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Department:

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PROVINCE OF KWAZULU-NATAL

Municipal Finance Management

3rd Quarter Review

2019/20

MFQR: 31 March 2020

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Data Source and Reliability

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All information in this report is based on the Section 71 MFMA reports that each Municipal Manager and Chief Financial Officer were required to verify, sign and submit to the National Treasury. Therefore, any queries on the budget, revenue or expenditure figures reflected in the report must be referred to the relevant Municipal Manager or Chief Financial Officer.

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Methodology and Approach

The methodology and approach used for the compilation of this report included the following:

The data for the analysis used in this report was extracted from the 2019/20 Municipal Budget Information: Third Quarter Financial Results as at 31 March 2020. The non-delegated municipalities, namely, the eThekweni Metro, the Msunduzi and uMhlatuze Local Municipalities are included in the report. By the time of publishing the third quarter information by National Treasury, some municipalities did not submit all the required monthly MFMA Section 71 performance data strings. This has distorted the review of the budget performance as at the end of the third quarter for the respective municipalities, the district totals and the aggregated provincial total.

The mechanical straight line method of projection was used as the benchmark for expenditure and revenue as at the end of the third quarter. In terms of the straight line method of projection, all municipalities should have generated and spent approximately 75 percent of their Adjustments Budgets as at the end of the third quarter.

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Introduction

This consolidated municipal budget performance review covers the financial performance of municipalities in KwaZulu-Natal as at the end of the third quarter of the 2019/20 financial year ended 31 March 2020.

The consolidated statement provides the in-year financial performance of municipalities against their budgeted revenue and expenditure. It includes the capital and operating budget performances as well as the debtors, creditors, conditional grants and compliance with the DoRA and MFMA reporting requirements. It also provides a status report on the implementation of the Municipal Regulations on the Standard Chart of Accounts (mSCOA) and other municipal support and oversight.

Assessing the expenditure performance of municipalities assists in serving as a control and management tool and also serves as an early warning signal for the identification of financial problems.

Noteworthy, is that for the first time in South Africa's history, the reports for the 2019/20 financial year are prepared using the figures from the mSCOA data strings. The mSCOA Regulations were promulgated on 22 April 2014 and prescribed the uniform recording and classification of the municipal budget and financial information at a transaction level. The mSCOA Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six mSCOA regulated segments. The credibility of the information contained in the mSCOA data strings is a concern. At the core of the challenge is:

- The incorrect use of the mSCOA and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in/from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheets and then import the excel spreadsheets into their system; and
- Municipalities are not locking their Approved Budgets annually or their financial systems at month-end to ensure prudent financial management.

It should also be noted that the municipalities listed in Table 16(b) did not upload all the required data strings for the 2019/20 financial year as at 31 March 2020 which resulted in distorted information for the quarter under review. Due to the matters noted above, the financial performance information contained in this report is not credible.

2. Provincial and District Overview

2.1 Operating Revenue and Expenditure – Provincial Total

Table 1: Operating Revenue and Expenditure as at the end of Quarter 3 - 2019/20

R thousands	2019/20										2018/19		Q3 of 2018/19 to Q3 of 2019/20	
	Budget		First Quarter		Second Quarter		Third Quarter		Year to Date		Third Quarter			
	Main appropriation	Adjusted Budget	Actual Expenditure	1st Q as % of Main appropri	Actual Expenditure	2nd Q as % of Main appropr	Actual Expenditure	3rd Q as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted	Actual Expenditure	Total Expenditure as % of adjusted		
Operating Revenue and Expenditure														
Operating Revenue	68 851 028	69 032 959	20 858 166	30.3	12 358 518	17.9	15 607 351	22.6	48 824 036	70.7	10 924 866	72.5	42.9	
Property rates	12 962 057	13 127 626	4 270 016	32.9	2 099 575	16.2	2 965 730	22.6	9 335 321	71.1	2 241 408	71.6	32.3	
Service charges - electricity revenue	22 041 858	21 810 122	5 901 795	26.8	2 970 178	13.5	4 548 392	20.9	13 420 365	61.5	3 635 280	65.1	25.1	
Service charges - water revenue	7 927 119	7 881 160	1 852 582	23.4	1 327 148	16.7	1 851 118	23.5	5 030 847	63.8	924 383	66.1	100.3	
Service charges - sanitation revenue	1 931 412	1 865 764	410 804	21.3	279 439	14.5	346 504	18.6	1 036 748	55.6	322 336	71.4	7.5	
Service charges - refuse revenue	1 537 958	1 521 049	369 133	24.0	266 214	17.3	307 893	20.2	943 239	62.0	268 184	71.2	14.8	
Rental of facilities and equipment	1 093 680	1 082 653	216 805	19.8	164 901	15.1	187 212	17.3	568 918	52.5	141 327	56.3	32.5	
Interest earned - external investments	896 983	922 406	206 461	23.0	148 477	16.6	169 423	18.4	524 362	56.8	189 603	70.3	(10.6)	
Interest earned - outstanding debtors	891 948	1 031 147	267 912	30.0	331 984	37.2	268 536	26.0	868 431	84.2	205 302	196.7	30.8	
Dividends received	-	2 645	532	-	373	-	304	11.5	1 209	45.7	192	67.8	58.6	
Fines, penalties and forfeits	433 300	358 428	29 950	6.9	49 144	11.3	39 541	11.0	118 634	33.1	204 381	42.9	(80.7)	
Licences and permits	127 267	135 408	72 972	57.3	56 157	44.1	28 786	21.3	157 914	116.6	46 954	127.0	(38.7)	
Agency services	65 917	55 777	12 332	18.7	9 301	14.1	14 353	25.7	35 987	64.5	13 592	59.5	5.6	
Transfers and subsidies	14 885 114	15 149 993	6 167 508	41.4	3 590 279	24.1	3 736 736	24.7	13 494 523	89.1	2 551 099	88.0	46.5	
Other revenue	4 019 921	4 042 061	1 059 598	26.4	1 064 183	26.5	1 139 715	28.2	3 263 495	80.7	171 355	59.3	565.1	
Gains	36 494	46 720	19 767	54.2	1 166	3.2	3 109	6.7	24 042	51.5	9 470	43.3	(67.2)	
Operating Expenditure	69 600 281	69 827 078	15 754 656	22.6	12 409 495	17.8	13 727 118	19.7	41 891 269	60.0	12 272 961	63.4	11.8	
Employee related costs	20 982 475	20 958 877	4 656 642	22.2	3 779 986	18.0	4 536 774	21.6	12 973 402	61.9	3 877 694	67.7	17.0	
Remuneration of councillors	818 537	828 991	187 373	22.9	161 587	19.7	187 558	22.6	536 518	64.7	192 249	68.8	(2.4)	
Debt impairment	2 119 268	2 127 718	334 987	15.8	245 629	11.6	115 579	5.4	696 195	32.7	397 376	29.5	(70.9)	
Depreciation and asset impairment	5 840 457	6 106 619	962 824	16.5	898 024	15.4	1 202 993	19.7	3 063 841	50.2	1 069 969	57.8	12.4	
Finance charges	1 197 521	1 210 545	302 512	25.3	221 103	18.5	220 680	18.2	744 294	61.5	92 274	51.7	139.2	
Bulk purchases	19 917 744	19 882 658	5 670 605	28.5	3 306 646	16.6	3 628 351	18.2	12 605 602	63.4	3 302 336	65.9	9.9	
Other Materials	1 837 518	1 832 737	415 923	22.6	299 461	16.3	410 621	22.4	1 126 005	61.4	310 759	58.8	32.1	
Contracted services	9 536 706	10 134 216	1 948 166	20.4	2 134 584	22.4	2 140 753	21.1	6 223 503	61.4	1 927 103	64.6	11.1	
Transfers and subsidies	856 950	825 556	175 926	20.5	166 631	19.4	188 037	22.8	530 594	64.3	147 049	57.7	27.9	
Other expenditure	6 411 051	5 839 577	1 109 392	17.3	1 190 264	18.6	1 125 763	19.3	3 425 419	58.7	940 490	59.4	19.7	
Losses	82 056	79 585	(9 693)	(11.8)	5 580	6.8	(29 992)	(37.7)	(34 106)	(42.9)	15 662	116.3	(291.5)	
Surplus/(Deficit)	(749 253)	(794 119)	5 103 510		(50 977)		1 880 234		6 932 766		(1 348 095)			
Transfers and subsidies - capital (monetary allocations) (Nat/ Prov and	8 092 210	8 730 261	444 855	5.5	1 211 666	15.0	993 325	11.4	2 649 845	30.4	703 190	28.7	41.3	
Transfers and subsidies - capital (monetary alloc)(Departm	70 068	98 123	20 354	29.0	9 653	13.8	9 345	9.5	39 352	40.1	45 381	103.8	(79.4)	
Transfers and subsidies - capital (in-kind -	8 275	7 861	1 883	22.8	1 383	16.7	5 518	70.2	8 785	111.7	792	8.1	596.7	
Surplus/(Deficit) after capital transfers and contributions	7 421 300	8 042 126	5 570 601		1 171 725		2 888 422		9 630 748		(598 732)			

Source: NT Igdatabase

- Municipalities in KwaZulu-Natal have generated Operating revenue amounting to R48.8 billion or 70.7 percent of the Adjusted Budget of R69 billion as at the end of quarter three of the 2019/20 financial year. The revenue generated is below the expected straight line projection of 75 percent as at the end of the third quarter for the 2019/20 financial year. The percentage is lower in comparison to Operating revenue generated of 72.5 percent in the third quarter of the previous financial year.

- Categories of Operating revenue that generated more than 75 percent of their Adjusted Budget include *Licences and permits* at R157.9 million or 116.6 percent, *Transfers recognized - operational* at R13.5 billion or 89.1 percent, *Interest earned- outstanding debtors* at R868.4 million or 84.2 percent and *Other revenue* at R3.3 billion or 80.7 percent.

- Based on the straight line projection of 75 percent as at the end of the third quarter, municipalities in the province have significantly under-generated revenue against the Adjusted Budget for *Fines, penalties and forfeits* at R118.6 million or 33.1 percent, *Dividends received* at R1.2 million or 45.7 percent, *Gains* at R24 million or 51.5 percent and *Rental of facilities and equipment* at R568.9 million or 52.5 percent.

- Municipalities in KwaZulu-Natal have incurred Operating expenditure amounting to R41.9 billion or 60 percent of the Adjusted Budget of R69.8 billion which is below the projected baseline of 75 percent.

- Significantly low expenditure on *Debt impairment* of R696.2 million (32.7 percent) and *Depreciation and asset impairment* of R3.1 billion (50.2 percent) was incurred as at the end of March 2020.

- It should be noted that negative R34 million or negative 42.9 percent was reported against *Losses* due to the eThekweni Metro and the Msunduzi and Mtubatuba Local Municipalities incorrectly reporting negative figures of R40.6 million, R325 000 and R52 000 respectively against *Losses*.

- Municipalities in KwaZulu-Natal reported an Operating Surplus of R6.9 billion at the end of quarter three of the 2019/20 financial year.

2.2 Operating Revenue – District Total

Table 2: Operating Revenue per source and per district as at the end of Quarter 3 – 2019/20

R'000	Original Budget	Adjusted Budget	Unaudited Actual	% Generated	Detail						
					Property rates	Service charges			Transfers recognised - operational	Other own revenue	Other revenue ²
						Electricity revenue	Water revenue	Other ¹			
eThekweni	39 248 508	39 466 318	26 702 649	67.7	6 134 032	9 335 965	3 167 679	1 039 984	2 684 320	3 092 113	1 248 556
Ugu	2 952 877	2 961 046	2 723 584	92.0	460 148	118 047	333 738	161 745	1 557 204	21 103	71 600
uMgungundlovu	7 511 235	7 499 144	3 391 947	45.2	563 228	742 404	530 786	122 954	1 167 317	23 157	242 102
uThukela	2 488 252	2 552 995	2 124 280	83.2	302 668	456 260	156 339	89 682	942 146	14 868	162 315
uMzinyathi	1 536 275	1 524 656	1 086 209	71.2	155 777	151 796	52 778	36 208	633 864	(5 787)	61 574
Amajuba	2 390 828	2 357 076	2 013 953	85.4	351 720	488 366	151 220	169 094	796 450	7 963	49 140
Zululand	1 772 389	1 813 486	1 662 125	91.7	203 023	211 662	52 084	54 597	1 088 101	2 191	50 467
uMkhanyakude	1 376 676	1 346 552	1 259 792	93.6	85 220	3 390	30 144	9 872	1 065 569	30 240	35 356
King Cetshwayo	4 808 361	4 811 100	3 953 362	82.2	487 167	1 202 891	401 970	184 974	1 452 010	35 895	188 454
iLembe	3 253 955	3 257 293	2 547 700	78.2	432 588	620 872	115 726	88 205	1 136 956	33 373	119 980
Harry Gwala	1 511 670	1 443 294	1 358 436	94.1	159 751	88 712	38 383	22 672	970 586	8 379	69 953
Total	68 851 028	69 032 959	48 824 036	70.7	9 335 321	13 420 365	5 030 847	1 979 987	13 494 523	3 263 495	2 299 497

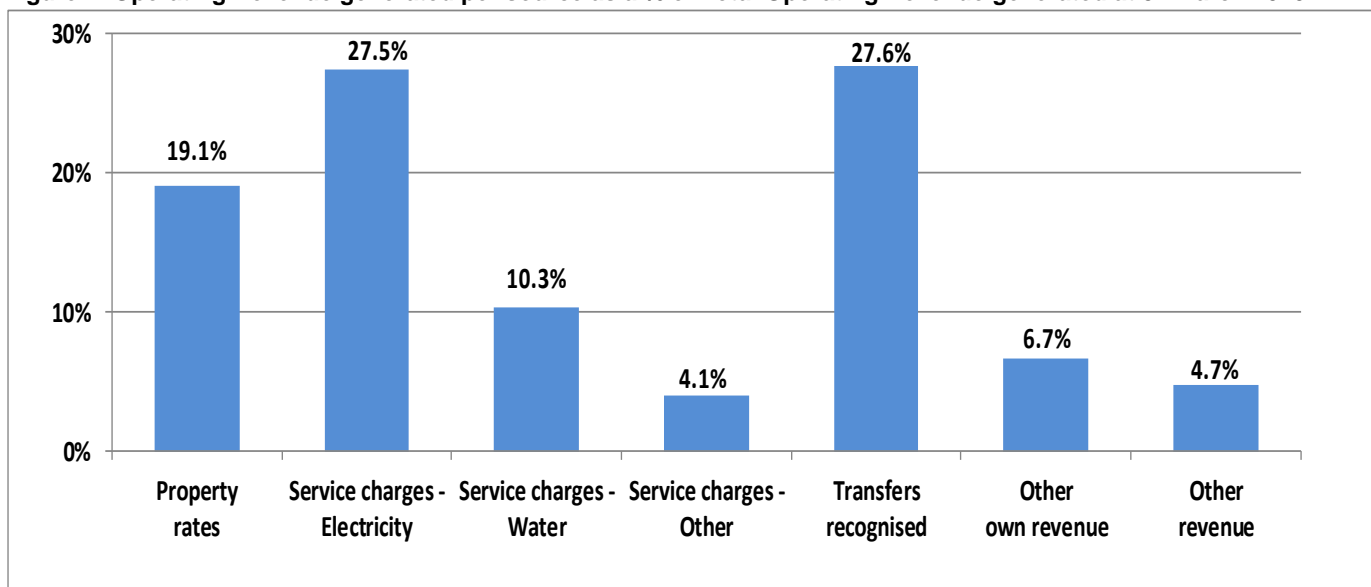
Source: NT Igdatabase

1 Include Service charges revenue for Sanitation, Refuse and Other.

2 Include Property rates - penalties and collection charges, Rental of facilities and equipment, Interest earned on external investments & outstanding debtors,

Dividends received, Fines, Licences and permits, Agency services and Gains on disposal of PPE.

Figure 1: Operating Revenue generated per source as a % of Total Operating Revenue generated at 31 March 2020



- The bulk of Operating revenue at the end of the third quarter was generated by the eThekweni Metro at R26.7 billion followed by the King Cetshwayo District at R4 billion and the uMgungundlovu District at R3.4 billion.
- Operating revenue generated by the districts against their respective Adjusted Budgets exceeded the benchmark of 75 percent for the third quarter with the exception of the uMgungundlovu District (45.2 percent), the eThekweni Metro (67.7 percent) and the uMzinyathi District (71.2 percent). The total revenue generated by the uMzinyathi District appears to have been understated as a result of possible errors in reporting by the eNdumeni Local Municipality who reported *Other own revenue* of negative R11.9 million.
- Transfers recognised – operational* at R13.5 billion or 27.6 percent contributed the most to the total Operating revenue generated followed by *Service charges – electricity revenue* at R13.4 billion or 27.5 percent and *Property rates* at R9.3 billion or 19.1 percent.
- The Unaudited actual Operating revenue as at the end of the third quarter for the uMkhanyakude, Harry Gwala, Zululand, uMzinyathi and Ugu Districts is largely funded by grants at 84.6 percent, 71.4 percent, 65.5 percent, 58.4 percent and 57.2 percent respectively.
- The eThekweni Metro (10.1 percent), the uMgungundlovu (34.4 percent) and King Cetshwayo (36.7 percent) Districts are the least dependent on grant funding.
- With the exception of the eThekweni Metro (R6.1 billion), the uMgungundlovu (R563.2 million), King Cetshwayo (R487.2 million) and Ugu (R460.1 million) Districts generated the largest amounts for *Property rates revenue* whilst the uMkhanyakude (R85.2 million), uMzinyathi (R155.8 million) and Harry Gwala (R159.8 million) Districts contributed the least to the total *Property rates revenue*.
- Excluding the eThekweni Metro (R13.5 billion), the King Cetshwayo (R1.8 billion), uMgungundlovu (R1.4 billion) and iLembe (R824.8 million) Districts generated the bulk of the total revenue for *Service charges* which includes *Electricity revenue*, *Water revenue* and *Other*. The uMkhanyakude and the Harry Gwala Districts generated the least towards revenue for *Service charges* with R43.4 million and R149.8 million respectively.

2.3 Operating Expenditure – District Total

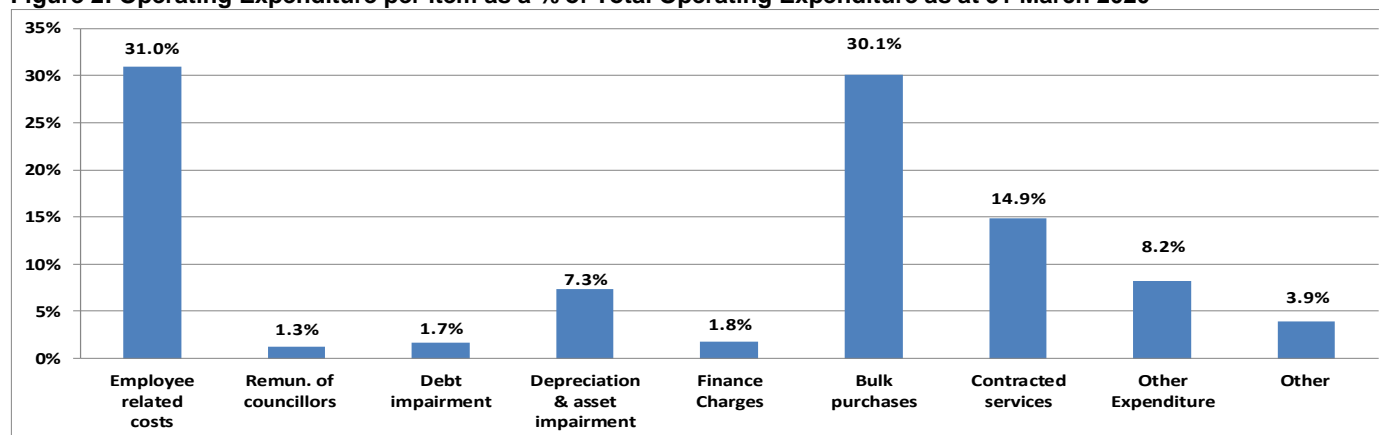
Table 3: Operating Expenditure per item and per district as at the end of Quarter 3 – 2019/20

R'000	Original Budget	Adjusted Budget	Unaudited Actual	% Spent	Detail								
					Employee related costs	Remun. of councillors	Debt impairment	Depreciation and asset impairment	Finance charges	Bulk purchases	Contracted services	Other expenditure	Other ¹
eThekweni	38 728 894	39 137 683	23 610 200	60.3	6 920 334	83 911	446 580	1 550 402	611 326	8 432 744	3 214 454	1 310 801	1 039 649
Ugu	2 931 589	3 095 115	2 025 562	65.4	750 712	57 780	11 558	203 128	8 029	159 928	387 847	395 339	51 241
uMgungundlovu	7 275 614	7 244 116	3 269 951	45.1	954 573	58 095	15 159	180 769	25 022	1 297 694	495 919	199 863	42 856
uThukela	2 540 171	2 569 278	1 347 614	52.5	617 338	39 367	4 862	48 871	3 050	294 371	141 333	167 153	31 270
uMzinyathi	2 134 384	1 589 852	866 186	54.5	335 375	23 751	5 254	3 486	174	123 556	194 898	127 916	51 776
Amajuba	2 877 007	2 900 278	1 874 511	64.6	497 421	29 050	134 592	264 552	8 137	334 862	284 270	217 291	104 338
Zululand	1 880 839	1 865 288	1 408 258	75.5	532 246	45 450	983	84 514	9 734	242 545	280 183	162 310	50 294
uMkhanyakude	1 331 626	1 365 318	855 530	62.7	339 733	43 102	16 554	46 553	4 500	93 888	133 135	147 450	30 615
King Cetshwayo	5 034 045	5 121 637	3 559 826	69.5	1 020 152	70 022	60 451	418 632	54 598	902 900	614 305	338 257	80 509
iLembe	3 233 677	3 296 289	2 061 949	62.6	606 937	47 540	(5 659)	164 386	17 214	632 101	306 976	229 188	63 265
Harry Gwala	1 632 435	1 642 225	1 011 680	61.6	398 581	38 449	5 861	98 548	2 512	91 014	170 184	129 853	76 679
Total	69 600 281	69 827 078	41 891 269	60.0	12 973 402	536 518	696 195	3 063 841	744 294	12 605 602	6 223 503	3 425 419	1 622 494

Source: NT Igdatabase

¹ Include Other Materials, Transfers and grants and Loss on disposal of PPE.

