



WHEN THE SUN RISES
WE WORK HARD TO DELIVER

**NKANGALA DISTRICT MUNICIPALITY
NDM FINANCIAL VIABILITY REPORT
PREPARED FOR NCOP
PRESENTED BY ACTING EXECUTIVE
MAYOR
CLLR G.T MTHIMUNYE**



OVERVIEW OF THE PRESENTATION

- Good Governance
- Financial Viability
- Audit outcomes
- Matters raised in AG reports 2016/17 to 2018/19
- Cross cutting issues raised in Audit reports
- Repetitive matters raised in previous year
- Root causes of issues raised by AG
- 10 lessons learnt by municipality
- Support to Local Municipalities
- Lessons learnt form Support to LM's
- Recommendations



Good Governance

• **Good Governance** is an approach to government that is committed to creating a system founded in justice and peace that protects individual's human rights and civil liberties. According to the [United Nations](#), Good Governance is measured by the eight factors of Participation, Rule of Law, Transparency, Responsiveness, Consensus Oriented, Equity and Inclusiveness, Effectiveness and Efficiency, and Accountability. Good Governance assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.



FINANCIAL VIABILITY

What is Financial Viability?

The Ministerial Advisory Committee (2001:102) defines financial viability as “the ability of a local authority to fulfill its constitutional and legislative responsibilities. Resources to fulfill these obligations are derived from both the equitable share received and distributed nationally, as well as the revenue a municipality can raise locally”.

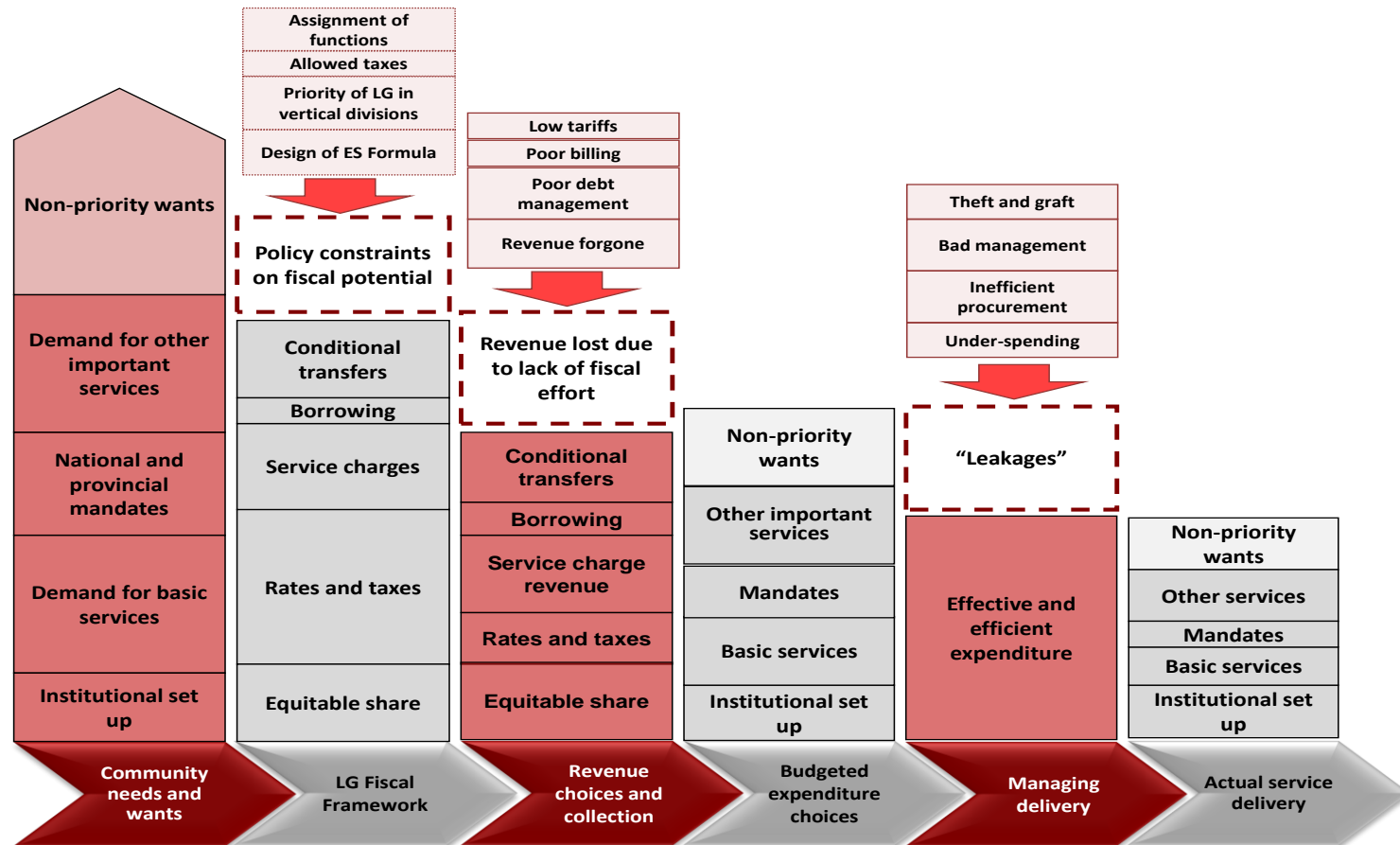
Minister F S Mufamadi, Vuna Awards Ceremony, 5 December 2003:

