

HARRY GWALA DISTRICT MUNICIPALITY



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OVERSIGHT REPORT

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1. INTRODUCTION

The Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council in regards to the Annual Report and the preparation of an Oversight Report.

Given the processes required by Council to effectively undertake its oversight role, the establishment of MPAC of Council would provide the appropriate mechanism in which Council could fulfil its oversight responsibilities.

The MPAC's primary role will be to consider the Annual Report, receive input from the various role players and to prepare a draft Oversight Report for consideration by Council.

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 Executive 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/Executive Committee). In other words, in exchange for the powers in which Council have 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 OF THE OVERSIGHT COMMITTEE

The functions of the MPAC are to:

- ✓ 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 views and comments on the annual financial statements 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 OVERSIGHT COMMITTEE

4.1 Membership

The Municipal Public Accounts Committee 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 Executive Committee) it is not appropriate that members of the Executive Committee be members of the MPAC.

The following members were assigned to serve in the Harry Gwala District Municipal Public Accounts Committee on 20 September 2016:

- Councillor SV Zulu – Chairperson
- Councillor SS Mavuma
- Councillor WB Dlamini
- Councillor V Xotongo
- Councillor S Nkala

4.2 Authority & Power

The MPAC is delegated the responsibility to conduct meetings and to hold public hearings to receive and hear public submissions on the Annual Report, on behalf of Council.

Timely notice of all meetings should be given and all meetings held by the MPAC must be open to the public and minutes of the meetings must be submitted to Council meetings.

4.3 Meeting Schedule

The Annual Report was submitted to Council at its first meeting of 25th of January 2016, was referred to MPAC to prepare an Oversight Report. The community was advised through the print media of the availability of the Annual Report and were invited to submit representations on the report.

The Annual Report was available at all municipal libraries and offices and was also placed on the *www.harrygwaladm.gov.za*. The Annual Report was submitted to the Auditor-General, Provincial Treasury and the Department of Co-operative Governance and Traditional Affairs.

At the closing date for public submissions of 17 February 2017, *(no)* submissions were received. The Public were invited to the tabling of the Annual Report on 28 March 2017.

5. THE OVERSIGHT REPORT

This Oversight Report is for the financial year ended 30 June 2016.

The Annual Report was presented to Council on the 25th of January 2017. It was further presented to the Municipal Public Accounts Committee on the 7th of February 2017. The MPAC requested that a special meeting be scheduled to look into the Annual Report. The special MPAC meeting was held on 15 March 2017 and the following matters were raised and noted:

CoGTA Checklist

CoGTA conducted their own analysis of the 2015/16 Annual Report. Communiqué received on 10 March 2017, indicated that the **Annual Report was adequately prepared and in compliance with Section 121 of the Municipal Finance Management Act, Act 56 of 2003 and Section 46 of the Local Government Municipal Systems Act, Act 32 of 2000.**

Internal Audit Checklist

The Harry Gwala District Municipality's Internal Audit Unit also conducted its own analysis on behalf of the Audit Committee. There were areas of concern that were raised as follows:

- a) 121(1) Information in relation to outstanding debtors and creditors of the municipality and entities;
- b) Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations;
- c) Three-year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework; and
- d) Oversight Committee or other mechanism.

The Director: Internal Audit was directed to the pages where the areas of concern were and the meeting agreed.

Chapter 1 – Municipal function, population and environmental overview

Municipal Public Accounts Committee /Comments

The MPAC was satisfied with the content provided in this Chapter, noting the Auditor General's comments on the liquidity of the municipality where they expressed concern that the municipality would not meet its financial obligations if things stayed the same. The MPAC also emphasized that no accruals shall be accepted. The MPAC was also concerned about the installation of smart meters in areas where communities were indigent.

To enhance the revenue collection, MPAC emphasized the need to source more funding and progressive budget allocations to be able to install smart meters in all the areas where there was a household stand pipe.

Chapter 2 – Governance

Municipal Public Accounts Committee /Comments

The MPAC was not happy about Portfolio Committee which did not sit on scheduled dates thereby delaying the Council agenda. They were in agreement that if the meeting cannot sit on the initial set time, time should be re-scheduled and sit same day. All standing committees to sit on scheduled dates without fail to reflect good governance.

The MPAC was also concerned that their role was not fully understood.

Chapter 3 – Service Delivery performance report (performance report part I)

Municipal Public Accounts Committee /Comments

The Municipal Public Accounts Committee noted the content of the Chapter with no comments.

