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IN THE HIGH COURT OF SOUTH AFRICA
(NORTH WEST DIVISION, MAHIKENG)

CASE NO: M311/2021

In the matter between :-

SAKELIGA NPC	Applicant
And	
THE MEMBER OF THE EXECUTIVE COUNCIL: NORTH WEST PROVINCE: COOPERATIVE GOVERNANCE HUMAN SETTLEMENTS AND TRADITIONAL AFFAIRS	1st Respondent
THE MEMBER OF THE EXECUTIVE COUNCIL: NORTH WEST PROVINCE: FINANCE	2nd Respondent
THE THE MINISTER OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS	3rd Respondent
THE MINISTER OF FINANCE	4th Respondent
DITSOBOTLA LOCAL MUNICIPALITY	5th Respondent
NALEDI LOCAL MUNICIPALITY	6th Respondent
THE PREMIER: NORTH WEST PROVINCE	7th Respondent
ESKOM SOC LIMITED	8th Respondent

MAGALIES WATER BOARD 9th Respondent

SEDIBENG WATER BOARD 10th Respondent

FOURTH RESPONDENT'S REPLY TO THE APPLICANT'S RULE 35(12) NOTICE

BE PLEASED TO TAKE NOTICE THAT the Fourth Respondent replies to the applicant's Notice in Terms of Rule 35(12) as follows:

ITEM	DOCUMENT
1.1	The handover report of Provincial Treasury communicating to the 6th Administration, being a status report of the municipal financial sustainability and performance
1.2	To be furnished
1.3	The financial health assessment conducted in terms of Section 140(2)(c) of the Municipal Finance Management Act
1.4	The assessment/s conducted by Provincial Treasury to confirm whether municipalities remains in serious material breach of their obligations to meet their financial commitments
1.5	To be furnished
1.6	The formal notification to the Minister of Finance of the resolution of the Executive Council to implement mandatory interventions
1.7	To be furnished
1.8	The formal letters notifying municipalities that the Provincial Treasury would be conducting status assessments in respect of the municipalities' financial health

DATED at PRETORIA this 20th day of SEPTEMBER 2021.



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TO: **THE REGISTRAR OF THE HIGH COURT**
MAHIKENG

AND

TO: **KRIEK WASSENNAR & VENTER INC.**
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provincial treasury

Department:
Provincial Treasury
North West Provincial Government
Republic of South Africa

HAND OVER REPORT

(STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE)

TO

EXCO

Presented by : Ms. M Rosho
MEC for Finance

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1. EXECUTIVE SUMMARY

The North West province lies in the north of South Africa on the Botswana border, fringed by the Kalahari Desert in the west, Gauteng province to the east and the Free State to the south. It covers an area of 104 882km² and has a population of 3 748 436. Much of the province consists of flat areas of scattered trees and grassland. The Vaal River flows along the southern border of the province.

The province has a total of twenty two (22) municipalities and is divided into four districts (i.e Bojanala Platinum, Ngaka Modiri Molema, Dr Ruth Segomotsi Mompati & Dr Kenneth Kaunda). There are five (5) secondary cities (Madibeng, Rustenburg, Mafikeng, Matlosana & JB Marks). Mahikeng is the capital city of the province and is near the Botswana border and forms a single urban area with its neighbouring town, Mmabatho.

Most economic activity is concentrated in the southern region between Potchefstroom and Klerksdorp, as well as Rustenburg and the eastern region. Mining is the major contributor to the North West economy and represents almost a quarter of South Africa's mining industry as a whole. The Rustenburg and Brits districts produce more platinum than any other single area in the world. North West also produces a quarter of South Africa's gold, as well as and diamonds.

The eastern and southern part of the province is well known for cattle farming, while the areas around Rustenburg and Brits are fertile, mixed-crop farming land. Maize and sunflowers are the most important crops, and the province is the major producer of white maize in the country. North West has a number of major tourist attractions, including the internationally famous Sun City, the Pilanesberg National Park, the Madikwe Game Reserve and the Rustenburg Nature Reserve.

The province has identified 12 financial distressed municipalities. These municipalities are experiencing poor cash flow management, unable to collect revenue, long outstanding creditors as well as underspending on capital grants. The trend in the province for the past five (5) has seen municipalities adopting unfunded budgets. In 2018/19 three (3) municipalities adopted funded budgets. In order to address unfunded budgets municipalities are expected to develop and approve financial plans to address the funding of the budget. The continuous adoption of unfunded budgets impact negatively on service delivery.

2. GOVERNANCE

Municipalities in the province were able to convene their respective Council meetings at least four times in a year as required by law, the challenge however is the ability to implement Council resolutions as there is no system in place to monitor implementation of Council resolutions and have a system in place to track the implementation of Council resolutions. Maquassi-Hills Local Municipality does not have functional Mayoral Committee as they have failed to convene at least four meetings in a year. Seventeen (17) of the twenty two (22) municipalities have functional portfolio committees. The remaining five (5) municipalities (Madibeng, Mahikeng, Maquassi Hills Local Municipalities as well as Dr Ruth Segomotsi Mompati and Bojanala District Municipalities) are unable to convene their respective portfolio committees for at least four times in a year.

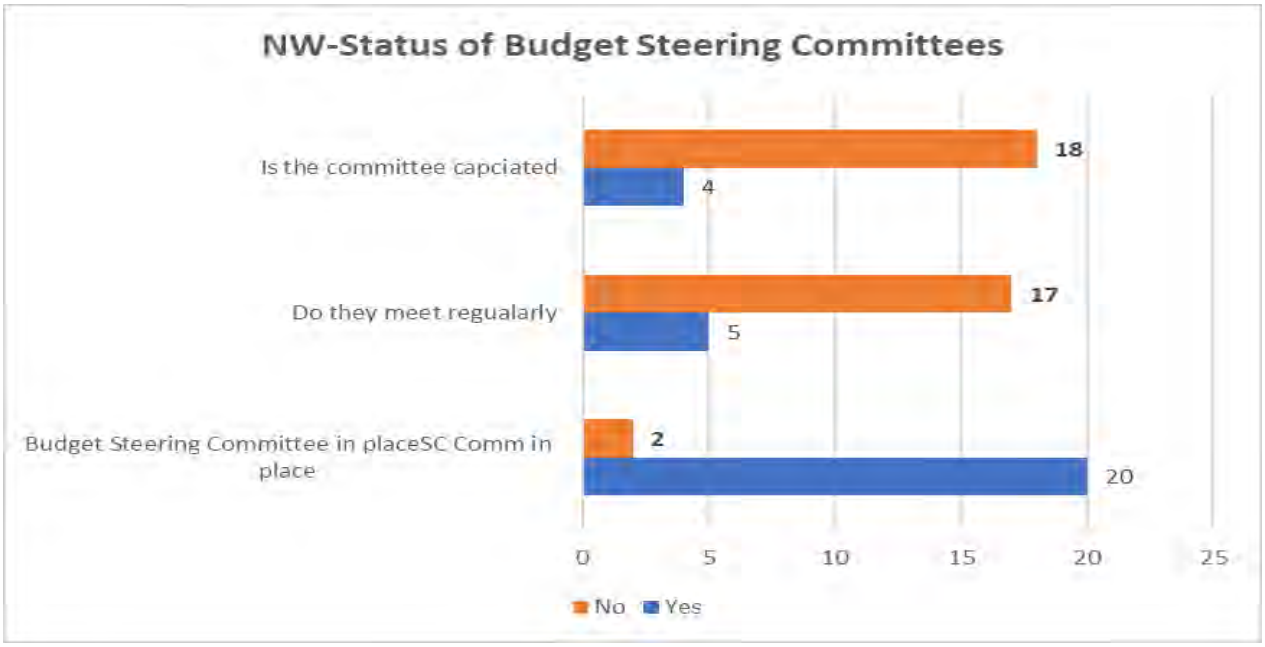
All municipalities in the province have established Municipal Public Account Committees (MPAC) and have subsequently provided capacity to the MPACs with Rustenburg Local Municipality being the exception as they failed to provide training to the MPAC members on the roles and responsibilities. Functionality of MPAC remains a challenge as investigation and subsequent recommendation of reported Unathorised, Irregular, Fruitless and Wasteful (UIF&W) expenditure.

Municipal regulations on Financial Misconduct Procedures and Criminal proceeding were promulgated in May 2014. The implementation of these regulations, gives effect to the implementation of Chapter 15 of the MFMA. The implementation of these regulation in the province remains a concern as, eight (8) municipalities have not established Disciplinary Boards to address disciplinary matters. The remaining fourteen (14) municipalities have functional Disciplinary Board however, the number of cases reported/investigated and finalized by the Disciplinary Boards is regrettably very low. Cases which were successfully investigated and concluded by the Disciplinary Boards were cases relating to the Venda Burial Society (VBS) investment cases. The effectiveness of the Disciplinary Committee is highly dependent on management and Council referring allegations of financial misconduct.

Most municipalities have not established Internal Audit units as required by Section 165 of the Municipal Finance Management Act (MFMA), these municipalities have opted to rely on the shared services of their respective Municipalities. Some municipalities have established Internal Audit units however they are facing capacity challenges in the form of vacancies and inability to recruit and retain sufficiently skilled and proficient employees. The challenges regarding effectiveness of Internal Audit units in municipalities are further exacerbated by either non-existent and/or ineffective Risk Management units.

All municipalities in the province have established Audit Committee with exception of Ditsobotla and Tswaing local municipality. Dr Ruth Segomotsi Mompati have opted for Audit Committee shared service for four (4) local municipalities in the district. Greater Taung municipality opted not to participate in the district Audit Committee shared services and established its own committee. Bojanala District Municipality also opted for shared services and are providing services to Kgetlengrivier and Moses Kotane Municipalities. These audit committees are functional and not effective. There is lack of oversight and assurance as they are unable to hold administration to account.

All municipalities in the province were able to consistently submit the Annual Financial Statement (AFS) for the past 3 years however, the quality of the AFS remains a concern.



Twenty (20) municipalities have established the budget and steering committees in line with the requirements of the Municipal Budget and Reporting Regulations except for Ratlou and Maquassi Hills local municipality. 77% (17) of the steering committees are not functional and do not meet regularly. Eighteen (18) municipalities in the province have steering committees that are not properly capacitated to play oversight role over the budget processes. Although there is no proven correlation of the functionality of the budget steering committees to the funded budgets, most municipalities with dysfunctional steering committees also had unfunded budgets. In the recently conclude budget process only three (15%) of the delegated municipalities in province have funded budgets.

3. INSTITUTIONAL ARRANGEMENTS

JB Marks Local Municipality was the only municipality in the province that was affected by demarcation after the 2016 local government election. The demarcation process resulted in two municipalities, Tlokwe City Council and Ventersdorp Local Municipality merging in to JB Marks Local Municipality. The merger was between a high and low capacity municipality merging.

All municipalities in the province have approved organizational structures .These organizational structures are not reviewed at least every five years. This is evident from the fact that municipalities are able to appoint contract workers for more than ten years. In some cases municipalities were seen absorbing these contract employees' permanently on positions that are not in the structure. The other area of concern is non-compliance to the recruitment process. Senior managers are irregularly appointed without following the regulated recruitment process, which results in the suspension of managers and lack of stability in management. The total of 10 municipalities in the province has bloated organizational structures are spending above the norm of 40% of the total operating expenditure budget on employee related costs.

Over the past three years, 14 municipalities have an overall vacancy rate above 10% of the funded position. In 2016/17 and 2017/18, 19 municipalities had a vacancy rate which is above 10% for senior management. Seven (7) municipalities had the position of Municipal Manager and Chief Financial Officer vacant for more than 6 months. The vacancy rate in senior management position affects institutional stability, financial sustainability and accountability. The

position of Technical Director was vacant for more than 6 months for the following 8 municipalities (Moretele, Kgetlengrivier, Ratlou, Tswaing, Ditsobotla, Naledi, Mamusa, Kagisano-Molopo local municipality). This impacts negatively on service delivery within municipalities resulting in low expenditure in capital expenditure. The vacancy rate in the province indicates that 14 municipalities have vacancy rate that is below 10% in the Budget and Treasury Office (BTO) and the remaining 8 municipalities have a vacancy rate above 10%.

Vacancies of key Management positions

MUNICIPALITY	MUNICIPAL MANAGER	CHIEF FINANCIAL OFFICER	CORPORATE SERVICES	TECHNICAL SERVICES	COMMUNITY SERVICES
BOJANALA	√	√	X	√	√
MADIBENG	X	X	√	√	√
MORETELE	√	√	√	√	X
MOSES KOTANE	√	√	√	√	√
KGETLENG	√	√	X	X	√
NGAKA	√	√	√	√	√
RAMOTSHERE	√	√	√	X	√
DITSOBOTLA	X	√	X	X	√
RATLOU	X	X	X	X	X
TSWAING	√	√	X	√	X
DR. KENNETH KAUNDA	√	X	√	√	√
JB MARKS	√	√	X	X	X
MATLOSANA	√	X	√	√	√
MAQUASSI HILLS	X	X	X	X	X
DR. RUTH	X	X	√	√	√
NALEDI	√	√	√	X	X
KAGISANO	√	√	√	X	√
MAMUSA	√	√	√	X	√
LEKWA TEEMANE	√	√	√	X	√
GREATER TAUNG	√	√	√	X	X
FILLED	**16**	**14**	**14**	**9**	**13**
VACANT	**4**	**6**	**6**	**11**	**7**
	20	**20**	**20**	**20**	**20**

Legends:

X – Vacant

√ - Filled

The municipal minimum competency regulations sets out the competency requirements for the Accounting Officer, Chief Financial Manager, Senior Managers and other municipal officials. These regulations requires the Accounting Officer and senior managers accountable to the Accounting Officer to have the skill, experience and capacity to assume and fulfil the responsibilities and exercise the function and powers assigned in terms of the MFMA. The regulation sets out the minimum level of educational qualification, work related experience, core managerial and occupational competencies and unit standards prescribed for financial and supply chain management competency areas.

In 2018/19 financial year, five (5) municipalities (Moretele, Rustenburg, Ditsobotla, Mamusa and Kagisano-Molopo) had more than 50% of senior managers and Budget Treasury Office staff, not meeting the prescribed minimum competency level.

All municipalities in the province, have consistently for the past three financial years relied on Consultants to prepare and compile the annual financial statements. Heavy reliance on consultants to perform financial management related function is indicative of lack of capacity within the municipality. The average cost implication for the use of consultants to bridge the capacity gap within the budget and treasury office ranges between R2 to R5 million a year. Kagisano-Molopo local municipality paid Consultants R12, million, R9, 5 million and R13, 5 million for the 2015/16, 2016/17 and 2017/18 financial years respectively.

Use of Consultants

Municipalities	**2015/16 Amount R**	**2016/17 Amount R**	**2017/18 Amount R**
Mamusa LM	3 850 000	3 560 032	3 200 000
Tswaing LM	2 500 000	4 662 902	4 100 000
Naledi LM	2 800 000	2 394 823	2 100 000
Ngaka Modiri Molema	3 000 000	2 094 916	3 500 000
Ditsobotla LM	3 500 000	3 200 000	2 900 000
Kgetleng Rivier LM	2 500 000	1 700 000	1 700 000
Kagisano Molopo LM	12 951 340	9 580 000	13 561 600
Dr Ruth Mompati District	2 900 000	2 160 000	2 000 000
Greater Taung LM	2 400 000	1 817 074	890 000
Lekwa-Teemane LM	6 671 099	1 800 00	1 800 000
Maquassi Hills LM	3 688 604	2 906 619	2 461 797
Dr K K District	3 100 000	2 900 000	300 000
City of Matlosana LM	4 800 000	4 300 000	4 500 000
JB Marks LM	4 000 000	3 848 705	3 600 000
Bojanala D M	2 100 000	1 678 464	1 900 000
Madibeng LM	4 800 000	4 300 000	4 500 000
Moretele LM	3 900 000	6 092 475	4 500 000
Moses Kotane LM	-	4 099 528	4 099 528
Ratlou LM	2 300 000	1 900 000	1 700 000
Ramotshere Moila LM	3 500 000	3 100 000	2 900 000
TOTAL	**75,261,043**	**68,095,538**	**66,612,925**

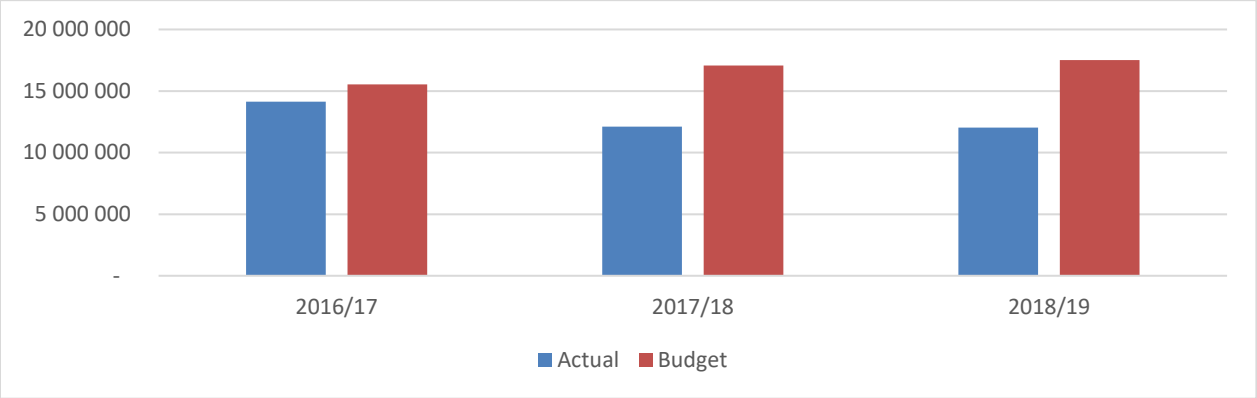
The functionality of Performance Management System (PMS) remains a challenge with only two (2) municipalities (Rustenburg and Matlosana) in the province that have PMS in place.

