

27 MARCH 2008

SAKHISIZWE MUNICIPALITY



ANNUAL REPORT 2007/2008

1.2. **EXECUTIVE SUMMARY**

FINANCIAL HEALTH

The auditing of the financial statements for the period ending 30 June 2008 has been completed and the Report of the Auditor General for Sakhisizwe Municipality for the 2007/2008 financial year has been included in Chapter 4 of the Annual Report (Finance / Budget and Treasury Report).

That being said, it must also be noted that the appointed Service Providers (through the Auditor-General's office), had extreme difficulty in auditing these financial statements, due to extreme deficiencies in the recording of required data throughout the organization, which in most cases led to little or no data to support required evidence. As a direct result of this, calculated errors were made (statements attached) and Sakhisizwe Municipality received a disclaimer for the 2006/2007 financial year.

It is further noted that Sakhisizwe Municipality received a disclaimer during the 2005/2006 audit and weaknesses were highlighted relating to internal control; inaccurate representation of service losses and the fact that material changes were made to the financial statements submitted.

Whilst it must be acknowledged that the contribution from DBSA and the appointment of the Mentor/Acting Chief Financial Officer (Mr P McEwen) has resulted in tremendously positive steps being made within the financial area of Sakhisizwe Municipality, it must also be acknowledged that it will be a very likely possibility that a qualified audit report will be obtained during the 2007/2008 financial year. Whilst every effort will be made to address the inherited problems and to correct all identified problems, these are so vast, that in all likelihood it could take longer than one year to achieve in totality.

It will remain our undertaking to extend every effort to ensure that we do obtain an unqualified audit report for the 2007/2008 financial year. Notwithstanding these efforts, we remain confident that the contribution by DBSA and the appointed Mentor/Acting Chief Financial Officer will ensure that in time this Municipality will reach the top of its game.

2.

PERFORMANCE

HIGHLIGHTS AND

SERVICE DELIVERY

APPROACH

2.1. PERFORMANCE HIGHLIGHTS

Sakhisizwe Municipality is involved in the provision of many and varied services to its community. At times these services are provided independently and in other instances, service provision is completed together with other organisations; spheres of government; businesses; and/or non-governmental organisations.

This chapter will highlight the services provided by the various departments of Sakhisizwe Municipality and will discuss these within the following table provided :

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
IT		<ul style="list-style-type: none"> • Planned IT Plan developed by SITA – awaiting proposal • Planned IT Programme DBSA initialising programme link to the Municipality to LGNET • All users have secure login access • One network printer in Cala – allows users to print via network to photocopy machine • Leave records to be computerised – leave values for financial year end • Planned leave audit • Leave administration 	<ul style="list-style-type: none"> • Skilled IT personnel • Capacity of staff to maintain • Funding • Office Space • IT Infrastructure • Lack of access to IT infrastructure • Function split between Corporate and Finance - No co-ordination • Network not fully functional • No attendance registers • No attendance register controller • Leave has financial implications for Council • Leave to be administered by HR

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
		<ul style="list-style-type: none"> • Purchased software • Accurate meter readings • Send out accounts on time • Manual receipting in Cala requires to be integrated Computerized System implemented – addressed when Sebata System is fully upgraded and IT System is linked to both units. • Update indigent database • Improve cash flow • Planned cut off services for non – payment • Raise charges • Establish debt management strategies • Improve on existing service standards and build community awareness on importance for paying of services • Improve customer care • Planned training of relevant staff on implementation of new software • Develop relevant By-Law • Planned public consultation • Eradicate government debt • Planned to provide monthly cut-off list to Technical Service to ensure disconnection for non-payment • Monitor electricity cut-offs 	<ul style="list-style-type: none"> • Check meter reading received for accuracy – ensure correctness via exception reports • Implement credit control policy effectively – monitor payments against account raised – exception report • Staff shortage/follow up • Manual receipting for services in Cala – create opportunities for misappropriation of funds

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
Rates & Valuations	<ul style="list-style-type: none"> • Implement annual interim valuations to raise additional rates • Valuations data cleansing of current valuation information 	<ul style="list-style-type: none"> • Planned interim valuation • Currently underway and Planned to be completed in 2007/2008 financial year 	<ul style="list-style-type: none"> • Increase revenue • Create integrated valuation roll of the municipal area • Create same equal rates base • Ensuring data integrity
Assets & Risk Management	<ul style="list-style-type: none"> • Invest Trust funds monies Convert and transfer transactions from IMFO/GAMAP Ledger to GRAP general ledger • Compliance with MFMA • Identify and verify municipal properties • Analyse all capital votes to identify assets purchased and categorize assets into GRAP format • Comply with GRAP format immovable property • Bar code assets 	<ul style="list-style-type: none"> • Investment have been done externally • Annual Financial Statements prepared submitted to AG's office – in compliance with MFMA • Planned for 2007/2008 financial year • Planned – use of combined management system • Deloitte & Touche appointed 	<ul style="list-style-type: none"> • Financial Constraints • Shortage of qualified staff to manage function • Computer literacy

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
<p>Assets & Risk Management continued...</p>	<ul style="list-style-type: none"> • Stock take immovable property • Update assets register and Capture and update movable property assets • Acquisition and disposal • Obtain Infrastructure assets – group assets into categories – unbundled assets • Develop assets management and accounting policy & procedure • Develop immovable property acquisitions assets management and disposal manual • Develop assets vote • Application form to assist with recoding assets purchases in the system • Develop assets management report • Reconcile assets vote -- capitalize on SEBATA financial system 	<ul style="list-style-type: none"> • Immovable assets properties to be grouped and included in the annual financial statements to comply with GRAP • Planned stock take • Unknown quantity of movable assets • Infrastructure totals of assets to be obtained and grouped in categories • Development of Policy & Procedure Manual is planned • Development of a assets vote on financial system • Fixed assets definition report planned • Insurance Portfolio 	<ul style="list-style-type: none"> • Result in opening balances on annual financial statements – comply GRAP – Control of assets

