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**09 February 2022**

The Speaker of Council  
Council of the Mangaung Metropolitan Municipality  
**Att. Cllr. Stefani Lockman**  
7<sup>th</sup> Floor, Bram Fischer Building  
Cnr. Nelson Mandela and Markgraaf Street  
Bloemfontein  
9300

**RE: MID-YEAR AUDIT COMMITTEE REPORT TO COUNCIL-2021/22 FINANCIAL YEAR**

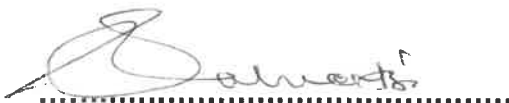
Dear Honourable Speaker

The Audit Committee is submitting its report to the Council of Mangaung Metropolitan Municipality in terms of MFMA Section 166(2) read together with Regulation 14(4)(a)(iii) of the Local Government Municipal Planning and Performance Management Regulations of 2001.

The report is hereby submitted to your goodself for inclusion in the Agenda of the Council Meeting for discussion.

You are kindly requested to issue a formal notice and invite to the Chairperson of the Committee to come present the report in Council once the Council Meeting date has been confirmed,

Yours in Service.



**Mr. MNG Mahlatsi**  
**Audit Committee Chairperson**



**MANGAUNG**

METRO MUNICIPALITY  
METRO MUNISIPALITEIT  
LEKGOTLA LA MOTSE

DIRECTORATE  
OFFICE OF THE  
CITY MANAGER

**MID-YEAR AUDIT COMMITTEE REPORT TO THE  
COUNCIL OF MANGAUNG METROPOLITAN  
MUNICIPALITY**

**REPORT NUMBER. 1 of 2021/22 FINANCIAL YEAR**

**31 DECEMBER 2021**

## **AUDIT COMMITTEE MEMBERS**

Mr. MNG Mahlatsi (Chairperson)

Ms. PME Kaota

Ms. TPN Lebenya

Ms. NP Mdaka

### **Support Staff**

Mr. GA Ntsala (Head: Internal Audit Unit)

Ms. A Schmidt (Manager: Performance and Specialised Audit Services)

Ms. F Moeng (Senior Internal Auditor)

### **Accounting Officer**

Mr. S More (Acting City Manager)

### **Chief Financial Officer**

Mr. S Mofokeng

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## FOREWORD BY THE CHAIRPERSON

The Audit Committee of the Mangaung Metropolitan Municipality is pleased to present its report to Council for the period ended 31 December 2021.

During this period, the Committee held 05 meetings as follows, to discuss amongst other things matters relating to;

- (i) internal financial controls and internal audits;
- (ii) risk management;
- (iii) accounting policies;
- (iv) the adequacy, reliability and accuracy of financial reporting and information;
- (v) performance management and evaluation;
- (vi) governance;
- (vii) compliance;

### Meetings held

Meeting No.	Type of meeting	Date held
01-2021/22-71	Ordinary Audit Committee meeting	13 Augustus 2021
02-2021/22-72	Special Audit Committee meeting	30 August 2021
03-2021/22-73	Special Audit Committee meeting	22 September 2021
04-2021/22-74	Ordinary Audit Committee meeting	27 October 2021
05-2021/22-75	Special Audit Committee meeting	26 November 2021

The Committee further reports that it has adopted the Audit Committee Charter as its formal Terms of Reference and has discharged its responsibilities in accordance with this Charter.

We thank the municipality's staff for their sterling support to ensure that the Committee performs its functions efficiently and effectively.

I accordingly submit this report on behalf of the Committee to the Council of Mangaung Metropolitan Municipality in terms of MFMA Section 166(2) and Regulation 14(4)(a)(iii) of the Local Government Municipal Planning and Performance Management Regulations of 2001.



**Mr. MNG Mahlatsi**  
**Chairperson: Mangaung Metro Audit Committee**

## 1. INTRODUCTION

The Audit Committee hereby submit its report to the Council of Mangaung Metropolitan Municipality in terms of MFMA Section 166(2) and Regulation 14(4)(a)(iii) of the Local Government Municipal Planning and Performance Management Regulations of 200. This report covers the work performed by the Committee during the period 01 July 2021 to 31 December 2021.

