



**Umsobomvu Municipality**  
Continuously Rising

**OVERSIGHT REPORT  
ON THE 2020/21  
ANNUAL REPORT**

# **REPORT OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE ON IT'S OVERSIGHT ROLE WITH REGARD TO THE 2020/21 DRAFT ANNUAL REPORT**

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## 1. CHAIRPERSON'S FOREWORD

The Constitution of the Republic of South Africa, 1996 (S152) states that:

*"(1) The objects of local government are –*

- (a) To provide democratic and accountable government for local communities;*
- (b) To ensure the provision of services to the communities in a sustainable manner;*
- (c) To promote social and economic development*
- (d) To promote a safe and healthy environment*
- (e) To encourage the involvement of communities and community organisations in the matters of local government"*

Sub-section (2) then qualifies within which parameters a municipality must do this. It states that-

*"A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1)".*

The Annual Report gives further expression to these Constitutional provisions by:

- Providing a record of the activities of the municipality during the financial year.
- Providing a report on performance against the budget and
- Promoting accountability to the local community for the decisions made throughout the year.

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).

The Mayor therefore must submit to Council the Annual Report that provides a record of the activities of the municipality, a report on the performance against the budget of the municipality and thereby promoting accountability to the local community for the decisions made throughout the year, as envisaged by section 152(1)(d) of the Constitution.

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.

*"The MFMA now requires the municipality to report on all aspects of performance providing a true, honest and accurate account of the goals set by council and the success or otherwise in achieving these goals"* (MFMA Circular 11 dd 14 January 2005)

*"The functions of the MPAC are: Approval of the Annual Report 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 to the community. Council has assigned the responsibility of the Oversight Report on the Annual Report to MPAC in terms of Council resolution 3/01/2019 dated 29 January 2019.

The Terms of Reference, of MPAC, states:

- (a) To consider and evaluate the Annual Report as tabled to Council, and thereafter make recommendations to Council in this regard. The Committee must receive the report no more than two weeks after tabling to Council.
- (b) To compile an Oversight Report and table it in Council no later than two months from the date of which the Annual Report was tabled, in terms of Section 129 of the MFMA.
- (c) To monitor that all submissions and calls for comment have been undertaken as per Section 127(5), 130 and 132 of the MFMA.
- (d) To review whether matters raised in past Annual Reports have been attended to, as well as whether recommendations made in previous Oversight Reports in terms of Section 129 of the MFMA have been attended to.

As noted in our Oversight Report, Umsobomvu Local Municipality's 2020/21 Annual Report contains many positive elements and is a significant improvement over previous years' reports as it complies with the National Treasury guidelines in most areas. But we also note areas of deficiency indicated by the Auditor General and the challenges that are to be addressed and resolved amicably. We encourage and are ready to support the Mayor and Municipal Manager and his personnel in continuing ULM's record of continuous improvement by addressing the issues noted in our Report.

All in all, the year under review has been one of steady progress despite the many challenges encountered during the period in overview.

On behalf of the current Councillors serving on the Municipal Public Accounts Committee, I would like to congratulate the Mayor, Councillor M.S. Toto and Councillors serving on the Municipal Public Accounts Committee, Councillor V.P. Harmse and Councillor A. Poyo, as well as the Municipal Manager, Mr A. C. Mpela, and his staff for the significant success that is demonstrated by the 2020/21 Annual Report.

On behalf of the Oversight Committee,

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**COUNCILLOR J.P. MATTHEE**  
**CHAIRPERSON: OVERSIGHT COMMITTEE**

## 2. OVERVIEW AND PROCESS

The Constitution of the Republic of South Africa, 1996 (S152) states that:

*“(1) The objects of local government are –*

- a) To provide democratic and accountable government for local communities;*
- b) To ensure the provision of services to the communities in a sustainable manner;*
- c) To promote social and economic development*
- d) To promote a safe and healthy environment*
- e) To encourage the involvement of communities and community organisations in the matters of local government”*

Sub-section (2) qualifies within which parameters a municipality must carry out its mandate. It states that *“A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1)”*.