4. Financial Management

OVERALL THREE-YEAR TREND ANALYSIS

4.1 REVENUE

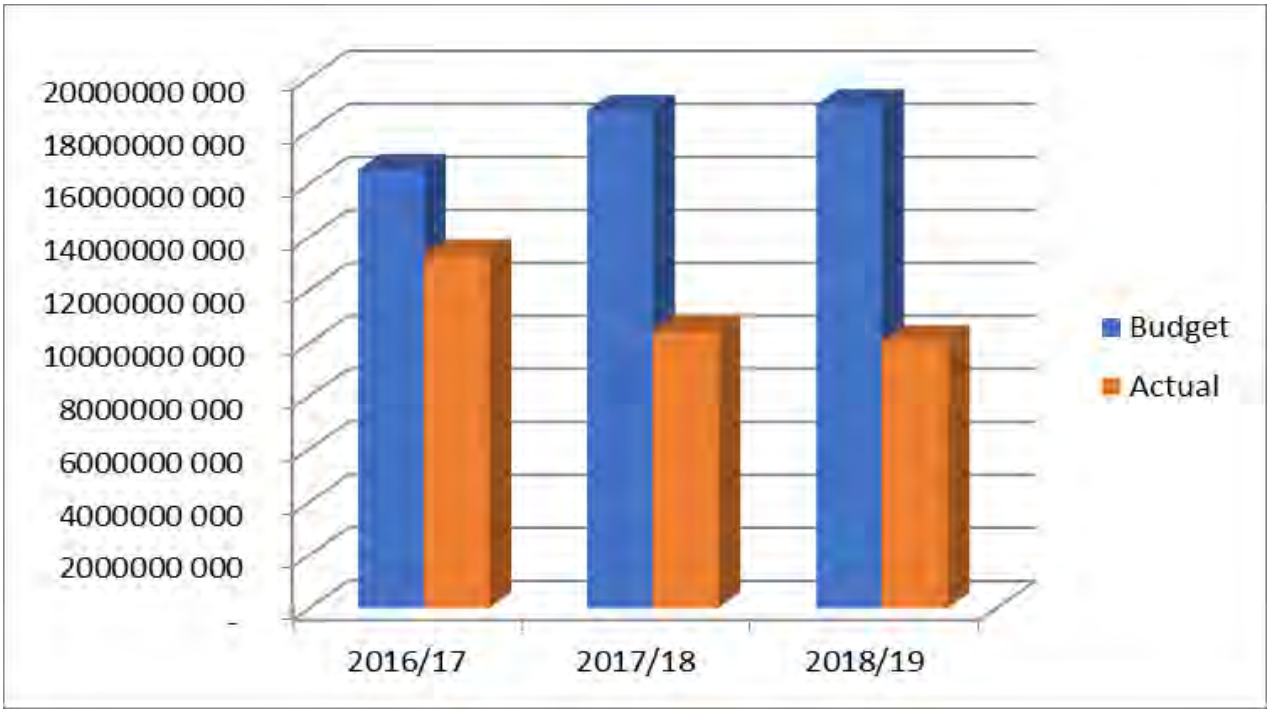
R`000					
2016/17		**2017/18**		**2018/19**	
Budget	**Audited**	**Budget**	**Audited**	**Budget**	**Actual**
15,537,287	14,128,199	17,066,517	12,120,827	17,513,419	12,034,558



In the 2018/19 financial year, the operating revenue generated as at 31st May 2019 amount to R14.4 billion or 83% of the total adjusted budget of R17.5 billion. Operating expenditure incurred by municipalities in the province amount to R12.6 billion or 67%. This translates into a surplus of R1.7 billion against the budgeted deficit of R1.4 billion.

4.2 EXPENDITURE

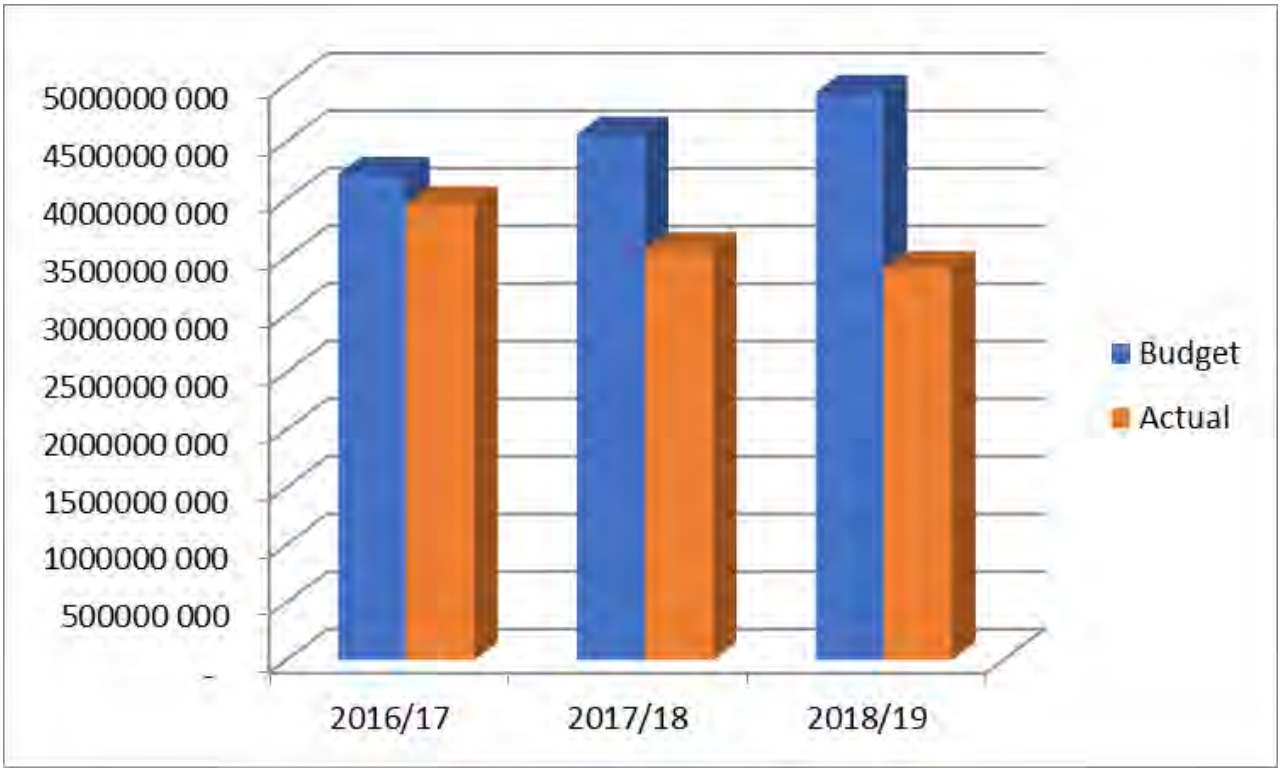
R`000					
2016/17		**2017/18**		**2018/19**	
Budget	Audited	Budget	Audited	Budget	Actual
16,555,013	13,325,262	18,778,980	10,441,663	19,006,402	10,089,500



Municipalities have reported under spending on their operating expenditure budget for the past the past three years.

4.3 PERSONNEL COSTS

R`000					
2016/17		**2017/18**		**2018/19**	
Budget	**Audited**	**Budget**	**Audited**	**Budget**	**Actual**
4,215,007	3,959,472	4,563,806	3,561,469	4,926,307	3,399,643
Norm - 25% - 40%	30%		34%		34%



Ten (10) municipalities (Bojanala, Ratlou, Tswaing, Mafikeng, Ditsobotla, Ngaka Modiri Molema, Naledi, Greater Taung, Dr Ruth Segomotsi and Dr Kenneth Kaunda) that are spending above the norm on the employee related cost.

4.4 CAPITAL EXPENDITURE

R`000					
2016/17		**2017/18**		**2018/19**	
Budget	**Audited**	**Budget**	**Audited**	**Budget**	**Actual**
2,990,916	2,135,292	3,227,961	2,143,370	3,369,778	1,521,167



Municipalities have reported persistently under spent on capital grants. R161 million was unspent in 2016/17 and R267 million in 2017/18. This is considered a high risk in achieving the service delivery objective and eradicating service delivery backlogs.
Ten (10) municipalities continuously report low spending that leads to persisted application of roll overs. Some of the reasons attributed to underspending are delays in SCM processes, poor planning and PMU's that are not adequately capacitated. Furthermore, the province is losing capital allocation due to stopping of funds, during the financial year as a results of not spending according to the set performance targets.

4.5 DEBTORS

R`000		
Audited 2016/17	**Audited 2017/18**	**Actual 2018/19**
11,574,442	7,998,256	16,461,239

Total outstanding debtors amount to R16 billion as at 31st May 2019. Of the total debtors book balance, R14 billion or 87% is owed for more than 90 days reducing chances of collection.

4.6 CREDITORS

R`000		
Audited 2016/17	**Audited 2017/18**	**Actual 2018/19**
2,269,126	1,686,311	3,762,049

Section 65(e) of Municipal Finance Management Act requires that a municipality must settle its creditors within 30 days from the date of receipt of an invoice. Outstanding creditors reported as at 31 May 2019 amounted to R3.7 billion, of which 76% is owed for more than 90 days.

4.7 CASH FLOW

R`000		
Audited 2016/17	**Audited 2017/18**	**Actual 2018/19**
1,698,212	2,075,594	1,416,179

Municipalities in the Province reported a positive cash flow balance of R1.4 billion against the total outstanding creditors of R3.4 billion. The following Municipalities reported cash flow balances that are not sufficient to cover the outstanding creditors balances:

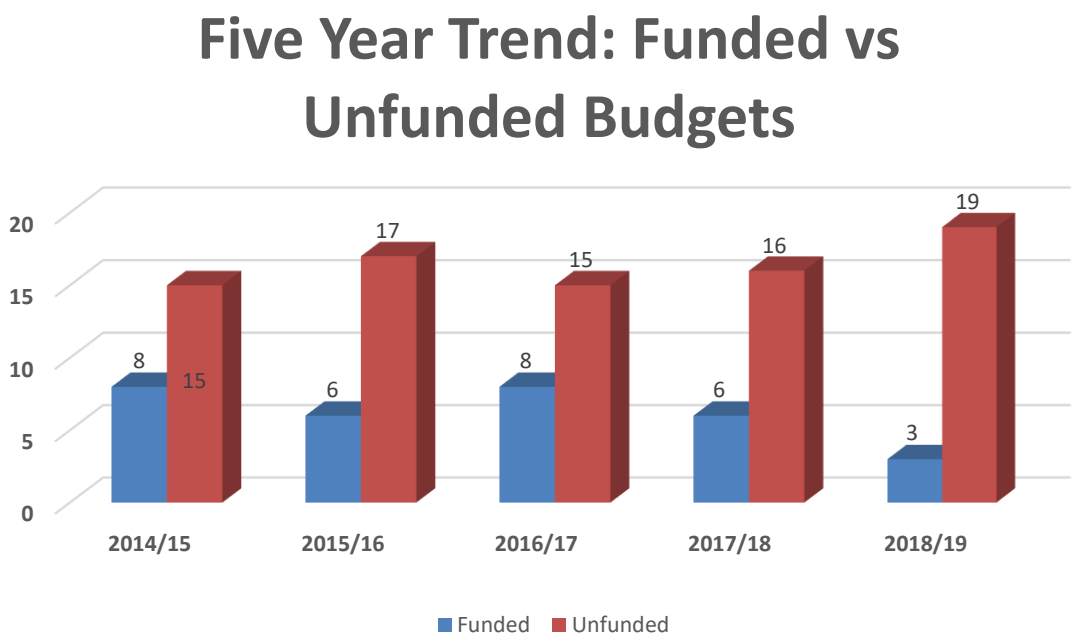
- Bojanala
- Moretele
- Madibeng
- Tswaing
- Mafikeng
- Ditsobotla
- Ramotshere Moiloa

- Naledi
- Lekwa Teemane
- Matlosana
- Maquassi Hills

Only four (4) Municipalities' cash flow balances is sufficiently able to cover the outstanding creditors, i.e. JB Marks, Dr Kenneth Kaunda, Kagisano-Molopo and Moses Kotane.

PRIORITY SETTING / GAME CHANGERS

Funded Adopted Budget



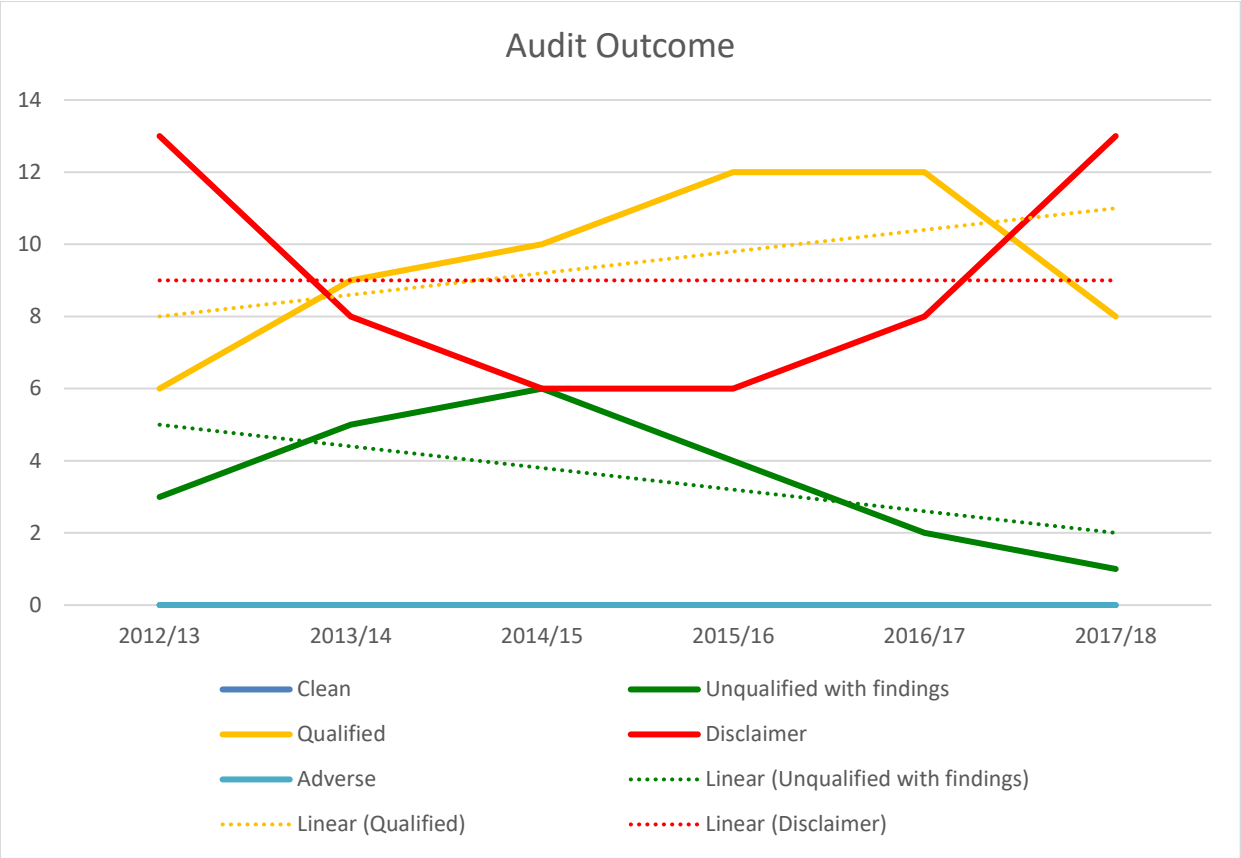
Trend over the past five (5) years shows that municipalities in the province have been adopting unfunded budgets. Only 3 municipalities (Rustenburg, Mafikeng and Greater Taung LM) approved funded budgets in the 2018/19 financial year. Training was conducted to all municipalities to prepare funded and credible budgets.

4.8 GOVERNMENT DEBT

Debt owed by government departments to municipalities in 2016/17 financial year was R808, 9 million. In 2017/18 the debt increased to R858 million then R 1 billion in 2018/19 financial year. The highest owed district is Ngaka Modiri Molema with R583 million followed by Bojanala with R269 million then Dr Kenneth Kaunda R126 million and the lowest owed is Dr Ruth Segomotsi Mompati with R26 million.

The highest owed Municipality is Mahikeng Local Municipality that is owed more than 50% of the overall debt. The debt for Mahikeng is mainly the disputed historical debt for the North West Housing Corporation properties as well as properties owned by National and Provincial departments but registered in the name of the municipality.

4.9 AUDIT OUTCOMES



The 2014/15 financial year was the best performing audit outcome, with six (6) unqualified, six (6) Disclaimers and eleven (11) qualifications as a result of PT intervention on financial reporting and GRAP compliant asset registers. In 2015/16 PT had to withdraw the financial management and GRAP compliant asset registers intervention. The 2017/18 financial year audit outcomes were the least performing in the six (6) years in review. This was caused primarily by weakened governance structures, increased instability in senior management, and lack of oversight and monitoring of consultants as compared to the 2014/15 financial year.

4.10 UIF & W

The table below shows the trend of Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIF&W) for the past three years.

Expenditure Type	2015/16	2016/17	2017/18	% increase over the past three years
	R'000	R'000	R'000	
Unauthorised	7 827 578	10 400 335	12 366 663	58%
Irregular	7 721 692	11 880 522	15 675 907	103%
Fruitless and Wasteful	372 402	441 116	670 435	80%

The total Unauthorised, Irregular Fruitless and Wasteful shows an increase of 81% over the past three years with irregular and fruitless increasing by 103% and 80% respectively.

The following municipalities in the province are on the National top 10 list of UIF&W:

No	2016/17	2017/18
Unauthorised Expenditure	Ngaka Modiri Molema District Municipality	Ngaka Modiri Molema District Municipality
Irregular Expenditure	RustenburgLocal Municipality Ngaka Modiri Molema District Municipality Madibeng Local Municipality Moretele Local Municipality	JB Marks Local Municipality DRSM District Municipality
Fruitless and Wasteful Expenditure	Ditsobotla Local Municipality	City of Matlosana Municipality Naledi Local Municipality

The following municipalities are considered the highest top 10 contributors to UIF&W in the province;

Municipality	Amount
Rustenburg LM	R 5 242 578
Ngaka Modiri Molema DM	R 5 217 474
City of Matlosana LM	R 3 967 251
Madibeng LM	R 3 010 280
JB Marks LM	R 1 735 713
Mahikeng LM	R 1 697 906
Moretele LM	R 1 362 199
Dr Ruth S Mompati DM	R 1 252 795
Maquassi Hills LM	R 763 035
Moses Kotane LM	R 596 651
Total	**R 24 845 882**

4.11 mSCOA

Municipalities implemented mSCOA with effect from 1 July 2017 in line with mSCOA regulations. The table below indicate the status of mSCOA implementation by municipalities: All municipalities in the province are unable to budget, transact and draw reports from the mSCOA financial system

Municipality	System Vendor	Status
Bojanala Platinum	Sage Camelsa	Effectively implemented the following modules on the mSCOA system • Revenue and grant management • Procurement (SCM) • Budget and planning Asset management and payroll are hosted on a subsystem Implementation challenges includes • Lack of training • Ineffective utilisation of the system
City of Matlosana	Business Connexion	Municipality implemented mSCOA from 1 July 2018 but still on the old Venus, the upgrade to Solar is scheduled for August 2019.Municipality progressing well in terms of data string submission.
Ditsobotla	Sebata	Municipality still operating on the old system version of SEBATA FMS and in a process to migrate EMS. Municipality having internal capacity challenges to effectively implement mSCOA.
Dr Kenneth Kaunda	Business Connexion	mSCOA implementation is progressing well through the commitment of Municipal Leadership however not all modules offered by the system have been fully implemented. The Municipality is still highly dependent to the system vendor.
Dr Ruth Segomotsi Mompati	Camelsa	The municipality recently changed the system service provider without necessarily changing the mSCOA system in February 2019. Implementation is progressing well with the support from the new system vendor
Greater Taung	Sebata	Municipality migrated from old system version of SEBATA FMS to EMS on 1 January 2019 and currently experiencing challenges with the entire migration process to EMS and has requested support from the Province.
J B Marks	Vesta	The municipality recently upgraded from mSCOA version 6.2 to 6.3. The municipality is experiencing system challenges, mainly due to lack of capacity and support from the system vendor
Kagisano-Molopo	OS Holdings	mSCOA implementation is progressing well through the commitment of Municipal Leadership however not all modules offered by the system have been fully implemented. The Municipality is still highly dependent to the system vendor.