Chapter 4 – Organizational Development performance (performance report part II)

Municipal Public Accounts Committee /Comments

The MPAC raised an issue of water transportation as one of the big spenders of the budget. They requested that mechanisms should be developed to curb that problem and that alternatives like spring protection and boreholes be explored even though they would dry up in winter. A schedule for the delivery of water in all local municipalities should be developed.

Chapter 5 – Financial Performance

Municipal Public Accounts Committee /Comments

The MPAC requested that the Accounting Officer ensured the submission of the entity's annual report to Council as required by Section 129 of the MFMA.

Chapter 6 – Auditor General's Audit Findings

Municipal Public Accounts Committee /Comments

The MPAC raised a concern on the repeated finding of assets, which appeared on matters of emphasis in the AG report.

6. ANNUAL REPORT CHECKLIST

HARRY GWALA DISTRICT MUNICIPALITY INTERNAL AUDIT UNIT ANNUAL CHECKLIST

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
1. Financial Matters – Annual Financial Statements – Section 121 (3) MFMA	Financial reporting matters to be considered	Responses/ Comments
121(3)(a) The annual financial statements (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General	Where the municipality has sole or effective control of a municipal entity, consolidated financial statements are required. The AFS are to be in the form as required by the applicable accounting standards. MFMA circular 63 with annexures, 26 September 2012, provides guidelines on the new accounting standards for municipalities. Have the required standards been met – refer audit report and report of audit committee for views on this?	Financial statements were included.
121(3)(b) The Auditor-General’s reports on financial statements of the municipality	Is the audit report included in the annual report as tabled? If not, when will the audit report be tabled? What are causes of the delays? What actions are being taken to expedite the report?	Auditor-General report is included in the Annual financial Statement for 2015 - 2016
121(4)(h) Any explanations that may be necessary to clarify issues in connection with the financial statements	The accounting standards require that notes accompany the statements to provide explanations of issues and matters reported. Refer also points below on information in notes to AFS. Taking into consideration the audit report and the audit committee comments, is sufficient explanation of financial issues contained in the notes to the statements?	Financial Statements included in the Report
121(3)(e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities	Has an adequate assessment been included? Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation? Is any other action required to be taken?	Information on assessment on arrears on municipal taxes and service charges, including municipal entities not included.
1. Financial Matters – Annual Financial Statements – Section 121 (3) MFMA	Financial reporting matters to be considered	Responses/ Comments

<p>121(3)(g) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports</p>	<p>The conclusions of the annual audit may be either:</p> <ul style="list-style-type: none"> • An unqualified audit opinion with or without management issues, which means that the financial statements are acceptable; • A qualified audit opinion setting out reasons for qualification, which means that certain issues need to be addressed before an unqualified opinion can be achieved; or • The auditor will disclaim the statements and not offer an opinion. In this case there may be serious financial issues to be addressed • Adverse opinion; indicating that a municipality's financial statements are misrepresented, misstated, and do not accurately reflect its financial performance and health. <p>The objective of the municipality should be to achieve an unqualified audit opinion.</p> <p>Taking into account the audit report, audit opinion and the views of the audit committee, council should consider:</p> <ul style="list-style-type: none"> • To what extent does the report indicate serious or minor financial issues? • To what extent are the same issues repeated from previous audits? • Is the action proposed considered to be adequate to effectively address the issues raised in the audit report? • Has a schedule of action to be taken been included in the annual report, with appropriate due dates? <p>Note that actions taken on audit issues are to be reported to the provincial legislature, the MECs for local government and finance to report on any omissions by municipalities in addressing issues. Council should confirm that the audit report has been forwarded to the MECs.</p>	<p>2015/16 Auditor General action plan included</p>
<p>2. Financial Matters – Annual Financial Statements – Section 121 (3) MFMA</p>	<p>Financial reporting matters to be considered</p>	<p>Responses/ Comments</p>
<p>121(3)(f) An assessment by the municipality's accounting officer of the municipality's performance against measurable objectives for revenue collection from each revenue source and for each vote in the approved budget</p>	<p>The budget of the municipality must contain measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the IDP (MFMA s17 (3)(b)). The accounting officer must include these objectives in the annual report and</p>	<p>2015/16 information for revenue collection is included.</p>

