

MTUBATUBA



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Oversight Report on 2013/14 Annual Report

By: Administrator in terms of KZN Gazette No. 1320 Vol. 9 (Notice No. 33) dated 27 February 2015 (sections 139 (1) (c) of the Constitution read together with section 35 of the LOCAL government: Municipal Structures Act. 1998)

Introduction

This is an Oversight Report in terms of section 129 of MFMA on the draft Annual Report of the Municipality which was tabled before the Council on the 29 January 2015. The Council referred the draft Annual Report to the MPAC for comprehensive consideration and recommendation to the Council. The KZN Cabinet dissolved the Council on the 02nd of February 2015, just a week after the Council meeting on the draft Annual Report. The MEC for Local Government, through the Provincial Government Gazette no. 1320/ 27 February 2015, appointed the Administrator in terms of Section 139 (1) (c) of the Constitution read together with Section 35 of the Municipal Structures Act, 1998. In the circumstances of the foregoing, this report is written and signed by the Administrator.

In preparation of this report, I have made reference to the available information and official records in the form of 2013/14 IDP, 2013/14 SDBIP, Annual Performance Report, 2013/14 Annual Financial Statements, Auditor General's Report for the year under consideration and supplemental reports from the Heads of Department responsible for various programmes. The draft Annual Report was published in the local newspapers for comments and suggestions from the public and made available at various municipal centres for the public of Mtubatuba to have access to the draft Annual Report. There were no written comments or submission received

Overview

Mtubatuba municipality has been under the provincial intervention since June 2012. The intervention took the form of the discretionary intervention in terms of Section 136/ 137 of the MFMA. The thrust of this intervention was to provide the municipality with both the technical and institutional support in the area of financial management in general and Financial Accounting in particular. The province appointed a team of Specialist in various fields to assist the municipality to design and implement policies and internal controls in the area of financial management, governance and human resource management.

In September 2012 the above level of intervention was escalated to Section 139 (1)(B) of the Constitution due to resistance by the Council and management to the intervention programme. In terms of this intervention, an Administrator/ Ministerial Representative was appointed to implement the intervention programme in the form of the Recovery Plan. Although there were signs of progress from time to time; however the mismanagement of financial resources and the political instability in the Council escalated to unacceptable levels, thus compelling the Cabinet to dissolve the Council.

The following is the summary of Mtubatuba municipality in the last three financial years (the term of office of the dissolved Council):

- There were total of 38 Councillors (19 wards), Executive committee type of Council. There were 16 Councillors for ANC, 15 Councillors for the IFP and 7 Councillors for NFP.

- Audit Outcome
 - 2013/14 Unqualified Audit Opinion
 - 2012/13 Qualified Audit Opinion
 - 2011/12 Disclaimer

- Lack of Council Oversight on the Executive and Management, and lack of EXCOs Oversight on the Municipal Manager and Administration.
- The AG's Dashboard Report reflected a nonresponsive institution in the sense that the Mayor's commitment in terms of the Dashboard report were not implemented, including failure by the Council to implement Performance Management Systems in terms of Section 39 and 41 of Municipal Systems Act
- Although there was SDBIP, but the AG found that the SDBIP was changing from performance target to another without a Council resolution authorising such changes. Moreover, the SDBIP was neither aligned with the IDP nor with the Budget of the applicable year. As a result the Annual Performance Report of the year under review does not reflect the Budget Expenditure.

