

**OVERSIGHT REPORT ON THE ANNUAL REPORT FOR THE 2019/20 FINANCIAL YEAR /
VERSLAG RAKENDE DIE OORSIGVERSLAG VIR DIE 2019/20 FINANSIËLE JAAR /
INGXELO MALUNGE NENGXELO BANZI KUNYAKAMALI KA 2019/20**

(10/1/1)

26 March 2021

REPORT FROM THE CHAIRPERSON OF MPAC (CLLR C LICHABA)

PURPOSE OF THE REPORT

To present the Oversight Report on the Annual Report of Garden Route District Municipality (GRDM), 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. Municipal Public Accounts Committee (MPAC) is the committee of the Council that is tasked with that responsibility. Council will note that, in the previous two years, the Annual Report process was finalised in December not in March, as is the case this year. That was in line with MFMA circular 63, which required that the process be finalised in December each year. The extension that was given to the Office of the Auditor General, to finalise their Audit by 28 February 2021, instead of 30 November 2020, had a huge impact on the Annual Report Process, hence MFMA Circular 63 could not be followed this year. The late submission of the report by the Office of the Auditor General is further discussed below. Having said that, in terms of section 129 of the Local Government Municipal Finance Management Act, 2005, the oversight report must be presented to council not later than seven months after year end, which gives the deadline of 31 March 2021.

The Draft Annual Report for the 2019/20 financial year was tabled to Council on 30 October 2020 and also submitted to the Office of the Auditor General the same day.

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, amongst other functions:

- (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 and make recommendation for council's consideration.

For purposes of complying with the requirements listed above, MPAC met on the following dates to consider and discuss the content of the Annual Report:

MPAC Members	Affiliation	22 October 2020	25/03/ 20221	29/03/2021
Cllr Lichaba - Chairperson	ANC	X	X	X
Cllr BVan Wyk	DA	X	X	X
Cllr Rossouw	DA	X	X	X
Cllr Mangaliso	ANC	X	X	X
Cllr WT Harris	ICOSA	Apology	Apology	X
Cllr Stroebel	DA	Apology	X	X
Ald. J Hartnick	DA	Apology	X	X

Officials in attendance

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

In the meeting of 25th of March 2021, the Strategic Manager: Office of the Municipal Manager, Mr. Loliwe, made a detailed presentation of the Annual Report and the Chief Financial Officer, Mr. De Jager, presented the Audited Annual Financial Statements. The Municipal Manager responded to all the questions that were posed by the MPAC Members.

Subsequent to the above meeting, the Chairperson of MPAC, Cllr Lichaba and the Chairperson of the Audit Committee also had a separate meeting with the Office of the Auditor General, to discuss the audit progress and reasons for the delay in issuing their audit report. This meeting was held virtually on 12 March 2021.

Executive Summary by MPAC on the 2019/20 Annual Report

The 2019/20 Annual Report was advertised for public inputs and comments as explained above and no comments were received from the public/communities. The Executive Mayor and the Chairperson of MPAC held radio interviews to encourage communities to take note of the published Annual Report and make their comments.

MPAC congratulates the administration for maintaining unqualified audit outcome, given the pandemic challenges, where at a critical time of preparing for the Audit, the institution had to work with Skelton staff. We also noted a vast improved on the content of the Audit Report due to drastic reduction in material matters affecting the audit Report. There is only one material finding that will be discuss further in this report.

Discussion

The committee met three times to discuss the draft and final Annual Report. The final Annual Report with all its components was discussed on 26 and 29 March 2021. 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 Thursday, 25 March 2021. This would have made it difficult for the MPAC members to fully engage the report content, however a detailed presentation by management assisted the committee as well as the draft report that was circulated before the meeting. There were no changes from the draft AG report submitted to members and the final report that was received on 25 March 2021. Having said, that we would like to voice out our dissatisfaction with the Office of the Auditor General. Their deadline for the submission of the Audit Report was 28 February 2021 and our Annual Report process was planned with that in mind. When we realized that the deadline has passed, the Chairperson of MPAC and the Chairperson of Audit Committee arranged a meeting with AG, through administration. In that meeting we were assured that the report will be provided to the Municipality by 15 March 2021. Based on that assurance, the committee rescheduled its meeting to 23 March 2021. However the final report form AG was only submitted on 25 March 2021.

This meant that administration and MPAC had to work under very tremendous pressure to ensure that the whole process is completed by 31 March 2021.

In terms of the Municipal Finance Management Act, when the Municipality fails to submit the Annual Financial Statement by the legislated deadline, the Executive Mayor is required to table the reason for such a failure, not only to council, but to Parliament as well. It is the view of the Committee that the Office of the Auditor General should also take accountability, and provide this council with reasons why they failed to table their report on 28 February 2021, as legislated.

During the meeting, various components of the Annual Report were presented to the Committee and management answered all questions to the satisfaction of the committee.

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. During the MPAC meeting, various issues pertaining to the Annual Report were discussed as summarized below.

Previous MPAC Recommendations

The committee went through its previous resolutions to establish whether council and management has implemented them. The committee is satisfied that the previous recommendations were implemented and commend management for their hard work.