Kgetlengrivier	Vesta	The Municipality is experiencing challenges with implementation of mSCOA due to poor contract management and failure to work amicable with the vendor to deliver the expected results. The municipality is experiencing system challenges, mainly due to lack of capacity and support from the system vendor
Lekwa-Teemane	Camelsa	mSCOA implementation is progressing well through the commitment of Municipal Leadership however not all modules offered by the system have been fully implemented. The Municipality is still highly dependent to the system vendor.
Madibeng	BCX	mSCOA implementation is progressing well through the commitment of Municipal Leadership however not all modules offered by the system have been fully implemented. The Municipality is still highly dependent to the system vendor.
Mahikeng	Munsoft	mSCOA implementation is progressing well through the commitment of Municipal Leadership however not all modules offered by the system have been fully implemented. The Municipality is still highly dependent to the system vendor.
Mamusa	Munsoft	There are serious leadership challenges to oversee effective mSCOA. The municipality is unable to honour the payment obligation and do not get consistent support from the system vendor.
Maquassi Hills	BCX	There are serious leadership challenges to oversee effective mSCOA implementation. Instability in management is the main contributing factor as there is no effective leadership
Moretele	Vesta	Municipality is experiencing implementation challenges due to non-functionality of most modules on the system and lack of support and training from Municipality. This resulted in the municipality opting to run on the mSCOA system parallel to a non-mSCOA compliant sytem
Moses Kotane	Business Connexion	The mSCOA system has functional SCM, Assets and Inventory modules that the municipality is unable to use due to lack of training.This causes heavy dependence on system service provider.
Naledi (NW)	Bytes	The SCM, Asset Management and Inventory modules are available on the system but not utilized by the Municipality due to lack of capacity and training The municipality still opts to transact manually
Ngaka Modiri Molema	Camelsa	The municipality is currently transacting in the mSCOA chart and is able to produce reports on the same system however: not all modules are active eg, Contract Management
Ramotshere Moiloa	OS Holdings	Leadership challenges have improved due to the recent appointments of the MM and CFO. The

		mSCOA system is prioritized on financial data due to the unavailability of all modules and lack of capacity and training
Ratlou	OS Holdings	Municipality had implementation challenges due to aged ICT infrastructure The municipality has since upgraded server in order to improve mSCOA implementation. The Municipality is over reliant on the system service provider for implementation of mSCOA due to lack of capacity and training
Rustenburg	Camelsa Camelsa	The municipality is currently transacting in the mSCOA chart and is able to produce reports on the same system,however: not all modules are available and utilized due to over reliance on the system service provider
Tswaing	Business Connexion	The Municipality does not utilize all available modules on the system and opts to perform manual transactions.There is heavy reliance on the system service provider caused by lack of training and capacity.

4.12 Ratio Analysis

Municipality	Liquidity					Expenditure Management		
	Liquidity Management		Debtors Management		Revenue Management	Expenditure Management		
	Cash Coverage	Current Ratio	*Collection Rate*	*Net Debtors Days*	Revenue Growth	Creditors Payment Period (Trade Creditors)	Remuneration as % of total operating expenditure	Contracted Services % of Total Operating Expenditure
Norm	1-3 Months	1.5 to 2.1	*95%*	*30 Days*	5.4%	30 Days	25% - 40%	2% - 5%
Moretele	-0.9	0.32	34%	208 Days	7%	92 Days	35%	13%
Madibeng	0	1.28	80%	212 Days	-3%	107 Days	21%	10%
Rustenburg	-0.08	0.6	120%	436 Days	2%	87 Days	17%	5%
Kgetlengrivier	-0.4	0.7	56%	1454 Days	2%	730 Days	27%	3%
Moses Kotane	0	1.8	45%	760 Days	12%	241 Days	30%	16%
Bojanala Platinum	0	0.1	n/a	n/a	-26%	55 Days	57%	26%
Ratlou	4	2..4%	65%	398 Days	-2%	49 Days	58%	6%
Tsw aing	0	0.17	53%	120 Days	13%	991 Days	46%	7%
Mafikeng	0	0.5	40%	191 Days	21%	668 Days	41%	12%
Ditsobotla	0	0.9	50%	386 Days	19%	1022 Days	46%	5%
Ramotshere Moiloa	0	0.8	74%	292 Days	4%	307 Days	40%	6%
Ngaka Modiri Molema	2	0.9	n/a	n/a	25%	640 Days	43%	9%
Naledi	0	0.21	71%	561 Days	-14%	284 Days	44%	7%
Mamusa	-0.18	0.9	72%	339 Days	15%	562 Days	33%	7%
Greater Taung	11	4.3	68%	887 Days	11%	1 Days	43%	11%
Lekw a - Teemane	-0.2	0.16	58%	919 Days	5%	712 Days	23%	7%
Kagisano - Molopo	2	0.9	100%	236 Days	-5%	16 Days	30%	15%
Dr Ruth SM	0	0.36	n/a	n/a	-1%	27 Days	41%	8%
Matlosana	0	0.7	40%	583 Days	6%	217 Days	22%	9%
Maquassi Hills	0	0.19	43%	60 Days	10%	321 Days	25%	7%
JB Marks	2	2.25	90%	130 Days	26%	67 Days	28%	6%
Dr Kenneth Kaunda	1	0.7	n/a	n/a	4%	1079 Days	60%	14%

The table above depicts the key financial ratios which outlined the liquidity and sustainability challenges. These ratios are developed in line with sec 138 and 140 of the MFMA. Sixteen (16) municipalities in the province portrays signs of financial distress/crisis/problems.

Based on the above assessment, the following municipalities requires urgent intervention in line with chapter 13 of the MFMA

No	Municipality	2016/17 Cash Coverage	2017/18 Cash Coverage	2018/19 Cash Coverage	Sect 138	Sect 140 > 2%	Sect 140 > 40%	Implement MFMA Section 139 Intervention
1	Madibeng	0	0	1	Yes	Yes	No	Yes
2	Kgetlengrivier	0	0	0	Yes	Yes	No	Yes
3	Tswaing	0	0	7	Yes	Yes	Yes	Yes
4	Ditsobotla	-2	2	2	Yes	Yes	Yes	Yes
5	Ramotshere Moiloa	0	1	3	Yes	Yes	No	Yes
6	Naledi	1	0	0	Yes	Yes	Yes	Yes
7	Mamusa	0	1	0	Yes	Yes	Yes	Yes
8	Lekwa-Teemane	0	0	0	Yes	Yes	Yes	Yes
9	Dr Ruth Segomotsi Mompati	4	1	0	Yes	No	No	Yes
10	Maquassi Hills	0	-1	0	Yes	Yes	No	Yes

5. Service Delivery

Service delivery Protests experienced

The Northwest Province has had frequent protest in all four districts within the province over the last 3 years. The primary reasons for the protests are as follows:

- Access to clean water;
- Lack of decent sanitation and
- Lack of road infrastructure.

	NW371	NW372	NW373	NW374	NW375	DC37	NW381	NW382	NW383	NW384	NW385
	Moretele	Madibeng	Rustenburg	Kgetlengrivier	Moses Kotane	Bojanala Platinum	Ratlou	Tswaing	Mafikeng	Ditsobotla	Ramotshere Moiloa
4. Service Delivery											
4.1 What was the total number of households in the municipality?	54453	186082	230382	17420	76781	0	27282	32659	89491	48306	44430
4.2 What percentage of municipal households had access to drinkabale water according to the minimum RDP standard or higher?	97.0%	89.4%	88.0%	91.9%	92.9%	0.0%	89.2%	84.7%	91.5%	85.0%	89.1%
4.3 Number of households had access to electricity according to the minimum RDP standard or higher?	1626	19802	27575	1413	5423	0	2940	5009	7651	7262	4845
4.4 What percentage of households had access to sanitation according to the minimum RDP standard or higher?	54.9%	50.0%	73.3%	83.0%	42.2%	0.0%	52.2%	55.9%	58.5%	61.2%	43.6%
4.5 Number of households had access to refuse removal services according to the minimum RDP standard or higher?	24538	93124	61449	2962	44389	0	13029	14403	37137	18746	25075
4.6 What percentage of households had a backlog in terms of access to drinkable water according to the minimum RDP standard?	83.4%	89.4%	93.9%	94.7%	80.9%	0.0%	65.4%	79.4%	83.8%	89.6%	83.1%
4.7 Number of households had a backlog in terms of access to electricity according to the minimum RDP standard?	9015	19785	14138	927	14662	0	9448	6714	14519	5034	7500
4.8 What percentage of households had a backlog in terms of access to sanitation according to the minimum RDP standard?	28.0%	39.3%	80.1%	39.7%	88.4%	0.0%	1.3%	22.6%	74.4%	37.2%	27.1%
4.9 Numbere of households had a backlog to refuse removal services according to the minimum RDP standard or higher?	39185	112977	45754	10510	8899	0	26915	25277	22898	30327	32369
4.10 Did the municipality have an approved Water Services Development Plan?	Yes	Yes	No	No	No	No	No	No		No	No
4.11 Did the municipality have an approved electricity/energy master plan?	No	No	Yes	No	No	No	No	No		No	No
4.12 Did the municipality have an approved Integrated Waste Management Plan?	No	Yes	Yes	No	No	No	No	No		No	No
4.13 Did the municipality have an approved roads and storm water master plan?	No	No	No	No	Yes	No	No	No		No	No
4.14 Did the municipality have an approved water and sanitation maintenance plan?	No	No	Yes	No	No	No	No	No		No	Yes
4.15 Did the municipality have an approved electricity maintenance plan?	No	No	Yes	No	No	No	No	No		No	Yes
4.16 Did the municipality have an approved roads and storm water maintenance plan?	No	No	No	No	No	No	No	No		No	Yes
4.17 What was the percentage of water distribution losses incurred by the municipality?	4 =< 15%	1 => 30%	1 => 30%	4 =< 15%	4 =< 15%	4 =< 15%	4 =< 15%	1 => 30%		4 =< 15%	1 => 30%
4.18 What was the percentage of electricity distribution losses incurred by the municipality?	4 =< 7%	1 => 15%	3 =≥ 7%	4 =< 7%	4 =< 7%	4 =< 7%	4 =< 7%	1 => 15%		4 =< 7%	3 =≥ 7%

	DC38	NW392	NW393	NW394	NW396	NW397	DC39	NW403	NW404	NW405	DC40
	Ngaka Modiri Molema	Naledi (NW)	Mamusa	Greater Taung	Lekwa-Teemane	Kagisano-Molopo	Dr Ruth Segomotsi Mompati	City of Matlosana	Maquassi Hills	J B Marks	Dr Kenneth Kaunda
4. Service Delivery											
4.1 What was the total number of households in the municipality?	0	21022	16562	48624	16820	30312	0	126736	22113	75029	0
4.2 What percentage of municipal households had access to drinkabale water according to the minimum RDP standard or higher?	0.0%	82.7%	87.8%	94.0%	93.1%	84.1%	0.0%	94.0%	92.4%	92.0%	0.0%
4.3 Number of households had access to electricity according to the minimum RDP standard or higher?	0	3628	2019	2910	1155	4819	0	7634	1671	6032	0
4.4 What percentage of households had access to sanitation according to the minimum RDP standard or higher?	0.0%	80.9%	89.1%	63.3%	95.4%	79.5%	0.0%	95.8%	90.5%	88.8%	0.0%
4.5 Number of households had access to refuse removal services according to the minimum RDP standard or higher?	0	4017	1801	17864	773	6227	0	5355	2109	8432	0
4.6 What percentage of households had a backlog in terms of access to drinkable water according to the minimum RDP standard?	0.0%	90.7%	80.1%	68.8%	99.5%	73.9%	0.0%	98.6%	96.9%	95.2%	0.0%
4.7 Number of households had a backlog in terms of access to electricity according to the minimum RDP standard?	0	1958	3289	15153	76	7919	0	1821	677	3610	0
4.8 What percentage of households had a backlog in terms of access to sanitation according to the minimum RDP standard?	0.0%	70.8%	61.3%	7.3%	82.4%	0.9%	0.0%	91.9%	52.5%	70.2%	0.0%
4.9 Numbere of households had a backlog to refuse removal services according to the minimum RDP standard or higher?	0	6134	6412	45084	2965	30037	0	10247	10496	22336	0
4.10 Did the municipality have an approved Water Services Development Plan?	No	No	No	No	No	No	Yes	Yes	No	Yes	No
4.11 Did the municipality have an approved electricity/energy master plan?	No	No	No	No	No	No	No	Yes	No	No	No
4.12 Did the municipality have an approved Integrated Waste Management Plan?	No	No	No	No	No	No	No	Yes	No	No	No
4.13 Did the municipality have an approved roads and storm water master plan?	No	No	No	No	No	No	No	No	No	No	No
4.14 Did the municipality have an approved water and sanitation maintenance plan?	No	No	No	No	No	No	No	No	No	No	No
4.15 Did the municipality have an approved electricity maintenance plan?	No	No	No	No	No	No	No	No	No	No	No
4.16 Did the municipality have an approved roads and storm water maintenance plan?	No	No	No	No	No	No	No	No	No	No	No
4.17 What was the percentage of water distribution losses incurred by the municipality?	1 => 30%	4 =< 15%	4 =< 15%	4 =< 15%	2 =≥ 20%	4 =< 15%	4 =< 15%	1 => 30%	4 =< 15%	2 =≥ 20%	4 =< 15%
4.18 What was the percentage of electricity distribution losses incurred by the municipality?	4 =< 7%	4 =< 7%	4 =< 7%	4 =< 7%	1 => 15%	4 =< 7%	4 =< 7%	1 => 15%	4 =< 7%	3 =≥ 7%	4 =< 7%

6. Conclusion

The 10 municipalities identified above have Creditors balance which are significantly above 2% of the total operating expenditure budget, thereby qualifying to be designated as being under serious financial crisis as defined by Section 140 of the Municipal Finance Management Act.

Section 139 of the Municipal Finance Management Act directs that the Provincial Executive must immediately implement a mandatory intervention for Municipalities who meet one or more conditions of Section 140 of the Municipal Finance Management Act.. Implementation of Section 139 of the Municipal Finance Management Act to the identified municipalities is essential as it will enable the Provincial Executive to;

a) determine the reasons for the crisis in its financial affairs;

b) assess the municipality's financial state;

c) prepare an appropriate recovery plan for the municipality;

d) recommend appropriate changes to the municipality's budget and revenue-raising measures that will give effect to the recovery plan.

The above will be conducted in compliance with Section 139(1)(a) of the Municipal Finance Management Act, a further benefit of implementing provisions of Section 139(1)(a) of the Municipal Finance Management Act is that municipalities will be compelled to develop financial recovery plans and if necessary recommend appropriate changes to the municipality's budget.

provincial treasury

Department:
Provincial Treasury
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

Item 1,3 (a)

North West Provincial Treasury

2030 NDP

WE BELONG WE CARE WE SERVE

Let's grow North West Together.

DITSOBOTLA LOCAL MUNICIPALITY



MFMA SECTION 138 AND 140 ASSESSMENT FEEDBACK

Table of Contents

1. Resolution of financial problems MFMA Chapter 13
2. MFMA Sec 139 Triggers
3. Budget Management
4. Financial Health
5. Audit Outcome
6. Conclusion
7. Way forward

Resolution of financial problems MFMA Chapter 13

- The primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself.
- Section 135 of the MFMA provides that if a municipality encounters financial problems or anticipates problems in meeting its financial commitments it must seek solutions for such problems, including notifying MECs for Local Government and Finance as well as organised local government (SALGA).
- The MFMA also places obligations on the national and provincial government to assist in resolving financial problems in municipalities.
- According to S136 (1) of the MFMA if the MEC for local government in a province becomes aware that there is a serious financial problem in a municipality, the MEC must promptly:

(a) Consult the mayor of the municipality to determine the facts;

(b) Assess the seriousness of the situation and the municipality's response to the situation; and

(c) Determine whether the situation justifies or requires an intervention in terms of section 139 of the Constitution

- In determining whether the municipality's financial situation justifies or requires an intervention in terms of section 139 of the Constitution, the results of the assessment of the following sections should be considered:
  - MFMA S138 – Sets out the criteria for determining serious financial problems
  - MFMA S140 – Sets out the criteria for determining serious or persistent material breach of financial commitments.

MFMA Sec 139 Triggers

MFMA criteria for determining "Material breach of … obligations to meet financial commitments" (s140)

- Failure to make payment to lender or investor as and when due;
- Failure to meet a contractual obligation which provides security for debt or contractual commitments;
- Failure to make any other payment as and when due, which individually or in the aggregate is more than two per cent of budgeted operating expenditure;
- Failure to meet financial commitments in a manner that has or is likely to have an impact on the availability or price of credit to other municipalities; or
- Any recurring or continuous failure by a municipality to meet its financial commitments which substantially impairs the municipality's ability to procure goods. services or credit on usual commercial terms.

MFMA criteria for determining "serious financial problems" (s138)

- Failure to make payment as and when due;
- Defaulting on financial obligations for financial reasons;
- Actual Expenditure exceeds revenue plus surplus for two consecutive financial years;
- Operating deficit is in excess of 5% of the revenue
- Late submission of AFS for more than 60 days
- AGSA issued disclaimer opinion.
- Any other material conditions that indicates inability to meet obligations for financial reasons

MFMA Sec 139 Triggers

LEGEND
No Triggers
1 Trigger
2 Triggers
3 & 4 Triggers

	MFMA s138 Triggers				MFMA s140 Triggers based on Pro-Rata Adjusted Budget Q3 2020/21		
	Failure to make payments as & when due (s138(a)) (90 days > R1m) March 2021	Operating Deficit > 5% of total direct revenue (s138(d)) March 2021	Negative / Outstanding Audit (s138(e) & (f)) FY 2018/19	Negative Cash Position - Two consecutive years (s138(h)) March 2021	Failure to make any other payment > 2% of operating expenditure (s140(2)(c)) March 2021		
				2019/20 Actual 2020/21 YTD	ESKOM > 2% Opex	Water Boards > 2% Opex	Total creditors > 2% Opex
	167	23	146	53	73	66	96
Madibeng	TRUE	-	TRUE	-	TRUE	TRUE	TRUE
Kgetlengrivier	TRUE	-	TRUE	-	TRUE	TRUE	NO REPORTING
Bojanala Platinum	NO REPORTING	-	TRUE	-	NO ELECT FUNCTION	-	NO REPORTING
Ratlou	TRUE	-	TRUE	-	-	-	TRUE
Tswaing	TRUE	-	TRUE	TRUE	TRUE	-	TRUE
Mafikeng	TRUE	TRUE	TRUE	-	-	TRUE	NO REPORTING
Ditsobotla	TRUE	TRUE	TRUE	-	TRUE	TRUE	NO REPORTING
Ramotshere Moiloa	TRUE	-	TRUE	TRUE	TRUE	-	-
Naledi (NW)	TRUE	-	TRUE	-	TRUE	-	TRUE
Mamusa	TRUE	-	TRUE	-	TRUE	-	NO REPORTING
Lekwa-Teemane	TRUE	-	TRUE	-	TRUE	TRUE	TRUE
Dr Ruth Segomotsi Mompati	NO REPORTING	-	TRUE	TRUE	-	-	NO REPORTING
City Of Matlosana	TRUE	-	TRUE	-	TRUE	-	TRUE
Maquassi Hills	TRUE	-	TRUE	-	TRUE	TRUE	TRUE

Budget Management

- The funded budget is intended to ensure that budgets adopted by a municipal council are funded, i.e. the anticipated revenue collections will be sufficient to finance anticipated expenditure in that year.
- A funded budget however, is dependent on the accuracy of revenue assumptions and the realisation of planned revenue depends on the fiscal effort applied by municipalities.
- The overall objective is to ensure that the municipality is able to meet its financial obligations and having a positive cash position.
- Improved financial sustainability over the medium to long term will facilitate improved service delivery.
- The municipalities continues to adopt an unfunded budgets.
- This is the earliest indication of pending financial problems in a municipality as it indicates that, even before the start of the financial year, expenditure needs will exceed available revenues.
- Budgeting for a surplus is a necessary precondition to avoid future cash and liquidity problems, provided that the revenue estimates are based on realistic assumptions and that the requisite effort is exercised in collecting municipal revenues;

Budget Management

North West: Ditsobotla(NW384) - Table A4 Budgeted Financial Performance (Summary)					
Description	2015/16	2016/17	2017/18	2018/19	2019/20
Total Revenue (excluding capital transfers and contributions)	375 745 000	406 246 000	405 542 000	506 456 476	565 583 018
Total Expenditure	371 877 035	406 246 000	400 220 000	488 317 087	624 264 866
Surplus/(Deficit)	3 867 965	-	5 322 000	18 139 389	- 58 681 848
Transfers and subsidies - capital	-	39 875 000	55 133 000	45 851 000	75 961 098
Surplus/(Deficit) after capital transfers and contributions	3 867 965	39 875 000	60 455 000	63 990 389	17 279 250
Budget Status	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded

Although the Municipality has been tabling and subsequently adopting surplus budgets for the past five (05) budget years there are other factors that were considered to determine whether the budgeted was funded/unfunded.