Figure 2: Operating Expenditure per item as a % of Total Operating Expenditure as at 31 March 2020



- Municipalities in KwaZulu-Natal spent R41.9 billion or 60 percent of the total Adjusted Budget of R69.8 billion which is below the straight line projection of 75 percent as at the end of the third quarter of the 2019/20 financial year. The percentage is lower in comparison to Operating expenditure incurred of 63.4 percent in the third quarter of the previous financial year.

- With the exception of the Zululand District (75.5 percent), all the districts in the province including the eThekweni Metro reported Operating expenditure of less than 75 percent of the Adjusted Budget.

- The Zululand District reported the highest expenditure with 75.5 percent followed by the King Cetshwayo, Ugu and Amajuba Districts with 69.5 percent, 65.4 percent, 64.6 percent respectively. Districts that reported the lowest expenditure rates as at the end of the third quarter are the uMgungundlovu (45.1 percent), uThukela (52.5 percent) and uMzinyathi (54.5 percent) Districts.

- The majority of the municipalities (28) in the province have not reported expenditure against *Debt impairment*. In addition, it was noted that 18 municipalities did not report on *Depreciation and asset impairment*.

- The iLembe and uMzinyathi District Municipalities incorrectly reported negative figures against *Debt impairment* of R12.9 million and R954 000 respectively. Furthermore, the uMzinyathi District Municipality and the iNkosi Langalibalele Local Municipalities incorrectly reported negative figures against *Depreciation and asset impairment* of R19.5 million and R227 000 respectively.

- It should further be noted that *Finance charges* is also understated as the uMuziwabantu Local Municipality incorrectly reported negative R2 million for *Finance charges*.

- Employee related costs* contributed towards Operating expenditure with R13 billion or 31 percent. It is noted with concern that *Employee related costs* and *Remuneration of councillors* as a percentage of Operating expenditure exceeds the norm range of between 25 and 40 percent as per MFMA Circular No. 71 for the uThukela (48.7 percent), uMkhanyakude (44.7 percent) and uMzinyathi (41.5 percent) Districts.

- Bulk purchases* is the second highest contributor towards the Operating expenditure in the province at R12.6 billion or 30.1 percent which is expected considering that revenue from Trading services, namely, *Service charges – electricity* and *Service charges – water* also contributed significantly towards Operating revenue.

2.4 Repairs and Maintenance Expenditure- District Total

Table 4: Repairs and Maintenance expenditure per district (Total) as at the end of Quarter 3- 2019/20

R'000	Original Budget	Adjusted Budget	Q1 Sept Actual	Q2 Dec Actual	Q3 Mar Actual	Unaudited Actual	% Spent
eThekwini	3 383 328	3 430 073	711 643	653 445	805 692	2 170 779	63.3
Ugu	258 557	191 220	60 114	30 451	34 720	125 284	65.5
uMgungundlovu	352 168	303 964	48 682	46 318	21 660	116 661	38.4
uThukela	120 465	116 968	18 408	27 318	26 972	72 699	62.2
uMzinyathi	170 662	204 723	22 217	55 095	45 764	123 076	60.1
Amajuba	28 092	28 092	2 984	6 030	6 645	15 659	55.7
Zululand	97 123	101 374	29 103	39 913	27 475	96 491	95.2
uMkhanyakude	37 481	46 013	1 876	3 274	4 475	9 625	20.9
King Cetshwayo	360 729	392 571	82 815	64 680	94 096	241 591	61.5
iLembe	148 301	143 114	16 914	30 995	21 972	69 881	48.8
Harry Gwala	78 259	73 666	6 351	15 426	13 743	35 520	48.2
Total	5 035 166	5 031 778	1 001 108	972 946	1 103 213	3 077 267	61.2

Source: NT Igdatabase

- The Ugu, uMgungundlovu, iLembe, Harry Gwala and uThukela Districts decreased their Adjusted Budget for *Repairs and maintenance* by R67.3 million, R48.2 million, R5.2 million, R4.6 million and R3.5 million respectively. On the other hand, the eThekwini Metro, the uMzinyathi, King Cetshwayo, uMkhanyakude and Zululand Districts increased their Adjusted Budget for *Repairs and maintenance* by R46.7 million, R34.1 million, R31.8 million, R8.5 million and R4.3 million respectively. The Amajuba District is the only district in the province that did not make any changes to their budget for *Repairs and maintenance*.
- The total expenditure to date on *Repairs and Maintenance* for all Districts as well as the eThekwini Metro was R3.1 billion or 61.2 percent as at the 31 March 2020.
- The reported expenditure for *Repairs and maintenance* appears to be understated as the uMuziwabantu and uPhongolo Local Municipalities did not report on *Repairs and maintenance* as at the end of March 2020.
- With the exception of the Zululand District (95.2 percent), all districts in the province, including the eThekwini Metro (63.3 percent), reported *Repairs and maintenance* expenditure of below 75 percent as at the end of the third quarter of the 2019/20 financial year. The uMkhanyakude (20.9 percent), uMgungundlovu (38.4 percent), Harry Gwala (48.2 percent) and iLembe (48.8 percent) Districts reported the lowest expenditure for *Repairs and maintenance*.
- The consequence of low expenditure on *Repairs and maintenance* for municipalities supplying Electricity and Water is evident in their reported annual Electricity and Water losses.
- Low expenditure on *Repairs and maintenance* may also be an indication that the municipalities lack Asset repair and maintenance plans and/or are experiencing cash flow challenges and are therefore unable to spend at appropriate levels on *Repairs and maintenance*, thus impacting negatively on service delivery.

2.5 Capital Revenue and Expenditure- Provincial Total

Table 5: Capital Revenue and Expenditure as at the end of Quarter 3 – 2019/20

	2019/20										2018/19		Q3 of 2018/19 to Q3 of 2019/20	
	Budget		First Quarter		Second Quarter		Third Quarter		Year to Date		Third Quarter			
	Main appropriation	Adjusted Budget	Actual Expenditure	1st Q as % of Main appropriation	Actual Expenditure	2nd Q as % of Main appropriation	Actual Expenditure	3rd Q as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted budget	Actual Expenditure	Total Expenditure as % of adjusted budget		
R'000														
Capital Revenue and Expenditure														
Source of Finance	13 415 299	11 898 798	16 797 253	125.2	4 543 982	33.9	1 793 963	15.1	23 135 198	194.4	1 079 139	29.5	66.2	
National Government	9 218 123	7 893 129	6 820 371	74.0	4 134 104	44.8	1 373 906	17.4	12 328 380	156.2	866 020	34.5	58.6	
Provincial Government	717 235	849 192	31 483	4.4	29 776	4.2	32 121	3.8	93 380	11.0	58 392	26.6	(45.0)	
District Municipality	225	50	-	-	-	-	-	-	-	-	-	-	-	
Transfers and subsidies - capital (monetary alloc)(Departm Agencies,HH,PE,PC,...)	11 884	15 244	2 739	23.1	627	5.3	898	5.9	4 264	28.0	12 113	69.3	(92.6)	
Transfers recognised - capital	9 947 468	8 757 615	6 854 593	68.9	4 164 507	41.9	1 406 925	16.1	12 426 025	141.9	936 525	34.0	50.2	
Borrowing	1 788 564	1 761 575	162 293	9.1	19 034	1.1	49 028	2.8	230 356	13.1	50 321	10.8	(2.6)	
Internally generated funds	1 679 268	1 379 608	9 780 367	582.4	360 440	21.5	338 010	24.5	10 478 817	759.6	92 293	16.1	266.2	
Capital Expenditure Functional	17 176 895	16 131 846	18 042 248	105.0	4 923 529	28.7	2 184 817	13.5	25 150 594	155.9	1 395 411	27.1	56.6	
Municipal governance and administration	2 010 674	2 617 100	10 334 439	514.0	287 280	14.3	185 430	7.1	10 807 149	412.9	64 333	(5.2)	188.2	
Executive and Council	273 251	136 527	12 004	4.4	3 668	1.3	12 086	8.9	27 758	20.3	4 946	2.9	144.4	
Finance and administration	1 736 765	2 478 986	10 322 244	594.3	283 445	16.3	173 315	7.0	10 779 004	434.8	59 370	(6.1)	191.9	
Internal audit	658	1 587	191	29.1	168	25.5	29	1.8	387	24.4	18	38.8	60.0	
Community and Public Safety	2 624 752	2 849 094	745 256	28.4	200 701	7.6	361 047	12.7	1 307 004	45.9	165 497	19.3	118.2	
Community and Social Services	682 760	630 210	462 988	67.8	71 177	10.4	214 582	34.0	748 747	118.8	60 595	18.1	254.1	
Sport And Recreation	503 510	485 913	135 023	26.8	46 662	9.3	38 579	7.9	220 264	45.3	35 281	14.9	9.3	
Public Safety	169 063	182 166	51 712	30.6	19 743	11.7	15 606	8.6	87 062	47.8	14 213	36.9	9.8	
Housing	1 237 963	1 528 045	94 088	7.6	62 120	5.0	90 556	5.9	246 765	16.1	51 770	21.4	74.9	
Health	31 455	22 760	1 445	4.6	998	3.2	1 724	7.6	4 167	18.3	3 639	32.4	(52.6)	
Economic and Environmental Services	4 322 843	4 287 976	1 673 888	38.7	610 703	14.1	782 495	18.2	3 067 086	71.5%	398 820	35.9	96.2	
Planning and Development	882 633	1 129 084	358 643	40.6	212 595	24.1	126 147	11.2	697 385	61.8	130 617	60.2	(3.4)	
Road Transport	3 425 315	3 143 120	1 313 163	38.3	397 735	11.6	654 037	20.8	2 364 935	75.2	267 875	25.7	144.2	
Environmental Protection	14 896	15 772	2 082	14.0	374	2.5	2 310	14.6	4 766	30.2	329	17.9	602.6	
Trading Services	8 127 166	6 269 538	5 271 463	64.9	3 821 245	47.0	849 901	13.6	9 942 609	158.6	765 069	46.1	11.1	
Energy sources	1 252 901	1 032 754	529 942	42.3	136 636	10.9	133 136	12.9	799 715	77.4	127 629	36.1	4.3	
Water Management	5 339 315	3 403 762	3 444 531	64.5	2 621 590	49.1	481 500	14.1	6 547 621	192.4	437 010	45.0	10.2	
Waste Water Management	1 354 643	1 726 315	1 234 945	91.2	1 049 710	77.5	202 868	11.8	2 487 523	144.1	185 565	63.5	9.3	
Waste Management	180 306	106 707	62 046	34.4	13 309	7.4	32 396	30.4	107 751	101.0	14 866	39.2	117.9	
Other	91 460	108 137	17 202	18.8	3 599	3.9	5 945	5.5	26 746	24.7	1 691	16.7	251.5	

Source: NT Igdatabase

- The highest contributor towards the total Capital sources of finance as at the end of quarter three was *National Government* transfers at R12.3 billion followed by *Internally generated funds* at R10.5 billion and *Borrowing* at R230.4 million. *Provincial Government* transfers and *Other transfers and grants* with a total of R97.6 million made up the remaining Capital Sources of Finance.

- At the end of the third quarter, the municipalities in the province were expected to have spent a straight line projection of 75 percent of the R16.1 billion Adjusted Budget for Capital expenditure. However, to date, the municipalities spent R25.2 billion or 155.9 percent which significantly exceeds the available budget. Capital expenditure increased by R18.6 billion as compared to the total expenditure of R6.6 billion or 45.9 percent as at the end of quarter three of the 2018/19 financial year. The current reported figures however appear to be incorrect due to reporting significant errors made by a number of municipalities.

- The bulk of the Capital expenditure as at the end of the third quarter was spent on *Municipal governance and administration* at R10.8 billion or 43 percent of the total Capital expenditure of which, R10.8 billion was spent on *Finance and administration* followed R27.8 million spent on *Municipal governance and administration* and R387 000 spent on *Internal audit*.

- Trading services* is the second largest contributor towards the total Capital expenditure amounting to R9.9 billion or 39.5 percent of the total Capital Expenditure of which R6.5 billion was spent on *Water management* followed by R2.5 billion spent on *Waste water management*, R799.7 million spent on *Energy sources* and R107.8 million spent on *Waste management*.

- Economic and Environmental Services* is the third largest contributor towards the total Capital expenditure amounting to R3.1 billion or 12.2 percent of the total Capital Expenditure of which, R2.4 billion was spent on *Road Transport* followed by R697.4 million spent on *Planning and Development* and R4.8 million spent on *Environmental Protection*.

- Community and Public Safety* contributed the second least towards the total Capital expenditure with R1.3 billion or 5.2 percent which is made up of *Community and Social Services* of R748.7 million, *Housing* of R246.8 million, *Sport and Recreation* of R220.3 million, *Public Safety* of R87.1 million and *Health* of R4.2 million.

- Other* contributed the least towards the total Capital expenditure at R26.7 million or 0.1 percent.

2.6 Capital Revenue – District Total

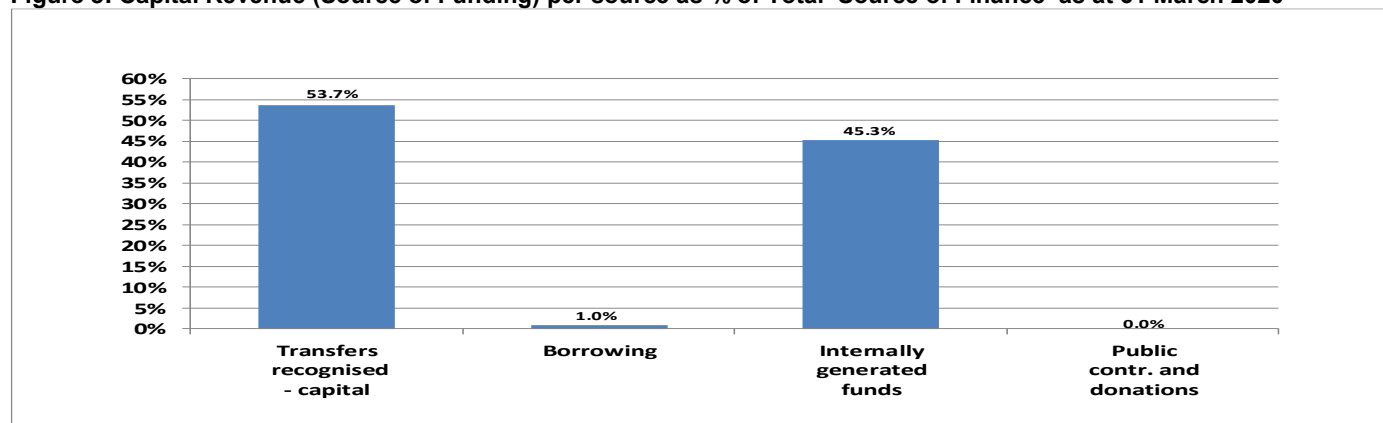
Table 6: Capital Revenue (Source of Finance) per district as at the end of Quarter 3 - 2019/20

R'000	Original Budget	Adjusted Budget	Unaudited Actual	% Generated	Detail			
					Transfers recognised - capital ¹	Borrowing	Internally generated funds	Public contr. and donations
eThekweni	5 149 304	5 180 448	814 821	15.7	756 606	58 214	-	-
Ugu	597 486	620 915	9 918 352	1 597.4	1 093 618	-	8 824 734	-
uMgungundlovu	892 521	827 285	7 629 882	922.3	7 231 309	130 607	267 966	-
uThukela	313 038	307 772	172 278	56.0	168 047	-	4 230	-
uMzinyathi	518 882	529 725	211 599	39.9	181 652	-	29 947	-
Amajuba	183 681	357 657	1 074 296	300.4	635 081	20 818	418 397	-
Zululand	562 151	639 232	959 862	150.2	637 244	-	322 618	-
uMkhanyakude	2 629 945	634 899	711 997	112.1	524 863	-	187 134	-
King Cetshwayo	1 091 454	1 329 606	907 851	68.3	653 197	20 716	233 938	-
iLembe	813 756	759 180	306 702	40.4	224 714	(1)	81 989	-
Harry Gwala	663 082	712 080	427 558	60.0	319 694	-	107 863	-
Total	13 415 299	11 898 798	23 135 198	194.4	12 426 025	230 356	10 478 817	-

Source: NT Igdatabase

¹ Include National Government, Provincial Government, District Municipality and Other transfers and grants.

Figure 3: Capital Revenue (Source of Funding) per source as % of Total 'Source of Finance' as at 31 March 2020



- An overview of the Capital source of funding by district shows that municipalities in the province are dependent on grants to fund their Capital expenditure as *Transfers recognised – capital* contributed 53.7 percent or R12.4 billion of the total Capital source of funding of R23.1 billion as at the end of the third quarter.
- The second largest Capital source of funding was *Internally generated funds* at 45.3 percent or R10.5 billion followed by *Borrowing* at 1 percent or R230.4 million.
- The eThekweni Metro (R58.2 million) and four districts utilised *Borrowings* to the amount of R230.4 million as at the end of the third quarter. The uMgungundlovu District utilised the highest *Borrowings* at R130.6 million followed by the Amajuba District at R20.8 million and the King Cetshwayo District at R20.7 million. A negative amount of R1 000 for the iLembe District appears to be a reporting error.
- Internally generated funds* of R10.5 billion was utilised by all 10 districts to fund their Capital expenditure. The Ugu District reported the highest amount of R8.8 billion (84.2 percent) against total amount of *Internally generated funds*.
- The Ugu District with R9.9 billion contributed the most to the total Capital revenue of R23.1 billion. The district financed its Capital Expenditure from *Transfers recognised – capital* of R1.1 billion and *Internally generated funds* of R8.8 billion. The figures reported by the Ugu District appear to be incorrect as the Ugu District Municipality reported actual Capital revenue of R9.8 billion against a budget of only R261.4 million.
- The uThukela District contributed the least towards total Capital Revenue amounting with R172.3 million.
- The Ugu, uMgungundlovu, Amajuba, Zululand and uMkhanyakude Districts generated revenue in excess of their respective Adjusted Budgets with 1 597.4 percent, 922.3 percent, 300.4 percent, 150.2 percent and 112.1 percent respectively due to possible incorrect reporting by the Ugu and uMgungundlovu District Municipalities and the uMshwathi, eMadlangeni, eDumbe and Mtubatuba Local Municipalities within the respective Districts.
- It should be noted that the Capital source of funding for the Adjusted Budget and Unaudited actual do not agree to the Capital expenditure for the Adjustments Budget and Unaudited actual as at 31 March 2020.

2.7 Capital Expenditure – District Total

Tale 7: Capital Expenditure per item and per district as at the end of Quarter 3 – 2019/20

R'000	Original Budget	Adjusted Budget	Unaudited Actual	% Spent	Detail									Other
					Governance and Admin. ¹	Community and Public Safety			Economic and Environmental Services		Trading Services			
						Housing	Health	Other ²	Road Transport	Other ³	Electricity	Water and Waste Water Mgt.	Waste Mgt	
eThekweni	7 854 605	7 763 580	1 955 751	25.2	113 528	183 112	4 085	141 076	640 071	149 631	218 104	461 652	21 514	22 978
Ugu	902 410	622 541	10 247 904	1 646.1	9 070 945	-	-	61 573	101 452	25 413	7 786	967 819	12 736	180
uMgungundlovu	1 017 110	966 171	8 050 572	833.2	306 101	37 303	-	424 546	666 851	155 919	196 306	6 234 288	25 980	3 277
uThukela	452 078	437 999	235 851	53.8	13 230	1 879	82	5 231	27 952	62 916	7 019	117 284	241	17
uMzinyathi	527 827	537 976	214 673	39.9	18 114	-	-	25 327	24 892	3 966	15 273	125 354	1 746	-
Amajuba	409 084	1 306 212	1 020 360	78.1	716 631	-	-	1 046	152 680	84 125	62 423	1 397	1 841	217
Zululand	601 117	665 198	995 488	149.7	340 286	-	-	35 015	57 333	125 072	107 879	329 903	-	-
uMkhanyakude	2 775 569	891 768	791 799	88.8	135 931	-	-	144 624	218 045	35 981	(5 455)	247 605	14 991	76
King Cetshwayo	1 145 456	1 453 194	925 921	63.7	103 061	-	-	135 645	246 244	2 858	172 610	244 176	21 326	-
iLembe	828 418	775 020	284 151	36.7	(22 250)	92	-	29 995	125 367	2 060	14 039	130 615	4 233	-
Harry Gwala	663 222	712 187	428 124	60.1	11 571	24 378	-	51 995	104 049	54 208	3 729	175 051	3 143	-
Total	17 176 895	16 131 846	25 150 594	155.9	10 807 149	246 765	4 167	1 056 073	2 364 935	702 151	799 715	9 035 144	107 751	26 746

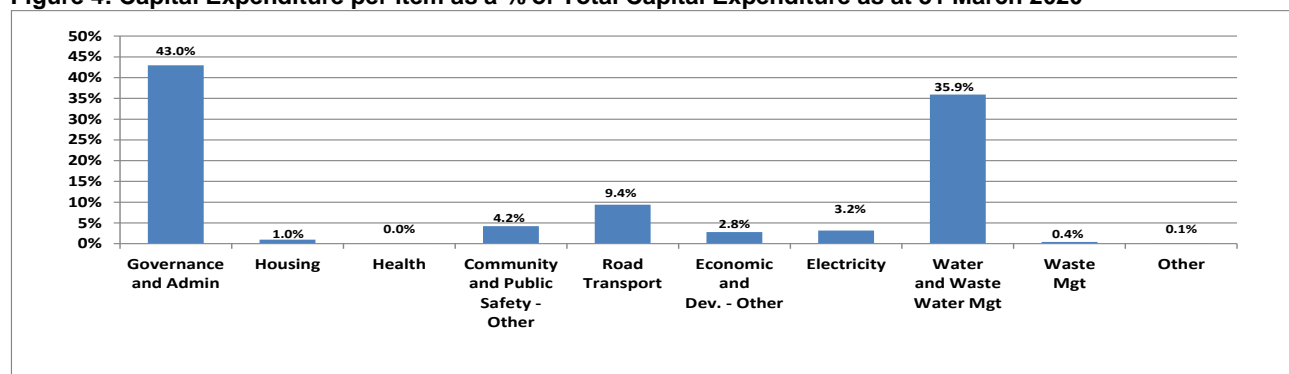
Source: NT Igdatabase

1 Include Executive & Council, Budget & Treasury Office and Corporate Services.

2 Include Community & Social Services, Sports And Recreation and Public Safety.

3 Include Planning and Development and Environmental Protection.

Figure 4: Capital Expenditure per item as a % of Total Capital Expenditure as at 31 March 2020



As at the end of the third quarter of the 2019/20 financial year, municipalities in the province spent R25.2 billion or 155.9 percent which exceeds the Adjusted Budget of R16.1 billion. The over-performance within the respective districts appears to be the result of incorrect reporting by the above mentioned municipalities within the districts.