“In order to achieve financial viability, it is necessary for a municipal jurisdiction to have a relatively resilient and sustainable economic base - where people are working and earning living wages, and businesses, large and small, are facilitating the steady exchange of goods and services. This resilient and sustainable economic base is indeed sustained by reliable municipal services and the local environments created for prosperity.

Municipal financial viability is therefore the ability of the municipality to generate sufficient sustainable income to fund the expenditure to render its functions in a sustainable manner.



AT THE HEART OF LOCAL GOVERNMENT IS MANAGING FINANCES TO DELIVER SERVICES (Source 2011 LGBER done by NT)



AUDITOR GENERAL OPINIONS

| Municipality | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/8 | 2018/19 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|------------------|
| Nkangala District Municipality | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified (CA) | Unqualified (CA) | Unqualified (CA) | Unqualified | Unqualified (CA) |
| Emakhazeni | Unqualified | Qualified | Qualified | Disclaimer | Disclaimer | Qualified | Qualified | Qualified | Adverse |
| Victor Khanye | Unqualified (CA) | Unqualified | Qualified | Qualified | Qualified | Qualified | Qualified | Qualified | Disclaimer |
| Thembisile Hani | Qualified | Qualified | Qualified | Qualified | Qualified | Qualified | Unqualified | Unqualified | Qualified |
| Steve Tshwete | Unqualified (CA) | Unqualified (CA) | Unqualified (CA) | Unqualified (CA) | Unqualified | Unqualified (CA) | Unqualified | Unqualified | Unqualified |
| DR. J S Moroka | Disclaimer | Qualified | Qualified | Qualified | Qualified | Qualified | Qualified | Adverse | Outstanding |
| eMalahleni | Qualified | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Qualified | Qualified | Qualified |

From the above table it can be seen that it is only the District and Steve Thwete LM that consistently maintained acceptable audit statuses. The other local municipalities audit outcomes various as interventions were done but improvements are not maintained.