- Irregular Expenditure
 - 2013/14 R8.3 Million
 - 2012/13 R11.78 Million
 - 2011/12 R15.27 Million
- Unauthorised Expenditure
 - 2013/14 R17.9 Million
 - 2012/13 R5.99 Million
 - 2011/12 R13.94 Million
- In all the above instances, there were no attempts on the part of the Council to follow the due process in terms of Section 32 of the MFMA. In actual fact, during 2012/13 the Council took an unlawful decision to write-off an irregular expenditure without the due process of Section 32 of MFMA.
- Every AGs report indicated that the municipality's "ongoing concern" status is under threat; thus resulting in misappropriation of conditional grants and persistent cash flow deficiency. This is a threat to the very purpose and functionality of the municipality.
- The current liability of the municipality exceeded its current assets by the following figures;
 - 2013/14 R16 409 133
 - 2012/13 R14 146 131
 - 2011/12 R11 613 000
- The outstanding creditors as at 30 June 2014 stood at R20.7 million without a corresponding balance in the bank account to pay them. This was simple a cash flow burden on the ensuing year of 2014/15. This is a common phenomenon at Mtubatuba municipality.
- In 2013/14 the Capital Budget of R30.6 million was adjusted to R45.3 million without any additional revenue for the funding of the additional R15 million. As the table below indicates the Capital Expenditure for the year was R34.5 million and not the projected R45.3. Notably this increase of 2013/14 capital budget without corresponding cash reserves or additional revenue took place in the face of the operating budget deficit of R9.8 million for same year. This point demonstrates the level of carelessness of the Council regarding budgeting and financial viability.
- Sometime in 2012 a service provider was appointed to compile new Property General Valuation Rolls (GV) for 2013/14. For one reason or other, the project was postponed to 2014/15. Notwithstanding the postponement of the effective date of the GV, the process had to be completed before the end of the 2013/14 financial year. The municipality failed to complete the process; thus the new GV could not kick-in at the start of 2014/15 financial year. This represents a loss of potential income of R23 million per year. Thankfully, the provincial Cabinet came to the rescue of the municipality by implementing measures to ensure that the municipality continues to collect rates from the residents of Mtubatuba.

Content and Quality of 2013/14 Annual Report

The normal process that leads to an Annual Report involves the following chain of events/ frameworks; its starts with the production of the IDP, which leads to the Annual Budget, which in turn leads to the SDBIP. There should be in-year reporting to the Mayor/ Council on the implementation of the SDBIP in the form of Section 71 (MFMA) monthly report and Section 72 (MFMA) mid-year review report. The in-year reports lead to Annual Financial Statements (AFS) in terms of Section 122 of the MFMA and Annual Performance Report in terms of Section 46 of the MSA. These two reports constitute the core components of the Annual Report as contemplated in Section 121 of the MFMA.

The above chain of events was not followed at Mtubatuba municipality during the year under review in more ways than one. Although there was IDP and a Budget, there was neither credible SDBIP no in-year reporting. The AG made a pronouncement that the performance indicators and target of the SDBIP were not consistent with these approved in the IDP; thus in bridge of Section 41 of the Municipal Systems Act. He also made a finding that there were changes on the SDBIP which were not authorised by a Council resolution in the form of adjustments budget. In 2013/14 there was no in-year reporting whatsoever.

I have made reference to the existence of the Annual Performance Report 2013/14. A perusal of the said Annual Performance Report would reveal the following qualities:

- Incoherent document
- Vague Key Performance Indicator and target
- Inconsistency between KPI and Performance Target
- In some instances, no clear/ specific target
- Void of budget figures

There is no relationship whatsoever between the content of the Annual Performance Report (APR) and Annual Financial Statements for 2013/14. Reading these two documents, one gets the impression that the two documents belong to two different municipalities. Although the AFS represent the fair and accurate account of the 2013/14 budget; the same cannot be said of the APR. Consequently, the Annual Report under consideration is equally a pile of mambo-jumbo document. It is disjointed and illogical.

The Annual Report (AR) neither provides the IDP context of 2013/14 nor the budget context of the same year. It is a blatant attempts to white-wash the systemic deficiencies of the municipality in general and municipal management in particular. There is no comparison analysis of the actual performance results against the

planned performance targets. There is no analysis of what of the results and failures of the year against what was planned for the year. There is no integration of the performance information and financial information (budget & expenditure). There is no analysis of the expenditure versus the actual performance outcomes. There are no proposed remedial actions to address the underperformance of the year under review to feed into the ensuing financial year. This simple means the underperformance of 2013/14 will not be addressed in 2014/15. There is no comparison of the performance of the year under review and the performance of the previous/past year. There is not even a scant reference to the AG findings of the past year and the progress, if any, that was made on the implementation of the Action Plan on the AG findings of the past financial year.

