

**MPAC**

**13 DECEMBER 2018**

**SPECIAL DISTRICT COUNCIL**

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**REPORT ON THE OVERSIGHT REPORT FOR THE 2017/18 FINANCIAL  
YEAR / *VERSLAG RAKENDE DIE OORSIGVERSLAG VIR DIE 2017/18  
FINANSIËLE JAAR / INGXELO MALUNGE NENGXELO BANZI  
KUNYAKAMALI KA 2017/2018***

(10/1/1)

13 December 2018

**REPORT FROM THE CHAIRPERSON OF MPAC (CLLR CN LICHABA)**

**PURPOSE OF THE REPORT**

To present the Oversight Report of MPAC on the Annual Report, as required by legislation, and submit recommendation to Council for consideration.

**BACKGROUND**

The Annual Report for the 2017/18 financial year was tabled to Council on 28 August 2018 in compliance with Circular 63 of the Local Government: Municipal Finance Management Act, No. 56 of 2003 ("MFMA") which states the following:

*"The mayor of the municipality must in August each year table to council the unaudited annual report of the municipality"*

The MFMA requires in section 127 that:

*"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 to consider and evaluate the Annual Report as tabled to Council, and thereafter make recommendations to Council in this regard.

For purposes of complying with the requirements listed above, MPAC met on 06 December 2018. The following councillors and officials attended the meeting:

#### Members of MPAC

Cllr CN Lichaba - Chairperson  
Cllr BN Van Wyk  
Cllr Mangaliso  
Cllr Rossouw

Cllr Stroebe

Audit and Performance Audit Committee (APAC)

Dr A Potgieter attended in her capacity as chairperson.

Officials in attendance

Ms B Holtzhausen	:	Executive Manager: Corporate Services
Mr C Africa	:	Executive Manager: Community Services
Mr M Cekiso	:	District IDP Manager
Mr J Stander	:	Acting Executive Manager: Financial Services
Mr T Loliwe	:	Strategic Manager
Mr JW de Jager	:	Chief Audit Executive
Ms IG Saaiman	:	Performance Management Manager
Ms T Gauzela	:	Committee Services

**Executive Summary by MPAC on the 2017/18 Annual Report**

The 2017/2018 annual report was advertised and no comments were received from the public/communities.

MPAC noted the financial outcome and information presented in the AFS section of the Annual Report. The committee acknowledged the improvement on the financial position of the Municipality as compared to the previous financial year. The financial viability improved from a Concerned to Good status in the current year. The concern is the increased impairment provision which will be discussed in more details below.

MPAC noted that the Municipality maintained its unqualified audit outcome. The MPAC congratulated the GRDM on the improvement in the audit outcome from the previous year. The report shows that there is only one material finding as compared to quite a few in the previous year. This means that there was only one material finding that stood between the unqualified with findings and the clean audit.

In drafting its audit action plan for the financial year under review, management should among other issues focus on the following issues raised;

- Impairments (debtors impairments to be prioritized)
- Irregular expenditure
- Disaster Management. E.g. fires. It is evident that GRDM is more exposed to disaster as compared to other areas of the country in general and Western Cape Province in particular.
- Supply chain management holistically.

We have also took note that there are other Municipalities within the region that are in a worse off position as compared to GRDM.

MPAC has noted the 2017/2018 audit and performance Audit Committee report, with issues raised. MPAC's view is not foreign in some of the issues raised by APAC.

MPAC has also noted one (1) material inconsistency and fourteen (14) other inconsistencies raised by AG in the annual report for the current year, furthermore MPAC notes the effort by management to address all the inconsistencies as raised by AG.

However, MPAC is of the view that, the foreword by the Executive Mayor of the district must be clear on EPWP also talking to sustainable opportunities. A process plan on partnerships through MOU's signed must be provided and outputs thereof.

### **Discussion**

During the meeting, MPAC requested that the AG report for the financial year under review be presented and the Strategic Manager in the Office of the Municipal Manager presented the report to the committee. The chairperson of APAC was invited to present the APAC report for the financial year. The committee takes note of the report and its recommendations.

The inconsistencies in the 2017/2018 annual report as raised by AG were also presented by the IDP Manager, and these were corrected by management.