Apart previous resolutions, from that there are also matters that the committee feels administration and council should continue to improve and have meaningful impact. These are discussed below.

District Economy

The impact of Covid -19 is continuing to have a devastating impact to the economy of the country and our district is not exception that. The loss of jobs as a result of the pandemic created more poverty and health related issues. The committee appreciate the initiative by this council to establish a regional food bank which

should alleviate poverty to some extent. The committee argues council to ensure that they play their oversight role in this initiative. We need to ensure that the beneficiary of this initiative are the ones that benefit. There should be a transparent criteria that is used to identify those that this initiative is designed to benefit. The access to the food bank is key and council should ensure that this initiatives is made known to public as well as accessible.

The pandemic did not only affected individual household income but had a devastating impact on businesses as well. Some business had to shut down or reduce staff due to reduced profit margins. We are pleased to note that there is an economic recovery plan. However we want to caution that the plan should not only focus on well-established business sector but also consider the informal business sector and township economy. The agricultural sector should also be the key element of this plan. This sector should be diversified and cater for small scale black farming community. The recovery plans should address these matters, amongst others.

The committee would like to encourage the municipality to continue to provide work opportunities through its EPWP, Internships and learner ship programs. We believe that such temporary relief will have a positive impact in addressing the challenges posed by the Covid 19 pandemic.

Regional Landfill Site

The committee discussed the progress on the construction of the Regional Landfill Site and wanted to know steps taken or to be taken regarding the PPP partner that pulled out of the PPP agreement. Ultimately the committee recommends that the PPP partner be held to account on this project. The Municipal Manager explained the progress on the landfill site and that the regional landfill site will be delivered outside the PPP process. The committee was informed of the appointment of the services of a consultant to revise the financial model and prepare tender documents for the construction and the operation of the regional landfill site. The consultant's report will also assist in identifying those who might have failed in their duties in the PPP process. National Treasury's Public Private Partnership Unit is

currently busy with the process of simplifying the PPP process and GRDM officials are part of this process.

The Municipality should follow this process very closely, as there are a number of Investment Opportunities in our region which might still need to be delivered via this PPP process.

Filling of Senior Manager Positions

The committee commends management for ensuring that there are no vacant positions in Senior Management Position. The effort in appointing females in management positions is also commended. Management is however encouraged to further consider female applicants in Senior Management positions. This level is still male dominated.

Public Participation

There is room for improvement in ensuring that public participation is maximized. Management should look at other reasonable steps to ensure public participation is maximized. Given the pandemic, various innovative ways should be investigated to ensure that the public participation process is not compromised.

Public Transport System

The committee is concerned about the lack of public transport system that links different towns within the region. Council should relook at alternatives public transport system to ensure connectivity between the towns. It might be that the council facilitate this process with other stakeholders like Transnet, the relevant Government Departments and private sector. An effective transport system does play a vital role in economic revival.

Joint District Approach

The Joint District Approach initiative should be utilised by GRDM to provide assistance to municipalities within the district especially those that are experiencing capacity constraints. The areas that might be considered first are Performance Management, Internal Audit and well as Risk Management. These functions are one of the drives of Good Governance.

The committee appreciates that GRDM has procured a regional automated governance system which will facilitate such an assistance. Municipality should ensure that its roll out is effective and efficient.

AGSA AUDIT REPORT

The committee has reviewed Report of the Auditor General and take note of the improved audit outcome. The municipality maintained its unqualified audit report with one material finding. We had the same outcome in the previous year, with four material matters. In 2019/20 Audit report there is only one material matter and that is commendable. This matter is discussed below.

Material Finding - Composition of Bid Adjudication Committee

In the 2018/19 Auditors were 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.*

After the above finding was raised by the Office of the Auditor General in the 2018/19, management went swiftly and formally appointed the Manger: Supply Chain Management as the members of the BAC. This appointment was done during that audit, in November 2019. At the time of their final report this was already corrected.

However, the same finding that was raised in 2018/19 and corrected in November 2019, has again been raised as a repeat finding, in the current year's audit (2019/20 Audit). Management disputed this finding and it was referred to the Technical Unit, within the Office of the Auditor General. The reason for this dispute was based on the following premises:

- That the matter was raised in previous audit as material finding affecting the audit opinion. The matter was immediately corrected even before the conclusion of 2018/19 audit.
- Management is of the view that it serves no purpose to again raise the material finding that has already been rectified. The root cause has been identified in the previous year and the defect cured. It is an exercise in futility and actually negates the principles of fairness.
- There is no remedial action proposed by the Office of the Auditor General and therefore this results in a situation where the municipality was found guilty the previous year, was punished, served the sentence and is again subjected to the same trial even after having corrected what was wrong. This is double jeopardy, a situation frowned upon by our legal system especially in the light of the fact that the decisions of the Auditor are administrative in nature and must adhere to the principles of fairness.

The office of the Auditor General acknowledged that this finding is raised as matter of consistency and is a result of their methodology and therefore cannot be ignored. They also acknowledge that they are not recommending any action to address this findings, as the Municipality has already addressed the matter. However they are still of the view that the no-compliance is material, when considering the period (July 2019 to October 2019) before the Supply Chain Manager was appointed as a BAC member.