Comparison of Trade Creditors and Cash and Cash Equivalents					
Description	2015/16	2016/17	2017/18	2018/19	2019/20
Payables from exchange transactions	327 478 506	430 293 416	462 523 100	623 583 881	820 058 001
Cash and Cash equivalents	64 032 349	66 650 284	11 172 668	25 478 242	5 613 635
Creditors as a % of budgeted operating expenditure	- 263 446 157	- 363 643 132	- 451 350 432	- 598 105 639	- 814 444 366

Factors which have contributed to the budget being **UNFUNDED** are the following:

1. Creditors exceeds available cash and investments, meaning the Municipality is unable to service the financial obligations as they are due and payable.
2. Expenditure is not credible as some items have been under-budgeted while others have been over budgeted.
3. Revenue has been overstated.
4. Trade and Other payables have been understated.
5. No provisions were made for Free Basic services.

The table below shows expenditure which is not credible with evidence of being under-budgeted or over budgeted as shown by high variances.

OPERATING EXPENDITURE PER SOURCE COMPARATIVE ANALYSIS FOR FIVE (5) YEARS ENDING 30 JUNE 2020								
Year	**Description**	**Employee Costs**	**Bulk Purchases**	**Debt Impairment**	**Depreciation & Asset Impairment**	**Contracted Services**	**Other Expenditure**	**Total**
2015/16	Budgeted	145 252 976	105 000 000	28 883 000	32 531 000	16 200 000	44 010 059	371 877 035
	Actual	151 384 869	125 220 265	55 307 230	64 224 886	2 065 640	134 061 423	532 264 313
	Variance	**- 6 131 893**	**- 20 220 265**	**- 26 424 230**	**- 31 693 886**	**14 134 360**	**- 90 051 364**	**- 160 387 278**
	Variance %	-4%	-19%	-91%	-97%	87%	-205%	-43%
2016/17	Budgeted	156 292 000	123 000 000	20 000 000	31 764 000	22 600 000	52 590 000	406 246 000
	Actual	168 253 411	114 710 529	11 322 031	54 690 992	2 119 513	121 114 876	472 211 352
	Variance	**- 11 961 411**	**8 289 471**	**8 677 969**	**- 22 926 992**	**20 480 487**	**- 68 524 876**	**- 65 965 352**
	Variance %	-8%	7%	43%	-72%	91%	-130%	-16%
2017/18	Budgeted	167 882 000	96 244 000	20 500 000	31 764 000	19 500 000	64 330 000	400 220 000
	Actual	172 220 854	82 341 359	-	41 879 230	1 586 366	120 635 475	418 663 284
	Variance	**- 4 338 854**	**13 902 641**	**20 500 000**	**- 10 115 230**	**17 913 634**	**- 56 305 475**	**- 18 443 284**
	Variance %	-3%	14%	100%	-32%	92%	-88%	-5%
2018/19	Budgeted	186 213 476	86 000 000	39 343 000	50 123 000	60 812 766	65 824 845	488 317 087
	Actual	194 792 930	156 643 065	46 015 095	36 101 566	2 188 750	140 581 046	576 322 452
	Variance	**- 8 579 454**	**- 70 643 065**	**- 6 672 095**	**14 021 434**	**58 624 016**	**- 74 756 201**	**- 88 005 365**
	Variance %	-5%	-82%	-17%	28%	96%	-114%	-18%
2019/20	Budgeted	187 530 775	96 000 000	233 106 696	30 000 000	35 327 000	42 300 395	624 264 866
	Actual	165 911 712	148 458 609	389 086 122	28 119 917	13 674 866	118 329 563	863 580 789
	Variance	**21 619 063**	**- 52 458 609**	**- 155 979 426**	**1 880 083**	**21 652 134**	**- 76 029 168**	**- 239 315 923**
	Variance %	12%	-55%	-67%	6%	61%	-180%	-38%

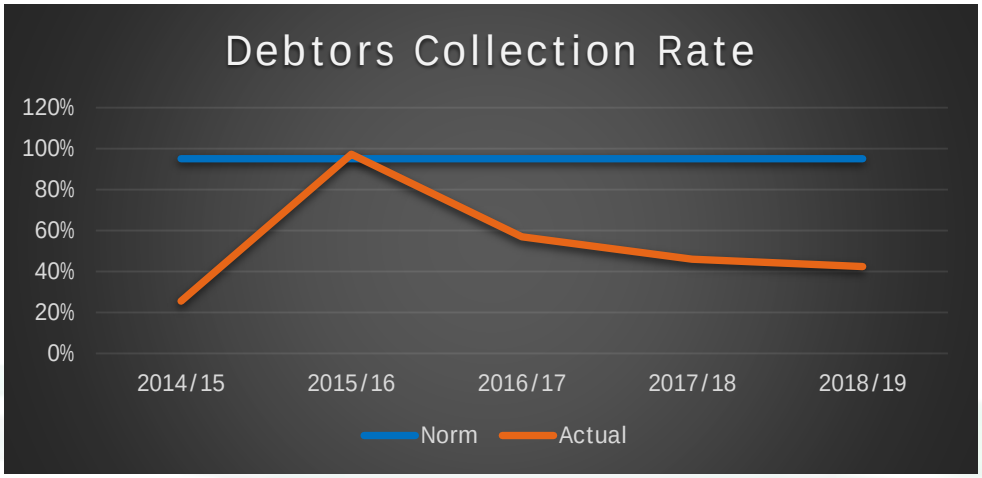
Grant Dependency

North West: Ditsobotla(NW384) - Table A5 Budgeted Capital Expenditure by Funding										
Description	Ref	2015/16	2016/17	2017/18	2018/19	2019/20	Percentage Growth each year			
	1	Adjusted Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget	2016/17	2017/18	2018/19	2019/20
Funded by		R000	R000	R000	R000	R000				
National Government		37 392	39 875	55 133	45 851	43 440	7%	38%	-17%	-5%
Provincial Government						28 421				
District Municipality										
Transfers and subsidies - capital										
Transfers recognised - capital	4	37 392	39 875	55 133	45 851	71 861				
Borrowing	6									
Internally generated funds		-	-	-	-	3 000				
Total Capital Funding	7	37 392	39 875	55 133	45 851	74 861				
Grant Funding as % of Total Capital Funding		100%	100%	100%	100%	96%				

From the calculation of Grant Funding as a percentage of Total Capital Funding it can be concluded that the municipality is highly dependent on grant funding for their capital projects funding witnessed by average of 100% grant funding percentage over the years under review.

DEBTOR MANAGEMENT

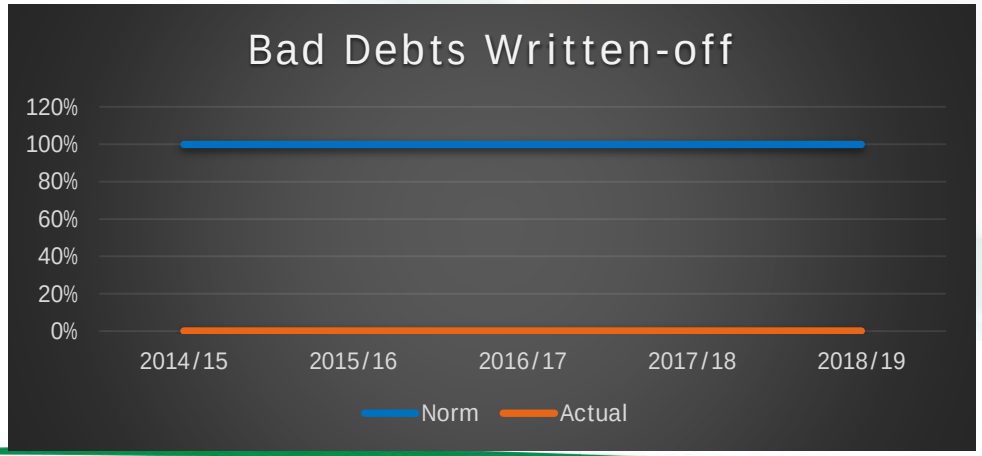
- Low Debtors Collection Rate
- High Net Debtors Days
- This is an indication that the municipality is continuously failing to collect billed revenue and exposed to significant cashflow risk.



- Bad Debts not being Written-off
- The municipality has not been writing off long outstanding debts after a provision for bad debts has been raised.
- This results in continuous increase of unrecoverable outstanding debtors, hence procedures to write of bad debts must be initiated to correctly value the debtors book.

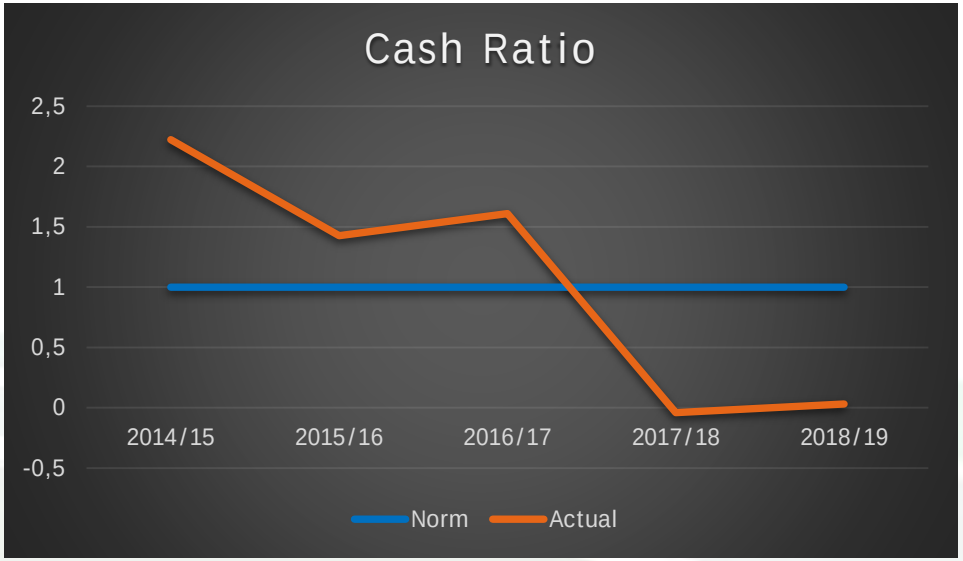
Net Debtors Days

	2014/15	2015/16	2016/17	2017/18	2018/19
Norm	30	30	30	30	30
Actual	447 days	73 days	195 days	350 days	648 days

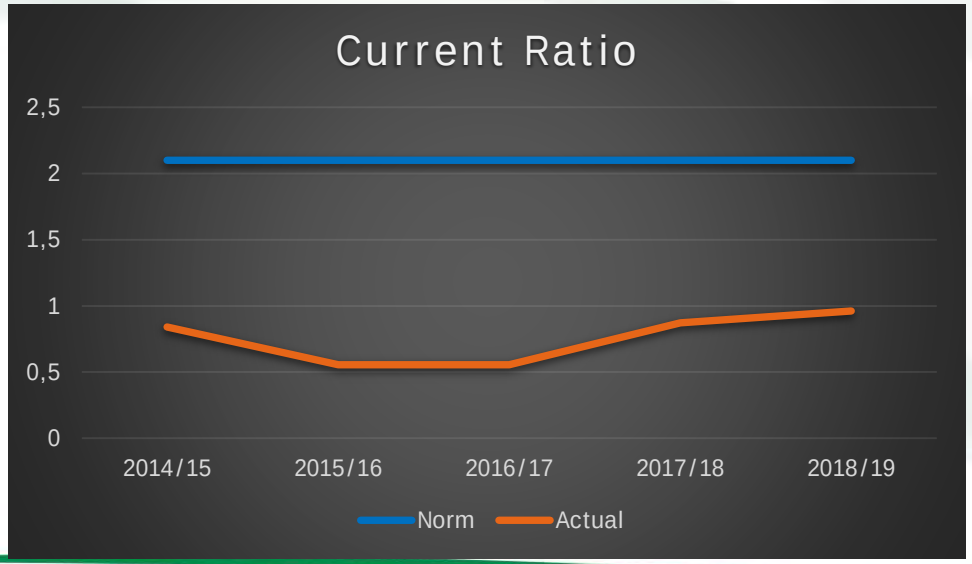


LIQUIDITY MANAGEMENT

- Low Cash Reserves
- Cash/Cost Coverage ratio assesses the municipality's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue during that month
- The municipality's ability to meet its obligations to provide basic services and honour its financial commitment is compromised



- Current ratio below the acceptable norm
- This an indication that current liabilities exceed current assets, highlighting insufficient cash to meet short-term financial obligations.



Technical Financial Position

- Low Capital Cost
- Relating to the low cash reserves and low current ratio this also support that the municipality is in a state of insolvency and it is unable to access borrowed funds.
- Low Debt Ratio
- Inability to access borrowed funds because of the distressed financial position.
- Lower spending in infrastructure
- Indicating prioritisation of expenditure towards current operations than for future capacity in terms of Municipal Services.
- Reserves not cash backed
- Unspent conditional grants were not backed by cash reserves at year end consistently for 5 financial years.
- Conditional grants could have been spent for what they were not meant for

Financial Performance

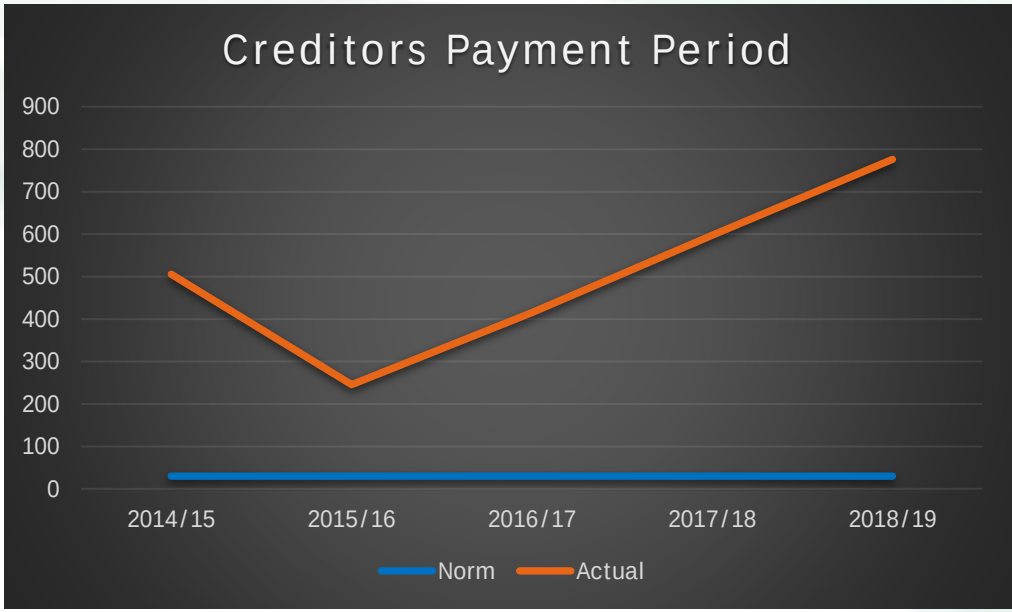
- Negative Net Operating Surplus Margin
- The municipality has been providing services at a deficit consistently over a period of 5 financial years. This is witnessed by a negative net operating surplus margin averaging at -110% each year which is significantly below the acceptable norm.
- This will affect the continued operations of the Municipality in the future and the continued losses may also have an impact on the going concern of the Municipality
- Insufficient spending on repairs and maintenance
- This could impact on the use of the assets and has a resulting increase on the impairment of useful assets
- Non-Disclosure of Distribution Losses
- Non disclosure is non-compliance with the GRAP standards on the presentation of Annual Financial Statements and the municipality will not be able to determine how much electricity and water they are loosing through the distribution channels without being accounted for.

EXPENDITURE MANAGEMENT

- High Creditors payment Period
- This is non-compliance with Section 65(2)(e) of the MFMA which requires Municipalities to pay invoices or statements within 30 days of receipt.

Creditors Payment Period					
	2014/15	2015/16	2016/17	2017/18	2018/19
Norm	30	30	30	30	30
Actual	506 days	245 days	415 days	598 days	776 days

- High levels of irregular, fruitless and wasteful and unauthorised expenditure.
- This indicates weaknesses within the municipality's SCM processes and non-compliance with procurement regulations and guidelines.



- Low contracted services
- This is an indication of incorrect disclosure of the contracted services expenditure which is a non compliance with GRAP standards for presentation and disclosure of AFS .

