

**REPORT ON THE OVERSIGHT REPORT FOR THE 2018/19 FINANCIAL YEAR / VERSLAG RAKENDE
DIE OORSIGVERSLAG VIR DIE 2018/19 FINANSIËLE JAAR / INGXELO MALUNGE NENGXELO
BANZI KUNYAKAMALI KA 2018/2019**

(10/1/1)

13 December 2019

REPORT FROM THE CHAIRPERSON OF MPAC (CLLR C LICHABA)

PURPOSE OF THE REPORT

To present the report of the MPAC on annual report, as required by legislation, and submit recommendation to Council for consideration.

BACKGROUND

In terms of section 129 of the Local Government Municipal Finance Management Act, 2005, the council must adopt an oversight report of the municipality, which must include comments on the annual report. This is a second consecutive year that the council has implemented the principles of MFMA Circular 63 on the annual report process.

The Annual Report for the 2018/19 financial year was tabled to Council on 29 August 2019 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 129, 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 the following dates:

MPAC Members	16/09/ 2019	28/10/2019	04/12/2019
Cllr Lichaba - Chairperson	X	X	X
Cllr BVan Wyk	X	X	X
Cllr Rossouw			X
Cllr Mangaliso		X	X
Cllr Fortuin		X	
Cllr Stroebeel	X	X	

Audit and Performance Audit Committee (APAC)

Dr A Potgieter attended in her capacity as chairperson and presented her report on the annual report. *Management must include the recommendation of the Audit Committee when drafting the Audit Action Plan.*

Officials in attendance

All relevant officials were present in all the above meeting, to give clarify and take questions on tabled reports.

Executive Summary by MPAC on the 2018/19 Annual Report

The 2018/2019 annual report was advertised and no comments were received from the public/communities.

MPAC noted that the Municipality maintained its unqualified audit outcome. The MPAC congratulate GRDM in maintaining unqualified audit report given the status of the audit outcomes around the country. This report will further discuss the material issues raised by the Office of the Audit General.

Discussion

The committee met three times and discussed the draft and final annual report. The final annual report with all its components was discussed on fourth of December 2019. We would like to commend administration for being able to compile the final set of the annual report with all the chapters and annexures that are required in terms of section 127 of MFA. The final report from the Office of the Auditor General was received Saturday, 30 November 2019, which gave two days for the administration to finalise the Annual Report and organize the MPAC meeting. During the meeting, various components of the annual report were presented to the Committee and management answered all question to the satisfaction of the committee. These presentations made it very easy for the committee to perform its oversight role. The report of the Auditor General had to be presented by Management, as the Office of the Auditor General could not make it to the meeting.

The chairperson of APAC was also invited to present the APAC report for the financial year and the committee takes note of the report and its recommendations.

Climate Change

The committee is very much concerned about the draught that is experienced in our region. This is not a regional matter but it has affected the whole of South Africa. In the Eastern Cape the shortage of water is currently having a devastating effect and affecting lives of the poor and the livestock. We are experiencing draught in Kannaland and Outshoroon and the dam levels are very low. The municipality is doing limited effort in addressing draught related matters due to limited powers. Our district is known for its tourist attraction and the draught may negatively impact the tourism economy. This council took a decision to be a water service authority. This would allow the district to have a meaningful impact on draught relieve measures. *It is the recommendation of this committee that a draught action plan be developed and presented to MPAC and council.* This action plan should have tangible and measurable outputs and outcomes. *The progress report on water service authority should be presented at the next council meeting.*

District Economy

The committee is concerned about the socio economic risks that are part of the Annual Report. The following are the socio economic risk that are affecting the district:

Risk 1: Drought.

Risk 2: Financial Sustainability (Grant Dependency).

Risk 3: Stagnating Economic Growth.

Risk 4: Limited Tourism Marketing And Development Of The Region.

Risk 5: Education

Risk 6: Health

A detailed assessment of these risk should be performed and action plan to address all of them should also be developed. These risks should be incorporated in the municipal risk profile for proper monitoring.

The foreword of the Executive Mayor and the Municipal Manager mentioned that the district had successfully held various conferences with the aim of boosting our economy. The committee can attest to the success of the conferences and summits, however the district is yet to realise the fruition of such conferences. *The institution must **quantify the***

economic impact of these conferences and report back to council. Further to that measurable action plans should be developed to ensure that all the resolutions of the conferences are implemented and find its way to the **Key Performance Indicators** of relevant departments. One of the major concerns is the rising poverty in our communities within our district. It is reported that the poverty headcount is at currently 40.5%, which is unacceptable high. This district should intervene and play a vital role in reducing this percentage.

Leadership

The council has been accessed by the office the Auditor General as regressed as compared to previous year. This was because of the collapsing of the council meeting where the annual report had to be approved. The office of the auditor General reported that Council did not adequately ensure that appropriate processes were in place to ensure compliance with regulation 8 (1).

AGSA AUDIT REPORT

We have reviewed the Audit Report and noted that there were findings raised, which we would like to bring to the attention of council and management.