Management further confirms that this finding will not re-occur in 2020/21 audit, as this matter is now settled.

Other matters

The auditor also reported other matters which do not necessarily affect the opinion on Annual Financial Statements and Performance Information. The three matters are briefly discussed below:

Material impairments – receivables from exchange transactions

In the Annual Financial Statements there is an impairment allowance on receivable transaction to the value of R33 295 175 (2019: R28 448 854).

Management is encouraged to find ways to decrease the debtor's impairment provision, and ensure that there are effective controls in place to ensure that debt owed to the municipality is recovered. The Accounts should be handed over for legal steps in line with Council policy.

The municipality is heavily dependent on equitable share allocation and neglecting to collect the little that it can receive from its debtors might be disastrous in the long run. The majority of the amount that is impaired relates to fire accounts.

Material impairments – capital assets

The cumulative impairment loss amounted to R30 393 987. This is due to devaluation of properties. There is nothing much to here except for management to study the assumptions used by the independent valuer.

Unauthorised expenditure

The municipality incurred unauthorised expenditure of R34 235 373. This is a non cash transaction. The devaluation of properties was not budgeted for.

The Municipality did not anticipate that its properties will be devaluated by such an amount. This amount is therefore classified unauthorised expenditure.

Awards to Close Family Member

When the committee reviewed the set of Annual Financial Statement, noted that there were awards made to entities with close family members that are working for state. The committee understand that such act is not prohibited by legislation but the disclosure is required, hence the note in the Annual Financial Statement. However, from the risk perspective, the committee would like to recommend that management implement additional controls to ensure that this does not give unfair advantage, when the close family member is an employee of GRDM. The employee who is a close family members of a respective bidder should not be involved in any procurement process relating to that specific bid.

Further to that, no awards should be made to the any bidder who is in the service of state. The Municipality does not have a system where they can confirm whether the declarations by the bidders are correct or not. The Office of the Auditor General, as the only state Auditor, should have a database of all state employees. Management should engage the Office of the Auditor General with the purpose of requesting access to such database. That will allow the administration to identify misrepresentation on disclosure.

Other Matters discussed

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.

Deviations from Supply Chain Management Process

Deviation from Supply chain process are allowed in term of section 36 of the Supply Chain Regulation. This process does not always follow a competitive process. We have noted that the deviations have reduced from R13m to R6m.

It would be amiss of this committee not acknowledge the drastic reduction of in deviations. We would like management to continue strengthening control in this regard.

Meeting with Audit Committee

On 29 March 2021, the MPAC met with the Chairperson of the Audit Committee, where the Audit Committee Chairperson presented their report. The committee commends the work of this committee and understand the linkage between the two committees. We are pleased to get an assurance that the financial position of this Municipality is still sound. We share the same sentiments share by the Audit Committee on matters relating to the Audit Report and Financial Position of this institution. The Audit Committee, in their report, is refereeing two matters to MPAC i.e. the investigation of Irregular expenditure and well as a matter relating to arrears by one of GRDM councillors. Council will have to pronounce on those two matters.

In conclusion, the Chairperson of MPAC wishes to thank , MPAC members, management and council for their support and ensuring that the work of this committee is not hindered.

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 thereon, adopt the oversight report and the 2019/20 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 submit 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 Audit Committee and MPAC quarterly.
6. That Council consider the recommendation of the Audit Committee in relation to the Councilor that is in arrears.
7. That Council refer Irregular Expenditure to MPAC for investigation.
8. That the Accounting Officer develops an action plan to address progress in the implementation of above recommendations and the bold proposed actions in the body of this report.

AANBEVELINGS

1. *Dat, nadat die Raad volledige Jaarverslag van die Munisipaliteit en die voorleggings, van die Oorsigverslag van die 2019/20 Jaarlikse Verslag, sonder voorbehoud, aanvaar.*
2. *Dat die Rekenpligtige Beampte, in ooreenstemming met artikel 21(a) van die Wet op Munisipale Stelsels, die oorsigverslag binne sewe dae na aanvaarding, aan die publiek bekend maak.*
3. *Dat die Rekenpligtige Beampte die Oorsigverslag, binne sewe (7) dae, aan die Provinsiale Wetgewer voorsien.*

4. *Dat die Rekenpligtige Beampte aksieplanne moet ontwikkel om die verskille van die Ouditeur-Generaal se verslag aan te spreek en te monitor.*
5. *Dat die vordering van die Oudit Aksieplan aan die Ouditkomitee en MPAC kwartaalliks voorgelê word.*
6. *Dat die Raad die aanbevelings van die Ouditkomitee rakende raadslede wat agterstallig is, in ag neem.*
7. *Dat die Raad die Onreëlmatige Uitgawes na MPAC verwys vir 'n ondersoek.*
8. *Dat die Rekenpligtige Beampte 'n aksieplan moet ontwikkel om bovermelde aanbevelings te monitor asook die voorgestelde aksies soos omskryf in die verslag.*

