

**1. OVERSIGHT REPORT ON THE ANNUAL REPORT FOR THE 2020/21 FINANCIAL YEAR /
VERSLAG RAKENDE DIE OORSIGVERSLAG VIR DIE 2020/21 FINANSIËLE JAAR /
INGXELO BANZI NGENGXEKO YONYAKA YONYAKAMALI KA 2020/21**

**AUTHOR OF REPORT: CHAIRPERSON OF MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
(MPAC) (CLLR NC LICHABA)**

2 PURPOSE

To present the Oversight Report on the Annual Report of the Garden Route District Municipality (GRDM), as required by legislation, and submit the recommendation to Council for consideration.

3. DELEGATED AUTHORITY

Council

4. EXECUTIVE SUMMARY

The 2020/21 Annual Report was advertised for public inputs and comments as explained above and no comments were received from the public/communities. As part of the Public Participation process, the Executive Mayor held radio interviews on 27 September 2021 to encourage communities to take note of the published Annual Report and make their comments. The Executive Mayor also presented the Annual Report on the Rep Forum that was held on 28 September 2021, this was broadcasted live on Eden FM. Further to the above platforms, the Annual Report was also placed on our communications channels, including website and Official GRDM Facebook Page.

MPAC would like to take this opportunity to congratulate the administration for improving the outcomes from unqualified audit outcome with one finding to a Clean Audit (Unqualified Audit Outcome with no findings) given all the challenges that were brought in by the Covid 19 pandemic

5. RECOMMENDATIONS

1. That Council, after having fully considered the Annual Report of the municipality and representations thereon, adopts the oversight report and the 2020/21 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 APACT and MPAC quarterly.
6. That Council refer Irregular Expenditure to MPAC for investigation.
7. 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 die Raad, na voldoende oorweging van die jaarverslag van die munisipaliteit en voorleggings hieroor, die Oorsigverslag aanvaar en die 2020/21 Jaarverslag goedkeur sonder voorbehoud.*
2. *Dat die rekenpligtige beampte, in gevolge die bepalings van artikel 21(a) van die Munisipale Stelselswet, 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 moet ontwerp om die aangeleenthede wat deur die Ouditeur-Generaal se verslag uitgewys is, te monitor.*
5. *Dat vordering met die Oudit Aksieplan kwartaaliks aan OPOK en MPKR voorgele word.*
6. *Dat die Raad die onreelmatige uitgawes na MPKR verwys vir verdere ondersoek.*
7. *Dat die Rekenpligtige Beampte aksieplanne moet ontwerp om vordering te adresseer in die implementering van bovermelde aanbevelings en soos voorgestel in die inhoud van die verslag.*

IZINDULULO

1. Sesokuba iBhunga, emveni kokuqwalasela ngokupheleleyo iNgxelo Yonyaka yomasipala kunye nokunikezelwa kwayo, iyamkele ingxelo banzi kunye neNgxelo Yonyaka ka 2020/21 ngaphandle kokuxhomekeka.

2. Sesokuba iGosa Elinoxanduva, ngokuthobela uMhlathi 21 (a) Womthetho Welawulo Lomasipala, ayazise eluntwini ingxelo banzi kwisithuba sentsuku ezisixhenxe yamkelwe.
3. Sesokuba iGosa Elinoxanduva linkezele Ingxelo Banzi Kwiqumrhu LowisoMthetho lePhondo kwisithuba sentsuku ezisixhenxe.
4. Sesokuba iGosa Elinoxanduva livelise isicwangciso sothabatho manyathelo ukujingana nemiba ethe yaphawulwa kwiNngxelo Yomphicothi Jikelele kwaye liqwalasele lomsebenzi.
5. Sesokuba umsebenzi osele wenziwe Wesicwangciso Samanyathelo eZophicotho unikezelwe rhoqo ngekota kwi APAC nakwi MPAC.
6. Sesokuba iBhunga ligqithisele Incitho Enxamnye Nomthetho kwi MPAC ukuze iphandcwe.
7. Sesokuba iGosa Elinoxanduva livelise isicwsangciso sothabatho nyathelo ukujongana nomsebenzi osele wenziwe ekumiselweni kwezindululo zingasentla kunye namanyathelo esiphakamiso akhaliphileyo kumongo wengxelo.

6. DISCUSSION / CONTENTS

6.1 Background

In terms of section 129 of the Local Government: Municipal Finance Management Act, 2003, Council must adopt an oversight report of the municipality, which must include comments on the Annual Report. The Municipal Public Accounts Committee (MPAC) is the committee of Council that is tasked with that responsibility of drafting such a report.

