|------------|------------|
|                | Qualified | Disclaimer | Disclaimer |

Audit outcomes have regressed from qualification to disclaimer for the last 2 financial years

| Qualification/disclaimer paragraphs | 2016/17 | 2017/18 | 2018/19 |
|-------------------------------------|---------|---------|---------|
| No of issues in audit report        | 8       | 14      | 8       |

The number of issues in the audit report increased from 8 to 14 and then regressed to 8 again



# Audit Outcomes

- **Submission of prescribed information**

The municipality never submitted the required information i.t.o. the prescribed dates

| MUNICIPALITY | Monitoring Tool: Due<br>15 October 2019 | Monitoring Tool:<br>Due 15 Jan 2020 | Monitoring Tool:<br>Due 15 June 2020 | Monitoring Tool:<br>Due 15 July 2020 |
|--------------|---|-------------------------------------|--------------------------------------|--------------------------------------|
| Dikgatlong   | Not submitted                           | Not submitted                       | Not submitted                        | Not submitted                        |

| MUNICIPALITY | AUDIT ACTION PLANS<br>DUE: 31 JANUARY 2020 | AUDIT ACTION PLANS<br>DUE: 15 June 2020 | AUDIT ACTION PLANS<br>DUE: 15 July 2020 |
|--------------|--|---|---|
| Dikgatlong   | Not submitted                              | Not submitted                           | Not submitted                           |



# Monitoring tool and Audit Action Plan

- MM resigned ( 24 hours notice given), CFO suspended indefinitely
- Regular follow ups were made with the municipality to facilitate submission and reminded them continuously to submit outstanding information and implement financial controls
- **Issued** four (4) Non-submission letters
  - Highlighted the legislative responsibilities of AO i.t.o. legislation
- Reported and raised the poor cooperation at various fora i.e mid year engagement, CFO forums
  - Committed to submit all outstanding information but never honored.
- Continuously offered hands on support and they again did not honored agreements /arrangements
- Communicated developments on the GRAP reporting Framework to the municipality
- The municipalities was invited to attend the post-implementation review of GRAP 103 offered by Accounting standards Board and they did not attend nor tender an apology.
- Challenges instability at management level in the municipality, poor cooperation and not implementing controls timeously

## Consultants Appointed

- Makomota – Compilation of Annual Financial Statements ( Duration: 3 Years – 2018/19, 2019/20, 2020/21)
- Shumba inc – Compilation of asset Register ( Duration: 3 Years - 2019/20, 2020/21, 2021/22)
- MaxProf – Vat Returns (Initial 3yr contract ended. Now month to month)

**N.B. Municipality advised to ensure transfer of skills and to take ownership of processes.**



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# Funded/unfunded Budgets

| Municipality | 2019/20<br>Adopted<br>Budgets | 2019/20<br>Special<br>Adjustment<br>Budgets | 2019/20<br>Main<br>Adjustment<br>Budgets | 2020/21<br>Adopted<br>Budgets | 2020/21<br>Special<br>Adjustment<br>Budgets |
|--------------|-------------------------------|---|--|-------------------------------|---|
| Dikgatlong   | ☹️                            | 😊   | ☹️                                       | ☹️                            | ☹️  |

- The municipality has over the years adopted an unfunded budget
- Municipalities are not allowed to adopt unfunded budgets, they are supposed to reworked their budgets until a funded position is realized.
- Dikgatlong municipality has been consistently approving unfunded budgets over the years, this means the municipality continue to spend beyond their means.
- Good financial discipline and proper prioritization is required to ensure the improvement in the financial health of the municipality.



# Equitable share allocation

Formula has four main parts:

- **Part 1:**
  - Basic services component funds the delivery of free basic services and
- **Part 2:**
  - Institutional component funds admin costs
- **Part 3:**
  - Community services component funds general municipal services
- **Part 4**
  - Revenue adjuster ensuring equal revenue allocation based on municipal needs.



**Free basic services**  
**Free basic services**  
**R55.272 million**

**R435 per month** for a package of free basic services.

**INSTITUTIONAL**  
to assist with administrative cost focus specifically on council allowance

**COMMUNITY SERVICE** to fund community services

**Revenue Adjuster**

The total allocation for the 2020/21 financial year amounts to R88.619 million



# Free Basic Services

## Free Basic Services 2020/21

| Number of HHs | % of HHs that are poor       | Number of poor HHs          |   |               |
|---------------|------------------------------|-----------------------------|---|---------------|
| 15510         | 68%                          | 10587                       |   |               |
| Services      | Averages monthly Charge (NT) | NT Allocation 2020/21 R'000 | Municipal Allocation 2020/21 MTRF R'000 | Variance      |
| Water         | R 144.86                     | 18 405                      | 1 819                                   | 16 586        |
| Electricity   | R 93.66                      | 11 900                      | 1 180                                   | 10 720        |
| Refuse        | R 89.61                      | 11 385                      | 1 146                                   | 10 239        |
| Sewerage      | R 106.90                     | 13 582                      | 1 367                                   | 12 215        |
| <b>Total</b>  | <b>R 435.03</b>              | <b>55 272</b>               | <b>5 512</b>                            | <b>49 760</b> |

Data Source: Section 71

The municipality received a total amount of R55,272 million for the provision of free basic services for the 2020/21 financial year. This is based on calculation making provision to subsidise 68% or 10 587 poor households in the municipal area. However, the municipality only budgeted R5,512 million, resulting in a shortfall of R49,760 million.

The inadequate provision for free basic services is an indication of unrealistic budgeting and poor indigent management processes. The municipality runs the risk of being unable to service bulk electricity and water accounts, and that indigent assistance (50Kwh free electricity) being stopped for arrears where Eskom is providing electricity. There is a risk that the municipality is utilising this FBS money to other operations



# Revenue Performance

| Municipal Services       | Adjusted Budget | Actual Revenue | % Actual Revenue |
|--------------------------|-----------------|----------------|------------------|
| Property rates           | 9 854           | 14 685         | 149.0%           |
| Electricity revenue      | 27 429          | 11 117         | 40.5%            |
| Water revenue            | 21 748          | 15 203         | 69.9%            |
| Sanitation revenue       | 3 241           | 2 481          | 76.5%            |
| Refuse revenue           | 10 266          | 8 198          | 79.9%            |
| Transfers and subsidies  | 92 455          | 109 582        | 118.5%           |
| Other revenue            | 38 856          | 29 073         | 75%              |
| <b>Operating Revenue</b> | <b>203 849</b>  | <b>190 339</b> | <b>93.4%</b>     |

Data Source: Section 71

- Total billed revenue amounts to R190,339 million or 93% of the total budget.
- Property Rates amounting to 149% of adjusted budget followed by Transfers and subsidy at 118%, Electricity at 40.5% and refuse and sewerages at 79% and 76% respectively .
- The under performance on Electricity revenue is of concern as this would indicate possible errors in the billing process. This pose a risk of cross subsidising electricity services form other services which might have negative impact on the municipalities ability to service its Bulk creditors and service delivery in general.
- The municipality lacks reporting of actual collection



