

MHLONTLO LOCAL MUNICIPALITY



OVERSIGHT COMMITTEE REPORT IN RESPECT OF

2012/2013 ANNUAL REPORT

1. PURPOSE OF THE REPORT

To enable the Committee to execute its oversight responsibility in considering the Mhlontlo Local Municipality's Annual Report in terms of Section 129 of the Local Government: Municipal Finance Management Act (Act No 56 of 2003) (MFMA).

2. BACKGROUND

STRATEGIC INTENT

Organisational Transformation and Good Corporate Governance

3. LEGAL IMPLICATIONS

3.1 Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)

3.2. Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) Chapter 6, as read with the Local Government: Municipal Systems Amendment Act, 2003 (Act 44 of 2003)

3.3. Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)

4. EXECUTIVE SUMMARY

4.1. The Municipality's Annual report process has been prepared according to Section **121(1)** of the MFMA, which prescribes that, every municipality must for each financial year prepare an annual report. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality in accordance with section 129

4.2. **In terms of Section 129 of the MFMA**, The council must consider the annual report of the municipality, and by no later than two months from the date on which the annual report was tabled in the council, 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.

4.3. MFMA Circular Number 32 recommends the establishment of an oversight committee for the detailed analysis and review of the annual

report(s), following their tabling in Council, receiving and reviewing representations made by the public, inputs from other councillors and Council Portfolio Committees and then drafting an oversight report that may be taken to full Council for discussion.

4.4. In terms of MFMA Circular Number 32, in order to approve the Annual Report without reservations, Council should be able to agree that the information contained in the report is a fair and reasonable record of the performance of the municipality in the financial year reported upon. Approval means that the executive and administration have discharged in full, their accountability for decisions and actions and that their performance meets the criteria set by performance objectives and measures and is also acceptable in the community.

5. OVERSIGHT COMMITTEE:

The oversight committee convened on the 25th of February 2014 to discuss the draft Annual report and the following were raised and agreed upon:

- 5.1 Infra-structural and LED projects that were not detailed in the report should be obtained from the departments concerned and be verified by the committee.
- 5.2 A programme to visit and verify such projects be developed and adhered to
- 5.3 The Annual report should be advertised to inform the public that it was available.
- 5.4 Draft Annual Report be made available in Municipal Offices for the public to view and comment

6. NATIONAL AND PROVINCIAL TREASURY:

The Annual Report was submitted to the Provincial treasury office on the 13th of February 2014. No comments were received from the Provincial Treasury at the date of finalizing this report. **Annexure A** (Submission to Provincial Treasury)

7. PROVINCIAL DEPARTMENT OF LOCAL GOVERNMENT

The Annual Report was submitted on the 12th of February 2014 to the Provincial Department of Local Government and there were no comments received from the Department of Local Government and Traditional

Affairs. **Annexure B** (Submission to Dept. of Local Government and Traditional Affairs)

PUBLIC PARTICIPATION PROCESS

In terms of Circular No. 32 of the MFMA, institutional and individual performances should not be taken as favourable if no comments are received from the communities. It is against this background that the committee deemed it worth mentioning that Public Participation processes were not followed meaningfully. Not much had been done in ensuring that the communities were afforded an opportunity to comment except an advertisement in the newspaper (Annexure D). In view of the fact that the municipality is rural in nature, the committee recommends that,

- Notices must also be sent out to public places such as Libraries, Post Offices, Shopping Complex, Traditional Councils etc.
- Dates by which comments must be handed in must be clearly stipulated in notices to the public.
- Other methods to acquire feedback from communities must also be explored.