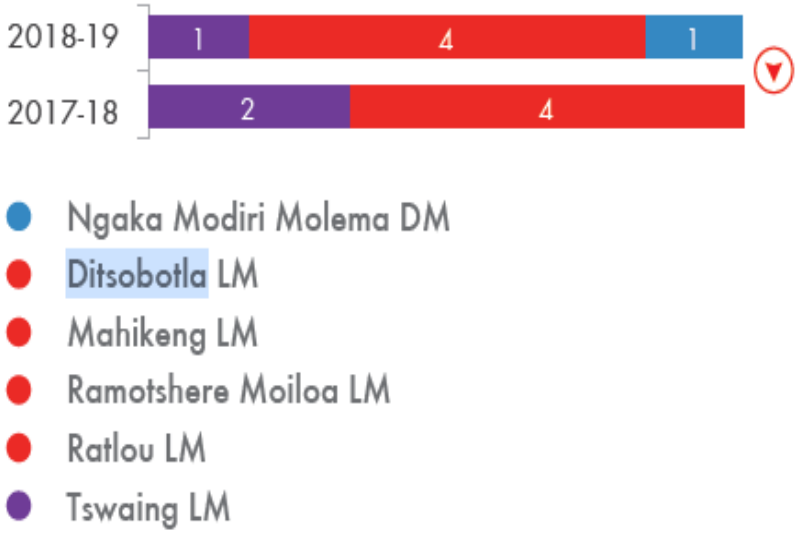
Audit Outcomes

2014/15	2015/16	2016/17	2017/18	2018/1
Disclaimer of opinion	Qualified	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of
All sections	10 Paragraphs	16 paragraphs	27 paragraphs	25 paragr
Basis for disclaimer: • Financial statements overall • Additional matters: • Unaudited disclosure notes • Unaudited supplementary schedules	**Basis for qualified opinion:** • Cash and cash equivalents • Investment property • Payables from exchange transactions • Distribution loss • Unauthorised expenditure • Irregular expenditure • Fruitless and wasteful expenditure • Depreciation and amortization • Aggregation of immaterial uncorrected misstatements • Cash Flow statement **Emphasis of matters**: • Restatement of corresponding figures • Material losses • Going concern	**Basis for disclaimer:** • Cash and cash equivalents • Receivables from non-exchange transactions • Consumer debtors • Investment property • Impairment of assets • Contingencies • Commitments • Unauthorised expenditure • Irregular expenditure • Fruitless and wasteful expenditure • Cash flow statement • Rental of facilities • Other income • Depreciation and amortization • Aggregation of immaterial uncorrected misstatements • Going concern **Emphasis of matters:** • Material losses and impairments • Restatements of corresponding figures	**Basis for disclaimer:** • Property, plant and equipment. • Payables from exchange transactions • Consumer debtors • Investment property • Cash and cash equivalents • Receivables from non-exchange transactions • VAT receivable • Employee benefit obligation • Provisions • Accumulated surplus • Service charges • Interest received (trading) • Property rates • Other income • General expenses • Impairment loss • Contingencies • Commitments • Prior-period adjustments • Cash flow statement • Unauthorised expenditure • Irregular expenditure • Fruitless and wasteful expenditure	**Basis for dis** • Property Pla Equipment • Payables fro exchange tra • Consumer d • Investment p • Receivables exchange tra • Provisions • Cash and ca equivalents • Unspent cor grants and r • VAT receiva • Consumer d • Accumulate • Revaluation • Service char • Agency serv • Expenditure • Property rat • Interest on c accounts • Unauthorise expenditure • Irregular ex • Conting • Prior peri

Repeat findings are highlighted in red indicating that management did not take adequate steps to address the findings and there was no improvement from the disclaimer audit opinion for 4 of the 5 years under review.

AUDIT OUTCOMES

NGAKA MODIRI MOLEMA



- This is a snapshot from the MFMA 2018/19 General Report for local government audit outcomes issued by Auditor General.
- Ditsobotla was identified as one of the municipalities in the Ngaka Modiri Molema District with disclaimed audit opinions.
- 2019/20 audit results are still outstanding

Metropolitan municipality | District | DM District municipality | LM Local municipality | Improved | Unchanged | Regressed

Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Outstanding audits

Conclusion

The municipality has triggered the following subsections of S138 and S140 therefore it is a candidate for intervention in terms of section 139 of the Constitution:

1. Triggers set by MFMA section 138 (a)(d)(e)(f):

- Failure to make payments as and when due
- Operating deficit > 5% of total direct revenue.
- The municipality has submitted AFS late for more than 60 days
- The municipality has consistently received consecutive disclaimer of opinion.

2. Triggers set by MFMA section 140(2)(c):

- The municipality's overall creditor balances constitute greater than 2% of the municipality's operating expenditure in each of the years under review

Based on the observations arising from the section 138 and section 140 analysis, the municipality requires a Financial Recovery Plan (FRP) as a matter of urgency

Way Forward

- The municipality commits to work with the Provincial Treasury to determine root cause and the extent of performance failures
- The Provincial Treasury together with COGHSTA should conduct quarterly assessment of financial problems in terms of the thresholds contained in Sections 138 and 140 of the MFMA
- The municipality agrees that the Provincial Treasury working in collaboration with National Treasury conduct the status quo analysis as well as the financial recovery plans
- The municipality agrees to the preparation and implementation of financial recovery plans to address financial crisis
- The municipality agrees to establish the political oversight structure as well as the technical multi-disciplinary implementation task team to oversee the entire process
- The Mayor is to table the MFMA sec 138 and 140 feedback report to Council within 30 days and submit Council resolution to the Provincial Treasury within five (5) working days

THANK YOU!
KE A LEBOGA!
BAIE DANKIE!



provincial treasury

Department:
Provincial Treasury
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

Item 1,3 (b)

North West Provincial Treasury

2030 NDP

WE BELONG WE CARE WE SERVE

Let's grow North West Together.

NALEDI LOCAL MUNICIPALITY

MFMA SECTION 138 AND 140 ASSESSMENT FEEDBACK

Table of Contents

1. Resolution of financial problems MFMA Chapter 13
2. MFMA Sec 139 Triggers
3. Budget Management
4. Financial Health
5. Audit Outcome
6. Conclusion
7. Way forward

Resolution of financial problems MFMA Chapter 13

- The primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself.

- Section 135 of the MFMA provides that if a municipality encounters financial problems or anticipates problems in meeting its financial commitments it must seek solutions for such problems, including notifying MECs for Local Government and Finance as well as organised local government (SALGA).

- The MFMA also places obligations on the national and provincial government to assist in resolving financial problems in municipalities.

- According to S136 (1) of the MFMA if the MEC for local government in a province becomes aware that there is a serious financial problem in a municipality, the MEC must promptly:

  a) Consult the mayor of the municipality to determine the facts;

  b) Assess the seriousness of the situation and the municipality's response to the situation; and

  c) Determine whether the situation justifies or requires an intervention in terms of section 139 of the Constitution

Resolution of financial problems MFMA Chapter 13

- In determining whether the municipality's financial situation justifies or requires an intervention in terms of section 139 of the Constitution, the results of the assessment of the following sections should be considered:

  - MFMA S138 – Sets out the criteria for determining serious financial problems

  - MFMA S140 – Sets out the criteria for determining serious or persistent material breach of financial commitments

MFMA Sec 139 Triggers

MFMA criteria for determining "Material breach of … obligations to meet financial commitments" (s140)

- Failure to make payment to lender or investor as and when due;
- Failure to meet a contractual obligation which provides security for debt or contractual commitments;
- Failure to make any other payment as and when due, which individually or in the aggregate is more than two per cent of budgeted operating expenditure;
- Failure to meet financial commitments in a manner that has or is likely to have an impact on the availability or price of credit to other municipalities; or
- Any recurring or continuous failure by a municipality to meet its financial commitments which substantially impairs the municipality's ability to procure goods. services or credit on usual commercial terms.

MFMA criteria for determining "serious financial problems" (s138)

- Failure to make payment as and when due;
- Defaulting on financial obligations for financial reasons;
- Actual Expenditure exceeds revenue plus surplus for two consecutive financial years;
- Operating deficit is in excess of 5%of the revenue
- Late submission of AFS for more than 60 days
- AGSA issued disclaimer opinion.
- Any other material conditions that indicates inability to meet obligations for financial reasons

MFMA Sec 139 Triggers

	MFMA s138 Triggers				MFMA s140 Triggers based on Pro-Rata Adjusted Budget Q3 2020/21		
LEGEND No Triggers 1 Trigger 2 Triggers 3 & 4 Triggers	Failure to make payments as & when due (s138(a)) (90 days >R1m) March2021	Operating Deficit > 5% of total direct revenue (s138(d)) March 2021	Negative / Outstanding Audit (s138(e) & (f)) FY 2018/19	Negative Cash Position - Two consecutive years (s138(h)) March 2021	Failure to make any other payment > 2% of operating expenditure (s140(2)(c)) March 2021		
				2019/20 Actual 2020/21 YTD	ESKOM > 2% Opex	Water Boards > 2% Opex	Total creditors > 2% Opex
Name	167	23	146	53	73	66	96
Madibeng	TRUE	-	TRUE	-	TRUE	TRUE	TRUE
Kgetlengrivier	TRUE	-	TRUE	-	TRUE	TRUE	NO REPORTING
Bojanala Platinum	NO REPORTING	-	TRUE	-	NO ELECT FUNCTION	-	NO REPORTING
Ratlou	TRUE	-	TRUE	-	-	-	TRUE
Tswaing	TRUE	-	TRUE	TRUE	TRUE	-	TRUE
Mafikeng	TRUE	TRUE	TRUE	-	-	TRUE	NO REPORTING
Ditsobotla	TRUE	TRUE	TRUE	-	TRUE	TRUE	NO REPORTING
Ramotshere Moiloa	TRUE	-	TRUE	TRUE	TRUE	-	-
Naledi (NW)	TRUE	-	TRUE	-	TRUE	-	TRUE
Mamusa	TRUE	-	TRUE	-	TRUE	-	NO REPORTING
Lekwa-Teemane	TRUE	-	TRUE	-	TRUE	TRUE	TRUE
Dr Ruth Segomotsi Mompati	NO REPORTING	-	TRUE	TRUE	-	-	NO REPORTING
City Of Matlosana	TRUE	-	TRUE	-	TRUE	-	TRUE
Maquassi Hills	TRUE	-	TRUE	-	TRUE	TRUE	TRUE

Budget Management

- The funded budget is intended to ensure that budgets adopted by a municipal council are funded, i.e. the anticipated revenue collections will be sufficient to finance anticipated expenditure in that year.
- A funded budget however, is dependent on the accuracy of revenue assumptions and the realisation of planned revenue depends on the fiscal effort applied by municipalities.
- The overall objective is to ensure that the municipality is able to meet its financial obligations and having a positive cash position.
- Improved financial sustainability over the medium to long term will facilitate improved service delivery.
- The municipalities continues to adopt an unfunded budgets.
- This is the earliest indication of pending financial problems in a municipality as it indicates that, even before the start of the financial year, expenditure needs will exceed available revenues.
- Budgeting for a surplus is a necessary precondition to avoid future cash and liquidity problems, provided that the revenue estimates are based on realistic assumptions and that the requisite effort is exercised in collecting municipal revenues;

Budget Management

Rands	2015-16	2016-17	2017-18	2018-19	2019-20
Total Revenue (excluding capital transfers and contributions)	346 208 437	359 117 648	344 541 926	351 092 444	382 112 166
Expenditure	403 418 129	441 048 143	405 393 038	386 686 267	419 810 272
Surplus/(Deficit)	**(57 209 692)**	**(81 930 495)**	**(60 851 112)**	**(35 593 823)**	**(37 698 106)**
Transfers and subsidies - capital	41 044 000	84 003 000	38 205 000	35 043 000	47 903 000
Surplus/(Deficit) after capital transfers and contributions	**(16 165 692)**	**2 072 505**	**(22 646 112)**	**(550 823)**	**10 204 894**
Status	**Unfunded**	**Unfunded**	**Unfunded**	**Unfunded**	**Unfunded**

Budget Management

Comparison of Trade Creditors and Cash and Cash Equivalents + Short Term Investments						
Description	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	R' Thousand	R' Thousand	R' Thousand	R' Thousand	R' Thousand	R' Thousand
Payables from exchange transactions	266 266	325 840	381 738	399 397	568 307	629 766
Cash and cash equivalents + short term investments	1 284	18 582	18 628	2 591	54 762	25 964
Difference	- 264 981	-307 257	- 363 110	-396 806	-513 545	-603 801

Factors which have contributed to the budget being **UNFUNDED** are the following:

1. Creditors exceeds available cash and investments, meaning the Municipality is unable to service the financial obligations as they are due and payable.
2. Expenditure is not credible as some items have been under-budgeted while others have been over budgeted
3. Cost containment measures are not being exercised and observed
4. There is no prioritization of expenditure and no commitment to increase dependency on own revenue to meet expenditure
5. Lack of policy review and implementation
6. Poor contract management and review thereof i.e. as outlined in the budget assumptions

Budget Management

Operating expenditure

	2015-16	2016-17	2017-18	2018-19	2019-20	Average
Total operating expenditure						
Actual	458 172 553	409 496 598	369 997 911	450 251 568	505 933 611	
Budget	403 418 129	441 048 143	405 393 038	386 686 267	419 810 272	
Variance	(54 754 424)	31 551 545	35 395 127	(63 565 301)	(86 123 339)	
Variance %	-14%	7%	9%	-16%	-21%	-7%
Actual Growth Rate (CAGR)	18%	-11%	-10%	22%	12%	6%
Bulk purchases						
Actual	88 464 468	76 304 580	78 311 879	86 470 038	92 754 974	
Budget	94 537 600	95 053 314	97 973 354	105 195 003	118 800 000	
Variance	6 073 132	18 748 734	19 661 475	18 724 965	26 045 026	
Variance %	6%	20%	20%	18%	22%	17%
Actual Growth Rate (CAGR)	7%	-14%	3%	10%	7%	3%
Employee costs						
Actual	152 718 019	162 319 272	161 555 358	153 696 368	190 148 235	
Budget	148 418 363	160 409 290	168 979 933	156 852 177	182 254 866	
Variance	(4 299 656)	(1 909 982)	7 424 575	3 155 809	(7 893 369)	
Variance %	-3%	-1%	4%	2%	-4%	0%
Actual Growth Rate (CAGR)	9%	6%	0%	-5%	24%	7%
Debt impairment						
Actual	42 065 003	33 595 819	15 488 214	72 379 113	69 268 537	
Budget	19 089 268	20 650 000	16 650 000	9 050 000	18 277 500	
Variance	(22 975 735)	(12 945 819)	1 161 786	(63 329 113)	(50 991 037)	
Variance %	-120%	-63%	7%	-700%	-279%	-231%
Actual Growth Rate (CAGR)	40%	-20%	-54%	367%	-4%	66%
Depreciation and impairment						
Actual	78 631 734	35 892 345	43 477 451	34 660 651	67 250 860	
Budget	48 500 000	49 370 000	44 370 000	24 370 000	24 370 000	
Variance	(30 131 734)	13 477 655	892 549	(10 290 651)	(42 880 860)	
Variance %	-62%	27%	2%	-42%	-176%	-50%
Actual Growth Rate (CAGR)	53%	-54%	21%	-20%	94%	19%
Contracted services						
Actual	23 367 935	25 876 025	11 184 185	44 951 960	24 701 662	
Budget	14 680 464	16 618 772	14 618 381	45 784 647	29 765 844	
Variance	(8 687 471)	(9 257 253)	3 434 196	832 687	5 064 182	
Variance %	-59%	-56%	23%	2%	17%	-15%
Actual Growth Rate (CAGR)	62%	11%	-57%	302%	-45%	55%
Other expenditure						
Actual	72 925 394	75 508 557	59 980 824	58 093 438	61 809 343	
Budget	78 192 434	98 946 767	62 801 370	45 434 440	46 342 062	
Variance	5 267 040	23 438 210	2 820 546	(12 658 998)	(15 467 281)	
Variance %	7%	24%	4%	-28%	-33%	-5%
Actual Growth Rate (CAGR)	6%	4%	-21%	-3%	6%	-2%

- For three of the five years, there has been significant overspending of the operating expenditure budget (averaging a 7% adverse variance over the period)
- Actual bulk purchases cost has been lower than corresponding budget raising the possibility of over-budgeted expenditure. This is despite adverse variances in service charges revenue.
- Contracted services performance against budget has improved but average variance over the period is an adverse 15%
- Overall, cost management appears to be sub-optimal

Budget Management

Operating expenditure

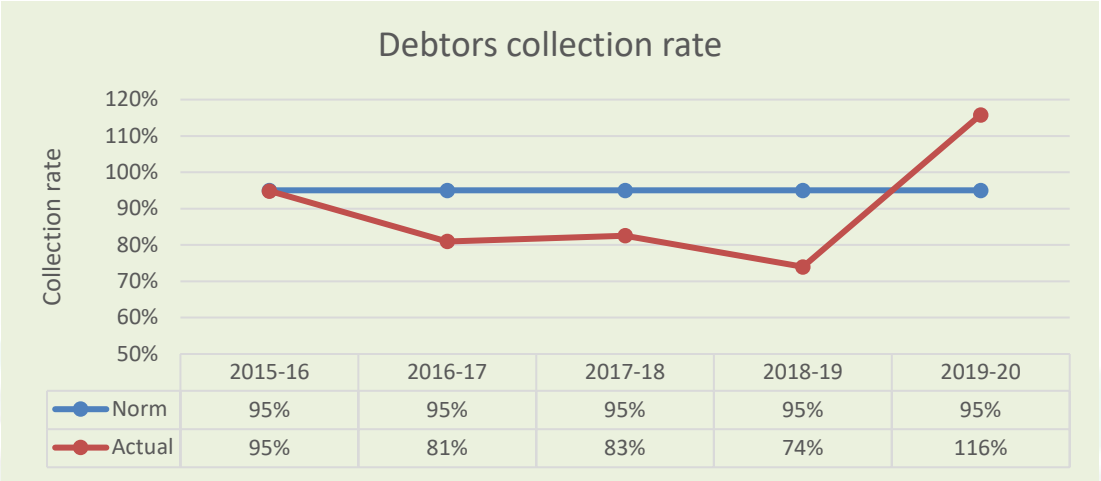
North West: Naledi (NW)(NW392) - Table A5 Budgeted Capital Expenditure by Functional Classification and Funding for 4th Quarter ended 30 June 2020 (Figures Finalised as at 2020/07/30)											
Description	2015/16	2016/17	2017/18	2018/19	2019/20	Analysis of Percentage Growth each year					CAGR
R thousands	Adjusted Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget	2015/16	2016/17	2017/18	2018/19	2019/20	
Funded by											
National Government	36 413	79 503	65 425	34 238	43 230	-	118%	-18%	-48%	26%	3%
Provincial Government			357								
District Municipality	4 500	4 500									
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)					3 964						
Transfers recognised - capital	40 913	84 003	65 782	34 238	47 194						
Borrowing											
Internally generated funds	450		300	5 000	4 500	-	-100%	N/A	1567%	-10%	58%
Total Capital Funding	41 363	84 003	66 082	39 238	51 694						
Grant funding as a % of total funding	**99%**	**100%**	**100%**	**87%**	**91%**						

- Dependency on grants to fund capital expenditure is very high
- No borrowings utilised to fund capital expenditure pointing towards the likelihood of high credit risk assessed on the municipality

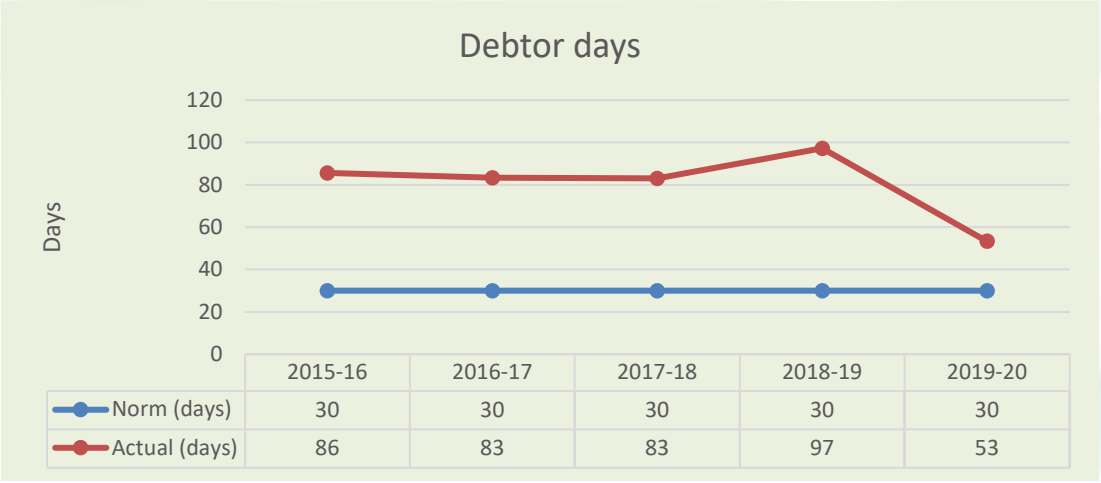
Financial Health

Debtor management

- Collection rate is generally below norm
- Bad debts not written off in spite of evidence of diminishing recoverability of debts i.e. rising provision for bad debts
- There is a need to initiate procedures to write of bad debts in order to correctly value debtors
- Debtor days are consistently above the norm pointing towards the municipality's poor performance in debt collection and significant cash flow risk