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# Expenditure Performance

## Operating Revenue and Expenditure

| R thousands                       | 2019/20            |                 |                    |   |
|-----------------------------------|--------------------|-----------------|--------------------|---|
|                                   | Budget             |                 | Year to Date       |   |
|                                   | Main appropriation | Adjusted Budget | Actual Expenditure | Total Expenditure as % of adjusted budget |
| Employee related costs            | 66 455             | 67 325          | 49 879             | 74%                                       |
| Remuneration of councillors       | 4 057              | 4 066           | 3 512              | 86%                                       |
| Debt impairment                   | 37 795             | 9 000           | -                  | 0%  |
| Depreciation and asset impairment | 17 495             | 17 495          | -                  | 0%  |
| Finance charges                   | 109                | 174             | 4 372              | 2517%                                     |
| Bulk purchases                    | 35 139             | 35 136          | 15 103             | 43%                                       |
| Other Materials                   | 3 005              | 2 268           | 2 508              | 111%                                      |
| Contracted services               | 22 391             | 24 532          | 22 765             | 93%                                       |
| Other expenditure                 | 9 890              | 13 274          | 12 733             | 96%                                       |
| <b>Surplus/(Deficit)</b>          | <b>196 336</b>     | <b>173 269</b>  | <b>110 872</b>     | <b>64%</b>                                |

- The highest expenditure was reported under finance charges at 2 517% of the adjusted budget, the abnormal percentage can be attributed to incorrect reporting.
- Followed by other materials at 110,6%, which constitutes overspending of 10,6%. This is an indication of poor budgeting. Followed by other expenditure, contracted services and remuneration of Councillors at 95,9%, 92,8% and 86,4% respectively.
- Employee related costs were reported at 74,1% of the adjusted budget, this is against the norm of 25-40%. The lowest expenditure was reported under bulk purchases of water and electricity at 43% of the adjusted budget as at 30 June 2020



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# Capital Expenditure Performance

| <b>R thousands</b>                             | <b>Adjusted Budget</b> | <b>Actual Expenditure</b> | <b>Total Expenditure as % of adjusted budget</b> |
|--|------------------------|---------------------------|--|
| <b>Municipal governance and administration</b> | <b>525</b>             | <b>53</b>                 | <b>10%</b>                                       |
| Finance and administration                     | 525                    | 53                        | 10%  |
| <b>Economic and Environmental Services</b>     | <b>8 143</b>           | <b>10 771</b>             | <b>132%</b>                                      |
| Road Transport                                 | 8 143                  | 10 771                    | 132%   |
| <b>Trading Services</b>                        | <b>23 581</b>          | <b>17 046</b>             | <b>72%</b>                                       |
| Energy sources                                 | 1 500                  | 749                       | 50%  |
| Water Management                               | 2 623                  | 1 459                     | 56%  |
| Waste Water Management                         | 19 458                 | 14 837                    | 76%  |
| <b>Total Capital Expenditure</b>               | <b>32 249</b>          | <b>27 870</b>             | <b>86%</b>                                       |

- Spending on capital budget was fairly well at 86% of the adjusted budget as at 30 June 2020.
- The highest expenditure was reported under economic and environmental at 132%, which constitutes overspending of 32%. This might be an indication of poor budgeting by the municipality.
- Followed by trading services at 72% of the adjusted budgets.
- The lowest spending was reported under Municipal governance and administration at 10% of the adjusted budget as at 30 June 2020.



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# Conditional Grants Performance

## NORTHERN CAPE: DIKGATLONG (NC092)

| R thousands   | Division of revenue Act No. 16 of 2019 | Adjustment (Mid year) | Other Adjustments | Total Available 2019/20 | Year to date              |   | YTD                                  | % Changes                                |
|---|--|-----------------------|-------------------|-------------------------|---------------------------|---|--------------------------------------|--|
|   |  |                       |                   |                         | Approved payment schedule | Transferred to municipalities for direct grants | Actual expenditure by municipalities | Exp as % of Allocation by municipalities |
| Local Government Financial Management Grant                     | 2 880                                  | -                     |                   | 2 880                   | 2 880                     | 2 880   | 966                                  | 34%                                      |
| Municipal Disaster Grant  | 119                                    | -                     |                   | 119                     | 119                       | 119   | -                                    | -  |
| Expanded Public Works Programme Integrated Grant (Municipality) | 1 000                                  | -                     |                   | 1 000                   | 1 000                     | 1 000   | 27                                   | 3%                                       |
| Integrated National Electrification Programme (Municipal) Grant | 1 500                                  | -                     |                   | 1 500                   | 1 500                     | 1 500   | 749                                  | 50%                                      |
| Municipal Infrastructure Grant                                  | 19 527                                 | 6 187                 |                   | 25 714                  | 25 714                    | 25 714  | 17 510                               | 68%                                      |
| <b>Total</b>  | <b>25 026</b>                          | <b>6 187</b>          | <b>-</b>          | <b>31 213</b>           | <b>31 213</b>             | <b>31 213</b>                                   | <b>19 252</b>                        | <b>62%</b>                               |

- The municipality was allocated R31,213 million in direct conditional grants for the 2019/20 financial year, of which the total allocation was transferred as at 30 June 2020.
- The grants spending was low at 62% of the allocated amount as at 30 June 2020.
- The highest expenditure was reported under MIG at 68% this is unacceptable given the dire needs of services by communities, followed by INEP at 50%, FMG at 34% and the lowest spending was reported under EPWP at 3%.
- No spending was reported for MDG as at 30 June 2020
- The municipality received a rollover approval of R5 million from National Treasury



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# Bulk Services Creditors

## Eskom Outstanding Debt

| 31-60 days             | 61-90 days      | 91 + days              | Total           |
|------------------------|-----------------|------------------------|-----------------|
| <b>R 4,874</b>         | <b>R 11,493</b> | <b>R 118,200</b>       | <b>R134,568</b> |
| Payment Arrangement    |                 | Honour / Not Honouring |                 |
| No payment Arrangement |                 | N/A                    |                 |

## Vaalharts water Debt –R'000

| Current        | 30 days        | 31-60 days     | 61-90 days     | 91 + days       | Total           |
|----------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>R 0,102</b> | <b>R 0,130</b> | <b>R 0,134</b> | <b>R 0,073</b> | <b>R 13,056</b> | <b>R 13,494</b> |

## Sedibeng Water

| Current        | 30 days        | 31-60 days     | 61-90 days     | 91 + days       | Total           |
|----------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>R 0,808</b> | <b>R 0,895</b> | <b>R 0,824</b> | <b>R 0,936</b> | <b>R 11,828</b> | <b>R 15,291</b> |

| Payment Arrangement   | Honour / Not Honouring |
|---|------------------------|
| Payment Agreement with Vaal harts water<br>No payment agreement with Sedibeng water | Honoured               |

Data Source: LG Data Base



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# Bulk Services Creditors

## Bulk Electricity:

The municipality owe Eskom a total of R135,568 million as at September 2020. The municipality does not have a signed re-payment agreement with Eskom.