The Annual Report gives further expression to these Constitutional provisions by:

- ❖ Providing a record of the activities of the municipality during the financial year.
- ❖ Providing a report on performance against the budget; and
- ❖ Promoting accountability to the local community for the decisions made throughout the year.

Council is vested with the responsibility to oversee the performance of the municipality as required by the Constitution, 1996 (Act 108 of 1996), the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) and Municipal Systems Act, 2000 (Act 32 of 2000) (MSA).

The Speaker, or Mayor (in the case of Umsobomvu it is the same position) must submit to Council the Annual Report that provides a record of the activities of the municipality, a report on the performance against the budget of the municipality and thereby promoting accountability to the local community for the decisions made throughout the year as envisaged by Section 152(1)(d) of the Constitution.

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

*“The MFMA now requires the municipality to report on all aspects of performance providing a true, honest and accurate account of the goals set by council and the success or otherwise in achieving these goals” (MFMA Circular 11 dated 14 January 2005)*

The approval of the Annual Report 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 to the community.

In accordance with the provisions of Section 79 (1) (a) (b) and (c) of the Municipal Structures Act 1998 (Act 32 of 1998) a municipality may establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers and appoint the members of such committee from among its members.

Furthermore Section 79(2) of the Municipal Structures Act, 1998 (Act 117 of 1998) provides the framework and guidelines within which such committees of council shall operate. During the 2009 conference of the Association of Public Accounts Committee (APAC) a resolution was taken stating that the conference supports the establishment of Municipal Public Accounts Committees (MPACs) in each municipality in the country as part of improving financial management and accountability at local level. It can be unequivocally stated that since the establishment of MPACs that the financial management of municipalities improved and that the time and monies invested in these committees are well spent.

Thus in order to enhance, promote and consolidate the oversight role of the Council over the executive, the Department of Cooperative Governance and Traditional Affairs, having consulted the National Treasury and SALGA, has instructed that all municipalities establish MPACs. The focus of the MPAC will be to assist Council to hold the executive to account and to ensure the effective and efficient use of municipal resources.

The 2020/21 Draft Annual Report was tabled to Council on the 17<sup>th</sup> May 2021. Due to Covid-19 lockdown Regulations, the Minister of Finance approved extension of time to submit the Annual Financial Statements which had an effect on the date the Auditor General finalised the Audit Report. The submission of the Annual report has been done as soon as the Audit report has been received and having regard to the extension granted, the submission was in compliance with Section 127 (2) of the Municipal Finance Management Act, 56 of 2003.

The Municipal Public Accounts Committee is a Section 79 Committee established by Council in terms of Section 79 of the Local Government Municipal Systems Act, 2000 (Act 32 of 2000) and populated same per Council Resolution 08/08/2016 dated 18 August 2016.

This Oversight Report is tabled by the Umsobomvu Local Municipality's Public Accounts Committee under the Chairpersonship of Councillor M.A. Sestile.

The Municipal Public Accounts Committee is tasked to review all the activities of the municipality for the period 1<sup>st</sup> July 2019 to 30<sup>th</sup> June 2020 and provides guidance in financial matters and assist in maintaining oversight within the broader governance context. Every effort has been made to ensure that the facts are correct and applicable to the mandate of the Municipal Public Accounts Committee.

## **2.1 Legal Framework**

The Municipal Public Accounts Committee is a Section 79 Committee established by Council in terms of Section 79 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as amended. A Municipal Public Accounts Committee was

established by Council per Council Resolution 08/08/2017 dated 18 August 2017 who took responsibility for all MPAC functions.

In accordance with National Treasury's Circular 32, Committee members received the following information to guide and inform members of their roles and responsibilities in carrying out their oversight functions:

- (i) The 2020/21 Annual Report;
- (ii) The Municipal Financial Management Act (MFMA), Pocket Version;
- (iii) National Treasury's Circular 32, The Oversight Report;
- (iv) National Treasury's Circular 11, Annual Report: Guidelines;
- (v) The 2020/21 Integrated Development Plan (IDP);
- (vi) The 2020/21 Service Delivery and Budget Implementation Plan; and
- (vii) The 2020/21 ULM Budget document.

