



**MUNICIPAL PUBLIC ACCOUNTS COMMITTEE REPORT TO THE  
COUNCIL OF MSINGA ON THE ANNUAL PERFORMANCE REPORT OF  
2017/18 FINANCIAL YEAR**

## **REPORT BY THE CHAIRPERSON OF MPAC**

### **MUNICIPAL PUBLIC ACCOUNT COMMITTEE**

**ROUTINE: COUNCIL MEETING, 27 MARCH 2019**

## **OVERSIGHT REPORT ON THE ANNUAL REPORT FOR 2017/2018**

### **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 record of the activities of the municipality or entity;
- 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
- To promote accountability to the local community for decisions made.

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

### **2. THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)**

UMsinga Municipal Council has delegated the responsibility of the Oversight Report on the Annual Report to MPAC in terms of Council resolution number **05/2019FC** dated 23 January 2019 and MPAC is responsible to:

- To consider and evaluate the Annual Report as tabled to Council, and thereafter make recommendations to Council in this regard.
- To compile an Oversight Report and table it in Council no later than 60 days from the date of which the Annual Report was tabled, in terms of Section 129 of the MFMA.

The Municipal Public Accounts Committee therefore in its work should check whether the information contained in the Annual Report is a fair and reasonable record of the performance of the municipality and properly accounts for the actions of the municipality in the financial year reported upon.

**MPAC consists of the following members:**

- Cllr DM Ndlovu (Chairperson)
- Cllr TM Mabaso
- Cllr BP Madondo
- Cllr P Dladla
- Cllr MMS Myeza
- Cllr B Mthethwa
- Cllr NC Sikhosana
- Mr. M Langa (ex officio as Chairman of the Audit Committee)

**3. 2017/2018 ANNUAL REPORT CONSULTATION PROCESS**

The community was advised through Public Notices in the printed media on 01 February 2019 of the availability of the Annual Report and was invited to submit representations/comments on the report and to attend meetings of MPAC to submit verbal representations. On the 01 February 2019, the Annual Report was also available at all municipal libraries and offices and was also placed on the uMsinga Municipality website. The Annual Report was further submitted to the Auditor General, Provincial Treasury and the Provincial Department of Local Government as required by legislation. At the closing date for public submissions on Monday, 25 February 2019, no submissions were received by MPAC. MPAC considered the comments on the 2017/18 Annual Report by the Office of Provincial Treasury, which were received a few days after the date of submission.

The Final Annual Report 2017/2018 was inspected by the Internal Auditor and findings on it were tabled to the Audit Committee in a meeting dated 22 March 2019. The Annual report contained feedback on issues raised pertaining to the 2017/2018 audit opinion and the status on the implementation of corrective actions to address these matters, the action plan is attached.

## **4. SUMMARY OF COMMENTS ON THE 2017/2018 ANNUAL REPORT**

### **4.1 Chapter 1**

#### ***4.1.1 Executive Mayor's Foreword***

The Executive Mayor's foreword includes the information required in terms of Circular 63 of September 2012. See the comments from Provincial Treasury in this regard (Annexure A).

#### ***4.1.2 Municipal Manager Overview***

The Municipal Manager's foreword includes the information required in terms of the MFMA Circular 63 of September 2012 except for the following which were omitted:

- Information related to the revenue trend by source.
- review of the statement of financial performance and municipal financial position
- Risk assessment, including the development and implementation of measures to mitigate the top 10 strategic risks.

## **EXECUTIVE SUMMARY**

Although the mayor's and municipal manager's forewords contain a detailed summary of the key service delivery activities that the municipality undertook over the financial year as well as future plans for the ensuing financial years, these forewords could be enhanced with brief references to challenges facing the municipality going forward and the municipality's intentions on how these challenges could be addressed.

### **4.2 Auditor- General Report**

UMsinga Municipality received an "unqualified audit opinion" for the 2017/2018 Financial Year.

Opinion: "The financial statements present fairly, in all material respects, the financial position of the uMsinga Municipality as at 30 June 2018 and its financial performance, and cash flows for the year ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA."