## Bulk Water

**Vaalharts water:** The municipality owes the water service provider an amount of R13,494 million. The is currently not a signed re-payment agreement and no payments are made towards the current account.

**Sedibeng Water :** The municipality owes the water service provider an amount of R15,291 million. The re-payment agreement is signed, no payment was made for August 2020.

Data Source: LG Data Base

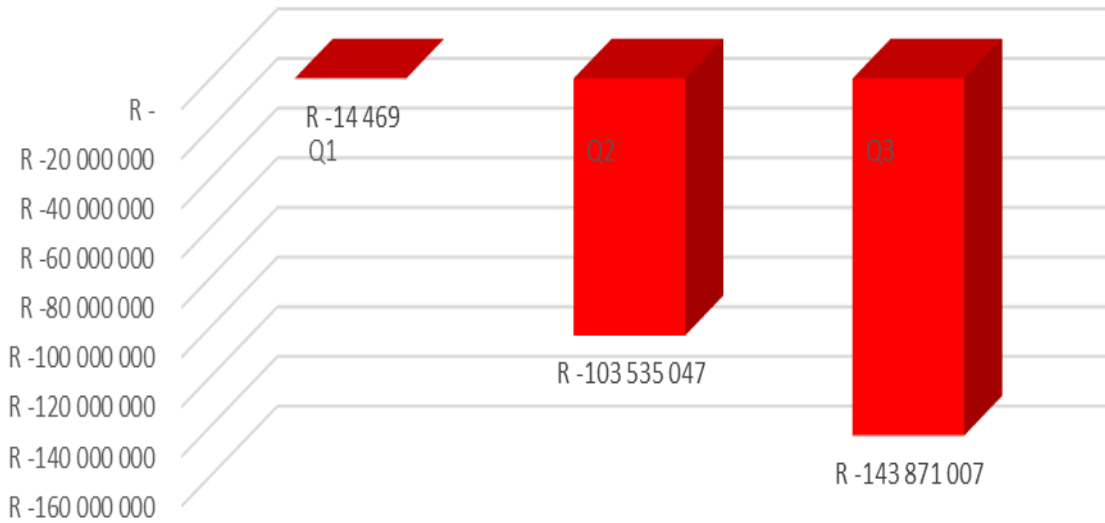


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# Financial Viability -Net Cash Position

Dikgatlong Net Cash Balance :  
Quarter on Quarter Comparison



The comparison is based on available information as signed off by Municipal Managers and CFO. The Dikgatlong Municipality reported a consistent negative Net cash balance from December 2019 to June 2020. The increase quarter on quarter is over **139%**.

Data Source: Section 71



# Financial Viability -Summary

| Municipality | Consistent Negative net Cash Balance (3 Quarter analysis) | Cash Cost Coverages (0-3 months) | Net Debtors Days (30 Days) | High Risk | Medium Risk | Low Risk |
|--------------|---|----------------------------------|----------------------------|-----------|-------------|----------|
| Dikgatlong   | ↓   | ↓                                | Undetermined               | ✓         |             |          |

- The municipality reported negative net cash balance for three consecutive quarter, which increased during the third and fourth quarter of the financial year.
- The municipality reported a cash cost coverage ratio of less than a month calculated at (-2). This indicates that the municipality will be unable to sustain operations if no revenue is received for even a month.
- Net Debtors days indicates the time it takes on averages for the municipality to collect outstanding debt. The ratio could not be determined due to a lack of information reported.



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# UIF & W

| Dikgatlong               | 2015/16            | 2016/17            | 2017/18            | 2018/19            |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| Unauthorised expenditure | 138 097 872        | 190 218 347        | 239 019 198        | 282 669 305        |
| Irregular expenditure    | 102 815 772        | 121 859 024        | 126 778 231        | 133 998 567        |
| Fruitless & Wasteful     | 38 034 278         | 46 982 175         | 54 396 893         | 64 570 606         |
| <b>Total</b>             | <b>278 947 922</b> | <b>359 059 546</b> | <b>420 194 322</b> | <b>481 238 478</b> |

The unauthorised expenditure is the main contributor of the unwanted expenditure followed by the irregular expenditure. This is reflective of poor expenditure management and poor supply chain management internal controls



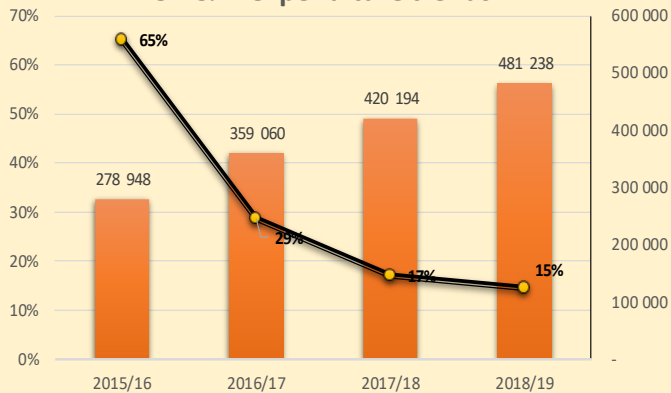
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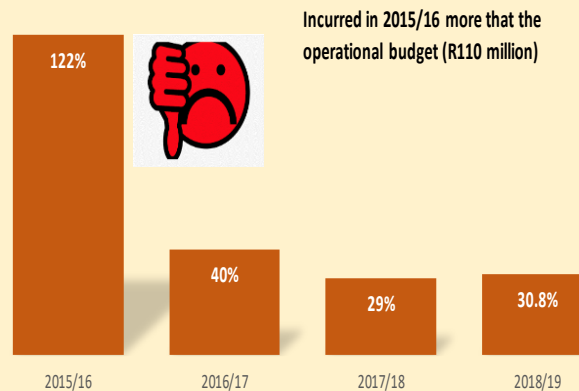
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# UIF&W expenditure trend analysis

UIF&W expenditure trends

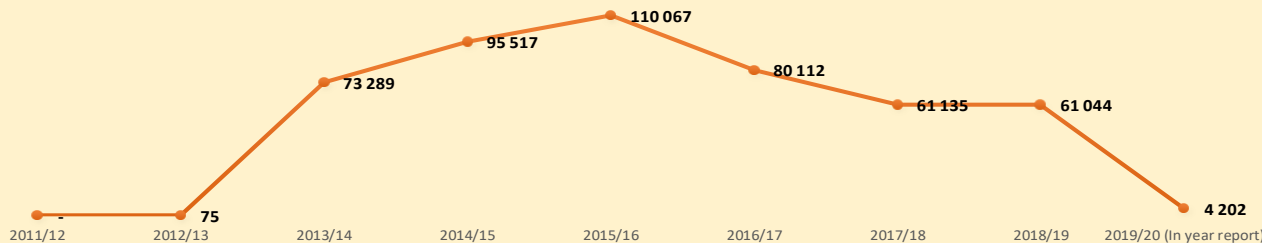


% of operational budget



- Accumulated UIF&W exp balance is **R481 million**
- MPAC investigation conducted
- Reports not yet submitted to PT