Induction training was presented by SALGA for all new Councillors after election and another session was conducted by the Municipal Manager on Policies and By-Laws. A separate training course was presented to the MPAC members on the Oversight process by the Manager Corporate Services prior to the public hearings.

## 2.2 Accountability Framework for Local Government

It is important to have a proper understanding of the responsibility framework for municipalities in order to correctly comprehend the purpose of the Oversight Report as it differs from that of the Annual Report and any other reports required from the municipality. The following table displays the nature of the culpability framework for local government:

| <b>Responsible body / individual</b>        | <b>Responsible for</b>  | <b>Oversight over</b>                          | <b>Accountable to</b> |
|---|---|--|-----------------------|
| Council                                     | Approving policy and budget   | Mayor  | Community             |
| Mayor                                       | Policy, budgets, outcomes, management of/oversight over Municipal Manager | Municipal Manager                              | Council               |
| Municipal Manager                           | Outputs and implementation  | Administration                                 | Mayor (Council)       |
| Chief Financial Officer and Senior Managers | Outputs and implementation  | Financial management and operational functions | Municipal Manager     |

The Oversight Report is the final major step in the annual reporting process of a municipality. Section 129 of the Municipal Financial Management Act, 2003 (Act 56 of 2003) hereinafter referred to as the MFMA, requires the Council to consider the annual report of its municipality and to adopt an "Oversight Report" containing the Council's comments on the annual report. The Oversight Report must include a statement whether the Council:

- (i) Has approved the annual report, with or without reservations;
- (ii) Has rejected the annual report.

### **2.3 Community Participation Process**

The Committee in the past usually scheduled three Public Hearing meetings, however due to COVID-19 restrictions, it was decided that Public Hearings will not be scheduled to minimise the risk of infection.

Community members were invited per official notice published in the local media and on the official notice boards to provide their comments, in writing, and/or by attending public meetings of the Committee.

The 2020/21 Annual Report was made available to the community and other bodies and same was open for inspection at the following places:

Colesberg: Main Office  
Colesberg Library  
Mongezi Juda Library  
Multi-Purpose Community Centre

Noupoort: Noupoort Administrative Office  
Noupoort Library

Norvalspont: Norvalspont Administrative Office

Official Website [www.umsobomvumun.co.za](http://www.umsobomvumun.co.za)

Notices informing the public and interested parties that the Draft Annual Report is available for inspection have been placed in the printed media and on the various official notice boards.

### **3. COMPOSITION OF MPAC**

In terms of Council Resolution 11/11/2021 dated 22 November 2021 and Council Resolution 01/12/2021 dated 13 December 2021, Council appointed the Chairperson of the Municipal Public Accounts Committee and Councillors to serve on the MPAC:

The composition of the Committees is as follows:

#### **Composition of the Municipal Public Accounts Committee (MPAC)**

| <b>Name</b>             | <b>Portfolio</b> | <b>Political Affiliation</b>     |
|-------------------------|------------------|----------------------------------|
| Councillor J.P. Matthee | Chairperson      | Democratic Alliance              |
| Councillor V.P. Harmse  | Member           | African National Congress        |
| Councillor A. Poyo      | Member           | Umsobomvu Resident's Association |

### **Oversight Committee Support Staff**

A. Khalankomo                      Section Head: Corporate Services

The Committee did not co-opt any person to the Committee to assist with its work to consider the Oversight Report.

### **4. FUNCTIONS OF THE MPAC**

The functions of the MPAC with regard to oversight are to:

- (i) Undertake a review and analysis of the Annual Report.
- (ii) Invite, receive and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- (iii) Consider written comments received on the Annual Report from the public consultation process.
- (iv) Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- (v) Preparation of the draft Oversight Report, taking into consideration the views and inputs of the public, representative(s) of the Auditor General, organs of states, Council's Audit Committee and Councillors.
- (vi) Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report.

