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REPUBLIC OF SOUTH AFRICA



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MEDIA STATEMENT

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Findings of forensic investigation on NW municipalities' VBS investment

Mahikeng: Following the investment of a combined R314 million of taxpayers' money into the VBS Mutual Bank by four North West municipalities, the Provincial Government commissioned a forensic investigation by Sekela Xabanisa CA Inc (SKX) to look into the matter and report back with findings and recommendations into the investments.

SKX has submitted the investigation report to the Premier and Provincial Government, and confirmed the following:

- The Madibeng Local Municipality invested R31 million of their Conditional Grant
- The Mahikeng Local Municipality invested R83 million; of which R23 million was from the Municipal Infrastructure Grant while R60 million was from the Municipal Equitable Share (and was an overpayment from the National Department of Cooperative Governance and Traditional Affairs)
- Dr Ruth Segomotsi Mompati (RSM) District Municipality invested R150 million; of which R100 million was from the Regional Infrastructure Grant (RIG), R25 million from the Equitable Share-Free Basic Services and R25 million was from the Building Fund.
- The Moretele Local Municipality invested R50 million from the 2017/2018 Water Services Infrastructure Grant.

In determining whether such investments made by the municipalities were in line with the Municipal Finance Management Act and other applicable legislative and regulatory frameworks, Sekela Xabanisa CA Inc did the following:

1. Conducted an in-depth investigation into the legal framework in which Municipalities may conduct their financial management, specifically in relation to the investments
2. Conducted an in-depth investigation into the investment procedures of the four affected municipalities in which the following approach was applied
 - 2.1 Reviewed the investment policies of each of the affected municipalities
 - 2.2 Noted any deviations from the Investment Policy and in particular sought to determine why VBS Mutual Bank was the municipalities' preferred selection
 - 2.3 Identified the role played by Municipal Officials concerned, in order to determine if they could have manipulated the decision to invest with VBS Mutual Bank
3. Established whether any implicated officials received kickbacks and/or commission in the investment processes
4. Make recommendations regarding the findings, including how to strengthen internal controls where weaknesses may be identified.

The following are some of the key findings of the forensic investigation:

- The four municipalities' investment into VBS Mutual Bank was contrary to the MFMA as VBS Mutual Bank was not registered as a bank in terms of the Banks Act.
- The Dr Ruth Segomotsi Mompati District Municipality's R150 million investment was authorised by the Municipal Manager and the former Chief Financial Officer without consulting the Mayor as per the investment policy of the Municipality.
- In Mahikeng Local Municipality, the suspended Municipal Manager and the former CFO made the decision to invest the R83 million municipal funds to VBS Mutual Bank; and it was further established that there were other numerous investments made by the municipality to other banks such as Standard Bank – that were found to have been lawful and in line with the municipality's investment policy.
- In Moretele Local Municipality, the Municipal Manager and the former Chief Financial Officer failed to adhere to Section 11 of the Municipal Regulation which states that the municipality must take all reasonable and prudent steps when investing municipal funds.
- In Madibeng Local Municipality, the forensic investigators were not privy to the outcomes of the internal investigation instituted by the municipality.

The forensic has recommended the following to the North West Provincial Government:

1. The respective municipalities take disciplinary action against the implicated officials for failing to discharge their duties in accordance with the MFMA and other regulations; firstly by making irregular investments and secondly by failing to adhere to their fiduciary duties as set out in the MFMA.
2. The municipalities should follow appropriate procedures to seek condonation of irregular investment and/or irregular expenditure from the National Treasury.
3. The municipalities institute formal legal action; within applicable confines against the VBS Mutual Bank in curatorship to try and recover amounts lost, whether partially or wholly as may be determined by the administrators and/or the Reserve Bank.

The provincial government will soon summon all affected leaders for a further engagement on the findings of this forensic investigation.

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Issued by the Office of the Premier

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