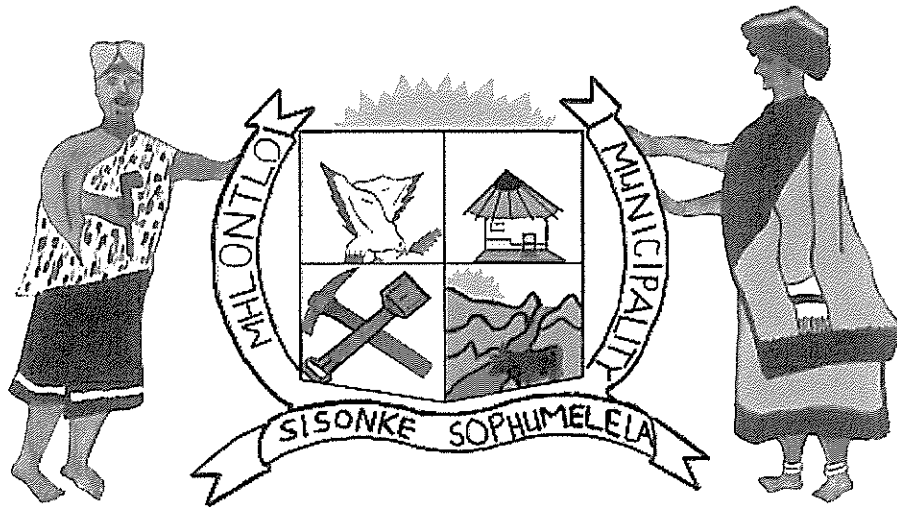


MHLONTLO LOCAL MUNICIPALITY



MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) OVERSIGHT REPORT ON DRAFT 2021/22 ANNUAL REPORT

31 MARCH 2023

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1. PURPOSE OF THE REPORT

This report seeks to present to Council:

- The Oversight report on the assessment, scrutiny, analysis, and recommendations for noting, consideration and approval.
- The Annual Report for 2021/22 financial year and adopt an Oversight Report in terms of Section 129 (1) of Local Government Municipal Finance Management Act 56 Of 2003 (MFMA), for consideration and approval of the recommendations.
- A record of achievements of the municipality during the financial year under review for consideration.
- Performance of the municipality against budget for the financial year under review.
- Promote accountability throughout governance, management, supervisory and staff levels of the municipality.

2. INTRODUCTION

Council is vested with the responsibility to oversee the performance of the Mhlontlo Local Municipality, as required by the Constitution of the Republic of South Africa (1996), Local Government Municipal Finance Management Act 56 of 2003, and the Local Government Municipal Systems Act 32 of 2000.

The purpose of the Annual Report is as follows:

- To provide a record of activities of the municipality during the 2021/22 financial year,
- To provide a report on performance in service delivery, against the Integrated Development Plan (IDP) and the budget implementation for the 2021/22 financial year,
- To provide information that support the revenue and expenditure decisions made throughout the 2021/22 financial year,
- To provide information of a financial and non-financial nature,
- To report actual performance against what was planned and contained in the 2021/22 IDP,
- To reduce the additional reporting requirements that will otherwise arise from government departments, monitoring institutions and financial institutions,
- To assist councillors, community and oversight structures with progress information made on service delivery,
- To promote accountability to the local community, other spheres and organs of government, role players and stakeholders for decisions made,
- Must align with the IDP, SDBIP, Budget, Service Delivery Plans, In-Year reports and is to inform decision making,
- 2021/22 Annual Report information feeds into the next IDP process.

It is provided to the following institutions/structures:

- National Treasury for records
- Provincial Treasury for comments
- Provincial COGTA for comments
- Auditor General for comments and auditing
- MPAC for oversight, verification, analysis, evaluation and community consultation,
- Committee of Council to verify performance of Section 57/56 employees in terms of their performance agreements.

The Council must consider the Oversight Report on Annual Report by no later than two months from the date on which the Annual Report was tabled in the Council, i.e., 31 January 2023.