In year reporting and controls



2019/20 In year reports - not submitted from August 2019 - July 2020  
 After SCOPA intervention - Irregular exp register was submitted (last six months of the fin year)

## Incident description

- Deviations –emergency procurement
- Under-budgeting for non-cash items
- Interest and penalties

Root cause analysis not done (What, how, why)  
 Non-compliance has become a norm

PT support: provided formats for registers, conducted training, reviewed reports submitted to MPAC, provided written guidance through feedback letters, drafted the reduction strategy for the Dikgatlong municipality and intensified monitoring of the top 10 (monthly virtual meetings)





# UIF&W– KEY ROLE PLAYERS

|  | Provincial Treasury's observations  |
|--|---|
| Administrative leadership (MM and CFO) | <p>Does not adequately fulfill MFMA responsibilities in terms of preventative, detective and corrective internal control measures. Dikgatlong is one of the top ten contributors to UIF&amp;W expenditure.</p> <p>Submitted in year reports (2019/20) reflects far lesser amounts than the historical figures that are audited.</p> <p>MM is not taking a lead in ensuring that the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings is implemented.</p> |
| Municipal Council                      | <p>Do not priorities issues of UIF&amp;W when exercising oversight. Reduction strategy not yet adopted by the municipal council.</p>  |
| MPAC                                   | <p>Investigations have been done by MPAC, however, the municipality has not provided the reports to PT. This cannot be confirmed as there is still no reduction on reported UIF&amp;W expenditure.</p>  |
| Disciplinary Board                     | <p>DB was established - 3 year period lapsed in Sept 2019</p> <p>Municipality reported that it has been re-appointed, but no supporting documents have been submitted (appointment letters and council resolution)</p> <p>Previous DB was not functional, no investigations conducted hence the lack of consequence management.</p>   |



# Supply Chain Management & Asset Management

- The SCM unit is not fully capacitated to implement all elements of supply chain management (demand, acquisition, logistics, disposal)
- The unit has some vacancies and the head of SCM as well as other officials do not have the requisite qualification, experience, and skills in terms of the Regulations and Guidelines on Minimum Competency levels
- Officials in the SCM unit have not attended SCM related trainings in the past 12 months and there is no funded yearly training plan for the bid committees
- SOPs have not been reviewed in the past 12 months and are not aligned to the SCM policy, organogram, delegation of powers and Job descriptions of officials
- The municipality does not have a SCM policy for infrastructure procurement and delivery management. The municipality does conduct periodic reviews of contracts.
- The municipality has not workshopped or trained municipal staff and management on Contract Management Framework.
- The municipality does make use of the e tender portal to procure goods and services.



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# Supply Chain Management & Asset Management

- The municipality does not have a dedicated asset management unit . The asset management section has three positions which are all vacant.
- The municipality does not provide at least 8% of total asset replacement value towards repairs and maintenance of assets



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# Corporate Governance structures

| Municipality | Risk Management Unit |               | Risk Management Committee |               | Internal Audit Unit  |               | Audit Committee      |               |
|--------------|----------------------|---------------|---------------------------|---------------|----------------------|---------------|----------------------|---------------|
|              | Existence            | Functionality | Existence                 | Functionality | Existence            | Functionality | Existence            | Functionality |
| Dikgatlong   | Shared with District | Yes           | Shared with District      | Yes           | Shared with District | Yes           | Shared with District | Yes           |



# Risk Management

## Risk management structures

- The Municipality is making use of the Risk Management Unit housed in the District Municipality (*Frances Baard DM*)
- The Risk Management Committee is combined with the Audit Committee to form Audit, Performance and Risk Management Committee (APRMC)
- The Committee is housed in the District Municipality and extended its oversight responsibility to Dikgatlong LM

## Functionality of the risk management structures

The District Municipality is able to service Dikgatlong with its limited resources



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# Internal Audit

## Internal Audit structures

- Similarly to Risk Management, the Municipality is making use of the Internal Audit Unit housed in the District Municipality (*Frances Baard DM*)
- The oversight responsibility is performed by the Audit, Performance and Risk Management Committee (APRMC)
- The Committee is housed in the District Municipality

## Functionality of the Internal Audit structures

The District Municipality is able to service Dikgatlong with its limited resources



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# Audit Outcomes

| Audit Outcomes | 2016/17    | 2017/18    | 2018/19    |
|----------------|------------|------------|------------|
|                | Disclaimer | Disclaimer | Disclaimer |

The disclaimer audit opinion remained unchanged over the 3 years

| Qualification/disclaimer paragraphs | 2016/17 | 2017/18 | 2018/19 |
|-------------------------------------|---------|---------|---------|
| No of issues in audit report        | 16      | 18      | 26      |

The number of issues raised in the audit report have gradually increased over the 3 years



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# Audit Outcomes

Submission of prescribed information were as below:

| MUNICIPALITY | Monitoring Tool: Due<br>15 October 2019 | Monitoring Tool:<br>Due 15 Jan 2020 | Monitoring Tool:<br>Due 15 June 2020 | Monitoring Tool:<br>Due 15 July 2020 |
|--------------|---|-------------------------------------|--------------------------------------|--------------------------------------|
| Joe Morolong | 14 November 2019                        | Outstanding                         | Outstanding                          | Outstanding                          |

| MUNICIPALITY | AUDIT ACTION PLANS DUE:<br>31 JANUARY 2020 | AUDIT ACTION PLANS<br>DUE: 15 June 2020 | AUDIT ACTION PLANS<br>DUE: July 2020 |
|--------------|--|---|--------------------------------------|
| Joe Morolong | 31 Jan 2020                                | 15 May 2020                             | Outstanding                          |



# Monitoring Tool and Audit Action Plans

## Assessments of Monitoring Tool:

- Bank reconciliation's are not performed on a timely basis, appropriately;
- Unauthorized, Irregular and Fruitless and Wasteful expenditure remained unresolved;
- Payments of creditors are not taking place within the prescribed time frame of 30 days due to municipalities indicating cash flow constraints;
- Suspense accounts are not cleared regularly;
- All unknown deposits have not been cleared on a timely basis;
- Reconciliations were not done between purchases and additions to the asset register, the assets register has not been updated with disposed assets and reconciled with the total assets as per the general ledger;



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# Monitoring Tool and Audit Action Plans

- Reconciliations has not been performed to show movements in the investment property values;
- Supporting documentation has not been properly safeguarded;
- All required supply chain management processes has not been followed in the acquisition of assets and other items;
- Expenditure was not monitored against the approved budget;
- In some instances, supporting documentation is omitted from the tools submitted;
- Annexures are not signed and dated appropriately and/or acting letters not provided.
- Reasons/comments and action plans with the time frames to address non-compliance to the minimum financial management performance indicators were not always provided.