The Ugu, uMgungundlovu and Zululand Districts exceeded their Capital expenditure budgets with R10.2 billion (1 646.1 percent), R8.1 billion (833.2 percent) and R995.5 million (149.7 percent) respectively being reported against their respective Adjusted Budgets. The Ugu District Municipality reported R9.7 billion or 3 728.8 percent against the Capital budget within the Ugu District. The uMgungundlovu District Municipality and the uMshwathi, Mkhambathini, iMpendle and Msunduzi Local Municipalities reported R6.1 billion or 2 561.5 percent, R690.9 million or 2 277 percent, R216.3 million or 808.3 percent, R44.2 million or 337.7 percent and R934.9 million or 168.3 percent respectively against their Capital budgets within the uMgungundlovu District. Lastly, the eDumbe Local Municipality reported R603.2 million or 1 327 percent against the Capital budget within the Zululand District. The lowest expenditure was reported by the uMzinyathi and iLembe Districts with R214.7 million or 39.9 percent and R284.2 million or 36.7 percent respectively.

Bulk of the Capital expenditure was reported on *Governance and admin* with R10.8 billion or 43 percent with the Ugu District reporting the highest expenditure in this category with R9.1 billion and the Harry Gwala District reporting the lowest expenditure with R11.6 million. The iLembe District reported negative R22.3 million against the *Governance and admin*.

The second largest Capital expenditure was reported against *Water and waste water management* at R9 billion or 35.9 percent. The uMgungundlovu District reported the largest spending against the category with R6.2 billion followed by the Ugu District with an amount of R967.8 million, the eThekweni Metro with R461.7 million and the Zululand District with R329.9 million.

The lowest Capital expenditure was reported against the *Health* category with R4.2 million or 0.02 percent. The eThekweni Metro and the uThukela District reported expenditure against the *Health* category of R4.1 million and R82 000 respectively.

The bulk of the *Electricity* Capital expenditure was reported by the eThekweni Metro with R218.1 million followed by the uMgungundlovu, King Cetshwayo and Zululand Districts with R196.3 million and R172.6 million and R107.9 million respectively. The uMkhanyakude District reported a negative amount of R5.5 million which is attributed to the Mtubatuba and uMhlabayalingana Local Municipalities reporting negative R4 million and R1.4 million respectively.

The contributing factor to the over-performance on Capital expenditure is due to the significant errors in the data strings that are uploaded onto the National Treasury upload portal by a number of municipalities. The municipalities have indicated that they are currently engaging with their respective service providers in order to correct their data strings.

2.8 Comparatives: Capital vs Operating Expenditure

Figure 5: Comparatives: Capital vs Operating as at 31 March 2020

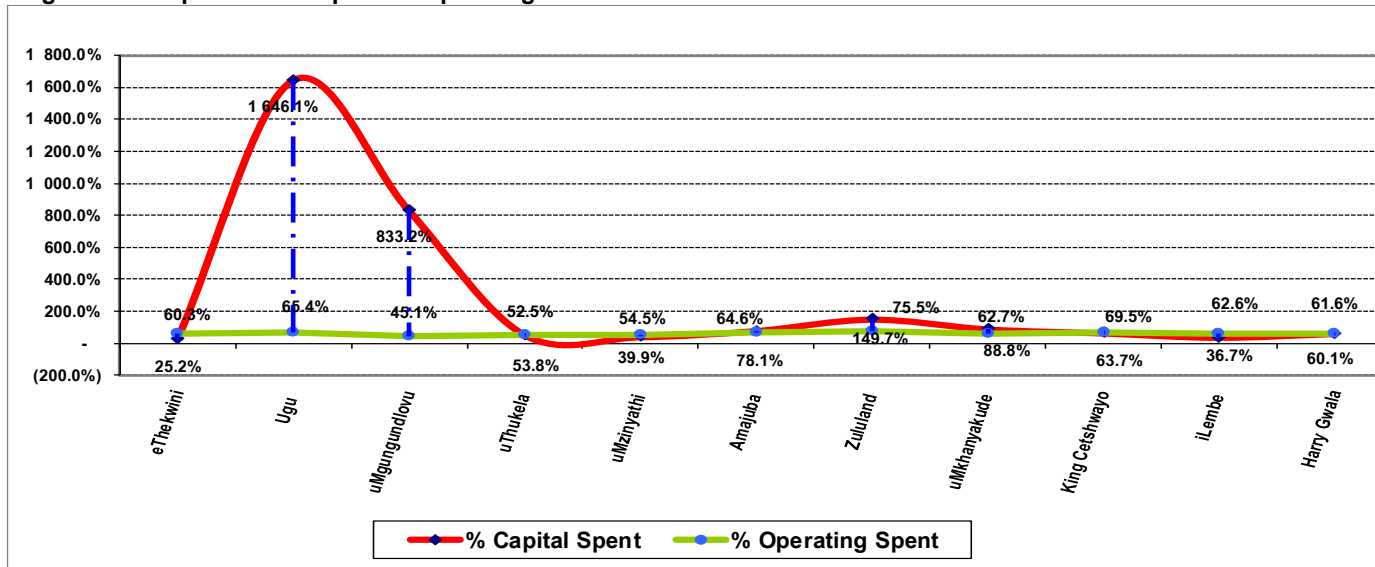
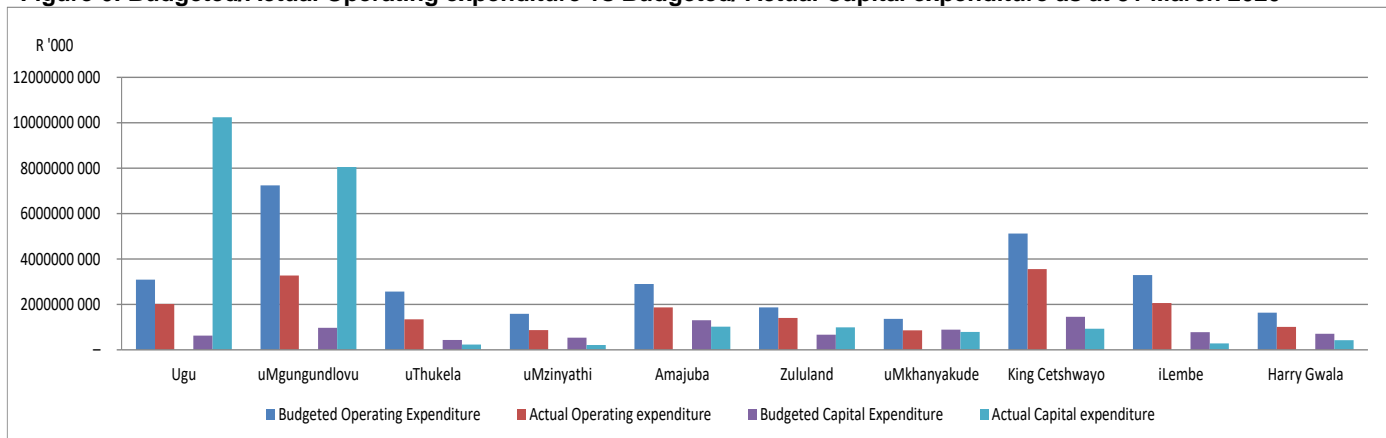


Figure 6: Budgeted/Actual Operating expenditure vs Budgeted/ Actual Capital expenditure as at 31 March 2020



- Figure 5 (including the three non-delegated municipalities) shows the comparatives of the Capital expenditure as a percentage of the Capital expenditure budget together with Operating expenditure as a percentage of the Operating expenditure budget as at the end of the third quarter of the 2019/20 financial year.

- The percentages reported are distorted as the main contributors to the high Capital expenditure were reported with errors by the majority of municipalities.

- With the exception of the eThekweni Metro and the uMzinyathi, King Cetshwayo, iLembe and Harry Gwala Districts, the comparatives between the average Capital expenditure and average Operating expenditure indicate that all other districts have spent more of their Capital expenditure budgets as compared to their Operating expenditure budgets. A significant gap of 1 580.7 percent between these categories of expenditure was noted for the Ugu District and 788.1 percent for the uMgungundlovu District.

- With the exception of the Zululand District (75.5 percent), no other district, including the eThekweni Metro, have spent 75 percent or more of their Operating expenditure budget for the period under review. The uMgungundlovu District reported the lowest Operating expenditure of 45.1 percent against their budget.

- Figure 6 shows an overview of actual Operating expenditure against the Operating budget and the actual Capital expenditure against the Capital budget.

- The Zululand (with 75.5 percent and 149.6 percent expenditure against their Operating and Capital budgets) and King Cetshwayo Districts (with 69.5 percent and 63.7 percent expenditure against their Operating and Capital budgets) are the only districts that are close to the benchmark of 75 percent in both these categories of spending. However, it should be noted that due to incorrect reporting for the municipalities within these districts, the reported performance is distorted.

2.9 Debtors Age Analysis – Provincial Total

Table 8: Debtors Age analysis by Customer Group at the end of Quarter 3 - 2019/20

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Income Source												
Trade and Other Receivables from Exchange Transactions - Water	703 641	9.4	339 846	4.5	212 999	2.8	6 251 924	83.3	7 508 410	33.3	4 368	0.1
Trade and Other Receivables from Exchange Transactions - Electricity	1 060 762	40.8	248 887	9.6	75 743	2.9	1 215 616	46.7	2 601 008	11.5	260	-
Receivables from Non-exchange Transactions - Property Rates	753 266	12.0	277 365	4.4	155 665	2.5	5 070 798	81.0	6 257 094	27.7	1 595	-
Receivables from Exchange Transactions - Waste Water Management	107 797	7.3	65 927	4.5	41 481	2.8	1 254 295	85.4	1 469 501	6.5	(53 002)	(3.6)
Receivables from Exchange Transactions - Waste Management	92 363	8.9	42 782	4.1	27 087	2.6	876 617	84.4	1 038 849	4.6	1 011	0.1
Receivables from Exchange Transactions - Property Rental Debtors	13 353	6.2	9 268	4.3	6 001	2.8	185 328	86.6	213 950	0.9	62	-
Interest on Arrear Debtor Accounts	57 077	2.9	41 657	2.1	16 064	0.8	1 848 600	94.2	1 963 398	8.7	111	-
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	-	-	-	-	-	-	-	-	-	-	-	-
Other	12 389	0.8	86 931	5.8	37 411	2.5	1 373 174	90.9	1 509 904	6.7	258 901	17.1
Total By Income Source	2 800 647	12.4	1 112 663	4.9	572 450	2.5	18 076 353	80.1	22 562 114	100.0	213 305	0.9

Source: NT Igdatabase

Table 9: Debtor Age Analysis by Customer Group at the end of Quarter 3 – 2019/20

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Customer Group												
Organs of State	199 645	10.9	80 340	4.4	30 774	1.7	1 526 142	83.1	1 836 901	8.1	(2 759)	(0.2)
Commercial	1 308 938	27.3	359 303	7.5	153 924	3.2	2 964 711	61.9	4 786 876	21.2	(1 326)	-
Households	1 268 036	8.2	626 238	4.1	383 561	2.5	13 095 420	85.2	15 373 254	68.1	(44 734)	(0.3)
Other	24 028	4.3	46 782	8.3	4 191	0.7	490 080	86.7	565 082	2.5	262 125	46.4
Total By Customer Group	2 800 647	12.4	1 112 663	4.9	572 450	2.5	18 076 353	80.1	22 562 114	100.0	213 305	0.9

Source: NT Igdatabase

- Table 8 shows that a total of R22.6 billion is owed by consumers to municipalities in KwaZulu-Natal as at 31 March 2020 with an amount of R18.1 billion or 80.1 percent of the Debt in the *Over 90 days* category.
- The Debtors age analysis by Income source shows that a significant amount of R7.5 billion or 33.3 percent of the debt owed relates to *Water* followed by *Property rates* at R6.3 billion or 27.7 percent and *Electricity* at R2.6 billion or 11.5 percent.
- The Debtors age analysis by Customer group in Table 9 indicates that a considerable portion of debt is owed by *Households* at 68.1 percent or R15.4 billion followed by *Commercial* at 21.2 percent or R4.8 billion and *Organs of state* at 8.1 percent or R1.8 billion.
- Actual *Bad debts written off to debtors* amounts to R213.3 million as at 31 March 2020. However the amount of R213.3 million appears to be understated as the total Bad debts written off to debtors amount includes an amount of negative R60.9 million which is attributable to incorrect reporting by the iLembe District Municipality who reported negative R55.4 million and the uMzimkhulu Local Municipality who reported negative R5.5 million.
- The Msunduzi Local Municipality reported the highest amount of *Bad debts written off to debtors* of R261.9 million.

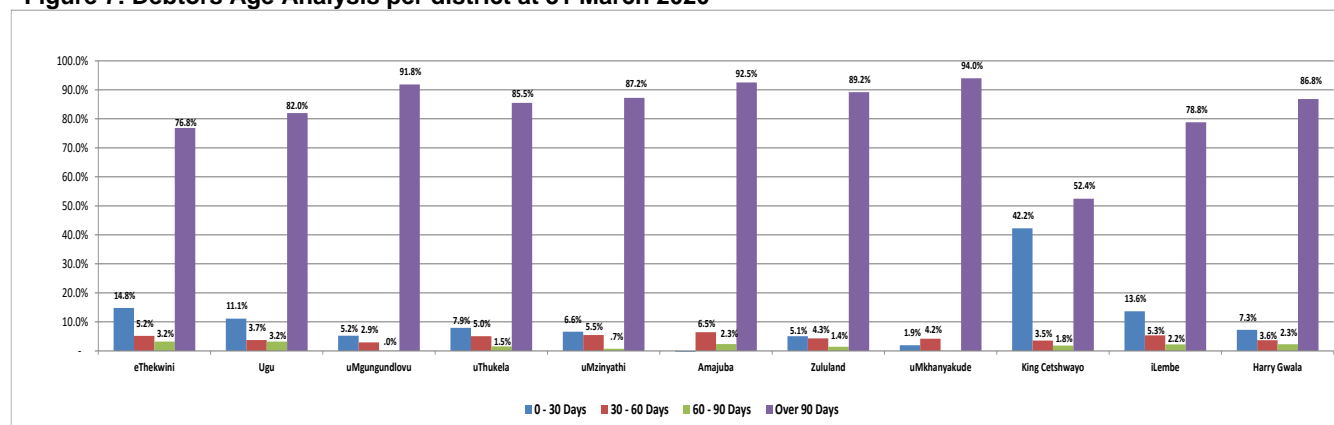
2.10 Debtors Age Analysis – District Total

Table 10: Debtor Age Analysis per district (Total) as at the end of Quarter 3 - 2019/20

R'000	0 - 30 Days		30 - 60 Days		60 - 90 Days		Over 90 Days		Total
	Total	%	Total	%	Total	%	Total	%	
eThekwini	1 917 657	14.8	673 382	5.2	416 302	3.2	9 966 264	76.8	12 973 605
Ugu	128 074	11.1	43 175	3.7	36 771	3.2	944 665	82.0	1 152 685
uMgungundlovu	68 406	5.2	37 981	2.9	595	0.0	1 203 927	91.8	1 310 909
uThukela	150 570	7.9	95 735	5.0	29 486	1.5	1 626 790	85.5	1 902 581
uMzinyathi	35 136	6.6	29 020	5.5	3 789	0.7	463 387	87.2	531 332
Amajuba	(22 002)	(1.3)	107 582	6.5	39 033	2.3	1 541 373	92.5	1 665 986
Zululand	33 252	5.1	28 285	4.3	9 438	1.4	583 872	89.2	654 847
uMkhanyakude	10 209	1.9	22 125	4.2	(528)	(0.1)	498 585	94.0	530 392
King Cetshwayo	374 921	42.2	31 298	3.5	16 138	1.8	465 646	52.4	888 004
iLembe	75 575	13.6	29 616	5.3	12 412	2.2	437 054	78.8	554 656
Harry Gwala	28 849	7.3	14 465	3.6	9 014	2.3	344 789	86.8	397 117
Total	2 800 647	12.4	1 112 663	4.9	572 450	2.5	18 076 353	80.1	22 562 114

Source: NT Igdatabase

Figure 7: Debtors Age Analysis per district at 31 March 2020



- The total debt owed to municipalities at the end of the third quarter of the 2019/20 financial year amounts to R22.6 billion compared to the R20.2 billion owed at the end of the third quarter of the 2018/19 financial year. This represents an increase of 11.9 percent or R2.4 billion when comparing the two quarters on a year-on- year basis.
- It should be noted that the Msunduzi, Mkhambathini and uPhongolo Local Municipalities as well as the iLembe District Municipality did not report any Debtors for the period under review. As a result, the Debtors figure as at 31 March 2020 is understated.
- The eThekwini Metro reported the highest outstanding Debtors of R13 billion (57.5 percent) of the total debt followed by the uThukela District at R1.9 billion or 8.4 percent, the Amajuba District at R1.7 billion or 7.4 percent and the uMgungundlovu District at R1.3 billion or 5.8 percent.
- In comparison to their total outstanding Debtors, all districts reported the highest amount of outstanding Debtors under the *Over 90 days* category in relation to their respective total outstanding Debtors. The uMkhanyakude District reported the highest percentage of outstanding Debtors in the *Over 90 days* category at 94 percent followed by the Amajuba District at 92.5 percent. The uMgungundlovu, Zululand, uMzinyathi, Harry Gwala, uThukela and Ugu Districts reported over 80 percent of their outstanding debtors in the *Over 90 days* category.
- Debt collection efforts must be prioritised on the long outstanding debts. Some of these debtors may need to be written off as they may have arisen as a result of incorrect billing of indigents, amongst others. There are a number of municipalities who are currently performing data cleansing exercises with the aim of ensuring that reported debtors are accurately reflected.

2.11 Debtors by Customer Group - District Total

Table 11: Debtors by Customer Group (Total) as at the end of Quarter 3 - 2019/20

R'000	Organs of State		Commercial		Household		Other		Total
	Total	%	Total	%	Total	%	Total	%	
eThekwini	740 029	5.7	3 112 668	24.0	9 083 945	70.0	36 963	0.3	12 973 605
Ugu	117 476	10.2	200 513	17.4	813 766	70.6	20 930	1.8	1 152 685
uMgungundlovu	274 882	21.0	62 565	4.8	853 499	65.1	119 964	9.2	1 310 909
uThukela	183 323	9.6	252 061	13.2	1 330 097	69.9	137 100	7.2	1 902 581
uMzinyathi	83 236	15.7	81 812	15.4	355 648	66.9	10 636	2.0	531 332
Amajuba	47 397	2.8	115 747	6.9	1 387 310	83.3	115 531	6.9	1 665 986
Zululand	129 526	19.8	93 758	14.3	387 289	59.1	44 273	6.8	654 847
uMkhanyakude	142 934	26.9	134 208	25.3	236 220	44.5	17 029	3.2	530 392
King Cetshwayo	32 858	3.7	479 399	54.0	343 335	38.7	32 411	3.6	888 004
iLembe	18 567	3.3	202 330	36.5	320 042	57.7	13 716	2.5	554 656
Harry Gwala	66 672	16.8	51 814	13.0	262 102	66.0	16 529	4.2	397 117
Total	1 836 901	8.1	4 786 876	21.2	15 373 254	68.1	565 082	2.5	22 562 114

Source: NT Igdatabase

Figure 8: Debtors Age Analysis as at 31 March 2020

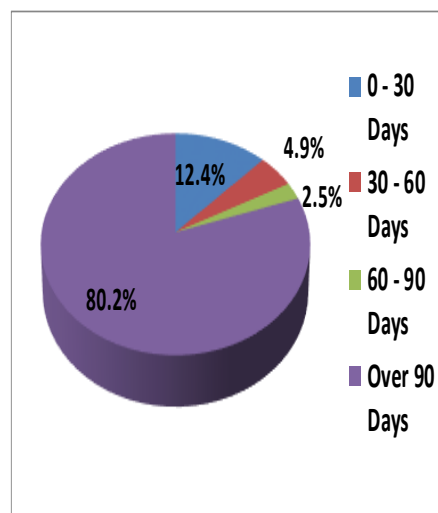


Figure 9: Debtors by Customer Group as at 31 March 2020

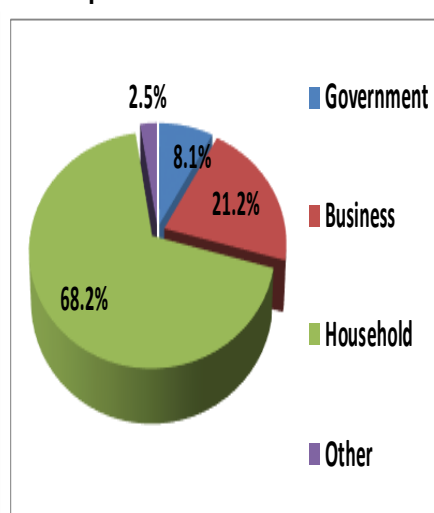
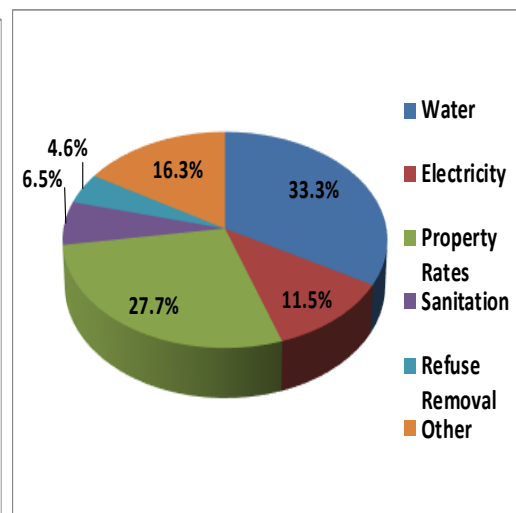


Figure 10: Debtors by Income Source as at 31 March 2020



- Table 11 shows that R22.6 billion is owed to municipalities of which, R15.4 billion or 68.1 percent was owed by *Household* debtors. Municipalities in the province need to ensure that indigent households are accounted for correctly to avoid the *Household* category being inflated with debt that may not be recoverable. Accurate indigent registers must be maintained accordingly.
- The eThekwini Metro and the Amajuba and uThukela Districts contributed the most towards *Household* debtors with amounts of R9.1 billion, R1.4 billion and R1.3 billion respectively.
- Excluding the eThekwini Metro, municipalities were owed a total of R1.7 billion by *Commercial* debtors. The King Cetshwayo and uThukela Districts contributed the most towards total debt owed by *Commercial* debtors with R479.4 million and R252.1 million respectively.
- Municipalities were owed a combined total of R1.8 billion or 8.1 percent by *Organs of state*. The eThekwini Metro, the uMgungundlovu District and the uThukela District had significant debt owed by *Organs of state* which amounted to R740 million, R274.9 million and R183.3 million respectively.
- Other* debtors of R565.1 million or 2.5 percent is the lowest customer category of outstanding debt.
- Municipalities need to strictly adhere to their Debt collection and Credit control policies in order to recover outstanding debt and improve their cash flow.