### **5. SUMMARY OF POSITIVE ASPECTS OF THE 2020/21 ANNUAL REPORT**

The Committee believes the 2020/21 Annual Report reflects a substantial and positive improvement in ULM's annual planning, budgeting and reporting processes. It is a significant improvement over the previous Annual Reports adopted by Council. The 2020/21 Report complies with all of the MFMA requirements and with National Treasury's guidelines for annual reports, as contained in Circular 11 issued by National Treasury.

The Committee notes, and commends the ULM management team, for preparing a well-organized, informative and readable document, in the format suggested by National Treasury. It also needs to be mentioned that the current format has been replaced with a new standardised format introduced to Council in the 2013/14 financial year and the presentation thereof will gradually improve once all statistical information has been collected and filled out for all the reporting periods. This comparative information is useful tool in assessing improvement, stagnation or deterioration.

## **6. CONTENT OF THE 2020/21 ANNUAL REPORT**

The document's organization is an excellent example of the template that is prescribed by National Treasury in Circular 11, including the extensive Functional Service Delivery Report as contained in Annexure A of Circular 11.

Clearly, a substantial amount of high quality work is reflected in the 2020/21 Annual Report. The Committee notes specifically that most of the information required to be included by the MFMA is included. Specifically, the 2020/21 Annual Report contains the following items:

### **CHAPTER 1 – MAYOR'S FOREWORD AND EXECUTIVE SUMMARY**

Component A: Mayor's Foreword

Component B: Executive Summary

- ❖ Municipal Manager's Overview
- ❖ Municipal Overview
- ❖ Municipal Functions, Population And Environmental Overview
- ❖ Service Delivery Overview
- ❖ Financial Health Overview
- ❖ Organisational Development Overview
- ❖ Auditor General Report
- ❖ 2020/21 IDP/Budget Process

### **CHAPTER 2 – GOVERNANCE**

Component A: Political and Administrative Governance

- ❖ National Key Performance Indicators-Good Governance and Public Participation
- ❖ Introduction to Governance
- ❖ Governance Structure

Component B: Intergovernmental Relations

- ❖ Intergovernmental Relations

Component C: Public Accountability and Participation

- ❖ Public Accountability and Participation

Component D: Corporate Governance

- ❖ Risk Management
- ❖ Anti-Corruption And Fraud
- ❖ Audit Committee
- ❖ Performance Audit Committee
- ❖ Internal Auditing
- ❖ By-Laws and Policies
- ❖ Communication
- ❖ Website
- ❖ Supply Chain Management

- ❖ Disclosure of Financial Interest

### **CHAPTER 3**

- ❖ Overview of Performance Within Organisation
- ❖ Introduction to Strategic Municipal Performance for 2020/21
- ❖ **Component A: Basic Services**
  - ❖ Water Provision
  - ❖ Waste Water (Sanitation) Provision
  - ❖ Electricity
  - ❖ Waste Management (This Section To Include: Refuse Collections, Waste Disposal, Street Cleaning and Recycling)
  - ❖ Housing
  - ❖ Free Basic Services and Indigent Support
- ❖ Component B: Road Transport
  - ❖ Roads
  - ❖ Waste Water (Storm water Drainage)
- ❖ Component C: Planning and Local Development
  - ❖ Planning
  - ❖ Local Economic Development (Including Tourism and Market Places)
- ❖ Component D: Community & Social Services
  - ❖ Libraries and Museums
  - ❖ Cemeteries
  - ❖ Child Care; Aged Care; Social Programmes
- ❖ Component E: Security and Safety
  - ❖ Public Safety
- ❖ Component G: Corporate Policy Offices and Other Services
  - ❖ Executive and Council
  - ❖ Financial Services
  - ❖ Human Resource Services
- ❖ Component H: Service Delivery Priorities for 2020/21
  - ❖ Development of Service Delivery Priorities for 2020/21

