

# FINANCIAL RECOVERY PLAN: STATUS QUO ASSESSMENT

*Prepared for the*

## O R TAMBO DISTRICT MUNICIPALITY

JULY 2023



O.R. TAMBO  
DISTRICT MUNICIPALITY



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**

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## EXECUTIVE SUMMARY

ORTDM is one of the municipalities in the country which has been identified by National Government as being in financial and service delivery crisis based on the criteria set in section 140 of MFMA. On 08 December 2021 the Eastern Cape Provincial Executive Committee (PEC) resolved to intervene in the financial and service delivery affairs at the District Municipality in terms of section 139(5)(a) and (c) of the Constitution of the Republic of South Africa. A notice to intervene in the Municipality was issued and delivered to the municipality on 04 March 2022. In terms of section 141(2) of the MFMA, only the National Treasury Municipal Financial Recovery Service (NT MFRS) may prepare a FRP for a mandatory provincial intervention. The EC PT prepared an Interim FRP for immediate implementation, while the NT MFRS commenced with a status quo assessment to inform the preparation of a mandatory financial recovery plan to move the municipality to a position of sustained financial viability.

This report serves as the status quo assessment in terms of section 142 of the MFMA to identify the root causes of the financial challenges that the OR Tambo District Municipality (ORTDM) is facing. In developing the status quo assessment report, the team was cognisant that the status quo assessment will inform the development of the financial recovery plan (FRP), which adopts a strategic, focused approach which is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed. The status quo assessment focused on the four municipal sustainability pillars, Financial Management, Governance, Institutional and Service delivery. For each pillar, a diagnostic analysis was performed, followed by the identifications of failures, root causes and the proposed strategy to remedy the situation.

The financial recovery plan to be developed from this status quo assessment report will present a phased approach to recovery, differentiating between issues to be addressed in the short, medium, and long term. The recovery plan is divided into three distinct but interdependent phases. These include a Rescue Phase (Phase 1) which focuses primarily on cash and restoring the cash position of the municipality, followed by a Stabilisation Phase (Phase 2) which expands on the financial indicators to be monitored and emphasises key governance and institutional issues which must simultaneously be addressed and finally, a Sustainability Phase (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. The approach is designed to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalised and sustained within the municipality.

### **Key Challenges within ORT District Municipality**

The following key issues were identified:

**Governance:** Council and Council Committees are not effective in their oversight roles to hold management accountable for their administration responsibilities. This failure by management resulted in the following:

- Material underspending of conditional grants;
- Ineffective Project Implementation Plans;
- Lack or poorly prepared procurement plans;
- Strategic capital projects abandoned and left unfinished;
- Persistence roll-over of conditional grants;

- Persistence re-allocation of conditional grants at mid-term for the past three years;
- Material under-collection of revenue;
- Material cumulative impairment of debtors;
- Almost all municipal entity's allocation funds the payroll costs;
- Unfunded mandates;
- Ineffective responsiveness to disasters (inability to spend allocated disaster funds);
- Inadequate maintenance of the aged infrastructure;
- Material water losses;
- Poor contract management;
- Poor records management;
- Weak Supply Chain Management control environment;
- System of delegation not approved;
- Unrealistic funded budgets;
- Bloated organisational Structure not in line with Powers & Functions;
- Slow implementation of the audit action plan;
- Poor IT management amongst other challenges; and
- Escalating Unauthorised, Irregular, Fruitless and Wasteful expenditure

**Institutional Arrangements:** The actual remuneration as a percent of total operating expenditure is way above the norm for the past three years at 43,3%, 46% and 49,2% for 2019/20, 2020/21 and 2021/22 respectively. The final tabled budget as at 31 March 2023 for the MTREF period 2023/24 to 2025/26 still demonstrate remuneration ratios above the norm. The budgeted remuneration as a percentage of budgeted total operating expenditure for current 2022/23, approved adjustment budget, and the MTREF Budget 2023/24 to 2025/26 are 46,9%, 47,5%, 45,8%, 46,2% and 46,33% respectively. This is a clear indication that the District Municipality's employment costs are above the norm of between 25%-40%. The assessment revealed that the Municipality has the necessary policies governing organisation and human resource management, though the policies were last updated in August 2020. However, lack of implementation and oversight resulted in the Municipality experiencing the following challenges:

- High vacancy rate and bloated structure;
- Poor records management;
- No off-site backup of municipal documentation;
- Disciplinary Board not functional;
- Lack consequence management;
- No back-up server for business continuity;
- Non-compliance with minimum competencies requirements;

- Performance management assessment not being done at top management level;
- No cascaded performance management below section 56 managers;
- Lack of Human Resource Strategy and employee audit;
- No qualified engineers in the municipality;
- Not all employees are removed from the system after they left the employ of the municipality;
- No competent personnel in the SCM unit;
- Revenue management unit lacks requisite skills to enhance revenue generation; and
- Occupational health and safety standards not prioritised for implementation by management which poses risks to the employees. The Local Labour Forum is established and operational.

**Financial Management:** The Municipality has been operating in financial crisis mode for the past three financial years. The ratio analysis for the three years 2019/20, 2020/21 and 2021/22 revealed the following:

- Low collection rate at 59%, 83% and 78% respectively, against the norm of 95%;
- Cost coverage below the norm at -0.9 in 2019/20; though the municipality was within the norm of 1,7 and 1.9 months in 2020/21 and 2021/22 respectively. The norm is 1-3 months.
- Debtors' collection period at 191, 193 and 191 days respectively against the norm of 30 days;
- Creditors payment period at 99, 147 and 197 days respectively against the norm of 30 days;
- Low repairs and maintenance expenditure at 1.2%, 0.61% and 0.2% against the norm of 8%;
- Current ratio below the norm at 0.71, 0.68 and 0.74 against the norm of 1.5-2:1; and
- Contracted services as percentage of total operating expenditure above the norm of 2-5% at 7.9%, 8.9% and 7.9% for the three financial years.

**Other notable financial management issues were:**

- Adopting unrealistic unfunded budgets for the recent two financial years;
- Implementation of non-cost reflective tariffs;
- Monthly bills not printed for submission to consumers;
- Unable to print orders to suppliers from the system;
- Poor asset management (incorrect classification of infrastructure assets);
- Non-implementation of the budget funding plan (BFP);
- Over 90% of revenue is generated from KSD LM and less than 10% comes from the other four local municipalities due to lack of revenue generating infrastructure; and
- No regulated central point for invoices submitted to the municipality, hence an understatement of current liabilities.

**Service Delivery:** It is evident that the shortcomings of the governance, institutional and finance pillars

have resulted in poor service delivery. The ORTDM is a water services authority with the role to provide water services. Inadequate repairs and maintenance and ageing infrastructure has resulted in interruptions of service delivery in the municipal area. Lack of technical governance indicated by non-review and non-development of major master plans has led to poor service delivery. Non review and enforcement of by-laws has also contributed to increased non-revenue water through illegal connections resulting in high operating losses. The ORTDM is not capacitated to accurately measure continuous water losses. Water supply to the peri-urban and rural areas is deemed water losses but the DM does not have bulk meters to measure the distribution of water supply to these areas including free basic services. Other notable service delivery issues are as follows:

- There are no Zonal meters to different areas where revenue is billed to determine the abnormal losses;
- There are no plans to address the unfinished or abandoned projects.
- Failure to spend capital grants and implement capital projects.
- Project implementation plans are not being monitored effectively to track the progress; and
- Construction of disaster management centre is moving very slow and this hamper the DM to be disaster ready.

## BACKGROUND

ORTDM is one of the municipalities in the country which has been identified by National Government as being in financial and service delivery crisis based on the criteria set in section 140 of MFMA. On 08 December 2021 the Eastern Cape Provincial Executive Committee (PEC) resolved to intervene in the financial and service delivery affairs at the District Municipality in terms of section 139(5)(a) and (c) of the Constitution of the Republic of South Africa. A notice to intervene in the Municipality was issued and delivered to the municipality on 04 March 2022. In terms of section 141(2) of the MFMA, only the National Treasury Municipal Financial Recovery Service (NT MFRS) may prepare a FRP for a mandatory provincial intervention. The EC PT prepared an Interim FRP for immediate implementation, while the NT MFRS commenced with a status quo assessment to inform the preparation of a mandatory financial recovery plan to move the municipality to a position of sustained financial viability.

### 1.1 STATUTORY AND LEGISLATION CONTEXT

#### THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996 (ACT NO. 108 OF 1996)

The intervention was instituted in terms of S139 (5)(a) and (c) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read in conjunction with Section 139 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

S139 (5)(a) of the Constitution reads as follows: "*the provincial executive must impose a recovery plan aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, which*

- is to be prepared in accordance with the national legislation; and*
- binds the municipality in the exercise of its legislative and executive authority but only to the extent necessary to resolve the crisis in its financial affairs".*

The recovery plan must restrict the authority of the Council and the Executive in any matter or area that

impacts on the finances of the municipality. Section 139 (5)(c) requires the Provincial Executive to assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not otherwise implement the recovery plan.

### **THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003)**

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in terms of mandatory interventions invoked in terms of S139 (4) and (5) of the Constitution.

- S139 (1) of the MFMA places the responsibility on the Provincial EXCO to request the Municipal Financial Recovery Services (MFRS) unit in the National Treasury to prepare a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment).
- Only the MFRS may prepare a financial recovery plan for a mandatory provincial intervention referred to in S139.
- S139 (1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the recovery plan.
- In terms of S139 (1)(b), the Mayor of the municipality must be consulted on the recovery plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

Section 142 of the MFMA specifies the content criteria for financial recovery plans irrespective of whether the plan is discretionary or mandatory in nature. In this regard, the following subsections are important:

S142 (1) A financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention –

a) Must –

Identify the financial problems of the municipality.

- i. Be designed to place the municipality in a sound and sustainable financial condition as soon as possible.
- ii. State the principal strategic objectives of the plan, and ways and means for achieving those objectives.
- iii. Set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary.
- iv. Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from.
- v. Describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and
- vi. Identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.

Section 142 (2) states that in addition, a financial recovery plan –

(a) For a mandatory intervention **must** –

- i. Set spending limits and revenue targets.
- ii. Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and
- iii. Identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.

Regarding the implementation of the financial recovery plan in mandatory provincial interventions, the municipality's attention is drawn to the following provisions of S146 of the MFMA.

S146 (1) If the recovery plan was prepared in a mandatory provincial intervention referred to in section 139 –

- a) the municipality **must** implement the approved recovery plan.
- b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and
- c) the municipality **must** report monthly to the MEC for Finance in the province on the implementation of the plan in such manner as the plan may determine.

*In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the Municipal Financial Recovery Service must develop the financial recovery plan for the ORTDM. The plan must bind the municipality in terms of its spending and budget parameters and the municipality is obligated to ensure that such a recovery plan is implemented within the timeframes outlined.*

## 1.2 APPROACH AND METHODOLOGY OF THE STATUS QUO ASSESSMENT

The status quo assessment was conducted using a combination of document review and analysis as well as consultations with relevant stakeholders. The following stakeholders were engaged at various stages during the preparation of the status quo- the municipality, EC Provincial Treasury, MFRS and other sector ORTDM departments. Input from the stakeholders was incorporated into the status quo report.

The following table indicates the stakeholders engaged:

Date	Purpose	Stakeholders
1 March 2023	Workshop with various stakeholders to understand the state of affairs at the municipality.	National Treasury, EC Provincial Treasury, CoGTA, SALGA, ORTDM
30 March 2023	Conducted work stream (Governance, Financial Management, Institutional and Service Delivery) working sessions to determine the state of affairs, root cause and the extent of the failures.	CFO, Acting Director Technical and Human Settlement, Acting Director IWS, Acting Director Corporate Services, Acting Director in the MM Office (Governance and Strategy)



31 March 2023	Conducted work stream (Governance, Financial Management, Institutional and Service Delivery) working sessions to determine the state of affairs, root cause and the extent of the failures.	CFO and finance staff, Director in the MM Office (Governance and Strategy) Director Internal Audit, Director REDP
5 April 2023	Teleconference with official from ORTDM	Director ICT
April – June 2023	Numerous interactions and meetings with officials at the District Municipality	Virtual platform
7 July 2023	Presentation to Council	Council and Manco
21 July 2023	Meeting with Corporate Services	Director and Management of Corporate Services (virtual- not complete due to load shedding at the DM)
25 July 2023	Meeting with CFO	CFO and Management of BTO
26 July 2023	Workshop with Corporate Services and meeting with Director Strategy and Governance	Director and Management of Corporate Services / Director Strategy and Governance
27 July 2023	Meeting with Director Infrastructure and follow-up with the Director Strategy and Governance	Directors: Infrastructure and Strategy and Governance

### 1.3 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

The following risks were identified during the status quo assessment:

#### **Pillar 1 Governance:**

- Non-functional Disciplinary Board;
- No consequence management;
- High UIFW amount;
- MPAC not investigating in terms of S32 of the MFMA;
- Inadequate systems of delegation that impact on governance, administration and operational efficiency, and
- High contingent liabilities

#### **Pillar 2 Institutional and Human Resources:**

- Organisational structure not aligned to requirements;

- HR related committees not functional;
- Lack of internal HR capacity and competencies;
- No HR Strategy;
- Non-compliance with Human Resources Management laws/policies and inadequate Human Resources Policies;
- Potential resistance to change by certain internal stakeholders;
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof;

### **Pillar 3 Financial Management:**

- Underspend of capital grants;
- Inadequate internal capacity to implement the intervention activities;
- Limited revenue base;
- Increased costs before realisation of improved revenue;
- Continued non-collection of revenue and increase in the debtors' book;
- Loss of grant funding due to non-compliance with grant conditions;
- Continued non-collection of revenue and increase in the debtors' book;
- Litigations issues due to SCM challenges;
- Inadequate implementation of internal controls; and
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.

### **Pillar 4 Service Delivery:**

- Service delivery backlogs;
- Community service delivery, vandalism and theft of material and equipment and other protests;
- Aged infrastructure;
- Lack of repairs and maintenance. Failure to reverse the trend of under-maintenance and failure of timely replacement of aged infrastructure, and
- Failure to materially control and reduce non-revenue water losses, which losses will negate the impact of other interventions.

## **DIAGNOSTIC ASSESSMENT:**

### **2.1 A STATUS QUO ASSESSMENT**

In developing this status quo assessment, the following information sources were utilised:

- Integrated Development Plan 2022-27;

- MTREF Budget 2023-2026;
- Annual Reports;
- Annual Financial Statements;
- Auditor General Audit Reports 2019-2022;
- Auditor General Management Letters 2019-2022;
- Consultations with Management;
- Municipal Website;
- NT MFMA website;
- Municipal Policies and Planning Documentation; and
- Various other documents e.g., Risk Register, Audit Action Plan, Ratio Analysis.

### Overview of demographics and economy of OR Tambo District Municipality

The Oliver Reginald Tambo District is one of six District Municipalities in the Eastern Cape Province. The others are Alfred Nzo, Chris Hani, Amathole, Joe Gqabi, and Sarah Baartman Districts. The O R Tambo District Municipality incorporates large portions of the former Transkei homeland area of the Eastern Cape Province and is one of the poorest district municipalities of the Eastern Cape Province. It is located along the Wild Coast, bordered to the West by Amatole District Municipality while sharing a common border with the KwaZulu Natal Province to the North East. The District measures 15 947 km<sup>2</sup> in extent with a varied terrain ranging from rolling valleys to broken mountainous ranges and a varied climate that responds to the elevation and distance from the sea.

The OR Tambo District Municipality is classified as a Category C2-Municipality, which means an area with a largely rural character. The municipality has limited municipal staff and a small budget relative to its challenges. The District is made up of five local municipalities, namely; King Sabata Dalindyebo (KSD LM), Nyandeni, Port St Johns, Mhlontlo and Ingquza Hill. All of the LMs in the district are category B4 except for KSD LM, which is a category B2 municipality. Each municipality has at least one urban service centre.

The economic activities of the municipality are summarised below:

Type of Sector	Overview
Agriculture	Agriculture in the municipal area reflects a strong potential and comparative advantage in terms of the large amount of arable land, climate and biodiversity. However, massive commercial agriculture needs to be addressed in the municipality. Agriculture makes a small contribution to the economy despite the rural nature of the district. This arises from most of the district's agriculture occurring on a subsistence basis. Catalytic projects such as Wild Coast SEZ lack the primary production value chain to feed the secondary / agro-processing.
Tourism & Oceans Economy	The district has the longest coastline in the province and as such offers great potential for tourism and ocean economy. The district offers

Type of Sector	Overview
	various tourist attractions such as, the 'Hole In The Wall', various waterfalls, Magwa & Majola Eco-tourism & agri-tourism estate and its rich heritage.
Informal Trade & Enterprise Development	The informal trade dominates the urban centres which is mostly a means to address the high level of unemployment. There is a number of enterprise development initiatives supported by the municipality to enable business to thrive, however retail is dominated by imported goods from KZN.

The ORTDM has an entity called Ntinga which is an implementing agent focusing on:

- Investment Promotion;
- Agriculture related projects; and
- Agri and Agro processing.

The following table summarises the demographics in the municipality:

Indicator	2016	2011
<b>Population</b>	1 457 384	1 366 045
<b>Age Structure</b>		
Population under 15	38.9%	39.0%
Population 15 to 64	56.5%	55.4%
Population over 65	4.5%	5.6%
<b>Dependency Ratio</b>		
Per 100 (15-64)	76.9	80.5
<b>Sex Ratio</b>		
Males per 100 females	87.4	85.7
<b>Population Growth</b>		
Per annum	1.47%	n/a
<b>Labour Market</b>		
Unemployment rate (official)	n/a	n/a
Youth unemployment rate (official) 15-34	n/a	n/a
<b>Education (aged 20 +)</b>		
No schooling	13.9%	17.0%
Matric	18.0%	15.1%
Higher education	6.4%	6.5%
<b>Household Dynamics</b>		
Households	314 080	298 531

Indicator	2016	2011
Average household size	4.6	4.3
Female headed households	57.1%	57.9%
Formal dwellings	43.6%	43.4%
Housing owned	78.9%	61.5%
<b>Household Services</b>		
Flush toilet connected to sewerage	9.4%	10.6%
Weekly refuse removal	9.0%	10.7%
Piped water inside dwelling	6.4%	8.9%
Electricity for lighting	83.6%	70.1%

Source: <https://municipalities.co.za/demographic/106/or-tambo-district-municipality>

Population in the municipality continue to grow though not significantly and that has an impact on provision service delivery which is noted to be declining except for electrification. The municipality should improve planning and implementation in order to meet the new challenges that has manifested itself from the population growth. The average growth of the municipality is 1.47% per annum.

