



MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

OVERSIGHT REPORT ON THE 2010-2011 ANNUAL REPORT

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REPORT OF THE POLOKWANE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE ON THE 2010-2011 ANNUAL REPORT, AUDIT REPORT AND THABATSHWEU ENTITY: POLOKWANE MUNICIPALITY

1. PURPOSE OF THE REPORT

The primary objective of this report is to report back to Polokwane Municipal Council on the findings by Polokwane Municipal Council after scrutinizing and interrogating the 2010 – 2011 Annual Report.

2. LEGISLATIVE BACKGROUND

Members of Polokwane Municipal Public Accounts Committee are guided by the following pieces of legislation to consider and scrutinize the 2010-2011 Annual Report:

- Sections 129 & 131 of Municipal Finance Management Act No. 56 of 2003
- Circular No. 32 of 15 March 2006

3. DISCUSSION

In an endeavor to consider and scrutinize the 2010-2011 Annual Report, Members of Municipal Public Accounts Committee held a number of meetings with the Office of Polokwane Municipal Manager. The Committee also compiled Questions based on the report of the Auditor-General for the financial year ending 30 June 2011 and sent them to the Office of the Municipal Manager and the Chief Executive Officer of Thabatshweu Entity for written responses.

The said Questions and responses are hereby attached as Annexure A & B respectively. Furthermore, the Committee held a Public Hearing where the Municipal Manager, the Executive Mayor and Members of Mayoral Committee appeared before the Committee on 28 March 2012 for oral evidence on the report of the Auditor-General for the year under review.

The Executive Mayor, Mayoral Committee, the Speaker, Councilors, Cdw's, Ward Committees, media were invited. According to the AG's report Cllr Haas was found to have done business with the municipality as Councilor of which is illegal. MPAC's findings are that Cllr Haas did business with the Municipality in 1992 when he was not

yet a councilor. He became a councilor in 2000 and he declared his interest. When he was re-elected as councilors in 2006 and 2011 he also declared. MPAC cleared him of breach conduct and he is a member of MPAC without any wrongdoing.

4. CONCLUSION

After considering the 2010-2011 Annual Report, Audit Report and the Thabatshweu Report of the Polokwane Municipality, Municipal Public Accounts Committee holds the view that the reports are reasonable and fair as they reflect a true state of the performance of the Municipality and the Entity and reflects fairly the proper financial state for the year under review.

Members of Polokwane Municipal Accounts Committee initially had concerns about the state-of-affairs of Thabatshweu Entity. There was no leadership at all at the Entity. After interacting with the Municipal Manager and the Executive Mayor on the Entity, Members of the Committee are happy because the Municipal Manager has produced a plan to turn things around at the Entity. To-date, a Board and the Chief Executive Office have been appointed to run the Entity effectively, efficiently and economically.

5. RECOMMENDATIONS

Members of Polokwane Municipal Accounts Committee recommend that:

- 5.1 the Council approves the 2010-2011 Annual Report without any reservations of the Polokwane Municipality
- 5.2 the Council supports and monitors a plan to turn things around at the Thabatshweu Entity
- 5.3 the 2011-2012 Annual Report be submitted within a reasonable time after consideration by Council to give MPAC enough time scrutinize it.

On behalf of Members of the Committee I further recommend that this report be adopted as a report of this Council. I recommend accordingly Honorable Speaker.

CLR H MORWANA: MPAC CHAIRPERSON

DATE

POLOKWANE MUNICIPALITY MPAC QUESTIONS

INVESTMENT PROPERTY

Investment property requires property held to earn rentals or for capital appreciation to be recognized as investment property. The municipality has correctly recognized investment property as property, plant and equipment. Because of inadequate information in the assets register, AG was unable to confirm or verify by alternative means the value of the investment property classified as property, plant and equipment.

1. Questions:

- Why did the municipality submit incorrect assets register to the AG for audit purpose?
- Who are the responsible officials?
- What corrective measures have been put in place to correct the anomaly?

PROPERTY, PLANT AND EQUIPMENT

AG was unable to verify the completeness of land and buildings stated at R1.9 billion and could not trace the assets to the general ledger. The municipality did not perform reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings were completely recorded

2. Questions:

- Why did the municipality fail to perform reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings are completely recorded?
- Who are the responsible officials?
- Please provide the committee with a plan to correct the anomaly?
- Why did the municipality fail to assess whether there were any changes in the fair value of land and buildings?
- Why did the municipality fail to submit documents to the AG for assessment of impairment of assets?
- Who are responsible officials who failed to submit such documents to the AG?
- Provide evidence of action taken against such officials?