	<p>report on performance accordingly. Has the performance met the expectations of council and the community? Have the objectives been met? What explanations have been provided for any non-achievement? What was the impact on the service delivery and expenditure objectives in the budget? Council should comment and draw conclusions on performance and explanations provided.</p>	
121(3)(i)(k) Information as determined by the municipality, the entity or its parent municipality	Review any other information that has been included in regard to the AFS.	AFS for HGDM and consolidated Financial Statements included.
121(3)(j) and 121(4)(g) Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and its entities	<p>Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity? What actions need to be taken in terms of these recommendations? Conclusions on these recommendations and the actions required should be incorporated in the oversight report.</p>	AFS is included and Audit committee recommendations are included.
3. Disclosures – Allocations received and made – Section 123-125 MFMA	Considerations	Responses/ Comments
123(1)(a) Allocations received by and made to the municipality	<p>The report should disclose:</p> <ul style="list-style-type: none"> • Details of allocations received from another organ of state in the national or provincial sphere. • Details of allocations received from a municipal, entity or another municipality. • Details of allocations made to any other organ of state, another municipality or a municipal entity • Any other allocation made to the municipality under section 214(1) (c) of the Constitution. <p>Have these allocations been received and made? Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets? Does the audit report or the audit committee recommend any actions? Council should comment and draw conclusions on information and explanations provided.</p>	Information on Grants was provided, for the current year.
121(1) Information in relation to outstanding debtors and creditors of the municipality and entities	Municipalities and entities are reminded of the requirement to include, in their annual financial statements, amounts owed to them and persistently delayed beyond 30 days, by national or provincial departments and public	Information in relation to outstanding debtors and creditors of the municipality and entities not included.

	<p>entities.</p> <p>It is also a requirement to report on whether the municipality or entity has met its statutory commitments, including the payment of taxes, audit fees, and contributions for pension and medical aid funds.</p> <p>Council should be satisfied that:</p> <ul style="list-style-type: none"> • The information has been properly disclosed; • Conditions of allocations have been met; and • Also that any explanations provided are acceptable <p>The comments of the Auditor-General and the views of the audit committee should be used to determine the accuracy and appropriateness of this information.</p>	
<p>121(1)(c) Information in relation to the use of allocations received</p>	<p>Section 123 of the MFMA and MFMA guidance circular 11, require that the municipality provide information per allocation received per vote and include:</p> <ul style="list-style-type: none"> • The current year and details of spending on all previous conditional grants, for the previous two financial years. Information is to be provided per vote. (For example, municipalities must report on all transfers received from provincial housing departments for housing subsidy grants for three financial years, and indicate how such funds were spent, and for what projects. • Information stating whether the municipality has complied with the conditions of the grants, allocations in terms of section 214(1)(c) of the Constitution and allocations received from other than another organ of state. Where there is non-compliance, details of the reasons for non-compliance are to be provided. • Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this. <p>This information is required on all allocations excluding the municipality's portion of the equitable share and where prescribed otherwise by the nature of the allocation.</p> <p>The Auditor-General will ensure that the audit process includes a proper assessment (and reconciliation) on all national grants received by a municipality. Council should consider this aspect of the audit report and</p>	<p>Information was included for all grants allocation.</p>

	<p>comments by the audit committee on the use of allocations received.</p> <p>Council should be satisfied that:</p> <ul style="list-style-type: none"> • The information has been properly disclosed; • Conditions of allocations have been met; and • That any explanations provided are acceptable. <p>The comments of the Auditor-General and the views of the audit committee should be used to determine the accuracy and appropriateness of this information.</p>	
4. Disclosures in notes to AFS	Considerations relating to section 124	Responses/ Comments
Information relating to benefits paid by municipality and entity to councilors, directors and officials	<p>Information on the following items is to be included in the notes to the annual report and AFS:</p> <ul style="list-style-type: none"> • Salaries, allowances and benefits of political office bearers, councilors and boards of directors, whether financial or in kind; • Any arrears owed by individual councillors to the municipality or entity for rates and services, which at any time were outstanding for more than 90 days, including the names of councilors; • Salaries, allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager; • Contributions for pensions and medical aid; • Travel, motor car, accommodation, subsistence and other allowances; • Housing benefits and allowances; • Overtime payments; • Loans and advances, and • Any other type of benefit or allowance related to staff. <p>Council should be satisfied that:</p> <ul style="list-style-type: none"> • The information has been properly disclosed; • Conditions of allocations have been met; and • That any explanations provided are acceptable. <p>The comments of the Auditor-General and the views of the audit committee should be used to determine the accuracy and appropriateness of this information.</p>	AFS included in Annual report
5. Municipal Performance	Considerations	Responses/ Comments
The annual performance reports of the municipality and entities	Section 46, MSA requires municipalities to submit a performance report reflecting	Performance report was included.