Perhaps, the most startling silence in the Annual Report is in respect of Environmental Management in general and Waste Management in particular in Mtubatuba. The Waste Management and solid waste collection systems are dysfunctional in Mtubatuba to say the least. The town and the surrounding urban centres are permanently peppered with litter of all types and magnitudes. In 2012 the Department of Environment (National) issued a Compliance Notice in terms of section 31L of the National Environmental Management Act, 1998 (NEMA) and/or a Compliance Directive in terms of 28 (4) of NEMA and/or Compliance Directive in terms of section 31A of the Environmental Conservation Act, 1998 (ECA) in respect of the Waste Disposal Site (Landfill site) in St. Lucia. To date the municipality has not implemented the said directives. The Directives still stand. The municipality is facing the probability of the Department shutting down the St. Lucia Landfill site at any time; yet there are no alternative arrangements in the event of that eventuality.

The table below provides the budget and expenditure context of the Annual Report, in addition to the financial details of the AFS. The figures below are reproduced to inform the public of Mtubatuba of the size of the budget for the year, the breakdown of such budget into expenditure centres and the actual expenditure of the budget. The figures below indicate the total financial resources available to Mtubatuba community and how such resources are utilised or spent. The question is, is the utilisation resources consistent with the priorities of the people of Mtubatuba? The figures below indicate a capital expenditure of R34.5 million, do the people of Mtubatuba have evidence of such expenditure in the form of visible service delivery infrastructure?

TABLE 1: FINANCIAL PERFORMANCE

REVENUE BY SOURCE			
	Approved Budget	Actual Audited	Actual Audited
	2014	2014	2013

Property Rates	R 21 724 014	R 19 262 306	R19 226 610
Service Charges	R 5 098 672	R 4 501 315	R 5 022 786
Interest	R 400 000	R 517 055	R 455 373
Other Revenue	R 12 388 670	R 11 971 572	R12 262 961
Government Grants	R 94 277 100	R102 041 742	R82 226 100
Total Revenue By Source	R133 888 456	R138 293 990	R119 193 830
OPERATING EXPENDITURE BY TYPE			
Employee Related Costs	R 37 766 000	R39 180 982	R32 558 259
Remuneration of Councillors	R 10 004 000	R10 594 228	R 8 579 293
Repairs & Maintenance	R 3 908 000	R 3 828 951	R 2 040 579
Contracted Services	R 9 800 000	R 9 771 638	R 9 289 173
Depreciation & Impairment	R 6 020 000	R13 030 333	R11 013 940
Debt written off	R 0	R12 139 269	R 6 435 548
Finance Costs	R 410 000	R 1 076 946	R 978 400
Other Expenditure	R 33 173 000	R29 361 349	R20 804 498
Total Expenditure By Type	R101 081 000	R118 983 696	R91 699 690
Gain (Loss) on sale of asset	R 1 175 100	(R1 494 107)	R 1 121 988
Surplus for the year	R 33 982 556	R 17 816 187	R28 616 128

ANALYSIS OF CAPITAL EXPENDITURE

CAPITAL RECEIPTS BY SOURCE			
	Approved Budget	Audited Actual	Audited Actual
	2014	2014	2013
Municipal Infrastructure Grant (MIG)	R24 223 100	R27 397 979	R19 576 136
National Electrification (INEP)	R 8 000 000	R 7 160 965	R 7 553 662
Own Funding	R 1 580 000	R 1 409 623	R 603 801
Total Capital Receipts Recognized	R33 803 100	R35 968 567	R27 733 599
CAPITAL EXPENDITURE BY TYPE			
Buildings	R 400 000	R 151 048	
Plant & Machinery	R 200 000	R 235 909	R 54 547
Furniture & Fittings	R 500 000	R 549 175	R 42 949
Motor Vehicles	R 280 000	R 164 500	
Office Equipment	R 200 000	R 308 991	R 506 305
Infrastructure Assets	R32 223 100	R33 144 043	R25 971 706
Total Capital Expenditure By Type	33 803 100	R34 553 666	R26 575 507