During this period, the Committee comprised of the following members;

Mr. G Mahlatsi (Chairperson) – re-appointed on 1 March 2020  
Ms. PME Kaota – re-appointed on 1 March 2020  
Ms. TPN Lebenya – re-appointed on 1 March 2020  
Ms. NP Mdaka – re-appointed on 1 March 2020

All the above members were reappointed on 1 March 2020 after their initial term that started on 1 October 2016 expired on 31 January 2020.

For the period under review, the Committee held its meetings as follows;

<b>Meeting No.</b>	<b>Type of meeting</b>	<b>Date held</b>
01-2021/22-71	Ordinary Audit Committee meeting	13 Augustus 2021
02-2021/22-72	Special Audit Committee meeting	30 August 2021
03-2021/22-73	Special Audit Committee meeting	22 September 2021
04-2021/22-74	Ordinary Audit Committee meeting	27 October 2021
05-2021/22-75	Special Audit Committee meeting	26 November 2021

The Committee further reports that, it has adopted formal terms of reference (Audit Committee Charter) and has discharged its responsibilities in accordance with this Charter.

## 2. EXECUTIVE SUMMARY OF THE WORK PERFORMED BY THE COMMITTEE

The following paragraphs summarizes the work performed by the Committee during the period under review. Details are recorded in the Minutes of the Committee and list of Resolutions attached as annexures 1, 2, 3, 4, 5 and 6 of this report.

### 2.1 2021/22 Internal Audit Plan

The Committee discussed the 2021/22 Internal Audit Plan as presented by Internal Audit Unit and approved the plan for implementation.

## **2.2 Management Audit Action Plan**

The Committee discussed the progress report on the Management Audit Action Plan as presented by Management. The Committee further requested management to include the matter of water losses and the agreement between Centlec and the Municipality in the Audit Action Plan.

During its meeting of 27 October 2021, the Committee raised its concerns with Management that the Audit Action Plan has not been updated with new findings, these concerns were also echoed by the Office of the Auditor-General.

Management was therefore, urged to update the Audit Action Plan with new findings and submit the updated Audit Action Plan to the Committee for review and discussion. As at the 31 December 2021, the Committee was still awaiting the updated Audit Action Plan from Management for review. The Committee will continue to monitor the implementation of an updated Audit Action plan to ensure that all findings raised by Auditor-General are addressed on a sustainable manner by Management of the Municipality.

## **2.3 Internal Audit Charter (2021/22 Update)**

The Committee discussed the revised/updated Internal Audit Charter and approved it for implementation. The Internal Audit Charter outlines the Purpose, Authority and Responsibilities of the Internal Audit Unit and this document is critical for an effective functioning of the Municipality's Internal Audit Unit.

## **2.4 Audit Committee Charter (2021/22 Update)**

The Committee discussed the revised/updated Audit Committee Charter and approved it for implementation. The Audit Committee Charter outlines the Purpose, Authority and Responsibilities of the Audit Committee and this document is critical for an effective functioning of the Municipality's Audit Committee.

## **2.5 ICT Status Reports**

The Committee discussed ICT Status reports to check amongst other things, progress made by the Municipality's ICT Department to address findings raised by AG under the municipality's ICT Environment. With the latest report presented to the Committee during its meeting of 27 October 2021, the Committee though noted progress made to address AG findings by the ICT Department, the Committee expressed its view of seeing an improved progress report in its next meeting to take place during the 3<sup>rd</sup> quarter of the financial year. The ICT Status Reports remains standing agenda items in the Ordinary Meetings of the Committee to ensure monitoring of Management Action Plans to address AG findings on ICT.

## **2.6 Review of the Draft 2020/21 Annual Financial Statements**

The Committee discussed the draft 2020/21 Annual Financial Statements as presented by the CFO. After having discussed and made inputs to the draft financial statements, the Committee resolved that, the amended and complete set of the 2020/21 Annual Financial Statements be submitted to AG for auditing by the due date of 31 August 2021.

The Committee also took note of the report of the Internal Audit Unit on the review of the same financial statements and the fact that the findings of the Internal Audit has been submitted to finance department for attention before the financial statements are submitted to AG for auditing.

