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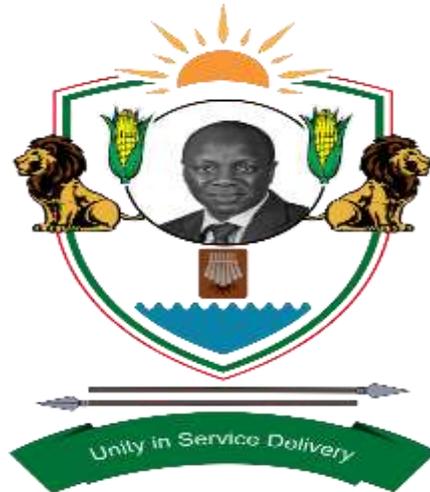


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**COLLINS CHABANE LOCAL MUNICIPALITY**

# **COLLINS CHABANE LOCAL MUNICIPALITY**

**COLLINS CHABANE  
LOCAL MUNICIPALITY**  
Since 2016



**OVERSIGHT REPORT  
ON  
2016/2017 ANNUAL REPORT  
TABLED TO COUNCIL BY MPAC  
CHAIRPERSON CLLR MUDAU T.S**

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## COLLINS CHABANE LOCAL MUNICIPALITY

### 1. COLLINS CHABANE LOCAL MUNICIPALITY MPAC MEMBERS

- 1.1 Cllr T.S Mudau (Chairperson)
- 1.2 Cllr Z.W Sunduza
- 1.3 Cllr M.S Thovhakale
- 1.4 Cllr C Radzivhoni
- 1.5 Cllr H.T Makhubele
- 1.6 Cllr H.M Chauke
- 1.7 Cllr N.P Mathonsi
- 1.8 Cllr M.J Baloyi
- 1.9 Cllr T.M Masia
- 1.10 Cllr G.D Masangu
- 1.11 Cllr V.N Mukhomi

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### 2. THE PURPOSE OF THE REPORT

The primary objective of this report is to request Collins Chabane Local Municipal Council to adopt the Oversight Report – Annual Report 2016/2017 financial year.

### 3. REPORT SUPPORTED BY ALL MEMBERS OF MPAC AS OVERSIGHT COMMITTEE

- 1.1 Cllr T.S Mudau (Chairperson)
- 1.2 Cllr Z.W Sunduza
- 1.3 Cllr M.S Thovhakale
- 1.4 Cllr C.M Radzivhoni
- 1.5 Cllr H.T Makhubele
- 1.6 Cllr H.M Chauke
- 1.7 Cllr N.P Mathonsi
- 1.8 Cllr M.J Baloyi M.J
- 1.9 Cllr T.M Masia T.M
- 1.10 Cllr G.D Masangu

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### 1.11 Cllr N.V Mukhomi

In assessing the report, MPAC was guided by the following pieces of legislations:

- a) Draft Annual Report 2016/2017 dated 31 October 2017
- b) Report from Auditor General
- c) National Treasury MFMA Circular no. 63
- d) National Treasury MFMA Circular no. 32

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### 4. MEETINGS HELD IN ASSESSING THE ANNUAL REPORT

In assessing the annual report, the following meetings were held:

No	Date	Comments
1	07 – 09/03/2018	The committee attended a workshop at Bubha Lodge for three days. The committee was joined by department of COGHSTA, AGSA and Provincial Treasury. The committee divided themselves into three (3) groups where they discussed their chapters, assisting one another on how to deal with different chapters. Extensive discussions took place. Questions and recommendations were drafted to be submitted to the Municipal Accounting Officer.
2	19/03/2018	The committee met to discuss about the responses on questions submitted to the Municipal Accounting Officer, to make follow-up questions on responses and also to plan a Public Hearing event.

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3	23/03/2018	The committee met to deal with all logistics in finalising Public Hearing preparations
4	24/03/2018	The committee presented the Public Hearing where stakeholders and different departments as well as the office of the Auditor General were invited. The Accounting Officer and her team responded to all questions raised by MPAC.
5	28/03/2018	Discussion of the Draft Oversight Report.

