

**MPAC OVERSIGHT REPORT FOR THE 2016/17 FINANCIAL YEAR / MPRK
OORSIGVERSLAG VIR DIE 2016/17 FINANSIËLE JAAR / INGXELO YE
MAPAC YOKUBEKA ILISO ELIBANZI YONYAKAMALI KA 2016/17**

(10/1/1)

14 March 2018

REPORT FROM THE CHAIRPERSON OF MPAC (CLLR C LICHABA)

PURPOSE OF THE REPORT

To submit the Oversight Report to Council for adoption.

BACKGROUND

• **Introduction**

The Annual Report for the 2016/17 financial year was tabled to Council on 22 January 2018 in compliance with section 127(2) of the Local Government: Municipal Finance Management Act, No. 56 of 2003 ("MFMA") which states the following:

"The mayor of a municipality must, within seven months after the end of a financial year table, in the municipal council the annual report of the municipality."

The MFMA requires in section 129 that:

"The council of a municipality must consider the annual report of the municipality..., and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council—

- a) has approved the annual report with or without reservations;*
- b) has rejected the annual report; or*
- c) has referred the annual report back for revision of those components that can be revised.*

It further states in section 130 that:

"(1) The meetings of a municipal council at which an annual report is to be discussed or at which decisions concerning an annual report are to be taken, must be open to the public and any organs of state, and a reasonable time must be allowed—

- a) *for the discussion of any written submissions received from the local community or organs of state on the annual report; and*
 - b) *for members of the local community or any organs of state to address the council.*
- (2) *Representatives of the Auditor-General are entitled to attend, and to speak at, any council meeting referred to in subsection (1).*
- (3) *The accounting officer must in accordance with section 21A of the Municipal Systems Act make public an oversight report within seven days of its adoption.*

- **Purpose of an annual report**

The purpose of the annual report is:

- to provide a record of the activities of the municipality;
- to provide a report on performance against the budget; and
- to promote accountability to the local community for decisions made.

The annual report of a municipality must include—

- (a) the annual financial statements of the municipality as submitted to the Auditor-General for audit;
- (b) the audit report of the Auditor-General in terms of both section 126(3) of the MFMA and section 45(b) of the MSA;
- (c) municipality's annual performance report as per section 46 of the MSA;
- (d) assessment of any arrears on municipal taxes and service charges;
- (e) assessment of municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each vote in the municipality's approved budget;
- (f) particulars of corrective action taken or to be taken on issues raised in audit reports;
- (g) explanations to clarify issues on financial statements;
- (h) any other information determined by the municipality including recommendations made by the APAC and any other information as may be prescribed.

- **Municipal Public Accounts Committee (MPAC)**

MPAC is responsible according to their Terms of Reference in Section 3.28:

- (a) To consider and evaluate the Annual Report as tabled to Council, and thereafter make recommendations to Council in this regard.
- (b) To compile an Oversight Report and table in Council no later than two months from the date of which the Annual Report was tabled, in terms of Section 129 of the MFMA.

For purposes of complying with the requirements listed above, MPAC met on 9 March 2018. The following individuals attended the meeting:

Members of MPAC

Cllr CN Lichaba - Chairperson
Cllr BHJ Groenewald
Cllr T Van Rensburg
Cllr BN Van Wyk

Audit and Performance Audit Committee (APAC)

Dr A Potgieter attended in her capacity as chairperson of APAC.

Officials in attendance

Mr MG Stratu	Municipal Manager
Ms B Holtzhausen	Executive Manager: Corporate/Strategic Services
Mr C Africa	Executive Manager: Community Services
Mr JC Ottervanger	Executive Manager: Roads Services
Mr L Menze	Executive Manager: Planning and Economic Development
Mr J Stander	Acting Executive Manager: Financial Services
Mr T Loliwe	Strategic Manager
Mr JW de Jager	Chief Audit Executive
Ms L James	Risk Officer
Ms IG Saaiman	Performance Management Officer
Ms DD October	Chief Administration Officer

Auditor-General of South Africa

Mr I Fourie	Senior Manager
Mr A Makaluza	Manager

• **Annual Report Public Participation Process**

The draft annual report was advertised and no comments were received from the public/communities. Two radio interviews were also arranged, where the chairperson of MPAC informed the public about their role in the Annual Report Process.