CONSUMER DEBTORS

Included in consumer debtors of R193.5 million as disclosed in note 12 to the financial statements, are a net credit balance of R18.8 million and a debit balance of R7.8 million representing suspense account. AG did not obtain sufficient appropriate audit evidence to the valuation, allocation of and obligation and rights pertaining to the suspense account balances.

3. Question:

- Provide a breakdown of consumer debtors to the tune of R193.5 mil?
- Provide a breakdown of R18.8 mil and R7.6mil of suspense account?
- Please provide an action plan of clearing the suspense accounts?

RESTATEMENT OF CORRESPONDING FIGURES

As disclosed in the note 28 to the financial statement, the corresponding figures for 30 June 2010 have been restated as results of errors discovered during 2011 in the financial statement of the municipality.

4. Question:

- Why did the municipality submit erratic financial statements to the AG for audit purpose?
- Who are the responsible officials?
- What correct measures have been put in place to prevent the anomaly from occurring?

IRREGULAR EXPENDITURE

As disclosed in note 28 to the financial statement, the municipality incurred irregular expenditure of R14 million as a result of non compliance with the SCM regulations.

5. Question:

- Why did the municipality procure goods and services to the tune of R14 million in contravention of Supply Chain Management?
- Who are responsible official?
- What action has been taken against responsible officials in line with Section 32 of the MFMA?

COMPLIANCE WITH LAWS REGULATIONS

STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

The municipality did not enter into service delivery agreement with the municipal entity, Thabatshweu Housing Company (PTY) LTD trading as Polokwane Housing Association.

6. QUESTION:

- Why the municipality failed to enter into service level agreement with the municipal entity?
- What measures have you put in place to ensure that such anomaly does not occur?

PROCUREMENT AND CONTRACT MANAGEMENT

Goods and services with the transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from atleast three different prospective providers as per the requirements of SCM regulations

7. Question:

- Why did the accounting officer fail to obtain atleast three different prospective providers as per the requirements of SCM regulation?

Goods and services with the transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulations

8. Question:

- Why did the accounting officer fail to invite competitive bids for goods and services with the value above R200 000 as per requirements of SCM regulation?

Awards were made to providers who are persons in the service of the municipality and of persons in service of other state institution, in contravention

of SCM regulation 44, failed to declare that they were in the service with the municipality or in the service of other state institution?

9. Question:

- Why did the awards made to providers who are persons in the service of the municipality and of other state institution, failed to declare that they were in the service with the municipality?

EXPENDITURE MANAGEMENT

Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by Section 65(2)(e) of the MFMA

10. Question:

- Why the money owed by the municipality were not paid within 30 days of receiving invoice or statement as required by Section 65(2)(e) of the MFMA?
- Why did the accounting officer fail to prevent unauthorized expenditure and irregular expenditure?

ASSETS MANAGEMENT

The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets including asset register as required by Section 63(2)(c) of the MFMA.

11. Question:

Why the accounting officer failed to maintain the asset register?

INTERNAL CONTROL

12. Question:

- What internal controls are in place to ensure efficient, effective and transparent methods?
- What is the municipality doing to ensure that there is a credible assets register?

INVESTIGATIONS

13. Question:

- The committee request to be briefed about the special investigation processes and progress made?

MPAC QUESTIONS

THABATSHWEU HOUSING COMPANY(ENTITY)

1. INVESTMENT PROPERTY

In the previous audit report dated 30 June 2010, the AG reported that the fair value of the investment property as at 30 June 2010 couldn't be determined. The AG further reports that in the current year, the municipality couldn't determine the fair value. Consequently, the AG couldn't satisfy himself as to valuation of the comparative amount for investment property of R79 million

Questions

- a) Why did the municipality fail to determine the fair value of the investment of 79 million.
- b) Who are the responsible officials?
- c) What action has been taken against the responsible officials since this issue was raised in the previous financial year.

Follow-up : How far did the municipality go in addressing the anomaly?

2. IRREGULAR EXPENDITURE

On page 2 of the AG's report, the AG reports that the municipality procured goods and services amounting to R1 602 579 in contravention of Supply Chain Management . Furthermore the municipality didn't disclose this amount as irregular expenditure in a note to the financial statements as required by section 125(2) (d) of the MFMA.

