



OVERSIGHT REPORT

2017/18

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1. INTRODUCTION

The Municipal Finance Management Act no 56 of 2003 (MFMA) assigns specific oversight responsibilities to Council with 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 an Oversight Committee of Council provides an appropriate mechanism in which Council could fulfill its oversight responsibilities.

The Oversight Committee's primary role is to consider the Annual Report, receive input from 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 has delegated to the Executive, Council retains a monitoring and oversight role ensuring that there is accountability for the performance or non performance of the municipality.

The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight.

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

3. FUNCTIONS OF THE OVERSIGHT COMMITTEE

The functions of the Oversight Committee are to:

- ✓ Undertake a review and analysis of the Annual Report.
- ✓ Invite, receive, and consider inputs from Councilors 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 Councilors.

4. COMPOSITION OF OVERSIGHT COMMITTEE

4.1 Membership

The Oversight 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 recommended that members of the Executive Committee be members of the Oversight Committee.

4.2 Authority & Power

The Oversight Committee 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 Oversight Committee must be open to the public and minutes of the meetings must be submitted to Council meetings.

4.3 Meeting Schedule

The draft Annual Report was submitted to Council at its 24th January 2019 meeting, and was referred to the Oversight Committee.

The draft Annual Report was made available at all municipal offices (Thusong, Maphumulo Library and Main offices). The draft annual report was also published on newspapers inviting community members to submit inputs. No community inputs were received for the annual report.

Once adopted, the Annual Report will be submitted to the Auditor-General within 7 days after its adoption. It will further be submitted to Provincial Treasury and the Department of Local Government and Traditional Affairs.

5. THE OVERSIGHT REPORT

This Oversight Report is for the financial year ended 30 June 2018.

The oversight report will be presented to full Council before the end of March 2018 and the covers the following matters:

Chapter 1 – Introduction & Overview

1.1 Overview of the Municipal Area

- ✓ Statistics SA did a Census Survey in 2011 and these figures were used in the 2017/2018 Annual Report.

Chapter 2- Governance and Administration

2.1. Composition and functionality of council and its committees

The committee members acknowledged that meetings (council and its committees) were sitting, but raised concerns on councilors who do not attend meetings.

MPAC emphasized the importance of attending meetings and recommended that Speaker shall enforce Standing Rules and Orders to those councilors who do not attend meetings. It was also proposed that Party Chief Whips should also assist in this matter.

The committee also applauded the council in ensuring that the high vacancy rate that the that was previously experienced by the municipality has been addressed.

Chapter 3 – Organisational Performance Management

MPAC members expressed concerns on poor monitoring of projects which in turn delays project implementation. Concerns were that if projects are delayed then it will impact on grant spending and that will lead to municipality not being able to receive more grants. One example was made that the MIG and INEP funding is not increasing; and some of the reason may be attributed to poor spending by the municipality.

3.1.1 . Highlights & Challenges

The committee raised concerns on the identified challenges, most especially on the inability of the municipality to raise its own revenue. Management was advised to speed up the development and implementation of the revenue enhancement strategy.

Chapter 4 –Organisational performance

Committee members emphasized the need to have skilled workforce that will assist the municipality in improving service delivery. Staff trainings should be regularly done, and monitoring of the impact of those training was also emphasized. Committee also noted that municipality is steadily addressing equity requirements in terms of gender representations on management positions as we now have quite a number of female employees at management level positions.

Chapter 5- Financial Performance

The committee raised concerns on the increase on Irregular, fruitless and wasteful expenditure. The committee noted and requested full report to be tabled on the next meeting regarding the payment of wrong suppliers which resulted on the Fruitless and wasteful expenditure.

Chapter 6: Auditor General Findings

The committee advised MANCO to implement the adopted action plan; in order to avoid repeat findings. The committee also emphasized the need for the municipality to work towards achieving a clean audit. Furthermore, committee advised management to work towards eliminating Wasteful, fruitless and wasteful expenditure.

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	
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.	The AFS are to be in the form as required by the applicable accounting standards. MFMA Circular 18 with annexures, 23 June 2005, provides guidelines on the accounting standards for municipalities. <u>Have the required standards been met?</u>	Yes. Refer to AFS attached on the Annual Report.
121 (3)(a) 121 (4) 121 (4)(b)	The above applies also to the AFS of municipal entities.	Not applicable. There are no municipal entities.
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?	Yes. There are challenges regarding Ingonyama trust as it is not paying rates. This is the case for most municipalities. National Public works is also not paying rates for some of the buildings.