3. BACKGROUND

The Mhlontlo Local Municipality Council resolved at its meeting held on 31 January 2023, where the Draft Annual Report was tabled, as follows:

- i) That the 2021/22 Draft Annual Report be submitted to MPAC in order to consider and evaluate the 2021/22 Draft Annual Report, to provide a detailed analysis and review thereof and to submit an Oversight Report to Council on or before 31 March 2023.
- ii) That the Draft Annual Report be submitted to the Office of Auditor General, Provincial Treasury and Provincial Department of Cooperative Governance and Traditional Affairs,
- iii) That the Accounting Officer publishes the Draft Annual Report for public comments and recommendations.

The Municipal Public Accounts Committee (MPAC) consists of the following members:

INITIALS and SURNAME	Position
1. Cllr S Ntukuntezi	Chairperson
2. Cllr V Nododana	Member
3. Cllr Mthitshana	Member
4. Cllr N Tiwane	Member
5. Cllr B Ntamo	Member
6. Cllr B Rasmeni	Member
7. Cllr N Walaza	Member
8. Cllr B Madikida	Member
9. Cllr S Bontsa	Member
10. Cllr K Mpula	Member
11. Cllr K Jubase	Member
12. Cllr S Sophangisa	Member

4. LEGISLATIVE FRAMEWORK

The following relevant legislation and relevant sections were considered during the oversight process as follows:

- Municipal Finance Management Act 56 of 2003 (MFMA):

Chapter 12 section 121

- Every municipality must compile an annual report,
- Preparation and adoption of the Annual Report.

Sections 71, 72, 52(d), 75

- Monthly budget statements,
- Mid-Year budget and Performance assessment,
- Mayor's quarterly report to the Council on the implementation of budget and the financial situation of the municipality.
- Information to be placed on Municipal Website

- National Treasury MFMA Circulars No 11, 32, 63

Require an unaudited report to contain.

- Financial statements derived from in-year reports,
- Annual report guidelines,
- Standardises reporting to enhance comprehensive oversight, meaningful evaluation, and improved understanding of service delivery output,

- National Treasury MFMA Reforms

- Ensure transparency and accountability for the fiscal and financial affairs of a municipality through an in-year and annual reporting,
- Requirement of clear linkages with IDP, Budget, Service Delivery Agreements with an entity where applicable.

- Municipal Systems Act 32 of 2000:

Section 42,45,46

- Community involvement in the development, implementation, and review of performance management system
- Audit of performance measurement as part of internal auditing process
- Preparation of annual performance report that forms part of Annual Report

5. FUNCTIONS OF OVERSIGHT COMMITTEE ON DRAFT ANNUAL REPORT

The MPAC Oversight Committee has been delegated by the Council with responsibility to:

- a. Undertake a review and analysis of the Draft Annual Report,
- b. Invite, receive, and consider inputs from councilors, portfolio committees, on Annual Report,
- c. Consider written comments received on Draft Annual Report public consultation,
- d. Conduct public hearings to allow local community and any organs of state to make representations on the Annual Report,
- e. Receive and consider Auditor General (AG), Audit Committee (AC), Council views and comments on Annual Financial Statements (AFS) and Performance Reports,
- f. Draft and prepare oversight report, taking into consideration the views and inputs of the public, AR, AC, Councillors, Organs of state, etc.,
- g. Conduct meetings and public hearings to receive and hear public submissions on the Annual Report.

6. OVERSIGHT ON ANNUAL REPORT PROCESS PLAN

1.	Draft Annual Report tabled in Council	Municipal Manager	January 2023
2.	Publish availability of 2020/21 Draft Annual Report in printed media as well as on Municipal Website. Invite all interested parties to comment and state closing date for submission of comments	Municipal Manager	16 February 2023
3.	Draft Annual Report be made available at Municipal offices, e.g. Qumbu and Tsolo	Municipal Manager	From 16 February 2023
4.	Submit Draft Annual Report to Auditor General, Provincial Treasury, Provincial COGTA, Audit Committee	Municipal Manager	January/ February 2023
5.	MPAC Working sessions on assessment, perusal, evaluation of Draft Annual Report Formulate questions and checklist for oversight process	MPAC	23 - 24 February 2023
6.	Project site visits, in loco inspection	MPAC	10 March 2023
7.	Public Hearings on Annual Report	MPAC	22 March 2023
8.	Input from Executive Mayor and Municipal Manager	Executive Mayor, Municipal Manager	28 March 2023
9.	Input from Portfolio Heads CFO and all Directors	CFO and Finance Portfolio Head	28 March 2023