The Auditor General did however point out that the Annual Financial Statements and Performance Information submitted for audit contained inaccuracies which had to be corrected before the final audit was

completed. The Auditor General also raised a number of matters which would require attention to avoid an adverse opinion in the future.

### **4.3 Chapter 3 - Annual Performance Report**

The Annual Performance Report contained a lot of discrepancies and misalignments with Integrated Development Plan. Most of the issues raised by Auditor General were responded to but others were not cleared due to the fact that the IDP could not be amended at the end of the financial year. Some of the targets appearing in SDBIP were not SMART and some of the targets were reported as target achieved whereas they were not.

### **4.4 Chapter 4- Financial Statements**

The Committee draws Council attention to the following in the financial statements:

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

#### **Receivables from Exchange Transactions**

The increase in debtors for services is still escalating alarmingly: see note 8 of the AFS. Council must review the implementation of Credit Control and Debt Collecting policies.

As disclosed in note 8 to the financial statements, the municipality provided for the impairment of R31 ,37 million (2016-17: R31 ,65 million) in respect of trade debtors as the recoverability of these debts were considered doubtful due to poor collection practices and a history of poor debtor payments.

#### **Irregular Expenditure**

Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to

R704 549, as disclosed in note 35 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties as a result of late payments to suppliers and the South African Revenue Service.

Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, as required by section 65(2)(a) of the MFMA.

Goods received notes and payment vouchers were not always signed by the delegated official to confirm receipt of goods or services and validity of payments made to suppliers.

Reasonable steps were not taken to prevent irregular expenditure of R9,531,645 million as disclosed in note 36 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority (80,42%) of the irregular expenditure was caused by bids not being advertised on Construction Industry Development Board's website, competitive bids not being followed and quotations not being obtained

Some of the irregular expenditures had already been identified by management and reported to council while other irregular expenditures were identified during the audit process and not detected by the municipality's monitoring processes. The classification, validation and recoverability of these items will be determined by MPAC in terms of section 32 of the MFMA.

#### **Cash Position**

The MPAC expressed concerns about the liquidity and debtor management at the Municipality.

#### **Supply Chain and Contract Management**

The issues raised by the Auditor General in relation to Supply Chain Management and Contract Management requires urgent attention.

#### **4.5 Comments from the Public**

No comments received from the public.

#### **4.6 Comments from Provincial Treasury**

The Annual Report contains all the components, annexures and appendices as required by Section 121 of the MFMA as well as Circular 63. MPAC recommended that value added recommendations from Province be implemented by the administration.

### **5. RESERVATION**

Chapter 1 – The Mayor's and Municipal Manager's Forewords still do not fully comply with Circular 63;

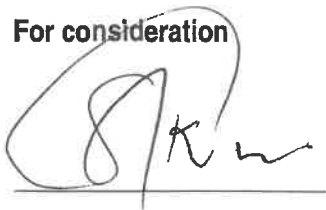
### **6. CONCLUSION**

That the Annual Report for 2017/2018 is not only a considerable improvement over reports for previous years but also presents itself to be much more user friendly. The administration can be commended on the efforts made on the presentation of the Annual Report.

## **7. RECOMMENDATIONS**

- That the 2017/2018 Oversight Report together with the Annual Report 2017/2018 be adopted;
- 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;
- That the Oversight Report and Annual Report 2017/2018, 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;
- That the classification, validation and recoverability of unauthorized, irregular and fruitless and wasteful expenditure as reflected in the Annual Financial Statements 2017/2018, be determined 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;
- That it be noted that budget allocations for repairs and maintenance have significantly improved but that considerable further progress is required in order to maintain the municipality's assets;
- That effective Credit Control and Debt Collecting practices, be implemented;
- That the current organizational review be revised and implemented as soon as possible;
- That the issues raised by the Auditor General be attended to urgently.

**For consideration**

A handwritten signature in black ink, appearing to be 'DM Ndlovu', written over a horizontal line.

**Cllr DM Ndlovu**

**CHAIRPERSON: MPAC**