<p>121 (3)(g)</p> <p>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 are:</p> <ul style="list-style-type: none"> ✓ an unqualified audit opinion with or without management issues, which means that the financial statements are acceptable; ✓ The objective of the municipality should be to achieve an unqualified audit opinion. ✓ Taking into account the audit report, audit opinion and the views of the audit committee, council considered: <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>Yes.</p> <p>Refer to AFS attached to the Annual Report.</p> <p>A schedule has been developed.</p>
	<p>Note that actions taken on audit issues are to be reported to the provincial legislature, the MEC for Cooperative Government & Traditional Affairs to report on any omissions by municipalities in addressing issues. Council should confirm that the audit report has been forwarded to the MEC.</p>	

<p>121 (3)(f)</p> <p>An assessment by the municipality's accounting officer of the municipality's performance against measurable performance 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 report on performance accordingly.</p> <p>Has the performance met the expectations of council and the community?</p> <p>Have the objectives been met?</p> <p>What explanations have been provided for any non-achievement?</p> <p>What was the impact on the service delivery and expenditure objectives in the budget?</p>	<p>Yes.</p> <p>Refer to chapter 3 of the Annual Report.</p>
<p>121 (3)(i)(k) Any information as determined by the municipality, the entity or its parent municipality.</p>	<p>Review any other information that has been included in regard to the AFS.</p>	<p>Not applicable.</p>
<p>1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA</p>	<p>Financial reporting matters to be considered</p>	
<p>121 (3)(j) and 121 (4)(g)</p> <p>Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and its entities.</p>	<p>Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity?</p> <p>What actions need to be taken in terms of these recommendations?</p> <p>Conclusions on these recommendations and the actions required should be incorporated in the oversight report.</p>	<p>Yes.</p>

<p>2. Disclosures - Allocations received and made - Section 123-125 MFMA</p>	<p>Considerations</p>	
<p>123 (1)(a) Allocations received by and made to the municipality.</p>	<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 action?</p>	<p>Yes. Refer to Audited AFS attached to AR</p>

<p>125 (1) 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.</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 ✓ that any explanations provided are acceptable. 	<p>Yes.</p> <p>For outstanding Creditors and debtors refer to Audited AFS as attached on the AR</p>
<p>2. Disclosures - Allocations received and made - Section 123-125 MFMA</p>	<p>Considerations</p>	
<p>123 (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. 	<p>Yes</p> <p>All conditional grants were spent according to their condition i.e. MIG grants were spent on capital projects as well as INEP on electrification projects.</p> <p>Refer to Audited AFS attached AR</p>

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.

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.

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 comments by the audit committee on the use of allocations received.

Council should be satisfied that –

- ✓ the information has been properly disclosed;
- ✓ conditions of allocations have been met; and
- ✓ that any explanations provided are acceptable.

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.

3. Disclosures in notes to AFS	Considerations relating to section 124	
<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> <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 councilors 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>	<p>Yes.</p> <p>Refer to Audited AFS attached to AR.</p> <p>No councilor has property rates account with the municipality.</p>

4. Municipal Performance	Considerations	
<p>The annual performance reports of the municipality and entities.</p>	<p>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. Questions that may be considered are –</p> <ul style="list-style-type: none"> ✓ Has the performance report been included in the annual report? ✓ Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report? ✓ 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>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> <ul style="list-style-type: none"> ✓ To what extent has performance achieved targets set by council? ✓ <i>Refer to performance report attached on the Annual report.</i> ✓ Is the council satisfied with the performance levels achieved? 	<p>Yes.</p> <p>Refer to chapter 3 of the Annual Report.</p>

- ✓ *Council is concerned about limited funding received by the municipality; especially MIG funding as it limits projects implementation. Other means of revenue enhancement should be explored.*

- ✓ 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?