		Directors and their respective Portfolio Heads	
12.	Once submissions are made after closing date, analyse comments, review draft report,	MPAC	29 March 2023
13.	Preparation of Oversight Report and submit report with recommendations to Council	MPAC	29 - 30 March 2023
14.	Table Oversight Report at Council meeting	MPAC	31 March 2023

7. CHECKLIST AND QUESTIONS

7.1 Executive Mayor and Municipal Manager

Information to be included in AR	MPAC Considerations and Questions	Response/ Comments
7.1.1-Executive Mayor Foreword	<p>should include the following:</p> <ul style="list-style-type: none"> -Major challenges regarding revenue collection and dropped from.... % in the previous financial year, to % in the current year. -Setbacks and challenges e.g., regression in audit opinion from Unqualified to Qualified, when compared with previous financial year. How are you going to do differently in ensuring that the municipality internal controls improve. 	<p>1. -For property rates: decrease from 76% -2021 – 61% 2022, rate payers are not paying due to the following challenges: Refuse not collected on time, poor service delivery by the municipality and stray animals in the Qumbu and Tsolo Town.</p> <p>-Refuse, increase from 38% 2021 – to 48% 2022 due to government departments making payments and were only not paying in 2020 during Covid.</p> <p>To adopt revenue enhancement strategy. Implementation of the SDBIP.</p> <p>2.</p> <p>Implementation and monitoring of audit action plan.</p> <ul style="list-style-type: none"> - Upgrade of ICT infrastructure -Quarterly Implementation of individual PMS
7.1.2-Municipal Manager Foreword	<p>to include the following:</p> <ul style="list-style-type: none"> -The internal management changes in relation to section 56/57 managers, -Main challenges that contributed to regression in audit opinion and 	<p>The inclusion of S56/57 will be taken into account in the Annual Report.</p> <p>Implementation and monitoring of audit action plan.</p> <ul style="list-style-type: none"> - Upgrade of ICT infrastructure -Quarterly Implementation of individual PMS

	inadequate internal controls, how this will be improved moving forward.	
Payment of bonuses to municipal officials	<p>Refer to Section 57 of MSA:</p> <ul style="list-style-type: none"> -Performance evaluations/ assessments – has the municipality complied with Council framework and policy as well and regulations and legislation in this regard? -Approval of such performance evaluations/ assessments by Council -Do performance of S56/57 employees aligned with performance reported in AR -Are payments justified i.t.o. municipal and individual performance achieved and reported 	<p>The performance evaluations for midyear 2021/2022 and annual of 2020/2021 were conducted to all Senior Managers on the 19 and 25 April 2022.</p> <ul style="list-style-type: none"> -The report was submitted for adoption by Council however there was no Senior Manager eligible for performance bonus. <ul style="list-style-type: none"> - Yes, the internal audit report for APR was utilised for confirmation of targets achieved/not achieved together with the audited APR by Office of the Auditor General. - Not applicable
Information relating to benefits paid by Council to Councillors, Section 56/57 employees, and all staff	<p>Information required is to confirm:</p> <ul style="list-style-type: none"> - if Councillors are paid in terms of Determination of upper limits of salaries, allowances and benefits of different members of municipal councils -if Section 56/57 employees are paid in terms of Local Government Regulations for remuneration packages and conditions of employment of Municipal Managers and Managers directly accountable to Municipal Managers -if all staff are paid i.t.o. approved salary scales – SALGBC approved salaries, benefits and conditions of employment - Any deviation or non-compliance must be explained and MPAC to assess if acceptable or not 	<ul style="list-style-type: none"> - Yes, the upper limits were considered in pay the salaries and benefits for Councillors as per Circular - There was a gazette issued on upper limits for Section 56/57 for the year under review. - For staff members, the bargaining Council collective agreement for 2021/2022 was used (3.5% increase) -Not applicable
An assessment by Accounting Officer (AO) of the municipality's performance against the	The budget must contain measurable objectives for revenue from each revenue source and for each vote in the approved budget for the relevant financial year.	<p>To be considered</p> <p>No, however the Council has set a threshold of acceptable performance for each department as 60% and therefore the management will strive for the improvement.</p>