## 2.2 KEY ISSUES IDENTIFIED

The status quo assessment will be ordered in terms of the following 4 municipal sustainability pillars:

- a) Governance
- b) Institutional and Human Resources Management
- c) Financial Management
- d) Service Delivery

The findings of the status quo assessment will be classified according to these four pillars.

## 2.3 GOVERNANCE

**Governance Model:** The municipality has 59 Councillors with 17 full time. In line with the Separation of Powers Governance Model, adopted by council in September 2013, the council on the 30<sup>th</sup> September 2015, adopted a Municipal Oversight Model (MoM) for strengthening the functionality of the Section 79 Portfolio Committees of council established to play an oversight role. The council established nine Portfolio Committees as follows:

1. Water and Sanitation Services Portfolio Committee
2. Human Settlement Portfolio Committee
3. Technical Services Portfolio Committee
4. Corporate Services
5. Community Services
6. Budget & Treasury Office (BTO)
7. Intergovernmental Relations, Planning, Research and Policy Development
8. Special Programs and Social Services Portfolio Committee
9. Rural Economic and Development Planning

The committee's main responsibilities are to play oversight. The Council meet once in a quarter unless there are issue that needs urgent attention then a special council is convened.

The council is functional and stable and is dealing with all compliance matters as legislated. However, UIF&WE reports have not been investigated since 2019/2020.

**Powers and Functions:**

The Municipality has a funded budget. However the budget is unrealistic mainly because it budgets for revenue but fail to collect and inaccurate provisions for debt impairment. The municipality's ability to meet its obligations to provide basic services and honour its financial commitments is uncertain mainly due serious financial constraints as a result of challenges to collect debts. The municipality is performing all of its mandated functions even though some areas such as disaster and fire are not being performed at a satisfactory level. The functions of the municipality are depicted in the table below:

<b>Disaster &amp; Fire-fighting services</b>	Provides disaster and fire-fighting services across the district communities Provide the necessary resources and infrastructure
<b>Local Tourism</b>	Coordination of tourism initiatives and plans across the sectors and local municipalities
<b>Municipal airports</b>	The municipality does not have municipal airports
<b>Municipal planning</b>	Development of the district spatial development framework and coordination of land use management plans
<b>Municipal Health Services</b>	Provision of municipal health services including environmental health coordination across the district
<b>Municipal Public Transport</b>	The municipality does not have municipal public transport
<b>Potable water supply and sanitation systems</b>	Planning, regulations, provisioning of water services This includes infrastructure development as well as operations and maintenance

**Contract Management:** There is no contract management unit within the municipality. The inefficiencies noted from the contract management were irregular appointments, no contract management framework in place, no performance monitoring of contracts and contracted services expenditure to total operating expenditure above the norm amongst others. The contracted services as percentage of total operating expenditure was above the norm of 2-5% at 7.9%. 8.9% and 7.9% for the three financial years.

**Litigations and contingent liabilities:** The municipality's litigation register has 19 litigation cases categorized as follows:

CATEGORY	NO. OF CASES	AMOUNT 'R'
Non-payment of services rendered	1	970,000
Labour Matters	3	2,000,000
Damages suffered due to non-payment	1	16,129,025
Claim for Damage suffered and loss of life	4	12,050,000
Damage to Land/ properties	2	800,000

CATEGORY	NO. OF CASES	AMOUNT 'R'
Interdict and application for an order	4	0
Damages to property	1	296,400
Demand for services	3	0
<b>GRAND TOTAL</b>	<b>19</b>	<b>32,245,425</b>

The municipality is utilizing a panel of attorneys in defending the cases laid against the municipality.

**System of delegations:** Council has an approved delegation's framework; however, it is outdated as it was last approved in 2019. There is an approved system of delegations in place in respect of the political system of delegation though it needs to be re-aligned with the new additional functions of the political office bearers, namely the Speaker and the Chief Whip positions. The administration delegations which include financial delegation are in place and reviewed annually.

**By-laws and enforcement:** There are three outdated by-laws (water services, municipal health and fire services) which were approved in 2018. Non enforcement of by-laws is leading to increased water losses and loss of revenue through illegal connections.

The Council Resolutions Register was last updated October 2021. The non review and enforcement of by-laws has also contributed to increased distribution losses through illegal connections resulting in high operating losses.

**UIF&W and Consequence Management:** There is an excessive increase of UIF&W year after year and it has not been investigated as required by Section 32 of MFMA. Major cause of the unauthorised expenditure is because of adopting unfunded budgets whereas irregular expenditure is because of appointments of service providers being made without adequately following SCM process and fruitless & wasteful expenditure is because of interest on overdue accounts not being paid on time. The leadership did not implement effective consequence management for poor performance and the deadlines.

Since the establishment of the Municipal Disciplinary Board in 2019 it has been non-functional until its three-year term came to an end. For example, an amount of **R273m (UIF&WE)** that was referred to the accounting officer for consequence management by the MPAC, and the AO took it to the Disciplinary Board while the Disciplinary Board was non-functional at which stage there was an amount of **R201m (UIF&WE)** that was referred by the Accounting Officer in 2019 and the board still had not dealt with.

**Audit action plans (internal and external):** There is slow progress and partial implementation of actions plans of both internal and external auditors. The leadership did not effectively monitor and enforce the corrective action.

**Internal audit and Risk Management:** Internal audit and risk management division is not institutionalised and there is no effective and timeous follow up on the implementation of recommendations of the audit committee, external auditors and council which is an indication of internal control deficiencies. The risk management committee is established but not meeting as per schedule and the chief risk officer position is vacant following the dismissal of the incumbent.

**Information & Communications Technology:** The ICT Governance structure is in place. The ICT division is not well capacitated to address the infrastructure challenges as there are general capacity challenges. There is no IT governance framework, business continuity and disaster recovery plan in place. The

municipality's website is not up to date as per S75 of MFMA. There is no backup server in the municipality.

**Immovable Property Management:** The municipality's does not have investment property. Previously it had land that was donated by the Port St. John's municipality after it was given a loan. However, as the municipality did not get a title deed from Port St. John's municipality ownership was an issue as it did not meet the requirements of GRAP 17. That transaction was reversed through a journal and was derecognised and written off.

**Political and Administrative Interface:** The political administration within the municipality is stable though a while back there was political instability. There is no interference in the administration processes. Notable issues identified are that the council has no mechanism in place to track implementation of Council resolutions but there is Council resolution register.

### Key Issues Identified

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
<b>Governance Model</b> (council and committees)	MPAC established in terms of S79 of MSA and has 10 members. The committee is effective and functional.	Material non-compliance of section 129(1) of MFMA. MPAC is still busy with 2021/22 annual report was tabled in January 2022. The oversight report for 2020/21 was tabled in July 2022.	The previous council did not finalise the oversight report for the 2019/20 annual report and as such was only tabled to council in November 2022 due political Instability of the previous council. The Oversight Report for 2020/21 was not tabled to the council on the 31 July 2022 for adoption as envisaged in Section 129 (1) of the Municipal Finance Management Act (Act No. 56 of 2003).	Develop a strategy to address persistent negative audit outcomes and to reduce UIF&W.  Develop a plan to speed up the finalisation of investigation on UIF&W Expenditure.  MPAC must hold council, the executive committee and management accountable on the implementation the above strategies.  The municipality should build capacity of the researchers as key support staff to the committee.	2020/21 AGSA Management Letter and Audit Report.  Corporate Calendar  Council meeting minutes.
	Council adheres to its calendar but does not comply to MFMA in certain circumstances .	S52(d) report of the first quarter of 2022/23 and adjustment budget for 2021/22 were not tabled on time	The Management does not submit to Mayoral Committee on time.	MM must develop a schedule of key dates to enable the flow of documents to Mayco & EM. The EM must make sure adherence to the dates as stated above. The municipality	
	<b>There is a slow</b>	UIF&W reports	Lack of technical		



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<b>reduction of UIF&amp;W as reflected in the AFS</b>	not being investigated.	capacity of researchers and support staff. Lack of decisive leadership to deal effectively with the UIF&W	should invite NT, PT and CoGTA to their meetings for participation and contributions. The municipality should request NT to conduct training on the section 32 of MFMA and MFMA Circular 68 as well other relevant circulars.	
	Internal Audit unit fully is established but rendered ineffective.  Audit Committee is functional and effective.  Risk Management not functional and the Risk management.  The municipality does not have Chief Risk Officer	Collapsed risk management function.  Since the Chief Risk Officer resigned, the municipality has not filled The Risk register prepared is not comprehensive to identify critical issues facing the municipality.	Non implementation of the MAAP  Ineffective Audit Committee to ensure that AFS are prepared and submitted on time.  Lack of effective follow up on the implementation and monitoring of the risk register.  Lack of awareness by the municipality about the importance of risk management in preventing unwanted financial management	Audit committee should review the effectiveness of internal audit annually.  Establish a Risk Management Committee.  Enhance oversight on the risk register and ensure effective maintenance.  Appoint a competent and qualified Chief Risk officer	2020/21 AGSA Management Letter and Audit Report.  2020/21 Annual Report  Quarterly Performance Reports
	Disciplinary Board established but not effective as cases referred to it were never dealt with since establishment.	Disciplinary board rendered ineffective due to resignations  UIF&WE is escalating every financial year	Some members resigned and some deceased.  Non implementation of consequence management  Lack of systems and controls	Council of March 2023 approved continuation of the members.  Implement consequence management  Implement code of conduct and financial misconduct regulations.	2021/22 AGSA Management Letter and Audit Report.  2021/22 Annual Report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
			Poor service delivery	Appoint the Chief Risk Officer.	Risk register
<b>Powers and Functions</b>	<p>Municipality is not effectively providing disaster and fire services as their functions</p> <p>Pending transfer of powers from the local municipalities such as municipal health and fire services</p>	Inadequate funding to cover all operational costs.	No agreement between the LMs and the District on the devolution of powers and functions	Re-negotiate transfer of functions	<p>2022/23 IDP</p> <p>2022/23 Budget</p>
<b>Contract Management</b>	<p>Contracts are finalised by different departments. No central contract management unit is in place and no registers are updated with newly appointed contracts</p> <p>The contracted services as percentage of total operating expenditure was above the norm of 2-5% at 7.9%. 8.9% and 7.9% for the three financial years.</p> <p>The municipality has contracts which expired but are still running on a month-to-month basis. (Non-compliance with section of MFMA)</p> <p>Several contracts were awarded and implemented without following SCM process. (Irregular</p>	<p>Weaknesses identified in the internal control system – Some contracts/bids do not have SLAs.</p> <p>Service providers continuing to render services despite expiry of contracts.</p> <p>Contracts not protective of the municipality's interests.</p> <p>Exorbitant number of litigations instituted against the municipality thus resulting in excessive legal costs.</p> <p>Inadequate contract performance</p>	<p>Mismanagement and maladministration.</p> <p>Lack of competencies and skills in drafting of contracts</p> <p>Contractual disputes and non-payment of creditors.</p> <p>Senior Management not fully appreciative of the concept of contract management and its related importance.</p> <p>Inadequate skills to execute core functions within the municipality.</p>	<p>Conduct a detailed audit of all contracts through the new legal panel appointed.</p> <p>Terminate all month-to-month contracts</p> <p>Identify goods and services required on an ongoing basis and appoint service providers on three-year contracts.</p> <p>Submission of monthly performance monitoring reports on contracts.</p> <p>Development,</p>	<p>2019/20 and 2020/21 Auditor General's Audit Report and Management Report</p> <p>Engagement with municipal officials.</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	contracts).	monitoring measures.		approval and implementation of a contract management framework.	
<b>Litigations and contingent liabilities</b>	<p><b>Litigation is R32m million as a result of litigations brought against the Municipality</b></p> <p>Notable litigations against the municipality are as follows:                      Lungalabantu Construction – R16.1 million iro damages suffered due to non-payment</p> <p>Four claimants aggregating – R12 million iro damages against loss of life due to drowning</p> <p>S. Soldati – R2m amount iro defamation of character following a disciplinary hearing held for soliciting sexual favours from female members of his department. This matter has been dealt with</p> <p>Although, there is a litigation strategy in place, there is no evidence of implementation.</p>	<p>Ineffective management and oversight structures.</p> <p>The municipality is financially exposed because of the excessive number of litigations.</p> <p>Litigation by Ratepayers Association due to poor service delivery and non-compliance with legislation (i.e., Municipal Property Rates Act, Environmental Laws, etc.)</p> <p>Fundamental and pervasive non-compliance with legislation.</p> <p>Contracts are not drafted in a manner that protects the interests of the municipality contributes to legal disputes.</p> <p>Attachment of assets of the municipality by court orders.</p> <p>Failure to pay for services rendered within</p>	<p>Non-compliance with municipal policies and legislation.</p> <p>Ineffective case management controls.</p> <p>No contract management framework.</p> <p>Lack of tools of trade for infrastructure maintenance, service delivery, land sales, failure to pay for services rendered, veld fire damages.</p>	<p>Investigate contingent liabilities and meetings with claimants to be held where legal action can be suspended to resolve claims amicably.</p> <p>Implement policies and legislation.</p> <p>Report to Council on diagnostic analysis of root causes of litigations and claims.</p> <p>Conduct a legal assessment on reasonable prospects of success on all pending litigations. Propose settlements where possible.</p> <p>Development and implementation of contract management framework.</p> <p>Implementation of litigation strategy.</p> <p>Maintain updated litigation and claims register.</p> <p>Honouring of payment arrangements with creditors.</p> <p>Capacitate the legal and the SCM staff members.</p>	<p>2020/21 Annual financial statements.</p> <p>2021/22 Litigation register.</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		<p>the legislated period of 30 days.</p> <p>The municipality appointed a legal manager in September 2021.</p> <p>Capacity deficiencies in SCM officials.</p>			
<b>System of delegations</b>	<p>No approved reviewed systems of delegations.</p> <p>Inadequate delegations register</p> <p>No sub- delegations below Directors.</p>	<p>Systems of delegations are not reviewed and approved by Council.</p> <p>What is purported to be system of delegations is the record of statutory prescripts.</p>	<p>Lack of understanding of rationale behind system of delegations.</p> <p>Lack of experience of both administration and new councillors.</p>	<p>Develop system of delegations which clarifies roles and table for approval.</p> <p>Sign-off of sub-delegations and maintain delegations register.</p> <p>Review the delegations of powers and functions on supply chain management by the Accounting Officer.</p>	<p>Consultation with municipal officials.</p>
<b>By-laws and enforcement</b>	<p>Outdated by laws</p> <p>Inadequate enforcement of by-laws, policies, and procedures</p> <p>No revenue generated from by law enforcement.</p>	<p>Ineffective management and oversight structures.</p> <p>No peace officers</p> <p>Loss of revenue.</p>	<p>Non-compliance with municipal policies and legislation.</p> <p>Non promulgation of amended by-laws.</p> <p>Inadequate institutional arrangement.</p>	<p>Implement MSA in terms of by-laws.</p> <p>Review all by-laws on annual basis or as circumstances require.</p> <p>Develop and approve policy and process plan for review and rationalise by-laws.</p> <p>Enforcement of all by-laws.</p> <p>Report on revenue generated from enforcement of by-</p>	<p>By-Laws</p> <p>Consultation with municipal officials.</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				laws Review institutional arrangements to strengthen enforcement unit.	
<b>Audit action plans (internal and external)</b>	<p>Management Audit Action Plans are developed and adopted by Council post audit.</p> <p>The action plan is presented to the Council quarterly</p> <p>Post Audit Action Plan not being fully implemented and slow progress reported.</p>	<p>There is no evidence of progress of the implementation of PAAP</p> <p>Prior year financial misstatement findings are yet to be cleared.</p>	<p>Ineffective management and oversight structures</p> <p>Reliance on consultants during reporting circle and no skills transfer to BTO officials.</p> <p>Insufficient monitoring of internal controls which result in slow progress.</p> <p>Bad practice of 'bulk reconciliation' of accounting records during reporting circle which does not help to detect and correct errors on time.</p> <p>Lack of accountability for poor performance.</p>	<p>Internal audit should provide monthly assurance on the reported progress and PoE.</p> <p>Capacitate BTO staff to be able to prepare AFS in-house.</p> <p>Internal audit unit should be capacitated on the AFS review process.</p>	<p>2018/19, 2019/20, 2020/21 Auditor-General report and Management Report</p> <p>2018/19, 2019/20, 2020/21 Annual reports.</p>
<b>Internal Audit and Risk Management</b>	<p>Internal Audit unit is fully established and effective.</p> <p>Audit Committee is functional and effective.</p> <p>Risk Management functional and effective.</p> <p>No permanent Chief Risk Officer, due to dismissal of the incumbent.</p> <p>Recruitment is at final stages.</p>	<p>Internal control deficiencies.</p> <p>Inadequate implementation of risk and internal audit strategies and plans.</p> <p>Inadequate implementation of recommendations of audit committee and Council.</p>	<p>Risk and Internal Audit management not institutionalised.</p> <p>Lack of strategic leadership and direction.</p> <p>Lack of skills within the BTO to fully implement recommendations by auditors.</p>	<p>Quarterly reporting on internal audit and risk management.</p> <p>Update and report progress on implementation of AG audit action plan.</p> <p>Quarterly progress reports on implementation of remedial actions to mitigate against corporate risks and annual audit plan.</p>	<p>2018/19, 2019/20, 2020/21 Auditor-General report and Management Report</p> <p>2018/19, 2019/20, 2020/21 Annual reports</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				<p>Effective and adequate risk management strategy which addresses the challenges of the institution. The Audit Committee should also assess if the risk register is adequate enough to reduce the challenges</p> <p>Conduct a departmental workshop awareness about the importance and benefits of internal audit and risk management</p> <p>Development of organisational business continuity plan.</p>	
<p><b>Political and Administrative Interface</b></p>	<p>The political administration within the municipality is stable as there is no interference in the administration process.</p> <p>There is a Council register and notable issues identified are that the council has no mechanism in place to track the implementation of Council resolutions.</p>	<p>The municipality does not have a mechanism in place to track the implementation of Council resolutions.</p>	<p>Poor corporate governance.</p>	<p>Develop a tool to monitor council resolutions and ensure the implementation.</p>	<p>Minutes of council meetings</p>
<p><b>UIF&amp;W and Consequence Management</b></p>	<p>Irregular expenditure for the 2021/22 financial year amounted to R1,8 billion, 2020/21 amounted to R1,7 billion, R1,98 billion. Only R550,4 million was written-off from prior periods</p>	<p><b>SCM Processes not adhered to:</b></p> <p>Expenditures incurred contrary to SCM procedures during invitations of quotations and</p>	<p>Management incapacities and lack of oversight by council.</p> <p>Allegations of financial misconduct not adequately investigated. (</p>	<p>Implement S32 of MFMA Investigate all UIF&amp;W cases.</p> <p>Implement consequence management for UIF&amp;W cases identified in the Council approved investigation report.</p>	<p>2019/20, 2020/21 and 2021/22 Annual Financial Statements.</p> <p>2019/20, 2020/21 and 2021/22 Auditor General's</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>Unauthorized expenditure amounted to R38,9 million in the 2021/22 financial year. In 2020/21 financial year, R6,6 million &amp; R19,8million was reported in 2019/20. R14,6M was written-off in 2020/21</p> <p>Fruitless and wasteful expenditure amounted to R56,3M in 2021/22, R50,8M in 2020/21 and R28,3M in 2019/20.</p> <p>UIF&amp;W Reduction Strategy is not in place</p> <p>Monthly and quarterly UIFW expenditure registers are not in place.</p> <p>Accounting Officer has not investigated UIF&amp;W as required by Section 32 of MFMA.</p>	<p>awarding of contracts.</p> <p><b>Funded Budgets not realistic. The critical &amp; necessary demands not prioritised during budget preparation.</b></p> <p>Votes/program s not adequately budget for (Under-budgeting)</p> <p>Non-cash items such as depreciation, provisions and actuarial gains and losses not budgeted for.</p> <p>Interests and penalties on late payments of creditors. Danger allowance paid to the employees during level 3 lockdown. Poor control environment and lack of compliance regime in place</p> <p>Monthly UIFW expenditure registers in place but not updated for Apr</p> <p>Accounting Officer has not investigated UIF&amp;W as required by Section 32 of MFMA.</p>	<p>Lack of Budget oversight by Municipal Management Under collection of revenue. (Adverse cash flow situation leading to late or non-payment of creditors within 30 days)</p> <p>Inadequate cash management controls. (Direct payments made from the bank account without verifying the budget availability prior payment)</p> <p>Ineffective Consequence management.</p> <p>Financial Misconduct Board established but not effective.</p> <p>UIF reduction strategy not in place.</p> <p>Inadequate system in place to identify and record UIF&amp;W.</p> <p>Poor control environment and lack of compliance regime in place</p> <p>Ineffective risk management strategy and risk registers</p> <p>Deficient risk-based Internal Audit plan which</p>	<p>MM to report UIF&amp;W expenditure quarterly to the mayor and annually to Council for oversight.</p> <p>Disciplinary Board to report quarterly to Council.</p> <p>Review standard operating procedures for procurement processes.</p> <p>Implementation of UIFW expenditure reduction plan</p>	<p>Audit Report and Management Report, SIU Report</p> <p>2019/20, 2020/21, 2021/22 and 2022/23 Approved Budget documents.</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>Consequence management not being implemented. Some senior SCM official &amp; other officials appearing in SIU report are gradually undergoing disciplinary processes</p> <p>There is no preventative strategy for UIF&amp;W, including no pro-activeness from Internal Audit &amp; the Audit Committee</p> <p>There is an approved UIF&amp;W Policy for 2021/22. The municipality have developed policy and controls as preventative approach for UIF&amp;W</p>		<p>does not cover the critical challenges facing the District Municipality</p>		
<p><b>Information &amp; Communications Technology</b></p>	<p>Server capacity not adequate to meet municipal requirements; insufficient IT and dilapidated infrastructure and poor maintenance. The DM has advertised a tender for professional IT service providers to provide IT refresh.</p> <p>No IT Governance Framework, Business Continuity and Disaster Recovery Plans in place (BCP &amp; DRP). The IT Governance Framework is in draft and will be reviewed by CoGTA and Provincial Treasury.</p> <p>IT Unit not adequately capacitated to address</p>	<p>The server is not adequate for securing the municipality information.</p> <p>Measures to guard against unforeseen accidents and damages to municipality infrastructure not being practised.</p> <p>Budgeting and supply chain management processes not effectively followed in the procurement of IT services.</p>	<p>Ineffective management and oversight structures.</p> <p>Securing of municipality information not being prioritised. Service level agreements with ICT service providers not monitored.</p> <p>IT department not well resourced and capacitated to be effective.</p> <p>Non competent service providers being appointed.</p> <p>Lack of budget to fund vacant positions within the IT positions.</p>	<p>Review and Implementation of ICT Governance framework more specifically general controls, ICT policies and the disaster recovery plan. Implementation of institutional calendar of meetings for ICT steering committee.</p> <p>Update website.</p> <p>Secure data storage, back- up, and recovery solutions.</p> <p>Procurement of electronic document management system.</p> <p>Fill open vacancies within the division.</p>	<p>One on one session with the ICT Director and Audit reports</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>infrastructure challenges.                      Poor ICT general and application controls.                      The IT Unit has implemented user access forms to ascertain and confirm all users within the DM. Users' equipment (i.e., Laptops and printers, etc.) are obsolete. A service provider has been appointed to supply and update IT equipment (laptops).</p> <p>Internet connectivity unstable due to constant load shedding.</p> <p>No off-site back up of financial information is in place. financial information is in place.</p>	<p>No delegated powers and functions on ICT</p>			