2.12 Creditors Age Analysis - Provincial Total

Table 12: Creditors Age Analysis by Expenditure type as at the end of Quarter 3 - 2019/20

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Creditor Age Analysis										
Bulk Electricity	798 984	74.2	2 698	0.3	1 602	0.1	273 739	25.4	1 077 023	25.3
Bulk Water	329 948	76.8	25	-	2 233	0.5	97 532	22.7	429 738	10.1
PAYE deductions	137 519	100.0	-	-	-	-	-	-	137 519	3.2
VAT (output less input)	19 755	100.0	-	-	-	-	-	-	19 755	0.5
Pensions / Retirement	140 947	100.0	-	-	6	-	3	-	140 956	3.3
Loan repayments	-	-	11 667	1.4	324 337	40.2	3 683	0.5	807 333	19.0
Trade Creditors	316 107	22.3	88 663	6.3	34 450	2.4	660 460	46.6	1 416 238	33.3
Auditor-General	(113)	(2.2)	820	16.0	-	-	4 434	86.2	5 142	0.1
Other	70 825	31.8	26 006	11.7	11 198	5.0	114 401	51.4	222 431	5.2
Total	1 813 972	42.6%	129 880	3.1	373 825	8.8	1 938 457	45.5	4 256 134	100.0

Source: NT Igdatabase

Figure 11: Creditors Age Analysis as at 31 March 2020

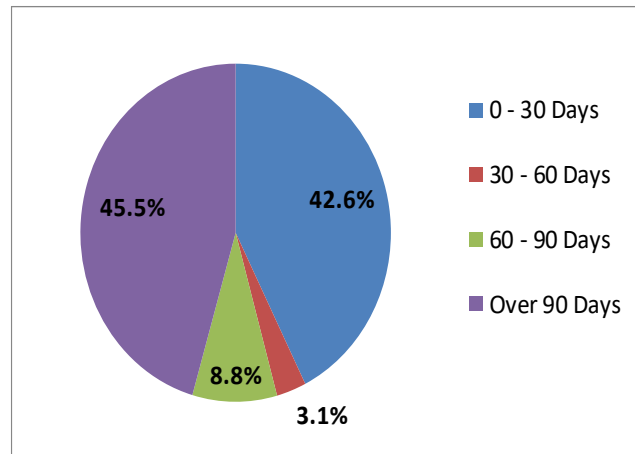
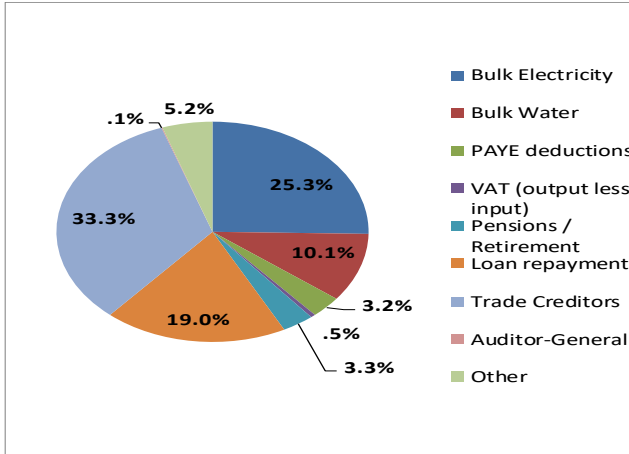


Figure 12: Creditors by Customer Group as at 31 March 2020



- Outstanding Creditors for the KwaZulu-Natal municipalities as at 31 March 2020 amounted to R4.3 billion which is an increase of R202.1 million or 5 percent as compared to the R4.1 billion outstanding Creditors as at the end of quarter three of the previous financial year.
- Outstanding Creditors payable within the *0-30 Days* category amounted to R1.8 billion or 42.6 percent.
- Creditors not paid within 30 days accounts for R2.4 billion or 57.4 percent of total Creditors which is in contravention of Section 65(2)(e) of the MFMA which requires that the Accounting Officer of a municipality must take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement.
- The majority of the outstanding Creditors relates mainly to *Trade creditors* of R1.4 billion or 33.3 percent followed by *Bulk electricity* of R1.1 billion or 25.3 percent and *Loan repayments* of R807.3 million or 19 percent.
- Of the *Bulk electricity* outstanding balance of R1.1 billion, R273.7 million is in the *Over 90 days* category. This is mainly due to the fact that the Mpofana and the Ulundi Local Municipalities owed Eskom R158.6 million and R111.7 million (*Over 90 days*) for unpaid electricity respectively. Due to the poor collection of outstanding Debtors, the municipalities experienced cash flow challenges and were therefore unable to make full payments on invoices owed to Eskom. Payments on the long outstanding debt are currently being made as per the repayment plan agreed upon by both parties.
- In some cases, unpaid Creditors in the over 30 Days category are due to disputes with suppliers. In other cases, it could be an indication of cash flow challenges being experienced by municipalities. Non-payment of creditors within *30 Days* is of serious concern to KZN Provincial Treasury as the municipalities could be liable for penalties and interest incurred as a result thereof, which is tantamount to fruitless and wasteful expenditure.

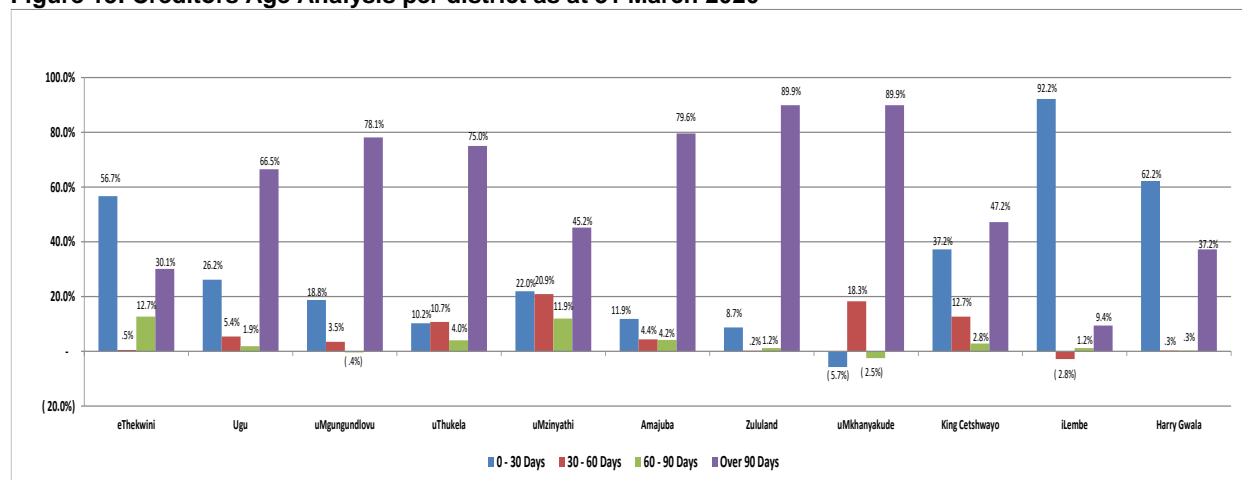
2.13 Creditors Age Analysis - District Total

Table 13: Creditor Age Analysis per district (Total) as at the end of Quarter 3 - 2019/20

R'000	0 - 30 Days		30 - 60 Days		60 - 90 Days		Over 90 Days		Total
	Total	%	Total	%	Total	%	Total	%	
eThekwini	1 476 845	56.7	13 586	0.5	330 434	12.7	784 205	30.1	2 605 070
Ugu	27 041	26.2	5 608	5.4	1 949	1.9	68 699	66.5	103 297
uMgungundlovu	47 465	18.8	8 808	3.5	(956)	(0.4)	197 322	78.1	252 640
uThukela	10 387	10.2	10 873	10.7	4 061	4.0	76 141	75.0	101 462
uMzinyathi	14 315	22.0	13 625	20.9	7 790	11.9	29 467	45.2	65 196
Amajuba	55 000	11.9	20 217	4.4	19 287	4.2	369 043	79.6	463 547
Zululand	16 843	8.7	483	0.2	2 241	1.2	174 035	89.9	193 602
uMkhanyakude	(3 446)	(5.7)	11 033	18.3	(1 487)	(2.5)	54 317	89.9	60 418
King Cetshwayo	134 805	37.2	45 945	12.7	10 234	2.8	170 918	47.2	361 902
iLembe	13 026	92.2	(398)	(2.8)	169	1.2	1 331	9.4	14 128
Harry Gwala	21 692	62.2	98	0.3	104	0.3	12 979	37.2	34 873
Total	1 813 972	42.6	129 880	3.1	373 825	8.8	1 938 457	45.5	4 256 134

Source: NT Igdatabase

Figure 13: Creditors Age Analysis per district as at 31 March 2020



- At the end of the third quarter of the 2019/20 financial year, the eThekwini Metro accounted for R2.6 billion or 61.2 percent of the total outstanding Creditors of R4.3 billion.
- Amongst the districts, the Amajuba District had the largest portion of total outstanding Creditors at R463.5 million or 10.9 percent whilst the iLembe District reported the least Creditors of R14.1 million or 0.3 percent of total outstanding Creditors.
- Eight districts reported less than 50 percent of their Creditors in the *0-30 Days* category with the exception of the iLembe (92.2 percent) and the Harry Gwala (62.2 percent) Districts and the eThekwini Metro (56.7 percent).
- The uMkhanyakude District reported negative R3.4 million for Creditors in the 0-30 Days which is distorted because of the negative R10.2 million and negative R1 million which were incorrectly reported by the Mtubatuba and Big Five Hlabisa Local Municipalities respectively.
- The iLembe and Harry Gwala Districts reported the lowest levels of their total outstanding Creditors in the *Over 90 days* category with R1.3 million and R13 million respectively.
- It is recommended that municipalities pay all their debts within *0-30 Days* of receipt of invoices and/or statements as required by Section 65(2)(e) of the MFMA in order to avoid possible interest and penalties.

2.14 National Conditional Grants – Provincial Total (Summary)

Table 14: National Conditional Grants -Summary, Quarter 3 - 2019/20

	DoRA 2019 Total Avail. (Inc. Adjust.)	Year to date		Unaudited Actual		Unaudited Actual	
		Approved payment schedule	Transferred to municipalities for direct grants	Actual expenditure National Department	% Spent	Actual expenditure by municipalities	% Spent
R'000							
Local Government Financial Management Grant	109 830	109 830	109 830	53 679	48.9	53 015	48.3
Infrastructure Skills Development Grant	42 800	42 800	42 800	16 988	39.7	2 775	6.5
Integrated City Development Grant	51 486	-	-	-	-	2 611	5.1
Neighbourhood Development Partnership (Schedule 5B)	92 000	92 000	92 000	36 288	39.4	37 022	40.2
Integrated Urban Development Grant	210 783	210 783	210 783	123 873	58.8	-	-
Municipal Systems Improvement Grant (Schedule 5B)	-	-	-	-	-	-	-
Municipal Disaster Recovery Grant	133 220	133 220	133 220	-	-	28 016	21
Public Transport Network Grant	992 014	992 014	992 014	474 547	47.8	358 204	36.1
Rural Road Assets Management Systems Grant	25 616	25 616	25 616	9 229	36.0	11 863	46.3
Expanded Public Works Programme Integrated Grant (Municipality)	223 591	223 591	223 591	193 506	86.5	175 856	78.7
Integrated National Electrification Programme (Municipal) Grant	419 655	419 655	419 655	81 332	19.4	273 706	65.2
Energy Efficiency and Demand Side Management (Municipal) Grant	43 000	43 000	43 000	7 434	17.3	24 323	56.6
Regional Bulk Infrastructure Grant (Schedule 5B)	340 293	340 293	340 293	171 284	50.3	178 475	52.4
Water Services Infrastructure Grant (Schedule 5B)	872 374	872 374	872 374	342 046	39.2	1 109 518	127.2
Municipal Emergency Housing Grant	137 852	137 852	137 852	40 560	29.4	-	-
Municipal Infrastructure Grant	3 208 816	3 208 816	2 000 996	1 305 589	40.7	10 128 202	315.6
Subtotal	6 903 330	6 851 844	5 644 024	2 856 355	41.7	12 383 586	180.7
Allocation In Kind							
Neighbourhood Development Partnership (Schedule 6B)	6 600	6 600	-				
Municipal Systems Improvement Grant (Schedule 6B)	13 150	13 150	-				
Integrated National Electrification Programme (Allocation in-kind) Grant	802 192	802 192	-				
Regional Bulk Infrastructure Grant (Schedule 6B)	5 000	5 000	-				
Water Services Infrastructure Grant (Schedule 6B)	13 346	13 346	-				
Subtotal	840 288	840 288					
Total	7 743 618	7 692 132	5 644 024	2 856 355	50.6	12 383 586	161.0

Source: NT Igdatabase

- In terms of the Division of Revenue Act (DoRA) of 2019, direct allocations to all 54 KwaZulu-Natal municipalities amounted to R6.9 billion, while allocations in-kind amounted to R840.3 million, totaling R7.8 billion.
- The Unaudited actual expenditure figures reported in Table 14 are based on grant expenditure figures submitted by the municipalities to the National Transferring Department and National Treasury. Despite the source of the information being the municipalities, there are differences in the figures reflected as Expenditure National Departments and Expenditure Municipalities. The analysis below is based on the 'Actual expenditure by municipalities' column.
- Of the direct allocations of R6.9 billion, R5.6 billion or 81.6 percent had been transferred to municipalities as at the end of quarter three.
- Municipalities have reflected spending of R12.4 billion or 219.4 percent against the total amount transferred to date of R5.6 billion. The main contributor to the high expenditure was the expenditure reported against the Municipal Infrastructure Grant (MIG) of R10.1 billion and the Water Services and Infrastructure Grant (WSIG) of R1.1 billion. Municipalities attributed the over-expenditure in the main to the data string figures being incorrect and further stated that they are in the process of correcting the data strings.
- The MIG DoRA allocation of R3.2 billion is the largest grant allocation followed by the Public Transport Network Grant of R992 million and the Water Services Infrastructure Grant of R872.4 million.
- There has been no transfer of funds for the Integrated City Development Grant (ICDG) and the Municipal Systems Improvement Grant (Schedule 5B), however, there was an expenditure of R2.6 million reported against the ICDG allocation.
- Of the 16 direct allocations to municipalities, only three conditional grants reflected expenditure of 75 percent or more against the total available DoRA allocations for the 2019/20 financial year. The MIG reflected expenditure of 315.6 percent of the R3.2 billion DoRA allocation to municipalities followed by the Water Services Infrastructure Grant at 127.2 percent of the R872.4 million DoRA allocation and Expanded Public Works Programme Integrated at 78.7 percent of the R223.6 million DoRA allocation.

2.15 National Conditional Grants – District Total

Table 15(a): National Conditional Grants as at the end of Quarter 3 - 2019/20

R'000	Financial Management Grant			Regional Bulk Infrastructure Grant			Municipal Infrastructure Grant		
	DoRA 2019 Total Avail.	Unaudited Actual		DoRA 2019 Total Avail.	Unaudited Actual		DoRA 2019 Total Avail.	Unaudited Actual	
		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent
eThekweni	1 000	1 000	100.0	-	-	-	-	-	-
Ugu	11 165	3 229	28.9	-	-	-	329 133	965 889	293.5
uMgungundlovu	15 575	6 152	39.5	-	-	-	419 358	6 504 675	1 551.1
uThukela	8 910	4 937	55.4	10 000	5 048	50.5	311 585	169 882	54.5
uMzinyathi	10 155	5 499	54.2	20 000	7 077	35.4	314 120	164 772	52.5
Amajuba	8 070	5 033	62.4	-	-	-	184 727	585 627	317.0
Zululand	12 410	8 064	65.0	163 774	95 922	58.6	371 831	358 078	96.3
uMkhanyakude	10 770	2 834	26.3	-	-	-	340 378	482 322	141.7
King Cetshwayo	13 070	5 899	45.1	91 519	29 701	32.5	278 289	492 586	177.0
iLembe	9 035	4 424	49.0	35 000	23 337	66.7	331 778	153 641	46.3
Harry Gwala	9 670	5 943	61.5	20 000	17 391	87.0	327 617	250 730	76.5
Total	109 830	53 015	48.3	340 293	178 475	52.4	3 208 816	10 128 202	315.6

Source: NT Igdatabase

Figure 14: FMG Expenditure vs. allocation as at 31 March 2020

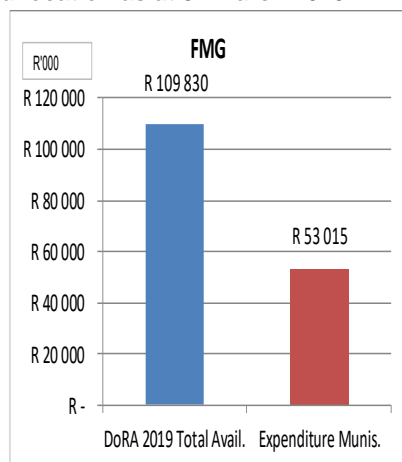


Figure 15: RBIG Expenditure vs. allocation as at 31 March 2020

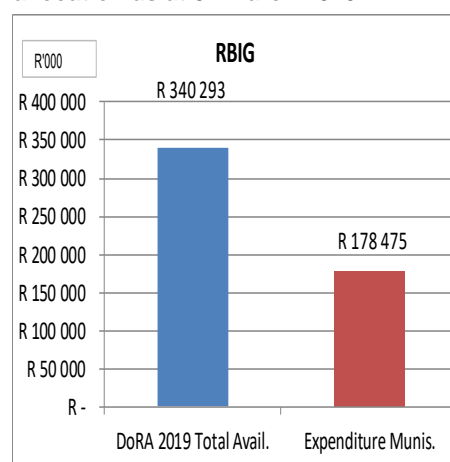
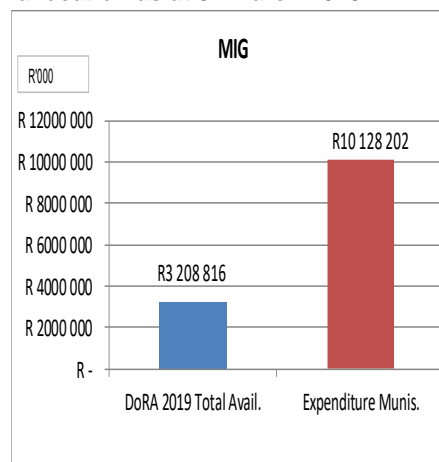


Figure 16: MIG Expenditure vs. allocation as at 31 March 2020



Financial Management Grant

- The aggregate expenditure for the Financial Management Grant (FMG) for all districts and the eThekweni Metro was R53 million (48.3 percent) against the total available DoRA allocation of R109.8 million which is below the straight line projection of 75 percent at the end of the third quarter.
- The eThekweni Metro reported the highest spending of 100 percent. The Zululand District reported the second highest spending of 65 percent followed by the Amajuba District with 62.4 percent.
- All districts reported expenditure less than the benchmark of 75 percent. The uMkhanyakude and Ugu Districts reported the least spending of 26.3 percent and 28.9 percent respectively.

Regional Bulk Infrastructure Grant

- The expenditure reported on the Regional Bulk Infrastructure Grant (RBIG) is R178.5 million (52.4 percent) against the total DoRA allocation of R340.3 million which is below the 75 percent straight line projection for quarter three.
- The Harry Gwala District reported the highest percentage spent of 87 percent (R17.4 million).
- The lowest percentage spent was reported by the King Cetshwayo District at 32.5 percent (R29.7 million).

Municipal Infrastructure Grant

- The aggregate expenditure for the Municipal Infrastructure Grant (MIG) for all the districts is 315.6 percent or R10.1 billion against the total DoRA allocation of R3.2 billion. The significantly high spending was due to the incorrect expenditure of R6.5 billion reported by the uMgungundlovu District against this grant.
- The second highest spending on MIG was reported by the Ugu District with R965.9 million or 293.5 percent followed by the Amajuba District with R585.6 million or 317 percent. The other districts that reported expenditure of more than 100 percent are the King Cetshwayo uMkhanyakude Districts with R492.6 million or 177 percent and R482.3 million or 141.7 percent respectively. The municipalities attributed the over-expenditure to the mSCOA data strings being incorrect and further stated that they are in the process of correcting their data strings.
- The lowest spending was reported by the iLembe District with R153.6 million or 46.3 percent and uMzinyathi District with R164.8 million or 52.5 percent which are both significantly below the straight line projection of 75 percent for quarter three.