### **CHAPTER 4 – NATIONAL KEY PERFORMANCE INDICATORS – MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT**

- ❖ Introduction to the Municipal Workforce
- ❖ Employment Equity
- ❖ Vacancy Rate
- ❖ Staff Turnover Rate

- ❖ Managing Municipal Workforce
- ❖ Injuries
- ❖ Sick Leave
- ❖ HR Policies and Plans
  
- ❖ Capacitating Municipal Workforce
- ❖ Skills Matrix
- ❖ Skills Development –Training Provided
- ❖ Skills development - Budget Allocation
- ❖ MFMA Competencies
  
- ❖ Managing the municipal Workforce Expenditure
- ❖ Personnel Expenditure

## **CHAPTER 5 –FINANCIAL PERFORMANCE**

- ❖ Component A: Statements of Financial Performance
- ❖ Financial Summary
- ❖ Financial Performance per Municipal Function
- ❖ Grants
- ❖ Asset Management
- ❖ Financial Ratios based on Key Performance Indicators
  
- ❖ Component B: Spending Against Capital Budget
- ❖ Capital Expenditure: Source of Finance
- ❖ Capital Spending
- ❖ Municipal Infrastructure Grants
  
- ❖ Component C: Cash Flow Management and Investments
- ❖ Cash Flow
- ❖ Gross Outstanding Debtors per Service
- ❖ Total Debtors Age Analysis
- ❖ Borrowing And Investments

## **CHAPTER 6 – AUDITOR GENERAL AUDIT FINDING**

- ❖ Component A: Auditor-General Opinion 2015/16
- ❖ Auditor General Report 2015/16
- ❖ Component B: Auditor-General Opinion 2020/21
- ❖ Auditor General Report 2020/21
- ❖ List of Abbreviations
- ❖ Annexure A: Audited Financial Statements 2020/21
- ❖ Annexure B: Auditor General's Report 2020/21
- ❖ Annexure C: Audit Action Plan
- ❖ Annexure D: Audit Committee's Report 2020/21

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## 7. SUMMARY OF REPRESENTATIONS RECEIVED FROM BODIES/ INDIVIDUALS

The following table reflects the key written representations received from/made by the respective bodies/individuals relating to the contents of the Annual Report:

| Representation Submitted by | Key Issues Raised | Corrective Steps to be Implemented |
|-----------------------------|-------------------|------------------------------------|
| Councillors                 | None.             | N/A                                |
| Auditor General             | None              | N/A                                |
| Audit Committee             | None.             | N/A                                |
| Public input                | None.             | N/A                                |
| Other spheres of Government | None.             | N/A                                |

## 8. SUMMARY OF ISSUES AND CONCERNS WITH THE 2020/21 ANNUAL REPORT

The List of Issues and Concerns with the 2020/21 Annual Report contains the specific items noted by the Committee. The Committee had a look at the various pieces of legislation and drafted same in a table format to identify compliance and or non-compliance and recommended remedial actions.

Generally, these issues fall into the following categories:

**ANNUAL REPORT CHECKLIST**

| <b>Annual Financial Statements - Section 121(3) &amp; (4) MFMA</b>   | <b>For Consideration</b>  | <b>Questions</b>  | <b>Response</b>  | <b>Recommended Corrective Action</b>                                    |
|--|---|---|--|---|
| <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 annexures, 23 June 2005, provides guidelines on the new accounting standards for municipalities.</p> | <p>1. Have the financial statements been included?</p>  | <p>1. The Annual Performance Report, Audited Financial Statement and Report have been included in the Annual report.</p>   | <p>1. No action required</p>  |
|  |   | <p>2. Are the financial statements audited?</p>   | <p>2. The Auditor-General Report on the Financial Statements for 2020/21 is unqualified with matters.</p>  | <p>2. Audit Action Report has been submitted with the Annual Report</p> |
|  |   | <p>3. Have the financial statements been prepared in compliance with applicable accounting standards.</p> | <p>3. The Financial Statements are prepared in terms of GRAP compliance</p>  | <p>3. No action required</p>  |
| <p>121 (3)(a)</p>  | <p>The above applies to the AFS of municipal entities.</p>  | <p>N/A</p>  | <p>N/A</p>   |   |
| <p>121 (3)(b) The Auditor-General's reports on the financial statements of the municipality.</p>   |   | <p>1. Is the audit report included in the tabled Annual Report?</p> <p>2. If not, when will the audit</p> | <p>1. The Audit Report is included in the Annual Report. The Audit Report was tabled along with the Annual report. The office of the Auditor-General officially handed over the Report in November 2018 and tabled to Council on the 17<sup>th</sup> May 2021.</p> <p>2. N/A</p> | <p>1. No action required</p>  |