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
INSURANCE	<ul style="list-style-type: none"> • Establish of Sakhisizwe own internal record keeping system of all insurance claims • Budget calculations for motor, COID and benefits contributions insurance premiums • Develop Insurance Policies & Procedures 	<ul style="list-style-type: none"> • Insurance Portfolio • Planned Policy development 	<ul style="list-style-type: none"> • Records system established & no reliance on outside assistance
EXPENDITURE	<ul style="list-style-type: none"> • Integrate former TLC`s Banking Accounts into one consolidated account 	<ul style="list-style-type: none"> • Completed 	<ul style="list-style-type: none"> • Compliance -- with required insurance claim procedures internal control measures in place • Prevent unnecessary/ illegitimate insurance claims
PAYROLL	<ul style="list-style-type: none"> • Integrate the former TLC`s Payrolls • Set Internal control measures and measures & Procedures • Upgrade payroll version / system of Sebata 	<ul style="list-style-type: none"> • Payroll system integrated • Planned appointment of Payroll Officer • Completed • Integration completed • Planned development of Payroll Procedure Manual 	<ul style="list-style-type: none"> • No dedicated staff member to deal with Payroll function – post requires to be funded and filled • Capacity Building

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
		<ul style="list-style-type: none"> • Obtain Sebata training & relevant Procedure Manual/s • Planned implementation of pre numbered authorization/ instruction memo's from Corporate Service Department – prior to payroll implementation/s • Planned upgrading of Software • Over expenditure re overtime payments – excessive – planned procedure development • Monitor overtime payments – ensure hours claimed are legitimate with legislated hours as BCEA. 	<ul style="list-style-type: none"> • Reduce audit queries • Legal remuneration of Council monies • Prevent illegal payments • Reduce over and underpayment in salaries • Balanced payroll vote • Financial challenges • Capacitation staff • Payroll procedures required • Overtime payments – excessive • No control/ monitoring procedures in place • Not currently verified and no policy in place – required to be within prescriptions of BCEA – query excessive overtime time payments

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
<p>PROCUREMENT/ SUPPLY CHAIN MANAGEMENT</p>	<ul style="list-style-type: none"> • Perform Annual Stocktake of stock, equipment in “Municipal Stores” • Take over procurement from “informal “Stores • Implement Supply Chain/ preferential Procurement Policy • Manage number of order and transactions • Convert “stores” account from IMFO to GRAP • Segregate procurement from stores • Establish a database of suppliers in categories of services offered/ rendered • Establish Audit/ BID Committee and 	<ul style="list-style-type: none"> • Planned for June each Year • Supply Chain Management Policy Developed • Planned conversion • Planned to establish Data Base • Established – Bids evaluated and recommendations prepared - approved through Council 	<ul style="list-style-type: none"> • Staff shortages – capacitated staff • Financial constraints • Achieve legislated compliance • Enhance efficiency and improve controls

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
<p>BUDGET & TREASURY</p>	<p>Establish Budget & Treasury Office Prepare 3 year Budget -- according to MFMA and National Treasury guidelines - aligned to IDP budget in line with GRAP Update indigent database and cater for indigent free basic services – affordable tariffs Department to prepare service delivery and implementation plans Submission of monthly, quarterly and mid year financial reports to Council National & Provincial departments and other stakeholders treasury</p> <p>Implement activity based costing system</p> <p>Undertake monthly analysis of creditors days, net debtors to annual income and total debt annual income</p> <p>Review tariff -- base tariff on costing results in order to achieve a costs reflective user charge</p>	<ul style="list-style-type: none"> • Budget Approved • Indigents catered for – free basic services implemented • Input and participation of management in the budget process • Not done –Planned to be addressed • Not done -- Planned to be addressed • Not done – Planned • Planned to be undertaken • To be reviewed 	<ul style="list-style-type: none"> • Lack of interpretation of budget and budget management process, staff and Councillors) • Lack of capacity -- Capacity building programmes -- Financial constraints • Lack financial controls • No participation, input and information sharing re budget process • No monitoring mechanism of budget expenditure (monthly printouts)

SERVICE	DEVELOPMENT AND SERVICE DELIVERY PRIORITIES	PERFORMANCE MEASURES AND KEY SUCCESSES	CHALLENGES AND OPPORTUNITIES
IT	<ul style="list-style-type: none"> • Upgrade IT infrastructure and provide required financial system • Provide IT Support to all users • Training of IT System • Develop Municipal website 	<ul style="list-style-type: none"> • Planned – roll implementation • Planned to purchase hardware and software • DBSA appointed to integrate IT System • Training has commenced • Planned development 	<ul style="list-style-type: none"> • Capacity of staff • Funding constraints • Skilled IT Practitioner
Motor vehicle registration facilities operational	<ul style="list-style-type: none"> • Available motor vehicle registration facilities • Grade A Traffic Test Station • Trained personnel to operate facilities 	<ul style="list-style-type: none"> • Motor vehicle registration facilities in Elliot operational • Traffic Test Station in Elliot operational • Trained Natis personnel 	<ul style="list-style-type: none"> • Maintenance of facility • Upgrade equipment • Funding contracts • Retention of skilled personnel • Ongoing training of Natis system

3.
HUMAN RESOURCES
AND
OTHER
ORGANISATIONAL
MANAGEMENT

3.

3.2. **GOVERNANCE**

3.2(a) Document Management Project

This project remains a challenge in many respects. At the outset, it must be stated that this Records/Document Management System is not only outdated, and not of a good standard, but has also deteriorated over time. This is due in part to a lack of qualified and skilled staff to manage this function.