## **2.7 Review of the Draft 2020/21 Annual Performance Report**

The Committee discussed the draft 2020/21 Annual Performance Report as presented by the Acting Deputy ED in the Office of the City Manager, Mr. Bennet Comakae. After having discussed and made inputs to the draft Annual Performance Report, the Committee resolved that, the amended and complete 2020/21 Annual Performance Report be submitted to AG together with the 2020/21 Annual Financial Statements for auditing by the due date of 31 August 2021.

The Committee also took note of the report of the Internal Audit Unit on the review of the Draft Annual Performance Report and the fact that the findings of the Internal Audit has been submitted to management for attention before the report is submitted to AG for auditing.

The Committee further noted with concern the capacity shortages (Human Capital) within the Organisational Planning and Performance Management Sub-directorate and urged management to perform a benchmarking exercise with other Metros with a view of establishing the required capacity within this Unit (Organisational Planning and Performance Management) and increasing it for effective performance of the Unit.

## **2.8 Quarterly SDBIP Progress Reports**

During the period under review, the Committee discussed the following SDBIP Reports as part of its oversight. The SDBIP Progress reports are a standing item on the Agenda of Ordinary meetings of the Committee to allow the Committee the opportunity to engage Management on the performance of the municipality (both financial and non-financial performances).

- 2020/21 4<sup>th</sup> quarter SDBIP Progress Report
- 2021/22 1<sup>st</sup> Quarter SDBIP Progress Report

## **2.9 Quarterly Financial Reports**

During the period under review, the Committee discussed the following Financial Reports as part of its oversight.



### **2020/21 4<sup>th</sup> quarter MFMA Section 52 Report**

During the discussion of the 2020/21 4<sup>th</sup> quarter MFMA Section 52 Report (financial), the Committee raised a concern about the expenditure on conditional grant, especially the infrastructure related expenditure (low expenditure). The Committee indicated to Management that it would like to see an improvement on the spending of grants.

The Committee further raised its concern around the SCM Unit of the municipality, with specific reference to the issue of the General Manager SCM (i.e., whether a new GM: SCM have been appointed and what happened to the former GM: SCM, whether is he still coming to work and doing what). The Committee was provided with the report indicating that the former SCM General Manager was reassigned responsibilities in the Office of the City Manager, the report which was accepted as such by the Committee.

By the time of compiling this report, the Committee was aware that the General Manager: SCM has been reinstated to this position.

### **2021/22 1<sup>st</sup> Quarter MFMA Section 52 Report**

The Committee noted the contents of this report accordingly as presented by the CFO.

### **2021/22 1<sup>st</sup> Quarter SCM Quarterly Report**

During the discussion of the 1st Quarter SCM Report for 2021/22 financial year, both the Committee and National Treasury representative advised Management to detect and disclose any irregular expenditures resulting from deviations or any other transaction during the year and not wait for the Auditor-General to identify these irregular expenditures at year end.

The above financial reports are a standing item on the Agenda of Ordinary meetings of the Committee to allow the Committee the opportunity to engage Management on the financial performance of the municipality and compliance matters.

## **2.10 Auditor General Engagement Letter for 2020/21 Audit**

The Committee discussed the Auditor-General Engagement Letter for the 2020/21 AFS Audit as presented by officials from the AG's Office.

During the discussion of this document, the Committee wanted to establish whether the Municipality has been identified for the auditing of Material Irregularities and AG officials confirmed that the Municipality have since the previous financial year (2019/20) been identified for the audit of Material Irregularities and a correspondence have been issued already to the City Manager in this regard.

After the Committee having noted that the Municipality has been formally notified that a Material Irregularity has taken place and that the Municipality have to take appropriate actions to address the Material Irregularity, the Committee resolved to engage further on this matter to monitor progress on the implementation of remedial action by management of the municipality.

## **2.11 Auditor-General Audit Strategy for 2020/21 Audit**

The Committee discussed the Auditor-General Audit Strategy for the 2020/21 AFS Audit as presented by officials from the AG's Office.