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# Monitoring Tool and Audit Action Plans

## Assessments of Audit action plan received

- Remedial actions provided do not always address the audit findings. And Progress made on the activities varied between 0% - 65%.
- Certain dates for completion of activities have past/expired and no progress has been reported.
- No reasons were provided for activities that should have been completed that were not finalized.
- No revised dates for completion of activities that should have been completed were provided to ensure finalization before year end.
- Did not adhere to the guidance for completing the audit action plan as prescribe and limited or no efforts was taken with the compilation of the plan.
- Responsible official for an activity was not allocated for all activities provided



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# Monitoring Tool and Audit Action Plans

- **Monitoring Tools** – One (1) Feedback Report and Three (3) Non-submission letters were issued and no response received.
- **Audit Action Plans** - One (1) Feedback Report two (2) Non-submissions letters were issued for the non-submission and no response received
- Recommendations in reports not implemented timeously
- Virtual meeting was held 20 October 2020 to discuss progress on compilation of AFS 2019/20
  - Attendees PT, NT advisors, MM, CFO and Consultants responsible for AFS
  - Municipality and consultants committed to address all misstatements and to correcting all prior year errors
- Virtual meeting held 23 October 2020 to discuss issues related to revenue and assets and restatements of prior year issues
  - Attendees MM, Consultants PT, NT advisor, AGSA
  - Committed to submit draft AFS to PT 27 October 2020 for review and comment.
- Communicated developments on the GRAP reporting Framework to the municipality
- The municipalities was invited to attend the post-implementation review of GRAP 103 offered by Accounting standards Board and they did not attend nor tender an apology.

## **Consultants Appointed**

- CCG – Compilation of Annual Financial Statements ( Duration: 3 Years 2019, 2020 2021)
- Shumba Inc – Compilation of asset register ( Duration: 3 years 2020, 2021, 2022 )
- MaxProf – Vat Returns (Duration: 3 years 2020, 20201, 2022)

**N.B. Municipality advised to ensure transfer of skills and to take ownership of processes.**



# Funded/unfunded budget

| Municipality | 2019/20<br>Adopted<br>Budgets | 2019/20<br>Special<br>Adjustment<br>Budgets | 2020/21<br>Adopted<br>Budgets | 2020/21<br>Special<br>Adjustment<br>Budgets |
|--------------|-------------------------------|---|-------------------------------|---|
| Joe Morolong | 😊                             | 😊   | 😞                             | 😞   |

- The municipality has been adopting funded budgets
- Municipalities are not allowed to adopt unfunded budgets, they are supposed to reworked their budgets until a funded position is realized
- Joe Morolong municipality's adopted funded budget and special adjustment budgets in 2019/20, however, 2020/21 the municipality adopted unfunded budget and special adjustment budget.
- Good financial discipline and proper prioritization is required to ensure the improvement in the financial health of the municipality.



# Equitable share allocation

Formula has four main parts:

## Part 1:

- Basic services component funds the delivery of free basic services and

## Part 2:

- Institutional component funds admin costs

## Part 3:

- Community services component funds general municipal services

## Part 4

- Revenue adjuster ensuring equal revenue allocation based on municipal needs.



**Free basic services**  
**Free basic services**  
**R95 618 million**

**R435 per month** for a package of free basic services.

**INSTITUTIONAL**  
to assist with administrative cost focus specifically on council allowance

**COMMUNITY SERVICE**  
to fund community services

**Revenue Adjuster**

The total allocation for the 2020/21 financial year amounts to R143.869 million



# Free Basic Services

Free Basic Services 2020/21

| Number of HHs | % of HHs that are poor       | Number of poor HHs |                                   |
|---------------|------------------------------|--------------------|-----------------------------------|
| 24124         | 75%                          | 18316              |                                   |
| Services      | Averages monthly Charge (NT) | NT Allocation      | Municipal Allocation 2020/21 MTRF |
| Water         | R 144.86                     | 31 840             | 0                                 |
| Electricity   | R 93.66                      | 20 587             | 0                                 |
| Refuse        | R 89.61                      | 19 696             | 0                                 |
| Sewerage      | R 106.90                     | 23 495             | 0                                 |
| Total         | R 435.03                     | 95 618             | 0                                 |

Data Source: Section 71

The municipality received an amount of R95.618 million for the provision of free basic services. This is based on an indigency rate of 75%, one of the highest rates in the province. This is meant to service a total of 18 316 poor households in the municipal area.

The approved 2020/21 municipal budget as published on the National Treasury website indicated that the municipality did not provide for the provision of free basic services.

The municipality will then basically be unable to provide free basic services as this item has not been budgeted for. No additional information/ explanation was available from the municipality at time of this report.



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# Revenue Performance

## Revenue Performance as at June 2020

| Municipal Services       | Adjusted Budget | Actual Revenue | % Actual Revenue |
|--------------------------|-----------------|----------------|------------------|
| Property rates           | 21 507          | 83 226         | 387.0%           |
| Electricity revenue      | 961             | 3 027          | 315.0%           |
| Water revenue            | 4 290           | 14 675         | 342.1%           |
| Sanitation revenue       | 2 984           | 2 450          | 82.1%            |
| Refuse revenue           | 1 653           | 1 440          | 87.1%            |
| Transfers and subsidies  | 146 870         | 101 815        | 69.3%            |
| Other revenue            | 10 489          | 15 021         | 143%             |
| <b>Operating Revenue</b> | <b>188 753</b>  | <b>221 654</b> | <b>117.4%</b>    |

Data Source: Section 71

- Total billed revenue amounts to R221, 654 million or 117% of the adjusted budget.
- Property rates is reported at 387% of the total budget followed by Water revenue at 342 % and electricity revenue at 315%.
- Transfers and subsidies is the lowest at 69 % of the total budget.
- The high percentages reported for Property Rate, Water and Electricity is indicative of unrealistic budgeting.