• **Summary of Discussions and Comments by MPAC on the 2016/17 Annual Report**

During the meeting, MPAC called on various officials, AGSA and the chairperson of APAC to provide information, comment and advice. A summary of discussions are included in the table below:

No.	Issues/Comments by MPAC
1.	<p><u>Financial outcome</u> MPAC noted the financial outcome and information presented in the AFS section of the Annual Report.</p>
2.	<p><u>AGSA Audit Report</u></p> <p><u>Audit outcome</u> MPAC noted that the audit outcome as issued by the Auditor-General of South Africa (AGSA) has regressed from “clean audit” in 2014/15 and 2015/16 to “unqualified with findings” in 2016/17.</p> <p>The reason for the regression relates to findings on the non-compliance with Procurement and Contract Management laws and regulations.</p> <p><u>Emerging risks</u> MPAC enquired about the emerging risks reported by the AG, e.g.:</p> <ul style="list-style-type: none"> - New pronouncements: Standards of GRAP; - Municipal Standard Chart of Accounts (mSCOA); - B-BBEE certificates; - Suppliers in service of state – monitoring by CSD; - Performance management system (PMS) for employees other than section 56; - Minimum competency framework; - Audit findings on the annual performance report that may have an impact on the audit opinion in future; and - Deviation from competitive bidding processes. <p>Recommendation The council must ensure that proper processes are in place to address all the issues raised by the Office of the Auditor General, with emphasis to SCM processes. As well as ensure that emerging risks are properly monitored through the Institutions risk management processes.</p>

No.	Issues/Comments by MPAC
3.	<p><u>APAC Report</u></p> <p><u>Internal Control</u> MPAC noted the statement by APAC that the deficiencies in Eden DM's internal control as reported AG in the AGSA Management Report "makes for extremely disquieting reading". MPAC requested further explanation of this comment and comment on addressing the reported matters from management.</p> <p>Recommendation Council should consider addressing the reported inefficiencies within the Finance department as a matter of urgency.</p> <p><u>Risk Management</u> MPAC notes APAC's comments that the municipality has a formalized process in order to identify, assess, manage and monitor risks. The committee enquired whether the risk management process identified the risks that events – like those of the Knysna fires – could materialise and was mitigation in place during the 2016/17 year.</p> <p>The committee is concerned about the priority given to the fire department, given the recent fires that destroyed properties and fatalities within our district. The following concerns were also noted regarding fire:</p> <ul style="list-style-type: none"> • Equipment is old and insufficient • Fire risk not part of the ten risks in the annual report although climate changes is being identified. <p>Recommendation Priority should be given to fire services, given the high risk of fires in the district.</p> <p><u>Use of consultants</u> APAC reported total expenditure of R6.5million on consultants. Also the AG has raised a finding on the use of consultants for the second year in a row.</p> <p>Recommendation Use of consultant should be managed in terms the Policy to ensure transfer of skills amongst others.</p> <p><u>Theft of municipal assets</u> MPAC was concerned about the safe guarding of municipal assets as reported by APAC.</p> <p>Recommendation</p> <ul style="list-style-type: none"> • Regular monitoring and investigation should be done and consequence management be implemented. • Preventative measures should be applied.

No.	Issues/Comments by MPAC
4.	<p><u>Performance Management</u></p> <p>The Annual Performance Report (APR) records the achievement of planned targets for the year.</p> <p>A repeat finding was reported on the Portfolio of Evidence on a KPI relating to the creation of job opportunities through EPWP.</p> <p>Recommendation Council should ensure that the approved KPI's on the top layer SDBIP, in relation to job creation are not ambiguous.</p>
5.	<p><u>Addressing findings raised by the AGSA</u></p> <p>MPAC enquired about the action plans developed to address findings raised by the AG.</p> <p>Recommendation An action plan to address AG findings should be developed and monitored and the progress be reported to APAC. APAC should provide such reports to MPAC for information.</p>
6.	<p><u>Public Participation</u></p> <p>MPAC is concerned about the participation of the public on the Annual Report.</p> <p>Recommendation MPAC road shows should be included as part of the IDP process.</p>
7.	<p><u>Irregular Expenditure</u></p> <p>MPAC finds it worrying that irregular expenditure to the amount of R31.7million was reported in the annual financial statements – most of which was identified by the AG.</p> <p>Recommendation</p> <ul style="list-style-type: none"> • Report to MPAC on reported Irregular expenditure • Implement consequence management where there was deliberate contravention of policies and legislation