2.15 National Conditional Grants – District Total / continued

Table 15(b): National Conditional Grants as at the end of Quarter 3 – 2019/20

R'000	Integrated National Electrification Prog. (municipal) Grant			Expanded Public Works Prog. (municipal) Grant			Water Services Infrastructure Grant		
	DoRA 2019 Total Avail.	Unaudited Actual		DoRA 2019 Total Avail.	Unaudited Actual		DoRA 2019 Total Avail.	Unaudited Actual	
		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent
eThekweni	-	-	-	78 757	61 341	77.9	-	-	-
Ugu	39 000	13 099	33.6	12 939	11 214	86.7	50 000	97 726	195.5
uMgungundlovu	21 467	14 245	66.4	15 451	14 650	94.8	133 000	702 374	528.1
uThukela	28 000	5 487	19.6	15 672	20 589	131.4	108 000	45 090	41.8
uMzinyathi	65 000	24 812	38.2	12 725	10 661	83.8	68 374	14 082	20.6
Amajuba	14 000	-	-	6 543	1 463	22.4	86 000	19 730	22.9
Zululand	68 500	152 156	222.1	20 308	11 522	56.7	100 000	62 643	62.6
uMkhanyakude	57 000	1 526	2.7	16 070	14 955	93.1	80 000	49 645	62.1
King Cetshwayo	51 000	41 741	81.8	20 929	11 590	55.4	125 000	21 229	17.0
iLembe	28 688	2 977	10.4	8 655	8 294	95.8	62 000	47 639	76.8
Harry Gwala	47 000	17 663	37.6	15 542	9 578	61.6	60 000	49 360	82.3
Total	419 655	273 706	65.2	223 591	175 856	78.7	872 374	1 109 518	127.2

Source: NT Igdatabase

Figure 17: INEP Expenditure vs. allocation at 31 March 2020

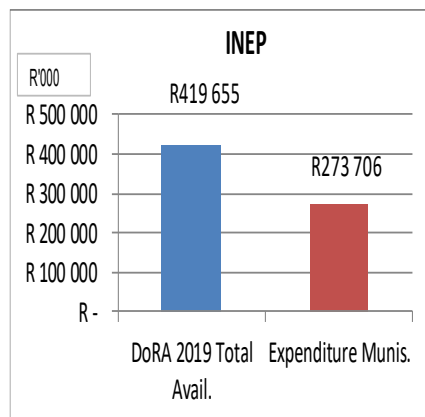


Figure 18: EPWP Expenditure vs. allocation at 31 March 2020

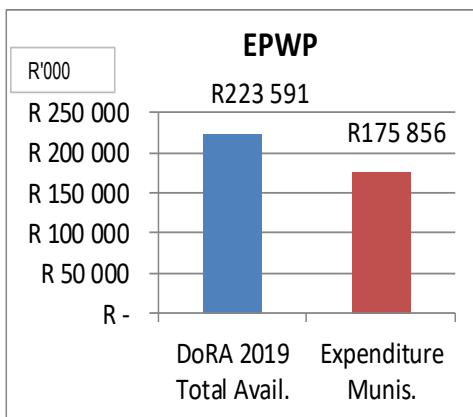
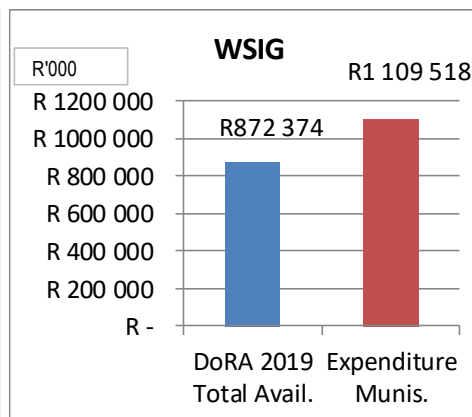


Figure 19: WSIG Expenditure vs. allocation as at 31 March 2020



Integrated National Electrification Programme Grant

- The aggregate expenditure for the Integrated National Electrification Programme Grant (INEP) for all districts is 65.2 percent or R273.7 million against the total DoRA allocation of R419.7 million which is below the straight line projection of 75 percent as at the end of the third quarter.
- The highest spending on INEP was reported by the Zululand District with R152.2 million or 222.1 percent followed by the King Cetshwayo District with R41.7 million or 81.8 percent. The municipalities attributed the over-expenditure to the mSCOA data strings being incorrect and further stated that they are in the process of correcting their data strings.
- The lowest spending was reported by the uMkhanyakude District with R1.5 million or 2.7 percent and the iLembe District with R3 million or 10.4 percent. It should be noted that with the exception of Zululand District, all districts reported spending below the straight line projection of 75 percent for quarter three while the Amajuba District reported no spending for quarter three.

Expanded Public Works Programme

- The aggregate expenditure for the Expanded Public Works Programme Grant (EPWP) for all the districts including the eThekweni Metro is R175.9 million (78.7 percent) against the total DoRA allocation of R223.6 million which is above the 75 percent straight line projection. The uThukela District reported the highest percentage spent of 131.4 percent (R20.6 million).
- The lowest spending was reported by the Amajuba District at R1.5 million (22.4 percent) which is significantly below the straight line projection of 75 percent for quarter three.

Water Services Infrastructure Grant

- The aggregate expenditure for the Water Services Infrastructure Grant (WSIG) for all the districts is R1.1 billion (127.2 percent) against the total DoRA allocation of R872.4 million which is above the 75 percent straight line projection for quarter three.
- The highest percentage spent on WSIG was reported by the uMgungundlovu District at 528.1 percent (R702.4 million) followed by the Ugu District at 195.5 percent (R97.7 million). The reported spending does not appear reasonable as the expenditure far exceeds the allocation for both districts.
- The lowest percentage spent was reported by the King Cetshwayo District at R21.2 million (17 percent) which is significantly below the straight line projection of 75 percent for quarter three.

2.16 Non Compliance with the DoRA and MFMA Reporting Requirements

Table 16(a): List of municipalities that did not comply with ALL DoRA and MFMA Reporting Requirements as at 22 June 2020 for the period July 2019 to 31 March 2020

2020/21 Draft Budgets not tabled to Council	2020/21 Tabled Budget not placed on municipal website	2020/21 Draft Budget not submitted to PT	Submission of mSCOA Datastrings for Mid Year Budget Performance Assessment Report (MFMA sec 72 report 2019/20) as at 2 March 2020
eMadlangeni Amajuba DM uPhongolo	uMuziwabantu Mpofana Richmond uMgungundlovu DM eMadlangeni Amajuba DM uPhongolo AbaQulusi Ulundi Zululand uMlalazi Mthonjaneni Maphumulo	Amajuba DM uPhongolo AbaQulusi uMlalazi	uMgungundlovu DM uPhongolo

¹List of municipalities exclude the non-delegated municipalities.
Source: NT Igdatabase

Table 16(b): List of municipalities that did not comply with ALL DoRA and MFMA Reporting Requirements as at 22 June 2020 for the period July 2019 to 31 March 2020

Municipalities that did not publish majority of documents on their websites as required by MFMA Sec. 75	Municipalities with less number of Interns than the requirement of DoRA as at 22 June 2020	Monthly submissions of MFMA Section 71 Data strings		
		Month 7	Month 8	Month 9
uMuziwabantu Ray Nkonyeni Mpofana Nquthu Dannhauser eDumbe Nongoma uMfolozi Nkandla	Amajuba DM Harry Gwala DM uMzombe eNdumeni uMsinga uPhongolo AbaQulusi Mtubatuba uMlalazi uBuhlebezwe Greater Kokstad	uPhongolo Amajuba DM	uPhongolo Dannhauser	uPhongolo iMpendle Mkhambathini

¹List of municipalities exclude the non-delegated municipalities.
Source: NT Igdatabase

- The MEC for Finance issued a non-compliance circular in quarter two requesting all the delegated municipalities to submit all outstanding documents and mSCOA data strings to the National and Provincial Treasuries in line with the Municipal Finance Management Act (MFMA), Division of Revenue Act 2018 (DoRA) and Municipal Budget and Reporting Regulations (MBRR). Despite these efforts and regular reminders, some municipalities have still not submitted all their documents and returns as reflected in Tables 16(a), 16(b) and 16(c), as at 22 June 2020.
- Table 16(a) shows that three municipalities did not table their 2020/21 Draft Budgets to Council as required by Section 16(2) of the MFMA. Furthermore, four municipalities did not submit their 2020/21 Tabled Budgets to Provincial Treasury. As a result, Provincial Treasury could not provide views on the 2020/21 Tabled Budget as required by Section 23(1)(b) of the MFMA.
- Fourteen municipalities did not place their 2020/21 Tabled Budgets on their municipal websites as required by Section 75 of the MFMA.
- Two municipalities did not submit their mSCOA data strings for their 2019/20 Mid - Year Budget and Performance Assessment Reports (MFMA Section 72 Reports) to the Igdatabase as at 02 March 2020. The MFMA Section 72 reports are due for submission to National and Provincial Treasury on 25 January 2020 as required by Section 72(1)(b) of the MFMA and Regulation 35(a) of the MBRR.
- Table 16(b) lists nine municipalities (9) that had not published the majority of their documents within five days of tabling the documents on their municipal websites as per Section 75 of MFMA.
- The conditions of the Financial Management Grant (FMG) requires that each district municipality must appoint a minimum of three interns and that each local municipality must appoint a minimum of five interns over a multi-year period. Two district municipalities and nine local municipalities had not appointed the required minimum number of interns as per the conditions of the Financial Management Grant (FMG) as at 22 June 2020.

2.16 Non Compliance with the DoRA and MFMA Reporting Requirements / continued

Table 16(c): List of municipalities that did not comply with ALL DoRA and MFMA Reporting Requirements as at 22 June 2020 for the period July 2019 to 31 March 2020

Verification of Section 71 figures - 3rd Quarter of 2019/20	Signed Off Q3 Conditional Grants	Signed Off Q3 Borrowing Monitoring	Signed Off Q3 Investments Monitoring
Mpofana	Mpofana	Ugu DM	Mpofana
Nquthu	Nquthu	iMpendle	Mkhambathini
Dannhauser	Dannhauser	uMgungundlovu DM	Richmond
eDumbe	Amajuba DM	iNkosi Langalibalele	uMgungundlovu DM
uPhongolo	eDumbe	uMsinga	Nquthu
	uPhongolo	eMadlangeni	uMsinga
		Dannhauser	uMzinyathi DM
		uPhongolo	eMadlangeni
		uMalazi	Dannhauser
		Nkandla	Amajuba DM
			uPhongolo
			Nongoma
			Nkandla
			Greater Kokstad

¹List of municipalities exclude the non-delegated municipalities.

Source: NT Igdatabase

- Section 71 of the MFMA requires that the Accounting Officer of a municipality must submit within ten working days after the end of each month, to the Mayor and Provincial Treasury, a statement in the prescribed format on the state of the municipality's budget.
- However, as at 22 June 2020, five municipalities had not submitted either their In Year monthly report, Debtors monthly report, Creditors monthly report or a combination thereof in the form of the mSCOA data strings.
- At the end of each quarter, municipalities are required by National Treasury to scrutinise, verify and sign off their verification schedules relating to information on MFMA Section 71 reporting to ensure that the figures to be published are reliable.
- At the end of the third quarter, six municipalities had not submitted their signed information on the Statement of Operating and Capital Expenditure, six municipalities did not submit the signed information on Conditional Grants, ten municipalities did not submit their Borrowing Monitoring signed verifications and 14 municipalities did not submit their Investment Monitoring signed verifications.

2.17 Implementation of the Municipal Regulations on Standard Chart of Accounts (mSCOA)

Implementation of the Municipal Regulations on Standard Chart of Accounts (mSCOA)

The Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), on 22 April 2014. All municipalities and related municipal entities were required to transact in compliance with the mSCOA Regulations from 01 July 2017.

Provincial Treasury continued with the implementation of mSCOA in the Province during the third quarter of the municipal financial year by means of providing on-site support and engagements with municipalities and municipal entities.

B Schedule Validation of the Council Approved Adjustment Budget to the mSCOA Budget Data Submission 2019/20

In terms of Section 28(1) of the MFMA municipalities may revise an approved budget through an Adjustments budget. Section 28(2) of the MFMA further indicates that an Adjustments Budget:

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
- (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (f) may correct any errors in the annual budget; and
- (g) may provide for any other expenditure within a prescribed framework.

As there have been a number of errors within the application of the budgeting and transaction within the mSCOA environment and where municipalities were unable to use the current Virement policy, may correct the errors through the Adjustments budget. Further to this, municipalities may have only corrected the Project, Function, Funding and Region through the Adjustments budget in line with the prescripts of MFMA Circular No. 51 and Section 28(2) of the MFMA. Based on this, municipalities submitted the Adjustments budget data string (ADJB) supported by the IDP data string known as the project details Adjustments budget (PRAD).

Stage 1: Validation of the Adjustment Budget data string for the 2019/20 financial year

Table 17 below lists municipalities that have submitted with errors or who have not submitted the required 2019/20 Adjustments budget data string as at the 17 March 2020.

Table 17: Status of stage 1 validation for the Adjustment Budget 2019/20

No	Name of municipality	Status
1	eThekwini	Outstanding
2	Msunduzi	Submitted with errors
3	uPhongolo	Outstanding

Source: National Treasury LG Database

uPhongolo Local Municipality continues to have challenges with regards to their system and no decision has been communicated to Provincial Treasury on the way forward. Msunduzi Local Municipality attempted to submit the Adjustments budget data string however the file format was incorrect.

Further to this, municipalities had to submit the IDP file (PRAD) that aligned to the Adjustments budget data string (ADJB). As at the 17 March 2020, the following municipalities, did not submit or submitted with errors.

Table 18: Status of the PRAD file submission for 2019/2020

No	Name of municipality	Status	No	Name of municipality	Status	No	Name of municipality	Status
1	Dannhauser	Outstanding	7	Mkhambathini	Outstanding	13	uMhlatuze	Outstanding
2	eNdumeni	Outstanding	8	Msunduzi	Outstanding	14	uMkhanyakude DM	Submitted with error
3	eThekwini Metro	Outstanding	9	Mthonjaneni	Outstanding	15	uMshwathi	Submitted with error
4	iNkosi Langalibalele	Outstanding	10	Okhahlamba	Outstanding	16	uPhongolo	Outstanding
5	KwaDukuza	Submitted with Errors	11	Ray Nkonyeni	Submitted with errors	17	uThukela DM	Outstanding
6	Maphumulo	Outstanding	12	Ugu DM	Submitted with errors			

Source: National Treasury LG Database

Stage 2: Segment Validation of the Adjustment Budget data string for the 2019/2020 financial year

On submission of the Adjustments budget and the PRAD, the data string will proceed to a stage 2 validation to assess whether the 16 validation rules per the National Treasury database has been used appropriately. To this end, the following municipalities Adjustments budget per Table 19 below contained segment validation errors:

Table 19: Stage 2 Adjustment Budget Segment Errors

No	Name of municipality	Status	No	Name of municipality	Status
1	iNkosi Langalibalele	Contained Segment Errors	5	uMlalazi	Contained Segment Errors
2	Mkhambathini	Contained Segment Errors	6	uMshwathi	Contained Segment Errors
3	Ugu DM	Contained Segment Errors	7	uMuziwabantu	Contained Segment Errors
4	uMgungundlovu DM	Contained Segment Errors			

Source: National Treasury LG Database

The stage 2 segment analysis on the PRAD indicated that the following municipalities per Table 20 whose IDP file did not align to the financial budget. Of the 37 municipalities that did submit the PRAD, there were 10 (27%) municipalities whose PRAD files contained segment errors.

Table 20: PRAD 2019/20 that contained segment errors

No	Name of municipality	Status	No	Name of municipality	Status
1	Alfred Duma	Contained Segment Errors	6	uMsinga	Contained Segment Errors
2	eMadlangeni	Contained Segment Errors	7	Richmond	Contained Segment Errors
3	Greater Kokstad	Contained Segment Errors	8	uBuhlebezwe	Contained Segment Errors
4	iLembe DM	Contained Segment Errors	9	uMgungundlovu DM	Contained Segment Errors
5	Mandeni	Contained Segment Errors	10	uMzimkhulu	Contained Segment Errors

Source: National Treasury LG Database

All errors and outstanding submissions with regards to the adjustment budget have been communicated to municipalities via email and telephone calls.

Stage 4: Analysis of the use of segments of the Adjustment Budget data string for 2019/20

The mSCOA team undertook an analysis of the use of segments beyond the 16 validation rules of National Treasury LG Database after the Adjustments budget data strings were successfully submitted. This exercise was conducted between the 28th February 2020 to 20th March 2020. These analyses were emailed to all municipalities for correction in the finalisation of the year end Annual Financial Statements where applicable. These errors also contributed to the misalignment of schedules as indicated in Stage 3 above. The following common challenges appeared across all municipalities:

- The incorrect use of the region segment;
- The function selection between core and non-core was not aligned to the municipality's mandate and guidelines as issued in terms of MFMA Circular No. 74;
- The funding source was not balanced and in addition was linked to incorrect sources of funding linked to certain transactions;
- The revenue source and funding source did not match;
- Accounting for the funding sources through the business process from initiation to end was not consistent. Double entry principle of accounting was not applied;

- Costing, which is applicable to all municipalities providing services such as water, electricity, waste management, and waste-water management has not been applied by municipalities except for a few high capacity municipalities;
- The item segment:
 - Municipalities included provided for transactions on the opening balance guides which is incorrect;
 - Transactions did not reflect the business process flow. This was evident as there were no liabilities, debtors and/or Value Added Tax (VAT) raised on transactions;
 - There was no double entry principle applied by some municipalities including proper movement accounting;
 - The item, project and/or funding segment did not align (over and above the 16 standard validation rules);
 - No elimination of intercompany on consolidation in terms of Generally Recognised Accounting Principles (GRAP) 6 Consolidation and Separate Financial Statements;
 - District Municipalities did not account for water as inventory per GRAP 12: Inventory; and
 - Conditional grant accounting was not correctly accounted for in terms of GRAP 23 Accounting for Non-Exchange Revenue.
- Project segment:
 - The item and project segment did not align (over and above the 16 standard validation rules);
 - Project Capital segment description did not agree to the item segment description for assets;
 - There were no Cost of Free basic services, Property rebates and revenue cost of free basic services used in certain instances;
 - Items such as Travel and Subsistence and catering incorrectly linked to municipal running costs;
 - Maintenance costs incorrectly linked to municipal running costs instead of project maintenance;
 - Incorrect alignment between strategic initiatives and operational costs to running the municipality; and
 - The incorrect use of Project Operational: Non-Infrastructure and Infrastructure projects.

The combination of Item and Project, Item and Function, Item and Funding source directly impacts the generation of the Schedule B for Adjustments Budgets. This is exacerbated by poor application of accounting and budgeting principles. Municipalities are not correctly applying balance sheet budgeting.

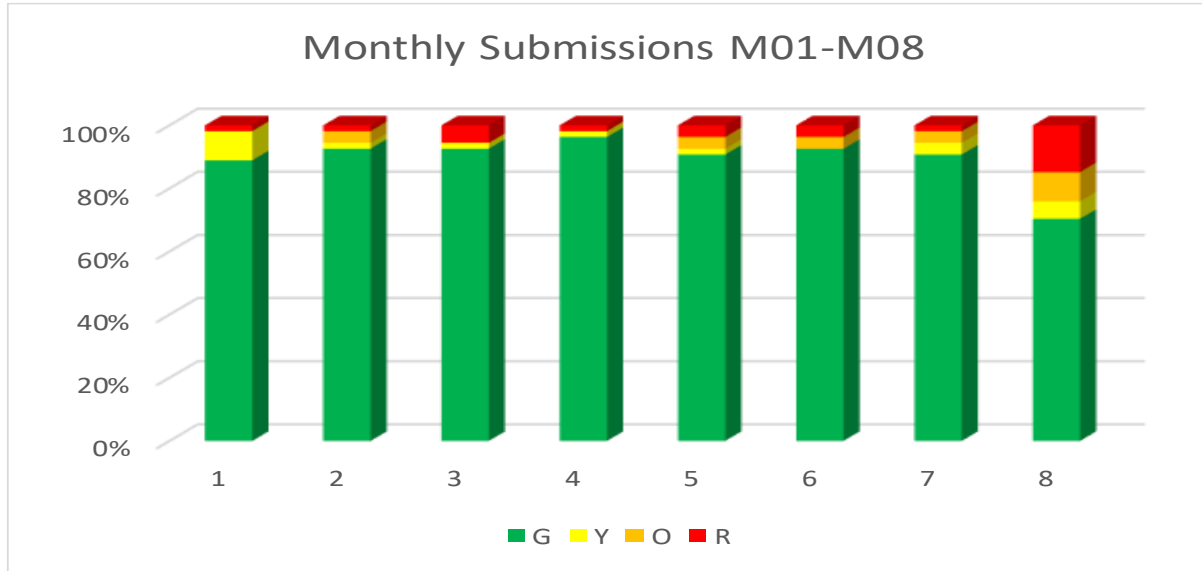
Transacting in mSCOA

Transacting in the mSCOA environment is a direct reflection of the budget that has been prepared and approved. Transacting will reflect similar errors identified at Draft, Adopted and Adjustment Budget stages. To assist municipalities with the transacting, the mSCOA team held meetings with the CFO, Budget and Reporting staff members to assist them in understanding how transactions are being reflected and why this error keeps appearing. Support was also provided telephonically and via emails when site visits could not be conducted.