<p>measurable performance objectives for revenue collection from each revenue source and for each vote in the approved budget for the relevant financial year</p>	<p>AO must include these objectives in the AR and report on performance accordingly.</p> <p>Has performance met expectations of Council and community?</p> <p>Have objectives been met?</p> <p>What reasons have been provided for non-achievement?</p> <p>What impact on the service delivery and expenditure objectives in the budget?</p> <p>Is there sufficient explanation of causes of underperformance and actions to be taken to remedy the situation?</p> <p>Is there any other action required to be taken?</p> <p>What action has been taken against Directorates who continue to underperform?</p>	<p>-Objectives have been partially met, inadequate portfolio of evidence submitted, late submission of POE targets that are not SMART.</p> <p>- Poor performance by the municipality, Non-procurement by the Municipality due to MEC correspondence on procurement.</p> <p>-Local Business Forum prohibiting the contractors from implementing the projects.</p> <p>-Disastrous rains that had washed away some of the completed works as a result contractors had to redo the works.</p> <p>-Contractors were given an extension of time to complete the projects.</p> <p>-LED, Accounting Officer and Political leadership engaged the Local Business Forum.</p> <p>- Subsequent to performance evaluations conducted and quarterly Audit Committee Meeting recommendations were provided by the Panel with regards to training of records management, Monthly reporting of SDBIP will be a standing item on MANCC meetings.</p> <p>-Poor coordination of performance information, a personnel has been delegated for PMS.</p> <p>-To collaborate with other departments as some of the targets depend on achievement by the other department.</p>
<p>Performance on -AG and Internal Audit (AI) Audit Reports</p>	<p>- How is performance on 2021/22 and 2022/23 Action Plans on AG and Internal Audit (AI) audit findings (report in % of completed and uncompleted action plans)</p>	<p>The implementation of Audit Action Plan for AG finding:</p> <p>-The implementation of Internal Audit findings was at 41%</p>
<p>Auditor General South Africa (AGSA) Findings</p>	<p>Any repeat findings? MM, please take action on repeat findings as this results in inadequate internal controls and negative audit opinion.</p> <p>Is an Audit Action Plan in place, please provide the MPAC with a copy with clear actions to be implemented, timeframes and responsible officials for monitoring purposes.</p>	<p>-Commitments, government grants and subsidies for prior year.</p> <p>-Audit Action Plan is in place and was submitted to Operations Manager and the progress will be submitted to Internal Audit for review</p>

7.2 Portfolio Heads, Municipal Manager, CFO and all Directors

Information to be included in AR	MPAC Considerations and Questions	Response/ Comments
1. Financial Matters – Section 121(3)(a) to (k)		
121(3)(a) Annual Financial Statements (AFS) and if section 122(2) applies, consolidated AFS, as submitted to Auditor-General (AG) for audit in terms of section 126(1)	Has consolidated AFS been submitted to AG on time?	Yes, the AFS were submitted on the 31 August 2022.
121(3)(b) AG's audit report in terms of section 126(3) on those AFS	Has AG's report on the AFS been provided?	Yes, the signed audit report was submitted to the Accounting Officer on the 30 November 2022 and 01 December 2022, the hard copy.
121(3)(c) Annual Performance Report (APR) prepared by the municipality in terms of section 46 of Municipal Systems Act (MSA)	Has APR been prepared and submitted to AG on time?	Yes, the APR were submitted on the 31 August 2022.
121(3)(d) AG audit report in terms of section 45(b) of MSA	Has AG's report on the APR been provided?	Yes, the signed audit report was submitted to the Accounting Officer on the 30 November 2022 and 01 December 2022, the hard copy.
121(3)(e) An assessment by Accounting Officer (AO) on any arrears on municipal taxes and service charges	Has adequate assessment on arrears on municipal taxes and service charges been included? Is there sufficient explanation of causes of arrears and actions to be taken to remedy the situation? Is there any other action required to be taken?	-The assessment has been included in the Annual Report for 2021/2022. -The explanation on arrears will be provided on the Annual Report
121(3)(g) particulars of any corrective action taken or to be taken in response to issues raised in the audit	The conclusions of audit report -list all findings, matters of emphasis and other matters.	The audit action plan and audit report were incorporated in the draft annual report.