	2015-16	2016-17	2017-18	2018-19	2019-20
Norm	95%	95%	95%	95%	95%
Actual	95%	81%	83%	74%	116%

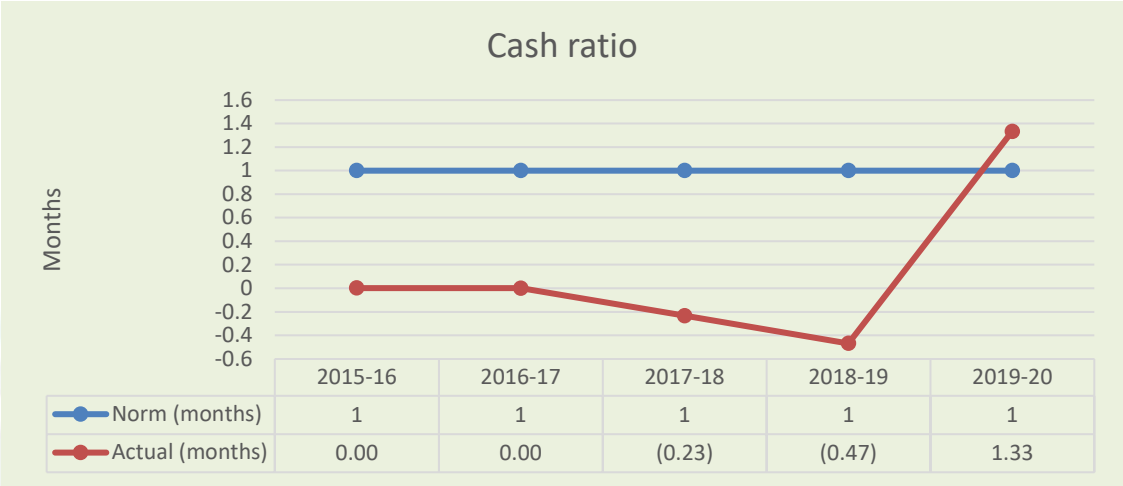


	2015-16	2016-17	2017-18	2018-19	2019-20
Norm (days)	30	30	30	30	30
Actual (days)	86	83	83	97	53

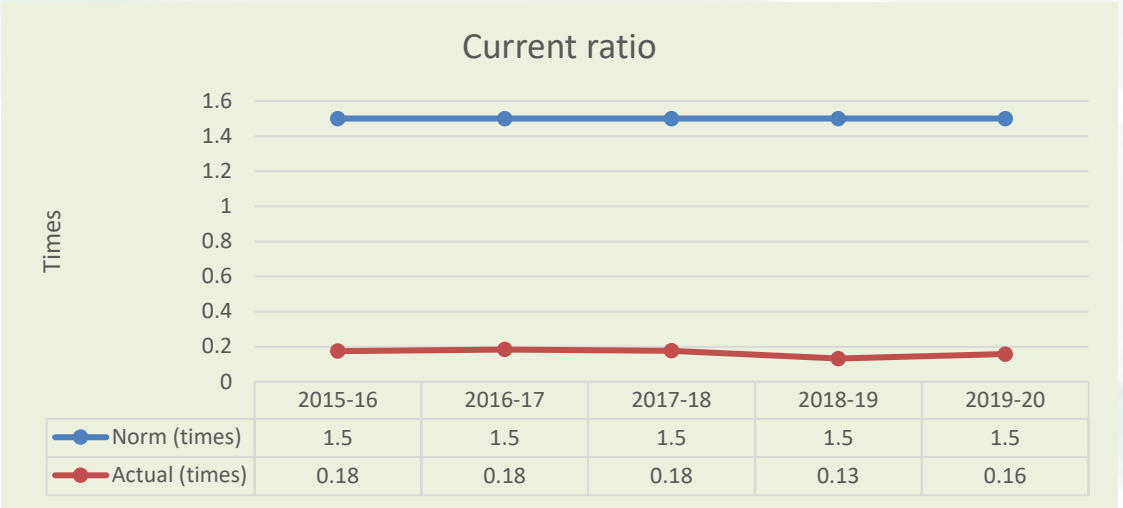
Financial Health

Liquidity management

- Low cash reserves evidenced by the municipality's inability to retain cash reserves to meet a month's worth of its operating expenditure
- Current liabilities significantly exceed current assets
- Poor liquidity negatively impacts the municipality's ability to meet its financial obligations as and when they arise and consequently its ability to deliver services



	2015-16	2016-17	2017-18	2018-19	2019-20
Norm (months)	1	1	1	1	1
Actual (months)	0.00	0.00	(0.23)	(0.47)	1.33



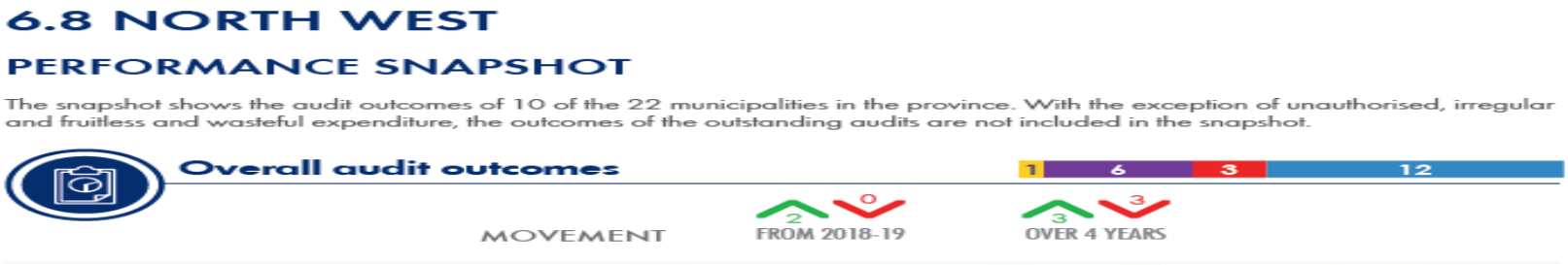
	2015-16	2016-17	2017-18	2018-19	2019-20
Norm (times)	1.5	1.5	1.5	1.5	1.5
Actual (times)	0.18	0.18	0.18	0.13	0.16

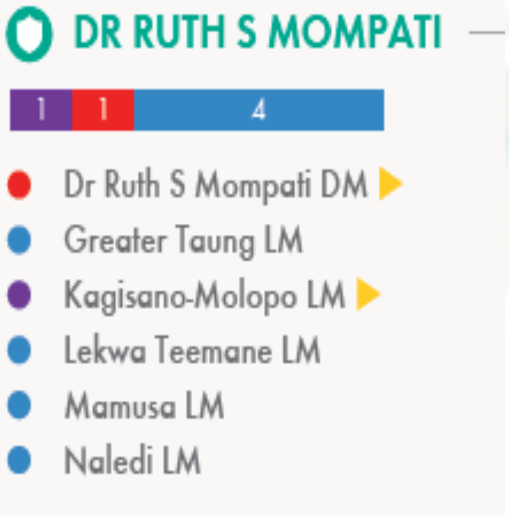
Financial Health

Technical Financial Position

- Low cash reserves and current ratio are indicative of a severely strained liquidity position
- Operating deficits observed in each of the years under review pointing towards a declining financial performance and position (averaging - 31% over the review period)
- Water distribution losses have been extremely high and have a direct impact on the municipality's operating deficits (averaging 52% over the review period)
- Unspent grants were not backed by cash reserves at year end in four of the five years under review
- The creditors payment period is significantly above the norm in all years under review
- Overall financial position is weak and in need of urgent remedial actions

Audit Outcomes





- The snapshot from the MFMA 2019/20 General Report for local government audit outcomes issued Auditor General.
- Naledi Municipality has consistently fallen under the Auditor General's expectations receiving a Disclaimer opinion for four of the five financial year under review



Audit Outcomes

Audit opinions over the period 2014/15 – 2018/19 are as tabulated below:

	2014/15	2015/16	2016/17	2017/18	2018/19
	Qualified with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings
Auditor general opinion	• Qualified - The Auditor-General expresses reservations about the fair presentation of the financial statements. The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated. There is some departure from the Generally Recognised Accounting Practices (GRAP) but is not sufficiently serious as to warrant an adverse opinion or disclaimer of opinion. • Disclaimer of Opinion – The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.				
Emphasis of Matters	• Material impairments • Material losses • Unauthorised Expenditure • Irregular Expenditure • Expenditure • Fruitless and Wasteful Expenditure • Material Uncertainty as going concern	• Material impairments • Material losses • Unauthorised Expenditure • Irregular Expenditure • Fruitless and Wasteful Expenditure • Material Uncertainty as going concern	• Material impairments • Material losses • Unauthorised Expenditure • Irregular Expenditure • Fruitless and Wasteful Expenditure • Material underspending on capital expenditure • Material Uncertainty as going concern	• Material impairments • Material losses • Unauthorised Expenditure • Irregular Expenditure • Fruitless and Wasteful Expenditure • Material underspending on capital expenditure • Material Uncertainty as going concern	• Material losses • Unauthorised Expenditure • Irregular Expenditure • Fruitless and Wasteful Expenditure • Material underspending on capital expenditure • Material Uncertainty as going concern
Other Matters					• Contravention of s17 of DoRA

Audit Outcomes

Audit opinions over the period 2014/15 – 2018/19 are as tabulated below:

	2014/15	2015/16	2016/17	2017/18	2018/19
	Qualified with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings
No. of findings	24	19	27	24	28
No. of repeat findings	17	17	20	20	20
No. of qualified paragraphs*	8	8	8	9	9

- The municipality's audit performance is stagnant, having consistently received a disclaimed audit opinion with findings since 2015/16
- Repeat findings: Over the period, Naledi Local Municipality leadership did not adequately implement and monitor the action plan to address prior year audit findings resulting in repeat findings were in the areas of addressing unauthorised, irregular, fruitless and wasteful expenditure,Consequence Management, Strategic Planning and Performance Management, Procurement and Contracts , Leadership, Governance and Internal Controls Management.
- Poor financial management and going concern issue raised repeatedly over the 5-years of audit. If finding is repeated in 2019/20 audit, this will severely affect the municipality's ability to fulfil its mandate to deliver services and infrastructure to the communities it serves.

Audit Outcomes

Below is a snapshot of the **most recent (2018/19) audit outcomes** for Naledi Local Municipality.The municipality had a disclaimer with findings audit opinion.

- Culture of no accountability and consequence management
- Material losses & impairment of debt
- Internal Control deficiencies
- Poor supply chain compliance
- Increasing UIFW expenditure – weak internal controls in SCM
- Ineffective strategic planning and performance management
- Unspent Conditional Grants

1. Challenging areas for the municipality are mostly findings around:
   - Poor supply chain management
   - increasing Unauthorised, Irregular, Fruitless & Wasteful (UIFW) expenditure
   - Deficiencies in Internal Controls.

2. SCM findings were mostly around:
   - Unfair procurement practices around process
   - Awards to close family members
   - Awards to other state officials
   - Insufficient audit evidence leading to limitation of scope
   - Failure to prevent UIFW expenditure

Audit Outcomes

Number	Municipal MDB codes	Auditee	Province	Auditee type	Municipal district	2018-19 Audit Outcomes			
						Audit opinion	Predetermined objectives	Compliance with legislation	Going concern uncertainty
1	DC 39	Dr Ruth Segomotsi Mompati DM	North West	Local Muncipality	Dr Ruth Segomotsi Mompati DM	Disclaimer with findings	√	√	Yes
2	NW 396	Lekwa Teemane LM	North West	Local Muncipality	Dr Ruth Segomotsi Mompati DM	Disclaimer	√	√	Yes
3	NW 372	Madibeng LM	North West	Local Muncipality	Bojanala Platinum DM	Disclaimer with findings	√	√	No
4	NW 392	Naledi LM	North West	Local Muncipality	Dr Ruth Segomotsi Mompati DM	Disclaimer	√	√	Yes
5	NW 385	Ramotshere Moiloa LM	North West	Local Muncipality	Ngaka Modiri Molema DM	Disclaimer with findings	√	√	Yes
6	NW 382	Tswaing Lm	North West	Local Muncipality	Ngaka Modiri Molema DM	Qualified with findings	√	√	Yes

Some root causes and contributing factors towards Naledi' Local Municipality's Audit Opinion include:

- System of weak internal controls in SCM
- Concerns around financial skills and competencies to plan and execute for financial year-end
- Inadequate consequence management and possible organisational culture of no accountability
- Weak leadership oversight in enforcing compliance and implementation of administrative systems.
- Insufficient audit evidence and poor information gathering and record keeping

Conclusion

In determining whether the municipality's financial situation justifies or requires an intervention in terms of section 139 of the Constitution, the following findings should be taken into account:

1. Triggers set by MFMA section 138:

    a. The municipality has failed to make payments when due over the review period

    b. The municipality has consistently generated a net deficit averaging 31% since 2015/16

    c. The municipality has consistently received a disclaimed audit opinion with findings since 2015/16

2. Triggers set by MFMA section 140:

    a. The municipality's overall creditor balances constitute greater than 2% of the municipality's operating expenditure in each of the years under review

Based on the observations arising from the section 138 and section 140 analysis, the municipality requires a Financial Recovery Plan (FRP) as a matter of urgency

Way Forward

- The municipality commits to work with the Provincial Treasury to determine root cause and the extent of performance failures
- The Provincial Treasury together with COGTA should conduct quarterly assessment of financial problems in terms of the thresholds contained in Sections 138 and 140 of the MFMA
- The municipality agrees that the Provincial Treasury working in collaboration with National Treasury conduct the status quo analysis as well as the financial recovery plans
- The municipality agrees to preparation and implementation of financial recovery plans to address financial crisis
- The municipality agrees to establish the political oversight structure as well as the technical multi-disciplinary implementation task team to oversee the entire process
- The Mayor table the MFMA sec 138 and 140 feedback report to Council within 30 days and submit Council resolution to the Provincial Treasury within five (5) working days

THANK YOU!
BAIE DANKIE!
KE A LEBOGA!



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ANNEXURE B

Assessment report:

1) Lekwa-Teemane Local Municipality
2) Maquassi Hills Local Municipality
3) Madibeng Local Municipality
4) Kgetlengrivier Local Municipality
5) Tswaing Local Municipality
6) Ditsobotla Local Municipality
7) Naledi Local Municipality
8) Ramotshere Local Municipality
9) Mamusa Local Municipality
10) Dr Ruth Segomotso Mompati District Municipality
11) Mafikeng Local Municipality
12) Bojanala District Municipality

Lekwa-Teemane Local Municipality

Governance	The municipal council is functional as council meeting are convened as scheduled. There is a system in place to record council resolutions, however there is no system in place to monitor the implementation of Council resolutions. The municipality has functional council committees as required by Municipal Structure Act and Systems Act, namely; MPAC, Mayoral Portfolio Committees etc. All Mayoral Committees including budget steering committee have been consistently sitting on average four times over the past three financial years. The municipality is utilising the shared services approach for their internal audit and audit committee. The municipality's audit committee report is tabled to the municipal council on a quarterly basis. The internal audit unit is capacitated and resourced with 5 officials including the Chief Risk Officer. The Disciplinary Board has been established in 2018/19 financial year. The members were trained on their roles and responsibilities but no cases relating to financial misconduct has been referred to the board for consideration. The municipality has been receiving a disclaimer audit opinion for two (2) consecutive years (2016/17 and 2017/18). The municipality is currently placed under section 139(1)(b) of the Constitution.
Institutional Arrangement	There are many on-going risks associated with the instability of the municipality. The appointment of senior management is still a challenge as the municipality

	could not attract suitable candidates. The organisational structure of the municipality has been approved for the three financial years effective from 2016/17 with a vacancy rate of less than 5 per cent in 2016/17, 20 per cent in 2017/18 and 2018/19. Of the total senior managers appointed, less than 20 per cent do not meet the prescribed minimum competency requirements. The municipality has no qualified engineers, and this is a cause for concern. The position of the municipal manager was vacant for 2016/17 and 2017/18 for more than 6 months but filled in 2018/19 while the chief financial officer was vacant for more than 6 months for the past three financial years (2015/16 to 2017/18). The number of appointed BTO officials is greater than 10 per cent with a vacancy rate of less than 5 per cent in 2016/17 and 10 per cent in 2017/18 and 2018/19 financial years. The municipality has for the past three financial years outsourced the preparation of AFS at the cost above R1.5 million in 2016/17 and 2017/18, R500 000 for 2018/19 financial year.
Financial Health	The municipality is experiencing liquidity and sustainability challenges consistently over the past three financial years. Their cash coverage is less than one month for the past three financial years, which implies that they are unable to cover its operational commitment. The municipal debtors book is constantly growing at an average of 33 per cent, whilst the collection rate is 58 per cent, which is way below the norm of 95 per cent. The municipality had a cash balance of R1.7 million as at 30 June 2018 which is inadequate to cover creditors of R278.5 million. This indicates that the municipality is experiencing financial difficulties and will not be able cover their fixed costs in the 2019/20 financial year. The municipality has been adopting unfunded budget for the past years since 2013/14. This indicates poor financial management capabilities and weak budget planning.
Service Delivery	The total number of households within the jurisdiction of the municipality is above 16 820. The average number of households with access to electricity is at 1155 and the backlog at 76 while the average household percentage with access to drinkable water is at 93.1 per cent. It needs to be noted that the municipality has no approved roads and storm water master plan. The water distribution losses in 2016/17 was greater than 30 per cent and reduced to 15 per cent in 2017/18.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Maquassi Hills Local Municipality

Governance	Council and its committees are not functional. The internal audit and audit committee is under shared services provided by the district, however these structures are not functional since the internal audit unit is not resources The Budget Steering Committee (BSC) has recently been established and it is not yet functional. This committee did not engage on the 2019/20 MTREF budget due to lack of commitment and poor political oversight. The municipality obtained a qualified audit opinion in 2016/17 and regressed to a disclaimer in 2017/18. The municipality is currently placed under section 139 intervention as there has been political instability.
Institutional Arrangement	The position of the Municipal Manager has been vacant for the past three financial years while the position of the Chief Financial Officer was vacant for more than 6 months for the past three financial years (2015/16 to 2017/18). The number of appointed BTO officials is greater than 10 with a vacancy rate of 10 per cent. However, 20 per cent of appointed BTO officials do not meet the prescribed minimum competency requirements. Instability in the critical position of the Chief Financial Officer (CFO) has resulted in lack of accountability and this has contributed to the Budget and Treasury office not reporting on some key legislated deadlines.
Financial Health	The cash balance as at 30 June 2018 amounts to R12.1 million, which is insufficient to cover creditors of R442 million. Billed revenue is based on estimate reading. This has been consistently happening for the past three years. This is resultant from instability in senior management since the municipality is unable to fill vacant positions. As at June 2019, debtor's book amounted to R1, 2 billion which is over 100 per cent increase from the debtor's balance of 68.7 million in 2017/18 financial year. This escalating debtor's book is a result of inability to implement debt and credit control measures in the municipality. The municipality takes approximately 321 days to pay outstanding creditors, this is contrary to MFMA Sec 65(e) which requires payment to creditors to be made within 30 days of receiving an invoice. This further ascertains that the municipality is experiencing financial challenges due to low collection.
Service Delivery	Water demand in Maquassi Hills is high due to the high water losses in the system and population growth. Eradicating service delivery backlogs remains a challenge because of significant population growth. The municipality is still struggling to maintain the sewer blockages due to insufficient water supply to the township. The number of households with access to electricity is at 1 671 with a backlog of 677. The average household percentage with access to drinkable water is 92.4 per cent and sanitation access is 90.5 per cent. Due to lack of operational and maintenance plans and master plans, the maintenance of the municipality's assets is always implemented on a reactive basis.