In respect of the “institutional memory” of the organization, this is of particular concern. As an integral aspect of record within the institution, it is critical that this process be examined and urgently reviewed.

Currently the organization is faced with an unstructured records system and a system that was inherited from Cala TLC. With the process of amalgamation and centralization of records within Cala, this system has disintegrated into a further state of chaos. Simply stated, the system is unstructured, files/subject matter is numbered incorrectly, documents are filed incorrectly and cannot be retrieved.

During 2007/2008, it is planned to review the existing system and to develop a new system (with administrative and financial support from DBSA). DBSA have also undertaken to ensure that relevant and appropriate training is provided for this purpose – preferably ensuring mentoring by partnering with other municipalities that are recognized as having correctly functioning document management systems.

On one hand, the administration of Council and Standing Committee Meetings has shown improvement and Council agendas and minutes have been provided accurately and correctly (facilitating Council decision-making.) Minutes are also being signed by the Mayor (as is required).

Whilst the Audit Committee is not yet operational, the establishment of the Internal Audit Committee is currently under way and negotiations have already been undertaken with the District Municipality. It must be noted that this function will be a shared function and this role cannot be over-emphasized.

A Remuneration Committee has been elected by Council and constitutes:

- Mayor (Ms W Tikana)
- Chief Whip Cllr: S Ntakana
- P Mc Ewen (DBSA Deployed: Financial /Municipal Mentor)
- C van Schalkwyk: HR/PMS consultant

Purpose of Committee: To ensure that payment of salaries for s57 Managers occurs in terms of Council resolutions, after negotiations are concluded between Managers and Council.

3.2(b) Policies Adopted

- Remuneration Policy according to SALGA guidelines
- Budget Policy.
- Investments Policy
- Tariff Policy

3.2(c) Register of Interest

This register was formally adopted and both Councillors and officials are required to declare their interests in order to avoid any conflict that may arise as a result of doing Council business.

3.3.

4.

**AUDITED FINANCIAL STATEMENTS
ANNEXURE A**

**AND RELATED
FINANCIAL INFORMATION**

**AUDITOR GENERAL'S REPORT
ANNEXURE B**

AUDIT REPORTS AND CORRECTIVE ACTIONS

The auditing of the financial statements for the period ended 30 June 2006 has commenced and the Report of the Auditor-General of Sakhisizwe Municipality for the Financial Year ended 30 June 2006 is attached hereto – See Chapter 4 **Annexure B.**

Corrective Actions

The Report of the Auditor-General is currently being dealt with.

Challenges and general comments

- The successful implementation of the Municipal Finance Management Act (MFMA) over the next three (3) years. Management, senior staff and all Councillors will be trained in the requirements of the Act.
- This department would proceed with the implementation of GAMAP (Generally Accepted Municipal Accounting Practices). Senior financial staff would be sent for training on the implementation thereof and if needed the expertise of external service providers would be called upon to assist the department.
- The taxation of rates on all properties and farm land is an exercise that would require a lot of consultation and discussions before the implementation could take place.
- Various policies required in terms of new and existing legislation would be reviewed and compiled before it would be discussed with management, Council and community stakeholders.
- Training of staff within the Finance Department will continue as will the internship programme with assistance of DBSA (Programme and National Treasury for 2 years)
- Implementation of a comprehensive Information Technology (IT) System to complete and train the employed IT/GIS Operator would be required.
- During the next financial year all assets would be bar-coded and listed as required for the implementation of GAMAP.

RESPONSE TO THE AUDITOR-GENERAL'S REPORT

Section 121(3)(g) of the Municipal Finance Management Act, Act No 56 of 2003, requires that particulars of any corrective action taken or to be taken in response to issues raised in audit reports referred to in paragraphs (b) and (d) must be included in the Annual Report of the Municipality.

The corrective action taken or to be taken in response to issues raised in the Audit Reports are based on feedback in respect of :

1. Other compliance : Compliance issues

A qualification was received due to the fact that information regarding compliance with legislation on matters like : Tariff policy, property rates, related party, minutes, credit control policy, interest on debts and budget process, could not in any way be provided.

In order to remedy these deficiencies, management will be required to identify and document compliance requirements. Internal policies and procedures will be required to reflect compliance issues and more specifically internal record-keeping systems will be required to be implemented in order to be in a position to provide required documentary evidence.

2. Other : Planning Information

Information for audit planning regarding management reports, Organogram, internal audit and the Audit Committee could not be provided.

Again, it will be required by management to ensure that they are in possession of accurate internal record systems that are continuously updated and current, for all areas mentioned above.

As reflected within the Annual Report, plans are already under way to develop, implement and update the Organogram and internal processes and procedures.

3. Revenue : Revenue Information

The Audit finding for this area resulted in a qualification and it was found that revenue information regarding assessment, rates, services, grants and subsidies and accounts receivables could not be provided for audit purposes. Consequently, audit procedures could not be performed and the audit scope was limited.

Again, the solution to this qualification lies in the ability of this Municipality to be able to supply records from information systems, which function in an accurate and functional manner. Again, within the Annual Report, we have formally committed ourselves to the process of developing and implementing a formal document and information system.

4. Expenditure : Expenditure Information

The Audit finding for this area reflected that a memorandum with details of information regarding expenditure, creditors and VAT was submitted to Council, but this could not be obtained or sourced. In this instance no audit procedures could be performed and the scope of the audit was found to be limited.

The solution to this issue relates to the provision of accurate information and has its solution in the maintenance of accurate and sound financial records. This is an area already highlighted within the Annual Report as requiring attention and commitment has already been given that financial management will be monitored more effectively in keeping with standard financial accounting principles and controls.

5. Employee cost : Salaries and Wages

An audit qualification was received for the area relating to salaries and wages. This occurred as a result of the fact that the Municipal Manager was unable to supply the information required in respect of salaries and wages. As a direct result, audit procedures in respect of salaries and wages could not be performed.