	<p>the performance of the municipality and each service provider, a comparison of the performance with targets set for the previous year and measures taken to improve performance. The report must form part of the annual report.</p> <p>Questions that may be considered are:</p> <p>Has the performance report been included in the annual report?</p> <p>Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report?</p> <p>Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIP approved for the financial year?</p> <p>In terms of key functions or services, how has each performed? e.g. have backlogs for water, sanitation and electricity been reduced? What are the refuse collection volumes, library usage statistics etc?</p> <p>To what extent has performance achieved targets set by council?</p> <p>Is the council satisfied with the performance levels achieved?</p> <p>Is the community satisfied with performance? Has a customer satisfaction survey been undertaken and, if so, how do the results align with the annual report contents? What were the outcomes of public consultation and public hearings?</p> <p>What actions have been taken and planned to improve performance?</p> <p>Is the council satisfied with actions to improve performance?</p> <p>Did the targets set in the budgets, SDBIP agree with the targets set in the performance contracts of the municipal manager and each senior manager?</p> <p>Does the report evaluate the efficiency of mechanisms applied to deliver the performance outcomes?</p> <p>Taking into account the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective?</p> <p>To what extent have actions planned for the previous year been carried over to the financial year reported upon? Have any actions planned in the reported year been carried over to the current or future years? If so are any explanations been provided by the municipal manager and are these satisfactory?</p> <p>Council should comment and draw conclusions on information and explanations provided.</p>	
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Audit reports on performance	Section 45, MSA requires that the Auditor-General must audit the results of performance measurements, as part of the internal auditing processes and annual. Have the recommendations of internal audit been acted on during the financial year? Have recommendations by internal audit and/or the auditor-general been included in action plans to improve performance in the following year?	Auditor-General report included in the annual report
6. General information	The following general information is required to be disclosed in the annual report	Responses/ Comments
Relevant information on municipal entities	The municipality should disclose all information relating to the municipal entities under the sole or effective control of the municipality. Information to be disclosed includes names and types of entities, members of the board, addresses and contact details for entities, the purpose of the entity, the functions and services provided the type and term of service level agreements with the entities.	Information between the entity and the municipality is included in the report
The use of any donor funding support	What donor funding has the municipality received? Have the purposes and the management agreements for the funding been properly agreed upon? Have the funds been used in accordance with agreements? Have the objectives been achieved? Has the use of funds been effective in improving services to the community? What actions need to be taken to improve utilization of the funds?	Not Applicable
Agreements, contracts and projects under Private-Public-Partnerships	Information similar to the details of municipal entities should be provided. Council should ensure that all details have been supplied.	No evidence that there are agreements under PPP
Service delivery performance on key services provided	This may be a high level summary, in addition to detailed information on performance, which sets out overall performance under the strategic objectives of the municipality. Overall results on the strategic functions and services should be summarized. This should cover all services whether provided by the municipality, entities or external mechanisms. Council may draw conclusions on the overall performance of the municipality. This information may be found in an executive summary section of the annual report and or in statistical tables.	Information on service delivery performance was included
Information on long-term contracts	Details of all long-term contracts including levels of liability to the municipality should be included. Council should ensure all information is correctly supplied.	Information not included
Information technology and systems	Details of significant IT activities should	Information not included

<p>purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations</p>	<p>be outlined indicating the effectiveness of the IT projects and the quality of IT services. Council should consider how effectively the IT services support and facilitate performance of the municipality and whether value for money has been obtained. Details of any future IT proposals should be summarized. Council should comment and draw conclusions on the information provided.</p>	
<p>Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework</p>	<p>A summary of the long-term capital plans and how these address the backlogs of services in the municipality should be provided. This should include details of types and scale of backlogs, projected cost implications, strategies to address the backlogs and plans proposed and/or approved. The summary here should cross reference to the performance reports in the annual report and also will be highlighted in the coming budgets. Council should consider whether the plans appropriately address the backlogs and are consistent with the strategic policy directions of council and needs of the community.</p>	<p>Information not included</p>
<p>7. Other considerations recommended</p>		<p>Responses/ Comments</p>
<p>Timing of reports</p>	<p>Was the report tabled in the time prescribed? Has a schedule for consideration of the report been adopted?</p>	<p>Yes</p>
<p>Oversight committee or other mechanism</p>	<p>What mechanisms have been put in place to prepare the oversight report? Has a schedule for its completion and tabling been adopted?</p>	<p>Oversight committee is not included in the report</p>
<p>Payment of performance bonuses to municipal officials</p>	<p>Refer to section 57 of the MSA as amended. Bonuses based on performance may be awarded to a municipal manager or a manager directly accountable to the municipal manager after the end of the financial year and only after the evaluation of performance and approval of such evaluation by the municipal council. Preferably such evaluation should be considered along with the annual report. The basis upon which performance is evaluated for payment of bonuses should be reconciled with the municipal performance reported in the annual report. Have bonuses been paid based on achievements of agreed outputs and after consideration of the annual report by council? If so has a proper evaluation of</p>	<p>Not applicable</p>