Madibeng Local Municpality

Governance	The municipality's governance structures are in place with fully functional committees such as municipal public accounts (MPAC), performance audit committee, budget committees, mayoral committee and portfolio committee. The disciplinary board was established in 2016/17 and was able to convene its first meeting in 2019/20 financial year to consider the two financial misconduct cases refereed (cases include VBS). The municipality received an unqualified audit opinion with findings in 2016/17 and regressed to disclaimer for 2017/18.
Institutional arrangement	The position of the Municipal Manager and Chief Financial Officer were vacant for more than 12 months in the 2016/17 financial year. These position are still vacant since December 2018 resultant from resignations. All other senior management positions are filled. There is poor management leadership which results in lack of accountability
Financial Health	The municipality has been adopting unfunded budget for the past three years since 2016/17 to 2018/19 financial year. This can be attributed to low collection rate, inability to raise enough revenue to cover the budgeted expenditure and outstanding creditors. In addition, the municipality has long outstanding PIC debt which amounted to R1.1 billion as at 30 June 2018. The revenue collection rate dropped from 85 per cent (2016/17) to 82 per cent in 2017/18. The municipality cited challenges of inability to fully implement credit control in areas where Eskom is providing electricity. Among the factors contributing to revenue management inefficiencies are; • Poor budgeting practice and high debt level continues to pose a threat to the sustainability of the municipality; • The lack of implementation of revenue improvement strategies has exacerbated the growth in consumer debtors; and • The debtors' payment period exceeds 90 days which reflects poorly on the municipality's ability to effectively implement their credit control and debt collection policy.
Service Delivery	Madibeng is characterized by huge backlogs in service delivery. Backlogs are high in Eskom area of supply due to budgetary limitations and the unfolding process of formalisation of rural areas. A three year rolling plan has been submitted to Eskom for planning and implementation of electrification; this was supported by increased budget allocation earmarked for electricity services backlogs. The demand for electricity services far exceeds the supply and this negatively affects the development in areas concerned. The electricity infrastructure networks are aged and outdated technology is still in use in some parts of the network resulting in regular power outages. The municipality has acquired additional land for human settlement because the current rate of informal settlements and evictions of farm dwellers is high in Madibeng.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Kgetleng Local Municipality

Governance	The municipality is currently placed under Section 139 (1) of the Constitution by the North West Provincial Department of Cooperative Governance. Reasons for the intervention which the council agreed to, relates to failure of the municipality to perform its constitutional obligations, failure to address service delivery backlogs and inability to raise sufficient revenue and maintain proper cash flow. Due to the high vacancy rate of key management positions over the three financial years, the municipality was unable to effectively implement the audit action plan that sought to improve the negative audit outcome. The municipality received an unqualified audit opinion with findings in 2016/17 and regressed to disclaimer in 2017/18.
Institutional Arrangement	The municipality is faced with key challenges relating to organisational development due to high staff turn-over. Of the total senior managers appointed, more than 50 per cent do not meet the prescribed minimum competency requirements. The position of the Chief Financial Officer was vacant for more than 6 months in 2016/17 and 2017/18 financial years. The number of appointed BTO officials is greater than 10 with a vacancy rate of 5 per cent. However, 20 per cent of appointed BTO officials do not meet the prescribed minimum competency requirements.
Financial Health	The municipality's financial position has significantly regressed where its cash reserves are depleted reflecting a negative cash balance of R7.8 million with cash coverage of 0 below the norm of 1 to 3 months. This cash coverage ratio indicates that should the municipality be unable to derive additional revenues, it would be unable to cover its monthly fixed operational costs (salaries, bulk purchases and contracted services). The municipality on average takes 730 days to pay their creditor which is not in line with the 30 days' payment period as prescribed on MFMA Section 65. This indicates that the municipality is experiencing financial challenges, hence, the delayed payment of creditors. The municipality's capital budget is fully funded from national grants consisting of municipal infrastructure grant (MIG) and water services infrastructure grant (WSIG). The concern is that the municipality has been constantly reporting slow expenditure on both grants which has resulted in stopping of funds and roll over applications not being approved. This underspending is mainly attributed to the municipality not having procurement plans in place to accelerate spending.
Service Delivery	The municipality is faced with serious challenges when it comes to provision of basic services. Aged infrastructure and bulk services are the main contributing factors to poor service delivery.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Tswaing Local Municipality

Governance	In the 2017/18 financial year, the municipality has experienced workers protests due to delays on payment of salaries. Additional challenges include, but not limited to, slow responses by leadership in implementing and monitoring adequate audit action plan, lack of consequence in poor performance and transgression of supply chain management prescripts and vacancies in key positions within the municipality. The municipality has been obtaining qualified audit opinion for the past three financial years (2015/-16 to 2017/18).
Institutional arrangements	All key positions are filled with the exception of the Director: Technical Services
Financial Health	The budget of the municipality continues to remain unfunded. The cash and cash equivalent of the municipality has decreased from R301 thousands in 2016/17 to R 93 thousands in 2017/18. This cash balance of R93 thousands is insufficient to cover the outstanding of R179 million. Creditors increased from R167 million in 2016/17 to R179 million in 2017/18.
Service Delivery	The municipality do not have an approved water services development plan. There are no maintenance plans for electricity, roads and stormwater, and sanitation. The water distribution losses were greater than 30 per cent in 2017/18 while electricity losses were greater than 15 per cent.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Ditsobotla Local Municipality

Governance	In past, the municipality was placed under several interventions and support programmes that sought to turn around the financial problems. However, none of these intervention instituted by the Provincial department yielded positive results. The municipality is again currently under Section 139(1)(b), due to financial distress, which has impacted negatively on the implementation of service delivery initiatives. The municipality has not yet established the financial disciplinary board to handle financial misconduct matters. The municipality has therefore failed to address the irregular expenditure in line with section 32 of the MFMA, and consequently corrective measures were not implemented to prevent the recurrence of this prohibited expenditure. In addition, this municipality has been obtaining disclaimer audit opinions over the past three consecutive years due to lack of internal capacity and legacy contracts. Although the Provincial Treasury deployed technical experts in the past, the situation has not yet improved due to lack of internal capacity within the Budget and Treasury Office (BTO) to assist technical experts.
Institutional Arrangement	The municipality only managed to appoint a substantive Municipal Manager in 2017, however, the person resigned within six months of appointment. The municipal manager and director positions for Community Services, Corporate Services, Local Economic development and Technical Services (Infrastructure) are still vacant. The permanent Chief Financial Officer was appointed during the 2018/2019 financial year.
Financial Health	The municipality has been adopting unfunded budget for the past three financial years (2015/16 to 2017/18). According to the Provincial Treasury's assessment, the municipality's budget was found to be not credible and unsustainable due to low collection rate, inability to raise enough revenue to cover the budgeted expenditure and statement of financial performance, cash flows and cash backed reserves/accumulated showing deficits/shortfalls over the MTREF. The municipality's collection rate was at 49 per cent in 2017/18, which is below norm of 95 per cent.
Service Delivery	The municipality is faced with serious service delivery backlogs amongst others such as illegal dumping, unfunded mandates and aged infrastructure such as roads, water and sanitation. The municipality has engaged with the district municipality to take full responsibility of functions assigned to them and this has culminated into the signing of a Memorandum of Understanding (MOU). Several interventions and meetings were initiated to resolve, among others, payment disputes between the district municipality and Ditsobotla, with no success The municipality incurred water losses of R139 million (18 million kilolitres) in 2017/18. These water losses are much higher than that of the previous financial year which indicates that the municipality has not addressed the root cause of the problem. Among the contributing factors to water losses are leakages, illegal connections and faulty meters.

Naledi Local Municipality

Governance	The municipality obtained a qualified audit opinion in 2016/17 and regressed to a disclaimer in 2017/18. Among the issues raised by the Auditor General included inadequate contract management systems and internal control deficiencies in the asset management system.
Institutional Arrangement	All senior management positions are vacant except the Chief financial officer and Municipal Manager. However, the municipal manager was put on special leave and there is an acting incumbent in the position.
Financial Health	The municipality's financial position has significantly regressed where its cash balance reduced from R18.6 million to R2.6 million in 2017/18 with a cash coverage of 0.1 which is below the required norm of 1 to 3 months and collection rate declined from 79 per cent in 2016/17 to 56 per cent in 2017/18. The following are among the contributing factors to this unfavorable financial status: • The persistent operating deficits (from R10 million in 2016/17 to R31 million in 2017/18) have negatively impacted the cash flow position of the municipality; • While the cash and cash equivalent is a surplus of R2.6 million (2017/18), it is inadequate to cover the outstanding creditors of R513.5 million; • The debtors' payment period exceeds 90 days which reflects poorly on the municipality's ability to effectively implement their credit control and debt collection policy. The creditors payment period increased from 645 days in 2016/17 to 852 days in 2017/18.
Service Delivery	The main towns in Naledi (Vryburg, Kismet Park and Colridge) are being supplied with water derived from a total of 20 boreholes. These resources are not properly utilized as water is being pumped from these boreholes 24 hours per day, 365 days a year. This resulted in the fact that the aquifers are drying up. The municipality incurred water losses of R2 million (3.2 million kilolitres) in 2017/18. While the municipality explained that the water loss interventions such as the water pressure balance project and smart meters commissioning project were implemented during the 2017/18 financial year, the outcomes have not yielded positive results. Among the factors contributing to non-achievement of the reduction of water losses are insufficient number of isolating valves on the network and dysfunctional level control values due to non- maintenance.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Ramotshere Local Municipality

Governance	Ramotshere Moiloa has a history of governance and administrative challenges since the previous term of Local Government. The political instability and inconsistent senior appointments in Ramotshere Moiloa resulted in a destabilised organisational leadership. During the period of these interim appointments, the municipality was unable to fulfil some of its responsibilities and comply with the requirements of the MFMA, including submissions of financial reports and honoring its financial obligations. The municipality received an unqualified audit opinion in 2014/15 and then regressed to a qualified audit opinion in 2015/16 and 2016/17. The municipality further regressed to a disclaimer audit opinion in 2017/18.
Institutional Arrangement	In 2016, the municipality experienced administrative and political turmoil which resulted in the mayor, municipal manager, chief financial officer and other senior managers being suspended and were all subsequently dismissed. The position of the Accounting officer, Director Corporate Service and Chief Finance Officer were subsequently filled in 2018.
Financial Health	While the cash and cash equivalent at year end increased from R2.0 million (2016/17) to R14.7 million (2017/18), it is inadequate to cover the outstanding creditors of R105.4 million. The collection rate was 80 per cent for the year ended 30 June 2018, below the norm of 95 per cent. The municipality cited challenges of inability to fully implement credit control and debt collection policies. The municipality takes 307 days to pay its creditors instead of 30 days as prescribed in MFMA Section 65. This indicates that the municipality is experiencing financial problems which can be attributed to the low collection rate.
Service delivery	municipality is above 44 430.The average number of households with access to electricity is at 4 900 and the backlog at 7 600, refuse removal access at 24 700 and average backlog of 31 900 over the past three financial years. The average household percentage with access to drinkable water is at 89 per cent with a backlog of 83 per cent, and sanitation access at 43 per cent with backlog standing at 27 per cent. The municipality has no water services development plan, integrated waste management plan for the past three financial years. The following master plans were not in place; electricity/energy and roads and storm water. There are maintenance plans for electricity, roads and storm water, water and sanitation. The water distribution greater than 30 per cent and electricity losses is between 7 and 10 per cent.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Mamusa Local Municipality

Governance	The municipality is licenced to provide electricity only in town. Dr Ruth Segomotsi Mompati District is a water authority however Mamusa is performing this function within the area of jurisdiction. It is one of the municipalities that struggling with collection of their revenue which impacted negatively on its financial sustainability and delivery of basic services. On the 30th of May 2017, the municipal buildings were torched by disgruntled employees and community members. The building that was burnt is where the municipal server was housed containing most of the municipal documentation. The municipality remains problematic and lacks sound financial management; and good governance. There are many on-going political and service delivery risks associated with the instability of the municipality. The municipality has a shared service Internal Audit and Audit Committee with Dr Ruth Segomotsi Mompati District Municipality. The municipality has established the council committees as required by Municipal Structure Act and Systems Act, namely; MPAC, Mayoral Portfolio Committees etc. All Mayoral Committees have been consistently sitting on average four times over the past three financial years. There is no Disciplinary Board established for the past three financial years.
Institutional Arrangement	The municipality was not affected by any boundary demarcation changes after the 2016 government elections. Municipality has an approved organizational structure over the past three financial years effective from 2016/17 financial year, with a vacancy rate of 5 per cent. Of the total senior managers appointed, 20 per cent do not meet the prescribed minimum competency requirements. For the financial 2016/17 and 2017/18 there were no suspensions of senior managers, for the Financial year 2018/19 senior managers were suspended. The municipality does not have qualified engineers in its employment for the past three financial years. The position of the Municipal Manager and the Chief Financial Officer have been vacant for more than 6 months for the past two financial years effective 2016/17, only in the third financial year 2018/19 that the posts were filled. The municipality`s fifty percent (50%) of appointed Budget and Treasury office officials do not meet the prescribed minimum competency requirements. The municipality does not have an approved and functional employee performance management system in place for the past three financial years. However, there is an approved workplace skills plan for the past financial year which has been submitted to LG SETA.
Financial Health	Debtors has been increasing over the two financial years moving from R 52 million in 2016/17 to R 101 million in 2017/18. The increase is at 91 per cent across the financial years, which indicates lack of debt collection by the municipality. The collection rate not within the norm of 95 per cent, below average of 70 per cent across three financial years Creditors has been increasing over the past two financial years moving from R 112 million in 2016/17 to R 171 million in 2017/18. The increase is at 53 per cent across

	the financial years which further indicates lack of collection to settle arrear creditors. The municipality takes approximately 387 days to pay outstanding/arrear creditors. The municipality`s budget was unfunded for the three consecutive years. Cash coverage is less than 1 month, this means that the municipality is at a higher risk of not being able to sustain itself during a financial setback, it will not be able to meet its short term obligations when they become due. Current ratio amount to 0.94 against the norm of 1.5 to 2:1, this ascertains that municipality's current liabilities exceeds current assets and poses a sustainability risk as well as witnessed by cash coverage of less than one month. Grant dependency shows that the municipality is highly depended on Government grants, as more than half of the budget is grant funded at 63 per cent.
Service delivery	The total number of households within the jurisdiction of the municipality is above 16 562.The average number of households with access to electricity is at 2 100 and the backlog at 3 200, refuse removal access at 1 900 and average backlog of 6 200 over the past three financial years. The average household percentage with access to drinkable water is at 79 per cent and sanitation access at 88 per cent. The municipality does not have roads and storm water master plan. The following maintenance plans are not in place; water and sanitation, electricity and roads and storm water maintenance plan. The water distribution losses is less than 15 per cent and electricity losses less than 7 per cent.

Mafikeng Local Municipality

Governance	The municipality is currently placed under administration by the department of Cooperative Governance. By the 31 January 2018, of 2017/18 financial year the municipality had already held 13 special council meetings, which served as a highlight that the municipality had challenges as interventions were needed from council. Instability from management being one of the issues that warranted such meetings. The municipality did not conduct public participation as anticipated for the 2018/19 budget process due to interruptions by council. This happened while the municipality was not being governed by coalition Council. The 2019/20 budget was tabled after 31/03/2019 as a results of council not convening as per approved scheduled of key dates. However, there is a system in place to track the Council resolutions. Political oversight in accordance to MFMA and MBRR not being performed. The municipality's Audit Committee is not and has not been addressing the Auditor General findings on unauthorised, irregular and wasteful expenditure and similarly there is no consequence management in this regard. The municipality regressed to disclaimer audit opinion for 2017/18 audit and the main challenges are pertaining to weak leadership and its inability to address and keep accurate record keeping. The municipality does not have internal audit all together as there are no incumbents appointed.
Institutional Arrangement	The municipality was not affected by the boundary demarcation changes after the 2016 Local Government elections. There is no approved organizational structure in place with less than 20 per cent vacancy rate. The municipality has appointed a permanent Municipal Manager in June 2019 after the position became vacant following the suspension and then dismissal of the former Municipal Manager. The vacancy rate in the budget and treasury office is below 20 per cent and less than 50 per cent of those officials did not meet the minimum competency levels. The AFS are compiled by a consultant. The municipality has no qualified engineers since 2016/17 financial year. The municipality is also having low staff morale due to the historical labour issues that were never dealt with correctly. The issues are related to salary disparities and parities that were affected without proper job evaluations in the past. The municipality does not have an approved and functional employee performance management system in place. Also, there is an approved Workplace Skills Plan that was submitted to the LGSETA. The municipality spends between 30 and 50 per cent of the total operating expenditure on employee related costs and less than 5 per cent of the general expenditure on consulting fees.
Financial Health	The cash and cash equivalents reducing at a high rate to an overdraft while the municipality is realising operating deficits in 2016/17 and 2017/18. Also, the municipality is collecting an average of 60 per cent which indicates the challenge of implementing credit control policy. The municipality is reliant on grants to fund the capital budget as it represents an average of 76.1 per cent of the expenditure incurred as at the end of 2016/17 and

	2017/18 financial years. The 2019/20 tabled budget for Mafikeng Local Municipality was not funded, not credible and was not sustainable over the MTREF. The outstanding debtors increased from R147 million in 2016/17 to R278 million in 2017/18. However, the municipality is reporting incorrectly on debtors during the year as an amount of R1.4 billion was reported at the end of the third quarter of 2018/19. As reported as at third quarter of 2018/19, government owed 37.8 per cent, commercial 10.9 per cent and households 51.3 per cent of the total debt. Mafikeng has the highest creditors to cash ratio meaning cash available will not cover municipal commitments for a period of a month. The outstanding creditors at the end of the third quarter amounted to R393 million, of which R288 million of that is owed to Sedibeng Water. The municipality have entered into payment arrangements but is not able to fully pay the debt due to low collection rate.
Service delivery	The municipality had 89.4 thousand households in the 2018/19 financial year of which 91.5 per cent had access to drinkable water according to the minimum RDP standard or higher and 58.5 per cent had access to electricity. Municipality is continuing to provide the rural communities with water services through water tanks and boreholes which cost R7.1 million in 2016/17 financial year. The municipality does not have yellow fleet and this affects collection of solid waste. There are 36 000 households without access to refuse removal in the municipality. The municipality has no electricity function and is a Water Service Provider (Not Authority), hence the focus on non-revenue generating projects like Roads, Sports ground and Multipurpose centres. The provision for repairs and maintenance at 1 per cent, is less than the 8 per cent norm. Nevertheless, there is an improvement in managing water losses from 22 per cent in 2016/17 to 13 per cent in 2017/18. The disruptions by local businesses in demanding 30 per cent of contracts have cost the municipality R20 million of Municipal Infrastructure Grant as it had to be paid back to National Treasury. The municipality owned only one grader in 2016/17 and as a result, not all gravel roads could be re-gravelled as it was taken for repairs. This observation came as surprise given the size of the municipality which includes a large amount of rural areas and its legacy of being called “city of potholes”. This happed while the municipality acquired a finance lease of yellow fleet which could have addressed the matter.