The lack of financial controls and internal control systems was the direct cause established for this inefficiency. Financial discipline and controls are required in order to remedy this situation and commitment to this process has already been made, particularly with the appointment of the Mentor/Acting Chief Financial Officer, appointed from DBSA.

6. Other : Subsequent Events

A qualification was received when no information requested for subsequent events was made available, resulting in no audit procedures being performed.

The lack of financial discipline and controls (including the lack of management information) is currently being addressed by institutionalising internal policy, procedure and controls relating to financial discipline and according to recognized accounting practices. These have been instituted after the appointment of DBSA's Municipal Mentor/Acting Chief Financial Officer.

7. Overall concerns and concluding remarks

It must be stated at the outset that whilst identification of the shortcomings and qualifications within the Auditor-General's Report is contained within the Annual Report, and focus has been placed on introducing accounting and internal controls and systems in order to deal with many of these issues highlighted, it will take some time to deal with problems of this magnitude.

Great strides have already been made with administrative and financial control and focus is being driven by the Municipal Mentor/Acting Chief Financial Officer appointed by DBSA. We are confident that, with this administrative and financial support, Sakhisizwe Municipality will ultimately achieve a situation where they receive an unqualified audit report. Top priority will be given to remedy the current situation and to avoid a reoccurrence in the future.

5.

FUNCTIONAL AREAS

SERVICE

DELIVERY

5.4. FINANCE DEPARTMENT

VACANT POST

(MR NKUNZI – DISMISSED FOR FINANCIAL MISAPPROPRIATION)

The Finance Department is responsible for the following :

Focus areas :

- Revenue Collection/Income Generation
- Expenditure
- Budgeting
- Accounting and Reporting
- Information Technology
- Assets and Risks
- Motor Vehicle Licensing
- Supply Chain Management
- Budget & Treasury

Overall objectives are to improve and refine functioning within each of these areas.

Key Performance Indicators

These will be examined under each subsection as follows:

REVENUE COLLECTION/INCOME GENERATION

This section ensures that the processing of monthly consumer accounts and the receipting of all revenue is undertaken of the towns that fall within the jurisdiction of Sakhisizwe Municipality.

All these functions are supervised and supported from Elliot, from where meter readers servicing the water and electricity meters are controlled.

The Key Performance Indicators are :

- Expand/enhance revenue base
- Implement revenue management strategies – collections
- Valuations and calculations of rates for all properties in the municipal area
- Data Cleansing
- Disconnect electricity and water in arrears
- Upgrade and extend pay points for services
- Set up customer queries and complaints procedure
- Annual reconciliation of assessment rates
- Annual billing of assessment rates
- Do survey of infrastructure & services on farms
- Monthly updating consumer database
- Implement Credit Control and Debt Collection Policy and maintain
- Maintain and implement financial policies and procedures
- Free basic services and indigence subsidy support
- Tariff
- Rates
- Credit Control and Debt Collection
- Update Indigent database

Challenges and general comments

- Revenue collection rates 5 623 raised
- 726 Fully paid
- Existence of a culture of non-payment – contributed high unemployment and poverty
- Data cleansing to be implemented
- Implement credit control procedures – build community awareness
- Enhance
- Disconnections electricity and water to be implemented – not done monthly
- Lack of financial policy and procedure
- Develop relevant By-Law
- Capacity of staff – dedicated to function
- Lack of financial control
- Lack of statistic and financial records – no reporting
- Indigent database outdated
- Meter reading not accurately done by Technical Department
- Outstanding debtors dealt with Legal Advisors – Eavesdorp appointed
- Implement annual interim valuations

EXPENDITURE AND CONTROL

This function is situated in Elliot and is supported by three staff members who are responsible for the payment of creditors, ordering of goods, services and materials, processing the monthly salaries and allowances, compilation and control of budgets, controlling capital and other projects, processing of monthly and quarterly financial reports and compilation of annual financial records and statements.

The Key Performance Indicators are:

- Monthly reconciliation and payment of all creditors
- Monthly controlling of purchases
- Monthly processing of payroll
- Monthly maintaining and updating of :
external DBSA loans;
internal revolving fund loans / advances
- Annually update and maintain Council's Insurance Portfolio
- Monthly updating and maintaining Council's investments
- Update and implement financial policies and procedures
- Supply Chain Management
- Loans and contractual agreements
- Assets management and insurance
- Cash management, banking and investment
- Implement Municipal Finance Management Act, No 56 of 2003 requirements related to Expenditure
- Payroll management and maintenance

Challenges and general comments

- No dedicated staff member for Payroll function
- Capacity of staff
- Excessive overtime payments
- No internal control – checks and balance
- Under- and over-payments
- No procedures in place
- Upgrade software and hardware
- Late/non payment creditors
- Procedures not in place
- Over-expenditure – no financial control
- Supply Chain Management Policy absent
- Review, update and maintain Council's Insurance Policy. Ensure all assets are insured in terms of Insurance Portfolio
- Excessive telephone usage – no control
- Cash management, banking and investment
- Monthly selling and control pre-paid electricity
- Monthly reading of water and electricity meters

- Accurate monthly billing of accounts
- Monthly delivery of consumer accounts
- Daily receipting of all revenue
- Daily banking of all revenue
- Secure all revenue collected
- Implement Municipal Finance Management Act, No 56 of 2003 requirements related to Revenue collection
- Train and develop staff

BUDGETING

The annual compilation of Council's operational and capital budget is the responsibility of this department. It also provides the necessary inputs during the annual review of Council's Integrated Development Plan (IDP).

This department is also responsible for the determination of tariffs and maintaining a cash budget. Actual expenditure to date is monitored monthly against Council's approved budget and reports are monthly submitted to all other departments informing them of their expenditure to date.