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# Expenditure Performance

## Operating Expenditure

|                                   | Main appropriation | Adjusted Budget | Actual Expenditure | Total Expenditure as % of adjusted budget | Year to date Expenditure as % of Total Expenditure |
|-----------------------------------|--------------------|-----------------|--------------------|---|--|
| Employee related costs            | 82 577             | 65 916          | 58 504             | 89%                                       | 25%  |
| Remuneration of councillors       | 11 881             | 12 776          | 12 339             | 97%                                       | 5%   |
| Debt impairment                   | 14 405             | 10 045          | -                  | 0%  | 0%   |
| Depreciation and asset impairment | 13 833             | 13 833          | -                  | 0%  | 0%   |
| Finance charges                   | 196                | 196             | 268                | 137%                                      | 0%   |
| Bulk purchases                    | 14 291             | 14 291          | 9 098              | 64%                                       | 4%   |
| Other Materials                   | 7 006              | 6 923           | 3 277              | 47%                                       | 1%   |
| Contracted services               | 27 584             | 33 493          | 122 835            | 367%                                      | 52%  |
| Transfers and subsidies           | 200                | -               | -                  | 0%  | 0%   |
| Other expenditure                 | 37 943             | 34 746          | 31 036             | 89%                                       | 13%  |
| <b>Operating Expenditure</b>      | <b>209 916</b>     | <b>192 221</b>  | <b>237 358</b>     | <b>123%</b>                               | <b>100%</b>  |

- The highest expenditure was reported under contracted services at 367% of the adjusted budget, which is an overspending of 267%. Followed by finance charges and at 137%, which constitutes overspending of 37%. The overspending might be attributed to poor budgeting and incorrect reporting.
- Remuneration of Councillors was reported at 97% of the adjusted budget.
- Employee related costs and Other expenditure were reported at 89% each and bulk purchases of water and electricity at 64% as at 30 June 2020.
- The lowest expenditure was reported under other materials at 47% of the adjusted budget as at 30 June 2020.
- No spending was reported for depreciation and debt impairment as at 30 June 2020.



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# Capital Expenditure Performance

| R thousands                                    | Adjusted Budget    | Actual Expenditure | Total Expenditure as % of adjusted budget |
|--|--------------------|--------------------|---|
| <b>Municipal governance and administration</b> | <b>3 365</b>       | <b>4 500</b>       | <b>134%</b>                               |
| Finance and administration                     | 3 365              | 4 500              | 134%                                      |
| <b>Community and Public Safety</b>             | <b>1 416</b>       | <b>169</b>         | <b>12%</b>                                |
| Community and Social Services                  | 1 416              | 169                | 12%                                       |
| <b>Economic and Environmental Services</b>     | <b>8 007</b>       | <b>82</b>          | <b>1%</b>                                 |
| Road Transport                                 | 8 007              | 82                 | 1%  |
| <b>Trading Services</b>                        | <b>90 768</b>      | <b>67 645</b>      | <b>75%</b>                                |
| Energy sources                                 | -                  | -                  | 0%  |
| Water Management                               | 70 676             | 42 655             | 60%                                       |
| Waste Water Management                         | 20 000             | 24 594             | 123%                                      |
| Waste Management                               | 92                 | 396                | 430%                                      |
| <b>TOTAL CAPITAL EXPENDITURE</b>               | <b>103 555 567</b> | <b>72 396 205</b>  | <b>70%</b>                                |

- Spending on capital budget was reported at 70% of the adjusted budget as at 30 June 2020.
- The highest expenditure was reported under municipal governance and administration at 134%, which is an overspending of 34%. Followed by trading services at 75% of the adjusted budget.
- The lowest spending was reported under economic and environmental and community and public safety at 1% and 12% respectively.
- The overspending by municipality under municipal governance (134%), waste water management (123%) and waste management (430%) is an indication of poor budgeting or poor reporting by the municipality.



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# Conditional Grants Performance

NORTHERN CAPE: JOE MOROLONG (NC451)

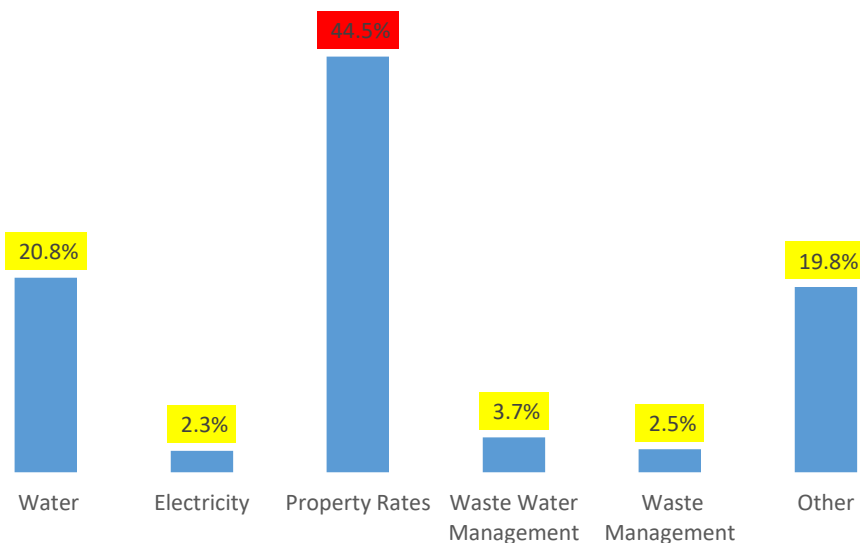
|   | Division of revenue Act No. 16 of 2019 | Adjustment (Mid year) | Other Adjustments | Total Available 2019/20 | Year to date              |   | Actual expenditure by municipalities | Exp as % of Allocation by municipalities |
|---|--|-----------------------|-------------------|-------------------------|---------------------------|---|--------------------------------------|--|
|   |  |                       |                   |                         | Approved payment schedule | Transferred to municipalities for direct grants |                                      |  |
| <b>R thousands</b>  |  |                       |                   |                         |                           |   |                                      |  |
| Local Government Financial Management Grant                     | 2 680                                  | -                     |                   | 2 680                   | 2 680                     | 2 680   | 2 234                                | 83%                                      |
| Municipal Disaster Grant  | 125                                    | -                     |                   | 125                     | 125                       | 125   | -                                    | -  |
| Expanded Public Works Programme Integrated Grant (Municipality) | 1 319                                  | -                     |                   | 1 319                   | 1 319                     | 1 319   | 5 801                                | 440%                                     |
| Water Services Infrastructure Grant (Schedule 5B)               | 50 000                                 | -                     |                   | 50 000                  | 50 000                    | 50 000  | 14 939                               | 30%                                      |
| Municipal Infrastructure Grant                                  | 60 025                                 | -                     |                   | 60 025                  | 60 025                    | 60 025  | 55 967                               | 93%                                      |
| <b>Total</b>  | <b>114 149</b>                         | <b>-</b>              | <b>-</b>          | <b>114 149</b>          | <b>114 149</b>            | <b>114 149</b>                                  | <b>78 942</b>                        | <b>69%</b>                               |

- The municipality was allocated R114,149 million conditional grants for the 2019/20 financial year, of which the total allocation was transferred as at 30 June 2020.
- The grants spending was low at 69% of the allocated amount as at 30 June 2020.
- The highest expenditure was reported under EPWP at 440%, which constitutes overspending of 340%, this was followed by MIG at 93% and FMG at 83%
- The lowest spending was reported under WSIG at 30% of the allocated amount.
- No spending was reported for MDG as at 30 June 2020
- The municipality received a rollover approval of R1.4 million from NT

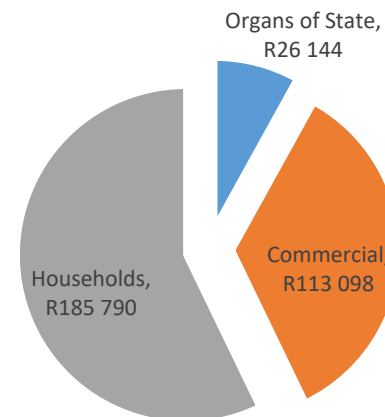


# Debtors management

% Debt per Income Source



Total Debt per Customer Group



Data Source: Section 71

- Total debt owed to Joe Morolong municipality amounts to R 325 million, with Household debt attributing to the largest amount at R185 million, followed by commercial debt R113 million and Organs of State amounting to R26 million.
- Property Rates accounts for the 44.5% of total outstanding debt.