Questions

- a) Why did the municipality procure goods and service to the tune of R1602570 in contravention of Supply Chain Management?
- b) Who are the responsible officials?
- c) What action has been taken to against responsible officials in line with section 32 of the MFMA
- d) What corrective measures have been put in place to prevent the anomaly from recurring?

3. RESTATEMENT OF CORRESPONDING FIGURES

- a) Why did the entity submit misstated figures for audit purpose?

b) Who are the responsible officials?

c) What corrective measures are in place to prevent this anomaly from recurring?

4. GOING CONCERN

a) Why are the liabilities of the entity exceeding the total assets by R10.2 million?

b) Is there a plan in place to correct the anomaly?

5. PREDETERMINED OBJECTIVES

a) Why did the municipal entity fail to submit the annual performance report to the AG as required by section 46 of the MSA and 121(4)(d) of the MFMA and part C of the General Notice 1111 of 2010?

b) Who are the responsible officials?

c) What corrective action has been taken to correct the anomaly?

6. Annual Financial Statements, Performance and Annual Reports

a) Why did municipality submit ill-prepared financial statements for auditing?

b) Are you aware that the uncorrected material misstatements have resulted in the financial statements receiving a qualified audit opinion?

c) Who are the responsible officials?

d) What corrective measures are taken to correct the anomaly?

6. COMPLIANCE WITH LAWS AND REGULATIONS

a) Why did the municipality fail to enter into a service level agreement with the municipal entity?

b) What measures are in place to ensure that such anomaly doesn't occur?

On paragraph 14 the Accounting Officer of the municipality did not prepare and include an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality as required by section 46 of the MSA read with section 121(4)(d) of the MFMA.

a) Why the Accounting Officer did not prepare and include an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent

municipality as required by section 46 of the MSA read with section 121(4)(d) of the MFMA?

b) Why did the Accounting Officer fail to assess the entity during the during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement between the entity and its parent municipality as required by section 88(1)(a) of the MFMA?

c) Why did the Accounting Officer fail to submit the results of the assessment on the performance of the municipal entity during the first half of the financial year to the board of directors of vthe entity and the parent municipal entity as required by section 88(1)(a) of the MFMA?

d) What actions did the Accounting Officer take against the official?

e) What measure have you put in place to ensure that the anomaly doesn't reccur?

7. ANNUAL FINANCIAL STATEMENTS, PERFORMANCE AND ANNUAL REPORTS.

On parahraph 15 of the AG's report The financial statements submitted for auditing were not prepared in all material respects in accordance with requirements of section 122 of the MFMA. Material misstatements of the investment property, national Housing Finance Corporation Loan, deffered income and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Question

a) Why did the Accounting Officer fail to prepare all material respects in accordance with requirements of section 122 of the MFMA?

8. AUDIT COMMITTEE

On paragraph 16 of the AG's report Audit Committee was not established.

a) Why did the municipality fail to establish an Audit Committee for the entity as required by section 166 of the MFMA?

9. INTERNAL AUDIT

On paragraph 17 of the AG's report indicated that Internal Audit was not established.

a) Why did the municipality fail to establish an Internal Audit Unit for the entity as required by section 165 of the MFMA?

10. PROCUREMENT AND CONTRACT MANAGEMENT

On paragraph 18 to 23 (Non Compliance with Supply Chain management regulations)

Questions

- a) Why did the municipal entity not implement SCM policy as required by section 111 of the MFMA?
- b) Why did the Accounting Officer fail to obtain at least 3 written price quotations from the different prospective as required by Supply Chain Management?
- c) Why did the Accounting Officer award suppliers who did not declare to the municipality as required?
- d) Why did the accounting officer fail to apply the preference point system in all procurement of goods and services?
- e) Why was there no list of accredited prospective providers in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a)?
- f) What corrective measure are there in place to ensure that the anomaly doesn't recur?

11. EXPENDITURE MANAGEMENT

On paragraph 24 of the AG's report Money owed by the municipal entity was not always paid within 30 days of receiving an invoice or statement, as required by section 99(2)(b) of the MFMA.

Questions

- a) Why did the accounting officer fail to pay money owed by the municipal entity within 30 days of receiving invoices/statements as required by section 99(2)(b) of the MFMA.

12. IRREGULAR EXPENDITURE

On paragraph 25 of the AG's report The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 95(2)(b) of the MFMA

- a) Why did the accounting officer not take reasonable steps to prevent irregular expenditure as required by section 95(2)(b) of the MFMA?