The Key Performance Indicators are :

- Compile and publish budget time schedule
- Establish and public committees and consultation forums
- Outreach programme to all wards
- Review and prepare :
 - Integrated Development Plan (IDP)
 - Service Delivery Agreements
 - Delegations
 - Budget-related Policies
 - Operational and capital budget
- Determine rates and tariffs
- Consult with established committees and forums
- Table budget and supporting documents
- Approve budget and supporting documents
- Budget and supporting documents to :
 - National Treasury
 - Provincial Treasury
 - Public and website
- Service Delivery and Budget Implementation Plan (SDBIP)

Challenges and general comments

- No analysis of creditors – debtors annual income total annual debt
- Review tariff
- Misconduct
- No participation in budget process
- Capacity issues
- Financial constraints – mismanagement
- No SDBIP Plans – not linked to Budget/IDP – not aligned
- No financial control
- No policies in place
- No service delivery agreements
- No legislative compliance
- Budget and financial statement not done within required timeframes as legislated
- Delegations not in place
- Lack of interpretation/understanding budgets

ACCOUNTING AND REPORTING

- Daily and monthly updating of accounting records
- MFMA required reporting to :
 - National Treasury
 - Provincial Treasury
 - Accounting Officer
 - Executive Committee
 - Municipal Council
- Monthly reconciliation of supporting registers
 - Funds
 - Loans
 - Assets
 - Banks
 - Investments
 - Debtors
 - Creditors and
 - Income & Expenditure
- Compilation of annual financial statements
- Compilation of annual report for Department : Budget & Treasury Service
- Implement Municipal Finance Management Act, No 56 of 2003 requirements related to Accounting and Reporting

Challenges and general comments

- Updating of records and reporting not done regularly
- Audit queries and qualification received
- No reconciled registers

INFORMATION TECHNOLOGY

This function is not yet fully functional in both units. The units are not linked.

The Key Performance Indicators set are :

- Maintain and upgrade of computer hard-and software
- Secure computer hard- and software services
- Training to all staff in utilizing IT systems effectively
- Develop IT policies
- Introduce/implement GIS System
- Update General Plans (GP's)
- Update ownership/Title Deed information
- Update Valuation information
- Update road and street infrastructure
- Update geographical information
- Update ESKOM infrastructure
- Update electrical infrastructure
- Update water infrastructure
- Update sewerage infrastructure
- Update solid waste infrastructure
- Daily and monthly processing of records when required by other departments
- Develop and maintain Municipal Website
- Develop ICP Security Strategy

Challenges and general comments

- IT Plan is being developed by SITA - awaiting proposal
- DBSA initialising programme link to LGNET
- DBSA supplied 3 computers to the Municipality
- IT function not fully functional
- Upgrading of hardware and software
- No IT support function
- Capacity
- Financial constraints
- Units not linked
- No GIS System
- No policy and control

ASSETS AND RISKS

The existing manual assets register, as well as the inventory lists are now in the process of being computerized by means of bar-coding all moveable assets. The Key Performance Indicators set are :

- Develop asset management policy
- Stock take asset – acquisition and disposal of assets
- Recording and marking (bar-coding) of all assets
- Updating and maintaining a comprehensive assets register
- Compiling, updating and maintaining of inventories
- Revalue fixed assets
- Develop asset vote and asset management report
- Convert and transfer transactions from IMFO/GAMAP ledger to GRAP
- Comply with GRAP format immovable property
- Reconcile assets – capitalize on Sebata System

Challenges and general comments

- Annual financial statements not compliant with legislation
- Non compliant in every respect
- Manual system not compliant
- Unknown quarterly of movable assets
- No or little records planned – use of combined management system
Deloitte and Touché appointed – done during 2007/2008 financial year

MOTOR VEHICLE LICENSING

Apart from the roadworthy's driver's licenses, etc, performed at the Grade A Traffic Test Station situated in Elliot, the NATIS motor vehicle registration facility service is also rendered by Council on an agency basis for the Department of Transport in Elliot. Plans are in place to extend and upgrade this facility.

The Key Performance Indicators set are :

- Avail facilities for the licensing of motor vehicles
- Maintain and perform National Traffic Information System (NATIS) on behalf of the Department of Transport
- Train staff to operate NATIS System

Challenges and general comments

- Infrastructure and equipment shortages
- Training of staff on NATIS

7. **OVERSIGHT REPORT FOR THE PERIOD 2006/2007**

1. **Background**

The Municipal Finance Management Act (Act 56 of 2003) requires Council to consider its Annual Report and based on the analysis and evaluation thereof, to prepare and adopt an Oversight Report.

The Oversight Report that follows is a reflection of the analysis and evaluation of the Annual Report.

2. **Analysis of the 2006-2007 Annual Report**

The Annual Report (2006-2007) for Sakhisizwe Municipality was examined whilst reflecting on the Auditor-General's Report for the same period. Findings are detailed in the remainder of this document, together with comments on the extent to which the strategic objectives of each department were met.

It must be noted that when successes and challenges are highlighted for each department, they are presented in terms of four departments, namely: IPED, Technical Services, Corporate Services and Finance. Community Services Department is not reflected formally, as functions belonging to this department were split into the other four departments, (as indicated earlier within this report), due to the absence of the Community Services Manager. It has also been highlighted that functionality within these departments needs to be addressed in order to reflect logical groupings.

2.1. **Auditor-General's Report on Annual Financial Statements (ending June 2006)**

The Auditor General's report to Council in respect of the Financial Statements are attached hereto as Annexure A.

In terms of this report, the underlying theme of all qualifications and issues of concern related to :

- * Lack of financial management discipline, which includes lack of management information

Inherent within this underlying cause is the overriding need for sound administrative and fiscal control (processes and procedures).