Council have adopted an Annual Report Process Plan that is in line with MFMA Circular 63, which requires that the whole process of the Annual Report should be finalised in December each year. GRDM is the only municipality that follows MFMA Circular 63 in the region, if not the whole Western Cape. Indeed, we are aspired to be the leading District in South Africa.

The Draft Annual Report for the 2020/21 financial year was tabled in Council on 24 August 2021 and to MPAC and Audit and Performance Audit Committee (APAC) on 30 August 2021. The Annual Report was also made public on 26 August 2021, to invite public comments on the report.

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 Local Government: Municipal Systems Act, 2000 (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 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 in 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.

Meeting Attendance

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 | 30 August 2021 | 31 August 201 | 06 December 2021 |
|----------------------------|--------------------|-----------------------|----------------------|-------------------------|
| Cllr Lichaba - Chairperson | ANC | X | X | X |
| Cllr BVan Wyk | DA | Not longer a Member | Not longer a Member | Not longer a Member |
| Cllr Rossouw | DA | X | X | Not longer a Member |
| Cllr Mangaliso | ANC | X | X | Not longer a Member |
| Cllr WT Harris | ICOSA | Apology | Apology | Not longer a Member |
| Cllr Stroebe | DA | Apology | Apology | Not longer a Member |
| Ald. J Hartnick | DA | X | X | Not longer a Member |
| Cllr C Taute | ANC | Not a member | Not a member | X |
| Cllr D Acker | VFP | Not a member | Not a member | X |
| Cllr JC Lambaatjeen | DA | Not a member | Not a member | X |
| Cllr D Cronje | DA | Not a member | Not a member | X |
| Ald IC Kritzinge | DA | Not a member | Not a member | X |
| Cllr R Hector | GD | Not a member | Not a member | X |
| Ald Gericke | PBI | Not a member | Not a member | X (Excused himself) |

Officials in attendance

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

In both meetings, detailed presentations were done on all the components of the Annual Reports. The presentation of the Audit Report was done by the relevant Audit Manager from the Office of the Auditor General, the Audit Committee report was presented by the Chairperson of APAC, Dr Potgieter, the Performance Information was present by the Strategic Manager in the Office of the Municipal Manager, Mr.

Loliwe. The Financial Information was presented by the CFO, Mr. de Jager and Ms. James presented the service delivery part of the Annual Report.

The Municipal Manager and the relevant officials responded to all the questions that were posed by the MPAC Members.

6.2 Discussion

The committee met twice to discuss the draft and final Annual Report. The final Annual Report with all its components was discussed on 06 December 2021. We would like to commend the 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 MFMA. The final report from the Office of the Auditor General was received on Thursday, 30 November 2021. This would have made it difficult for the MPAC members to fully engage the report content, however detailed presentations by management assisted the committee in exercising its oversight role and be able to write this report. The MPAC members were informed that the Special Council Meeting to deal with the oversight report was scheduled to take place earlier than anticipated, i.e. on 10 December 2021. This meant that the administration and MPAC had to work under very tremendous pressure to ensure that the whole process is completed by 08 December 2021, to allow for the inclusion of this report in the Council agenda.

The chairperson of APAC was also invited to present the APAC report for the financial year and the committee took note of the report and its recommendations. During the MPAC meeting, various issues pertaining to the Annual Report were discussed as summarized below.

AGSA AUDIT REPORT

The committee has reviewed the Report of the Auditor General and again would like to congratulate Management and Political leadership for achieving a Clean Audit.

We would like to see this commitment continue so that this Clean Audit status is maintained. Although there are no material matters that have been raised by the Office of the Auditor General, this committee would like to bring a few areas of

concern to the attention of Council. We are also committed to monitor the Audit Action Plan that will be developed by Management.

Other Matters to be Closely Monitored

Financial Viability

The Municipality is assessed as a going concern. The going concern concept is a fundamental principle of accounting. It assumes that during and beyond the next fiscal period a company will complete its current plans, use its existing assets, and continue to meet its financial obligations.

Having said that, the committee is concerned that in the long run, the Municipality might find itself not financially viable. This is due to a number of factors and some are not within the Municipality's control and some need the Municipality to have plans in place.

The funding model that is used to fund District Municipalities is not sustainable. The equitable share with its main funding source of the district is increasing by less than R2m each, whereas the municipality's operational expenditure increases by more than 3%. The greater component of this operational expenditure is Salary Cost which are increased through bargaining council agreements. The current salary expenditure is about 65% of the Municipality's total expenditure. Even though the districts are labour intensive as compared to the B Municipalities, a 65% salary bill is considered very high.