13. INTERNAL CONTROL

- b) What internal control measures are put in place to ensure effective, efficient and transparent methods?

14. INVESTIGATION

- c) May briefly brief the Committee on progress with regard to the Special Investigating Unit?

RESPONSES TO MPAC QUESTIONS

RESPONSES FROM THE MUNICIPAL MANAGER TO
POLOKWANE MUNICIPAL PUBLIC ACCOUNT COMMITTEE

INVESTMENT PROPERTY

Investment property requires property held to earn rentals or for capital appreciation to be recognized as investment property. The municipality has correctly recognized investment property as property, plant and equipment. Because of inadequate information in the assets register, AG was unable to confirm or verify by alternative means the value of the investment property classified as property, plant and equipment

1. Questions:

- a. Why did the municipality submit incorrect assets register to the AG for audit purpose?

Due to lack of capacity in the form of financial systems and human capital the asset management function had been outsourced to an external service provider. The financial management system that was in operation then, Finest, did not have an asset management module, hence the need was identified to source an external company that could provide asset management function to the municipality. Human capital was also a challenge as the municipality was operating with an organogram that was last reviewed in 2002 and the asset management function was not provided for. At the date of the AFS submission the final asset register was not yet finalized hence the originally submitted asset register had to be amended once the final report was received

- b. Who are the responsible officials?

CFO failed to manage the performance of the service provider. A signed service level agreement could not be produced by the CFO's office.

- c. What corrective measures have been put in place to correct the anomaly?

The service provider was engaged and put on terms to remedy all the weaknesses identified during the audit. They were given a notice period to correct all the findings and to submit a revised compliant asset register by the 31 March 2012.

The new financial system, SAMRAS, that is being rolled out does have an asset management module and the function will revert back to be managed internally. The internal management of the function will improve the accuracy and compliance of the asset register.

PROPERTY, PLANT AND EQUIPMENT

AG was unable to verify the completeness of land and buildings stated at R1.9 billion and could not trace the assets to the general ledger. The municipality did not perform reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings were completely recorded.

2. Questions:

- a. Why did the municipality fail to perform reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings are completely recorded?
- b. Who are the responsible officials?
- c. Please provide the committee with a plan to correct the anomaly

An audit action plan was prepared, which include the preparation of monthly financials. This process will assist the municipality in keeping their records updated and differences between accounting records will be detected and corrected before year end.

- d. Why did the municipality fail to assess whether there were any changes in the fair value of land and buildings?

Fair value assessment is one of the processes that had to be undertaken under asset management and was included as part of the scope of the outsourced service. Due to challenges outlined in response to question 1, the fair value assessment was not concluded in time.

- e. Why did the municipality fail to submit documents to the AG for assessment of impairment of assets?

Assets impairment test is also one of the processes that had to be undertaken under asset management and was included as part of the scope of the outsourced service. Due to challenges outlined in response to question 1, the asset impairment test was not conducted.

- f. Who are responsible officials who failed to submit such documents to the AG?

The supporting documentation could only have been submitted if the asset impairment assessments were conducted and submitted by the service provider. Failure to manage the service provider by the CFO resulted in such not being available in time for the audit.

- g. Provide evidence of action taken against such officials

Process is underway to take action against the alleged poor performance .Refer to Council resolution

CONSUMER DEBTORS

Included in consumer debtors of R193.5 million as disclosed in note 12 to the financial statements are a net credit balance of R18.8 million and a debit balance of R7.8 million representing suspense account.

AG did not obtain sufficient appropriate audit evidence; to the valuation, allocation of and obligation and rights to the suspense account balances.

3. Question :

- a. Provide a breakdown of consumer debtors to the tune of R193.5 million

Breakdown cannot be provided as the amount was consolidated into one during the transition period to the previous financial management system in 2003. The CFO's office does not have record of how the amount was arrived at. The amount had been carried over from previous financial years and according to reports provided by the CFO's office the set off treatment was agreed upon with the AG in the previous financial year

- b. Provide a breakdown of R18.8 mil and R7.6 mil of suspense account

R18.8 million is a NET credit amount comprising of various transactions, including the R193.5 million referred to above that cannot be substantiated. The breakdown can therefore not be provided.

The R7.6mil debit is also part of the system generated suspense amount that can cannot be traced to individual consumers. The breakdown can therefore not be provided.