During the discussion of this document, the Committee noted with appreciation that Management of the municipality is already complying with the timelines set by AG for requests for information during the audit and the fact that AG is relying on the work performed by the Municipal Internal Audit on their behalf. During the previous audit of 2019/20, AG's Office asked for assistance from the Municipality's Internal Audit to do Employee Verification audit on their behalf and again during the current audit of 2020/21, the Office of AG has once again requested the services of the Municipality's Internal Audit to perform same audit. The Committee was encouraged by this collaboration and the trust placed by the Office of the Auditor-General on the work of the Municipality's Internal Audit Unit.

## **2.12 2020/21 Auditor-General's Draft Audit Report for Mangaung Metro Municipality**

The Committee discussed the report as presented before it by the officials of the Office of Auditor-General. During the discussion of this report, the Committee made the following observations.

- The challenges relating to going concern is noted, the Committee will continue monitoring this matter.
- The huge impairment of debt is concerning, management should improve debt collection.
- The decrease in unauthorised expenditure is noted, management should continue monitoring the implementation of actions to reduce unauthorised expenditure even further.
- The decrease in irregular expenditure is noted, this shows that the municipality have made an effort to improve.
- Distribution losses remains a concern for the Committee and should be reduced, as it also contributes to the liquidity levels of the municipality.
- Contingent liability is still high though an improvement is noted, management should focus more on this area.
- The Committee will monitor the performance reporting closely to ensure that amongst other things, valid, accurate and complete supporting documents are availability for reported achievements.
- The Committee will monitor consequence management closely to ensure there is an improvement in this regard.
- Lack of oversight was also highlighted by AGSA due to non-compliance to legislations, contract management etc., therefore, the Committee urged management to intensify oversight to improve on these areas. The Committee further urged management to develop/update and implement the audit action plan immediately to ensure issues raised by AGSA are addressed.

In concluding its discussions on the report, the Committee took a resolution to focus on the following areas during the current financial year.

- Unauthorised, Irregular, Fruitless and Wasteful Expenditure.
- Consequence Management
- Financial Sustainability
- Service Delivery
- ICT
- Annual Performance Reporting
- Revenue Collection
- Distribution losses
- Implementation of the Audit Action Plan
- Close work relation with Centlec Audit Committee to ensure performance is on par with that of the Municipality

### **2.13 Risk Management Function**

The Committee discussed the reports of the Risk Management Unit presented before it by the Chief Risk Officer. During the period under review, the following Risk Management Reports were discussed.

#### **2020/21 4<sup>th</sup> Quarter Risk Management Report**

The above report included the following points for discussion by the Committee

- Progress in terms of the Risk Management Implementation Plan (highlighting areas in-progress)
- Overview of implementation of Risk Mitigation Action Plan progress for 2020/21 financial year
- Emerging risks:
- Materialised / Unmanageable Risks;
- Challenges and Recommendations in terms of the Implementation of Risk Management processes

#### **2020/21 Annual Risk Management Report**

The above report included the following points for discussion by the Committee

- Key activities
- Assurance on Risk Management
- Reflection on the Municipalities Risk related weaknesses

Except for the resource's limitations within this Unit, the Committee is satisfied with the functionality of the Unit.

### **2.14 Internal Audit Function**

The Committee discussed the reports of the Internal Audit Unit as presented before it by the Chief Audit Executive during the period under review, the following Quarterly Internal Audit Reports were discussed.

## **2020/21 4<sup>th</sup> Quarter Internal Audit Progress Report**

The above quarterly report included the following individual reports which were also discussed by the Committee.

- Internal Audit report number 07/2020-21: Debt Collection Report
- Internal Audit report number 11/2020-21: Implementation and monitoring of Council resolutions Report
- Internal Audit report number 14/2020-21: Traffic and law enforcement audit Report
- Internal Audit report number 17/2020-21: Audit of trade waste removal Report
- Internal Audit report number 24/2020-21: Audit of cash management Report

## **2021/22 1<sup>st</sup> Quarter Internal Audit Progress Report**

The above quarterly report included the following individual reports which were also discussed by the Committee.