|  |   |   |   |                       |
|--|---|---|---|-----------------------|
|  |   | report be tabled?   |   |                       |
|  |   | 3. What are causes of the delays?   | 3. N/A  |                       |
|  |   | 4. What actions are being taken to expedite the report?   | 4. N/A  |                       |
| 121 (4)(b)   | The above applies to the AFS of municipal entities.   | N/A   | N/A   |                       |
| 121 (3)(h) Any explanations 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 to points below on information in notes to AFS. | 1. Taking into consideration the Audit report and the Audit Committee comments, is sufficient explanation of financial issues contained in the notes to the statements? | The Audit Committee and Performance Audit Committee has submitted their reports respectively. | 1. No action required |
| 121 (4)  | The above applies also to the AFS of municipal entities.  | N/A   | N/A   |                       |

| Annual Financial Statements - Section 121(3) & (4) MFMA continue   | For Consideration  | Questions  | Response  | Recommended Corrective Action   |
|--|--|--|---|---|
| 121 (3)(e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities |  | 1. Has an adequate assessment been included?   | 1. The report is included in the Annual report, Finance Department Section of the Annual Report.  | 1. No action required<br>•  |
|  |  | 2. Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation?  | 2. A dedicated section has been set up to deal with the collection of arrears and targets have been set.<br>• Debtors Age Analysis is captured in the Financial Statements.   | 2. Remedial action already implemented<br><br>• No action required                    |
|  |  | 3. Is any other action needed?   | 3. No   | •   |
| 121 (4)(c)   | The above applies also to the AFS of municipal entities.   | N/A  | N/A   |   |
| 121 (3)(g) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports                 | 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;<br>- A qualified audit opinion setting out reasons for qualification, which means that certain issues need to be | 1. Taking into account the audit report, audit opinion and the views of the audit committee, council should consider:<br>• To what extent does the report indicate serious or minor financial issues?<br>• To what extent are the same issues repeated from previous audits?<br>• Is the action proposed | The Annual Audit is unqualified with matters, however, minor management issues were raised and subsequently taken to management for corrective actions to be considered on issues of non-compliance. Refer to Annexure A of the Oversight Draft Report Most of the issues raised in the Management report has been attended to. | The Corrective Action Report on the matters is attached in the Audit Committee Report |

|  |  |   |   |   |
|--|--|---|---|---|
|  | <p>addressed before an unqualified opinion can be achieved; or -<br/> The auditor will disclaim the statements and not offer an opinion. In this case there may be serious financial issues to be addressed.<br/> The objective of the municipality should be to achieve an unqualified audit opinion.</p> | <p>considered to be adequate to effectively address the issues raised in the audit report?<br/> 2. Has a schedule of action to be taken been included in the annual report with appropriate dates?<br/> 3. Has the municipality taken steps to address the issues raised in the Audit Report?<br/> 4. Has the Audit Report been forwarded to the MEC?</p> | <p>The Municipality has taken steps ensuring that managers draw up an action plan to address the issues as raised by the AG report.</p> |   |
| 121 (4)(e)   | The above applies also to the AFS of municipal entities.   | N/A   | N/A   |   |
| 121 (3)(i)&(k)<br>Any information as determined by the municipality, entity or its parent municipality   | Review all other information contained in the Annual Report.   | 1. Is the other information Report, relevant and accurate?  | The Annual Report has been tabled in Council and has been made public for comment.  | The Auditor General expressed a concern on the usefulness and reliability of information contained under basic service delivery |
| 121 (4)(h)   | The above applies also to the AFS of municipal entities.   | N/A   | N/A   |   |
| 121 (4)(d)<br>An assessment by the municipal entity's Accounting officer of the entity's performance against any measurable performance objectives | Agreements between the municipality and its entities for service delivery are to include measurable performance objectives. This will include measures of services delivered to the  | 1. Has the performance met the expectations of Council and the community?   | The Municipality does not have any entities, thus any Performance   |   |
|  |  | 2. Have the performance objectives been met?  | Agreements with an entity are irrelevant.   |   |