- c. Please provide an action plan of clearing the suspense accounts

One of the actions identified for addressing the audit finding is to engage the AG on proposal discussions on how to address the systems' legacy challenges that resulted in the R193.5m suspense. The issue to be discussed would be the criteria for the identification of debtors against whose accounts the suspense account amounts should be allocated.

RESTATEMENT OF CORRESPONDING FIGURES

As discussed in the note 28 to the financial statement, the corresponding figures for 30 June 2010 have been restated as results of errors discovered during 2011 in the financial statement of the municipality

4. Question :

- a. Why did the municipality submit erratic financial statements to the AG for audit purpose?

The corresponding year's figures had to be corrected due to the actuarial valuation that was completed after the previous year's audit was already concluded. The municipality received a qualified audit opinion for the year ended 30 June 2010 due to incorrect valuation of post employment benefits. The actuarial valuation with the correct amount was received post the audit report, hence the audited financial statements would still

have had the errors that would have been corrected during the 2011 financial statements.

b. Who are the responsible officials?

Valuation of post retirement benefits is calculated in accordance with Generally Recognized Accounting Standards, and therefore the CFO as the responsible official for Budget & Treasury Office should have ensured that Accounting standards are adhered to.

c. What correct measures have been put in place to prevent the anomaly from occurring?

The revised organogram has provided for additional posts in the Budget & Treasury Office, and those posts have been classified and advertised with the critical posts identified. The posts will be filled by officials who meet the minimum competency levels required for finance officials. There will also be a dedicated finance manager whose responsibility will be reporting. It will be expected of this manager to continuously keep him/herself abreast of all accounting developments so that the municipality is not found non compliant.

The municipality will be subjected to an interim audit which will provide an opportunity to assess progress against implementation of financial reforms. Monthly financials will also be prepared.

IRREGULAR EXPENDITURE

As discussed in note 28 to the financial statement, the municipality incurred irregular expenditure of R14 million as a result of non compliance with the SCM regulations.

5. Question:

- a. Why did the municipality procure goods and services to the tune of R14 million in contravention of supply chain management?

The reported R14 million was made up follows:

- R10 was in respect of procurement of energy efficiency street lights that was concluded during September 2010. The grant that was received for the installation of such lights, was transferred late for the preparations that needed to be implemented for the 2010 World Cup. The municipality then resolved to make use of services of their annual electrical contractors that are enlisted on the database as going out on tender would have delayed the implementation even beyond the intended purpose. The appointment of annual contractors onto the database had

followed the required competitive supply chain management process, hence the municipality did not regard the use of annual contractors as being irregular.

- R154K was in respect of appointment of a service provider for the 2010 risk assessment that was appointed in July 2010. The Municipality did not have risk management capacity then and had to source an external service provider to conclude the risk assessment.
- R 452K was in respect of procurement of brush cutters from a supplier who is a sole provider of such cutters within the Limpopo Province. Following on the heavy rains that were experienced during Jan to Feb 2011, communities raised serious concerns about the state of our municipality. The relevant SBU was not coping with the resources they had at their disposal and even the Mayorol Committee raised concerns and the need to go an extra mile to ensure the communities' needs were attended to. Quotations were sought from various service providers, however the appointed one was found to be the only supplier of such equipment within the province. The urgency of the problem that needed to be addressed and municipality's local economic responsibility was considered and the municipality concluded that it would not be prudent to acquire such equipments from outside the Province and be faced with lag time for ordering and delivery while the community was suffering. It was considered prudent to acquire the machine from a local supplier.
- R296k was in respect of purchasing of sport facilities. During the IDP consultations held during Oct-Nov 2010, serious concerns were raised by communities about the state of sporting facilities, especially in the rural areas. It was also resolved that such equipment be acquired locally to speed up the delivery and installation in time for use by communities during December breaks.

b. Who are responsible officials?

The affected SBUs are Electrical, Environment and Sport. The relevant SBU managers would have prepared motivations and reports that were considered by the Accounting Officer.

c. What action has been taken against responsible officials in line with section 32 of the MFMA?

No action has been taken as the procurement is not regarded as being irregular.

COMPLIANCE WITH LAWS REGULATIONS

STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

The municipality did not enter into service delivery agreement with the municipal entity, Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association.

6. QUESTION:

- a. Why the municipality failed to enter into service level agreement with the municipal entity?

The Council of Polokwane Municipality had in the past failed in its responsibility of exercising oversight over its own entity. The Council had failed to ensure that the entity had functional governance structures such as a board of directors, CEO and senior management that would have managed the implementation of the service delivery agreement if any was signed.