- Internal Audit report number 06/2020-21: Audit of Performance Information - 2020/2021 SDBIP/IDP and Performance Agreements for Municipal Manager and Section 56 Employees)
- Internal Audit report number 10/2020-21: Facilities Maintenance Audit
- Internal Audit report number 16/2020-21: Audit of Performance Information: 1st Quarter SDBIP Progress Report 2020/21
- Internal Audit report number 23/2020-21: Audit of Performance Information – 2nd Quarter and Mid-Year 2020/21 SDBIP Progress Reports
- Internal Audit report number 27/2020-21: MFMA Compliance Checklist - Q3 of 2020-2021
- Internal Audit report number 31/2020-21: Audit of Performance Information Q3 SDBIP 2020-21
- Internal Audit report number 35/2020-21: Building Control
- Internal Audit report number 36/2020-21: Rental and Social Housing

The Committee reports that it is satisfied with the functionality of the Internal Audit Unit.

### **3. AUDIT COMMITTEE RECOMMENDATIONS TO COUNCIL**

After having considered all reports presented by management to the Audit Committee, the Committee put forth the following recommendations and advices to Council for adoption;

#### **3.1 Financial Position**

After having discussed all reports brought before it by Management, the Committee advise and put the following recommendations to Council.

- (a) Debt collection drive of the municipality needs to intensify to ensure that all monies owed to the municipality by residents, government and business are recovered for the improvement of the municipality's finances.

- (b) The dispute between the municipality and BloemWater need to be resolved for good as a matter of urgency to bring stability into the water supply of the municipality,
- (c) Overtime cost is still excessively high and therefore, the Committee recommends that Council should support EMT in implementing strict measures to manage overtime effectively.

### 3.2 Performance Management and Evaluation

After having considered Performance reports for the 1<sup>st</sup> Quarter of 2020/21, the Committee advise and put the following recommendations to Council,

- (a) The performance of the Municipal Manager and his team of Heads of Departments should be assessed on a quarterly basis in terms of the provisions of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to municipal managers, of 2006.
- (b) Management of the Municipality should perform a benchmarking exercise with other Metros with a view of establishing the required capacity within the Organisational Planning and Performance Management Unit and increasing it for effective performance of this Unit.

### 3.3 Service Delivery

During its previous reports to Council, the Committee made amongst others, the following recommendations to Council under this matter of service delivery.

Council should establish a Committee of Enquiry to establish the root causes to poor service delivery that is being witnessed on the ground. This Committee should comprise of Members of MPAC and the Provincial Executive Committee Representative Team deployed to the City. The scope of investigation of this Committee of Enquiry should *inter alia*, include but not limited to the following;

- Delays in the Municipality's SCM processes which also has a negative impact on services delivery,
- Non-completion and or delays in completing infrastructure projects,
- Projects Management capabilities of the municipality,
- Delays in refuse removal (what are the causes),
- Non-fixing of potholes and or delays thereof,
- No-marking of municipal roads (what are the reasons),
- Consequence management or lack of,
- Any other matter Council would want this Committee to investigate.

The report of this Committee should also include the recommendations to Council on what steps should be taken to remedy the situation. The Committee reiterates the above recommendations for Council approval and implementation.

### **3.4 Information Communication and Technology (ICT) Environment**

The Committee is still concerned about the vacuum existing at the ICT Department of the Municipality. The vacant position of the Chief Technology Officer (CTO) should be filled as a matter of urgency by appointing a fully qualified person to lead the ICT Department of the municipality.

### **3.5 Auditor General findings**

Although the Committee has noted improvement on the audit outcome of the Municipality from a Qualified Audit Opinion to an Unqualified one, the Committee still urge management of the Municipality to continue eliminating findings raised by Auditor-General on a sustainable basis to achieve a more better audit outcome (Clean Audit).

The Committee reiterates its recommendation of the previous year that, the Audit Action plan should be a standing item on Executive Management Team meetings. The Municipal Manager should report on a quarterly basis to both the Audit Committee and Council on progress made to eliminate Auditor-General findings found.

### **3.6 Risk Management**

From the Risk Management reports presented before the Committee by management, it became evident that risks are not properly and adequately managed by those assigned to manage risks identified within the municipality.

The Committee, therefore, recommends that, all Heads of Departments should have Key Performance Indicators of managing risks within their Departments in their Performance Agreements and their performance on risk management should be assessed as part of their overall performance assessments.

The above recommendation was previously communicated to Council in our reports to Council.

