



MEDIA STATEMENT

NATIONAL TREASURY INVOKES SECTION 216(2) OF THE CONSTITUTION AGAINST NALA MUNICIPALITY, WARNS EIGHT OTHER MUNICIPALITIES

National Treasury has invoked Section 216(2) of the Constitution of the Republic of South Africa against Nala Municipality in the Free State, stopping all financial transfers to the municipality because of its persistent breach of financial management prescripts and alleged mismanagement of public funds.

Nala Municipality's non-compliance dates back to the 2008/09 financial year and includes, among others, failure to submit:

- the 2009/10 and 2010/11 annual financial statements,
- the 2009/10 and 2010/11 annual reports,
- the 2009/10 and 2010/11 MFMA Section 72 reports and annual performance assessment reports, and
- Electronic and hard copies of the 2012/13 MTREF tabled budget and hardcopy of the 2012/13 MTREF adopted budget.

Forensic investigations conducted by KPMG during the 2010/11 financial year unearthed serious incidences of maladministration, flouting of procurement processes, fraud and corruption at the municipality.

National Treasury has, through various engagements from 22 August 2012, warned the Nala Municipality to implement the findings of the KPMG report.

While the municipality has made some progress, with technical support from National Treasury, a number of serious issues remain unaddressed. These include:

- (i) the municipality's failure to implement several recommendations in the KPMG Report;
- (ii) the municipality's failure to compile and submit to the National Treasury a list of all service providers/contractors that have, over the years, been paid by the municipality for work not done or completed as well as measures the municipality intends taking to recover all monies unlawfully paid to those service providers/contractors; and
- (iii) the municipality's failure to indicate to the National Treasury how it intends repaying conditional grants that it has over the past couple of years unlawfully used to finance its day-to-day operations.

Failure to satisfactorily address the above issues has, to a large extent, informed National Treasury's decision to suspend the transfer of all remaining 2012/13 Equitable Share and conditional grants allocations due to Nala Municipality.

Unless these issues are addressed and there is a concerted effort to implement all of KPMG's recommendations, this suspension will remain in place.

Nala Local Municipality was allocated R203.9 million for the 2012/13 financial year. So far, R82 million had been transferred to the municipality and the Section 216(2) action will affect the remaining R122 million.

On 24 January 2013, the National Treasury will visit the Nala Municipality to assess progress in addressing some of its challenges. The Treasury will then decide on how to further assist the municipality in the wake of the implementation of Section 216(2) of the Constitution that is currently in place.

Furthermore, eight other municipalities have also failed to compile and/or submit their annual financial statement to the Auditor-General and are at risk of the National Treasury invoking Section 216(2) of the Constitution against them. These are:

- (i) Bela-bela Municipality in Limpopo,
- (ii) Renosterberg Municipality in the Northern Cape,
- (iii) Joe Morolong Municipality in the Northern Cape,
- (iv) Kai ! Garieb Municipality in the Northern Cape,
- (v) Kgatelopele Municipality in the Northern Cape,
- (vi) Mier Municipality in the Northern Cape,
- (vii) Kannaland Municipality in the Western Cape, and
- (viii) Swellendam Municipality in the Western Cape.

The National Treasury has consistently endeavoured to institutionalise sound financial management practices to strengthen transparency, accountability and improve service delivery.

Issued by: National Treasury

18 January 2013