No.	Issues/Comments by MPAC
8.	<p data-bbox="240 262 531 293"><u>mSCOA Regulations</u></p> <p data-bbox="240 344 1466 450">Council has received regular reports stating that Eden DM is experiencing substantial problems with the implementation of the new financial system by the service provider, procured to comply with the mSCOA Regulations.</p> <p data-bbox="240 501 1466 562">MPAC enquired about the process and events leading up to the current worrying state of affairs.</p> <p data-bbox="240 613 504 645">Recommendation</p> <p data-bbox="240 656 1466 759">The portfolio head of Finance department should ensure that the challenges in implementation of mSCOA are urgently addressed to avoid further regression of the Audit Opinion.</p>
9.	<p data-bbox="240 772 775 804"><u>Property disputes with B Municipalities</u></p> <p data-bbox="240 815 1466 920">The AG's audit opinion emphasised ongoing disputes regarding land ownership between Eden DM and B municipalities in the district as disclosed by management in the notes to the 2016/17 annual financial statements.</p> <p data-bbox="240 972 504 1003">Recommendation</p> <p data-bbox="240 1014 1466 1075">The portfolio head of Planning and Strategic department should ensure that the reported disputes with B-Municipalities are investigated and addressed.</p>

Provincial Comments on Annual Report

The Annual report of the Municipality was also assessed by Provincial Treasury and they came to the following conclusion:

- Eden District Municipality complied with legislation regarding tabling, publishing document for comments, submission to Provincial Treasury and placement on the website within the time frames prescribed in the MFMA section 121.
- The Municipality produced a draft 2016/17 Annual Report reflecting comprehensive information pertaining to the Municipality's performance during the year under review.
- Based on the mid-year performance on achieved targets the municipality is rated at the managed to optimising level.
- The municipality must strive to retain its previous audit status.

Management Comments

Management was part of the MPAC meeting and they have responded to the above issues raised by MPAC members. There is an action in place to address all the issues raised by the Office of the Auditor General.

UITVOERENDE OPSOMMING

Artikel 129 van die MFSW bepaal dat 'n munisipaliteit 'n Jaarverslag oorweeg. Artikel 127 van die Wet bepaal verder dat 'n Oorsigverslag deur die raad oorweeg moet word.

Die Jaarverslag het gedien by die MPRK vergadering gehou op 9 Maart 2018. Die Oorsigverslag was bespreek tydens 'n vergadering gehou op 16 Maart 2018.

RECOMMENDATION

1. That Council, after having fully considered the annual report of the municipality and representations thereon, adopts the oversight report and approves the 2016/2017 Annual Report without reservations.
2. That the Accounting Officer, in accordance with Section 21 (a) of the Municipal Systems Act, make the oversight report public within seven days of its adoption.
3. That the Accounting Officer submits the Oversight Report to the provincial legislature within seven days.
4. That Council should urgently review the disaster management contingency plans and fire department's budget to ensure that the plan is adequately funded.
5. That the recommendations contained in the report be implemented, and that progress reports be submitted on a regular basis.

AANBEVELING

1. *Dat die Raad, na voldoende oorweging van die jaarverslag van die munisipaliteit en voorleggings hieroor, die Oorsigverslag aanvaar en die 2016/2017 Jaarverslag goedkeur sonder voorbehoud.*
2. *Dat die rekenpligtige beampte, in gevolge die bepalings van artikel 21(a) van die Munisipale Stelselwet, die Oorsigverslag publiseer binne sewe dae na aanvaarding daarvan.*
3. *Dat die rekenpligtige beampte van die munisipaliteit die Oorsigverslag binne sewe dae aan die Provinsiale Wetgewer voorsien.*
4. *Dat die Raad dringend die Rampbestuur voorsorg maatreëlplan en brandweer departement begroting hersien om te verseker dat die plan voldoende befonds is.*
5. *Dat die aanbevelings in die verslag geïmplementeer word en dat vorderingsverslae op 'n gereelde basis ingedien word.*

ISINDULULO

1. Sesokuba iBhunga, emveni koqwalaselo banzi lwengxelo yonyaka yomasipala kunye nonikezelo lwengxelo, lwamkele ingxelo banzi kwaye liphumeze Ingxelo Yonyaka ka 2016/2017 ngaphandle kwamakwiniba.
2. Sesokuba uMphathi Masipala, ngokulandela uMhlathi 21(a) we Municipal Systems Act, enze ingxelo banzi ifumaneke eluntwini kwintsuku ezisixhenxe yamkelwe.
3. Sesokuba uMphathi Masipala anikezele Ingxelo banzi kwindlu yowisomthetho yephondo kwisithuba sentsuku ezisixhenxe.
4. Sesokuba iBhunga liqwalasele ngokungxamisekileyo izicwangciso zokhuseleko zolawulo lwezentlekele kunye nolwabiwo-mali lwesebe lezomlilo ukuqinisekisa ukuba izicwangciso zixhaswe ngezemali ngokufanelekileyo.
5. Sesokuba izindululo eziqilathwe kwingxelo zimiselwe, kwaye kunikezewe ingxelo yomsebene rhoqo.

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CLLR NC LICHABA
(CHAIRPERSON: MPAC)

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DATE