### **3.7 Implementation of Internal Audit and Audit Committee recommendations**

Through various reports of the Internal Audit Unit, it became evident that management is slow in implementing recommendations made by the municipality's internal audit to improve the control environment of the municipality. Management should timeously implement all Internal Audit recommendations that have been accepted by management for implementation.

### **3.8 Capacitating IDP and Organisational Performance Unit**

The Committee noted with concern the inadequate capacity within the IDP and Organisational Performance Unit. From the reports presented before the Committee by Management, it was indicated that the Unit consist of only two officials and one administration officer. It is the view of the Committee that, for this Unit to be fully functional and effective, capacity need to be increased

by capacitating the unit amongst others with qualified persons in the Performance Management and the Monitoring and Evaluation sections of this unit, as this will assist the Municipality to produce quality performance reports and improve its audit outcome / opinion.

The Committee have since advised Management to do a benchmarking exercise with other Metros of the same size as Mangaung Metro. The Committee is still awaiting the report on such an exercise from Management.

### **3.9 Capacitating the Audit Committee with skills lacking in the Committee**

The Committee reviews a range of reports including ICT, Engineering and Legal related reports. For the Committee to be fully functional and effective in discharging its responsibilities, the Committee recommends that, Council to consider building capacity in these areas on a phase in approach.

The Committee, therefore, recommends that Council build capacity within the current Audit Committee by appointing a qualified Engineer as the fifth member of this Committee, to be able to assist the Committee to **analyse** and **interpret** engineering reports that serves before the Committee as submitted by Management.

The remaining skills (i.e. ICT and Legal) be considered during the appointment of the new Audit Committee after the end of the term of the current Committee.

### **3.10 Filling of critical posts including the City Manager position**

The Committee has noted with concern the instability brought about by the vacancy in the position of the City Manager and is therefore, recommending that, Council should speed up the filling of this vacancy and all other critical vacancies identified within the Municipality to bring stability and improve service delivery.

When these vacancies are filled, they should be filled by suitably qualified and experienced persons who will bring value to the Municipality and improve service delivery.

### **3.11 Former City Manager investigation outcome report**

The Committee is in the dark regarding the circumstances that led to the removal of the previous City Manager and as the Oversight Committee of Council, this Committee should be aware of any strategic decisions taken and investigations commissioned by Council and any other matters of importance for the effective functioning of the Committee in discharging of its responsibilities.

It is therefore, against this background that the Committee request to be favoured with the outcome of the investigation that was commissioned by Council relating to the previous City Manager (Adv. Tankiso Mea) to be able to advise Council appropriately where necessary.

### **3.12 Implementation and monitoring of the Unauthorised, Irregular, Fruitless and Wasteful Expenditures (UIF&WE) Reduction Plan**

The Committee took note that the UIF&WE Reduction Plan that have been developed by the municipality was submitted to National Treasury as requested by this Department. To ensure effective implementation of this plan, the Committee recommends that the implementation of this plan be closely monitored monthly by the Executive Management Team of the Municipality and quarterly by the Audit Committee, MPAC and Council. The City Manager should submit quarterly reports on the implementation of this plan to all these structures (i.e. the Audit Committee, MPAC and Council) for monitoring purposes.

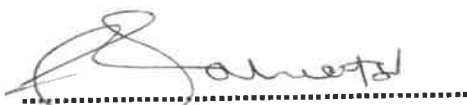
### **3.13 Investigations of Irregular Expenditure**

The Committee is still concern about the slow pace at which executive management is addressing irregular expenditure of previous financial years as this will negatively affect the effectiveness of MPAC as well as the next audit outcomes of the Municipality. Management should ensure that investigations of irregular expenditures as requested by MPAC are finalised as matter of urgency and reports are submitted to Council for processing before the end of this financial year (30 June 2022).

## **4. CONCLUSION**

This report is submitted to Council in accordance with the provisions of MFMA section 166(2) and Regulation 14(4)(a)(iii) of the Local Government Municipal Planning and Performance Management Regulations of 2001 for consideration and approval.

The Committee assures Council that, it remains committed and dedicated to performing its responsibilities without any fear or favour and with honesty and integrity.



**Mr Godfrey Mahlatsi**  
**Audit Committee Chairperson: Mangaung Metro**