

MARCH 2020

# OVERSIGHT REPORT 2018/19



The home of harmony, prosperity and growth

## TABLE OF CONTENT

1. INTRODUCTION
2. BACKGROUND
3. FUNCTIONS OF MPAC
4. COMPOSITION OF MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)
5. SUMMARY OF COMMENTS ON THE 2018/19 ANNUAL REPORT
6. THE ANNUAL REPORT PUBLIC CONSULTATION
7. COMMENTS FROM PROVINCIAL TREASURY, NATIONAL TREASURY AND FSCOGTA.
8. CONCLUSION
9. RECOMMENDATIONS

### **ANNEXURES**

- ✓ PUBLIC NOTICES – **ANNEXURE A**
- ✓ PROOF OF SUBMISSION (email): COGTA & NATIONAL TREASURY –  
**ANNEXURE B**
- ✓ SCREENSHOT OF THE WEBSITE – (ADVERTISEMENT OF THE ANNUAL  
REPORT) **ANNEXURE C**
- ✓ NEWSPAPER ADVERTISEMENT – **ANNEXURE D**
- ✓ SCREEN SHOT CONSULTATION SCHEDULE – **ANNEXURE E**
- ✓ SCREEN SHOT PUBLIC COMMENTS – **ANNEXURE F**

## 1. INTRODUCTION

Section 129 of the MFMA requires the Municipal Council to consider the Annual Report of its municipality and municipal entities and to adopt an Oversight Report containing the Municipal Council's comments on each Annual Report.

The Oversight report is a report of the Municipal Council and follows consideration and consultation on the Annual Report by the Council itself.

The purpose of the Annual Report is:

- to provide a report on performance in service delivery and against the budget;
- to provide information that supports the revenue and expenditure decisions made; and

Council is vested with the responsibility to oversee the performance of the municipality, as required by the Constitution, Act 108 of 1996, the Municipal Finance Management Act (MFMA), Act 56 of 2003 and Municipal Systems Act (MSA), Act 32 of 2000.

## 2. BACKGROUND

The oversight role of Council is an important component of the financial reforms and it is achieved through the separation of roles and responsibilities between Council, the Executive (Mayor and Mayoral Committee) and Administration. Good governance, effective accountability, and oversight can only be achieved if there is a clear distinction between the functions performed by the different role players. Non-executive Councillors are required to maintain oversight on the performance of specific responsibilities and delegated powers that they have given to the Executive (Mayor and Mayoral Committee).

In other words, in exchange for the powers in which Council has delegated to the Executive, Council retains a monitoring and oversight role ensuring that

there is accountability for the performance or non-performance of the municipality. The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight.

- Approval of budgets;
- Approval of Budget related Policies; and
- Review of the Annual Report and adoption of the Oversight Report.

### **3. FUNCTIONS THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)**

The functions of the MPAC include:

- Undertake a review and analysis of the Annual Report.
- Invite, receive, and consider inputs from Councillors, and Portfolio Committees on the Annual Report
- Consider written comments received on the Annual Report from the public consultation process.
- Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- Receive and consider Council's Audit Committee (if available) views and comments on the Annual financial statements (AFS) and the Performance report.
- Preparation of the draft Oversight Report, taking into consideration, the views and inputs of the public, representative(s) of the Auditor-General, organs of state, Council's Audit Committee and Councillors.

### **4. COMPOSITION OF MUNICIPAL PUBLIC ACCOUNTS COMMITTEE**

The Municipal Public Accounts Committee (MPAC) is a committee of Council established under section 79 of the Municipal Structures Act, 1998. Section 79, allows for the co-option of advisory members to a Committee of Council, who are not members of the Council.

Due to the separation of roles and responsibilities, between Council and the Executive (Mayor and Mayoral Committee) it is not appropriate for members of the Mayoral Committee to be members of the MPAC.

Ngwathe municipality MPAC consists of the following members:

No	Title	Name & Surname	Portfolio
1	Cllr	Matjhini Toyi	<b>Chairperson</b>
2	Cllr	Victoria De Beer/Mthombeni	Member
3	Cllr	Mosiwa Mofokeng	Member
4	Cllr	Rebecca Mehlo	Member
5	Cllr	Arnold Schoonwinkel	Member
6	Cllr	Malebo Magashule	Member
7	Cllr	Bakwena Thene	Member

#### **4.1 ANNUAL REPORT TABLED**

The Ngwathe Municipality's Annual Report for 2018/19 was tabled at Council's meeting dated 30 January 2020 as prescribed in terms of the Local Government: Municipal Finance Management Act 56 of 2003.

The 2018/19 Annual Report was referred to MPAC for preparation of the Oversight Report.

### **5. SUMMARY OF COMMENTS ON THE 2018/19 ANNUAL REPORT**

#### **5.1. Chapter 4- Financial Statements**

The Committee draw Council's attention to the following in the financial statements:

The annual financial statement was submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## **Auditor- General Report**

Ngwathe Municipality received a Qualified audit for the 2018/19 Financial Year.

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ngwathe Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act no. 1 of 2018) (Dora).

## **Annual Performance Report**

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.

I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2019

### **Expenditure management**

Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R54 735 234, as disclosed in note 49, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM requirements.

Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R21 303 493, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was due to interest and penalty charges on late payments.

Reasonable steps were not taken to prevent unauthorised expenditure of R169 315 082, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was due to overspending of the approved budget.

### **Budget Management**

“An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.”

Although there has been a significant increase in the spend on repairs and maintenance, There remains room for much improvement in order to ensure that infrastructure is kept up to standard.

R102 412 393 (100%) of Irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The majority of this Irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes.

The MPAC expresses concerns about the Municipality's low liquidity as a result of poor debtor management as well as Supply Chain and Contract Management (efficient and effectiveness).