CONDITIONAL GRANTS

Grant	Opening Balance 01 July 2013	Receipts for the Year	Expenditure for the Year	Closing Balance 30 June 2014
Finance Management Grant	R 0.00	R 1 650 000	R 1 650 000	R 0.00
Library Assistants	R 77 082	R 240 000	R 251 894	R 65 188
Municipal Systems Improvement Grant	R 0.00	R 890 000	R 890 000	R 0.00

EPWP Grant	R 0.00	R 1 000 000	R 994 545	R 5 455
MIG Grant	R 3 199 979	R25 498 000	R28 697 979	R 0.00
Dukuduku Sports Field Grant	R 0.00	R 525 000	R 0.00	R 525 000
National Electrification Grant	R 2 446 338	R 8 000 000	R 9 960 965	R 485 373
Low Cost Housing	R 1 232 377	R 0.00	R 0.00	R1 232 377
Corridor Development	R 6 482 506	R 0.00	R 0.00	R6 482 506
Sports Caretakers	R 0.00	R 300 000	R 133 296	R 166 704
Total	R13 438 282	R38 103 000	R42 578 679	R8 962 603

The following three tables provide a snapshot of the actual capital projects implemented by the municipality during the financial year. As the summary indicates below the projects are a combination of projects which were started and completed during the financial year, projects which were started but not completed during the financial year and projects which were inherited from the previous financial year (2012/13). There is no explanation or reasons provided for the uncompleted projects; nor is there a remedial action plan in the Annual Report for the completions of the projects. One of the findings of the AG is the lack of functional contract management system in the municipality. The AG has been making this finding for some years now; yet no action in this regard. "Project over-run" is common practice in municipality. In some instances, capital projects would exceed the contractual period by years or exceed the budget by more than 100%; yet, no consequences.

TABLE 2: INFRASTRUCTURE PROJECT

WARD	PROJECT NAME	F.Y	VALUE (R)	OUTPUT	COMMENTS
COMPLETE PROJECTS 2013/14					
01	KwaMsane Road Phase 2A	2013/14	R9 965 946.60	5.5 km Road	Completed
05	Riverview Road	2013/14	R2 216 907.00	0.8km Road	Completed
13	Phola Park Access Road	2013/14	R1,800,000.00	1.5km	Completed
TOTAL			R13,982,853.60		
10	Esiphambanweni Sport Field	2013/14	R 750,000.00	5000m ² Soccer field, Fencing and Goal Post.	Completed
18	Injonjo Crèche	2013/14	R 993,899.08	2 Class Rooms, Office, Fencing and Ablution	Completed
11	Ntulifakazi Crèche	2013/14	R1,052,623.90	2 Class Rooms, Offices, Fencing & Ablutions Block	Completed

19	Mvutshini Crèche	2013/14	R1,050,824.41	2 Class Rooms, Fencing, Office and Ablutions	Completed
09	Giloki Crèche	2013/14	R1,300,000.00	2 Class rooms, Fencing and Ablutions	Completed
16	Phuzudele Pay point	2013/14	R 699,582.96	1 Building, Fencing and Ablutions Block	Completed
TOTAL			R5, 096,930.35		
15	Esiyembeni Electrification	2012/2013	R5,000,000.00	131 H/H Connections	Completed

TABLE 3: ROLL OVER PROJECTS FROM 2012/13 TO 2013/14 F.Y

WARD	PROJECT NAME	F.Y	VALUE (R)	OUTPUT	COMMENTS
12	Shuqa Creche	2012/13	R711,083.10	2 class rooms office, fencing and ablution	complete, Project rolled over to 2013/2014 F.Y
15	Esiyembeni Creche	2012/13	R 714,457.36	2 class rooms office, fencing and ablution	complete, Project rolled over to 2013/2014 F.Y
08	Mazala Creche	2012/13	R750,698.66	2 class rooms office, fencing and ablution	complete, Project rolled over to 2013/2014 F.Y
14	Mfolozi Creche	2012/13	R806,916.67	2 class rooms, office, ablution and fencing	Complete, Project roll over to 2013/14 F.Y
14	KwaMshaye Pay point	2012/13	R712,108.22	1 Building, Fencing and ablution block	complete, Project rolled over to 2013/2014 F.Y