reports both AFS and AG report	-Audit action plan with due dates -Any repeats from previous audits	
121(3)(h) any explanations that may be necessary to clarify issues in connection with the financial statements	Review any other information included in AFS	
121(3)(i) any information as determined by the municipality	Review any other information included in AFS	Notes to the AFS have been included in the AFS.
121(3)(j) any recommendations of the Audit Committee	Have recommendations of Audit Committee (AC) in regard to AFS been adequately addressed? What action need to be taken in terms of these recommendations? Conclusions on these recommendations and the actions required should be incorporated in the oversight report.	Recommendations by Provincial Treasury, Internal Audit and Audit Committee were in the AFS submitted to AG.
121(3)(k) any other information as prescribed	Have recommendations of other bodies, e.g. Provincial COGTA, Provincial Treasury and Auditor General in regard to AFS been adequately addressed? What action need to be taken in terms of these recommendations? Conclusions on these recommendations and the actions required should be incorporated in the oversight report.	Recommendations by Provincial Treasury were incorporated, recommendations by AG have been incorporated in the Audit Action Plan.
2.Disclosures – Sections 125(1), 123(1)(c), 124,	AR to disclose:	
-Allocations received and made by municipality	-details of allocations from another organ of	Grant allocations are included in Page 100 of the Annual Report.

	state, both nationally and provincially	
	-details of allocation from district and local municipality	n/a
	-details of allocation from any source i.t.o. section 214(1)(c) of the Constitution	n/a
Information in relation to outstanding debtors and creditors	<p>Has municipality met its statutory commitments:</p> <ul style="list-style-type: none"> -are there any amounts owed to them and persistently delayed beyond 30 days by national and provincial levels of government -Be satisfied that the information is properly disclosed -conditions of allocations are met -are all explanations provided acceptable? 	<p>Yes, the information is included in the AFS under receivables.</p> <p>-Department of Public Works is the most owing debtor and their reason is due to the land being un surveyed.</p>

8. PROJECT SITE VISITS – IN LOCO INSPECTION

The committee conducted projects site visits, in loco inspection, on the following projects:

Project Name	Status	Funding
Maintenance of Tsolo Service Centre and Town Hall in Ward 06	Completed and handing over was on the 18 February 2023. SNAGLIST: Facial boards Waiting area as requested, for people who are there for licencing. Water tanks	Value: R2.4 million Retention still on hold.
Construction of Mthonyameni to Mqobiso Road in Ward 02	New road with bridge and slab. Road is 10.08km to Nombodlelana. Handing over was on 26 November 2021	Value: R7 682 920 .51 million

	overview – page 9		
	1.3 Service delivery overview – 14	Paragraph 2	<p>a) Infrastructure department is indicated to have thirty-seven targets; however, this is not consistent with final audited APR which indicates a total of thirty-five targets set for the department.</p> <p>b) Twenty-five targets are reported as achieved; however, this is not consistent with final audited APR which indicates achievement of twenty-two targets.</p> <p>c) Twelve is indicated as the number of targets not achieved; however, this is not consistent with the final audited APR which indicates that thirteen targets were not achieved</p>
	1.4 Financial overview – page 16	Table at the bottom of the page	<p>Some of the original and adjustment budget figures included in the table do not agree to audited AFS and budget documents.</p> <p>a) Grants – original budget is R271 598 900; however, per the statement of</p>