|  |  |   |  |  |
|--|--|---|--|--|
| set in terms of the service delivery agreement or other agreement between the entity and the Municipality                                      | community, financial targets, expenditure targets etc. The entity's annual report must include an assessment by the accounting officer, of performance against these objectives. In order to show the linkage between the entity and the municipality, the report of the municipality should also include the performance of entities. Council should comment and draw conclusions on performance and explanations provided. | 3. What explanations have been provided for any non-achievement?  |  |  |
|  |  | 4. What was the impact on the service delivery and expenditure objectives in the budget?  |  |  |
| 121(3)(J) and 121(4)(G) Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and it's entities. | Conclusions on these recommendations and actions required should be incorporated in the oversight report.  | 1. Have recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity?<br>2. What actions need to be taken in terms of these recommendations? | 1. The Audit Committee Reports have been attached. | The Audit Committee submitted a separate report on the AFS |

| Disclosures – Allocations received | For Consideration | Questions | Response | Recommended Corrective |
|------------------------------------|-------------------|-----------|----------|------------------------|
|------------------------------------|-------------------|-----------|----------|------------------------|

| <b>and made - Section 123 &amp; 125 MFMA</b>  |  |   |   | <b>Action</b>                |
|---|--|---|---|------------------------------|
| 123(1)(a)<br>Allocations received by the municipality from an organ of state, a municipal entity or another municipality. | The AFS must disclose:<br>1. Details of allocations received from another organ of state in the provincial or national sphere, municipal entity or another municipality. | 1. Have allocations been received by an organ of state, a municipal entity or another municipality disclosed?         | The disclosure of grants and subsidies in terms of Section 123 of the MFMA, 2003 (Act 56 of 2003) is captured in the AFS. | None                         |
|   | 2. Any other allocation made to the municipality under Section 214(1)(c) of the Constitution.  | 2. Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets? | The audit report confirmed all allocations received.  | None                         |
|   | Council should comment and draw conclusions on information and explanations provided.  | 3. Does the audit report or the committee recommend any action?   | No actions were recommended.  | None                         |
| 123(1)(a)<br>Allocations made by the municipality to an organ of state, a municipal entity or another municipality.       | The AFS must disclose:<br>1. Details of allocations made to another organ of state in the provincial or national sphere, municipal entity or another municipality.       | 1. Have allocations been made to an organ of state, a municipal entity or another municipality disclosed?             | 1. No allocations have been made to an organ of state or other municipality.  | No actions were recommended. |
|   | 2. Other information as may be prescribed.   | 2. Does the audit report confirm the correctness of the allocations made?   | 2. Not applicable.  | None                         |
|   | Council should comment and draw conclusions on information and explanations provided.  | 3. Does the audit report or the committee recommend any action?   |   | None                         |
| 125<br>Other compulsory disclosures and information in relation to  | Municipalities and entities are reminded of the requirement to include, in their annual financial statements, amounts owed to  | 1. Are all the compulsory disclosures contained in the notes to the Annual Financial Statements?                      | The following amounts credited to the Municipality have been disclosed:   | None                         |