## 2.4 INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES

The following institutional, organizational, and human resource challenges were noted:

**Organisational Structure and Operational Model:** The organisational structure has not been reviewed since year 2014. The existing organisational structure is currently undergoing review process of which the Macro organogram was reduced from ten directors to six. The review process considered the current financial state of the municipality and streamlined the overall organizational structure within the available budget. The current vacancies in the organizational structure should be reviewed as part of the review of the organizational structure and assessed to determine whether they add value to the municipality. The municipality should make it a norm to review its operating Model every five years in line with its IDP. The Principle of Structure follow strategy and people follow structure must be adopted. This norm will ensure that the municipality will adapt to reflect evolving direction and priorities. Costing of the operating model and its structure is very critical. The current staff will be realigned to vacancies within the new structure to be adopted and approved by Council.

**Filling of critical vacancies:** The key positions i.e., that of the Municipal Manager, CFO, Directors Infrastructure and Corporate Services has been filled The municipality should identify critical vacancies aligned with institutional priorities, it's also advised that the process of Job enrichment be considered where current jobs expands in terms of tasks that one performs and the skills that should be acquired to

mitigate against unfunded posts. Re-looking of clustering of functions critically at management levels will reduce the municipalities wage bill.

**Employee costs:** There is poor management of overtime claims resulting in high employee costs and a culture of poor work ethics and poor management practices. As at December 2022 employee costs amounted to 51% of the budget. A contributing factor is the two-task rate up and overtime. Unless overtime is capped the condition will escalate that will further compromise occupational health and safety issues, this remains a critical risk to employer. It is important that an overtime policy be implemented and managed to cap extraordinary hours worked. Analysis should be done on the overtime trends per job category. These costs must be read in line with filling of vacancies. Overtime has been declining through interventional measures implemented by the Municipality, but this needs to be monitored.

**Labour Relations:** There is a strong and cordial working relationship with the LLF. However low staff morale exists due to various challenges within the municipality. There are also delays in concluding disciplinary matters due to the Disciplinary Board (DB) not being resuscitated. The process to resuscitate the DB was tabled before Council on 31 March 2023. The Disciplinary Board was functional from June 2023.

**Skills and competencies:** Human resources Development initiatives have been continuously conducted linked and informed by the available budget for the year, which has enabled the implementation of multiple training interventions to address long-term skills acquisition in the district as well as embrace the National and Provincial strategic skills programmes. The district has maintained partnerships with the local universities such as Walter Sisulu University (WSU), University of Fort Hare (UFH), Nelson Mandela University, Technical and Vocational Education and Training (TVET) colleges and Sector Education & Training Authorities (SETAs) for skills development and training. All senior management within the municipality comply with Minimum Competency Level requirements. The municipality needs to conduct a skills audit to assess level of employees' skills, knowledge, and competencies it has. Linking the job profiles and organizational strategy will enhance the required competencies during recruitment. Consistent application of minimum requirements as defined by the recruitment policy and other related prescripts needs to be adhere to.

**Disciplinary Board:** The Disciplinary Board was functional effective June 2023, with the extension of the Chairpersons contract as well as co-opting officials from within the DM and Provincial Treasury

**Performance Management:** Performance agreements have been signed for Senior Management, but no assessments have been conducted in terms of the PMS framework and it has also not been cascaded to lower-level managers. Change and culture change management intervention critical. The Institutional head to be held accountable. Performance Management would be cascaded to other levels within the DM from October 2023.

**Consequence Management:** The municipality has no consequence management framework/policy in place. Consequence Management has not taken place as a result of the absence of a DB.

**Human Resources Management and Development:** The HR Strategy is still in development stages and the DM has requested SALGA and EC CoGTA for assistance to review and comment on the draft strategy. The DM will be considering preparing a 5 years Strategy and Plan in line with the 5year strategic plan (IDP) of the municipality.

**Employee Validation:** The municipality must conduct an employee head count and identify any ghost employees or employee's surplus to the organization and the payroll. Qualifications of all employees also needs to be verified and validated to ensure all positions are being held with personnel with requisite

qualifications.

**Records Management:** Records Management Policy was approved by the Eastern Cape provincial archivist, including the File Plan in 2015 and Registry Procedure Manual in 2019 hence the need to review. The municipality needs to consider implementing an electronic document management system in line with the mSCOA regulations to improve on recurring disclaimer audit opinions which is due to unavailability of sufficient supporting documentation. A manual process is currently adopted by the DM.

The table below reflects on matters that have been noted under this segment and provides an analysis of the problems and possible solutions:

NB Additional challenge that requires attention.

- There is no Institutional Change Management Framework or model and as a result thereof, change Interventions are fragmented, protracted and adversarial.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
<b>Organisational structure and Operating Model</b>	<p>The organisational structure was last approved in 2014 and it has been reviewed and adopted by Council in May 2023.</p> <p>The DM initial organisational structure had 10 directorates, and the reviewed adopted structure has 6 directorates.</p> <p>The previous structure has 2054 posts of which 1123 are filled and 931 was vacant. The current structure now has 1683 posts and the vacancy rate is still to be determined.</p> <p>An ad-hoc committee was established to develop the job descriptions and SALGA was</p>	<p>Structure not properly aligned with current needs.</p> <p>Lack of requisite skills.</p> <p>The municipality still awaiting the report of job evaluation.</p> <p>Staff verifications not conducted to determine if all employees are accounted for and ensure that here are no <b>'ghost'</b> employees.</p> <p>Critical requirement for filling of vacancies</p> <p>Municipality does not review job descriptions regularly.</p> <p>Poor planning.</p>	<p>Poor planning.</p> <p>Recruitment processes not being adhered to.</p> <p>Structure not properly aligned.</p>	<p>Conduct staff verification annually.</p> <p>Fast track the reviewing of the organisation structure and aligned to the proposed and reduction and re-allocation of resources.</p> <p>Finalization of the review of all job descriptions and job evaluation.</p> <p>Development and implementation of the Placement Policy.</p> <p>Perform a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading</p> <p>Given the liquidity position of the Municipality, it will be wise for the</p>	Management Meeting

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>requested to assist in this regard.</p> <p>Job descriptions to be developed for the new positions and the job descriptions for the post that were retained will be reviewed and evaluated. CoGTA and the DM will be convening a joint meeting in July 2023 to review and provide comments and guidance on the new structure.</p> <p>SALGA committed to train municipal officials on Job evaluation.</p> <p>Placement policy adopted.structure</p>	<p>High employee costs.</p>		<p>Municipality to control its payroll budget but plan for the acquisition of skills in line with cash flow improvements.</p>	
<p><b>Filling of Critical Vacancies</b></p>	<p>Lack of sufficient workforce to perform duties due to inadequate organogram resulting in poor service delivery.</p>	<p>Instability in the key senior management positions.</p> <p>Critical positions not filled and/or occupied by acting officials. The positions of the Directors of REDP and Community Developed has to be filled</p> <p>High vacancy rate,</p>	<p>Administrative Instability</p> <p>Lack of discipline and accountability</p>	<p>FastTrack recruitment process for the senior management positions in accordance with the relevant legislative prescripts.</p> <p>The DM to await the adoption and approval of the new structure in order to identify the critical vacancies following the realignment of staff with the proposed changes to the organogram. The position of MM must be filled immediately. The process must</p>	<p>Management meeting</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				<p>be in line with the current policies and prescripts of the municipality. The positions of CFO and Director Water &amp; Sanitation were filled on 1 May 2023.</p>	
<p><b>Employee cost</b></p>	<p>Employee costs for Dec 2022 was at 51% of OPEX.</p> <p>Municipality's overtime costs are almost equal to the basic salaries of the employees</p>	<p>Abuse and misuse of overtime thus further burdening the financial resources of the municipality.</p> <p>2 Task rate up by the DM. Instructed by NT to reduce the rate in line with the norm.</p>	<p>Organisational structure not aligned with current municipal needs.</p> <p>Lack of internal capacity both in terms of skill and numbers</p> <p>Lack of financial resources to fund employees on a permanent basis.</p>	<p>Finalise the new organisational structure.</p> <p>The new organisational structure should be costed for affordability.</p> <p>Conduct a cost benefit analysis for outsourcing versus insourcing of services.</p> <p>Minimise the level of contracted services in line with the norms and standards.</p> <p>Perform an audit of the overtime per each department</p> <p>Review of overtime policy to be in line with the basic conditions of employment act and divisional collective agreements.</p> <p>Capping of overtime (not more than 40 hours per month and only for critical service delivery positions)</p>	<p>Management Meeting</p>
<p><b>Labour relations</b></p>	<p>The LLF is functional and meeting with the municipality is ongoing.</p>	<p>Low staff morale due to various challenges within the</p>	<p>Lack of Sound Labour Relations.</p> <p>Lack of</p>	<p>Sensitize employees and organised labour about the current</p>	<p>Consultation with municipal officials.</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>The Local Labour Forum has been strengthened by the formulation of LLF sub-committees; these committees are Conditions of 11 ORTDM Final Audited Annual Report 2021/22 Services, Skills development, Employment Equity and Restructuring to easy the smooth running of the Local Labour Forum.</p>	<p>municipality</p>	<p>resources to adequately provide for material and financial requirements to enhance job satisfaction.</p>	<p>financial state and the introduction of the FRP.</p> <p>Conduct employee satisfaction survey.</p> <p>Develop and implement a change management strategy.</p> <p>Provide training for Organized Labour on local labour forum issues</p> <p>Enforce consequence management on non-attendance of members to the planned meetings.</p> <p>Code of conduct should be communicated to the members of the LLF and staff.</p> <p>Develop and adopt a calendar of dates for LLF meetings.</p>	<p>HR Report</p>
<p><b>Skills &amp; competencies</b></p>	<p>Skills audit conducted annually</p> <p>All senior managers attained MFMP certificate,</p> <p>All key finance employees have obtained MFMP Certificate.</p>	<p>Failure to meet targets and objectives as set in the IDP.</p> <p>Lack of requisite skills to perform key and core functions.</p> <p>Skills mismatch in the organizational structure.</p>	<p>Lack of oversight role by council on executive and management.</p> <p>Recruitment processes and requirements not adhered to.</p> <p>Focus effort on training and development.</p>	<p>HR unit responsible for the job spec must be capacitated not to issue wrong adverts.</p> <p>The MM must approve the job adverts in consultation with HR and relevant department.</p> <p>The municipality must conduct a Skills Audit to identify the existing set of skills within the organization and the skills and knowledge the organization will need in the future.</p> <p>Placement of</p>	<p>Management meeting</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				<p>employees in line with competencies. Total review of the recruitment process required</p> <p>Conduct verification of qualifications of all the employees.</p> <p>Strengthen partnerships with Local Universities, VET colleges and SETAs for skills development and Training.</p>	
<p><b>Disciplinary Board</b></p>	<p>Disciplinary Board established in 2017</p> <p>Due to resignations the DB was not operational</p> <p>Disciplinary Board to be resuscitated The process of resuscitation was approved by Council and was functional from June 2023</p> <p>There is no consequence management framework/policy in place.</p>	<p>Inability to properly guide the employees and management on issues relating to discipline.</p> <p>Employees and councillors' failure to adhere to the respective code of conduct per Municipal Systems Act and Municipal Financial Management Act (Financial Misconduct).</p>	<p>Council and Management not prioritising discipline as part of the key turn-around strategies.</p> <p>Limited resources to be used by employees resulting in excessive idle time hence misconduct.</p> <p>Disregard for the Code of Conduct and other laws and regulations.</p>	<p>Enforce the Code of Conduct consistently and fairly</p> <p>Record and investigate allegations of misconduct thoroughly.</p> <p>Prepare and maintain a disciplinary case management register.</p> <p>Train s56 and other managers and supervisors to be utilised initiators and Presiding Officers.</p> <p>Utilise officials from other government departments, municipalities and or SALGA database to conduct disciplinary cases on behalf of the municipality.</p> <p>Draft a consequence management policy</p>	<p>Management Meetings</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				<p>and table it to council for approval.</p> <p>Workshop the Code of Conduct regularly and ensure that declarations of interest forms are signed annually.</p>	
<p><b>Performance Management</b></p>	<p>Senior Management employees have signed performance agreements.</p> <p>Performance assessments not conducted in terms of the PMS framework.</p> <p>Performance Management not cascaded to lower-level employees.</p> <p>NO Policy in place</p>	<p>Performance Management System not in place.</p> <p>Inadequate processes for accountability PMS.</p> <p>Performance assessments not conducted.</p>	<p>Assessment of individual performance not undertaken.</p> <p>Reluctance of senior management to conduct performance audit.</p> <p>Damage employee Relationships</p>	<p>Review and implement the PMS Policy System.</p> <p>Draft performance agreements for lower-level employees and get them to sign.</p> <p>Introduction of performance management measures to instil culture of accountability.</p> <p>Conduct the performance assessment of all employees over time.</p> <p>Develop and implement a Change management programme to improve Culture change</p>	
<p><b>Key HR Policies</b></p>	<p>Municipality has 21 HR related policies that were reviewed in August 2020</p> <p>The following are key HR Policies were approved by Council on 30 June 2023.</p>	<p>Failure to implement the HR policies fully.</p> <p>Policies not aligned with Municipal Staff Regulations (Gazette No 45181) of 2021.</p>	<p>Limited staff within the HR department.</p> <p>Ineffective HR department.</p> <p>Non-Compliance with laws and regulations.</p>	<p>Implement and workshop policy changes to employees and councillors as appropriate.</p> <p>Develop controls to ensure to mitigate against abuse of policy.</p> <p>Review and Align</p>	<p>HR Policies</p> <p>Engagement with municipality.</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<ul style="list-style-type: none"> <li>• Computer &amp; Data Allocation policy</li> <li>• Leave Management policy</li> <li>• Recruitment and Selection Policy</li> <li>• Relocation Policy</li> <li>• Individual Performance Management Policy</li> <li>• Organisational Development Policy</li> <li>• Sexual Harassment Policy</li> <li>• Incapacity Policy</li> <li>• Alcohol &amp; Substance Abuse Policy</li> <li>• Bereavement Policy</li> <li>• Study Assistance Policy</li> <li>• Training and Development Policy</li> <li>• Experiential Training Policy</li> <li>• File Plan</li> <li>• Placement Policy.</li> </ul> <p>The following are new policies that have to follow the process of being tabled to the LLF, Mayco and finally to Council for approval</p> <ul style="list-style-type: none"> <li>• Car Allowance Policy</li> </ul>	<p>No leave management policy</p>		<p>HR policies with Municipal Staff Regulations (Gazette No 45181) of 2021 effective 1 July 2022.</p> <p>Development and implementation of leave management policy and procedure</p>	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<ul style="list-style-type: none"> <li>• Cellphone Allowance Policy</li> <li>• Firewall Implementation Policy</li> <li>• IT Governance Framework</li> <li>• IT Change Management Policy</li> <li>• Patch Management Policy</li> <li>• Back Up Policy</li> <li>• Disaster Recovery Plan</li> <li>• ICT Security Management Policy</li> <li>• IT Access Control and User Access Management Policy</li> <li>• ICT Disaster Recovery Policy</li> <li>• VIP Protector Allowance Policy</li> </ul>				
<p><b>HR Strategy</b></p>	<p>The HR Strategy is still in development stages and the DM has requested SALGA and EC CoGTA for assistance to review and comment on the draft strategy. The DM will be considering preparing a 5 years Strategy and Plan in line with the 5year strategic plan (IDP) of the municipality.</p>	<p>Absent or limited human resources planning and management.</p> <p>Non-compliance with legislation</p>	<p>Poor human resources management.</p>	<p>Develop a comprehensive Human Resources Development and Management Strategy.</p> <p>Implement the HRDM strategy and monitor results to ensure regular reviews aligned to the municipal needs.</p> <p>Implement the Municipal Staff</p>	<p>Management Meeting</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				Regulations (Gazette No 45181).	
<b>Physical Verification of staff and qualifications</b>	Physical verification of staff was done in 2022.  A vetting process of BTO, SCM and Infrastructure will commence soon	There is no regular physical verification of all employees against the payroll.	Lack of resources to undertake the audit on a regular basis.	New employees' qualifications should be vetted before employment.  Current employees should be requested to provide copies of certified certificates (as a start) and/or originals for verification or the municipality can engage third parties to undertake the verification.  Employees should be regularly verified against the payroll.  Record of Qualifications will also be submitted at this point for further validation	
<b>Records Management</b>	The records of the municipality are kept in the registry while Supply chain and Human Resource keeps their active records in their strong rooms. The registry keeps inactive records, the active records are kept in their offices of origin due to insufficient space.	Records Management Policy, which was approved by the Eastern Cape provincial archivist, File Plan which was also approved by the Eastern Cape provincial archivist in 2015 and Registry Procedure Manual which was also approved in 2019. All these systems are awaiting implementation after conducting	Lack of of commitment by management.	Review and implement the Record Management Policy, File plan and the Registry Procedure Manual. Implementation of the file plan and Electronic Document Management System Centralise records management. Consider implementing an electronic record management business process in line with the mSCOA	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		training by Provincial Archives,		regulations.	