In terms of the Annual Report and the resultant action taken as a result of formal interventions from DBSA (appointment of Municipal Mentor/Acting Chief Financial Officer), it is apparent that Sakhisizwe Municipality is already attempting to address many of the issues highlighted. However, it must be noted that the extent of the deficiencies existing and experienced, cannot be resolved overnight. While progress will be made in many areas, it would be realistic to expect all issues to be finally resolved over a period of 2-3 years.

Qualifications were received for the following areas :

- Compliance issues
- Revenue information
- Salaries and wages
- Subsequent events

Other areas highlighted related to :

- Planning Information
- Expenditure Information

As detailed, a concerted effort and top priority will be placed on introducing administrative and fiscal control in order to remedy the highlighted areas of concern.

2.2. Degree to which Strategic Objectives have been met:

Performance against strategic objectives will be reported on per department as follows:

2.2.1. IPED Department

The IPED Services Department is responsible for the areas of:

Local Economic Development; the implementation and facilitation of IDP Projects; effective monitoring of IDP Projects; Agricultural and Rural Development and Tourism.

a) Integrated Development Plan

Successes included :

- IDP developed and reviewed
- Strategic Plan developed and to be phased in and implemented during 2008/2009

Challenges remain:

- Development and Implementation of Service Delivery and Budget Implementation Plans
- Lack of capacity

b) Projects (Housing)

Successes included :

- Elliot Pholar Park (300 houses completed)
- Sakhisizwe Housing Extension (5000 units completed)

Challenges remain:

- Housing backlog of 4 250 houses
- Beneficiary database
- Funding constraints
- Project management
- Land availability
- Capacity
- Services capacity
- Poor access roads
- HIV/AIDS crisis
- Project blocked by DHLG & TA
- Natural Disasters

c) Local Economic Development, Tourism and Agriculture

Successes included :

- Sakhisizwe tourism established
- Tourist information center plans
- Tourism plan developed
- LED strategy developed
- DBSA funding – technical committee established for tourism and business
- Business Development
- Economic growth and employment

Challenges remain :

- Funding
- Professionally qualified LED staff
- Implement Tourism and LED strategy
- Forum Meeting attendance
- Slow economic growth
- Information centers
- Lack of infrastructure and land identification
- Water provision from CHDM
- Liaison with private public partnerships
- Funding to be sourced from DOA and Social Development
- Source equipment and tractors
- Establish irrigation systems
- Create organized citrus farming
- Market agricultural potential
- Develop agro-based industries (wool and meat production)

2.2.2. Corporate Services Department

a) Human Resources

Successes included :

- Uniform Conditions of Service
- Planned policy and procedure development
- Planned leave Audit and Planned Procedure and Policy

Challenges remain :

- Outdated HR policies
- Benefit administration
- Leave administration & Policy (to be administered by HR Dept)
- Leave Audit
- Contracts and letters of appointment
- Personal file administration & maintenance
- Filing
- Capacity
- Payroll policy and formal procedures (authorizations and the like)
- Overtime management
- Updated Organogram
- Strategic posts filled
- Retention of staff

- Funding constraints

b) Labour Relations

Successes include :

- Disciplinary and grievance policy in place
- Successful “prosecution” of cases

Challenges remain :

- Poor remuneration structures
- Staff retention
- Capacity of staff (implementing policy IR)
- Staff not following policy
- Outsourcing for legal opinion

c) Skills Development

Successes included :

- Workplace Skills Plan successful – in that training programmes implemented
- In-Service Training programmes
- Training well received
- SALGA training for Councillors

Challenges remain :

- Ongoing commitment to attendance for ABET
- No dedicated Funding –channeled to other projects
- Proper development & consultation WSP
- Categorizing of employees

d) Employment Equity

Successes included:

- Submission of Employment Equity reports

Challenges remain :

- Employment Equity Plan
- Equity reports to be submitted in correct format
- Analysis of deficiencies in plan
- Create infrastructure and support for Employment Equity

e) Occupational Health and Safety

Successes include :

- Established Health & Safety Committee
- Appointed safety representatives

Challenges remain :

- Further training in all aspects of OHS
- Safety compliance
- Ensuring safety representatives perform monthly inspections and issue reports
- Risk analysis
- Updated policy
- Non-compliance

f) General Administration

Successes include :

- Seven (7) By-Laws developed and five (5) gazetted
- Council rules and procedures developed
- Procedure developed to guide public liability claims
- Planned document management system developed (to be sent to Provincial Archives for approval)
- Three Operational Standing Committees

Challenges remain :

- Outdated Records Management System
- Staff capacity
- Integration of filing system
- Funding

g) Amenities : Libraries and Halls

Successes include :

- Facilities provided for library (Elliot and Cala)
- Two (2) halls in Elliot and one (1) in Cala
- Renovations (Masibambane Hall)
- Painted halls
- Security provision at halls

Challenges remain :

- Government subsidy for purchase of library materials
- Qualified staff
- Adequate facilities
- Funding
- Equipment
- Policy and procedure review
- Regular maintenance functioning
- Building of Multipurpose halls in all wards

h) Transport Management

Successes include :

- Purchase of new vehicles
- Fleet Management Policy

Challenges remain :

- Fleet Management Policy Implementation
- Staff Capacitation
- Vehicle maintenance
- Unroadworthy vehicles
- Driver education
- Ageing fleet

i) Health Services

Successes include :

- 5000 Patients attended to amongst clinics (x3) in Elliot
- Establishment of Health Committee
- HIV/AIDS Plan
- Training
- Service Provision as per NPHC

Challenges remain :

- Shortage of qualified Clinic staff
- Shortage of equipment and resources
- Buildings require rehabilitation
- Lack of reliable statistics
- Amount of patients per Clinic
- Inadequate funding
- HIV/AIDS Policy and Implementation
- HIV/AIDS Forum
- HIS/AIDS Peer Educators trained
- Health Promotion Programmes

j) Performance Management Systems

Successes include :