	<p>performance been undertaken? Was the evaluation approved by council? Does the performance evaluation align and reconcile with the performance reported in the annual report? If not, what reasons have been given for non-reporting of the basis of evaluation in the annual report? Are the payments justified in terms of performance reported in the annual report?</p> <p>Conclusions and comments on the evaluation and payment of performance bonuses of council should be included in the oversight report.</p>	
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The Acting Accounting Officer
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Dear Sir/ Madam

cc. MPAC Chair

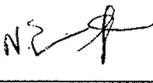
ANALYSIS OF 2015/16 ANNUAL REPORT OF HARRY GWALA DISTRICT MUNICIPALITY

The Department of Co-operative Governance has a mandate to monitor, support and build capacity for efficient, effective and transparent financial management. The Department has analysed the 2015/16 Annual Report on the basis of Section 121 of the Municipal Finance Management Act (MFMA), No.56 of 2003. In terms of the MFMA, every municipality and every municipal entity must for each financial year prepare an annual report which include all information (financial and non-financial) as illustrated in section 121 of the MFMA and section 46 of the Local Government Municipal Systems Act (No. 32 of 2000), including reports on all aspects of performance against goals set by council reporting on how the Integrated Development Plan (IDP) and Budget were implemented for the year.

The annual report was adequately prepared and in compliance with above mentioned legislations.

Kindly ensure that the oversight report is adopted by your council as per Section 129 of the Municipal Finance Management Act (No.56 of 2003), your municipal council is required to consider the annual report of the municipality and adopt an oversight report on the annual report. The accounting officer must submit oversight report and Council resolution to CoGTA, Auditor General and Provincial Treasury in compliant with section 129(2) (b) of MFMA. The oversight template is attached.

Yours faithfully,

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MRS GCN SHONGWE
DIRECTOR: MUNICIPAL FINANCE

BACK TO BASICS: SERVING OUR COMMUNITIES BETTER



7. CONCLUSION

The MPAC commends Council, the Municipal Manager, the Senior Managers and all staff at Harry Gwala District Municipality on the strides made towards good governance. However, much needs to be done in planning and reporting on performance information and the 2016/17 financial year must target focussed attention in this area.

Having performed the following tasks:

- ✓ Reviewed and analysed of the Annual Report;
- ✓ Invited, received, and considered inputs from Councillors and Council Committees, on the Annual Report;
- ✓ Considered that *no* written comments were received on the Annual Report from the public consultation process;
- ✓ Conducted public hearings to allow the local community or any organs of state to make representation on the Annual Report;
- ✓ Received and considered Council's Audit Committee views and comments on the annual financial statements and the performance report; and
- ✓ Prepared the draft Oversight Report, taking into consideration, the views and inputs of the public, representatives of the Auditor-General, organs of state, Council's Audit Committee and Councillors;

The MPAC has pleasure in presenting the Oversight Report to Council to consider one of the following resolutions and then to be forwarded to the relevant Departments and Provincial Legislature:

RESOLVED TO RECOMMEND

1. That Council having fully considered the Annual Report of the Harry Gwala District Municipality for the *2015/16* Financial Year, adopts the Oversight Report for the *2015/16* Financial Year, a copy of which is attached to the signed minutes of this meeting.

2. That Council approves the Annual Report of the Harry Gwala District Municipality for the *2015/16* Financial Year without reservations.
3. That the Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
4. That the Oversight Report be submitted to the Provincial Legislature in accordance with Section 132(2) of the Municipal Finance Management Act 56 of 2003.

ANNEXURES

Annual Report

Annual Financial Statements

Minutes of the MPAC held on 15 March 2017