## 2.5 FINANCIAL MANAGEMENT

### Summary of MTREF and Analysis of the Funding status of the Budget

ORTDM is one of the 17 non-delegated municipalities monitored by National Treasury in terms of Chapter 2 of Municipal Finance Management (Act 56 of 2003). This means that the municipality is supervised directly by National Treasury in terms of the compliance with the Constitution, MFMA, DORA and other related legislation when it comes to the fiscal and financial affairs of municipalities and municipal entities.

As per the National Treasury funding tool, the assessment of the O R Tambo District Municipal 2022/23 MTREF Budget analysis shows that the budget was **funded based on the assumption of specified operational efficiencies, but significantly risky**. The said funded budget predicted a favourable cash of R247.1 million and an average of R93.8million cash surplus over the MTEF period. Following the National Treasury’s dashboard assessment for the six-months ended 31 December 2022, the municipality’s cash & cash equivalent amounted to **R50.3 million** whereas creditors amounted **R105 million**.

The overall financial health of the municipality was assessed as financially distressed. During the NT MFRS engagement with the municipality, it was found that although the budget was funded, it was unrealistic mainly because of the inaccurate provisions for debt impairment. The municipality’s ability to meet its obligations to provide basic services and honour its financial commitments is uncertain mainly due serious financial constraints. It was also found that the municipality’s recent audited financial statements for the ended 30 June 2022 depicts that the municipality is below the financial ratio norms and standards as per MFMA circular 71 and it was found to be in a financial crisis due to general financial management challenges and limitations that the municipality is facing.

Keys observations which have contributed to the funded budget being risky and unrealistic are the following:

- Collection rate of 78% by the municipality is far below the recommended norm of 95%.
- The tabled 2023/24 MTREF Budget and the projected two outer years are based on collection rates of 71%,71% and 71% respectively as against the norm of 95%.
- Cash coverage and liquidity ratios are unfavourable for the 2022/23 financial year.
- The increase in debtors’ impairments over the past three years, namely R444,4 million, R464,1 million and R541,2 million is a clear indicator of inability to collect monies owed to the municipality.
- The municipality’s remuneration costs are above the norm for the past three years.
- The municipality’s expenditure for repairs and maintenance, for the past three years are at an average of 1% of Operational Expenditure (OPEX) which is an unfavourable indicator for effective service delivery.

## Ntinga O.R Tambo Development Agency

- a) The District Municipality owns a municipal entity, Ntinga O.R Tambo Development Agency SOC Ltd (Ntinga). Ntinga operates as a wholly owned implementing agent of the parent municipality ORTDM. Ntinga's role is to facilitate, manage and implement socio-economic development initiatives with a special focus on:
- Service Centres (e.g. Markets, Abattoirs, Agri-parks, Farms, etc.);
  - Rural Development (e.g. Tourism, Forestry, Agriculture, etc.);
  - Cooperatives and SMMEs; and
  - Any other related function in partnership with either public or private sector.
- b) In implementing the above mandate Ntinga has developed a strategy anchored on the following four goals: -
- Goal 1: Enhanced and Enabled Full Value Chains (upstream and downstream) for Agricultural Produce, Markets, Abattoirs and Aquaculture.
  - Goal 2: Diversified Partnerships that Promote Inclusive Socio-economic Development and Growth.
  - Goal 3: Promoted trade and investment opportunities in the district.
  - Goal 4: Dynamic, Capable and Sustainable State-Owned Company.
- Ntinga has been operating at sustained losses of R12,4 million, R14,3 million and R17,7 million for the past three years of 2020, 2021 and 2022 respectively.
  - Ntinga's personnel costs to operating revenue has been way above the norm for the years ended 30 June 2020, 30 June 2021 and 30 June 2022 respectively. This is unsustainable.

### Total Operating Expenditure

Description	2019/20	2020/21	2021/22
Operating Deficit (A)	12,40m	14,30m	17.7m
Operating Expenditure (B)	15.40m	13.1m	14.3m
Grant from parent municipality (C)	56.3m	51m	52.0m
<b>TOTAL OPERATING EXPENDITURE (D) = (A+B+C)</b>	<b>84.10m</b>	<b>78.4m</b>	<b>77m</b>
Personnel (E)	(45m)	(45m)	(44.3m)
<b>% Of Personnel costs (F) = E/Dx100</b>	<b>54%</b>	<b>57%</b>	<b>58%</b>

The status of Ntinga regarding its employee costs is above the norm of 40% with 54%, 57% and 58% for 2020, 2021 and 2022 respectively. The current status is significantly high. Even if Ntinga reduced the operating deficit and break even, the cost to employees would be way above the norm being 67%, 70% and 63% for 2020, 2021 and 2022 respectively (as depicted in the table below):

### Total Cost of Employees at break even

Description	2019/20	2020/21	2021/22
Operating Expenditure (B)	15.40m	13.1m	14.3m

<b>Grant from parent municipality (C)</b>	56.3m	51m	52.0m
<b>TOTAL OPERATING EXPENDITURE (D) = (B+C)</b>	<b>84.10m</b>	<b>78.4m</b>	<b>77m</b>
<b>Personnel (E)</b>	<b>(45m)</b>	<b>(45m)</b>	<b>(44.3m)</b>
<b>% Of Personnel costs (F) = E/Dx100</b>	<b>67%</b>	<b>70%</b>	<b>63%</b>

The total elimination of operating deficit to zero depicts an even bigger non-compliance to the norm by an excess of 27%, 30% and 23% for the three consecutive financial years (2020, 2021 and 2022)

### Cash and Liabilities Management

ORTDM and its municipal entity are facing severe liquidity challenges. The unpaid trade creditors amounted to R455 180 225.00 and unspent conditional grants amounted to R188 432 584 at the end of the 2021/22 financial year and the cash & cash equivalent of R388 728 279. The amount of trade payables is increasing significantly while service providers are not paid within the normal period of 30 days. The table below shows a comparison of trade payables and unspent liabilities to cash and cash equivalents.

Description	2019/20	2020/21	2021/22
<b>Cash and Cash Equivalents + Short Term Investment (A)</b>	336,234,058	400,712,379	388,728,279
<b>Payables from exchange transactions (B)</b>	323,259,604	392,537,232	455,180,225
<b>Unspent conditional grants (C)</b>	447,759,417	191,653,115	188,432,584
<b>Difference A-(B+C)</b>	<b>-434,784,963</b>	<b>-183,477,968</b>	<b>-254,884,530</b>

The trade payables and unspent conditional grants significantly exceed available cash and investments, indicating that the municipality is unable to service its financial obligations as they are due. The creditors payment period has been on the average of 148 days against the norm of 30 days. Included in the unspent conditional grant of R447,8 million in 2019/20 was a remaining prepayment of R209 million which was advance payment to Amatola Water Board in the previous financial years. The municipality did not meet the conditions of the conditional grants and that meant the grant remained unspent whereas the cash paid out to Amatola Water Board was to fast-track the expenditures

The municipality's current ratio has been below the norm of 1.5 - 2.1 for the past three financial years at 0.71, 0.68, 0.74 for 2019/20, 2020/21, 2021/22 respectively. This also highlights insufficient cash to meet short-term financial obligations. The net debtor's collection period has been on the average of 192 days against the norm of 30 days.

The municipality's collection rate has been below the norm of 95% - 100% for past three financial years under review at 59%, 83%, 78% for 2019/20, 2020/21 and 2021/22 respectively. This indicates that the municipality has been failing to collect billed revenue at an acceptable level.

The municipality's cost coverage ratio has been below the norm of 1 – 3 months in 2019/20 at -0.9 month and within the norm during 2020/21 & 2021/22 financial years under review at 1.7 and, 1.8 months respectively. It must be noted the municipality is suffering a severe cash shortage as per the recent

outcome of the dashboard assessment. This is an indication that the municipality is vulnerable and at a high risk in the event of financial 'shocks/set-backs. In reality, the municipality is not able to sustain itself to meet its obligations to provide basic services and honor its financial commitments if does not receive any financial support (e.g., grants).

### Analysis of working capital

Working capital usually consists of inventory, trade debtors, cash & cash equivalent and trade creditors. Any unspent conditional grant should be included because it must be cash backed. The net positive working capital is when components of current assets are in excess of current liabilities. This will imply that the municipality has got cash to meet its daily/weekly/monthly needs for operational needs. When current liabilities exceed the current assets, it means that the municipality is in serious auto-pilot mode of disastrous cash flow problems. For fair analysis of liquid analysis of working capital, net debtors are going to be included in the table. The vat receivable will not be included in the liquid working capital analysis because of its volatility nature and as such not in the control of the municipality.

The table below depicts the analysis of the liquid working capital which excludes inventory but includes the net debtors

Description	2019/20	2020/21	2021/22
Cash and Cash Equivalents + Short Term Investment (A)	336,234,058	400,712,379	388,728,279
Net debtors (B)	120,698,983	158,384,113	158,883,057
Payables from exchange transactions (C)	323,259,604	392,537,232	455,180,225
Unspent conditional grants (D)	447,759,417	191,653,115	188,432,584
<b>Difference (A+B)-(C+D)</b>	<b>-314,085,980</b>	<b>-25,093,855</b>	<b>-96,001,473</b>

### Operating Revenue Analysis

The Service charges revenue budget implementation indicator ratio has been below the norm at 81%, 82%, 90% for the past three financial years, which indicates capacity constraints to implement effective revenue management techniques to enhance and maximize revenue. It also relates to ineffective billing and credit control, weakness in compilation of budgets (i.e., unrealistic) and inadequate financial controls at the municipality.

Currently consumers are not billed on time due to capacity challenges such as printers, vehicles availability and lack of innovative ways to improve revenue through the use of emails, SMS of statements to all consumers. There is under utilisation of the financial management system. Out of five local municipalities, over 90% of the service charges relates to KSD with the remainder coming from the other four due to lack of revenue generating assets in those municipalities.

Due to the fact that the municipality is grant dependent, its strategies are limited to the current constraints of revenue generation. In addition, the municipality poorly collects whatever it has processed as bills, as depicted by the incremental debt impairment over the past three years as well as budgeted future incremental debt impairment.

The table below shows actual revenue per source for the three financial years ending 30 June 2021.

<b>Revenue Analysis</b>					
<b>Year</b>	<b>Services Charges</b>	<b>Grants</b>	<b>Other Revenue</b>	<b>Total</b>	<b>Own</b>
<b>2019/20</b>	274,834,301	1,702,154,073	61,422,935	2,038,411,309	336,257,236
<b>2020/21</b>	300,164,216	1,681,608,432	54,713,263	2,036,485,911	354,877,479
<b>2021/22</b>	303,752,916	1,524,718,664	70,280,921	1,898,752,501	374,033,837
<b>Total</b>	<b>878,751,433</b>	<b>4,908,481,169</b>	<b>186,417,119</b>	<b>5,973,649,721</b>	<b>1,065,168,552</b>
<b>%</b>	<b>15%</b>	<b>82%</b>	<b>3%</b>	<b>100%</b>	<b>18%</b>

Total own revenue raised by the municipality for the three years amounts to R1,065,168,552 and grants is the biggest source of revenue which contributes 82%, followed by service charges at 15% and other revenue at 3% then. Of total revenue, own revenue accounted an average of 18%.

Therefore, revenue collection remains a challenge as evidenced by low collection rate and high net debtors days the three years and that impacts service delivery. The municipality must therefore review its tariffs to be cost reflective.

### **Peri-Urban billing**

The assertion by the municipality is to expand its revenue base, they are intending to bill peri-urban areas. The municipality has reported to Council that it has conducted a study where the data was collected for business and households around peri-urban areas. The municipality states that it will conduct public participation in order to communicate to the public its intention to bill. The municipality states that an amount of R3.8m has been budgeted for as projected revenue for the 2023/24 financial year for these areas. In 2024 R4m and R4.2 for 2024/25 have been budgeted as projected revenue. The municipality states that a flat rate for business consumers will range from R600 to R2500.

It was noted from the draft budget document, the municipality had already projected for R3.6m in the 2023 budget year and its adjustment budget, yet no public participation was conducted.

### **Reliance on grant funding**

The municipality is highly dependent on government grants to fund its capital projects as there is currently is 6% capital projects which are own funded. Grants are currently the biggest source of revenue at 79% and own revenue at 21% of total operating revenue.

### **Revenue Improvement**

To reduce the over reliance on grants, the municipality should increase its revenue baseline and implement revenue improvement initiatives that will stabilise deteriorating revenue. The municipality should ensure that the billing system fully accounts for all the properties on the municipal general valuation roll of Local Municipalities since the municipality is a district municipality, all meters with their unique coding must captured. The municipality should perform monthly reconciliations to monitor the changes made on the billing system and update the data.



The revenue improvement plan requires the full implementation of adopted credit control policies and comprise of seven activities below. These activities should be performed on a weekly basis and reconciled every month.

1. Debtors Book Analysis
2. Handover File Analysis
3. Consumer Data Quality
4. SMS Messaging
5. Meter Reading Exceptions
6. Credit Control referrals
7. Meter and installation inspections (special audits, data quality, billing, and credit control).

The above activities shall require the municipality to review policies and by-laws to ensure that all changes are approved by the Council.

When diagnosing the reasons that contributed to the municipality's liquidity challenges it is prudent to historically examine the organisational and operational management inefficiencies. Among the audit issues raised the municipality's financial management inefficiencies are weak internal controls, weaknesses and non-compliance to policies and procedures, fruitless and wasteful expenditure, unauthorised and irregular expenditure. Overall financial challenges of ORDM can be directly attributed to the following:

- (a) Insufficient spending on repairs and maintenance of infrastructure and asset management which have weakened the revenue potential.
- (b) Failing to collect outstanding amounts due resulting in cash flow challenges.
- (c) Adopting funded budget with high risk for the 2023 financial year and two outer years. Unrealistic budgeted revenue collection levels have not been realised while operating costs remained high with no effort made to contain expenditure particularly on non-priority spending.
- (d) Material under collection of service charges and material underspending of conditional grants due to poor procurement plans or lack thereof.
- (e) Inadequate human resources capacity and a shortage of technical and engineering skills resulting in over reliance on contracted services.
- (f) Weak internal controls, risk management and supply chain management (SCM) inefficiencies resulting in poor audit outcomes and high levels of irregular, fruitless and wasteful expenditure.
- (g) Weak management of the overall revenue value chain, including tariff setting for service charges, bills not issued to consumers, and ineffective credit control measures which leads to poor collection.
- (h) Unmetered consumption to Peri-urban and the surrounding villages. This led into the municipality being unable to measure the free basic services and the water losses as a result of leakages, bursts, etc.