AUDITOR GENERAL MATTERS

| Municipality | NUMBER OF MATTERS 2017/2018 | NUMBER OF MATTERS 2018/2019 | NUMBER OF MATTERS ADDRESSED | NUMBER OF MATTERS PROGRESS | NUMBER OF MATTERS OUTSTANDING |
|-----------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|-------------------------------|
| DR JS MOROKA | 129 | 129 | 13 | 0 | 116 |
| THEMBISILE HANI | 70 | 38 | 36 | 2 | 0 |
| VICTOR KHANYE | 136 | 149 | 49 | 35 | 65 |
| EMALAHLENI | | 180 | 54 | 20 | 106 |
| STEVE TSHWETE | 54 | 47 | 44 | 3 | 0 |
| EMAKHAZENI | | 161 | 138 | 23 | 0 |
| NKANGALA | 40 | 6 | 6 | 0 | 0 |



Matters raised in 2018/19 Audit Reports (2016/17 = Black 2017/18 = Red 2018/19 = Green)

| Matters | Victor Khanye LM | Dr JS Moroka LM | eMalahleni LM Disclaimer | Steve Tswete LM Unqualified | Emakhazeni LM Disclaimer | Thembisile Hani LM Qualified |
|----------------------------|---------------------|--------------------|--------------------------------|-----------------------------------|--------------------------------|------------------------------------|
| Going concern | | | | | X | X X |
| PPE- GRAP 17 | X X X | X | | X | X X X | X X |
| Asset Management | X | X | | X | X X | X |
| Expenditure management | X X X | X X | X X X | X | X X X | X |
| Payables | X | X | X X X | X | X X | |
| Commitments | X | X | X | X | X | X |
| Investment property | X X | X | | | X | |
| Irregular Exp | X X | X X | X X X | X | X X X | X |
| Unauthorised Exp | X X | X X | X X X | X | X X | X X |
| Fruitless, wasteful Exp | X X | X X | X X X | | | |
| Consequence Management | | X X | X | | | X |



Matters raised in 2018/19 Audit Reports

(2016/17 = Black 2017/18 = Red 2018/19 = Green)

| Matters | Victor Khanye LM Qualified | Dr JS Moroka LM Qualified | eMalahleni LM Disclaimer | Steve Tswete LM Unqualified | Emakhazeni LM Disclaimer | Thembisile Hani LM Qualified |
|---------------------|----------------------------------|---------------------------------|--------------------------------|-----------------------------------|--------------------------------|------------------------------------|
| Revenue Management | X | X X | X | X | X X X | X X X |
| Receivables | X | X | X X | X | X X | X X |
| Sale of stands | | | | | | |
| Traffic fines | X | X | X | X | X | X |
| Material impairment | X | X X | X X | X | X X | X X X |
| Distribution losses | X X | X X | X X | | X | X X X |
| Consumer deposits | | | | | | |
| VAT | X | X | X X X | X | X | X |
| Cash | X X X | X X | | | X X | X |
| Provisions | | X | | | X X | |



Matters raised in 2018/19 Audit Reports

(2016/17 = Black 2017/18 = Red 2018/19 = Green)

| Matters | Victor Khanye LM Qualified | Dr JS Moroka LM Qualified | eMalaheni LM Disclaimer | Steve Tswete LM Unqualified | Emakhazeni LM Disclaimer | Thembisile Hani LM Qualified |
|--|----------------------------------|---------------------------------|----------------------------|-----------------------------------|-----------------------------|------------------------------------|
| Budget | X | X | X | | X | X |
| Budget Underspending | | | | X | | |
| AFS, APR and AR | X X | X X | X X | | X X | X X |
| Human resources | X | X X | | | X X | X |
| Strategic planning and Performance management | X | X X | X X | | X X X | X |
| Predetermine objectives | X | X | X X | X | X X | X X |
| Un-spend Grants | X | | X X | | | X |
| Accumulated surpluses | X | | | | X | |



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|--------------------------------------|----------------------------------|---------------------------------|----------------------------|--------------------------------|-----------------------------|---------------------------------|
| Prior period errors and Restatements | X X X | X X | | | X X | X X |
| Misstatements | X | X X | X X X | | X X | X X |
| Aggregated errors | | | | | X | X |
| Procurement & contract management | X X X | X X | X X X | X | X X X | X |
| Internal Audit | X X | X X | X | | | X |
| Audit committee | X | X X | X X | | | |
| Investigations | | X X | | | | X |
| Withdrawal of audit engagement | | | X | | | |
| General expenses | | | X | | | |
| Property rates | X | X | X | | | X |