- ✓ *No community survey done recently, but through community meetings the municipality is aware of community concerns over the slow progress being made in delivering basic services. A community survey will be done in 2018/19 financial year.*

- ✓ What actions have been taken and planned to improve performance?
- ✓ *Refer to performance report attached on the Annual report*

- ✓ Is the council satisfied with actions to improve performance?
- ✓ *Measures were approved by the Council*

- ✓ 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?
- ✓ *Yes. Refer to the budget, SDBIP's and Performance agreements and of: Technical Services, and EDP directors*

- ✓ Does the report evaluate the efficiency of mechanisms applied to deliver the performance outcomes?
- ✓ ***No, it only verify the performance outcome***
- ✓ Taking into account the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective?
- ✓ ***Yes, the municipality obtained unqualified audit opinion with no matters.***
- ✓ To what extent have actions planned for the previous year been carried over to the financial year reported upon?
- ✓ ***Projects that were not finalised in the previous year were rolled over to the current 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?
- ✓ ***Yes some planned actions were carried over to the current reported year.***
- ✓ ***No explanations- but logically, for any reasons that the projects has not been completed within the specified time cannot just be abandoned but has to be carried out in the next financial year period.***

Council should comment and draw conclusions on information and explanations provided.

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 annually. 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?	<i>Yes. Internal Audit recommendations are noted and are being acted upon by the municipality</i>
Performance of municipal entities and municipal service providers.	<p>The annual report of the municipality should provide an assessment of the performance of the municipal entities and all contracted service providers. This is in addition to the separate annual reports of the entities.</p> <p>The report should evaluate the effectiveness of these services and whether alternative mechanisms should be considered.</p> <p>Is the council satisfied with the evaluation and conclusions of the municipality? What other actions are considered necessary to be taken by the accounting officer?</p>	<p><i>Assessment on the performance of the service provider is done through monthly reports, meetings and sites visits.</i></p> <p><i>The performance report also highlights the performance of some of the service providers.</i></p> <p><i>There is dissatisfaction on the poor performance of some service providers. Contract Management within SCM is now a priority</i></p> <p><i>Municipal Manager will also take actions against poor service delivery by service providers</i></p>
5. General information	The following general information is required to be disclosed in the annual report.	
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.	Not applicable. There are no municipal entities.
The use of any donor funding support.	What donor funding has the municipality received?	No donor funding received in the current year.

	<ul style="list-style-type: none"> ✓ 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 utilisation of the funds? 	
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.	Not applicable.
Service delivery performance on key services provided.	<p>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 summarised. This should cover all services whether provided by the municipality, entities or external mechanisms.</p> <p>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.</p>	Refer to chapter 3 of the Annual Report.
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.	Refer to AFS as attached to Annual Report
Information technology and systems purchases and the effectiveness of these systems in	Details of significant IT activities should be outlined indicating the effectiveness of the IT projects and the quality of IT services.	IT functions have since been internalized and the position of IT Manager has been filled.

<p>the delivery of services and for ensuring compliance with statutory obligations.</p>	<p>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.</p> <p>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.</p> <p>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>Complied with for the year under review</p>
<p>6. Other considerations recommended</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 in place Yes.</p>

<p>Payment of performance bonuses to municipal officials.</p>	<p>Refer to Section 54/56 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 an 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?</p> <ul style="list-style-type: none"> ✓ If so has a proper evaluation of 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>No performance bonuses were paid to any Section 54/56 Managers.</p>
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7. CONCLUSION

The onerous requirements of so many legislative mandates, makes it difficult to achieve an unqualified report, more especially for a municipality with capacity constraints such as those facing Maphumulo Local Municipality. This achievement is recognised by the Oversight Committee, though it still encourages management to strive towards an achievement of a clean audit.

The Oversight Committee commends Council, the Municipal Manager, the Senior Managers and all staff at Maphumulo Municipality on the strides made towards good governance. However, much more still needs to be done in ensuring that the municipality is driven towards obtaining clean audit coupled with service delivery excellence.

Having performed the following tasks:

- ✓ Reviewed and analysed of the Annual Report;
- ✓ Invited but did not received any inputs from Councilors and Portfolio Committees
- ✓ Considered that no written comments were received on the draft Annual Report from the public consultation process;
- ✓ 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 Councilors;

The Oversight Committee have pleasure in presenting the Oversight Report to Council and

RESOLVED TO RECOMMEND THAT:

- 1. Council having fully considered the Annual Report of the Maphumulo Municipality for the 2017/18 Financial Year, adopts the Oversight Report for the 2017/2018 Financial Year.**