# Eskom and Water boards outstanding debt



## Sedibeng Water

| Current                    | 30 days | 31-60 days | 61-90 days             | 91 + days | Total   |
|----------------------------|---------|------------|------------------------|-----------|---------|
| R 0.554                    | R 0,609 | R 0        | R 0                    | R 0       | R 1,163 |
| Payment Arrangement        |         |            | Honour / Not Honouring |           |         |
| Payment Agreement in place |         |            | Honoured               |           |         |

- **Sedibeng Water** : The municipality owes the water service provider an amount of R1,163million. The re-payment agreement is signed, the municipality made a payment in September 2020
- The municipality is commended for settling Eskom debt

Data Source: LG Data Base

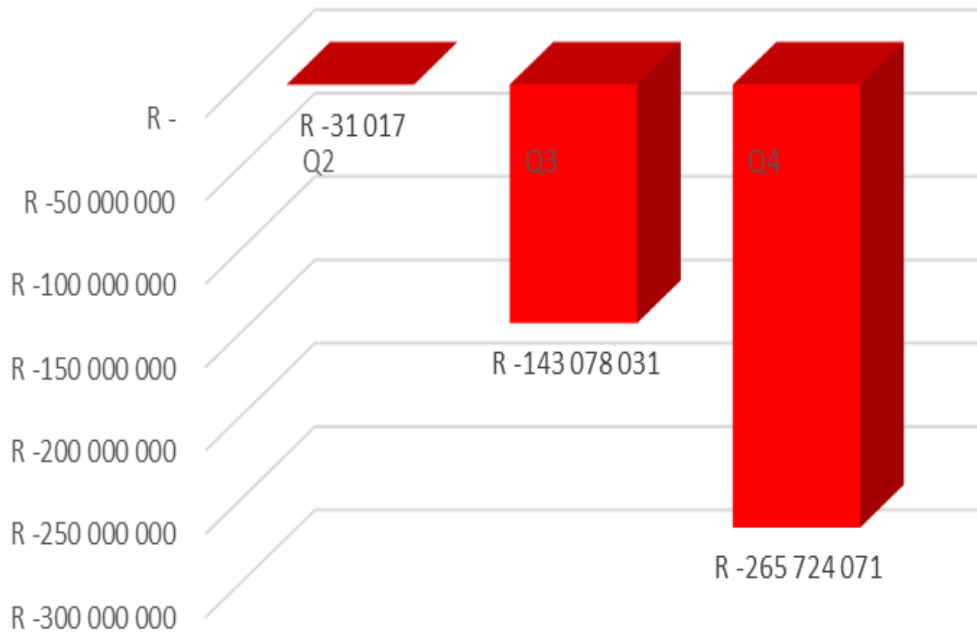


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# Financial Viability -Net Cash Position

Joe Morolong Net Cash Balance  
Quarter on Quarter Comparison



The comparison is based on available information as signed off by Municipal Managers and CFO. The Phokwane Municipality reported a consistent negative Net cash balance from December 2019 to June 2020. The increase quarter on quarter is over **186%**.

Data Source: Section 71



# Financial Viability - Summary

| Municipality | Consistent Negative net Cash Balance (3 Quarter analysis) | Cash Cost Coverages (0-3 months) | Net Debtors Days (30 Days) | High Risk | Medium Risk | Low Risk |
|--------------|---|----------------------------------|----------------------------|-----------|-------------|----------|
| Joe Morolong | ↓   | ↓                                | ≥500                       | ✓         |             |          |

- The municipality reported negative net cash balance for three consecutive quarter, which increased during the third and fourth quarter of the financial year.
- The municipality reported a cash cost coverages ratio of less than a month calculated at (-2). This indicates that the municipality will be unable to sustain operations if no revenue is received for even a month.
- Net Debtors days indicates the time it takes on averages for the municipality to collect outstanding debt. The municipal net debtors days is calculated at days, which is indicative of a failed credit control and debt collection system.



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# UIF & W balances

| Joe Morolong             | 2015/16            | 2016/17            | 2017/18            | 2018/19            |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| Unauthorised expenditure | 294 407 462        | 356 374 263        | 411 437 533        | 416 009 531        |
| Irregular expenditure    | 120 341 010        | 120 341 010        | 157 569 630        | 160 126 945        |
| Fruitless & Wasteful     | 65 674 025         | 68 144 788         | 68 637 036         | 68 833 740         |
| <b>Total</b>             | <b>480 422 497</b> | <b>544 860 061</b> | <b>637 644 199</b> | <b>644 970 216</b> |



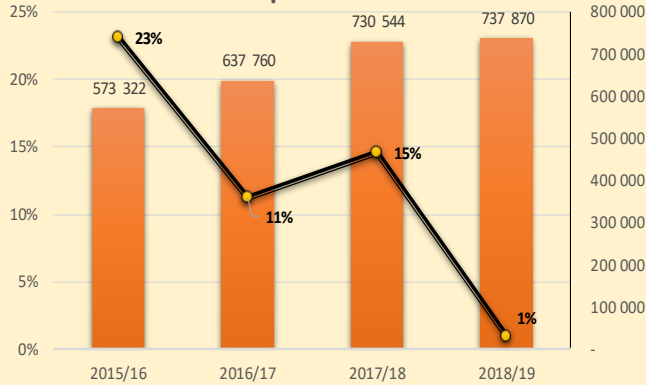
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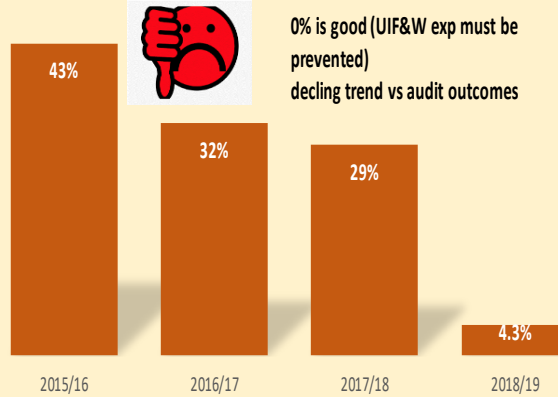
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# UIF&W EXPENDITURE TREND ANALYSIS