## **Key Issues Identified**

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
<p><b>Funded Budget Status</b></p>	<p>Municipality tabled and adopted a funded budget with significant risk for 2022/23 financial year and the two outer years (based on unrealistic collection rates)</p> <p>The municipality's inputs / submissions to NT for benchmark exercise resulted into the prediction of a favourable cash flow of R25m and an average R117m over the MTEF</p> <p>The risky funded budget predicted a favourable cash of R25 million and an average R117million over the MTEF. The overall financial health of the municipality was assessed as financially distressed.</p>	<p>The revenue and expenditure projected estimates were not realistic because they did not reflect the then baseline current and future commitments of the municipality and such negatively affected working capital management.</p> <p>Following the National Treasury's dashboard assessment for the six-month ended 31 December 2022, the municipality's cash &amp; cash equivalent amounted to <b>R50.3 million</b> whereas creditors amounted <b>R105 million</b>.</p> <p>Inadequate Repairs and Maintenance Budget</p>	<p>The municipality lost its equitable share amounting to R209m as a result of mis-appropriation (pre-payments made to Amatola Water Board) of conditional grants in December 2020. That did not only impact the adjustment budget, but also affected the cash flow in ensuing financial years.</p> <p>With-holding of funds allocated for 21/22 financial year due to material differences between the municipality and National Treasury.</p> <p>The municipality disclosed limited information. NT managed to discover the actual situation six months later.</p> <p>In its limited disclosure, the municipality's assertion was to convince treasury to assess the budget as funded at all costs.</p> <p>Available funds being prioritised towards non-core functions of the municipality and indicative of breakdown of equitable share in</p>	<p>The municipality should prevent prepayments from conditional grants and if there is any need for such the municipality must follow the process outlined in the DORA.</p> <p>The municipality must disclose in its AFS all prepayments made to contractors and any value for money thereafter if any. This will enable municipality to see the depths of the challenges and formulation of solutions thereafter</p> <p>The municipality must, through the Accounting Officer, act transparently, in the best interest of the municipality.</p> <p>Develop and implemented procedure manuals to ensure UIF&amp;WE registers are updated monthly.</p> <p>Review the budget to ensure votes/programs/projects are</p>	<p>Annual Financial Statements.</p> <p>2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report</p> <p>2019/20, 2020/21, 2021/22 and 2022/23 Approved Budget documents.</p>

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
		<p>Personnel budget in excess of 40%</p> <p>Budget for asset renewal inadequate.</p> <p>The municipality's expenditure on consultants is at 8%, 9% &amp; 8% to total operating expenditure which is above the norm of 2-5% for the three years, 2019/20 and</p>	<p>the DORA is ignored.</p> <p>Bloated organisational structure which is not aligned to the municipality's core mandate.</p> <p>The municipality does not have comprehensive and effective operations and maintenance plan for the new and old assets.</p> <p>The municipality is highly dependent on consultants.</p>	<p>adequately budgeted for.</p> <p>The municipality should reprioritise repairs and maintenance expenditure in the 2023/24 MTREF budget before approval.</p> <p>The municipality must also put in place a realistic funding plan for repairs and maintenance to correct the past and future 1% average which must be improved towards 8% as per the norms and standards.</p> <p>The municipality must build in-house capacity. skills development &amp; training must focus on enhancing technical skills on existing personnel.</p> <p>Skill audit and assessment must be conducted and a complete redesign of the structure</p> <p>There is need to revisit the mandate to be a more specialized purpose vehicle for the</p>	

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
		<p>2020/21 2021/22 respectively</p> <p>Ntinga lacks innovation and is failing to grow the economy and the entity's personnel budget way above 40%</p> <p>Ntinga does not add value to the municipality – purpose of original existence not in line with the constitutional mandate of municipality</p> <p>Ntinga's budget continues to be unrealistic and unsustainable.</p> <p>Operating revenue estimates are overstated and are not aligned to the inflation forecast over the MTREF.</p> <p>Operating expenditure projections are understated.</p> <p>Collection rate of the municipality is below the recommended norm.</p>	<p>The quality of operational staff is not in line with the requisite expertise. operational Personnel not fit for purpose.</p> <p>Ntinga mandate being LED implementing agent did not yield benefits to the municipality. The agency was then assigned water projects of which there were issues relating to implementation of the water mandate.</p> <p>The limited budget allocation due to insufficient budget from the parent municipality which the entity relies on. No additional own resources are mobilised resulting to the entity being a financial strain.</p> <p>Incorrect implementation of tariff structures.</p> <p>Non implementation of Credit Control and Debt Collection Policy.</p> <p>Payment arrangement with creditors not concluded.</p> <p>Not all properties are on the billing system.</p> <p>High grant dependency</p>	<p>municipality rather than a multi-purpose entity.</p> <p>Revise the 2023/24 MTREF Budget. Prepare a 3-Year Budget Funding Plan with set financial targets and aligned with the FRP. Monthly BFP Progress Reporting against impact indicators</p> <p>Undertake budget and actual line-item analysis for the 2023/24 and 2024/25 financial years</p> <p>Tariff Review to reflect cost (include cost-of-supply exercise) Implement a Budget funding plan with clear activities and goals.</p> <p>Austerity and cost cutting measures to be reflected in the 2023/24 Budget.</p>	

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
		<p>Over commitment on contracted services.</p> <p>No capital available for revenue generating infrastructure.</p> <p>Inability to pay bulk purchases</p> <p>Inability to repair and maintain infrastructure, which affects service delivery.</p>		<p>Intensify revenue collection measures to improve the cash position.</p>	
<p><b>Budget related policies</b> (finance and human resources)</p>	<p>The municipality has the following budget related policies in place for the financial year 2021/22:</p> <ul style="list-style-type: none"> <li>• Credit control and debt collection policy</li> <li>• Indigent policy</li> <li>• Asset management policy</li> <li>• Cost containment policy</li> <li>• UIF&amp;W Policy</li> <li>• SCM Policy</li> <li>• Tariff policy</li> <li>• Credit control policy</li> </ul>	<p>Policies not being fully implemented.</p> <p>Various audit findings of non-compliance with policies.</p>	<p>Lack of oversight by Municipal Manager and CFO.</p>	<p>Implementation of all policies fully.</p> <p>Review of all budget related policies in line with FRP objectives</p> <p>CFO to monitor full adherence to policies.</p>	<p>2018/19, 2019/20, 2020/21 Management letter and Audit Report</p>
<p><b>Revenue Management</b> Value Chain/ revenue raising measures</p>	<p>Metered Volumes of finished water and billed units are not being reconciled monthly to account for units sold, lost and in stock.</p> <p>Moreover, there are no monthly reconciliations between read consumers meters and zonal meters to determine actual</p>	<p>The bulk meter readings at water treatment works are not submitted to revenue office for the performance of reconciliations</p> <p>Consumer meters not read but billed on estimates.</p>	<p>Lack of the requisite skills and appropriate know-how in both BTO and Water &amp; Sanitation departments</p> <p>No Zonal meters have been installed in the residential areas.</p>	<p>Conduct training for both BTO and Water &amp; Sanitation staffs.</p> <p>Meter reading should be done monthly, and variances be attended promptly. Any losses identified</p>	<p>Annual Financial Statements.</p> <p>2019/20, 2020/21 and 2021/22 Auditor</p> <p>General's Audit Report and Management Report</p>

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	abnormal losses in between			should be corrected	
	The Service Charges Revenue Budget Implementation Indicator ratio has been below the norm at 81%, 82%, 83% for the past 3 financial years.	Tariffs not correctly captured on the Financial Management System.  Valuation roll not reconciling with the billing system.	Tariffs not checked by responsible senior official.  Lack of integration of the revenue value chain with town planning.  Poor data integrity.	Reconcile tariffs approved by Council and tariffs captured on the financial Management System (Phoenix) and correct discrepancies.  Perform reconciliation on valuation roll and billing system and correct discrepancies.  Data cleansing	2020/21 Billing Reports vs Valuation roll.
	Persistently low collection of revenue from clients.	Consumers do not receive billing statements.	Currently consumers are not being billed on time due to capacity challenges such as printers, vehicles availability and lack of innovative ways to improve revenue through the use of emails, SMS of statements to all consumers. Lack of up-to-date personal information data for email and SMS communication.	Procure custom designed printers for billing statements. Remote billings of highest consuming debtors are another technique that can be utilized.  Improve and customize solar to enhance revenue management system for SMS and email communication to clients.  Conduct database cleansing for client personal information for emails and SMSs.	Annual Financial Statements.  2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report
	Non-revenue and unmetered consumption to Peri-Urban & surrounding villages	The municipality does not have reliable measurement tools to measure non-	There are no bulk meters in place in place. Lack of capacity and oversight in the management	Conduct verification of existing bulk meters and their location. Procurement &	One on one with staff

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
		revenue consumption		installation of bulk meters. Monthly reading of meters	
	Weekly reconciliations of all revenue received by the municipality not performed. This is evidenced by high debt impairment.	Non-compliance to MFMA Section 64(2)(h)	Lack of capacity and skills in the revenue management unit. Lack of effective oversight by the office of the CFO and supervisors.	Enhance skills development and capacity for the revenue management unit personnel.  Perform daily and weekly reconciliations on all revenue received	Annual Financial Statements.  2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report
	Extremely low revenue base for the municipality	Of the 5 local municipalities, over 90% service charges relate to KSD and the remaining 4 is sharing 10%.	Lack of revenue generating assets in other municipalities and scarcity of water sources.	The municipality must prioritise the construction of revenue generating assets and must speed up the completion of WIP / incomplete projects.	Annual Financial Statements.  2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report
	The municipality is highly dependent on grants.	Own revenue constitutes 18% of the total operating income and 82% is from grants.	Lack of revenue enhancement strategies.  Persistent culture of dependence on grants.	Develop own Revenue Enhancement Strategy.	Annual Financial Statements.  2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report
	Debtors' collection rate below expected norm at 59% in 2019/20, 83% in 2020/21 and 78% in 2021/22.	Poor debt-collection practices.  Indigent register not regularly reviewed and updated.	Poor service delivery leading to consumers not paying for services.  Lack of capacity in the revenue division.  Non-identification of indigent households.	Reconcile government debtors and enter into payment agreements.  Implement the credit control and debt collection policy.  Capacitate the Revenue Management	2018/19, 2019/20, 2020/21 Ratio Analysis

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
				<p>Section to improve efficiencies.</p> <p>Identification and registration of Indigent Households for free basic services (to reduce debtors).</p>	
<b>Customer Care and data accuracy</b>	<p>The existing customer care unit is not properly resourced in terms of working tools and skilled staff. There is no linkage between the unit and the staff responsible for receipting.</p>	<p>High volume of unidentified deposits amounting to R774 423 (2020/21).</p> <p>High volume of customer complaints.</p> <p>Several unattended service delivery complaints.</p>	<p>No effective customer care section within the municipality.</p> <p>Inadequate reconciliation controls.</p> <p>Shortage of tools of trade to attend to service delivery issues.</p>	<p>Establish an effective customer care unit and update a policy on customer care.</p> <p>Customer Care Charter should be implemented.</p> <p>Acquire the required tools of trade to enhance effectiveness on service delivery.</p>	<p>2020/21 AFS</p> <p>Engagement with the municipality.</p> <p>Service delivery complaints log/register.</p>
<b>Cost reflective tariffs</b>	<p>Negative net operating surplus margin of -12%, -50% and -12% for the years 2018/19, 2019/20 and 2020/21 respectively.</p>	<p>Service costs assessment not being conducted.</p>	<p>Non-cost reflective tariffs being charged for trading services</p> <p>High distribution losses which are not being determined due to lack of bulk meter checks at substations and water treatment works.</p>	<p>Conduct research into cost of supply to determine cost reflective tariffs.</p> <p>Application of the NT Tariff Tool to assess tariffs for cost coverage</p>	<p>2018/19, 2019/20, 2020/21 Ratio Analysis</p>
<b>Indigent Management</b>	<p>Debtors book not reviewed to identify indigents and write offs of irrecoverable debts.</p> <p>The municipality do not have a district-wide indigent register to measure the socio-economic profile level.</p>	<p>Escalating high value of debtors which are unlikely recoverable.</p> <p>Inaccurate recording of indigents</p> <p>Allocation of support to</p>	<p>Debtors book not updated on a regular basis.</p> <p>Verification of indigents not being done regularly.</p>	<p>Review the debtor's book and identify long outstanding debts, reconcile with the indigent register, and recommend write offs.</p> <p>Review of the indigent register to cover the</p>	<p>2018/19, 2019/20, 2020/21 AFS</p> <p>2018/19, 2019/20, 2020/21 Ratio Analysis</p>



Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	None of the provision for bad debts was written off for three consecutive financial years to 2020/21.	consumers who are no longer indigents.		whole municipality.  Verify qualifying indigents at least quarterly and update the indigent register.	
<b>Supply Chain management</b>	Escalating high levels of irregular expenditure point towards SCM deficiencies. Amounts of R1,8 billion in 2021/22 and R1,7 billion in 2020/21 and R1,98 billion 2019/20 were recorded as irregular expenditure.	Lapse in oversight and lack of controls relating to compliance with SCM regulations.	Lack of staff and poor accountability, deficiency in control environment and culture.  Weak internal control system within the SCM process. Non-compliance with procurement regulations and guidelines.  There are serious capacity constraints in SCM, override of controls, non-adherence to SCM processes.	Review SCM policy to deal with any internal controls weaknesses identified and ensure they are aligned to all applicable legislation.  Procure goods and services in line with SCM policy and regulations. Prepare Procurement plans	2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report  Annual Financial Statements.
<b>Cost Containment and cash flow management</b>	Over-reliance on consultants witnessed with contracted services above the norm of 2-5% at 8%, 9% and 8% for the years 2019/20, 2020/21 and 2021/22. The municipality does have a cost containment policy aligned to cost containment regulations but not complied with	Inadequate capacity in the municipality Although the cost containment policy is in place, the municipality does not fully comply with it.	Unfilled critical vacancies.  Lack of Technically & functionally competent personnel to perform their duties. Lack of monitoring and oversight by management	Capacitate the BTO with competent personnel who have requisite skills to perform key and core functions.	2022/23 MTREF Budget analysis  2018/19, 2019/20, 2020/21 Ratio analysis.
	High cost of poor financial management and reporting.	Consultants not being effective on the appointed work.	Inadequate documentation.  Control systems override.  Poor project management	Improve document management by considering having an electronic document management system linked to the financial system.	2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
			capacity in the municipality. Consultants appointed too late.	Capacitate the BTO with competent personnel who have requisite skills to perform key and core functions.	Management Report
	The municipality has failed to develop a cost reflective tariff policy.	Loss of income.	Lack of capacity to prepare cost reflective tariff policy.	Develop cost reflective tariff policy. Review revenue management and control environment across the RM Value Chain.  Audit on tariff structures.	2020/21, 2021/22 AG Audit Reports
	Escalating Fruitless and wasteful expenditure. R56,3M in 2021/22, R50,8M in 2020/21 and R28,3M in 2019/20.	Cash flow management problems that result to delayed payments to creditors.	Payment arrangement with creditors not concluded in time.  Lack of planning and ineffective cash management.	Prepare and implement monthly cash flow forecasts.  Adhere to payment of invoices within 30 days as stipulated in regulations.  Negotiate and honor payment arrangements entered with creditors.	2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report  UIF&W Register
	Cash flow forecasts not being adhered to.	Management is not committed to maintain a cash flow forecast due to the fact that the institution is faced with huge financial constraints and low collection rates especially for the current financial year ending 30 June 2023.	The projected amount to be collected for the year ending June 2023 is an average of R238.5m compared to the budget of R290m. this implies that the expected under collection is about R52m Lack of oversight.	The CFO must regularly appraise top management about the feedback iro cash flow status quo and corrective measures thereof.  Maintain robust cash management tool.	Annual Financial Statements.  Annual Budgets  Section 71 reports
	Financial resources are not used effectively, efficiently, and economically.	Inability to plan correctly.  Needs analysis not performed to assist	Capacity constrains in municipality.  SOP's not in place or reviewed and not	Appoint competent personnel and continuous	Audit report and UIF&W expenditure trends.

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
<b>Financial Control environment</b>		<p>in developing Specifications.</p> <p>No quality reviews being done on deliverables of work being done by consultants.</p>	<p>implemented for SCM, Contract management.</p> <p>Lack of competence to review work done by consultants.</p>	<p>training of officials.</p> <p>Review of SOP's, training of staff and support with implementation.</p>	<p>2020/21, 2021/22 Audit reports</p>
	Information systems and automated controls are not supporting accountability by accurately recording and processing financial and performance information.	<p>Creditors and debtor's ledger not agreeing to the age analysis.</p> <p>Creditors listing not always complete which always leads to understatement.</p>	<p>Non restriction of unauthorised users to transact on the financial system or unapproved/not reviewed transactions being processed on the system.</p>	<p>Restrict unauthorised access to the accounting system and authorised users should have rights to transact only on their functions.</p> <p>Maintain an activity log on all transactions posted on the system.</p> <p>Review the correctness of transactions posted on the system before being processed.</p>	<p>2019/20, 2020/21 2021/22 AFS</p> <p>2019/20 2020/21 Audit Reports</p>
	Full and proper records of the financial affairs are not kept in accordance with prescripts.	<p>Records management not adequate and unable to provide sufficient evidence to AG.</p>	<p>Records management system not in place. Material audit adjustment of the AFS after AG's findings.</p>	<p>Develop records management procedure in line with regulations, train staff and support with implementation.</p> <p>Monthly reconciliation of accounting records must be prepared and reviewed by appropriate officials.</p> <p>Acquiring of a document management system which can keep documentation in soft copy and back up on cloud.</p>	<p>2020/21, 2021/22 AG Audit Reports</p>

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
				Implement a plan to improve the Qualified Audit Opinions received.	
	Risk Management function not adequately implemented	Risk assessment is inadequately conducted and the risk register maintained by the municipality does not cover all the fundamental/significant risks the municipality faces.	Lack of capacity in the risk unit of the municipality and the Chief Risk Officer position is vacant. Lack of oversight and monitoring to ensure that the risk register compiled is adequate to take the municipality forward.	Compilation of a risk register that considers AG findings, inherent risks faced by the municipality in the prevailing control environment and organisational culture. Before IA prepares the IA risk plan, it should ensure that the risk plan is complete and accurate to identify all the significant risks  Appoint highly competent and experienced Chief Risk Officer position.	Engagement with municipal officials. 2020/21, 2021/22 AG Audit Reports
	UIF&W and other losses are not prevented.	Ongoing escalation of UIF&W.	Non-compliance to policies and regulations.	Develop UIF&W strategy.	2020/21, 2021/22 AG Audit Reports  AFS
	Credit control and debt collection not effective.  Debtors' collection period for 2019/20, 2020/21, 2021/22 at 191, 193 and 191 days respectively which is way above norm of 30 days  Low debtors' collection rate being 59%, 83% and 78% for the years 2019/20 and 2020/21, 2021/22,	Continuous escalation of debtors and low collection rate.	Non implementation of credit control policy.  Low credibility of debtor's information and billing due to continuous escalation, persistently high and incremental debtors' impairment.	Review credit control policy to ensure effectiveness in achieving the intended outcome.  Implement credit control policy  Ensure correctness of consumer data and billing credibility.	2020/21, 2021/22 AG Audit Reports  AFS  2019/20, 2020/21, 2021/22 Ratio Analysis

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	respectively against the norm of 95%.				
	Inadequate reconciliation controls.  Financial Management system not optimally utilised.	Misstatements and restatements on AFS  Incorrect budgeting, transacting, and reporting.	Lack of capacity in BTO to do reconciliations.  Transacting outside the financial system.  Financial system modules not interfacing.  Poor controls over revenue management.	Filling of critical vacancies.  Training of officials on all reconciliation control requirements.  Ensure full compliance to MSCOA regulations.	2020/21, 2021/22 AG Audit Reports  AFS  National Treasury assessment.  Engagement with municipal officials.
	Ineffective system of expenditure control.	Escalation of creditors.  Incomplete Creditors Ledger not agreeing to creditors age analysis.  Invoices kept in drawers of managers.	Expenditure reconciliations not performed, which might have led to incorrect payments.  Expenditure management SOPs not implemented.  WIP register not timeously updated.  Commitment register also not timeously updated.	Review expenditure management SOP's.  Provide training on implementation of SOPs.  Instil discipline on basic monthly accounting procedures and reconciliations.	2020/21, 2021/22 AG Audit Reports  AFS
<b>Creditor management</b>	Inaccurate creditors records (invoices/ statements kept in employees drawers).  Decentralisation of invoice management.	Creditors confirmations differs from the balances in the accounting records.	Inaccurate processing of accounting information.  Poor record management system and safeguarding of documents.	Ensure that creditors have a legitimate claim in terms of money owed.  Improve creditors records management and processing of transactions.  Prepare creditors reconciliations for bulk suppliers.  Ensure that invoices enter the institution from one centre and improve general controls.	2020/21, 2021/22 AG Audit Reports  AFS  Engagement with municipal staff.