Transactions between the period of 1 July 2019 to 28 February 2020

In terms of Section 71(1) of the MFMA, the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor and the relevant provincial treasury the statutory monthly reporting including the mSCOA data strings in the prescribed format. Figure 20 indicates that for the period for 01 July 2019 to 28 February 2020, the submissions made:

Figure 20: Stage 1 - Submission status of M01 to M08 for the 2019/2020



Source: National Treasury LG Database

The above figure represents the following:

- “G” denoted in green - Successfully submitted with no errors
- “Y” denoted in yellow - Successfully submitted however contains segment errors
- “O” denoted in orange - Submitted with stage 1 errors
- “R” denoted in red - Outstanding

The municipalities whose submissions contained segment errors, submitted with errors (stage 1) and outstanding are listed in Table 21 below:

Table 21: Status of submissions M01-M08 for the 2019/2020 financial year

No	Name of municipality	Status	No	Name of municipality	Status	No	Name of municipality	Status
1	AbaQulusi	M08 - segment error	8	iMpendle	M06 - submitted with errors M07 and M08 - contain segment errors	15	Nquthu	M02, M07 and M08 - submitted with errors M03 - outstanding
2	Amajuba DM	M02 - submitted with errors M03 and M08 - outstanding	9	KwaDukuza	M01- contained segment errors M08 - outstanding	16	Richmond	M01- contained segment errors M08 - outstanding
3	eDumbe	M05 - contained segment errors M08 - submitted with errors	10	Mpofana	M08 - Submitted with errors	17	Ugu DM	M07 - contained segment errors
4	eMadlangeni	M08 - contained segment errors	11	uMsinga	M01- contained segment errors	18	uMhlabuyalingana	M08 - outstanding
5	eThekwini Metro	M05 - submitted with errors	12	Msunduzi	M01-M04 - contained segment error M07 - submitted with errors M05, M06 and M08 - outstanding	19	uMzimkhulu	M01- contained segment errors
6	Big Five Hlabisa	M08 - submitted with errors	13	Mtubatuba	M05 and M06 - submitted with errors M08 - outstanding	20	uPhongolo	M01-M08 - outstanding
7	iLembe DM	M08 - outstanding	14	Nongoma	M08 - submitted with errors			

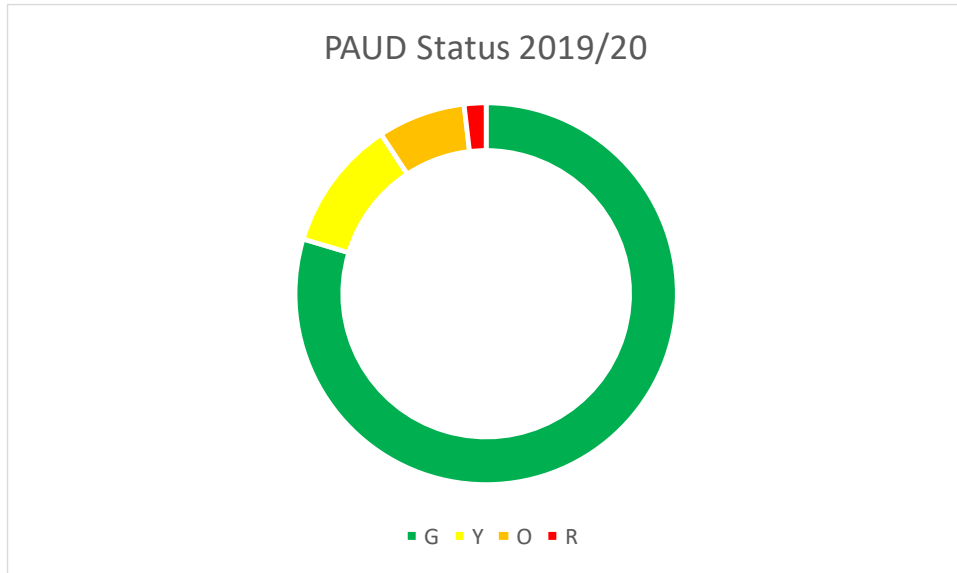
Source: National Treasury LG database

Submission of the Pre-Audited data string for the 2019/20

In terms of Sections 5(4)(a) and 74(1) of the MFMA, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required

In light of this, municipalities were requested to submit the Pre-Audited Annual Financial Statement (AFS) data strings (PAUD) to National Treasury portal. As at the 17 March 2020, there were 91 percent of municipalities that successfully submitted. Of this, 11 percent submitted with segment errors. There were five municipalities that submitted with errors and/or are outstanding. Figure 21 below reflects the status of submission of PAUD:

Figure 21: Pre-Audited AFS data string for the 2019/20 financial year



Source: National Treasury LG Database

The above figure represents the following:

- “G” denoted in green - Successfully submitted with no errors
- “Y” denoted in yellow - Successfully submitted however contains segment errors
- “O” denoted in orange - Submitted with stage 1 errors
- “R” denoted in red - Outstanding

The following municipalities submitted with errors or did not submit as at 17 March 2020:

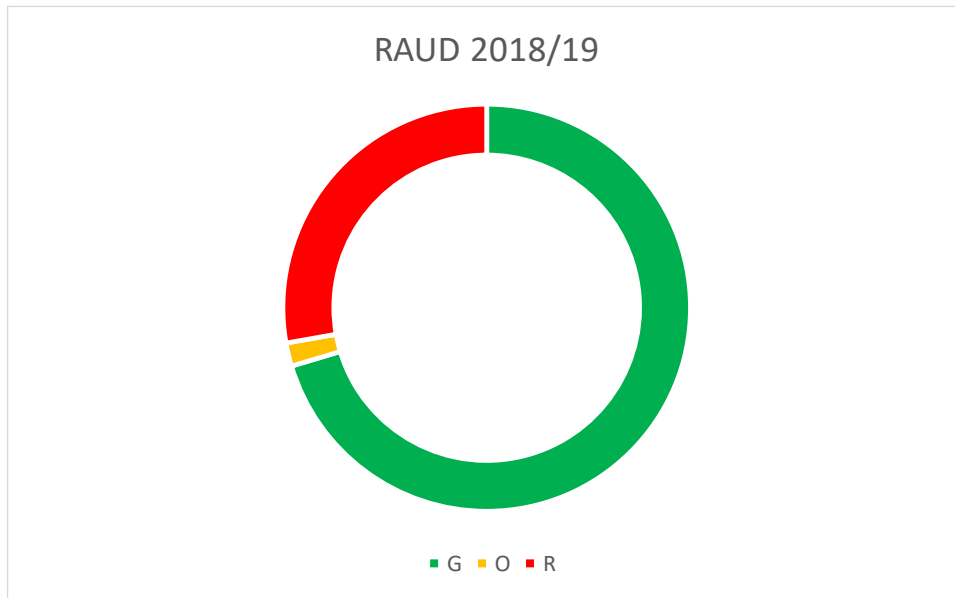
- eThekweni Metropolitan (submitted with errors);
- Msunduzi Local Municipality (submitted with errors);
- Nquthu Local Municipality (submitted with errors);
- uMngeni Local Municipality (submitted with errors); and
- uPhongolo Local Municipality (outstanding).

Furthermore, the mSCOA team conducted an analysis of the PAUD data string to the audited Annual Financial Statements and it was noted that the Pre-Audited data string did not align to the pre-audited Annual financial statements. This was due to the fact the final adjustments were not processed within the financial system resulting in the misalignment. These analyses were also sent to the municipality to correct. However, during the term of the engagement, it was evident that there were issues with the opening balances which do not balance as municipalities were not correctly processing the transactions for the year.

Submission of the Re-stated Audited Actuals for the 2018/19 financial year

The municipalities were requested to submit to the LG Portal the Restated-Audited Annual Financial Statement (AFS) data strings (RAUD). The submission was required even where no restatement was made. It would therefore align information to the Audited AFS. As at the 17 March 2020, there was 70 percent of municipalities that successfully submitted with 30 percent either submitting with errors and/or did not submit. There were 16 municipalities that submitted with errors and/or are outstanding. Figure 22 below reflects the submission of the RAUD:

Figure 22: Restated-Audited AFS data string for the 2018/19 financial year



Source: National Treasury LG Database

The above figure represents the following:

- “G” denoted in green - Successfully submitted with no errors
- “O” denoted in orange - Submitted with stage 1 errors
- “R” denoted in red - Outstanding

The following municipalities submitted with errors or did not submit as of the 17 March 2020 as detailed in Table 22.

Table 22: List of municipalities that submitted with errors or outstanding RAUD data string

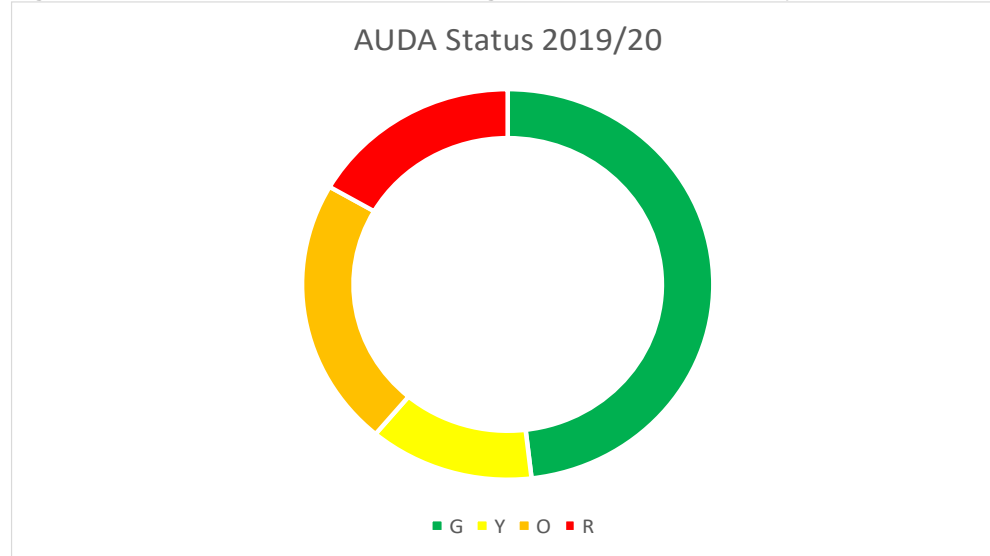
No	Name of municipality	Status	No	Name of municipality	Status	No	Name of municipality	Status
1	Amajuba DM	Outstanding	7	Newcastle	Outstanding	13	uMlalazi	Outstanding
2	eNdumeni	Outstanding	8	Nquthu	Outstanding	14	uMngeni	Outstanding
3	eThekweni Metro	Outstanding	9	Ray Nkonyeni	Outstanding	15	uMzinyathi DM	Outstanding
4	iNkosi Langalibalele	Outstanding	10	uBuhlebezwe	Outstanding	16	uPhongolo	Outstanding
5	Mpofana	Outstanding	11	uMdoni	Submitted with errors			
6	Msunduzi	Outstanding	12	uMhlathuze	Outstanding			

Source: National Treasury LG Database

Submission of the Audited Actuals for the 2019/20 financial year

The municipalities were requested to submit to the LG Portal the Audited Annual Financial Statement data strings (AUDA). As at the 17 March 2020, there was only a 61 percent submission rate. This was impacted also by the delay in finalisation of audits by the Auditor General. Figure 23 below demonstrates this submission rate.

Figure 23: Audited Actuals AFS data string for the 2019/20 financial year



Source: National Treasury LG Database

The above figure represents the following:

- “G” denoted in green - Successfully submitted with no errors
- “Y” denoted in yellow – Successfully submitted with segment errors
- “O” denoted in orange - Submitted with stage 1 errors
- “R” denoted in red - Outstanding

Table 23 indicates the municipalities that contained segment errors, outstanding or submitted with stage 1 errors as at the 17 March 2020:

Table 23: List of Municipalities AUDA 2019/20 status

No	Name of municipality	Status	No	Name of municipality	Status	No	Name of municipality	Status
1	Alfred Duma	Contains segment errors	11	Newcastle	Contains segment errors	21	uMngeni	Outstanding
2	eThekweni Metro	Outstanding	12	Nkandla	Submitted with errors	22	uMshwathi	Outstanding
3	iMpendle	Contains segment errors	13	Nquthu	Contains segment errors	23	uMvoti	Submitted with errors
4	iNkosi Langalibalele	Submitted with errors	14	Okhahlamba	Submitted with errors	24	uMzimbhulu	Contains segment errors
5	Jozini	Contains segment errors	15	Ray Nkonyeni	Submitted with errors	25	uMzinyathi DM	Outstanding
6	KwaDukuza	Submitted with errors	16	Richmond	Submitted with errors	26	uMzumbi	Outstanding
7	Mandeni	Outstanding	17	uBuhlebezwe	Submitted with errors	27	uPhongolo	Outstanding
8	Mkhambathini	Submitted with errors	18	Ugu DM	Submitted with errors	28	uThukela DM	Submitted with errors
9	Msunduzi	Outstanding	19	uMdoni	Contains segment errors			
10	Mtubatuba	Outstanding	20	uMlalazi	Submitted with errors			

Source: National Treasury LG Database

With regards to all submissions that are contain segment errors, are outstanding and/or submitted with errors, municipalities have been notified continuously to submit these. No analysis can be conducted if returns are submitted as outstanding or contain stage 1 errors. Further to this, due to the limited time the use of segments was limited to work and reviews already conducted by December 2019. The findings of the use of segments on all submissions was per the alignment of the budgeted data strings submitted, which indicated the following:

- Incorrect use of the region segment;
- Incorrect use of the Core vs Non-function segments;
- Incorrect use of the funding segment;
- Incorrect use of the item segment;
- Incorrect linked of strategic initiatives; and
- Non-implementation of costing.

There were 51 delegated monthly reports that were prepared and communicated to municipalities in January 2020 and February 2020. This outlined the following:

- Submission status of both financial and non-financial information;
- Analysis of the use of segments;
- Feedback on the on-site assessments undertaken;
- Challenges noted during the assessment bearing in mind vendor challenges and internal challenges; and
- Recommendations and way forward.

Key aspects of the recommendation included the following:

- Submitting in the correct format all outstanding information;
- Where implementation is not complete, the municipality to urgently submit to Provincial Treasury a roadmap of how this would be achieved;
- Corrections required to be done during the preparation of the Adjustment budget 2019/20 and avoidance of similar mistakes in the Tabled Budget for the 2020/21 financial year;
- Updating of the mSCOA audit working paper file; and
- Implementation of appropriate governance over the implementation of the Project. Functioning steering committees, minutes of meeting, data migration sign off, change system sign off etc.

Municipalities were further required to table this monthly report to the council and a copy of the council resolution noting this report must be forward to Provincial Treasury. As at the 17 March 2020 only Mandeni Local Municipality has submitted such resolution. There have been no roadmaps submitted.

On-site Assessments regarding the Implementation of functionality per the ICT Due Diligence

During the period of July 2019 to March 2020, Provincial Treasury conducted revised on-site assessments to determine the implementation progress made by the municipality. The assessment was in line with the functionalities that are required to be in place for the specific category of municipality per MFMA Circular No. 80. It must be clear that this was not an audit of systems nor a feedback of the vendor. Implementation is dependent on a number of factors which should be project managed by the municipality. Based on the outcomes of the assessment, the municipality is expected to review the project plan and address shortfalls including the management of the deliverables with their respective vendor.

The current assessment for the province indicates and overall percentage completion of 69 percent for all municipalities that have “completed” status per the ICT Due Diligence requirements. This is an improvement from the last assessment that was conducted during the 2018/19 financial year. There has been a conversion of a number of “in progress” items that have now been completed across all 15 business processes. Table 24 only considers the legislative and mSCOA regulations requirements progress per Vendor. It excludes optional and best practise. Best practise is yet to be regulated by National Treasury. Additionally, the assessment did not consider integration and whether modules were being used by the municipality.

Table 24: On-site Assessment per Vendor

Name of Vendor	Average of Current status under review
BCX	67%
CCG	75%
Munsoft	65%
OS Holdings	60%
Samras	69%
Sebata	47%
Vesta	74%
Non-delegated	59%
Grand Total	69%

Source: Annexure B: On-site Assessment per Municipality

The percentage for non-delegated has remained unchanged from the last assessment as there has been no such assessment that was conducted for the non-delegated municipalities. Some of the progress is indicative of the following constraints:

- Financial constraints incurred by municipalities to implement all requirements;
- Development of modules are still in progress; and
- Training required and setup of modules that may have been in progress at the time of assessment.

The progress per District is noted below in Table 25.

Table 25: Comparison of year on year progress per District

Name of District	Current Assessment	Previous Assessment	Difference in percentage
Ugu	77%	28%	173%
uMgungundlovu	67%	58%	16%
uThukela	68%	76%	-11%
uMzinyathi	65%	55%	18%
Amajuba	63%	57%	11%
Zululand	67%	62%	7%
uMkhanyakude	72%	71%	1%
King Cetshwayo	74%	47%	58%
iLembe	70%	36%	97%
Harry Gwala	65%	66%	-2%
eThekweni Metro	62%	62%	0%
Grand Total	69%	55%	8%

Source: Annexure B On-site Assessment

Note that the revised assessment was much more comprehensive than the previously assessment that was undertaken. Municipalities were requested to demonstrate these functionalities. If it could not be demonstrated either due to lack of knowledge or the module/functionality did not exist, this was clearly documented as such. Municipalities were requested to submit a roadmap per MFMA Circular No. 98 where implementation has not yet been completed for whatever reason which aligned to the request to provide a revised project plan.

The module verification as requested by National Treasury was also confirmed during the on-site assessment. Note that the module verification did not consider the category of the municipality that may affect nor whether the requirement was a legislative, mSCOA regulation, best practise or optional. It only considered whether the functionality was present and whether the municipality was using it.

Other internal challenges noted during the on-site assessment that are:

- Manual processes are continuously used where the guidelines as per MFMA Circular No. 80 and/or mSCOA regulation requirement and such functionality should be automated for that category of municipality;
- Business processes remain unchanged and this impacts the reporting capability of the municipalities;
- Costing has not been implemented particularly for low capacity municipalities;
- Funding of the additional modules is problematic as municipalities' already have existing cash flow problems;
- Reporting is still occurring outside the system. Although there is functionality available, municipalities continue to rely on excel schedules;
- Change management is a concern;

- Staff retention and major changes in senior management negatively impacts the mSCOA implementation process; and
- User Acceptance testing is signed off and the module is not working as anticipated (implementation challenges)

Training and Capacitation

Training and Support to Municipalities

The mSCOA team has actively engaged municipalities and entities through various forums, training workshops, one on one sessions and district engagements. A summary of the support provided during the period of the 06 May 2019 to 25 March 2020 include the following:

- During the conduct of the on-site assessment, findings of the monthly submissions were discussed with the Chief Financial Officer and delegated officials. An in-depth analysis per segment with the error identified and corrective measures required was discussed. All errors were to be actioned during the preparation of the Adjustment Budget process.
- Technical support on adhoc basis of the following matters:
 - Use of segments and location on the mSCOA chart including logging Frequent asked questions where no appropriate guid is found; and
 - Technical guidance to municipalities in terms of Circular 80 and Addendum to Circular 80 of the MFMA where municipalities wanted to change systems.

Forums

Engagements with National Treasury

National Treasury has conducted the following engagements with the attendance of all Provincial Treasuries:

- Technical working group (Cash flow, Reporting and A Schedules) – 20 February 2020; and
- Vendor Engagements 16-20 March 2020 – This was a demonstration of the Annual Financial Statement.

Challenges regarding the implementation of mSCOA

The key challenges that have been noted thus far include:

- The understanding of the mSCOA chart the use thereof (This is evident by the analysis conducted and the misalignment that continues);
- The accuracy of the mSCOA chart and alignment to GRAP;
- The budgetary constraints of municipalities to implement new modules or upgrades to existing systems;
- Change Management within the municipal environment. There is still resistance at a senior level;
- The development of modules that are yet to be implemented even though the requirements was that a fully system be available on the 01 July 2017;

- The adoption that this is an organisation reform and NOT a finance reform;
- Changes within the National and Provincial implementation teams – Continuity and Knowledge is lost;
- Outstanding training material from National Treasury impacts the provincial ability to provide guidance where necessary (Costing, Change Management and Role of the internal Auditor);
- Lack of embedding of business processes upfront. Currently this process is on hold until all other mechanisms are running well; and
- Costing, there is a lack of business processes to gather information to allow for process costing of Service charge costs.

Way forward

Provincial Treasury will continue to engage with the municipalities in addressing the outstanding issues via monthly site visits, frequent communication via email and telephonically as well as the various platforms such as CFO Forums and district engagements.

The focus areas of the mSCOA implementation team for the **next quarter is planned as follows:**

- Monitor and support municipalities in ensuring that the monthly data submissions are in compliance with National Treasury requirements and free from errors;
- Conduct district engagements to discuss Budgeting and transacting in mSCOA and alignment of data strings and budget Schedules;
- Analyse and review the municipal data transactions to ensure the quality of the transactional data and provide feedback to municipalities;
- Conduct and conclude the on-site assessments for municipalities against the ICT Due Diligence as per MFMA Circular No. 80 and provide municipality feedback on the overall assessment;
- Provide guidance to municipalities on system implementation issues and governance matters including on-site engagements and assessments;
- Engagement with National Treasury on the demonstration of the Grant Management Module and Annual Financial Statements Reporting module;
- Attendance of training to be held by the National Treasury; and
- Review and provide guidance on the revised project plans to address the mSCOA implementation feedback provided.

2.18 Municipal Support and Oversight

Municipal Accounting and Reporting

Introduction and Background

In terms of the Provincial Treasury's mandate to support municipalities in strengthening their financial management capacity, Provincial Treasury continued to provide financial management on-site support to identified municipalities within the province during the 2019/20 financial year. The fundamental objective of this program is to improve the financial management accounting and reporting processes at the delegated municipalities and assist them in addressing their audit findings.

The on-site support intervention strategy conducted by the initiative entails the following:

- An assessment of the status of financial management practice at identified municipalities and the development of a project plan;
- Review or perform monthly general ledger reconciliations and monitoring of the quality of financial management reconciliations and accounting processes, as required;
- Address prior year audit matters as raised by the Auditor-General to ensure that such matters are resolved adequately;
- Provide guidance and oversight in the asset register preparation process and asset management processes or assist in the preparation of the asset register as required;
- Monitor and assist in the preparation of the Interim Financial Statements and Annual Financial Statements (AFS);
- Preparation of AFS and supporting reconciliations and schedules, as required;
- Assist in the preparation and review of the audit working paper file including all financial reconciliations and disclosure requirements;
- Training and development, including continuous on-the-job training of municipal officials in terms of financial management throughout the project;
- Monitor and implement compliance with the Municipal Finance Management Act No. 56 of 2003 (MFMA), and other relevant local government legislation;
- Provide support with the alignment and compliance of Municipal Standard Chart of Accounts (mSCOA) requirements for financial management transactions;
- Attendance at audit steering committee meetings. Provide guidance and support during the audit process to the CFO in addressing all financial management audit queries until the issue of the final audit report; and
- Attendance at management meetings that relate to financial management within the municipality.

Financial Management Support

Financial management support continued to be implemented during Quarter 3 of the 2019/20 financial year. Activities during the quarter included ensuring that errors identified by the Auditor-General queries were processed, training took place as identified, review of SOP's, monthly reconciliations were updated for the next financial year and adjustments made during the audit were processed to the general ledger correctly in order that the opening balances for 2019/20 and prior period errors made are correct.

Table 26 reflects the municipalities supported by Provincial Treasury in the financial management support initiative.

Table 26: Municipalities supported in Quarter 3 of 2019/20

No	Name of Municipality	2018/19 Audit Opinion	On site support	Close Out Report status
1	Ray Nkonyeni	Unqualified	Yes	Draft preparation
2	uMuziwabantu	Unqualified	Yes	Draft preparation
3	Ugu DM	Qualified	Yes	Final report submitted to CFO
4	uThukela DM	Qualified	completed in Q2	Final report submitted to CFO
5	uPhongolo	Unqualified	Yes	Final report submitted to CFO
6	Mandeni	Unqualified	Yes	Final report submitted to CFO
7	uBuhlebezwe	Qualified	completed in Q2	Close out meeting held

The on-site support commenced in May 2019 and concluded in February 2020.

Close out reports are prepared on completion of the support. These close out reports document the activities performed during the project, including challenges experienced, recommendations and action plans to address concerns raised. It was planned to present the close out reports to management in March 2020, however this could not be achieved at all municipalities due to the lockdown as a result of the COVID - 19 National State of Disaster.