- PMS Agreements for s57 Managers
- Performance monitoring

Challenges remain :

- Develop institutional scorecard
- Review and further customisation of existing System
- PMS to be phased in to middle management
- Internal Audit Committee appointed
- SDBIP developed for all departments
- Capacity

k) Traffic Control

Successes include :

- 120 Roadworthy's completed (vehicles) and 6 for buses and 9 (goods vehicles)
- Learner licence figures escalated
- Drivers licence issues increased
- Testing station established

Challenges remain :

- Shortage of staff
- Infrastructure
- Funding constraints

l) Information Technology (IT)

Successes include :

- All users have secure login details
- One network printer in Cala

Challenges remain :

- Skilled IT staff
- Lack of access to infrastructure
- Funding constraints
- Outdated equipment (hard and software)
- Electronic Document System

2.2.3. Technical Services Department

a) Electricity and street lighting

Successes include :

- Master Plan developed and being phased in
- backlog in licensed areas being addressed
- Fault maintenance and service excellence
- Operation and maintenance

Challenges remain :

- Funding
- Most households rely on paraffin and candles
- Efficient electricity provision
- Network ageing
- ESKOM
- Maintenance of street lighting
- Retention of skilled staff
- Electricity theft
- Tools and equipment

b) Roads and Stormwater

Successes include :

- Implementation of construction and maintenance programme
- Technical Manager deployed by DBSA

Challenges remain :

- Old infrastructure and deteriorating roads
- Appointment of Technical Manager (Qualified)
- Poor stormwater drainage
- Poorly maintained roads
- Roads mainly gravel
- Storm drainage canals blocked
- Damaged bridges
- Potholes
- Poor road network s

c) Water

Successes include :

- 120 000 kl Water purified
- 240 Water faults reported and attended to
- 12 Water meters replaced/services
- 50 New water connections
- Ongoing maintenance

Challenges remain :

- Water shortage
- Shortage of dams and reservoirs
- Ageing infrastructure, vehicles and equipment
- Skilled/qualified staff
- Funding
- Water backlogs
- Illegal connections and meter tampering
- Poor pump maintenance
- Subsidies

d) Sanitation

Successes include :

- Reporting to Council : Sewer reticulation at Cala
- Addressed problems re Treatment Works, ponds and spillage with CHDM
- Eradicated bucket system
- New treatment works construction (Elliot)
- Complaints dealt with
- Ongoing maintenance and construction
- Construction of oxidation ponds commenced in Elliot extension
- Construction of new treatment works commenced
- Technical Manager deployed by DBSA

Challenges remain :

- Rural sanitation backlogs
- Shortage of VIP toilets (rural area)
- Ageing infrastructure
- Poor maintenance

e) Town Planning and Building Control

Successes include :

- Spatial Development Framework developed
- Approval and rezoning completed with Chris Hani District Municipality

Challenges remain :

- Qualified staff
- No Building Control Officer in place
- No building control activity being carried out
- No building control policy
- Spatial Development Framework require
- Zoning maps
- Land issues to be resolved
- Land for development
- Land management/settlement plans to be developed

f) Cemeteries

Successes include :

- Provision of facilities

Challenges remain :

- Staff shortages
- Maintenance
- Cala cemetery
- 90% capacity
- Available land
- Illegal burials
- Review tariff structure
- No proper statistics/recording in place

g) Sport and recreational facilities

Successes include :

- Social and recreational facility provision

Challenges remain :

- Vandalism management
- Controlled use of facilities
- Maintenance programme

- Staff shortages
- Tariff structure

h) Parks and Public Open Spaces

Successes include :

- Grass cut as per maintenance programme
- Regular pruning of trees and shrubs

Challenges remain :

- Staff shortages
- No Manager in department
- Funding
- Equipment availability
- No records /Statistics

i) Commonages and Pounds

Successes include :

- Containment within commonages
- Commonage /pond fence

Challenges remain :

- Fence arable land
- Staff shortages
- Staff problems (remuneration and overtime)
- Land Shortage

j) Refuse removal/Solid waste

Successes include :

- Daily refuse removal in Cala
- Daily cleaning of streets
- Weekly household removals and daily business removals

Challenges remain :

- Maintenance and opening of furrows and culverts on a regular basis
- Management of Waste Disposal as per prescribed rules and regulations
- No control over dumping
- Shortages (maintenance and vehicles)
- Recycling facilities
- Theft of fence
- No Records /Statistics

k) Disaster Management

Successes include :

- Assistance and support
- Disaster Management Plan developed

Challenges remain :

- Lack of integrated approach
- Rehabilitation after disaster
- Dedicated staff (capacity)
- Establish database
- Shortage of equipment
- Financial constraints
- Risks, e.g. droughts, earthquakes, etc
- Awareness Programmes and Campaigns

2.2.4. Finance Department

a) Revenue Management

Successes include :

- Appointment of Chief Financial Officer/Municipal Mentor
- Planned improvement of billing system
- Purchased software
- Accurate meter readings
- Accounts sent out timeously
- Legal Advisors appointed to deal with outstanding debtors

Challenges remain :

- Culture of non-payment
- Data cleansing to be implemented
- Implement credit control procedures
- Implement disconnections monthly
- Lack of Finance Policy and Procedure
- By-Law development staff capacity lack of financial control
- Lack of statistics and financial records
- Indigent database outdated
- Inaccurate meter reading
- Implementation of annual interim valuations

- Receipting of revenue
- Banking of revenue
- Control of assets through application of GRAP
- Cash management, banking and investment
- Monthly selling and control of pre-paid electricity
- Monthly reading of water and electricity meters
- Accurate billing
- Accurate delivery of accounts

b) Expenditure and Control

Successes include :