			<p>comparison of budget and actual amounts the original budget is R208 751 850. Adjustment budget amount is reflected as R291 559 567 in the table; however, per the statement of comparison of budget and actual amounts the adjustment budget figure is R208 712 517.</p>
	1.6 Auditor General report – page 19	First paragraph	<p>The 1st sentence reads as follows: <i>'The auditor General conducted the 2015/16 audit as per requirements of section 21(1) of the PAA'</i> Should the financial year referred to not be 2021/22?</p>
2	Governance – page 22	Introduction to governance	Reference is made to 2020/21 financial year instead of 2021/22
	2.2 administrative governance – page 25	Introduction to administrative governance	<p>The statement <i>"Senior management posts were all occupied during the financial year"</i> is incorrect. Per audit evidence obtained Mr. L Lutshetu was appointed as acting senior manager (Community Services) from 01 April 2021. The post was filled with effect from 01 February 2022.</p>

4	Component D – page 134	<i>Introduction to workforce expenditure</i>	Councillor's allowance increase should be R20.4 million instead of R20
5	Financial performance – page 137	<i>Introduction</i>	<p>a) Prior year surplus is reported as R76 million; however, this does not agree to current year audited AFS which show a surplus of R78 million.</p> <p>b) Comparative financial year for operating expenditure of R253 million should be 2021 instead of 2020</p> <p>c) Total capital expenditure capitalised for the year iro PPE should be R76 million as per audited AFS instead of R7 million reported.</p>
	5.1– page 139	Statement of financial performance	Debt impairment actual outcome is reported as R10 431 000; this does not agree to audited AFS which show a total of R13 743 028
	5.2 Grants – page 141	Comment on operating transfers and grants	Equitable share received is reported as R226 million; however, per audited AFS equitable share received in 2021/22 is R201 million.
6	Auditor's report	Auditor's report	Annexure to the auditor's report is omitted

9.2 PUBLIC HEARINGS

Two public hearings were conducted in Tsolo and in Qumbu, and issues raised are as follows:

REGION	ISSUES
Tsolo	On page 5 of the report Tsolo Town Hall issues should be specified as follows: i) Cost implications ii) Project implications iii) Request to fix storm water drainage in Tsolo iv) Request for a customer care desk v) Maintenance of the road in Tsolo from Transido to Dr Malizo Mpehle MH
Qumbu	i) Request for storm water drainage in Qumbu

10. CONCLUSION

The 2021/22 Oversight Report noted a slight improvement but still unsatisfactory performance against SDBIP targets and Council must hold the Accounting Officer accountable for non-performance and/or under-performance to enhance good governance and effective governance.

The Draft Annual Report was assessed by MPAC including Project Site Visits – in loco inspection. The comments of the Auditor General (AG) and Audit Committee were considered in the oversight processing of the final 2021/22 Annual Report.

If the recommendations are fully implemented MPAC believes that the municipality will improve in many aspects including financial viability, performance, service delivery, governance, and institutional development.

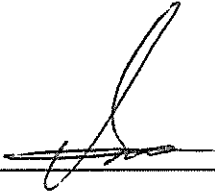
Municipal Manager should allocate additional resources to the MPAC office, including research capacity.

11. RECOMMENDATIONS

It is recommended that:

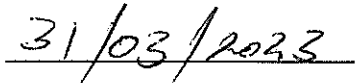
1. Having fully considered the 2021/22 Draft Annual Report, MPAC recommend that Council **adopt** the Draft Annual Report on condition that:
 - i) The 2021/22 Annual Report be corrected and completed before final report is submitted to relevant parties, government departments and institutions (e.g., incomplete chapters, tables and required attachments as indicated under 7 and 9 above).

2. The monitoring and management of service providers/ suppliers/ contractors be intensified by user departments, to ensure that they perform according to Service Level Agreements.
3. Debt management be intensified, and continuous efforts be made to improve revenue collection.
4. The Accounting Officer and Senior Management pay more attention on improvement of internal controls and compliance to legislation and regulations.
5. Council considers setting performance standards to determine poor performance and good performance.
6. The Municipal Manager investigates an establishment of a customer care desk in both Tsolo and Qumbu to assist with customer care and customer services.



CLLR. S NTUKUNTEZI

CHAIRPERSON OF MPAC



Date