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	Creditors payment period above the norm at 99, 147 and 197 days for the three years, 2019/20 and 2020/21 2021/22 respectively.	Creditors not being paid within 30 days resulting in fruitless and wasteful expenditure in the form interests on overdue accounts.  Non-compliance with legislation.	Poor cash flow management.  Liquidity challenges.	Negotiate feasible payment arrangements which the municipality can honour.  Incur expenditure in terms of the approved 2022/23 Budget.	2020/21, 2021/22 AG Audit Reports  AFS  2020/21 2021/22 Ratio Analysis
<b>Grant management</b>	Persistent material underspending of conditional grants or the past years.	The municipality is spending below the required thresh-holds.	PROJECT IMPLEMENTATION PLAN (PIP) not adequately prepared. Lack of realistic and competent procurement. Lack of oversight by management to ensure PIP and PROCUREMENT PLANS (PP's) are implemented.	Municipality must adequately prepare PIPs and consult on the draft to ensure that projects are ready for implementation and are thoroughly consulted with Council and leadership.  The PPs must be prepared such that contractors get awarded before the beginning of the financial year.	National Treasury and COGTA assessments
	Rollover applications not always approved by National Treasury.	Persistent underspending of conditional grants by the municipality every year.  Misappropriation of funds.  Non-compliance with the conditions of grant funding.	PROJECT IMPLEMENTATION PLAN (PIP) not adequately prepared. Lack of realistic and competent procurement. Lack of oversight by management to ensure PIP and PROCUREMENT PLANS (PP's) are implemented.	Incur expenditure in terms of the approved budget and conditions of the grant.	Quarterly reports and National Treasury assessments.

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	Grant expenditure always below 40-45% of grant as required by DORA	The municipality unable to spend Municipal Infrastructure Grant (MIG) at least up to a minimum of 45% of allocation by mid-term every year and 40% of other conditional grants.	PROJECT IMPLEMENTATION PLAN (PIP) not adequately prepared. Lack of realistic and competent procurement. Lack of oversight by management to ensure PIP and PROCUREMENT PLANS (PP's) are implemented.	Incur expenditure in terms of the approved budget and conditions of the grant.	Quarterly reports and National Treasury assessments.
	Unspent conditional grants may not necessarily be backed/supported by bank balance.	The realistic appraisal reflects that the cash and cash equivalent balance at year end plus net debtors are far less than trade creditors and unspent conditional grants.  This is reflected under analysis of working capital.  Amounts being disclosed as unspent conditional grants would have already been spent.	Inability to collect amounts due from consumer debtors for services rendered by the municipality.  Unrealistic revenue budgets which are not being realised.  Poor cash flow management.	Payments from conditional grants amount received should be according to the conditions of the grant being met.  Cash-backing of all unspent conditional grants	2019/20, 2020/21 AFS  2020/21 2021/22 working capital Analysis
<b>mSCOA Implementation</b>	There are discrepancies on the 2022/23 tabled budget, usage of mSCOA segments.	The budget was not generated from the core financial system.	Inefficiency in the utilisation of the financial system by the end users.	Make the system support service provider accountable and resolve issues relating to the system.	PT 2022/23 MTREF Budget analysis  mSCOA progress report
	The municipality has not developed an mSCOA road map to address identified challenges.	No mSCOA road map have been developed.	mSCOA Steering Committee not functional.	mSCOA Steering Committee should be functional/implement its duties  Update and implement mSCOA Road Map.	
	The audited data strings are not aligned with the audited financial statements and tabled budget data	Data Strings not credible.	Non-adherence on month-end closure resulting in incomplete financial records processed and poor	Timeous Submission of credible data strings.	

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
	strings are not aligned with the budget disclosed on the MBRR.		integration of sub systems and core systems.		
	Key Functional Modules not implemented such as the asset management module.	Not All modules offered by core financial system are being utilised my municipality resulting in third party system not being fully utilised.	Financial System deficiency.  Third party system support not providing necessary support for the modules to be functional.	Development of implementation plan for non-functional modules such as asset management modules etc.	
<b>Financial reporting</b>	Credible financial statements are not submitted to AG.	Every year there are material adjustments as a result of AG's audit findings.  Non-compliance with the legislation.	Incomplete and inadequate information is submitted to the manager AFS by unskilled staff. For example, some projects claimed completed but AG found them incomplete yet the payment certificate and completion certificate were issued.  Lack of competence and poor record management.  Ineffective oversight role by council over executive and administration.	Capacitate the BTO with officials and other staff from other departments especially water and sanitation with appropriate skills and improve document management to ensure AFS are compile and submitted as credible.	2019/20, 2020/21 2021/22 AG Report
<b>Asset Management</b>	Low repairs and maintenance at 1.2%, 0.61% and 0.2% against the norm of 8% analysis for the three years 2019/20, 2020/21 and 2021/22 respectively.	Deterioration of infrastructure resulting in poor services.	Insufficient amounts being spent on repairs and maintenance of infrastructure.	Develop and implement an asset maintenance plan.	2019/20, 2020/21, 2021/22 Ratio Analysis.
	No own funded infrastructure projects. Own funded capital expenditure to total capital expenditure ratio at 0% (2020/21).	Over dependent on National Government conditional grants funding.	Not generating enough revenue to allow investment in or improvement of infrastructure.	Increase revenue baseline for more income.  Institute adequate controls to ensure improved	2020/21 WIP Register  2020/21 Ratio Analysis



Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
				revenue collection.	
	Under spending of capital expenditure budget. 4% Capital expenditure to total expenditure ratio was recorded in 2019/20 against the norm of 10-20%.	Poor management of projects. Misappropriation of funds.	Use of conditional grants to fund operational expenditure.  Cash flow problems.	Incur expenditure in terms of the approved budget and conditions of the grant.  Improve budget controls to avoid misappropriation of funds.	2019/20 Ratios analysis  2019/20 AFS Budget reports
	There are no mechanisms to monitor the asset management consultants.	No value addition derived from work done by consultants as there is no improvement in audit outcomes.	Inadequate capacity to review work of consultants.	Capacitate the BTO with officials with appropriate skills to monitor and review work done by consultants.	2018/19, 2019/20 AG Report
	The municipality does not ensure that the Asset Register reconciles to the General Ledger and AFS.	Incorrect accounting records.	Incompetence of preparers of AFS.	Capacitate the BTO with officials with appropriate skills to monitor and review work done by consultants.	2020/21 PAAP
	The municipality does not ensure that assets are correctly classified in the asset register.	Incorrect accounting of municipal assets.	Incompetence of preparers of the asset register.	Capacitate the BTO with officials with appropriate skills to monitor and review work done by consultants.	2020/21 PAAP
<b>Finance/ Technical interface</b>	There are no adequate controls in place to ensure collaboration between Finance and PMU in ensuring that assets are properly valued, exist, valid etc.	All costs relating to projects not being accounted for in the WIP and finally in the asset register.	Lack of planning and development of implementation plans.	Institute adequate controls to ensure collaboration between Finance and Project Management Unit.	2020/21 PAAP
	Data collection and processing for billing purposes ineffective.	No co-ordination between technical and Finance on meter readings.  Not all consumers are metered and known.	Lack of integration of the revenue value chain with Town planning, Finance and technical department.	Establish weekly formal meetings between Technical and Finance to investigate households not being billed and meters not being read.	2020/21 Audit report  Customer care complaints logbook

Focus Area	Brief Diagnostic analysis	Problem/Key issues	Root Causes	Strategy to solve	Source of information
		Consumer metered not read but billed on estimates.	Non cooperative business community.	Meter reading should be done monthly.	Engagement with management.

### 2.5.1 Analysis of key Financial Ratios

Ratio		2019/20	2020/21	2021/22	Interpretation
<b>Asset Management Utilisation</b>					
1.	<p><b>Capital Expenditure to Total Expenditure</b></p> <p>Indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services.</p> <p><b>The norm is 10% - 20%.</b></p>	29%	24%	22%	<p>The Capital expenditure has been above the norm for all 3 years.</p> <p>The results indicate good effort for prioritisation of expenditure towards future capacity (infrastructure) versus current operations which accelerate service delivery.</p>
2.	<p><b>Impairment of Property, Plant and Equipment, Investment Property, and Intangible assets (Carrying Value)</b></p> <p>Indicate the percentage of Impairments compared to the Carrying Value of the Assets.</p> <p><b>The norm 0%.</b></p>	0,3%	0,16%	0,2%	<p>The Impairment has been above the norm for all the years under review indicating an aged infrastructure, poor asset management, lack of operation &amp; maintenance planning and poor planning.</p>
3.	<p><b>Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)</b></p> <p>Measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery.</p> <p><b>The norm is 8%.</b></p>	1,2%	0,6%	0,2%	<p>The repairs and maintenance ratio has been significantly below the norm for all the years which reflects inadequate repairs and maintenance being done on its assets.</p> <p>In the long term this could impact on the continued provision of service and has a resulting increase on the impairment of useful assets.</p> <p>The municipality needs to ensure adequate maintenance of assets to prevent breakdowns and interruptions to service delivery.</p>

Ratio		2019/20	2020/21	2021/22	Interpretation
<b>Debtors Management</b>					
1.	<p><b>Collection Rate</b></p> <p>Indicates the level of payments as a percentage of revenue billed on credit.</p> <p><b>The norm is 95%.</b></p>	59%	83%	78%	<p>The municipality's collection rate has been below the norm for all the 3 years under review.</p> <p>This is an indication that the municipality has been failing to collect billed revenue at an acceptable level.</p> <p>This may lead to cash shortages resulting in failure to provide sufficient services in the long run.</p> <p>Revenue collection (billing), and credit control of the municipality requires urgent attention and corrective measures should be implemented.</p>
2.	<p><b>Bad Debts Written-off as % of Provision for Bad Debt</b></p> <p>The ratio compares the value of Bad Debts written-off on consumer debtors to bad debts provided for consumer debtors to ensure that the provision for bad debts is sufficient.</p> <p><b>The norm is 100%.</b></p>	2.4%	4.2%	2.3%	<p>Based on the assessment results it has been identified that the municipality has not been writing off long outstanding debts after a provision for bad debts has been raised over the entire 3 financial years under review.</p> <p>This is an indication that there is lack of financial management capacity within the municipality to correctly manage and account for debtors.</p>
3.	<p><b>Net Debtors Days</b></p> <p>Indicates the average number of days taken for debtors to pay their accounts.</p> <p><b>The norm is 30 days.</b></p>	191	193	191	<p>Net debtors' days are way above the norm, and this is in indication that the municipality is experiencing challenges in collecting outstanding amounts due.</p> <p>It also reviews that the municipality's credit control policy is ineffective and it is exposed to significant cash flow risk because of significant amounts of potential cash being tied up in consumer debtors for longer periods than expected.</p>
<b>Liquidity Management</b>					
1.	<p><b>Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)</b></p> <p>The ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without</p>	-0.9	1.7	1.9	<p>The municipality's ratio has been below the norm in 2019/20 and within the norm for the 2 years under review. However, since the Municipality is taking <b>too long</b> to settle its creditors at an average of over three months, these positive norms are not realistic</p> <p>The municipality might be vulnerable and at a higher risk in the event of financial 'shocks/set-backs'.</p>

Ratio		2019/20	2020/21	2021/22	Interpretation
	collecting any additional revenue. <b>The norm is 1-3 months</b>				The municipality is not able to sustain itself even for a month to meet its obligations to provide basic services and honour its financial commitments if they do not receive any financial support (e.g., grants).
2.	<b>Current Ratio</b>  Indicates the extent to which current assets can be used to settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e., insufficient cash to meet financial obligations.  <b>The norm is 1.5 - 2:1.</b>	0.71	0.68	0.74	The municipality's Current Ratio has been below the norm for the past 3 financial years.  This is an indication that current liabilities exceed current assets, highlighting insufficient cash to meet short-term financial obligations.  The municipality need to increase its current assets to appropriately cover current liabilities otherwise it will risk non-current assets to be liquidated to settle current liabilities.

**Liability Management**

1.	<b>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure</b>  Indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.  <b>The norm is 6% - 8%</b>	0%	0%	0%	The municipality had no capital cost as they did not take any debt to finance their operations for 3 three years under review.  Finance costs were only from interest on outstanding creditors and other payables.  Operating below the norm could indicate that the Municipality has no good financial standing, and it is unable to access borrowed funds.
2.	<b>Debt (Total Borrowings) / Revenue</b>  Indicates the extent of total borrowings in relation to total operating revenue.  The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.  <b>The norm is 45%.</b>	0%	0%	0%	The debt to revenue ratio has been 0 over the 3 years as the municipality did not take on any debt to finance its operations.  Operating below the norm could indicate that the municipality is unable to access borrowed funds because of its distressed financial position.

**Efficiency**

Ratio		2019/20	2020/21	2021/22	Interpretation
1.	<p><b>Net Operating Surplus Margin</b></p> <p>Measures the net surplus or deficit as a percentage of revenue.</p> <p><b>The norm is &gt; 0%</b></p>	14%	11%	16%	<p>The ratio has been above the norm for the three years which is an indication that the municipality is in overall providing services at a surplus.</p> <p>However, the surplus is not improving the cash and cash equivalent of the municipality</p>
<b>Distribution Losses</b>					
1.	<p><b>Electricity Distribution Losses (Percentage)</b></p> <p>The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred.</p> <p><b>The norm is 7% - 10%</b></p>	N/A	N/A	N/A	<p>Not applicable to ORTDM. It's a competence of local municipalities.</p>
2.	<p><b>Water Distribution Losses (Percentage)</b></p> <p>The purpose of this ratio is to determine the percentage loss of the potential revenue from water services through kilolitres of water purchased but not sold because of losses.</p> <p><b>The norm is 15% - 30%</b></p>	42%	-30%	-28%	<p>The municipality is not calculating the distribution losses which is an indication of a control deficiency and lack of record keeping around the distribution of water.</p>
<b>Revenue Management</b>					
1.	<p><b>Revenue Growth (%)</b></p> <p>Measures the growth in revenue year on year.</p> <p><b>The norm is at the rate of CPI</b></p>	-10%	9%	-7%	<p>The revenue growth decreased in 2019/20 and 2021/22 and significant growth was recorded in 2020/21. These inconsistencies indicate poor revenue management and lack of leadership skills as well as poor planning.</p>
2.	<p><b>Revenue Growth (%) - Excluding capital grants</b></p>	2.8%	2.9%	0.06%	<p>The revenue growth excluding capital grants is significantly below the norm for the past three years which indicates poor revenue management, lack of revenue strategies and skills shortage.</p>

Ratio		2019/20	2020/21	2021/22	Interpretation
	Measures the growth in revenue excluding capital grants year on year.  <b>The norm is &gt; 5%.</b>				
<b>Expenditure Management</b>					
1.	<b>Creditors Payment Period (Trade Creditors)</b>  This ratio indicates the average number of days taken for trade creditors to be paid.  <b>The norm is 30 days.</b>	<b>99 days</b>	<b>147 days</b>	<b>197 days</b>	The municipality's ratio is significantly above the norm for all the years which is an indication that the Municipality is experiencing cash flow problems.  Urgent attention must be paid to cash flow management and the avoidance of interest charged by creditors.  Non-compliance with MFMA regulations guiding the payment of creditors should be considered.
2.	<b>Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure</b>  This ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure.  <b>The norm is 0%.</b>	<b>88%</b>	<b>94%</b>	<b>133%</b>	The municipality's ratio has been above the norm for all the three financial years.  This indicates weaknesses within the municipality's SCM processes and non-compliance with procurement regulations and guidelines.  The municipality must investigate the incurrence of this expenditure in line with applicable legislation.
3.	<b>Remuneration as % of Total Operating Expenditure</b>  Indicates the extent to which expenditure is applied to the payment of personnel.  <b>The norm is 25% - 40%.</b>	<b>43%</b>	<b>46%</b>	<b>49%</b>	The ration has been above the norm for the three financial years under review.  Operating above the norm is an indication of overstaffing and bloated organogram.
4.	<b>Contracted Services % of Total Operating Expenditure</b>  Indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.  <b>The norm is 2%-5%.</b>	<b>10%</b>	<b>8%</b>	<b>8%</b>	The ratio has been more than the norm for all the three years under review. This is an indication that many functions were being outsourced to consultants for all these years.  This is an indication of an over reliance on contractors for service delivery which exposes the municipality to other risks such