Challenges identified during implementation

The challenges faced by municipalities are similar each year and show little improvement over the financial years. The challenges identified during the financial management support and preparation of AFS initiative include, among others, the following:

- A lack of resources due to the high levels of vacancies/skills at the municipalities which negatively impacts effective skills transfer, particularly in the preparation of the AFS and resolving audit queries;
- The resignation of key officials, such as the Chief Financial Officer, during key periods resulting in other municipal officials acting in the respective positions for long periods without the vacancies being filled;
- Significant reliance is placed on Provincial Treasury support, consultants or interns to perform the work of municipal officials without an adequate commitment from the respective officials to ensure sufficient transfer of skill;
- The implementation of mSCOA has reduced the capacity available at the municipalities to undertake financial management responsibilities;
- Poor record keeping and maintenance of adequate supporting documentation negatively impacts the correction of prior period errors identified from the prior year audit;

- Inadequate skills on credit control and debt management, including basic financial accounting and document management systems;
- Lack of systems to address audit queries and recommendations for both internal and external auditing;
- Inadequate asset management processes within the municipality which impacts the maintenance of the asset register as well as the accuracy and timelines of related reporting;
- Poor controls over routine accounting processes, i.e. failing to prepare and review monthly reconciliations between the sub ledger and control accounts in the general ledger as well as between the general ledger and external source information and related register, failure to clear control/suspense accounts and failure to maintain supporting schedules such as accruals listings;
- Lack of effective controls and processes to prevent noncompliance with relevant legislation and supply chain management processes as well as to prevent the incurrance of unavoidable expenditure which results in irregular, fruitless and wasteful expenditure;
- Little or no action taken in investigating or condoning the unauthorised, irregular, fruitless and wasteful expenditure;
- Lack of evidence based reporting and failure to prepare comprehensive audit working paper files supporting the AFS; and
- Availability of municipal financial management officials to address challenges identified during the support provided.

Provincial Treasury performed an assessment of the capacity and financial management matters for the municipalities that will require assistance from the financial management support program during the next financial year. The audit opinions of the 2018/19 AGSA audit for municipalities were as follows:

- Eighteen (18) qualified;
- Two (2) disclaimers;
- One (1) adverse;
- Thirty-two (32) unqualified; and
- One (1) clean.

A review of the audit report findings indicated that material losses, material impairments and restatement of corresponding figures received the most comment in the main audit report. Compliance matters reported centered on procurement and contract management, expenditure management, asset management, annual financial statements and irregular, fruitless and wasteful expenditure. The selection of municipalities to support for the 2019/20 annual financial statements will be finalised and reported in quarter 4.

Annual Financial Statements (AFS) Review Support

Provincial Treasury conducted the review of the AFS for the 2018/19 municipal financial year for identified municipalities in the Province, commencing from the month of August 2019. The objective of the AFS review was to ensure that municipalities AFS comply with the GRAP accounting framework as well as improve the quality of AFS submitted to the Auditor-General for audit.

The on-site support intervention strategy conducted by the initiative entails the following:

- Technical review of the AFS, together with supporting working papers, to ensure compliance with the accounting standards and MFMA disclosure requirements;
- Technical review of the key registers and reconciliations, e.g. fixed assets, grants, retentions, receivables, payables etc. to ensure compliance with the accounting standards and disclosure within the AFS;
- Provide technical assistance in addressing AFS review queries as required including queries from the Auditor-General on key financial statement matters having an impact on fair presentation; and
- Provide skills transfer to the internal audit component of the municipality, by providing training on the process of reviewing the AFS and working papers as well as dealing with the audit queries.

During Quarter 3 further skills transfer and training on the process for the review of the AFS took place at one municipality; the KwaDukuza Local Municipality. Training was not performed at uBuhlebezwe Local Municipality as their internal audit unit is outsourced. Training was performed at the other municipalities during Quarter 2. Close out reports are prepared on completion of the support. These close out reports document the activities performed during the project including challenges experienced, recommendations and action plans to address concerns raised. It was planned to present the close out reports to management in March 2020, however this could not be achieved at all municipalities due to the lockdown of the COVID - 19 National State of Disaster.

Table 27: Municipalities supported in Quarter 3 of 2019/20

No	Name of Municipality	2018/19 Audit Opinion	On site support	Close Out Report status
1	uMhlabuyalingana	Unqualified	completed in Q2	Final report submitted to CFO
2	Harry Gwala	Unqualified	completed in Q2	Final report submitted to CFO
3	KwaDukuza	Unqualified	Additional training performed	Final report submitted to CFO
4	Ulundi	Unqualified	completed in Q2	Final report submitted to CFO
5	uPhongolo	Unqualified	completed in Q2	Final report submitted to CFO
6	Dr Nkosazana Dlamini-Zuma	Unqualified	completed in Q2	Close out meeting held
7	uBuhlebezwe	Qualified	completed in Q2	Close out meeting held
8	uMzimkhulu	Qualified	completed in Q2	Close out meeting held

The significant challenges identified during the AFS review were as follows:

- The AFS review was significantly delayed due to the AFS still being prepared, with the majority of the reviews taking place in the last week of August 2019;
- The AFS were incomplete at the time of review, particularly asset information and supporting documentation for the AFS, including working papers;
- Audit working paper files were still in the process of being compiled; and
- The intention was to transfer the skill to internal audit officials at these municipalities. In many instances, internal audit officials were not appointed or not available to undertake the review with the Provincial Treasury team.

Municipal Finance Improvement Programme (MFIP III) - Asset Management

In response to the continuing challenges faced by municipalities and the resulting impact on audit outcomes, particularly as it relates to Asset Management, Provincial Treasury continued to provide hands on assistance to municipalities who require asset management support. Assistance was provided from National Treasury in the form of a resource from Municipal Finance Improvement Programme (MFIP III) – Asset Management whose aim is to address weaknesses identified with the establishment of an asset management steering committee, capacitation of the asset management unit and assistance with the development of policies and procedures.

The resource has analysed all audit reports and management reports for the 2018/19 financial year to gain an understanding of the asset management issues facing the province. From this assessment as well as the insights gained from the support provided in the previous quarters seven (7) municipalities have been selected for inclusion in the asset management programme, as noted in Table 28.

Table 28: Municipalities supported with asset management in Quarter 3 of 2019/20

No	Name of the municipality	Workshop on audit findings and recommendations	Inception meeting for MFIP support	Implementation of asset action plan	Other support
1	iMpendle	✓			
2	uBuhlebezwe	✓	✓	✓	
3	uMzikhulu LM	✓	✓		
4	Dannhauser	✓	✓	✓	
5	Amajuba DM	✓	✓	✓	Attendance at asset management committee meeting
6	iLembe DM				Feedback on review of Asset Management System
7	uMshwathi	✓	✓	✓	Attendance at asset management committee meeting

The support provided this quarter related to presenting at workshops on the asset management related queries raised by the Auditor-General and recommended solutions, inception meetings for asset management support and on-site implementation of the action plan by the MFIP Asset Advisor. A meeting was held with officials at the Harry Gwala District Municipality to discuss why the offered support was not utilised by the municipality; an amicable solution was not achieved as the focus areas and action plan of the MFIP was not in line with the expectations of the municipal officials. At the request of the iLembe District Municipality, the feedback was provided on the functioning of the asset management system being utilised.

The contract of the MFIP resource expired in March 2020. During the next quarter, additional municipalities will be considered for asset management support when the MFIP III programme commences.

The significant challenges experienced during the implementation of the asset management support, amongst others, are the following:

- Asset management activities related to the physical verification, conditional assessments, impairments, depreciation calculations, additions, disposals and assets under construction transfers that all occur at year end and are not executed throughout the year;
- The appointment of consultants to assist with the preparation of the asset register occurs very close to year end;
- Lack of capacity or skills of officials responsible for asset management. The workshopped as per Table 28 above have an Assets Management Unit capacity disparity, as well as an oversight weakness, and it is included as a source of activity in the Action Plans for each selected municipality;
- Required procedures and controls related to asset management are not properly documented and implemented;
- Lack of oversight and management of the assets by the Municipal Management Officials; and
- Asset Management Systems are not fully utilised by the municipalities and do not fully comply with the MFMA Circular No. 80 requirements.
- Due to the lockdown of the COVID - 19 National State of Disaster there are a number of asset management activities that could not take place that will have an impact on finalising the fixed asset registers for the submission to the auditors in line with the MFMA deadlines.

Financial Reporting

Inter-Governmental Debt Management: Municipality Debt Recovery

Project objective

To reduce inter-governmental debt to acceptable levels. To this end the following objectives have been identified:

- To undertake a data cleansing exercise in Departments and Municipalities; and
- To facilitate a reduction in inter-governmental debt.

Table 29: Status of Municipal Debt Recovery as at 31 March 2020 for supported municipalities

No	Name of Municipality	Total Debt as per Age Analysis	Recovery to Date	Debt to be Escalated for recovery to Departments	Debt still under investigation	Irrecoverable Debt
		R'000				
1	Msunduzi	151 894	57 224	48 653	46 018	-
2	Dannhauser	7 613	1 435	6 179	-	-
3	eNdumeni	4 622	1 127	3 495	-	-
4	eDumbe	14 684	7 485	7 199	-	-
5	uMhlabuyalingana	21 397	15 254	6 143	-	-

Special projects: Request by government agencies

The Financial Reporting Unit embarked on the following special projects in the third quarter of the 2019/20 financial year on the request of the respective Government Agencies.

Table 30: Status of Special projects undertaken as at 31 March 2020

No	Name of Municipality	Nature of support	Recovery to Date
			R'000
1	Ugu DM	Recovery from organs of state	3 589
2	KZN Department of Education	Recovery of Municipal Service Debt from Section 21 Schools	29 091

Project Risks, Challenges and Dependencies

The recurring challenges that frustrate the effective and efficient implementation of support initiatives are:

- Lack of discipline and specific skills to implement recommended support initiatives;
- Undue reliance placed on KZN Treasury officials to effect changes/improvements without the requisite support of officials from client agencies/service providers;
- Ownership of land held under the Ingonyama Trust is still in dispute. A court ruling should determine issues relating to ownership and payment of all outstanding rates;
- The vesting process with respect to properties registered in the name of “RSA” is incomplete. These properties could either be National Public Works, Provincial Public Works, Land Reform or Human Settlements properties. Amounts for property rates are still being levied by various municipalities in respect of these properties. These amounts will only be paid once the vesting process is completed. It should be noted that these outstanding amounts are attracting interest;
- Certain municipalities are sending billings to the wrong departments. (For example, Provincial Bills are being sent to National and vice versa);
- The payment for services with respect to Section 21 schools remains a concern. It would appear that funding received from certain Section 21 schools is inadequate to cover the costs of services billed; and

- A review of certain municipal billing systems revealed that certain accounts have a combination of rates and service charges. These accounts must be separated and sent to the correct departments in cases where the owner and the tenant department are not the same.

Recommendations

The following initiatives are recommended to ensure a timeous attainment of outstanding deliverables:

- The formation of a working task team comprising Provincial Treasury, CoGTA, and National and Provincial Departments of Works to ensure a collaborative engagement with the relevant municipalities to achieve a sustainable resolution of all the disputes. The task team will, inter alia, map out a coherent process flow between the client agencies to ensure an understanding of the roles to be played by each of them in respect of the following:
 - Determining the ownership of properties;
 - Accurate billing procedures;
 - The setting up of a rates forum between the Department of Public Works and municipalities to address future rates issues and disputes; and
 - Addressing strategic issues such as Schools Debt, IGT, rental property, etc. which is beyond the control and competency of the debt team.
- Municipalities must effectively manage all functions and implement all actions that impact municipalities in protecting and growing their revenue base. The implementation of internal controls along the revenue value chain will aid in effective account data management, billing and collection management in utilising system data validation mechanisms and in ensuring that service level standards are fundamental to the integrity of billing data. Municipalities tend to neglect these basics and opt for costly ‘data cleansing’ exercises; however it is the protection of data integrity at the source that will yield longer-term benefits.
- The following are fundamental in maximising the potential of inter-governmental debt management as an existing revenue source:
 - The billing system must correctly reflect all billing data and department data required to issue an accurate invoice on time to the relevant department;
 - Billing queries must be resolved within reasonable timeframes; and
 - Municipal Revenue and Debt Units must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on them.
- In order to ensure that the property ratepayers are affordably charged, the MPRA (2004) empowers the Minister of the department of CoGTA to determine the ratios to be followed when levying the charges for property rates among the different residential and non-residential categories of properties. The determination of different ranges of property rates ratios ensures that the existence of public institutions referred to as ‘public benefit organisations’, such as schools and welfare and humanitarian organisations, is not jeopardised.

Norms and Standards

Strategic Objective

The strategic objective of the Norms and Standards unit is to develop, review and monitor compliance with financial norms and standards in municipalities and entities to enhance financial management.

Policy assistance

The following draft policies for Ulundi Local Municipality were reviewed in Quarter three:

- Budget Policy;
- Cash, Banking and Investment Management Policy;
- Virement Policy; and
- Credit Control and Debt Collection Policy.

Public Private Partnership (PPP)

During the quarter under review, the following municipalities shown in Table 31 were supported by the PPP Unit.

Table 31: List of municipalities supported by PPP in Quarter 3 of 2019/20

Municipality	Gaps Identified	Recommendations	Progress thus far
KwaDukuza Local Municipality - Solid Waste Removal	Contract extension:		
	The current contract for waste removal expired in 2012 and has been renewed on month to month basis since 2012.	The PPP unit recommended that the municipality must investigate whether it is legal to renew the waste removal contract on a month to month basis in terms of municipal SCM regulations.	The municipality is in the process of entering into a PPP arrangement with the service provider for waste removal services.
iLembe District Municipality Information and Communication Technology ("ICT") Infrastructure/Broadband project	Project Preparation Funding:		
	The municipality, through its municipal entity, Enterprise iLembe, have applied for project preparation funding through the Development Bank of South Africa's (DBSA) Infrastructure Investment Programme for South Africa (IIPSA) facility, which will be used to fund the scoping study.	The PPP Unit recommended the various funding options available to the municipality in relation to project development and preparation funding	The municipality have confirmed that Enterprise iLembe has made available a budget of R300 000.00 to co-fund the scoping study.
uMvoti Local Municipality – Forestry PPP	Project Registration: The municipality is awaiting finalisation of the registration of the project from National Treasury and hence are unable to continue with its own internal SCM processes until given the go ahead from National Treasury.		
	The municipality is awaiting finalisation of the registration of the project from National Treasury and hence are unable to continue with its own internal SCM processes until given the go ahead from National Treasury.	The municipality should liaise with National Treasury to determine how far the process is with regards to the registration of the project	No feedback has been received from National Treasury on the registration of the project
uMhlathuze Local Municipality - Waste Water and Associated By-Product Reuse	Water demand		
	The uMhlathuze Local Municipality has undertaken preparatory work in the form of water resource studies and master planning documents, which resulted in the uMhlathuze Local Municipality recognising the importance of securing an adequate water supply in order to underpin is planned growth.	The uMhlathuze Local Municipality completed the comprehensive feasibility study and obtained Treasury Views and Recommendations from National and Provincial Treasury. Subsequent to that, the council passed the resolution to procure the project through PPP mechanism. The PPP unit advised the municipality to draft the request for qualification to be issued the market.	The transaction advisors contract came to an end and the municipality reappointed the same transaction advisors to assist with the procurements processes. The transaction advisors drafted the request for qualification documents and submitted it to the municipality, National Treasury and Provincial Treasury for Comments before the documents can be issued to the market.
	The water demand in 2025 is expected to increase and demand is expected to exceed the current lawful water use by the uMhlathuze Local Municipality within the next few years.		
uMhlathuze Local Municipality - Richards Bay Airport Relocation	Technical Capacity to undertake Feasibility study:		
	The municipality has identified the need to investigate the feasibility and affordability of the different procurement options which will provide the best technical, financial and legal solution in delivering the proposed relocation and redevelopment of the Richards bay airport project, however, the municipality does not have the technical capacity to undertake the feasibility study.	The PPP unit recommended that the municipality must appoint the transaction advisor that will assist the municipality in undertaking the comprehensive feasibility study for airport relocation.	The bid evaluation committee (BEC) evaluated the one proposal that passed the compliance evaluation for functionality as per the terms of reference. The bidder also passed the functionality and subsequently the bidder was invited to the clarification meeting to do a presentation about the proposal. The BEC was satisfied with the presentation and the committee is yet to write an evaluation report to be presented to the bid adjudication committee

Source: KZN Treasury

Table 31: List of municipalities supported by PPP in Quarter 3 of 2019/20 / continued...

Municipality	Gaps Identified	Recommendations	Progress thus far
iLembe District Municipality - Siza Water Concession	Five Year Plan:		
	Clause 58 provides for the development of a five year plan for the next five period which must be approved by council at least four months before the end of the current five year period and it is a mechanism to identify capital works to be undertaken within the concession area over the preceding five year period.	The deadline for the finalisation of the current five year plan has lapsed and the municipality needs to finalise the five year plan as a matter of urgency,	The five year plan has still not been finalised and approved by the municipality.
	Etete - Phase 4 Housing Project		
	This project has stalled over the past years due to a lack of financial commitment by the concessionaire and the municipality on the implementation of bulk infrastructure and the subsequent maintenance. Initially, the concessionaire had requested that the quality of the bulk infrastructure to be installed, meet the specifications that have been outlined.	According to the concession agreement, the concessionaire is responsible for the maintenance of all water and wastewater services within the concession area.	The concessionaire has agreed to co-fund the installation of meters required for the first phase of the project but on condition that smart meters are installed and are the correct specifications.
	Water Services Area		
	Clause 5.2 of the concession agreement, read in conjunction with Sections 77 and 78 of the Municipal Systems Act (MSA), provides that a municipality is required to review and decide on the appropriate mechanism to provide a municipal service, the determination of which must be done by way of an assessment in terms of the criterion for deciding on mechanisms to provide municipal services, hence the incorporation of a new area to which the municipality has an obligation to service should be treated separately within the framework of Section 78 of the MSA.	The municipality should determine what legal considerations it should undertake prior to engaging the concessionaire on expanding the Water Service Area?	The municipality needs to consider whether it is an inherent right that all new water service areas outside the concession area should be serviced by the concessionaire.
	Performance and Service Levels:		
	The concessionaire agreement is not explicit on the targets of service levels that should be achieved in certain areas within the concession area.	The municipality should utilize its policy requirements and strategic service delivery targets to inform performance indicators and National water quality testing norms and standards should be incorporated into the Agreement and regular monitoring criteria as a performance target and service level.	The current service levels are very ambiguous. The municipality is to determine what are the service levels for settlements and the responsibility of the concessionaire in meeting those levels and also to provide a review of the performance targets for service levels as they are outdated
	Performance Monitoring:		
	Performance monitoring has been a constant hindrance for the majority of the concession and has meant that there has not been any constant independent verification of the work done by the concessionaire.	The municipality must establish and implement a contract monitoring structure, which must have sufficient capacity to conduct monitoring of technical, operational, financial, legal and socio-economic obligations of the concessionaire. The structure must be headed by a contract monitoring officer, with powers and authority delegated by the accounting officer.	The absence of a monitoring framework upon which the concessionaire's performance can be objectively measured without necessarily placing re-active reliance on the information in the reports periodically provided by the concessionaire, is a concern and needs to be addressed by the municipality..
Concession Fee:			
Clause 5.5.2 provides that the quantum of the annual fee payable in should be equal to the costs to be incurred by the municipality in undertaking and fulfilling its regulatory duties pursuant to the contract and applicable regulatory provisions.	The municipality should utilise the concession fee in monitoring the concession i.e. in fulfilling its regulatory and contractual obligations.	The concession fee is recorded in the concessionaire's financials, however it is not evident as to how the municipality utilises these funds.	
Skills Development, BEE and SMME's:			
Clause 53.9 mandates the concessionaire, through direct contracting and through its sub-contractors, promote 15% of the investment in works to BEE and SMME components, within the concession area.	The municipality is urged to consider the review of the amount spent towards SME's to be aligned to prevailing Broad Based Black Economic Empowerment legislation, which advocates for 30% procurement contract spend on black owned SME.	The concessionaire has earmarked 48% of its capital budget to local black Emerging Micro Enterprises (EME's).	

Source: KZN Treasury

Banking and Cash Management

Quarterly Withdrawals from Municipal Bank Accounts

Background

In terms of Section 11(4) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) “*The accounting officer must within 30 days after the end of each quarter: -*

- (a) table in the municipal council a consolidated report of all withdrawals made in terms of subsection (1)(b) to (j) during that quarter; and*
- (b) submit a copy of the report to the relevant Provincial Treasury and the Auditor General.”*

Municipalities were provided with National Treasury MFMA Circular No. 61 on Banking, Overdrafts and Investments, dated April 2012.

Progress/Outcome

Table 32 below lists the municipalities that have not submitted the first quarterly withdrawal report in respect of the 2019/2020 financial year.

Table 32: Municipalities that have Outstanding Quarterly Withdrawal Reports for 2019/20

No	Name of Municipality	No	Name of Municipality
1	eMadlangeni	4	Mpofana
2	Jozini	5	AbaQulusi
3	iLembe DM		

Table 33 below lists the municipalities that have not submitted the second quarterly withdrawal report in respect of the 2019/2020 financial year.

Table 33: Municipalities that have Outstanding Second Quarterly Withdrawal Reports for 2019/2020

No	Name of Municipality	No	Name of Municipality
1	eMadlangeni	5	Nquthu
2	Jozini	6	AbaQulusi
3	Big Five Hlabisa	7	Nkandla
4	Mpofana		

Table 34 below lists the municipalities that have not submitted the third quarterly withdrawal report in respect of the 2019/2020 financial year.

Table 34: Municipalities that have Outstanding Third Quarterly Withdrawal Reports for 2019/2020

No	Name of Municipality	No	Name of Municipality
1	uMzambe	17	uMgungundlovu DM
2	uMuziwabantu	18	uMngeni
3	Ray Nkonyeni	19	Mpořana
4	uThukela DM	20	iMpendle
5	Okhahlamba	21	Msunduzi
6	iNkosi Langalibalele	22	uMzinyathi DM
7	Amajuba DM	23	Nquthu
8	Newcastle	24	uMsinga
9	eMadlangeni	25	uMvoti
10	uMhlabuyalingana	26	eDumbe
11	Jozini	27	AbaQulusi
12	Mandeni	28	Ulundi
13	Ndwedwe	29	uMfolozi
14	Maphumulo	30	uMhlathuze
15	Harry Gwala DM	31	uMlalazi
16	Dr. Nkosazana Dlamini Zuma		

Status of support offered to Municipality

Background

Provincial Treasury to assist all municipalities during the 2019/20 financial year in respect of the following Sections of the MFMA.

- Section 11(4) – Quarterly bank withdrawal reports;
- Section 8(5) – Primary Bank Account;
- Section 9(b) – Details of all bank accounts details before year-end;
- Section 45(4) (a) – Short Term Debt; and
- Section 13 – Investment and Cash Management Policy.