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**5. QUESTIONS FOR CONSIDERATION BY MPAC (2016-17)**

The table below reflect the questions and responses during the public hearing:

Items	Audit findings	Questions	Response by Management
<b>Property, plant and equipment</b>  <b>CLLR Masangu</b>	1. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, <i>Property, plant and equipment</i> . Expenditure for work in progress was not recorded in the financial records.  Consequently, work in progress was understated by R5 431 978 and again from transfer of	1. Why was the error not picked up and corrected in time?	The municipality received information that had these errors from transferring municipalities and was satisfied with the information because the balances were audited in the prior year by AG at the respective municipalities. The errors were discovered when the audit was at an advanced stage

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	<p>functions was understated by the same amount.</p>	<p><b>FOLLOW-UP QUESTION: Why was the error not picked up earlier.</b></p>	<p>and could no longer be corrected.  The function transfer process was concluded after year and the records from the transferring municipalities were received late.</p>
		<p>2. Who is responsible for the asset register?  <b>FOLLOW-UP QUESTION: were there no acting CFO's by that time? If they were there, what was their duty?</b></p>	<p>CFO through the asset management section (Still to be appointed).  An acting CFO was there but there was no personnel to assist and it was impractical to keep the work up-to-date.</p>
		<p>3. Please indicate the internal controls that have been introduced to prevent a recurrence.</p>	<p>The reconciliations were redone and omissions corrected. For future purposes, all the information received by the</p>

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			municipality, i.e. transfers and donations, for accuracy will be verified.
		4. Do you now have an updated asset register where all assets are included from Makhado and Thulamela municipalities?	Yes.
<b>Revenue and debtors</b> <b>CLLR Chauke H.M</b>	2. The municipality did not depreciate municipal assets in accordance with GRAP 17, <i>Property, plant and equipment</i> . Incorrect depreciation rates were used and immovable assets were not depreciated per component. I was not able to determine the impact on amount of depreciation and the net carrying amount of	5. Please explain how the municipality arrived at the interest rates that were applied?	Debtors billing was done by both Thulamela and Makhado on behalf of the Lim 345. The correct interest rates as per the policy were used but the setting of the calculation tables in the system was incorrect, which resulted in incorrect calculations. This was only when the information was received at year end and it was no longer

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	<p>property, plant equipment as it was impracticable to do so.</p>	<p><b>FOLLOW-UP QUESTION: is it a system or a person ? what has been done to make sure the calculations table are correct?</b></p>	<p>practical to correct the errors as it would require a rerun of the billing for the whole financial year or to request the system vendor, Munsoft, to draw a script to rerun the interest.</p> <p>It was a human error on the part of the municipality's system vendor. The error has been communicated to Munsoft for correction.</p>
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		6. What is the current status of debt collection in the municipality?	Collection rate for 31 January 2018 was 14% of current year billing, and the debt balance was R119,8 million.
<b>Material losses</b> <b>CLLR Masia</b>	3. As disclosed in note 7 to the financial position. Material losses amounting to R84 583 were incurred due to theft of inventory	7. Was the theft reported to the police?	Yes, and the case number is 73/7/2017.
		8. Please submit an update of the current status of the investigation.  <b>FOLLOW-UP QUESTION: were the goods recovered?</b>	The suspect was arrested and sentenced.  No, the goods were not recovered and the culprit is serving a sentence for that.
		9. If somebody has been found guilty? What measures did the municipality take?	Nobody within the municipality was found guilty.

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		10. What measures have the municipality put in place to ensure that inventory is secured and not exposed to theft?	The municipality has implemented improvement measures on physical security and controls as follows— <ul style="list-style-type: none"> <li>• Demarcation of physical storage area.</li> <li>• Forms for stores items movement (issues etc).</li> <li>• An official to serve as stores controller.</li> </ul>
<b>Material underspending of the conditional grant</b>  <b>CLLR Sunduza Z.W</b>	4. The municipality underspent its conditional grants to the amount of R38,9 million.	11. Please give a list of projects that have been affected by the underspending.	Rollover projects <ul style="list-style-type: none"> <li>• Saselamani Sport facility</li> <li>• Section B internal streets upgrading</li> <li>• Xikundu Ring Road</li> </ul>
		12. What measures have been introduced to ensure that the	Forward planning to ensure consultants are appointed in the

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		<p>planning and budgeting for projects are done in such a way as to ensure that grants are spent?</p>	<p>year prior to implementing projects. The filling of the positions of Director Technical and PMU manager to ensure effective project monitoring and early detection of blockages.</p>
<p><b>Irregular expenditure due to contravention of supply chain management regulations</b></p> <p><b>CLLR Radzivhoni C</b></p>	<p>5. As disclosed in note 39 to the financial statements, irregular expenditure to the amount of R7 926 426 was incurred, as a proper tender and quotation process had not been followed.</p>	<p>Irregular expenditure amounting to R7, 9 million was incurred</p> <p><u>The municipality did not promote a free, fair and competitive bidding process. Findings from the auditor's report on competitive bidding were:</u></p> <ul style="list-style-type: none"> <li>• Goods and services with a transaction value below R200 000 were procured</li> </ul>	