Ratio		2019/20	2020/21	2021/22	Interpretation
					as inability to build capacity and ongoing reliance on contractors.
<b>Grant Dependency</b>					
1.	<p><b>Own Source Revenue to Total Operating Revenue (Including Agency Revenue)</b></p> <p>Assesses the extent of Own Source Revenue to Total Operating Revenue, including Agency Revenue hence self-sufficiency.</p> <p><b>No norm is proposed.</b></p>	19%	17%	17%	<p>The Own source revenue has been growing at a decreasing rate indicating that the municipality growth rate is decreasing which does not reflect continuous self-sufficiency.</p> <p>However, it is a positive note that the Municipality is not only reliant on government funding to fund its obligated municipal services. Due care must be taken to improve on self-sustenance.</p>
<b>Budget Implementation</b>					
1.	<p><b>Capital Expenditure Budget Implementation Indicator</b></p> <p>Measures the extent to which Budgeted Capital Expenditure has been spent during the financial year, under review.</p> <p><b>The norm range between 95% and 100%.</b></p>	57%	63%	51%	<p>For past three years the ratio has been below the norm which indicates discrepancies in planning and budgeting, capacity challenges to implement projects and/or Supply Chain Management process failures, which should be investigated, and corrective measures implemented.</p> <p>Under-spending is also an indicator that the municipality might be experiencing possible cash flow difficulties to implement projects, or the money is being used in the administration operations other capital projects.</p>
2.	<p><b>Operating Expenditure Budget Implementation Indicator</b></p> <p>Measures the extent to which Budgeted Operating Expenditure has been spent during the financial year, under review.</p> <p><b>The norm range between 95% and 100%.</b></p>	106%	104%	112%	<p>An overspending has been recorded for all the three years under review. This indicates inaccurate budgeting or poor financial management control in respect of budget control.</p>
3.	<p><b>Operating Revenue Budget Implementation Indicator</b></p> <p>Measures the extent of Actual Operating Revenue (Excl. Capital Grant Revenue) received in relation to</p>	50%	46%	85%	<p>The ratio has been above the norm for all the three financial years under review which indicates a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets</p>

Ratio		2019/20	2020/21	2021/22	Interpretation
	Budgeted Operating Revenue during the financial year, under review.  <b>The norm range between 95% and 100%.</b>				or issues of financial controls and management of the Municipality.
4.	<b>Service Charges and Property Rates Revenue Budget Implementation Indicator</b>  Measures the extent of Actual Service Charges and Property Rates Revenue received in relation to Budgeted Service Charges and Property Rates Revenue during the financial year, under review.  <b>The norm range between 95% and 100%.</b>	81%	82%	83%	The ratio has been below the norm for the three years under review which indicates a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and management of the Municipality.

## 2.6 SERVICE DELIVERY

### (a) Water and Sanitation

ORTDM is a water service Authority providing all areas in the municipality with water except in most rural areas where they get water from boreholes. Most households within the ORTDM do have access to formal water supply system and access to treated water. The municipality also provides sanitation services. All towns in four out five local municipalities under the district municipality do not have a Waterborne Sewer Facilities (WSDP). There is currently no Sanitation Master Plan. The lack of a formal sanitation system is currently delaying critical business and residential developments in towns. The municipality is faced with persistence material underspending of grants over the past five years. Almost every year the municipality losses conditional grants through re-allocation at mid-year due to insufficient spending and consistently apply for roll-overs which are sometimes not approved by National Treasury.

The underspending happens even after the original allocation was reduced in most instances. To accelerate expenditure and avoid withholding of funds, the municipality resorted to pay contractors advance payments before the work is done which results in the municipality unable to adhere to the provisions of general conditions of contract during the performance of its duties. The municipality proceeded with the constructions of strategic projects even though they were aware that the designs were poorly made. For instance, the construction of Ntsonyini Dam which was awarded at R200 million. The contractor abandoned site with little or no work done but was paid R136 million which constituted 68%.

The municipality claimed that progress work done was 36% which constituted R72 million value of work-in-progress. It means the contractor was paid in advance before the work done. The expenditure impacts on addressing service delivery backlogs. This means that the municipality will have to re-construct the dam and recover those lost funds. The municipality also appointed a contractor for an amount of R97



million to abstract raw water from Umzimvumbu river into Ntsonyini Dam and so far, the expenditure incurred is R58 million. To-date there is still no abstraction because the dam has not been constructed or in construction. This is also a wasteful and fruitless expenditure in progress.

The municipality reported incomplete projects and those projects were vandalized which will require to be reworked, for example Flagstaff Regional Water Supply Scheme. The construction started long time ago and backup generators were purchased but were later stolen. The scheme was since vandalised due to poor security. Port St Johns Regional Water Supply Scheme was poorly designed and the expenditure incurred to-date amounts to R19 million which might also be a wasteful expenditure. There is a qualification item of advance payments in the audit report for the past three years and the report states that the municipality is not disclosing advance payments to other service providers except to Amatola Water Board.

Other notable challenges found are as follows:

- Poor Maintenance of existing old infrastructure;
- Ineffective Project Implementation Plans and lack of monitoring thereof;
- Lack of project risk identification and management;
- Lack of oversight by all levels of assurance providers; namely supervisors, management, internal auditors, audit committees;
- Inability to determine when projects are complete or not and therefore negatively impacting on the credibility of annual financial statements;
- WIP registers consists of abandoned projects and advance payments as well as wasteful & fruitless expenditures
- Lack of funds for infrastructure investment planning;
- Illegal water connections;
- The inability of some contractors to perform work;
- Lack of Water & Sanitation Master Plans.
- Inability to develop proper functionalities in the tender documents due to lack of skills in the SCM and Specification Committees;
- Inability to evaluate progress of projects
- Lack of procurement plans due to capacity challenges in the SCM unit and Water & Sanitation department;
- Inability to measure and calculate water losses correctly;
- Lack of standard procedures for correct mixture of chemicals and raw water for control purposes; and
- Over 90% of revenue generation comes from KSD LM as a result of lack of sustainable water & sanitation provisioning.

The municipality has potential to increase its revenue generation if they can have strategic focus in effective planning and implementation of those strategies.

**Table 1: Water Sources**

Dam	River	Photo	Indicators	FSC	This Week	Last Week	Last Year
Corana Dam	Corana River		<a href="#">Indicators</a>	0.8	98.9	99.3	99.9
Mabeleni Dam	Mhlahlane River		<a href="#">Indicators</a>	2.1	100.0	100.0	100.0
Mlanga Dam	Mlanga River		<a href="#">Indicators</a>	1.6	95.3	95.6	91.2
Nqadu Dam	Nqadu River		<a href="#">Indicators</a>	1.3	99.7	100.0	100.0

Umtata Dam	Mtata River		<a href="#">Indicators</a>	244.7	100.7	101.2	102.3
<b>Total</b>				<b>250.4</b>	<b>100.6</b>	<b>101.1</b>	<b>102.2</b>

As of 17 April 2023, the five dams' situation is stable with the water level ranging from 91.2% to 100.07%. (Information extracted from DWS official website <https://www.dws.gov.za/Hydrology/Weekly/ProvinceWeek.aspx?region=EC>)

Backlog of water services in the ORTDM is summarized in the following table:

**Table 2: Water Backlogs**

The table presents the total water backlog per municipality and the costs estimate to eradicate Water Backlogs

Municipality	HH Below Minimum Service Level	Cost
Ingquza Hill	46 440	R2 600 640 000
Nyandeni	38 780	R2 171 680 000
Port St Johns	23 280	R1 303 680 000
Mhlontlo	26 530	R1 485 680 000
King Sabata Dalindyebo	59 450	R3 329 200 000
<b>Total for ORTDM</b>	<b>194 363</b>	<b>R10 884 328 000</b>

WATER SERVICES BACKLOG		
Number of Households	Percentage	Problem Statement
194363	57.68%	The source of funds is the limiting factor resulting to the 57.68% backlog. Another contributing factor is persistent material underspending on capital grants.

### Sanitation Backlogs

The district municipality currently does not have a Sanitation Master Plan and as such there's no statistics available to determine the sanitation backlog.

The water provision for O R Tambo District Municipality is summarized in the following table:

**Table 3: Water & Sanitation Provision**

Piped Water (2021)	Household	Total %
Piped water inside dwelling	42,302	12.55%
Piped water in yard	47,638	14.14%
Communal piped water (At RDP level)	41,432	12.30%
Communal piped water (below RDP level)	16,621	4.93%

No formal piped water	188,972	56.08%
	<b>336,965</b>	<b>100.00%</b>

The regions within O.R. Tambo District Municipality with the highest number of households with piped water inside the dwelling is King Sabata Dalindyebo Local Municipality with 26 500 or a share of 62.60% of the households with piped water inside the dwelling within O.R. Tambo District Municipality. The region with the lowest number of households with piped water inside the dwelling is Port St Johns Local Municipality with a total of 2 500 or a share of 5.92% of the total households with piped water inside the dwelling within O.R. Tambo District Municipality. (Source Draft Reviewed IDP 2023/24)

Sanitation	Household	Total %
Flush toilet	59,687	17.71%
VIP	233,249	69.22%
Pit Toilet	31,586	9.37%
Bucket System	855	0.25%
No toilet	11,590	3.44%
	<b>336,967</b>	<b>100.00%</b>

The region within ORTDM that has the highest number of flush toilets is King Sabata Dalindyebo Local Municipality with 32 200 or a share of 53.91% of flush toilets. The region with the lowest number of flush toilets is Mhlontlo Local Municipality with a total of 4 720 or a share of 7.90% of the total flush toilets. (Source Draft Reviewed IDP 2023/24)

**WSA Overview on Blue Drop Assessment:  
O.R. Tambo District Municipality Municipal BDRR Score: 52.6%**

Assessment Areas	Coffee Bay WTW	Corana WTW	Flagstaff WTW	Ingquza Hill LM - BH
<b>BULK / WSP</b>				
A: Total Design Capacity (MI/d)	3	3.5	0.01	N/I
B: % Operational Capacity in terms of design	26.7%	20%	N/I	N/I
C1a: % Microbiological Compliance	28.9%	100%	42.9%	100%
C1b: % Microbiological Monitoring Compliance	66.7%	8.3%	29.2%	4.2%
C2a: % Chemical Compliance	90.7%	96.9%	94.7%	92.6%
C2b: % Chemical Monitoring Compliance	55.9%	52.9%	52.9%	50%
D: % Technical Skills	0%	75%	37.5%	0%
E: % Water Safety Plan Status	9.1%	9.1%	0%	0%
<b>%BDRR/BDRR max</b>	<b>48.8%</b>	<b>21.5%</b>	<b>80.4%</b>	<b>60.5%</b>

Assessment Areas	KSD LM - BH	Lusikisiki WTW	Lutsheko WTW	Mdlankala WTW
<b>BULK / WSP</b>				
A: Total Design Capacity (MI/d)	N/I	2.8	N/I	2.2
B: % Operational Capacity in terms of design	N/I	33.2%	N/I	25%
C1a: % Microbiological Compliance	69%	43.8%	25%	89.5%
C1b: % Microbiological Monitoring Compliance	100%	76%	9.5%	52.8%
C2a: % Chemical Compliance	95.7%	91.2%	83.9%	93.1%

<b>C2b: % Chemical Monitoring Compliance</b>	52.9%	55.9%	55.9%	55.9%
<b>D: % Technical Skills</b>	0%	0%	0%	0%
<b>E: % Water Safety Plan Status</b>	0%	9.1%	N/A	9.1%
<b>%BDRR/BD RR max</b>	62%	48.8%	92.3%	48.8%

Assessment Areas	Mhlahlane WTW	Mhlanga WTW	Mhlontlo LM - BH	Mqanduli WTW
<b>BULK / WSP</b>				
<b>A: Total Design Capacity (MI/d)</b>	N/I	2%	N/I	1
<b>B: % Operational Capacity in terms of design</b>	N/I	41%	N/I	65%
<b>C1a: % Microbiological Compliance</b>	69.2%	70.8%	73.2%	39.4%
<b>C1b: % Microbiological Monitoring Compliance</b>	82.4%	46.2%	83.3%	87.5%
<b>C2a: % Chemical Compliance</b>	93.4%	92.4%	91.1%	87.9%
<b>C2b: % Chemical Monitoring Compliance</b>	55.9%	55.9%	52.9%	55.9%
<b>D: % Technical Skills</b>	37.5%	37.5%	0%	0%
<b>E: % Water Safety Plan Status</b>	9.1%	9.1%	0%	9.1%
<b>%BDRR/BD RR max</b>	41.6%	60.5%	65.4%	41.1%

Assessment Areas	Mvumelwano WTW	Ngqeleni WTW	Nyandeni LM - BH	Port St Johns WTW
<b>BULK / WSP</b>				
<b>Total Design Capacity (MI/d)</b>	2.4	0.4	N/I	2.5
<b>B: % Operational Capacity in terms of design</b>	27.1%	100%	N/I	95.6%
<b>C1a: % Microbiological Compliance</b>	70%	28.9%	77.4%	62.2%
<b>C1b: % Microbiological Monitoring Compliance</b>	47.6%	91.7%	79.2%	50%
<b>C2a: % Chemical Compliance</b>	91.6%	85%	95.2%	91.6%
<b>C2b: % Chemical Monitoring Compliance</b>	55.9%	55.9%	52.9%	52.9%
<b>D: % Technical Skills</b>	37.5%	37.5%	0%	0%
<b>E: % Water Safety Plan Status</b>	9.1%	9.1%	0%	9.1%
<b>%BDRR/BD RR max</b>	58.7%	37.2%	70.9%	54.24

Assessment Areas	PSJ LM - BH	Sidwadweni WTW	Thornhill WTW	Tsolo WTW
<b>BULK / WSP</b>				
<b>A: Total Design Capacity (MI/d)</b>	N/I	1.8	60	1.4
<b>B: % Operational Capacity in terms of design</b>	N/I	86.7%	88.3%	45%
<b>C1a: % Microbiological Compliance</b>	0%	88.6%	87.8%	83.9%
<b>C1b: % Microbiological Monitoring Compliance</b>	0%	45.8%	54.5%	87.5%
<b>C2a: % Chemical Compliance</b>	0%	97.6%	94.5%	90.1%
<b>C2b: % Chemical Monitoring Compliance</b>	0%	55.9%	52.9%	55.9%
<b>D: % Technical Skills</b>	0%	37.5%	75%	37.5%
<b>E: % Water Safety Plan Status</b>	0%	9.1%	9.1%	9.1%
<b>%BDRR/BD RR max</b>	100.00	56.14	52.50	35.46

Assessment Areas	Umzimvubu WTW	Upper Chulunca WTW
<b>BULK / WSP</b>		
<b>A: Total Design Capacity (MI/d)</b>	4	2.5
<b>B: % Operational Capacity in terms of design</b>	59.8%	46%
<b>C1a: % Microbiological Compliance</b>	69.8%	85.7%
<b>C1b: % Microbiological Monitoring Compliance</b>	58.3%	32.4%
<b>C2a: % Chemical Compliance</b>	91.6%	94.7%

<b>C2b: % Chemical Monitoring Compliance</b>	55.9%	55.9%
<b>D: % Technical Skills</b>	37.5%	75%
<b>E: % Water Safety Plan Status</b>	9.1%	9.1%
<b>%BDRR/BDRR max</b>	52.7%	54.9%

*Source: Blue Drop Progress Assessment Report 2021*

Twenty-two drinking water supply systems under OR Tambo DM were assessed. Coffee Bay, Corana, Lusikisiki, Mdlankala, Mhlahlane, Mqanduli, Ngqeleni and Tsolo supply systems are in the low-risk rating category. Ingquza Hill LM BH, KSD LM -BH, Mhlanga, Mhlontlo LM-BH, Mvumelwano, Port St Johns, Sidwadweni, Thornhill, Umzimvubu and Upper Chulunca supply systems are in the medium-risk rating category. High-risk ratings were achieved for Flagstaff and Nyandeni LM -BH supply systems and critical-risk ratings for Lutsheko and PSJ LM-BH.

There are no Water Treatment Works (WTW) for all boreholes supply systems and this impacted on the scores under Criteria A, B and E. Ngqeleni and Port St Johns supply systems are operating above 90% of design capacity indicating insufficient treatment capacity to supply current and future requirements and no flow monitoring is taking place for the Flagstaff supply system.

With regards to drinking water quality management, inadequate microbiological and/or inadequate alignment of microbiological monitoring programmes to SANS 241: 2015 requirements has impacted on the scores under these criteria and also indicate that water supplied may present health risks associated with microbiological parameters to the consumers. This should be addressed urgently. Most supply systems also achieved inadequate chemical compliance and this coupled with lack of SANS 241: 2015 aligned monitoring programmes means the water supplied may still carry health and aesthetic risks to the consumers.

Corana, Thornhill and Upper Chulunca systems achieved acceptable scores under technical skills as they have process controllers and supervisors that are aligned with the regulations requirements. However, maintenance teams are lacking for these systems. The remainder of the supply systems supervisors, process controllers and maintenance teams are not adequately aligned to the requirements. This presents a risk of poor operation and maintenance procedures which may in turn affect water supply to the customers. All supply systems also achieved low scores under criteria E indicating that a SANS 241: 2015 and WHO aligned Water Safety Planning process is not adopted and implemented for all supply systems.

The regulator urges the WSA to urgently implement the following measures to reduce risk ratings and ensure supply to safe drinking water to consumers:

- ✓ A and B: Linking and classification of WTW for supply systems where there are no linked plants or boreholes.
- ✓ A and B: Planning and budgeting to address capacity exceeding at Ngqeleni and Port St Johns WTW
- ✓ C1a and C2a: Development and implementation of corrective measures in the event of microbiological and chemical failures to ensure delivery of safe drinking water at all times.
- ✓ C2b: Alignment of chemical monitoring programmes to SANS 241: 2015 requirements in terms of sampling points, number of samples and frequency of monitoring
- ✓ D: Appointment of suitably qualified staff (supervisors, process controllers and maintenance teams) aligned to set criteria. Existing staff can also be subjected to relevant training in order to meet the requirements.
- ✓ E: Adoption and implementation of Water Safety Plans inclusive of risk assessment of entire supply system, water quality evaluation based on full SANS 241: 2015 analysis of raw and final water,

development of risk-based monitoring programmes, and implementation of mitigating measures to address all medium and high risks as per SANS 241: 2015 and WHO guidelines.