### **AGSA AUDIT REPORT**

The AG report for the financial year under review raised one material finding which the management of GRDM does not agree with. There is an ongoing process by management to deal with the dispute. Below are more details on the issue.

#### **Non Compliance with SCM regulation 36 (c)**

We have noted that, the AG reported that, in the case of deviations, suppliers were not requested to submit declarations of interest. The municipality was of the opinion that, since they used SCM Regulation 36 which is a deviation from normal procurement processes; they were not required to comply with SCM regulation 13(c).

Regulations 13 (c) requires that the Municipality to request declaration of interest from suppliers during the written quotation and bidding process.

The above finding from AG resulted to irregular expenditure. MPAC finds it worrying that irregular expenditure to the amount of R56 million was reported in the annual financial statements – R17 million of which was identified by the AG.

It should be noted that R38 million of this irregular expenditure relates to two contracts that were identified in the previous financial year. This was as a result of two contracts that were advertised for a period of less than 30 days and this irregular expenditure will be reported incurred in 2018/19 as well, until the contract comes to an end.

The R17 million relates to deviations, where suppliers were not requested to submit declarations of interest. The municipality was of the opinion that, since they used SCM regulation 36, which is a deviation from normal procurement processes, they were not required to comply with SCM regulation 13(c).

Further to that the Municipality used the Central Supplier Data Base declarations to confirm that the directors of the suppliers in question were not in the service of state.

The office of the Auditor General maintained that the Central Supplier Database is not adequate. It was agreed that the Municipality should seek a technical opinion on this matter. The technical opinion was sourced from Provincial Treasury. The response from Provincial Treasury confirmed that the Municipality is correct in its interpretation of these two regulations. The opinion was forwarded to the office of the Auditor General; however the Office of the Auditor General still maintained its initial view.

As the Committee, we did not attempt to be technical experts on this matter and we are of the view that the Municipality should implement the recommendations of the AG, where it relates to sourcing of declaration of interest, during the application of section 36, as this will strengthen controls in the deviation process. This is not by anyway confirming whether we agree or disagree with the non-compliance raised by the Office of the Auditor General. In their response management were also not against this recommendation, rather the issue of non-compliance to legislation.

### **Other Matters Raised By AG**

The office of the Auditor General also raised other matters in his report, which management need to address, although not material in nature.

### **Impairment of Debtors**

The committee took note of the material amount provided for impairment of debtors. This is an indication that an amount on R19 million might not be received from our debtors, as compared to about R11 million last year. This is concerning, given our grant dependency.

The main portion of this impairment relates to accounts of the recent fires. The municipality should develop appropriate control mechanisms to ensure that these monies are recovered and that the right debtors are identified, as this mostly relate to fire accounts which are often disputed.

### **Property disputes with B Municipalities**

With reference to note 55.5 in the financial statements, the municipality is reported to be in a possible dispute with B-Municipalities regarding a land-claim. The municipality intends to dispute these claims and is waiting on Provincial Treasury to arbitrate. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result, has been made in the financial statements.

The committee is aware of negotiations between the district and B Municipalities regarding certain pieces of land and properties. These negotiations should continue and the interest of the communities and the district should be ensured. Council should be informed on progress of these negotiations.

## **Performance Management**

No material finding that were raised by the Office of the Auditor General.

## **Other Matters that were considered by the Committee**

### **Action Plans to address AG Report**

MPAC has then indicated that, at least by the end of January 2019, a detailed audit action plan to address the above issues by management, must be compiled.

### **Public Participation**

MPAC requires serious community engagement on the annual report, so as to ensure that community members are involved in the business of the GRDM. To this end the committee should be equipped to engage communities via the public participation process.

### **mSCOA Regulations**

Council has received regular reports stating that GRDM's experienced substantial problems with the implementation of the new financial system. Given all the challenges with implementation of mSCOA and the implementation of a new financial system, the municipality was able to submit Annual Financial Statements to the Auditor General, on time and there were no material misstatements, as the result of mSCOA that affected the audit opinion. This is commendable given that there are other municipalities who were faced with the same challenges, but could not submit their AFS's by the legislated deadline.