The issues raised by the Auditor General that lead to the qualification must be attended to urgently.

## 6. THE ANNUAL REPORT PUBLIC CONSULTATION

The Annual Report was subsequently made available for public comments as follows:

Advertisements were placed in; The Parys Gazette dated 13 February 2020, Dumelang News dated 21 February 2020 and The Heilbron Herald to inform the public of the availability of the 2018/19 Annual Report for comment/representation. Interested parties were required to make submissions by the 04 March 2020 to the IDP and Performance Management Unit.

Access to the report was also made available on the Municipality's website - [www.ngwathe.fs.gov.za](http://www.ngwathe.fs.gov.za)

THE PUBLIC MEETINGS WERE HELD AS SCHEDULED BELOW:

DATE	TOWN	MEETING	STATUS	ATTENDANCE
20/02/2020 THURSDAY	EDENVILLE	STAKEHOLDER MEETING	X	0
		COMMUNITY MEETING	✓	82
24/02/2020 MONDAY	VREDEFORT	STAKEHOLDER MEETING	X	0
		COMMUNITY MEETING	X	0
25/02/2020 TUESDAY	PARYS	STAKEHOLDER MEETING	✓	25
		COMMUNITY MEETING	✓	110
26/02/2020 WEDNESDAY	KOPPIES	STAKEHOLDER MEETING	✓	32
		COMMUNITY MEETING	✓	36
27/02/2020 THURSDAY	HEILBRON	STAKEHOLDER MEETING	X	0
		COMMUNITY MEETING	✓	122
17/03/2020 TUESDAY	VREDEFORT	STAKEHOLDER MEETING	✓	36
		COMMUNITY MEETING	X	0

A copy of the advert placed in local newspapers including a screenshot of advert as placed on the municipality website are attached as **Annexure A**.



**COMMENTS FROM THE PUBLIC**

The focus from the Community was projects related:

<b>TOWN</b>	<b>ISSUES RAISED</b>
<b>EDENVILLE</b>	<ul style="list-style-type: none"> <li>○ Unfinished Stadium</li> <li>○ Water Shortage</li> <li>○ Buying Electricity direct from ESKOM</li> <li>○ Digging of Graves (No TLB)</li> </ul>
<b>VREDEFORT</b>	<ul style="list-style-type: none"> <li>○ Unfinished Stadium</li> <li>○ Electricity Units</li> <li>○ Pressure Pump</li> <li>○ Street lights that are not working in Town/ installation of Apollo lights</li> <li>○ Fixing of bad roads</li> <li>○ Stadium in Town be renovated for Sports activities (Van Niekerk)</li> </ul>
<b>PARYS</b>	<ul style="list-style-type: none"> <li>○ Does the Municipality have Debt recovery policy?</li> <li>○ Community not satisfied with new electricity meter boxes consumes more energy</li> <li>○ Shortage of Water</li> </ul>
<b>KOPPIES</b>	<ul style="list-style-type: none"> <li>○ Unfinished Stadium – how much was the 1<sup>st</sup> contractor paid</li> <li>○ Security for Municipal Buildings, vandalism</li> <li>○ Indigents – who is funding the Municipality?</li> <li>○ What are the Plans of the Municipality to recover Debt?</li> </ul>
<b>HEILBRON</b>	<ul style="list-style-type: none"> <li>○ Water Meters leakages</li> </ul>

## **7. COMMENTS FROM PROVINCIAL TREASURY, NATIONAL TREASURY AND FSCOGTA.**

A copy of the Draft Annual Report 2018/19 was sent to Provincial Treasury, National and FSCOGTA and no formal comment nor acknowledgement of receipt was received by the municipality. (*proof of Submission attached ANNEXURE B*)

## 8. CONCLUSION

MPAC have complied in all material aspects with the regulated powers of the Committee, except for inputs from other organs of State or Portfolio Committees.

## 9. RECOMMENDED THAT:

a) MPAC recommends to Council to approve both the Oversight and Annual Report 2018/19

b) MPAC recommends to Council that the Oversight Report be made public by the Municipal Manager in accordance with Section 129 (3) of the Local Government: Municipal Finance Management Act, 2003;

c) MPAC recommends to Council that the Oversight Report and Annual Report 2018/19, be submitted to the provincial legislature by the Municipal Manager in accordance with section 132 (2) of the Local Government: Municipal Finance Management Act, 2003;

d) That MPAC recommends to Council that the classification, validation, recoverability, write off or condonation of unauthorized, irregular and fruitless and wasteful expenditure as reflected in the Annual Financial Statements prior to 2018/19, be finalised with urgency by the Municipal Public Accounts Committee in terms of section 32 of the Local Government: Municipal Finance Management Act, 2003 and that a report in this regard be submitted to the Municipal Council for consideration, by no later than 30 June 2020;

e) Council write-off as irrecoverable the irregular expenditure incurred in the 2018/2019 financial year, amounting to R35,849,706 and R83,528,112 respectively as disclosed in the Annual Financial Statement Note 49 (page 84 ), as presented by the Auditor General that the irregular expenditure was due to technical compliance (non-compliance with bid committee composition), no findings material finding on procurement process.

f) Management speed up and lend much more urgency to the implementation of effective Credit Control and Debt Collecting practices;

g) The issues raised by the Auditor General that lead to the qualification be attended to urgently.

h) To improve oversight MPAC further recommends that;

- I. Management submit a progress report on Audit action plan implementation on a quarterly basis to MPAC to monitor.
- II. The Executive Mayor considers referring the section 71, non-financial reports, to the relevant Portfolio Committee or MPAC

**SIGNED BY THE CHAIRPERSON OF MPAC: COUNCILLOR M TOYI**

**Signature:** .....

**COUNCIL APPROVAL DATE:** .....