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|------------------------------------|----------------------------|---------------------------|--------------------------|-----------------------------|--------------------------|------------------------------|
| Vacancies of MM or Senior Managers | X | X X | | | | |
| Contingencies | | | | X | X | |
| IT | | X X | X | | X | X |
| Risk | | X X | | | | X |
| | | | | | | |
| | | | | | | |



Cross cutting issues raised in Audit reports

Receivables & payables management
Cash Flow management
Asset management
Expenditure management
Irregular, unauthorised and fruitless & waste full expenditure
Revenue management
Distribution losses
Material impairment
Compliance GRAP standards, specifically GRAP 17

Restatements
HR management
Compliance with laws & regulations
Procurement and contract management (irregular Exp)
Strategic planning & PMS
Predetermined Objectives



Repetitive matters raised in previous year

- **PPE - GRAP 17 and Asset Management**
- **Material Losses**
- **Supply Chain – Procurement & contract Management (irregular expenditure)**
- **Compliance with Reporting Regulations**
- **Strategic Planning & Performance Management and Governance**
- **Human Resource Management**
- **Cash Management**



ROOT CAUSES OF ISSUES RAISED BY AG

- **Poor or no progress on previous issues raised by AG**
- **Poor understanding of performance management**
- **Implementation of new GRAP standards on annual basis**
- **Non-functional risk units at local municipalities**
- **Shortage of skilled staff and capacity limitations**
- **Non effective leadership – oversight & monitoring of compliance**
- **External factors outside control of Municipality (Macro-Economic factors/poverty/unemployment)**
- **Poor financial and multi-year planning**
- **Poor record keeping**
- **No implementation of IA, AC or MPAC recommendations**



10 lessons learnt by municipality

Victor Khanye Local Municipality

- 1 Monthly reconciliation are important for the municipality to be able to submit credible financial statement.
- 2 Audit committee and Internal Audit to be given sufficient time to review the work of the municipality is crucial before the submission to Auditor General.
- 3 Monitoring of the Audit action plan by management, the meeting chaired by the Municipal Manager.
- 4 The municipality must look into document management system which are online to avoid losing of documents during the audit period.
- 5 Procedure Manual need to be developed to assist the municipality on most of the quires that were raised by the Auditor General
- 6 Consequences management should be applicable where necessary.
- 7 Non-compliance to SCM regulation should be dealt with harshly and that procedures must be developed to deal with UIFW.
- 8 Municipality must established a good relationship with the auditor General not only during the audit but through out the year in order the municipality to be assisted in resolving the issue raise by the Auditor General.
- 9 That the municipality must ensure that all vacant post on the Budget and Treasury office on the critical position are filled.
- 10 That the municipality must deal with the revenue collection in order for the municipality to be able to pay creditors within 30 days

10 lessons learnt by municipality

| | Dr JS Moroka Local Municipality |
|----|--|
| 1 | Need assessment is important prior appointment of consultants |
| 2 | Audit action plan without buy-in of senior management will not be implemented properly |
| 3 | Lack of leadership renders internal controls ineffective |
| 4 | Lack of performance agreements cascaded to lower level management renders controls ineffective |
| 5 | Training is vital to SCM personnel and roles players in bid committees to avoid irregular expenditures |
| 6 | Importance of having procurement plans |
| 7 | Effective senior management meetings to holistically deal with issues and internal controls |
| 8 | Effective internal audit unit and audit committee to give proper assurance |
| 9 | Importance of public participation (IDP and budget processes) |
| 10 | Spending within budget framework |



10 lessons learnt by municipality

| | eMalahleni Local Municipality |
|----|--|
| 1 | Not addressing audit paragraphs on time |
| 2 | Failure to keep proper record |
| 3 | Auditor General is auditing the municipality thus it is a team work |
| 4 | Lack of proper reviews on our daily processes |
| 5 | Lack of proper review on the financial due to lack of time frame |
| 6 | Regular and continuous training on GRAP standards |
| 7 | Importance of continuous Management Audit Steering meetings |
| 8 | Implementation of Audit Action Plan for internal and external audit findings |
| 9 | Lack of improvement on internal controls |
| 10 | Lack of proper monitoring of implementation of Supply Chain policies and regulations |