1. Black top Patching and Blading of Roads

The achievement for target "Repair 5 000m² of black top patching by 30 June 2019" reported in the annual performance report was 2 886m². However, the auditor claimed that the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 2 588m², a difference of 298m²

The achievement for target "Blade 10 000km of roads by 30 June 2019" reported in the annual performance report was 9 041.02km. However, the auditor claimed that the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 6 223km.

The above two Key Performance Indicators belong to our Roads Department and were reported as not achieved. We have reviewed this findings and evaluated responses as

provided by officials. We have noted that although the achievement of these two targets is not entirely under the control of the department, there were also errors in capturing of log sheets to the system. We also noted that the department, subsequent to this finding, arranged a training workshop for all the data capturers and this workshop was held in Oudtshoorn, towards the end of November 2019. The purpose of the workshop was to address the above issues. Management must closely reviewed the captured information, to ensure that it collate to the source documents and ensure accuracy of reported information. Further to above, the Office of the Auditor General identified minor inconsistency in numbering of the strategic objectives in the Annual Report and this was corrected.

2. Composition of Bid Adjudication Committee

The Auditors are of the view that the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Supply Chain Regulation 29(2) provide guidance for the composition of Bid Adjudication Committees. This regulation says that,

- *a bid adjudication committee must consist of at least four senior managers of the municipality or municipal entity which must include*
 - (i) the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;*
 - (ii) at least one senior supply chain management practitioner who is an official of the municipality or municipal entity;***
 - (iii) and a technical expert in the relevant field who is an official of the municipality or municipal entity, if the municipality or municipal entity has such an expert.*

The Municipality did not formally appoint the Senior Supply Chain Management Practitioner as the formal member of the Bid Adjudication Committee.

However, the Senior Supply Chain Manager was part of the Bid Adjudication Committee to provide guidance and advice on SCM related matters. This has been the practise for the past 14 years and management was of the view that the CFO, who is chairing the BAC and the Supervisor of the SCM Manager has fulfilled that role. Further to that, this issue was never

raised by the Auditors in the past. Council should take note that the results of this non-compliance was that all the awards that were made by the Bid Adjudication Committee for the past two years are now re-classified as Irregular Expenditure. *This irregular expenditure will be investigated and the committee will make its recommendation to council, after that process been finalised and the investigation report tabled to MPAC and discussed.*

However, we have taken note of the corrective action that has been taken by management as the SCM Manager is now appointed as BAC member and his membership with Bid Evaluation Committee ceased. *Management will also write a motivation to National Treasury to have this irregular expenditure condoned.*

3. Prevention of Unauthorised Expenditure

This mainly relates to overspending in our roads department. This department received additional funding, which was not included in the adjustment budget that was passed by this council in February 2019. As the irregular expenditure above, this will be referred for further investigation, before the committee can reliable advice council. *However, in the meantime the CFO and the Executive Manager of our Roads Department should take this up with the relevant Provincial Department to ensure that this matter does not re-occur.* The preliminary indication is that, at the time of the adjustment budget, this additional funding was not guaranteed or gazetted and therefore the accounting principles do not allow such funds to be appropriated as that can be evaluated as unfunded budget.

Furthermore, the Executive Mayor should champion a discussion, at SALGA level around this agency relationship. We are of the view that this function should be delegated to the district and not on agency basis. This will ensure that the district has a secure funding and a have a say on how our roads are maintained

4. Prevention of Irregular Expenditure SCM Regulation 13©

The office of the Auditor General raised non-compliance to SCM regulation 13 ©, where declaration of interest, on deviation process were either not submitted or submitted after the services were rendered. The technicalities on the sourcing of declarations from certain suppliers were discussed at the MPAC meeting. *MPAC is encouraging management to do its utmost best to ensure that in all non-emergency deviation, these declarations of interest are received before the services are rendered. This will also be referred for investigation and council will be advised by the committee accordingly.*

5. Non-compliance with Municipal Performance regulation

An item for the payment of bonuses was tabled to Council on 05th of December 2018 and was approved subject to the tabling of the Annual Report. The Annual Report was tabled to Council on 13th of December 2018 and this meeting could not conclude. The meeting continued on 19th of December 2018 where the annual report was adopted. However, the payment was done on the 14th due to the closure of offices and the last day of payment of salaries. This is the main reason for regression in council assurance, as reported in the preceding paragraphs.

The amount paid for bonuses was therefore reclassified as irregular expenditure. This will also be referred for investigation and committee will advise council accordingly. *However, to avoid the re-occurrence of this issue, the tabling of annual report and the item for approval of bonus payment should be done in one meeting.*

Other Matters discussed

Public Participation

The committee is still of the view that there is inadequate public participation on the Annual Report. This is also evident by the fact that there are no comments received from our communities. One of the possible reasons could be the different annual report cycles between the district and the B' Municipalities. The district is following MFA circular 63 guidelines in terms of its processes and the B's Municipalities are not. We commend the district in leading in this process as it is indeed challenging and needs dedication, due to tight timelines. *However it is now time for the district to influence the B' Municipalities to follow the suit.* This alignment will ensure that we have a combined effort on public

participation process. We also believe that if we take our annual report to public the same time that as the B's, communities will start to have an interest in our report. *We would also recommended a reasonable budget be availed for such activities.* This is proposed as the long term solution. *The short term recommendation is that during the public participation process of the B 'Municipality, the district also takes its adopted annual report as part of that process.* The municipality will have an opportunity to outline the district public participation process to communities. This will ensure that the communities take part in our processes in the next annual report cycle.