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		<p>without obtaining three quotations.</p> <ul style="list-style-type: none"><li>• Goods and services with a transaction value above R200 000 were procured without inviting competitive bids.</li><li>• Deviations were approved to not invite competitive bids based on it being an emergency.</li><li>• Some quotations were awarded to bidders based on preference points that were not calculated in accordance with legislated requirements.</li></ul>	
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		<ul style="list-style-type: none"> <li>• Preference point system was not applied to some of the procurement of goods and services above R30 000.</li> <li>• Performance of contractors or providers were not monitored – upgrade of Vuwani stadium and Sasekani ring road.</li> <li>• Poor contract management.</li> </ul> <p>13. Who are the officials responsible for awarding tenders?</p>	<p>MM on the recommendations of Bid Committees</p> <p>No</p> <p>There was value for money because the goods/ services were actually received and used by the municipality.</p> <p>See attached detailed report – ANNEXURE 1.</p>
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		<p>14. Has action been taken against them?</p> <p>15. Please provide evidence that value for money was received when contracts were awarded to bidders without following the required process.</p> <p>16. Please submit a progress report on the upgrade of Vuwani stadium and Sasekani ring road.</p>	<p>Projects in Vuwani are stalled because of the prevailing political situation.</p>
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		<p><b>FOLLOW-UP QUESTION:</b> <b>Please submit progress report on the mentioned projects.</b></p>	
<p><b>Fruitless and wasteful expenditure</b>  <b>CLLR Makhubele H.T</b></p>	<p>6. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure to the amount of R1 125 367 was incurred, due to late submission of tax returns, payment of salary for employee who was not at work and overpayment of cell phone allowance to councillors.</p>	<p>17. Fruitless and wasteful expenditure amounting to R1,1 million was incurred due to:</p> <ul style="list-style-type: none"> <li>• Penalties for late submission of tax returns</li> <li>• Payment of a salary to an employee who was not at work</li> <li>• Overpayment of cell phone allowance to councillors</li> </ul>	<p>Refer detailed report – ANNEXURE 2</p>

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		<p>18. What action has been taken against officials responsible for payment of tax returns?</p> <p>19. Has the salary paid to the employee who was not at work, been recovered from that official?</p> <p>20. Why was this official not at work? What measures has</p>	<p>No action was taken due to the fact that the municipality did not have the capacity to perform its financial administration efficiently and effectively.</p> <p>No.</p> <p>The official absconded from work for reasons not known to the municipality.</p> <p>The employee's service with the municipality is not yet terminated only his monthly salary has been discontinued.</p>
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		<p>been taken against the official by the municipality?</p> <p><b>FOLLOW-UP QUESTION: are there plans to recover the money from the person who was not at work: are there any steps of disciplinary against the employee?</b></p> <p>21. Have the councillors paid back the overpayment of the cell phone allowances, or</p>	<p>The Municipality is busy with the investigation. Once done the recovery process will start.</p> <p>Yes, but some not yet in full. Payment arrangements are in place for monthly deductions from payroll.</p>
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		what alternative action has been taken?	
<p><b>Material misstatements:</b></p> <p><b>CLLR Thovhakale M.S</b></p>	<p>7. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving qualified audit opinion.</p>	<p>Material misstatements have been discovered which were not detected by the municipality:</p> <p>22. What preventative measures have been put in place to address the audit findings on material misstatements in the 2016-17 financial year?</p>	<p>The misstatements relate to depreciation expense charged using incorrect rates and interest charged using wrong calculation tables.</p> <p>Depreciation was computed using a policy that had gaps. The auditors were not satisfied with the useful life of assets as per the policy. These useful lifespans are entity specific and were outside the ranges as listed in the National Treasury guidelines on assets. Furthermore, the municipality did not apply to</p>

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			<p>Treasury to use the entity specific useful lives.</p> <p>To correct the misstatements, management has since updated the policy to be in line with the Treasury guidelines on assets useful lives.</p> <p>The asset register was subsequently adjusted to correct the depreciation.</p> <p>The interest errors are in the process of being corrected with the assistance of Munsoft.</p>
<b>Expenditure:</b>	8. Money owed by the municipality was not always paid within 30	23. Who is responsible to ensure that invoices are paid on time?	Chief Financial Officer assisted by SCM and expenditure Managers.