UIF&W expenditure trends



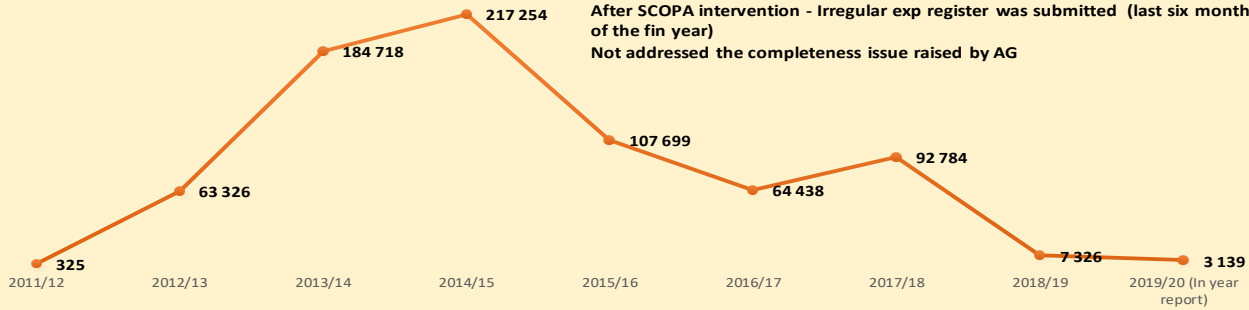
% of operational budget



- Accumulated total UIF&W exp is **R644 million**
- Not addressed –reasons not clear

In year reporting and controls

2019/20 In year reports - not submitted from August 2019 - July 2020  
 After SCOPA intervention - Irregular exp register was submitted (last six months of the fin year)  
 Not addressed the completeness issue raised by AG



**Incident description**

- Procurement of Fuel.(Contravention of SCM Policy)
- Not Registered on Central Supplier Database

Root cause analysis not done (What, how, why)  
 Non-compliance has become a norm



PT support: provided formats for registers, conducted training, provided written guidance through feedback letters, drafted the reduction strategy for Joe Morolong municipality.



# UIF &W KEY ROLE PLAYERS

|  | Provincial Treasury's observations   |
|--|--|
| Administrative leadership (MM and CFO) | <p>Does not adequately fulfill MFMA responsibilities in terms of preventative, detective and corrective internal control measures. Joe Morolong is one of the top ten contributors to UIF&amp;W expenditure.</p> <p>The 2019/20 monthly registers only submitted after the end of the municipal financial year (Sept 2020) covering the last six months (Jan –June).</p> <p>MM is not taking a lead in ensuring that the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings is implemented.</p> |
| Municipal Council                      | <p>The Mayor committed to SCOPA that all administrative issues will be resolved and will ensure that there will be improvement in compliance.</p> <p>Follow through report that was due end September was not submitted to PT.</p>   |
| MPAC                                   | <p>No investigations have been conducted due to capacity and resources challenges</p>  |
| Disciplinary Board                     | <p>Not established due to capacity challenges (no audit committee member to serve on this structure)</p>   |



# Supply Chain Management & Asset Management

- The SCM Unit has three officials and one intern.
- The SCM policy is aligned with new regulations and adopted by council.
- All there bid committees are appointed, however bid committees need training on SCM aspects.
- The audit action plan is reviewed and updated.
- One of the major concerns are that that there no dedicated official who is responsible for contract management. Provincial Treasury has implemented a contract management framework which has to be implemented by the municipality.
- The Fixed Asset Registers are not yet GRAP Compliant.



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# Corporate Governance structures

| Municipality | Risk Management Unit |               | Risk Management Committee |                | Internal Audit Unit |   | Audit Committee |                |
|--------------|----------------------|---------------|---------------------------|----------------|---------------------|---|-----------------|----------------|
|              | Existence            | Functionality | Existence                 | Functionality  | Existence           | Functionality                             | Existence       | Functionality  |
| Joe Morolong | Yes                  | Yes           | No                        | Not applicable | Yes                 | Compromised by absence of Audit Committee | No              | Not applicable |



# Risk Management

## Risk Management structures

- The Risk Management Unit is in place with only one (1) person appointed.
- There is no Risk Management Committee established

## Functionality of Risk Management

- The Risk Management Unit is operational and functional as the Risk Officer is performing the work
- The Risk Committee is non existent and therefore there is no structure that performs oversight role to the Risk Officer's work.



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# Risk Management

## Provincial Treasury's observations in terms of Risk Management

- The work performed by the Risk Officer does not translate into the embedment of risk practices within the Municipality.
- The above is worsened by the absence of a Risk Management Committee to oversee Risk Management and to advise the Accounting Officer in execution of his duties
- It is recommended that the Municipality establish a Risk Management Committee chaired by an external person



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# Internal Audit

## Internal Audit structures

- The Internal Audit (IA) Unit is in place and the Manager reports administratively to the Accounting Officer (Municipal Manager).
- The Municipality does not have an Audit Committee (AC) except that in the past years they were using the shared Audit Committee housed in the District Municipality (*John Taolo Gaetsewe*)

## Functionality of Internal Audit Structures

- The IA Unit is operational as the team performs audit work, the functionality of the Unit is compromised by the absence of the Audit Committee
- Currently the District AC relationship with Joe Morolong LM has lapsed, resulting in the Municipality not being serviced by the Committee.
- In view of the above, the AC is deemed not functional for Joe Morolong but functional for the District Municipality though it is the same Committee



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# Internal Audit

## Provincial Treasury's observations in terms of Internal Audit

- The strength of Internal Audit lies in a strong effective Audit Committee, the absence of Audit Committee oversight renders the Municipal Audit matters ineffective
- The District Municipality (*John Taolo Gaetsewe*) established a shared Audit Committee which Joe Morolong LM was entitled to make use of subject to taking responsibility for the remuneration of members.
- It is recommended that the Municipality resuscitates the shared services arrangements with the District Municipality



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# Challenges

- Non implementation of Treasury recommendations by municipalities
- Instability in municipalities
- Vacancies in senior management and in critical positions
- Continuous late adoption of the budgets and unfunded budgets
- Poor spending of conditional grants resulting in monies being reduced
- Poor revenue and debt management process, leading to poor cash flow.
- Non reporting of actual collected revenue
- Poor reporting makes it difficult to customise the interventions to municipalities
- High wage bills whereas technical posts are vacant
- Lack of capacity/ delays to implement infrastructure projects
- Continued poor audit outcomes despite over usage of consultants
- Non prioritisation of financial governance structures



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# Conclusion

Provincial Treasury will focus on the following to drive improvement in financial management performance:

- Implementation of the municipal support strategy
- Improving internal capacity( Streamlining and alignment of MFMA functions)
- Improving collaboration between Salga, Coghsta and OTP
- Greater political involvement
- Strengthen financial recovery service
- Advocating for the use of shared services for corporate governance(risk management and internal audit functions)



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