ANALYSIS OF THE REPORT IN ITS RELATION TO PERFORMANCE MANAGEMENT

- Although there is a noticeable regression in the management of cash-flow problems, better and faster control mechanisms are needed to curb irregular expenses. The MPAC noted with serious concern that irregular expenditure increased from R1,7 m in 2012 to R 52 m in 2013.
- Fruitless and wasteful expenditure must be fully investigated immediately and be recovered from the culprits.
- The increase of unauthorized expenditure from R 16,6m in 2012 to R 38,1m in 2013 is a matter for concern, and adequate internal control should be put in place with immediate effect.
- Creditors should be paid within 30 days to avoid unnecessary interest charged from the institution. Preferably, all payments should be done within the same financial year so that it would not affect the budget of the following financial year.
- The institution must strive to collect monies owed to it within a reasonable time period and interest must be added after 30 days.
- Clarity seeking questions asked from Portfolio Heads and Heads of Departments were never responded to despite adequate time

provided. As a result of the above, inputs from other councillors could not be verified. **Annexure C** (Questionnaire)

RECOMMENDATIONS OF OVERSIGHT COMMITTEE


The Oversight Committee having considered the 2012/13 Draft Annual Report of the Municipality recommends that:

The Annual Report be referred back for revision of those components that can be revised.

This item served before Council on theof March 2014

Unanimously Resolved

1. Clarity seeking questions asked from Portfolio Heads and Heads of Departments be responded to.
2. Public Participation recommendations be implemented
3. Public Meetings be convened in both Administration Units
4. Oversight Report be tabled to council within two months

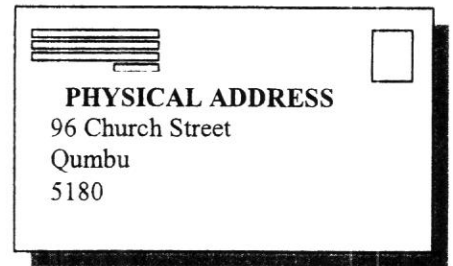
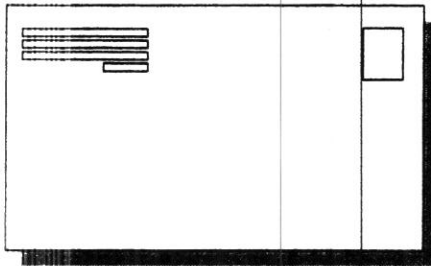

Cllr Z. Songca
Chairperson

24/03/2014
Date

3, Annexures:

1. Submissions
2. Questionnaire
3. Advertisement

PUBLIC PARTICIPATION PROCESS



PHYSICAL ADDRESS

96 Church Street
Qumbu
5180

Ifoni/Tel: 047-5537000

Ifax/Fax:047-5530015

E-mail: dlt119ec@yahoo.com
Imibuzo/Enquiries: Pat Mhloli

082 7722 452
11 February 2014

THE OFFICE OF THE MUNICIPAL MANAGER

Attention: S. Khanyile

Office of the Superintendent General
Dept. of Local Government and Traditional Affairs
BISHO
5605

Sir/Madam

8/3/2

RE: SUBMISSION OF ANNUAL PERFORMANCE REPORT: 2012/2013:

Kindly receive Mhlontlo Municipal Draft Annual Report for the 2012/2013 Financial Year as per the dictates of Section 127 (5) (b) of the Municipal Finance Management Act, No. 56 of 2003.

Hoping that you will find the above in order.

Yours in Municipal Administration

~~S. Sotshongaye~~ 11/02/2014
S. Sotshongaye
Acting Municipal Manager

Received by S S LAURIA *[Signature]*

Date: 12-02-2014

POSTAL ADDRESS
P.O. Box 31
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E-mail: dlt119ec@yahoo.com
Imibuzo/Enquiries: Pat Mhloli

082 7722 452
11 February 2014

THE OFFICE OF THE MUNICIPAL MANAGER

The Manager
Provincial Treasury – Eastern Cape
MTHATHA
5099

Sir/Madam

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Hoping that you will find the above in order.