### Sanitation System Capabilities

The table below depicts the status of access to sanitation within the municipality.

Toilet Facilities	Total	Total %
No access	6888	13.49%
Water borne system	26431	51.78%
Flush Toilet [with septic tank]	6622	12.97%
Chemical toilet	175	0.35%
Pit toilet with ventilation [VIP]	3318	6.50%
Pit toilet without ventilation	5393	10.56%
Bucket toilet	445	0.87%
Other	1521	2.98%
Unspecified	256	0.50%
<b>Total</b>	<b>51049</b>	<b>100.00%</b>

### (b) Waste Disposal and Refuse Removal

The function of Landfill sites management and control is the responsibility of Local Municipalities. However, ORTDM developed an Intergraded Waste Management Plan as a guide to addressing the challenges that affect the provision of waste management to the communities.

The responsibility for the collection and disposal of all waste generated within the municipal area resides with the local municipalities. In accordance with the National Environmental Management Act (NEMA), Local municipalities are tasked with the function to maintain and operate the landfill sites in accordance with the prescribed laws and regulations.

Currently refuse removal services are rendered on a weekly basis in all urban areas including business areas. There is no sign of having the service rolled out in the peri-urban and rural areas. According to the National Waste Management Strategy, the national target is that all households including in rural areas must receive the basic service i.e., collection of household waste. The target has not been achieved due to lack of the requisite plant and machinery.

A regional recycling program is in place and coordinated by the District Municipality. A regional recycling facility was established with satellite centres in the FIVE Local Municipalities. The initiative has managed to partially move recycling from mainly informal to formal though facing operational challenges. Plans are in place to fully formalise recycling initiatives through the already established regional recycling centre. The intervention will save space at the proposed permitted landfill site, and it will also reduce the burden on the current illegal dumpsites which are to be decommissioned and rehabilitated.

Street cleaning services are confined to the central business areas. Street bins have been installed to reduce the levels of littering. Municipality is utilising the services of EPWP to ensure that the towns remain clean.

**(Source IDP)**

### (c) Fleet (Municipal Vehicles) Management

The municipality’s internal controls around fleet management are inadequate, thus resulting in abuse of the fleet and fuel. Fleet is obsolete because of not being maintained according to the manufacturer’s specifications.

**(d) Development and Planning processes**

- **Human Settlement** - The municipality does not have human settlements as part of its core functions. The municipality only plays a coordinating role for and on behalf of the provincial government.
- **Local Economic Development** – There is quite average visibility of LED initiatives in the district municipality with national and provincial anchor projects such as the planned Wild Coast SEZ. The Wild Coast SEZ was designated as an Industrial Park on the 13 February 2020 due to the fact that the current status of the SEZ does not meet minimum requirement for consideration for designation as an SEZ, due to the low investment commitment by investors”. Currently LED initiatives are at a small scale and thus falling short of addressing the broad socio-economic challenges faced by the communities. Production is at a subsistence level and lack of financial capital injection is the main inhibiting factor for the economy to thrive and prosper. Lack of skills and innovation is also evident in the municipality. The municipality is however in the process of reviewing its existing LED strategy.
- **Long term development planning** – The Municipality is part of the national initiative called the Eastern Seaboard Development (coastal smart city) encompassing two provinces, four district municipalities and seventeen local municipalities. The development of a Regional Spatial Development Framework is in progress. Within the national government initiatives, the district is implementing the District Development Model pilot.

**(e) Security Services** - The municipality has contracted the services of a private security company to safeguard municipal building and other cardinal points. There is no security provisioning of the abandoned projects to prevent further waste of expenditure incurred during construction.

**Key Issues Identified**

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
<b>SDF and Master Plans</b>	The District Spatial Development Framework is due for update (last update was 2021 there is a need to review SDF in line with the current planned development Eastern Seaboard Development)	Lack of skills in the local municipalities’ town planning department to monitor implementation SPLUMA. Limited functionality of the SPLUMA Tribunals (of the 5LMs only 2LMs have a sizeable number of development	Lack of financial Resources to fund town planning in all LMs.  Lack of capacity as result of vacancies in the PMU.  Technical Service Director position is vacant.	Speed up the review of the SDF and Master plans by 2023/24.  Recruitment and training of Engineers to assist with construction, repairs, and maintenance in the municipality.  Engage relevant stakeholders to expedite formalisation of settlements. (Department of	2022/23 IDP  2021/22 Annual Report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		<p>applications processed as follows: Nyandeni 11, Mhlontlo 02, IHLM 0 PSJ LM 0 KSD LM 69.</p> <p>Non-compliance with Asset Management Policy and Procedure Manual.</p>		<p>Human Settlement and Department of Rural Development and Land Reform).</p> <p>Engage MISA working together with the Municipality officials to assist with the development and implementation of infrastructure plans. MISA- provide assistance to the Municipality and work with the Officials in the process.</p>	
<p><b>Status of project management</b></p>	<p>Construction of strategic projects is continued even though the municipality is aware that the designs were not properly done. Examples are Ntsonyini dam and PSJ regional water scheme</p> <p>The construction of mutually exclusive projects is continued even though the one that depends to the success of the other abandoned whereas 68% of expenditure was paid. This project is for the abstraction of raw water to Ntsonyini dam</p>	<p>Poorly designed projects usually remain unfinished projects, vandalized and waste of scarce financial resources.</p> <p>Key projects like Flagstaff Regional Water supply scheme and are in need if being reworked with additional internal scarce resources</p>	<p>Lack of project management skills capacity. The municipality to inflates the expenditure to evade the roll-over and re-allocations of conditional grants</p> <p>Limited skills within the municipality.</p> <p>The Lack of oversight by all level's assurance, capacity and project management skills in the municipality.</p> <p>Inadequate risk management and deficient risk register</p> <p>Lack of oversight by all level's assurance, capacity and</p>	<p>The municipality must calculate the losses incurred and start recovering the losses from affected parties. Punitive actions must be taken against the engineering consultants. Extensive capacity building must be done in the project management and compliance issues Municipality must perform a due diligence on the continuation of this project to prevent a wasteful expenditure and vandalism. Municipality must compile a list of all similar projects and perform effective corrective action to enhance service delivery.</p> <p>Internal audit and audit committee must come on board to provide a concrete assurance level to the core services of the municipality</p>	<p>One on one with staff and management reports</p>



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	<p>Key projects left unfinished are not secured and get vandalized. Some of these projects are: Flagstaff Regional Water supply, Port St Johns Regional Water supply and Ntsonyini Dam</p>		<p>project management skills in the municipality. Inadequate decision making. Inadequate risk management and deficient risk register</p>	<p>NT to avail experienced engineers to independently compile a list of all incomplete projects to assess comprehensive financial implications and corrective actions be taken against service providers and all those involved, especially engineering consultants who certifies payment certificates</p>	
<p><b>Revenue generating assets.</b></p>	<p>Revenue generating assets are not prioritised in the towns of four local municipalities of the district municipality. These eight towns do not have waterborne sewer facilities</p>	<p>The other four LMs contribute less than 10% of revenue generation and collections.</p>	<p>Inadequate decision making.  Incompleteness of Flagstaff regional scheme and PSJ has cost the municipality to enhance revenue.  Lack of goal congruence in strategic approach</p>	<p>Municipality must prioritise the revenue generating assets by bringing them forward in all the towns. This will improve the expansion of revenue generation and collections, and more resources will be available for repairs &amp; maintenance, as well as improvement to financial health</p>	<p>Management reports and one on one with staff</p>
<p><b>Water Losses</b></p>	<p>There are currently no measurement tools for water losses Water losses due to illegal connections.  No inspections are conducted on illegal water connections.</p>	<p>The municipality does not have bulk and zonal meters to measure water losses and free basic services</p>	<p>Lack of oversight by all level's assurance, capacity and project management skills in the municipality</p>	<p>Municipality must budget and install bulk meters &amp; zonal meters. These will assist the municipality to identify the abnormal losses and prevent them  Municipality must develop a strategy to identify illegal connections with the relevant stakeholders such as community leaders</p>	<p>Management reports, audit reports and one on one with staff</p>

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<p><b>Persistent material underspending of conditional grants</b></p>	<p>Municipality materially underspend conditional grants such as MIG and RBIG persistently every year. The reasons given were: in <b>2019/2020</b> it was mainly COVID-19 as there were shortage of material as well as restriction on personnel on site. In <b>2020/2021</b> there was instability resulting to destruction of Committees to award projects and awards were done late, strikes and investigations affected operations. In <b>2021/2022</b> instability continued to a point of invocation of section 216 and the grants were only transferred during quarter three of the financial year therefore not much of progress and expenditure could be spent.</p>	<p>The material underspending of grants meant to eradicate backlogs create reverse backlogs</p>	<p>Inadequate procurement plans on the planned projects as well as slow SCM process mainly due to capacity constraints .Lack of oversight by all levels of assurance. Shortage of capacity and project management skills in the PMU unit</p>	<p>The municipality must monitor the implementation of its PIP's, to address the challenges from the feedback and feedforward controls so as to be proactive in preventing the underspending. The procurement plans must be aligned to PIP. Competent staff must be appointed in the SCM committees. Additional Staff to be trained to improve rotation of staff in the committees. Training must be conducted for staff in the PMU unit. Audit committee must assist the council by advising it to ask relevant questions for effective oversight</p>	<p>Roll-over applications, letters from National treasury and adjustments budgets</p>
<p><b>Continuous roll-over application</b></p>	<p>Every year the municipality fails to spend its grants and apply for roll-overs</p>	<p>Persistence roll-over's applications are not approved and costing municipality a cash flow problem due to poor financial health and equitable share setoffs.</p>	<p>Inadequate planning and lack of oversight by all level's assurance, capacity and project management skills in the municipality. Lack of effective procurement planning and capacity in the bid committees</p>	<p>The municipality must develop a realistic comprehensive water &amp; sanitation master plans and plans across the MTEF with the indicative allocations in the DORA. This must be presented to the budget steering committee and quarterly to council for overseeing and monitoring. Develop effective</p>	<p>Roll-over applications, Adjustments budgets</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				procurement plans and strengthen & monitor the bid committees	
<b>Status of disaster management center</b>	The municipality does not have disaster management centre to anticipate the disasters that are prone to it	The delay in the construction of the DMC is aggravating the challenges faced by the municipality because the DM is not disaster ready to act on the disaster	Inadequate planning and lack of oversight by all level's assurance, capacity and project management skills in the municipality	Municipality must prioritise the resources for the completeness of disaster management centre. Unnecessary expenditures can be avoided if the centre if effectively functions	One on one with the municipality
<b>Inability to spend disaster funds</b>	The municipality is slow in spending emergency funds	Inability to fast-track spending in line with the SCM policy aggravate the subsequent disasters when they happen	Poor planning and Lack of oversight by all level's assurance, capacity and project management skills in the municipality	The municipality must be capacitated to apply and implement the SCM prescripts to spend disaster funds without incurring irregular expenditure	Section 71, 72 and section 52d reports
<b>Project Implementation plan (PIP)</b>	The municipality prepares and approves ineffective PIP every year	Projects included in the PIP are not yielding any service delivery improvements in terms of quality spending and meeting the conditions of the grants	Inadequate planning and lack of oversight by all level's assurance, capacity and project management skills in the municipality	The municipality must prepare PIP at least 6 months before it is presented to council and relevant transferring departments for thorough consultations and participations. It must be accompanied by the implementations in terms of realistic procurement plans and be monitored to ensure procurements are finished at before the beginning of ensuing financial year. Then the municipality will be able to meet the conditions of the grants as stipulated in the DORA.	The municipality did not furnish us with the PIP's which are required in terms of DORA
<b>Operation and maintenance plan</b>	The Municipality does not have operation and maintenance plan however the	Inability to identify which assets require priority attention	Inadequate planning, skill shortage and lack of oversight by all	Municipality must prepare an operation and maintenance plan every year in order to be proactive	One on one with staff  Audited AFS

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	department is currently utilising its staff to develop the O&M plan where the first draft will be submitted by September 2023		level's assurance,	in preventing asset impairment and enhancing the useful lives of assets. The municipality must reallocate its budget from non-core activities to repairs and maintenance budget	
<b>Unfavorable blue drop status</b>	The municipality obtained an overall score of 52,6%. Recent assessment has been conducted for 2022 period, where the scores confirmation session was done and awaiting final audit outcomes. The district has progressively improved its capacity by appointing an external scientific service provider to support the DM on implementation of the requirements of bluedrop	Out 22 water supply tested, only 8 are at lower risk. The others are at medium and high risk	Lack of operating manual procedures for standard mix of chemicals & raw water. Lack of capacity skills to perform the work and lack of effective oversight	Continuous training and capacity building of personnel.	Blue drop progress report 2022 / 2023
<b>Fleet Management</b>	Inadequate fleet and lack of experienced operators.  Fleet misuse without monitoring.  Obsolete vehicles.	Poor management of fleet.  Misuse of vehicles, petrol, and diesel.  Lack of maintenance of the fleet.  Use of obsolete and not roadworthy vehicles.	Lack of financial resources to procure new fleet.  Poor services delivery affecting a wide variety of municipal services depending on vehicles.	Assign a suitably qualified official to execute fleet management functions.  Implement the following effective internal controls to manage municipal fleet: <ul style="list-style-type: none"> <li>• Install trackers in all fleet</li> <li>• Linkages of fleet movement to improved service delivery</li> <li>• Preventative maintenance</li> <li>• Promotion of safe driving habits</li> <li>• Continuous interval physical inspections of</li> </ul>	One on one with staff  High fuel costs in the adjustment's budgets

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				fleet <ul style="list-style-type: none"> <li>• Bi-weekly reports on the performance of fleet</li> <li>• Reconciliation of fuel with service delivery mileage</li> </ul> Auction obsolete assets.	
<b>Bulk meters</b>	No bulk check meter at substations and water treatment works.	Non installation of bulk check meters results in municipality unable to verify accuracy of the readings.	Vandalised and stolen.	Conduct a meter audit and install bulk meters at all water treatment plants. The bulk meters must also be installed at the point of entry for each zonal area where billing occurs. The bulk meters must also be installed at each point of entry where non-revenue water is supplied. Period reconciliation must be done monthly to assist with the prevention of losses	2020/21 Audit Report  Management input.
<b>Housing Delivery</b>	The municipality does not have housing powers and functions.  The municipality is only responsible for coordination and administration of housing beneficiaries. The municipality has an agreement with the Department for implementation	None	None		
<b>Status of Infrastructure Master Plans</b>	.  There is currently no Sanitation Master Plan.  All towns do not have Waterborne Sewer Facilities	.  The municipality has not given priority to Sanitation Master Plans and the	.  Lack of funding to develop, review and implement master plans.  Lack of	Develop a plan to engage municipalities up to council level,	2022/23 IDP and Water services report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>(WSDP) except for KSD.</p> <p>A Water Master Plan is in place.</p>	<p>waterborne sewer facilities since it became the water authority and provider</p> <p>The lack of a formal sanitation system is currently delaying critical business and residential developments in towns (eg Bedford and Airport Areas)</p>	<p>technical capacity within the municipality to develop the credible sanitation master plans and thereby ensure that all towns have waterborne sewer.</p>	<p>Develop a comprehensive sanitation master plan. Implement recommendations of the master plans in place. Review the water master plan.</p>	
<p><b>Asset Management</b></p>	<p>The Municipality has property plant and equipment (PPE) in place valued/costed at R10,8 billion in 2021/22 and the carrying value of R7,3 billion with a classification problem for over three years</p> <p>The municipality does not have sufficient funds to repair and maintain the completed new and aged assets</p> <p>Only advance payments made to Amatola Water Board were disclosed in the AFS of the municipality</p> <p>The municipality does not have a</p>	<p>The PPE has been one of the bases of the qualified audit opinion for over three years</p> <p>The municipality not effectively implementing asset management policy and poor contract management. Work certified per completion certificates do not correlate with the physical work on the ground</p> <p>The municipality processed the prepayments in contravention</p>	<p>Inability to execute PPE internally renders management ineffective and inadequate oversight over the service provider who is responsible for updating of PPE especially infrastructure assets. The municipality does not have qualified engineer</p> <p>Lack of monitoring of consulting engineers as well as poor project management skills. No consequences management for consulting engineers and contractors for poor</p>	<p>The PPE must be updated monthly in terms GRAP 17 by both BTO and Water &amp; Sanitation department with top management involved by obtaining the monthly reports and to resolve any challenges identified.</p> <p>Possible falsified or duplicated work certified should be investigated to account, together with any authorised wasteful expenditure</p> <p>The municipality must identity the completeness of all prepaid expenditures and transfer them from WIP register to prepaid expense account. In future the municipality should avoid advance payments and process payments where there is value for money.</p> <p>All payments made in advance should be properly accounted</p>	<p>2019/20, 2020/21 and 2021/22 Auditor General's Audit Report and Management Report</p> <p>The tabled budget for MTEF 2024 to 2026</p>

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	<p>plan to recover monies paid in advance from service providers even though some had left the sites unfinished</p> <p>The municipality does not have sufficient funds to repair and maintain the completed new and aged assets</p>	<p>with 164(1)(c)(iii) of MFMA as well as Division of Revenue Act which requires that</p> <p>The budget and expenditure for repairs and maintenance for the past three years have been between 0,2% to 1,2% against the norm of 8%</p>	<p>workmanship</p> <p>Poor control environment and lack of proper compliance</p> <p>Lack of proper realistic project implementation plan and procurement plan as well as deficiency in project management skills</p> <p>The expenditure for repairs &amp; maintenance has been not been adequate</p>	<p>The municipality must identify all service providers paid in advance and unfinished projects which should be investigated and where misappropriated wasted funds should be recovered</p> <p>A realistic plan must be put in place to align the repairs and maintenance with the norms and standards of 8%. This should align with the tabled budget as at 31 March 2023.</p> <p>The municipality must prepare a comprehensive operations and maintenance plan from the infrastructure asset register and from other relevant information sources since PPE is a persistent basis of a qualified opinion</p> <p>Develop and implement an asset maintenance plan.</p>	

## 2.7 CONCLUSION

The O.R Tambo status quo evaluation report reflects the current state of affairs at the municipal level across the four pillars (Governance, Institutional, Financial Management and Service Delivery). Given that this intervention was initiated in response to a crisis in the municipality's financial affairs, the results of the as-is assessment are used to develop a financial recovery plan to assist the municipality in regaining its financial health and beginning to meet its financial obligations and service delivery performance. The political stability and commitment of the leadership in implementing and monitoring the FRP's core strategic objectives is a precondition for a successful required intervention.