19	Ntandabantu Tourism Centre	2012/13	R1,154,831.01	10 units, ablution block and fencing	complete, Project rolled over to 2013/2014 F.Y
13	Upgrade of Ophaphasi Hall	2012/13	R1,587,492.45	Hall, office, kitchen, ablution and fencing	complete, Project rolled over to 2013/2014 F.Y
17	Ophondweni Community Hall	2012/13	R1,879,923.48	Hall, office, kitchen, ablution and fencing	complete, Project rolled over to 2013/2014 F.Y
16	Kwiliza Access Road	2012/13	R1,176,241.57	1 km access Road	complete, Project rolled over to 2013/2014 F.Y
TOTAL			R9, 496,752.72		

TABLE 4: PROJECTS NOT COMPLETED AS AT 30 JUNE 2014

WARD	PROJECT NAME	F.Y	VALUE (R)	OUTPUT	COMMENTS
17	Ogengele Sport Field	2013/14	R1,925,061.35	5000m ² Soccer Field, Fencing, Ablution and Combo Court	Project suspend due to Municipal cash flow and re-prioritised for 2014/2015 F.Y
08	Zikhali Market Stalls	2012/13	R 620,436.72	7 Units, Office, Fencing and Ablution	Incomplete, Project started towards the end of 2013/14 FY, hence rolled over to 2014/2015 F.Y
15	Enkangala Market Stalls	2013/14	R1,200,000.00	8 Units, Office, Fencing and Ablution	Incomplete, Project was suspended due to Municipal cash flow and re-prioritised for 2014/2015 F.Y
09	KwaDube Sport Field	2013/14	R1,800,00.00	5000m ² Soccer Field, Fencing, Ablution and Combo Court	Project suspend due to Municipal cash flow and re-prioritised for 2014/2015 F.Y
TOTAL			R5, 545,498.07		

The above list of the projects includes some community projects such as crèches, halls and market stalls; yet these assets are dumped in the hands of “preferred individuals” who used them as private/personal property. In certain cases, the individual concerned has even changed the name of the crèche. The physical custody of these assets is neither under the control of the municipality nor is the municipality maintaining them. It is a classic case of “asset-dumping”. Some market stalls are just standing white elephants because they were built without any business feasibility report indicating the market and the size thereof; yet millions of rand were pumped into them. This is not in the Annual Report.

The following is the summary of the above infrastructure projects

- **Roads: R13 982 853.60**
- **Community Facilities: R5 096 930.35**
- **Electrification: R5 000 000.00**
- **Roll-over (2012/13): R9 496 752.72**
- **Uncompleted projects: R5 545 498.07**

Once more the above summary is provided for the completeness of this report to allow communities of Mtubatuba to reach informed conclusion. The reality is that this information should have been in the Annual Performance Report and Annual Report; yet it is not there.

CONCLUSION

I have indicated in the foregoing that with the exception of the AFS, both the Annual Performance Report and consequently the Annual Report are not worth the paper they are written on. After reading them one is not made any wiser. The normal cause of action would have been to refer the Annual Report back to management for rewriting. But such action will not achieve any better results the alternative cause of action would have been to reject the Annual Report for the reason set out in the foregoing. This will also not give us any better results. The challenges at Mtubatuba municipality are systemic and structural and require a medium to long term approach. The value of the Annual Report is that it contains both the Annual Financial Statement, which are credible & GRAP-compliant, and the Auditor General's Report. I place particular emphasis on the report of the Auditor General.

I therefore hereby approve the Annual Report with the reservations as set out in the foregoing to allow this Report (Oversight) and the Annual Report, including the AG Report for the year ended June 2014, into the public space.



Bamba K. Ndwandwe

Administrator – 30 March 2015