Yours in Municipal Administration

~~S. Sotshongaye~~ 11/02/2014
S. Sotshongaye
Acting Municipal Manager

RECEIVED BY: M. Kuse

DATE: 13/02/2014

SIGNATURE:

PROVINCIAL TREASURY
2014-12-13
PRIVATE BAG X6303
MTHATHA 5099

MHLONTLO MUNICIPAL PUBLIC ACCOUNTS COMMITTEE QUESTIONS TO PORTFOLIO HEADS AND HODS

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
<p>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</p>	<p>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 18 with annexure, 23 June 2005, provides guidelines on the new accounting standards for municipalities.</p>	<ol style="list-style-type: none"> 1. Have the financial statements been included? 2. Are the financial statements audited? 3. Have the financial statements been prepared in compliance with applicable accounting standards & legislation. 		
<p>121 (3)(b) The Auditor-General's reports on the financial statements of the municipality.</p>		<ol style="list-style-type: none"> 1. Is the audit report included in the tabled Annual Report? 2. If not, when will the audit report be tabled? 3. What are causes of the delays? 		
<p>121 (3)(e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities</p>		<ol style="list-style-type: none"> 1. Has an adequate assessment been included? 2. Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation? 3. Is any other action needed? 		

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
<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 – 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.</p> <p>The objective of the municipality should be to achieve an unqualified audit opinion.</p>	<p>1. Taking into account the audit report, audit opinion and the views of the audit committee, council should consider: 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? 2. Has a schedule of action to be taken been included in the annual report with appropriate dates? 3. Has the municipality taken steps to address the issues raised in the Audit Report? 4. Has the Audit Report been forwarded to the MEC?</p>		

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
121 (3)(i)&(k) Any information as determined by the municipality,	Review all other information contained in the Annual Report.	1. Is the other information contained in the Annual Report, relevant and accurate?		
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	Conclusions on these recommendations and the actions required should be incorporated in the oversight report.	1. Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity? 2. What actions need to be taken in terms of these recommendations		
123 (1)(a) Allocations received by the municipality from an organ of state, a municipal entity or another municipality.	The annual financial statements must disclose: 2. Details of allocations received from another organ of state in the national or provincial sphere, municipal entity or another municipality 2. Any other allocation made to the municipality under Section 214(1)(C) of the Constitution. Council should comment and draw conclusions on information and explanations provided.	Have allocations received by an organ of state, a municipal entity or another municipality been disclosed? 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 action?		

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
<p>125 Other compulsory disclosures and information in relation to outstanding debtors and creditors of the municipality and entities</p>	<p>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 entities. Other disclosures required: Contributions to organised local labour and amount outstanding at year end Total amounts paid in audit fees, taxes, levies, duties and pensions and medical aid contributions and whether there where amounts outstanding at year end Name of bank where accounts held and year end balances Summary of investments held Contingent Liabilities Material irregular, fruitless or Wasteful expenditure Details of unauthorised Expenditure Particulars of non compliance with the MFMA</p>	<p>Are all the compulsory disclosures contained in the notes to the Annual Financial Statements? Does the audit report confirm that the disclosures have been made?</p>		

1 Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
<p>123 (1)(c) – (f) 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> <p>1. 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.</p> <p>2. Information stating whether the municipality has complied with the conditions of the grants, allocations in terms of section 214(1)© 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.</p> <p>3. Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this information.</p>	<p>1. Disclosure on how allocations received have been spent per vote</p> <p>2. Has the Municipality complied with the conditions of the grants received?</p> <p>3. Has the Municipality had any allocation per DORA, delayed or withheld?</p> <p>4. Does the Audit report or Audit Committee recommend any action?</p>		

1 Annual Financial Statements - Section 121 (3) & (4) MFMA and Officials in the notes to the Annual Financial Statements. Section 124 MFMA	For Consideration	Questions	Response	Recommended Corrective Action
<p>124 (1) & (2)</p> <p>Information relating to benefits paid by municipality and entity to councillors, directors and officials</p>	<p>Information on the following items is to be included in the notes to the annual report and AFS:</p> <ol style="list-style-type: none"> Salaries, allowances and benefits of political office bearers, councillors 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 councillors; Salaries allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager; 	<ol style="list-style-type: none"> Have the salaries, allowances and benefits paid to Councillors and the Municipal Manager, CFO and Senior Managers been disclosed? Is there a statement by the Accounting Officer, stating that salaries, allowances and benefits paid to Councillors are within the upper limits of the framework envisaged in section 219 of the Constitution. Have arrears for rates and services owed by Councillors, in which the arrears was for more than 90 days been disclosed including the name of the Councillor? Have the salaries, allowances and benefits paid to members of the board of directors, CEO and senior managers of the entity been disclosed? 		
	<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>			