Progress/outcome

Visit municipalities when required to provide assistants on the following applicable sections of the MFMA:

During the Third Quarter of the 2019/20 financial year telephonic support has been provided to municipalities on the above applicable Sections of the MFMA when requested.

Bank Accounts

Background

In terms of Section 9 and 86 of the MFMA, the Accounting Officer of a municipality and municipal entity must submit to Provincial Treasury in writing:

(a) within 90 days after opening a bank account, the details of such new bank account; and

(b) annually, before the start of the financial year, the name of each bank where the municipality/municipal entity holds an account.

Progress/ Outcome

Provincial Treasury monitors changes to primary bank accounts.

During August 2019, a request in terms of Section 9(b), 86(1)(b) and 86(2) of the MFMA, was sent to all municipalities requiring the accounting officer to submit a schedule of all bank accounts held by the municipality and of those held by any municipal entities.

Table 35 below lists the municipalities that have not submitted their bank account details with respect to the 2018/19 financial year.

Table 35: Municipalities that have not submitted their bank account details in respect of the 2018/19 financial year

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	uMdoni	15	Newcastle	29	AbaQulusi
2	uMzambe	16	eMadlangeni	30	Nongoma
3	uMuziwabantu	17	uMkhanyakude DM	31	Ulundi
4	Ray Nkonyeni	18	uMhlabayalingana	32	King Cetshwayo DM
5	uMgungundlovu DM	19	Jozini	33	uMfolozi
6	uMshwathi	20	Mtubatuba	34	uMhlathuze
7	uMngeni	21	iLembe DM	35	uMlalazi
8	Mpofana	22	Mandeni	36	Nkandla
9	iMpendle	23	KwaDukuza	37	Harry Gwala DM
10	Msunduzi	24	Ndwedwe	38	Greater Kokstad
11	Mkhambathini	25	Maphumulo	39	uBuhlebezwe
12	Richmond	26	Zululand DM	40	uMzimkhulu
13	uThukela DM	27	eDumbe	41	Dr. Nkosazana Dlamini Zuma
14	iNkosi Langalibalele	28	uPhongolo		

In September 2019, the uMvoti Local Municipality changed their primary banking details to Standard Bank.

Cash Management and Investments

Background

In terms of Section 13(1) of the MFMA, *the Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must—*

- (a) conduct their cash management and investments; and*
- (b) invest money not immediately required.*

Section 13(2) of the MFMA further states that *a municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).*

Progress/ Outcome

All municipalities were provided with:

- The municipal Investment Regulations (Government Gazette No. 27431); and
- A generic investment policy.

The Regulations and the generic policy were to be used by municipalities to tailor their own Investment Policy in order to ensure compliance with the regulations and to make economically beneficial investments.

Impending Overdrafts

Background

In terms of Section 70(2) of the MFMA, *if a municipality's bank account, or if the municipality has more than one bank account, the consolidated balance in those bank accounts, shows a net overdraft position for a period exceeding a prescribed period, the Accounting Officer of the municipality must promptly notify the National Treasury in the prescribed format of-*

- (a) the amount by which the account or accounts are overdrawn;*
- (b) the reason for the overdrawn account or accounts; and*
- (c) the steps taken or to be taken to correct the matter.*

In terms of Section 101 of the MFMA, *(1) the Accounting Officer of a municipal entity must report, in writing, to the board of directors of the entity, at its next meeting, and to the Accounting Officer of the entity's parent municipality any financial problems of the entity, including-*

- (a) any impending or actual-*
 - (i) under collection of revenue due;*
 - (ii) shortfalls in budgeted revenue;*
 - (iii) overspending of the entity's budget;*
 - (iv) delay in the entity's payments to any creditors; or*
 - (v) overdraft in any bank account of the entity for a period exceeding 21 days; and*
- (b) any steps taken to rectify such financial problems.*

(2) The Accounting Officer of the municipality must table a report referred to in subsection (1) in the municipal council at its next meeting.

National Treasury MFMA Circular no. 61 on Banking, Overdraft and Investments, dated April 2012 further states that *if the bank account, or if the municipality or municipal entity has more than one bank account, the consolidated balance in those bank accounts shows a net overdrawn position for a period exceeding 3 months, the Accounting Officer of the municipality must notify the National Treasury (Form F) within 14 days after the 3 months period lapses for municipalities and 21 days for municipal entities.*

Progress/ Outcome

Municipalities were made aware of the reporting requirements of Sections 70 and 101 of the MFMA via written correspondence in August 2019 and in February 2020 in this regard.

No municipality reported any impending overdrafts during the third quarter of the 2019/20 financial year.

Supply Chain Management (SCM)

Purpose

This report aims to provide feedback on the progress made by the Municipal Support initiatives undertaken by the Provincial Supply Chain Management unit for Quarter 3 from 01 January 2020 to 31 March 2020.

Scope of Provincial Supply Chain Management Municipal Support Initiatives

Routine Compliance assessment

The Provincial SCM Unit conducts routine compliance assessments in municipalities to ensure proper implementation and compliance with all the relevant SCM prescripts. These assessments inform all the other support initiatives that we provide as the Provincial SCM Unit as they highlight the level of compliance across the entire province.

All municipalities have submitted their procurement plans, however some procurement plans are not signed and some are incomplete.

Fourteen (14) municipalities were assessed during Quarter 3 (January 2020 to March 2020), however there were assessments which were not finalised due to COVID-19. The findings and recommendations were communicated in form of the reports to the Municipal Managers. While findings differ per municipality, the challenge with municipalities is repeat findings. Workshops were conducted in the previous quarters to address the challenge.

Table 36: Lists municipalities where Compliance Assessments conducted

No.	Name of Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
1	uMhlabuyalingana	Compliance Assessments	Routine	Routine		
2	Ndwedwe	Compliance Assessments	Routine	Routine		
3	uMkhanyakude DM	Compliance Assessments	Routine	Routine		
4	Jozini	Compliance Assessments	Routine	Routine		
5	King Cetshwayo DM	Compliance Assessments	Routine	Routine		
6	uMhlatuze	Compliance Assessments	Routine	Routine		
7	Big Five Hlabisa	Compliance Assessments	Routine	Routine		
8	Ulundi	Compliance Assessments	Routine	Routine	Approved infrastructure policy	Non-submission of proper procurement plan and reporting thereof Not advertising tenders on e-tender portal Delegations not aligned with the SCM policy No SCM practitioner serving at BAC, SCM Manager serves at RFC. Poor reporting on implementation of a procurement plan
8	Harry Gwala DM	Compliance Assessments	Routine	Routine		Lack of capacity in SCM unit SCM Manager position is vacant No segregation of duties - potential opportunity for fraudulent and corrupt activities
10	uPhongolo	Compliance Assessments	Routine	Routine		Non-submission of proper procurement plan and reporting Assessment was not finalised due to public protest
11	uThukela DM	Compliance Assessments	Routine	Routine		
12	Alfred Duma	Compliance Assessments	Routine	Routine	The municipality has implemented the pre-qualification criteria	Not fully reporting on implementation of procurement plan Non-compliance with local production and content requirements
13	eDumbe	Compliance Assessments	Routine	Routine	SCM Manager post is filled Tenders are advertised on e tender portal	No segregation of duties Lack of SCM capacity
					Bid committees are composed in accordance with municipal SCM regulations	CFO position is vacant
14	Greater Kokstad	Compliance Assessments	Routine	Routine	Submission of procurement plan and reporting on implementation Fully functional bid committees and compliant with regulations Approved infrastructure policy	Reasons for deviations not justifiable and properly recorded Poor implementation of a pre-qualification criteria

Workshops

The SCM Unit conduct bid committee workshops and workshops on the requirements for Local Production and Content in all municipalities as and when requested to do so. These workshops are conducted so as to ensure that all officials appointed as members of bid committees are aware of their roles and responsibilities and that also to ensure that bid committees are fully functional.

Table 37: Lists municipalities where training was conducted from January 2020 to March 2020

No.	Name of Municipality	Training	No.	Name of Municipality	Training
1	Dr Nkosazana Dlamini-Zuma	Bid Committees Training	1	Dr Nkosazana Dlamini-Zuma	Local Production and Content Training
2	uPhongolo	Bid Committees Training	2	eNdameni	Local Production and Content Training
3	Nquthu	Bid Committees Training	3	uMzinyathi DM	Local Production and Content Training
4	Mpofana	Bid Committees Training	4	Mandeni	Local Production and Content Training
5	uMshwathi	Bid Committees Training			
6	iMpendle	Bid Committees Training			
7	uMvoti	Bid Committees Training			
8	uMgungundlovu DM	Bid Committees Training			

Consideration of Requests for Regulation 32

In May 2017, Provincial Treasury issued KZN Municipal Circular No. 01 which mandates municipalities to obtain the consent of the Provincial Treasury prior to participating in a contract arranged by another organ of state. The aim of this support initiative is to curb the irregular expenditure that municipalities incur through contracts arranged by other organs of state.

Table 38: Lists requests for Regulation 32 considered from municipalities

No.	Name of Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
1	King Cetshwayo DM	Intention to Procure Services from an existing Contract Awarded by uMhlatuze Local Municipality	As and when requested	As and when requested	The request was evaluated to verify compliance with conditions to the use of Regulation 32. As the conditions for use of this Regulation were not met, the request was not successful	Non-compliance with the MFMA SCM Regulation 32(1) which could have resulted in irregular expenditure
		Implementation of water demand and water conservation management project	Amount not indicated	Not Granted	06-Mar-20	Request does not fully comply with Regulation 32 requirements
2	Mpofana	Provision of Short - Term Insurance for a Period of 36 Months	Amount not indicated	Not Granted	13-Feb-20	Insufficient information to prove full compliance with Regulation 32 and Circular 96 requirements

Deployment of resources for support

The Provincial SCM Unit deploys external resources to municipalities with distressed SCM units or where there is a lack of capacity at management level within the SCM units. These resources are not involved in operational work and do not hold any delegations, but they provide on-site guidance, support and mentorship of SCM officials in municipalities.

Policy guidelines

The Provincial SCM Unit issues Provincial Circulars in terms of Sections 5(3)(b) and 5(3)(c) of the Municipal Finance Management Act. The purpose of these Circulars in addition to what is prescribed under the functions of the Provincial Treasury is to guide uniformity in practice and procedure.

Contract Management

The Provincial SCM Unit has implemented Contract Management at all 53 Municipalities within the Province. The purpose of the contract management system is to reduce irregular expenditure through ensuring that proper management of contracts, from their inception right through to close out, is undertaken.

The Provincial SCM Unit conducted an analysis of the Expenditure Reports and Contract Register of Municipalities to assess the extent of implementation of contract management. Comprehensive reports based on the outcome of the desktop exercise undertaken have been completed and sent to thirty-two municipalities. Of the thirty-nine reports received, thirty-two reports have been analysed and sent to the respective municipalities and seven reports have been analysed and sent for review. Five municipalities submitted incomplete information while nine municipalities did not non-comply with Provincial Circular No. 1 of 2017/2018.

Table 39: Reflect status of Contract management reviews conducted

No	Name of Municipality	Status	No	Name of Municipality	Status	No	Name of Municipality	Status
1	iLembe DM	Completed	19	uMhlabuyalingana	Completed	37	Richmond	Submitted for review
2	AbaQulusi	Completed	20	eDumbe	Completed	38	Greater Kokstad	Submitted for review
3	King Cetshwayo DM	Completed	21	Ndwedwe	Completed	39	uMvoti	Submitted for review
4	Mandeni	Completed	22	Mthonjaneni	Completed	40	KwaDukuza	Incomplete information
5	Nkandla	Completed	23	Ray Nkonyeni	Completed	41	uThukela DM	Incomplete information
6	Nongoma	Completed	24	Mtubatuba	Completed	42	Ugu DM	Incomplete information
7	uPhongolo	Completed	25	uMhlathuze	Completed	43	eNdumeni	Incomplete information
8	Maphumulo	Completed	26	Jozini	Completed	44	Amajuba DM	Incomplete information
9	uMlalazi	Completed	27	Ulundi	Completed	45	Msunduzi	Did not submit
10	Zululand DM	Completed	28	uBuhlebezwe	Completed	46	uMngeni	Did not submit
11	Big Five Hlabisa	Completed	29	uMshwathi	Completed	47	Harry Gwala DM	Did not submit
12	Okhahlamba	Completed	30	uMfolozi	Completed	48	uMzumbe	Did not submit
13	Mpořana	Completed	31	Mkhambathini	Completed	49	eMadlangeni	Did not submit
14	Dr Nkosazana Dlamini Zuma	Completed	32	Dannhauser	Completed	50	Newcastle	Did not submit
15	uMsinga	Completed	33	Alfred Duma	Submitted for review	51	iNkosi Langalibalele	Did not submit
16	uMgungundlovu DM	Completed	34	uMzinyathi DM	Submitted for review	52	uMdoni	Did not submit
17	uMuziwabantu	Completed	35	Nquthu	Submitted for review	53	iMpendle	Did not submit
18	uMkhanyakude DM	Completed	36	uMzimkhulu	Submitted for review			

Other Support Interventions

Tables 40, 41 and 42 below list all other support interventions undertaken by the SCM Unit during Quarter 3. Only twenty-seven municipalities successfully uploaded employee information on the CSD. There is resistance from the municipalities as officials are reluctant to upload the files. Officials are not reachable telephonically or via email for long durations, due to connectivity problems at the municipalities. Some vendor systems cannot extract data as prescribed by the CSD templates (fields) and that leads to delays in uploading data since there has to be human interference. Most of the systems are not interfaced with the CSD to extract the files required for the uploads.

Table 40: List support interventions undertaken

No.	Name of Municipality	Support Initiative/ Project	Commencement Date	Estimated Completion Date	Progress to Date	Risks or Challenges
1	Mtubatuba	Payment Voucher Inspection	Requested by the appointed Administrator	24/01/2020	The report with recommendations was forwarded to the Municipality.	Municipality not using standard prescribed MBD4 and MBD9 Lack of CSD and Tax verifications Non-compliance with Local Content Deviations not reported to Council and not sufficiently motivated
2	eNdumeni	E-tender Portal Workshop	As and when requested	As and when requested	Governance Cluster provided e-tender portal workshop to eNdumeni Municipality	None
3	Newcastle	Comments in terms of the Municipal Asset Transfer Regulations in respect of Disposal of Land and a proposed Lease Agreement	As and when requested	As and when requested	The two submissions were verified separately in terms of compliance with the MATR, and the submissions were supported.	None
4	Ray Nkonyeni	Comments in terms of section 33 of the MFMA re: Contracts having future budgetary implications	As and when requested	As and when requested	The municipality was assessed to verify if it had complied with all the conditions applicable to section 33; following which the submission was supported	None
5	Mtubatuba	Policy Review	As and when requested	As and when requested	Policy Review	None
	uBuhlebezwe	Policy Review	As and when requested	As and when requested	Policy Review	None

Table 41: Lists municipalities that successfully uploaded employee information on CSD

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Zululand DM	10	Ugu DM	19	Jozini
2	uPhongolo	11	Nquthu	20	iNkosi Langalibalele
3	uMzumbi	12	Nkandla	21	iLembe DM
4	uMzimkhulu	13	Newcastle	22	Harry Gwal DM
5	uMvoti	14	Ndwedwe	23	eNdumeni
6	uMngeni	15	Mthonjaneni	24	Dannhauser
7	uMhlathuze	16	Mandeni	25	Big Five Hlabisa
8	uMfolozi	17	KwaDukuza	26	Amajuba DM
9	Ulundi	18	King Cetshwayo DM	27	AbaQulusi

Table 42: MBAT Quarterly Report

2019/2020 Financial year	TOTAL APPEALS	WITHDRAWN	LATE APPEAL	STILL OPEN	CLOSED APPEAL
Quarter 3 January to March 2020	19	1	0	12	6

Internal Audit and Risk Management

Purpose

The purpose of this report is to provide the status of the work performed from 02 January 2020 to 31 March 2020 with regards to Risk Management and Internal Audit Services to Municipalities and Municipal Entities.

Background

The Provincial Internal Audit Services provides risk management and internal audit support to municipalities. Below is the summary of the work done by the Unit during the quarter ending 31 March 2020.

Risk and control assessment workshops (includes fraud risk assessments)

Risk and control assessment workshops were conducted for the following municipalities and final reports were issued to the eNdumeni, Ray Nkonyeni and Mpofana Local Municipalities.

Training and awareness

The following training was conducted during the quarter under review.

Table 43: Training and awareness conducted in Quarter 3

No	Name of Municipality	Training conducted	No	Name of Municipality	Training conducted
1	Newcastle	Anti-Fraud and Corruption Awareness; Risk Management Training; and Financial Misconduct Regulations awareness.	5	uBuhlebezwe	MPAC Training; and Financial Misconduct Regulations awareness.
2	Alfred Duma	MPAC Training; and Financial Misconduct Regulations awareness.	6	uMuziwabantu	Risk Management Training
3	uMzinkhulu	Anti-Fraud and Corruption Awareness; and Financial Misconduct Regulations awareness.	7	KwaDukuza	MPAC Training; and Financial Misconduct Regulations awareness.
4	Mandeni	MPAC Training; and Financial Misconduct Regulations awareness.			

Internal audit and audit committee support

The Unit attended the following audit committee meetings as depicted in Table 44.

Table 44: Audit committee meetings attended

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Ulundi	4	uMzinyathi DM	7	Mpofana
2	Amajuba DM	5	Harry Gwala DM	8	Jozini
3	Ugu DM	6	Greater Kokstad		

Risk Management and Internal Audit Forum

The unit held two forums as follows:

- Port Shepstone on the 17th of March 2020 - Ugu and Harry Gwala District Municipalities and their local municipalities attended; and
- Ulundi on the 19th of March 2020 - Zululand, King Cetshwayo, uMkhanyakude District Municipalities and their local municipalities attended.

Weaknesses observed

The following were noted during the visits to the municipalities for the period under review:

Risk and Control Assessment

The risk and control assessment process and purpose are now understood by most municipalities. The challenge now is the lack of alignment with other municipal processes e.g. performance information. Furthermore, there seems to be lack of monitoring and reporting of risk information to relevant structures and as a result no action is taken to address key risks until risks materialise.

Training

The following issues were highlighted as being challenge with regards to training provided:

- Some municipal officials come to training sessions unprepared;
- Politicising of training sessions derailing proceedings;
- Poor attendance by targeted audience therefore rendering some sessions ineffective; and
- Reluctance to report suspicious wrongdoing due to perceived lack of action from provincial government.

Way Forward

The unit is finalising the review of the Local Government Risk Management Framework with the view of rolling it out from the beginning of July 2020.

Municipal Support Program

The Municipal Support Program (MSP) within the Municipal Finance Management Unit was established to assist and provide technical support to delegated municipalities in financial distress. The main objective of the Program is to identify the root cause of financial problems experienced by municipalities, support municipalities where their financial sustainability is threatened and implement support initiatives that will assist municipalities to improve their financial health.

The Value Added Tax (VAT) and Pay As You Earn (PAYE) Review initiatives are intended to address the shortcomings relating to the management of VAT and PAYE. The filing of VAT and PAYE Returns by municipalities and the processes associated with these functions have often been outsourced to service providers which resulted in external resources preparing and filing the Returns on behalf of the municipality at a considerable cost thereto. Consequently, the municipal officials have not necessarily been trained in the tasks involved and could be unaware of the best practices to follow in fulfilling these responsibilities. The VAT and PAYE Review initiatives aims to capacitate municipalities to undertake the function on their own.

The grant management initiative aims to provide guidance to municipalities in effectively managing grants which includes the monitoring, reporting and accounting of grants. The MSP published a “Guide to Grant Management” which presents a holistic approach to effective grant management with the intention of embedding key foundation principles in a municipal environment, covering areas such as municipal planning, budgeting, financial accounting and reporting, cash management, compliance as well as document management.

The MSP also provided technical support to the Mpofana Local Municipality. A Municipal Finance Technical Advisor was deployed to the intervention team to assist in addressing the outstanding Eskom debt and to provide technical municipal finance support.

Table 45 below list the municipalities which were supported by the Municipal Support Program.

Table 45: Municipalities supported by the Municipal Support Program in Quarter 3 of 2019/20

No.	Name of Municipality	Project			Municipal Finance Technical Support
		VAT	PAYE	Grant Management	
1	Mpofana				✓
2	uThukela DM			✓	
3	Mandeni			✓	
4	KwaDukuza			✓	
5	Ndwedwe			✓	
6	iLembe DM	✓	✓		
7	Harry Gwala DM			✓	

Infrastructure Management

The Infrastructure Support Team

The provision of infrastructure is integral in the realisation of government’s goal to provide basic services to all South Africans. However, under performance on Capital Expenditure (within the full value change of delivery) by municipalities delays the delivery of basic infrastructure services and exacerbates the current infrastructure backlogs.

The purpose of the Infrastructure Support Team is to assist provincial departments, entities as well as municipalities in the identification and unblocking of bottlenecks in the assessment, planning, implementation and delivery of essential infrastructure services to communities. Table 46 below shows the scope of support provided.

Table 46: Municipalities supported by the Infrastructure Support Team

No.	Name of Municipality	Scope of support provided
1	Dannhauser	Support and advice was given to Dannhauser Municipality for the funding of a cemetery and solid waste site. Revised the draft TOR. The project was cancelled due to the budget being reallocated to COVID-19.
2	Mpofana	Support was requested to assist CoGTA and the Mpofana Local Municipality. Eskom have stated that the electricity supply will be disconnected to the municipality owes Eskom R132 million for electricity supplied. Support was provided from the Professional Service Provider (PSP) Panel to employ electrical engineers to conduct an in-depth electrical analysis of both the technical and financial systems of the municipality. A PSP has been appointed. The Fourth Report has been received and approved by CoGTA. The project has been closed and the final invoice paid. Final documentation was handed to CoGTA.
3	uMngeni	Support to uMngeni Local Municipality is in respect of a conditional assessment of two blocks of flats owned by the municipality that requires major maintenance. Support was provided from the Professional Service Provider (PSP) Panel to employ electrical engineers, civil engineers and quantity surveyors to conduct a conditional assessment of the buildings and related infrastructure. MCJ Consulting was appointed, the project has been closed out and the final invoice paid. Due to the COVID-19 lockdown, the final documentation has not been handed over to the municipality.

Source: KZN Treasury

The deployment of the Infrastructure Support Team provides municipalities with the necessary expertise to tackle infrastructure related projects in various stages of the project cycle, thus increasing their delivery capacity. This has ultimately improved the return on investment and the value for money in the delivery of infrastructure.

In addition, the services of the team seek to improve internal capacity at municipalities by augmenting the required skills, thereby improving spending on capital projects/infrastructure.