10 lessons learnt by municipality

| | Steve Tshwete Local Municipality |
|----|---|
| 1 | Constant communication with AG and Internal audit especially on prior period correction |
| 2 | Compliance to turnaround time on request for information by external auditors |
| 3 | Development and monitoring the audit action plan through operation clean audit committee |
| 4 | Respond to internal audit finding in time and process correction on the system immediately |
| 5 | Centralization of supply chain management process |
| 6 | Perform assets verification and reconciliation of Assets register, General ledger and AFS |
| 7 | Ensuring that all compliance reports are done and submitted in time to various structure/stakeholders |
| 8 | Monitoring of capital expenditure on weekly basis to ensure that all conditional grants spending is up to date to avoid roll over of funds. |
| 9 | Performance of reconciliation on monthly basis |
| 10 | Involvement of senior management on audit related issues |



10 lessons learnt by municipality

| | Emakhazeni Local Municipality |
|----|--|
| 1 | Lack or non implementation of succession plan institutional memory |
| 2 | Non implementation of consequence management escalates irregular expenditure |
| 3 | Non or inadequate investigations of irregular expenditure escalates irregular expenditure |
| 4 | Inadequate capacity building hinders business efficiency |
| 5 | Staff retention in critical positions |
| 6 | Inconsistency and change in administrative leadership |
| 7 | Asset and revenue management not viewed as critical components in financial administration |
| 8 | Lack on integration of municipal system |
| 9 | Non implementation of NT, PT and District recommendations |
| 10 | |



10 lessons learnt by municipality

Thembisile Hani Local Municipality

- 1 Implement controls over daily and monthly processing and reconciling transactions
- 2 Discipline to exercise due professional care when preparing the AFS to ensure that it reflects valid, accurate and complete information that achieves fair presentation and supported with reliable evidence.
- 3 Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- 4 Exercise sufficient oversight responsibility to ensure that the SCM unit compiles and submits deviation reports on a monthly basis for review, then submission to council per the stipulated requirements of the Regulation.
- 5 Developed checklist, management ensure enforcement by making sure it forms part of the package of documents used for tendering as the covering document which needs to be checked off to minimise and avoid irregular expenditure.
- 6 Ensure that a checklist and register is kept for all regulation 32 appointments in the municipality, to ensure that compliance and monitoring is adhered to and submitted to the CFO for review on a monthly basis.
- 7 Monthly monitoring of the contract register, compiled by the Accountant Contract Management, reviewed by the Chief Accountant Supply Chain and approved by the Assistant Manager Supply Chain and safe keeping of all contracts.
- 8 All reports from external parties and service providers will be reviewed before the information is used and disclosed in the AFS
- 9 Development of routine maintenance policies, consider asset value when budgeting for infrastructure maintenance, Management to facilitate the approval of water use licenses.
- 10 Exercise sufficient contract management oversight responsibility to ensure that contracts are signed in compliance with GCC requirements.

10 lessons learnt by municipality

| Nkangala District Municipality | |
|--------------------------------|--|
| 1 | Each one at the municipality plays a role From the Cleaner to the Hon Executive Mayor |
| 2 | Policies and procedures are in place and reviewed annually <ul style="list-style-type: none">• Policies and procedures are aligned to key legislation and compliance to them are monitored on a monthly basis |
| 3 | Proper accounting, records, SCM and documentation Management system <ul style="list-style-type: none">• Internal controls are in place and monitored regularly<ul style="list-style-type: none">• The Accounting officer and senior management proactively managed risks identified and put processes in place to ensure readiness for changes in accounting requirements and legislation.• Internal audit unit proactively and continuously assessed the internal controls within the District and recommended corrective actions through the audit committees.• Management developed and implemented action plans to address weaknesses in the internal control environment, which are regularly monitored. The effectiveness of these action plans are also monitored by internal audit units and audit committees.• Management took ownership performance management. |