Audit Action Plan

To address the above finding, *management must develop an Audit Action Plan.* The progress on this action plan should be closely monitored and reported to MPAC and Audit Committee.

Employee Related Costs

Administration should have *a close look at the salary cost to ensure that it is within the norm of the districts.*

Impairment of Debtors

The committee is concerned about the growing material amount provided for impairment of debtors. This is an indication that an amount on R29m might not be received from our debtors, as compared to about R19m last year and R11m the year before. *Management must look at ways to reduce this amount to an acceptable level.*

Capital Expenditure

We have notes that the Municipality is reported as underspent its budget by 50% (R5 315 364). However, we are certified that this money was actually spend but could not recorded in our books as spent, because the assets were not on our books at year end. The money was spend as follows"

- The purchasing of R2.4 million a building in Plettenburg Bay. The money was paid to the transferring attorneys, however at the end of the book year the building was not yet

transferred to the name of the Garden Route district Municipality or processed at deeds office.

- The three million was spend on the purchase of fire trucks. Those Trucks could only be delivered on 4 December 2019.

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.

RECOMMENDATIONS

1. That Council, after having fully considered the annual report of the municipality and representations thereof, adopts the oversight report and the 2018/2019 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 the accounting Officer develops action plans to address issues raised in the Auditor General Report and monitor progress
5. That the Audit Action Plan progress be presented to MPAC quarterly.
6. That Council to allocate specific budget for MPAC public participation processes during the adjustment budget process.

7. That the reported Irregular and Unauthorised Expenditure be referred to the accounting officer for further investigation and report back to MPAC.
8. That the accounting officer develops an action plan to address progress in the implementation of above recommendations and the *Italic* proposed actions in the body of this report.

AANBEVELINGS

1. *Dat die raad, na voldoende oorweging van die jaarverslag van die munisipaliteit en voorleggings hieroor, die Oorsigverslag aanvaar en die 2018/2019 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 rekenpligtige beampte aksie-planne ontwikkel om bovermelde aspekte van die Ouditeur-Generaal aan te spreek en die progres te monitor.*
5. *Dat die Oudit Aksie-Plan progress op 'n kwartaallike basis aan MPAC voorgele word.*
6. *Dat die Raad 'n spesifieke begroting vir MPAC se publieke deelname proses gedurende die hersienings-begrotingsproses daarstel.*
7. *Dat die gerapporteer Ongemagtigde Uitgawes na die rekenpligtige beampte verwys word vir verdere ondersoek en aan MPAK moet terug rapporteer.*
8. *Dat die rekenpligtige beampte 'n aksieplan ontwikkel om die progress met die implementering van bovermelde aanbevelings en die voorlopige aksies in die verslag aan te spreek.*

IZINDULULO

1. Sesokuba iBhunga emveni kokuqwalasela ngokupheleleyo ingxelo yonyaka yomaspala kunye nokunikezelwa kwayo, yamkele ingxelo banzi kunye Nengxelo Yonyaka ka 2018/2019 ngaphandle kokuxhomekeka.
2. Sesokuba Igosa Elinoxanduva, ngokokuthobela uMhlathi 21(a) we Municipal Systems Act, lipapashe ingxelo banzi eluntwini kwisithuba sentsuku ezesixhenxe yemkeliwe.
3. Sesokuba Igosa Wlinoxanduva linikezel Ingxelo Banzi kurhulumente wephondo kwisithuba sentsuku ezisixhenxe.
4. Sesokuba Igosa elinoxanduva livelise izicwangciso zamanyathelo azakujongana nemicimbi ethe waphawulwa kwiNgxelo Yomphicothi Jikelele kunye nokuye kwenziwa okungephi.
5. . Sesokuba Isicwangciso Samanyathelo Ezophicotho sinikezelwe rhoqo ngekota kwi MPAC.
6. Sesokuba iBhunga libekele bucala imali yenkqubo zokubandakwinywa koluntu ze MPAC ngethuba kusenziwa ulungelelwaniso lolwabiwo-mali.
7. Sesokuba Ingxelo Ngencitho Engafanelekanga kunye Nengekhomthethweni zinikezelwe kwigosa elinoxanduva ukuze lenze uphando banzi zelinikezele ngengxelo kwi MPAC.
8. Sesokuba igosa elinoxanduva livelise isicwangciso samanyathelo anokujongana nenkqubo ekumiselweno kwezindululo ezingasentla kunye namanyathelo aphawulwe kwingxelo.