- b. What measures have you put in place to ensure that such anomaly does not occur?

Both the board and CEO of PHA have been appointed. This has enabled the Accounting Officers of both the Polokwane Municipality and the PHA to develop a measurable service delivery agreement which was concluded and signed on 31 January 2012.

PROCUREMENT AND CONTRACT MANAGEMENT

Goods and services with the transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulations.

7. Why did the accounting officer fail to obtain at least three different prospective providers as per the requirements of SCM regulation?

The query as it relates to the amounts that are for the Accounting Officer's delegation are in relation to the matters addressed in question 5. The provider was the sole provider of such equipment within Limpopo Province and the urgency and local economic development imperatives were considered.

8. Why did the accounting officer fail to invite competitive bids for goods and services with the value above R200 as per requirements of SCM regulations?

Appointed annual contractor were drawn from a database which was compiled through a competitive process.

Awards were made to providers who are persons in the service of the municipality and of persons in service of other state institution, in contravention of SCM regulation 44, failed to declare that they were in the service with the municipality or in the service of other state institution?

9. Question:

Why did the awards made to providers who are persons in the service of the municipality and of other state institution, failed to declare that they were in the service with the municipality?

The municipality would not know why the providers failed to declare. However it must be stated that the awards made to such providers were not in respect of bids that were processed through the bid committees and approved by Accounting Officer, but were through the quotation system. The bidding process has a built in control of a declaration form as a prerequisite for a responsive bid. Any bidder who fails to complete the declaration form is disqualified. Unfortunately the same control was not implemented for quotations procurement that does not go through the bidding system but are sourced by SCM. The absence of the requirement for a declaration form has resulted in such providers doing business with the municipality. The weakness has since been corrected and the declaration form is required for all dealings with the municipality, irrespective of the amount.

EXPENDITURE MANAGEMENT

Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by Section 65(2)(e) of the MFMA

10. Question:

- a. Why the money owed by the municipality were not paid within 30 days of receiving invoice or statement as required by Section 65 (2)(e) of the MFMA?

The municipality started the 2010/11 in a bad financial position and basically did not have any cash flow until the loan was concluded in January 2011. The municipality could not therefore, in the first six months of the year service its debts on time.

- b. Why did the accounting officer fail to prevent unauthorized expenditure and irregular expenditure?

The budget that was prepared for the 2010/11 financial year was not a credible budget. Due to the financial difficulties that the municipality started the year on, noncash items such as depreciation were underprovided for. Accounting standards require of depreciation to be provided for so that future replacement and maintenance of assets can be effected. At the time of approving the budget this requirement was ignored and unfortunately it cannot be corrected at year end. The CFO failed to prepare a credible budget and to advise the Accounting Officer then.

ASSETS MANAGEMENT

The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets including asset register as required by section 63(2)(c) of the MFMA

11. Why the accounting officer failed to maintain the asset register?

The Accounting Officer identified the capacity deficiencies within the municipality and sourced additional support to enable the municipality to manage its assets. The responsible officials whose job it is to ensure that the sourced support delivers on what they pay them for failed to carry out their responsibilities of managing the performance of the service providers, hence they are being held accountable for non performance.

12. INTERNAL CONTROL

a. What internal controls are in place to ensure efficient, effective and transparent methods?

- The audit finding action plan has identified areas where controls are weak and corrective action have been introduced. Some of the controls include development of business processes, development, enforcement and monitoring of policies, segregation of duties and preparation of monthly financial and management reports.

b. What is the municipality doing to ensure there is a credible assets register?

- The asset management function will be taken back into the municipality and with the additional resources allocated in Finance the function will be closely monitored.

13. Question :

a. The Committee request to be briefed about the special investigation processes and progress made

- Briefing will be provided accordingly

THABATSHEU HOUSING COMPANY (ENTITY)

The CEO of Thabatsweu is the accounting officer of the entity and the individual questions will thus be relevantly responded to by him.

From the parent municipality's perspective, all the questions raised in respect of the entity was as a result of the parent municipality neglecting its responsibilities to the entity. Polokwane Municipality's Council failed to ensure that functional governance structures were in place at the entity to enable it to function as a sustainable institution.

There was no leadership that was provided to the entity until the board was appointed in July 2011 which was at the end of the financial year under audit. The entity operated without a board, a CEO senior management nor policies. Governance was basically nonexistent.

All the anomalies have since been corrected and the entity is submitting monthly reports as required by the MFMA and tabling their progress reports in Council.