10 lessons learnt by municipality

| Nkangala District Municipality | |
|--------------------------------|---|
| 4 | Strategic planning documents were prepared timeously and were properly reviewed by all role players. |
| 5 | <p>There were effective working relationships between the political and the administrative leadership.</p> <ul style="list-style-type: none">• Both the political and administrative leadership set a zero tolerance for non-performance and held staff accountable for poor performance.• Both the political and administrative leadership acts ethically and respects the roles each one has to play• Each role player understands their role• Emotional intelligent team• Everyone acts in the best interest of the municipality |
| 6 | <p>Sufficient capacity is available</p> <ul style="list-style-type: none">• Key vacancies are filled• Officials are empowered to comply with legislation, policies and procedures• Councillors are empowered to play their oversight role |



10 lessons learnt by municipality

| Nkangala District Municipality | |
|--------------------------------|--|
| 7 | Combined assurance oversight structures are in place <ul style="list-style-type: none">• Well functioning Internal Audit and risk units• Well functioning independent Audit and Risk committees• Well functioning MPAC and Disciplinary committees |
| 8 | Accountability, consequence management and implementing corrective measures are key |
| 9 | When do we act (everyday) |
| 10 | Keeping the municipality in good financial health ensure the financial viability and sustainability of the municipality |



Support to Local Municipalities

•The National, Provincial and District have put many interventions in place to assist the local municipalities in our District, which amongst others include the following:

- Assistance with AFS registers
- Revenue enhancement and data cleansing
- Providing warm bodies to act where there was capacity constraints
- Provision of SCM and Data verification system to eliminated irregular expenditure and improve debtor Management
- Implementation of infrastructure projects
- Provision of IA and Risk projects where there is a lack of capacity
- Share Audit and Risk committees
- Inter governmental structures to share best practices, eg Finance Forum, HR Forum, Audit and Risk Forum, PMS forum
- Dedicated Support Unit that assist LM's with policies, by-laws and revenue enhancement
- Capacitation of MPAC's, Establishment and training for Disciplinary Boards
- Review and improvement of audit action plans in ensuring they address the root causes of the findings.
- Development of municipal Standard Operating Procedures
- Training and support with full implementation of MSCOA



Lessons learnt form Support to LM's

- Municipalities tends to become complacent as someone else will intervene
- Municipalities do not maintain the improvements of interventions and it needs to be repeated after some years
- Municipalities do not implement recommendations from National, Provincial and the District (they then claim their own legislative authority)
- The instability in the leadership and capacity in the municipality hampers improvement
- Municipalities with unfunded budgets struggle to stay financially viabil
- Appointment and use of consultants without proper terms of reference, which led to failure of improving audit status
- Poor contract management
- Lack of consequence management and performance management
- Reconciliation controls not adequate and left for last minute activity before compilation of financial statements.
- Failure of municipalities to fully implement and comply with MSCOA modules, which led to transactions done outside the financial systems. (Reason for incorrect reporting and huge number of journals at end of Financial year - This is reason for misstatements and restatements of financial statements.)



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Recommendations

- Municipalities needs to take ownership of their municipalities
- Municipalities should learn from mistakes and should implement recommendations from National, Provincial and the District
- Municipalities to improve reconciliation controls and ensure it is done monthly
- Institutionalise MSCOA and ensure full compliance
- Institutionalise audit action plan and ensure that all assurance providers are in place and functional. (Internals Audit, Audit and Risk Committees, Management, Council, MPAC and Disciplinary Boards
- Where interventions done by National, Provincial and the District were done and improvements realized, the local municipality should ensure that it is maintained
- Municipalities should ensure that good systems is in place to ensure continuity on resignations



NGIYA THOKOZA! ro livhuwa!

dankie! ke a leboga! **ENKOSI!**

inkomu! thank you! **udo livhuwa!**

ke a leboha! **ngiyabonga!**
siyabonga!