- Insurance Portfolio
- Integrated payroll system
- Supply Chain Management Policy developed
- Evaluates bids and makes recommendations

Challenges remain :

- Dedicated staff member for Payroll function
- Capacity of staff
- Proper authorizations from HR re payroll amendments / implementation
- Excessive overtime payments
- Internal controls
- Under and overpayments
- Policy and procedures
- Upgrade hardware and software
- Late/non payment of creditors
- Procedures not in place
- Financial control (over expenditure)
- Supply Chain Management Policy
- Update and maintain Insurance Policy
- Asset management
- Telephone usage and control

c) Budgeting

Successes include :

- Annual Budget developed and approved
- Indigents provided for

Challenges remain :

- Tariff Review
- Capacity
- Mismanagement

- No SDBIP's
- No financial control
- No policies
- No service delivery agreements
- No legislative compliance
- Financial statements completed timeously
- Delegations not in place
- Lack of understanding
- Compliance with principles of reporting

d) Accounting and Reporting

Successes include :

- Monthly reconciliations
- Annual Financial statements

Challenges remain :

- Regular updates of records and reporting
- Audit queries and qualifications
- No reconciled registers
- Implementation of MFMA

e) Motor vehicle licensing

Successes include :

- NATIS Motor Vehicle Registration facility service
- Operation of NATIS System

Challenges remain :

- Infrastructure and Equipment shortages
- Training of staff on NATIS

f) Audit Reports

Challenges remain :

- Application of new rates tax
- Update policies
- Training of staff
- Implementation of comprehensive IT System
- Bar-code all assets
- Implementation of GAMAP

3. **CONCLUSION**

In concluding, it must be noted that while every effort has been made to summarize successes and challenges within this Municipality during the 2007/2008 period, information presented has for the most part been based on the “lack of formal record”, and reliable information. As reflected within the Audit Report, the greatest deficiency has been absence of financial controls and formal record-keeping systems. It is these issues that will form the basis of all further action.

As such, it is recommended that Council adopt this Annual Report.

RECOMMENDED

That Council adopts the Annual Report for Sakhisizwe Municipality for the period 2007-2008, as reflected in the Annual Report attached for this purpose.

CLOSING SUMMARY

From the detailed chapters in this Annual Report, Sakhisizwe Municipality has been able to report on all aspects of organisational performance, providing a true, honest and accurate account of Council priorities and goals and our ability as an organisation to achieve these, notwithstanding the many highlighted challenges that prevail.

Within Chapter 1 of this report, you were exposed to an overview of Sakhisizwe's geographic and demographic profile, as well as socio-economic factors that influence life within this region.

Chapter 2 has highlighted the key successes and challenges experienced by the more high profile service delivery departments. These have been examined by looking at the service delivery approach adopted, the performance measures and key successes, as well as the challenges and opportunities faced by service delivery currently.

Chapter 3 provides insight into the organisation structure and changes required to ensure that Sakhisizwe Municipality is able to fulfil its developmental Local Government objectives, through compliance at every level.

Chapter 4 represents an account of Sakhisizwe Municipality's financial health and wealth and includes all financial statements as public documents.

Chapter 5 provides comprehensive information on the functional areas of Sakhisizwe Municipality, including overviews of functions and strategic objectives. All of these objectives are then tied directly back to the Integrated Development Plan and more technically into the Service Delivery Budget and Implementation Plans for each department.

Under extreme circumstances some success, growth and progress was achieved, particularly as a result of the direction and support provided both by political leadership and DBSA (with the appointment of the Municipal Mentor). As highlighted within the main body, it is felt that positive strides have been made and will continue to be made over time in order to resolve the difficulties and challenges faced by this Municipality.

Finally, it must be noted that the Annual Report for 2006/2007 provides a realistic and accurate account of the progress and extreme difficulties experienced by Sakhisizwe Municipality and reflects the impact that all of this has had on service delivery.

GLOSSARY

<i>CBO</i>	<i>Community Based Organisation</i>
<i>DBSA</i>	<i>Development Bank of South Africa</i>
<i>DORA</i>	<i>Division of Revenue Act</i>
<i>DWAF</i>	<i>Department of Water Affairs and Forestry</i>
<i>GAMAP</i>	<i>Generally Accepted Municipal Accounting Practices</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>GRAP</i>	<i>Generally Recognised Accounting Practices</i>
<i>IDP</i>	<i>Integrated Development Plan</i>
<i>ILGM</i>	<i>Institute of Local Government Management of Southern Africa</i>
<i>IMPRO</i>	<i>Institute of Municipal Public Relations Officers</i>
<i>LED</i>	<i>Local Economic Development</i>
<i>LGSWETA</i>	<i>Local Government and Related Services SETA</i>
<i>MFMA</i>	<i>Municipal Finance Management Act</i>
<i>MIG</i>	<i>Municipal Infrastructure Grant</i>
<i>NEPAD</i>	<i>New Partnership for Africa's Development</i>
<i>NGO</i>	<i>Non-Government Organisation</i>
<i>SALGA</i>	<i>South African Local Government Association</i>
<i>SMME</i>	<i>Small, Medium and Micro Enterprises</i>
<i>TLC</i>	<i>Transitional Local Council</i>
<i>UKDM</i>	<i>Ukhahlamba District Municipality</i>

CREDITS

Sakhisizwe Municipality wishes to thank the following people for their contributions:

- The Mayor and Councillors*
- Office of the Municipal Manager*
- Inputs from previous S57 Managers and In absence of the s57 Managers, Senior Staff Members that provided input*
- DBSA Young Professional Administrator (Mr M Kwahene) – for sourcing statistical and other information required*
- Acting Municipal Mentor / CFO (Mr P McEwen)*
- Acting Technical Manager – Deployed by DBSA*
- [Special Mention: Charmaine Van Schalkwyk Consulting](#)*