SUBJECT : STATUS OF MUNICIPAL FINANCIAL SUSTAINABILITY AND PERFORMANCE

Dr Ruth Segomotsi Mompati District Municipality

Governance	Municipality has appointed the Accounting Officer who has since been place on suspension. Position of the Chief Finance Officer was advertised and still at recruitment stage. The Council has been sitting regular in the past three (3) years. The municipality's governance structures are in place with fully functional committees such as performance audit committee and budget committees. In addition, the municipality established the financial disciplinary board in 2018/19 to handle financial misconduct matters. The municipal public accounts (MPAC) and portfolio committee are not yet established. The municipality has failed to address the irregular expenditure in line with section 32 of the MFMA and it appears that corrective measures were not adequately implemented to prevent recurrence of this prohibited expenditure. The municipality is functioning as both the Water Services Authority and Water Services Provider. The municipality has demonstrated that there was political direction during the IDP/Budget review process and there was meaningful public participation.
Institutional Arrangement	There have been numerous challenges encountered such as the change in top management echelon whereby the Municipal Manager's contract terminated in July 2018 and those of the top three Senior Managers employment contracts expired in December 2017 i.e. Corporate Services, EDTA and Engineering & Technical Services. The council did appoint on three months contract an acting Municipal Manager from August -November 2018 and later acting Senior Managers on in the vacant post from January 2018 to past June 2018. The vacancy rate of the budget and treasury office increased from one vacant position to four during the financial year. Two resignations and one promotion contributed to the increased in the vacancy rate. The municipality effectively implement the audit action plan that sought to improve the audit outcome. As a result, the municipality obtained an unqualified opinion for the past two consecutive years (2015/15 and 2016/17) qualified opinion in 2017/18. Among the issues raised by the Auditor General included inadequate contract management systems and internal control deficiencies in the IT system. Instability in the critical position of the Chief Financial Officer (CFO) has also resulted in lack of accountability and this has contributed to the Budget and Treasury office not reporting on some key legislated deadlines such as Section 71 or Section 52 reports. These long turnaround times for filing critical positions, high turnover of staff and long 'acting' of incumbents destabilised service delivery with the district municipality.
Financial Health	The municipality's financial position has significantly regressed where its cash reserves are depleted with a cash coverage of 0.9 which is below the required norm of 1 – 3 months and collection rate declined from 24 per cent in 2016/17 to 8.7 per cent in 2017/18. The following are among the contributing factors to this unfavourable financial status: • The actual revenue has decreased by 19 per cent in 2017/18 when compared to 2016/17 audited financial year. During the 2018/19 financial year the

	municipality generated actual revenue of R 145 million against the budget of R 313 million. It must be noted that the municipality is highly grant dependant with 90 per cent of its revenue derived from government grants. • While the cash and cash equivalent at year end decreased from R82 million (2016/17) to R33 million in 2017/18, it is inadequate to cover the outstanding creditors of R88 million. An application for rollover amounted to R 154 million. During this financial year municipality invested R 100 million from Department of Water and Forestry and R 29 million for MIG with VBS mutual bank, all this grants were for service delivery purpose. This investment has already been impaired on the budget for 2019/20 financial year. Every transfer of the equitable share is been offset by R18 million.
Service Delivery	The municipality has achieved 41 per cent of its target in 2017/18. This declining trend in terms of SDBIP performance is cause for concern. The overall performance of the sanitation, District Municipality has constructed 16ML Waste Water Treatment Works that is taken almost 50 per cent of MIG funding. Refurbishment of Waste Water Treatment Works in Scheizer-Reneke is complete and Bloemhof. District Municipality is continuously facing challenges with the provision of water for existing and new infrastructure development. The drought experience in Mamusa and Kagisano Molopo Local municipalities has put more strain on the district where water tankering was the only option left. The spending on the Department of Water Affairs & Forestry Grant (RBIG), Municipal Infrastructure Grant (MIG), Rural Roads Asset Management Systems Grant (RRAMS) and Water Service Infrastructure Grant (WSIG) has underperformed in the 2017/18 financial year RBIG (66.5 per cent), Municipal Infrastructure Grant (99.8 per cent), while (Water Services Infrastructure Grant (WSIG) has improved (100 per cent in 2017/18). The municipality only spent 1 per cent on repairs and maintenance of the PPE for the past two financial years (2016/17 and 2017/18) which is below the required norm of 8 per cent.

Bojanala District Municipality

Governance	Bojanala District Municipality is with an Executive Mayoral system without demarcated wards and is constituted of five Local Municipalities. The municipality's governance structures are in place with fully functional committees such as municipal public accounts (MPAC), performance audit committee, budget committees, mayoral committee and portfolio committee. In addition, the municipality established the financial disciplinary board in 2016/17 to handle financial misconduct matters. However, the rate at which the MPAC addresses irregular expenditure is a cause for concern as it has grown by 31% per cent from 2016/17 to 2017/18. The municipality has failed to address the irregular expenditure in line with section 32 of the MFMA and it appears that corrective measures were not adequately implemented to prevent recurrence of this prohibited expenditure.
Institutional Arrangement	The District Municipality in the 2017/18 financial year managed to appoint the following section 57 managers, Municipal Manager, Chief Financial Officer, Director Technical Services and Director Community Services. Of the total senior managers appointed, less than 20 per cent do not meet the prescribed minimum competency requirements. There were no suspensions of senior managers. Municipality has no qualified engineers in its employment for the period under review. Though key critical management positions were filled in 2017/18 financial year, the District Municipality was unable to effectively implement the audit action plan that sought to improve the negative audit outcome. As a result, the District Municipality obtained a disclaimer opinion for the past three consecutive years (2015/15, 2016/17 and 2017/18). Municipality has an approved organizational structure over the past three financial years effective from 2016/17 financial year, with a vacancy rate of more than 10 per cent. Municipality has for the past three financial years outsourced the preparation of AFS at the cost above R1.5 million. The municipality does not have an approved and functional employee performance management system in place for the past three financial years. However, there is an approved workplace skills plan for the past financial year which has been submitted to LG SETA.
Financial Health	The municipality has been tabling unfunded budgets for the past three financial years due to the proposed expenditures being more than the anticipated revenues. Underlying findings/drivers within the municipality include: Employee costs of R214 million being the cost driver for the municipality's operational expenditure which amounts to more than 60% of the R339 million equitable share, this is an indication that the better part of equitable share is directed to salaries. The municipality's employee related cost as a percentage of the total operating budget is above the norm of 25 – 40% as per the audited

	performance. Employee costs remains the municipality's cost driver from the audit and current year to the budget year. This is a worrying factor as it's an indication of overstaffing and misdirecting of expenditure to non-essentials. The municipality on average takes 55 days to pay its' creditors which is not in line with the 30 days payment period as prescribed on MFMA Section 65. The ratio further illustrate that the municipality is experiencing financial challenges hence the delayed payment of creditors. The cash coverage ratio indicates that should the municipality be unable to derive revenues at any time they would be unable to cover its monthly fixed operational costs (Salaries, bulk purchases and contracted services). The municipality's current ratio of 0.10 indicates that the municipality is unable to meet its short term financial obligations when they fall due, i.e. current assets are not sufficient to cover current liabilities. The municipality's current capital budget stands at R10,1 million which is 100% internally funded, to date only R987 000 or 9,7% has been spent against the allocation. This is a clear indication that the budget was not cash backed and the municipality has been timeously advised to only apportion internal funding as per Section 19 of the MFMA.
Service delivery	The Councils of Moretele, Madibeng, Moses Kotane, Rustenburg & KgetlengRivier Local Municipalities have all been assisted by the district municipality in establishing their Planning Tribunals. Eradicating service delivery backlogs remains a challenge because of significant population growth in mining areas.

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OFFICE OF THE MEC

Minister T. Mboweni
Minister of Finance
National Treasury
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PRETORIA
0001

Dear Minister Mboweni

IMPLEMENTATION OF SECTION 139 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

Municipalities in the North West Province have for a protracted period of time been facing financial management challenges. These challenges are transversal as they cut across several critical financial management disciplines such as risk management and internal audit, budget preparation, management and implementation as well as financial management and reporting.

Municipalities have over the past years been unable to table and adopt funded budgets. The latter inability to table and adopt funded budgets is as a result of Municipalities being unable to realistically anticipate their revenue generation as well as eventual collection, so that the collected revenue can be appropriated towards funding the anticipated Municipal expenditure.

The Provincial Treasury has intervened in Municipalities by providing trainings and workshops on budget preparation principles and processes. Furthermore, the Provincial Treasury has also provided hands-on support in the form of working sessions to capacitate and support Municipalities during budget preparation processes. The recent engagements on 2020-2021 Medium Term Revenue and Expenditure Framework (MTREF) budget indicates that the financial crisis in Municipalities has not improved, it has rather deteriorated as most of the Municipalities have failed to prepare and approve funded budgets.

IMPLEMENTATION OF SECTION 139 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

Budget implementation is the most critical element of service delivery as it involves implementation and application of relevant policies, laws and regulations governing the local government sphere. The local government sphere is highly regulated and very technical in nature and it is therefore important that focus, emphasis and effort be directed towards improvement of the general control environment as well as implementation of standard operating procedures to ensure the eventual realization of financial management.

Municipalities in the province have been receiving undesired and negative audit outcomes, the Auditor General's findings have consistently been highlighting serious challenges relating to amongst others, a total collapse and/or non-existent control environment, non-implementation and in some cases blatant disregard for this applicable laws and regulations. The root causes to these highlighted challenges relates to amongst others lack of technical knowledge and skill to implement and account for transactions and events in line with the Generally Recognised Accounting Practice (GRAP), instabilities in leadership and administration of most municipalities, lack of oversight from those charged with governance of Municipalities, lack of consequences for acts of financial misconducts. The latter were confirmed in the Auditor General's 2018/2019 General Report.

SUPPORT AND CAPACITY BUILDING

Responding to the matters raised by the Auditor General, the Provincial Treasury has been providing targeted support to various Municipalities in the Province, the support included amongst others assisting and capacitating Municipalities with implementation of contract management function, provision of support and capacity building initiatives with regards to implementation of mSCOA. Municipalities were also supported and capacitated on implementing GRAP principles as well as producing mSCOA and GRAP compliant In-Year Reports and Annual Financial Statements.

The above-mentioned support and capacitation initiatives have in most cases, yielded the desired outcomes and impact, the contrary however is that fact that the outcomes and impact of the latter support and capacitation programs have not been sustained. The main reason for the lack of sustainability of good financial management principles that would have been imparted in Municipalities by these capacitation programs is the attitude of Municipal staff towards the capacitation programs.

IMPLEMENTATION OF SECTION 139 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

Municipal staff have in most cases demonstrated an undesired attitude of dereliction of duties and responsibilities as soon as financial management service providers are deployed into their respective Municipalities, the dereliction results in financial management service providers having to execute the financial management duties and functions on their own in order to demonstrate that work has been performed and to subsequently be able to claim and be paid. The result of the latter is that, even though the work gets to be executed, and there are demonstrable improvements in the financial management environment of Municipalities, the improvements are eventually eroded as soon as the financial management service providers vacate the Municipalities.

The above interventions were necessary and were on the basis of supporting and capacitating Municipalities in line with Section 154 of the Constitution to ensure that Municipalities are able to manage their own affairs, to exercise their powers and to perform their functions. It is however disappointing that these support initiatives have not yielded the desired outcomes as tangible improvements in the general financial management function were not realized.

MUNICIPAL FINANCE MANAGEMENT ACT SECTION 139 INTERVENTION

Section 136(4) of the MFMA states that if the municipality, as a result of a crisis in its financial affairs, is in serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments, as a result of which the conditions for an intervention in terms of section 139(5) of the Constitution are met, the Provincial Executive must intervene in the Municipality in accordance with section 139 of the MFMA.

In order to implement Section 139 of the MFMA, the Provincial Executive must have, in line with Section 140(2)(c) of the MFMA, made a determination and confirmed that the Municipality has failed to make any other payment as and when due, which individually or in the aggregate is more than two per cent of the Municipality's budgeted operating expenditure.

The North West Provincial Treasury conducted an assessment in terms of Section 140(2)(c) of the MFMA and the outcomes have confirmed that the following Municipalities are facing severe financial crisis and as a result the North West Provincial Executive must intervene in these Municipalities and impose a financial recovery plan in line with Section 139 of the Municipal Finance Management Act.

IMPLEMENTATION OF SECTION 139 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

No	Municipality	Creditors R'000	Operating Expenditure Budget R'000	%	Sec 138	Sec 140 > 2%	Sec 140 > 40%	Implement MFMA Section 139 Intervention
1	Ditsobotla	470 583,00	219 095,00	215%	Yes	Yes	Yes	Yes
2	Maquassi Hills	456 794,00	227 068,00	201%	Yes	Yes	Yes	Yes
3	Naledi	435 537,00	242 269,00	180%	Yes	Yes	Yes	Yes
4	Kgetlengrivier	189 371,00	120 095,00	158%	Yes	Yes	Yes	Yes
5	Tswaing	117 178,00	79 834,00	147%	Yes	Yes	Yes	Yes
6	Lekwa-Teemane	253 204,00	179 367,00	141%	Yes	Yes	Yes	Yes
7	Mamusa	100 408,00	72 279,00	139%	Yes	Yes	Yes	Yes
8	Mahikeng	502 718,00	452 517,00	111%	Yes	Yes	Yes	Yes
9	Ramotshere Moiloa	193 647,00	224 901,00	86%	Yes	Yes	Yes	Yes
10	Dr Ruth Segomotsi Mompati	310 508,00	548 357,00	57%	Yes	Yes	Yes	Yes
11	City of Matlosana	766 861,00	1 533 276,00	50%	Yes	Yes	Yes	Yes
12	Madibeng	337 010,00	1 155 496,00	29%	Yes	Yes	No	Yes
13	Bojanala Platinum	30 171,00	151 292,00	20%	Yes	Yes	No	Yes

The Provincial Treasury has communicated the above assessment outcomes to the North West Provincial Executive Council and further recommended that the North West Provincial Executive Council approves implementation of mandatory intervention in terms of Section 139 of the MFMA read together with Section 139(5) of the Constitution.

IMPLEMENTATION OF SECTION 139 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

The North West Provincial Executive Council has on 25 September 2019, approved implementation of mandatory intervention in line with Section 139 of the MFMA read together with Section 139(5) of the Constitution. The North West Provincial Treasury has engaged the affected Municipalities with in order to explain the contents of Section 139 of the MFMA, theses identified Municipalities have confirmed and corroborated the financial crisis position and as a result acceded to the need for a mandatory intervention in terms of Section 139 of the Municipal Finance Management Act.

The Minister is hereby formally notified that the North West Provincial Executive Council has resolved to implement the provisions of MFMA Section 139 the mandatory interventions in the above mentioned thirteen (13) Municipalities. This notification is in line with the requirements of Section 139(6) of Constitution of the Republic of South Africa.

The Minister is requested to provide the services of the Municipal Financial Recovery Services to amongst other perform activities as outlined in section 139(1)(a) and 141(2)(3) and (4) in supporting the Provincial Government in implementing the mandatory intervention

Yours faithfully,

Ms. M.Z. Rosho
MEC for Finance

Date: 09/07/2020

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OFFICE OF THE MEC

Cllr T Buthelezi
The Mayor
Ditsobotla Local Municipality
P O Box 7
LICHTENBURG
2740

Dear Cllr Buthelezi

FINANCIAL CRISIS IN THE MUNICIPALITY

Section 135 of the Municipal Finance Management Act (MFMA) states that the primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself. If the municipality encounters financial problems or anticipates problems in meeting its financial commitments it must seek solutions for such problems, including notifying MECs for Local Government and Finance as well as organised local government (SALGA). Chapter 13 of the MFMA tasks the provincial government with the responsibility to assist municipalities in resolving their financial problems and crisis.

The Provincial Treasury conducted an assessment in line with Section 140 of the MFMA. The assessment revealed that your municipality, **Ditsobotla Local Municipality** is currently facing severe financial crisis as it meets the criteria as outlined in Section 140(2)(c) of the MFMA. This is confirmed by the fact that the amount owed by the municipality to the creditors is significantly above the operating expenditure budget.

The financial crisis experienced by the municipality is severe that it threatens municipality's ability to execute its constitutional and legislative mandate. In order to address the identified crisis, an investigation of the factors, causes and reasons of the financial crisis must be conducted and the financial status quo analysis of the municipality must also be conducted. Finally, an appropriate remedial measures to address the financial crisis must be developed and its implementation must be closely monitored.

This letter serves as to notification to the municipality that the Provincial Treasury will be conducting an assessment of the financial state of the municipality in order to determine causes and factors of the financial crisis. The assessment is critical as it will enable Provincial Treasury to develop the appropriate measures which will directly respond to and address the identified financial crisis.

The municipality is requested and encouraged to accept this strategic support measures by committing to the following:

1. The Municipality accepts through a Council resolution, that it is aware of and agrees to Provincial Treasury conducting an assessment of the financial state of the municipality.
2. The Municipality commits to supporting and participating in all the activities pursuant to the process of conducting an assessment of the financial state of the municipality.
3. The Mayor to ensure that a copy of the Council resolution referred to above is submitted to the Provincial Treasury on or before 30 November 2020.

The Provincial Treasury is committed in implementing its strategy in the effort to support municipalities to resolve financial problems.

Regards

MS MZ ROSHO
MEC FOR FINANCE

Date 29/10/2020

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OFFICE THE MEC

Cllr N Schalk
The Mayor
Naledi Local Municipality
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8600

Dear Cllr Schalk

FINANCIAL CRISIS IN THE MUNICIPALITY

Section 135 of the Municipal Finance Management Act (MFMA) states that the primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself. If the municipality encounters financial problems or anticipates problems in meeting its financial commitments it must seek solutions for such problems, including notifying MECs for Local Government and Finance as well as organised local government (SALGA). Chapter 13 of the MFMA tasks the provincial government with the responsibility to assist municipalities in resolving their financial problems and crisis.

The Provincial Treasury conducted an assessment in line with Section 140 of the MFMA. The assessment revealed that your municipality, **Naledi Local Municipality** is currently facing severe financial crisis as it meets the criteria as outlined in Section 140(2)(c) of the MFMA. This is confirmed by the fact that the amount owed by the municipality to the creditors is significantly above the operating expenditure budget.

The financial crisis experienced by the municipality is severe that it threatens municipality's ability to execute its constitutional and legislative mandate. In order to address the identified crisis, an investigation of the factors, causes and reasons of the financial crisis must be conducted and the financial status quo analysis of the municipality must also be conducted. Finally, an appropriate remedial measures to address the financial crisis must be developed and its implementation must be closely monitored.

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The Provincial Treasury is committed in implementing its strategy in the effort to support municipalities to resolve financial problems.

Regards

MS MZ ROSHO
MEC FOR FINANCE

Date 29/10/2020