### **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 November 2018.*

*Die Oorsigverslag was bespreek tydens 'n vergadering gehou op 6 Desember 2018.*

*Die 2017/2018 Jaarverslag was openbaar gemaak vir publieke insette, maar geen insette was ingedien deur die publiek nie.*

*Die MPRK neem kennis van die oudit uitkoms en die inligting soos vervat in die Jaarlikse Finansiële seksie van die Jaarverslag. Die komitee neem kennis van die verbetering van die finansiële posisie van die munisipaliteit teenoor die vorige finansiële jaar. Die finansiële lewensvatbaarheid van die munisipaliteit het ook verbeter.*

*Die MPRK neem kennis dat die munisipaliteit het 'n ongekwalfiseerde status behou.*

*Die verslag toon dat daar slegs een wesenlike bevinding is wat die munisipaliteit verhoed om 'n skoon oudit status te behaal.*

*Ter voorbereiding van die konsep oudit aksieplan vir die huidige finansiële jaar, moet die bestuur die volgende aspekte in ag neem:*

- *Debiteure Herstelplan (invorderings van debiteure moet verhoog word)*
- *Onreëlmatige uitgawes*
- *Rampbestuur*
- *Verkrygingsbestuur*

## **RECOMMENDATION**

1. That Council, after having fully considered the Annual Report of the municipality and representations thereon, adopts the oversight report and the 2017/2018 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 must develop a debtor's impairment recovery plan which is as the results of fires. A detailed action plan from the Vulcan Wildfire report needs to be tabled within three months from the date of this report.
5. That Council continue to lead the co-ordination of disaster management activities within the district and engagements with National Treasury be initiated on this front for funding purposes.
6. That Council ensures that the action plan to address issues raised by the Office of the Auditor General is developed which includes declaration on deviation processes as per AG recommendations.
7. That Council allocates a specific budget for MPAC public participation processes.

## **AANBEVELING**

1. *Dat die Raad, na voldoende oorweging van die Jaarverslag van die munisipaliteit en voorleggings daarvan, die Oorsigverslag sonder voorbehoud aanvaar.*
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 'n debiteure herstelplan saamstel met spesifieke verwysing na die gevolge van die vure. 'n Volledige aksieplan gebaseer op die Vulcan Wildfireverslag moet binne drie maande by die Raad ter tafel gelê word.*
5. *Dat die Raad voortgaan om rampbestuur aktiwiteite binne die distrik koördineer en Nasionale Tesourie te nader vir moontlike befondsing.*
6. *Dat die Raad verseker dat 'n aksieplan om die aangeleentheid soos uitgewys deur Kantoor van die Ouditeur-Generaal te ontwikkel wat insluit 'n verklarings op die afwykingsprosesse.*
7. *Dat die Raad 'n spesifieke begroting allokeer vir die MPRK deelname prosesse.*

### **ISINDULULO**

1. Ukuba ibhunga emveni kokuba liqwalasele ingxelo yonyaka kamasipala, liphumeze ingxelo ye MPAC kunye nengxelo kamasipala kanyaka 2017/2018, ngaphandle kweminye imiba.
2. Ukuba umphathi kamasipala, ngokomthetho olawula umasipala, enze ingxelo ye MPAC ifumaneke kuluntu kungadlulanga intsuku ezisixhenxe emveni kokuba iphunyeziwe libhunga.
3. Ukuba umphathi kamasipala uthumele ingxelo ye MPAC kurhulumente wephondo, zingadlulanga intsuku ezisixhenxe.
4. Ukuba ibhunga lisulunge isicwangciso, sokubhataleka kwamatyala, enzekileyo ngenxa yemililo. Kubekho ingxelo yesicwangciso se Vulcan wildfire zingadlulanga inyanga ezintathu, ikhutshiwe lengxelo.
5. Ukuba ibhunga liqhubekeke likhokela imicimbi yezentlekelo, lifakane imilomo nesebe lezimali ephondweni ukuze lifumane imali.
6. Ukuba ibhunga liqinisekise ukuba kukho indlela ekuzakulungiswa nyayo izinto eziphakanyiswe ngumphicothi zincwadi.
7. Ukuba ibhunga lifake imali ukuncedisa kwinqubo zokuya ebantwini ze MPAC.