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
6. Municipal Performance	For Consideration	Questions	Response	Recommended Corrective Action
The annual performance reports of the municipality and entities	Section 46, MSA requires municipalities to submit a performance report reflecting 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. 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? To what extent has performance achieved targets set by council? Is the council satisfied with the performance levels achieved? Is the community satisfied with performance? Has a customer satisfaction	<ol style="list-style-type: none"> 1. Has the performance report been included in the annual report? 2. Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report? 3. Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIP approved for the financial year? What actions have been taken and planned to improve performance? 4. Is the council satisfied with actions to improve performance? 5. 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? 6. Does the report evaluate the efficiency of mechanisms applied to 		
	performance achieved targets set by council? Is the council satisfied with the performance levels achieved? Is the community satisfied with performance? Has a customer satisfaction			

	<p>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? 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>deliver the performance outcomes? 7. 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>Audit reports on performance</p>	<p>Section 45, MSA requires that the Auditor-General must audit the results of performance measurements, as part of the internal auditing processes and annually.</p>	<p>1 Have the recommendations of internal audit been acted on during the financial year? 2. Have recommendations by the auditor-general been included in action plans to improve performance in the following year?</p>		

1. Annual Financial Statements - Section 121 (3) & (4) MFMA	For Consideration	Questions	Response	Recommended Corrective Action
Performance of municipal entities and municipal service providers	The annual report of the municipality should provide an assessment of the performance of the municipal entities and all contracted service providers. The report should evaluate the effectiveness of these services and whether alternative mechanisms should be considered. Is the council satisfied with the evaluation and conclusions of the municipality? What other actions are considered necessary to be taken by the accounting officers?	1. Has an assessment been included in the Annual Report on the performance of all contracted service providers?		

Local Economic Development Projects 2012/13	For Consideration	Questions	Response	Recommended Corrective Action
Mhlontlo Nature Reserve Fencing	Detailed information with regards to budget allocated and future plans in general. This should include specification for a better insight of what the project was all about.	<ol style="list-style-type: none"> 1. Was there any funding for Nature Reserve Signage 2. What is happening concerning the entrance gate 		
Sinako Coffin Manufacturers	Criteria of funding the project of this magnitude	<ol style="list-style-type: none"> 1. May the Department of LED explain to this committee the criteria that is followed when considering to fund the project of this nature. Detailed Explanation is required 		
Mbindweni Goats Project	Criteria of funding the project of this magnitude	<ol style="list-style-type: none"> 1. May the Department of LED explain to this committee the criteria that was followed when considering to fund this project. Detailed explanation is required. 		
Mdyobe Goats Project	Criteria of funding the project of this magnitude	<ol style="list-style-type: none"> 2. May the Department of LED explain to this committee the criteria that was followed when considering to fund this project. Detailed explanation is required. 		

Infrastructure Projects 2012/2013	For Consideration	Questions	Response	Recommended Corrective Action
Manzana Access Road (Ward 11) (2.93km)	2.93 km Project is practically complete. Retention stage which expired in November 2013.	What is the future plan of 0,7 km road as it seems not to access any facility.		
Ezifameni to Nkalweni(Ward 24) (9.25km)	The project is practically complete with 9.28km long and the contractor is busy attending to snags on head and wing walls.	This project was measured as 5,7 km access road, can a further detailed explanation be given.		
Tsolo Streets Lights(Ward06)	The contractor is busy with the excavation for cables and installation of Steel poles. The contractor has applied for extension of time. The consultant will evaluate and reject or grant the extension.	What is the status quo and way forward as there in not even a single light is operational in Tsolo.		
T213 – Tiki-Tiki (5.30km)	Actual road construction completed 5.5km, low level crossing. Currently attending to head wall construction and dish drain construction. Not Achieved	What happened to Head Wall and Dish Drain construction that was still under construction?		