The Municipality should find ways of exploring alternative revenue sources to avoid retrenching staff.

There are various projects that have been started and at advance stages, that have a potential of bringing the much-needed revenue to the district. These projects includes but are not limited to:

- Regional Landfill Site
- Property Management turnaround

- Leases (e.g. Kleinkrantz)
- Municipal Resorts
- Alternative Energy Initiatives
- Fresh Produce Market
- Student Accommodation

Council should closely monitor these projects, to ensure that they succeed. A turn-around approach for the resorts that are making losses should be developed and implemented.

Material impairments – receivables from exchange transactions

In the Annual Financial Statements there is an impairment allowance on receivable transaction to the value of R37 782 266 (2020: R 33 295 175).

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. Much of the amount that is impaired relates to fire accounts.

This impairment is always part of this oversight report as it seems these fire accounts are not always collectable. Management is urged again to look at possible collection methods for fire accounts.

The committee note the challenges in collecting the fire service debt, but the Municipality is encouraged to consult other district municipalities which are faced with the same problem and find out the processes they have employed in addressing this matter. As the things stand, the fire services seemed to be rendered for free.

Unauthorised expenditure

The municipality incurred unauthorised expenditure of R1.3m as compared to R34m the previous year. This amount is due to Covid expenditure that was not anticipated to be above the approved budget. As can be seen, this amount has drastically reduced when compared to the previous year.

The committee will make its decision and advise Council once this has been formally investigated by the Internal Audit Unit and a report served at MPAC.

Irregular expenditure

When the committee reviewed the Audited Annual Financial Statement, it noted an irregular expenditure of R22.2m. This relates to contracts that were entered into in previous financial years. This relates to non-compliance with SCM regulation 29(c), the composition of the BAC. We have reported extensively on this in the past. Therefore, there is no new irregular expenditure that was identified by AG in the current audit. However, this will be referred to Internal Audit for formal investigation and a report will then serve to this committee.

Fruitless and wasteful expenditure

No fruitless and wasteful expenditure was identified, and we commend Management for that.

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 APAC. The committee did not interrogate the Management Report and will await the development of the Audit Action Plan to ensure that issues raised there are also addressed.

Performance Information

There were no findings raised on performance information. The Municipality achieved 97.44% of its planned targets. This is a commendable achievement. There one service

deliver target that was not achieved, the target for re-graveling of roads. This was due to lack of borrow pits within the region, to mine re-gravel material.

Deviations from Supply Chain Management Process

Deviation from supply chain processes are allowed in terms of Regulation 36 of the Supply Chain Management Regulations. This process does not always follow a competitive process. We have noted that the deviations have reduced from R6m to R1.9m in 2020/21 financial year. It would be amiss of this committee not to acknowledge the drastic reduction of deviations. We would like management to continue strengthening control in this regard.

Regional Landfill Site

The committee discussed the progress on the construction of the Regional Landfill Site and acknowledge that the support from the B Municipalities is for this project to succeed. The Municipality will finance the construction through a loan and the repayments will be for the account of GRDM. The B Municipalities will pay for this service and given the current financial position, GRDM could not afford loan repayments should the B's fail to pay. Council should use all available regional platforms to communicate this to B-Municipalities. The councilors that are representing B Municipalities in GRDM Council should be key in sensitizing their Councils on this matter. The feedback on the Regional Landfill site should be a standing item on Regional Municipal Manager's Forum and The District Co-ordinators Forum.

Joint District Approach

The Joint District Approach initiative should be utilised by GRDM to aid municipalities within the district especially those that are experiencing capacity constraints.

The previously adopted regional one plan should be presented and discussed at the next strategic session.

Contingent Liabilities

The committee noted the contingent liabilities disclosed in the notes of the financial statements that relates to properties in Knysna Municipal area. Management and the political heads between the two Municipalities should address these matters urgently.

The committee recommends the same approach that was used between the GRDM and Mossel Bay Municipality in addressing the disputes on various pieces of land. Negotiation should start between the two Municipalities, without, if possible, declaring any disputes.

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. The Council, Chairpersons of different Section 80 & 79 Committees, the Audit Committee Members, Management, all officials and my fellow MPAC Members, I wish to congratulate you once again on achieving the Clean Audit.

6.3 Financial Implications

None

6.4 Legal Implications

None Compliance to MFMA Circular 65

6.5 Staff Implications

None

6.6 Previous / Relevant Council Resolutions:

There are no previous or relevant Council resolutions related to this matter.

6.7 Risk Implications

Failure to adopt or not adopt may result to none compliance

BACK TO AGENDA