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<p><b>CLLR Chauke H.M</b></p>	<p>days, as required by section 65(2)(e) of the MFMA</p>	<p>24. Please list the controls that have been put in place to ensure that invoices are paid on time?</p> <p><b>FOLLOW-UP: What is it that you are doing to make sure there is capacity?</b></p>	<p>The positions of the CFO (and Managers Expenditure a and SCM recently) have been filled to ensure effective implementation of expenditure related policies - which (policies) are already in place.</p> <p>Interns have been assigned to the expenditure (and other sections) to assist with the timeous processing of transactions.</p> <p>No action was taken due to the fact that the municipality did not have the capacity to perform its</p>
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		25. What action has been taken against the responsible officials?	financial administration efficiently and effectively.
<b>Performance information:</b>  <b>CLLR Baloyi</b>	9. The municipality does not have any documented standard operating procedures in place to collect, collate and report on each individual indicator and target for the performance management systems. It is therefore not possible to confirm that targets reported by management are complete, accurate and valid.	26. Are all vacancies filled in the unit?  27. Are you convinced that the officials have the necessary skills and capacity to comply to the requirements of reporting on performance information?	No, vacancies are not filed but the recruitment process is on. Yes, the official has the skills in PMS, however there is no individual dedicated to the process as indicated that the municipality is recruiting a PMS Manage.  The performance target were not met due to lack of personnel

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		28. Please give reasons why performance targets were not met?	
<b>Internal control:</b>  <b>CLLR Masangu</b>	10. The matters reported are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.	Please give a detailed update on the following internal controls:  29. Monitoring of the implementation of action plans	Actions plans are a responsibility of the senior managers responsible for the services to which the actions relate. Progress reporting on action plans (including audit action plans) forms part of monthly reporting to management, EXCO, portfolio committees and Council.  The following controls are in place—

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		<p>30. Daily and monthly controls in place to ensure credible financial statements and asset registers</p>	<ul style="list-style-type: none"> <li>• Financial delegations</li> <li>• Reconciliations (daily e.g. cashiers' day-end, monthly etc.)</li> <li>• Work review hierarchy (verifications, checks, recommendations and approvals/authorisations)</li> <li>• Periodic reporting (monthly, quarterly, mid-year and annual)</li> <li>• Separation of duties (to the extent that there is personnel).</li> <li>• Performance reviews/ assessments (e.g. mid-year).</li> </ul>
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			<ul style="list-style-type: none"> <li>• Performance improvement measures (action plans).</li> </ul>
<p><b>Consultants:</b> <b>CLLR Makhubele</b></p>		<p>31. Who is responsible for monitoring of the various consultants that are appointed in the municipality?</p> <p>32. How will the municipality ensure that there is proper transfer of skills?</p> <p><b>When will the consultants be faced out?</b></p>	<p>Consultants are monitored by Senior Managers responsible for the services that the consultants are appointed to render.</p> <p>Skills transfer is practicable where there is adequate personnel. The municipality is in the process of filling the vacant posts to make skills transfer possible.</p> <p>Future contracts will stipulate skills transfer as a requirement, and a skills audit shall be conducted from time to time and</p>

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		<p>33. Can the municipality give assurance that the work of the consultants will be sustained once they have left?</p>	<p>confirmed at the handover stage of every project</p> <p>The work currently performed by the consultants can be sustained to the extent that they (consultants) are phased out by competent staff or that adequate skills transfer takes place before the consultants are fully phased out.</p>
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### 6. RECOMMENDATIONS AND CONCLUSION

MPAC would like to commend the Mayor, Accounting Officer and Directors for the support provided during the engagement processes. The appointment of MPAC Researcher is highly appreciated and welcomed because it has brought serious change to the operations of the committee. The content of the Annual Report has been interrogated and found to be compliant with all legislative guidelines. MPAC is pleased that all the recommendations made to the Annual Report has been captured.

MPAC would like to appreciate the support from AGSA, COGHSTA and National Treasury (Mr Mankabidi) during the assessment of annual report.

MPAC would also like to appreciate the cooperation and support received from the Mayor, Accounting Officer and all Directors during the Public Hearing.

**It is therefore recommended that Collins Chabane Local Municipal Council adopt the Annual Report 2016/2017 without any reservation and place the report on the municipal website for public consumption.**

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**MUDAU T.S**

**MPAC CHAIRPERSON**