|  |  |  |  |  |
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| <p>outstanding debtors and creditors of the municipality and entities.</p> | <p>them and persistently delayed beyond 30 days, by national or provincial departments and public entities.</p> <p>Other disclosures required;<br/>Contributions to organised local labour and amount outstanding at year end.</p> <p>Total amounts paid in audit fees, taxes, levies, duties and pensions and medical aid contributions and whether there were amounts outstanding at year end</p> <p>Name of bank where accounts held and year end balances</p> <p>Summary of investments held<br/>Contingent Liabilities Material irregular, fruitless or wasteful expenditure details of unauthorised expenditure particulars of non-compliance with the MFMA</p> <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>2. Does the audit report confirm that the disclosures have been made.</p> | <ul style="list-style-type: none"> <li>• Grants received disclosed in the Financial Statement.</li> <li>• Matters of compliance on MFMA Exemptions are outlined</li> <li>• The following were reported: <ul style="list-style-type: none"> <li>- Contingent Liabilities Material irregular, fruitless or wasteful expenditure</li> <li>- Details of irregular expenditure is attached</li> </ul> </li> </ul> <p>Information on the bank accounts of the municipality is captured in the notes to the AFS</p> <p>The comments of the Auditor-General are captured in the Auditor-General Report</p> |  |
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| <p>123 (1)(c) - (f)<br/>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> <ol style="list-style-type: none"> <li>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.</li> </ol> | <ol style="list-style-type: none"> <li>1. Disclosure on how allocations received have been spent per vote</li> </ol>           | <ol style="list-style-type: none"> <li>1. Allocations received per vote are captured in the Financial Statements. Expenditure has not been classified by vote.</li> </ol> | <p>None</p> |
|  | <ol style="list-style-type: none"> <li>2. 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</li> </ol>   | <ol style="list-style-type: none"> <li>2. Has the Municipality complied with the conditions of the grants received?</li> </ol> | <ol style="list-style-type: none"> <li>2. All grants conditions have been complied with.</li> </ol>   |             |

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|  | <p>3. Allocations received from other than another organ of state. Where there is non-compliance same are to be provided.</p>  | <p>3. Has the Municipality had any allocation per DORA, delayed or withheld?<br/>4.</p> | <p>3. R1.4m was withheld by Treasury due to the municipality's inability to spend the funds timeously.</p> | <p>Measures to be developed to ensure consequences in the event that grant funds not spent within the allocation period</p> |
|  | <p>4. Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this.<br/>The Auditor-General will ensure that the audit process included 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. 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>5. Does the Audit report or Audit Committee recommend any action?</p>                | <p>4. No action necessary</p>  | <p>None</p>   |

| <b>Disclosures –<br/>Councillors, Directors<br/>and Officials in the<br/>notes to the Financial<br/>Statements - Section</b> | <b>For Consideration</b> | <b>Questions</b> | <b>Response</b> | <b>Recommended<br/>Corrective<br/>Action</b> |
|--|--------------------------|------------------|-----------------|--|
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| 124 MFMA   |  |   |   |      |
|--|--|---|---|------|
| <p>124(1) &amp; (2)<br/>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"> <li>Salaries, allowances and benefits of political office bearers, councillors and boards of directors, whether financial or in kind;</li> </ol> | <ol style="list-style-type: none"> <li>Have the salaries, allowances and benefits paid to Councillors and the Municipal Manager, CFO and Senior Managers been disclosed?</li> </ol>   | <ol style="list-style-type: none"> <li>Salaries and allowances of Councillors, Municipal Manager, CFO and other Senior are disclosed in the AFS.</li> </ol>   | None |
|  | <ol style="list-style-type: none"> <li>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;</li> </ol>   | <ol style="list-style-type: none"> <li>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.</li> </ol> | <ol style="list-style-type: none"> <li>All salaries and allowances of Councillors are within the upper limits as per Government Gazette applicable to the 2020/21 financial year. The concurrence of the MEC was obtained prior to the implementation of the upper limits.</li> </ol> | None |
|  | <ol style="list-style-type: none"> <li>Salaries allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager;</li> </ol> <p>The comments of the Auditor-</p>  | <ol style="list-style-type: none"> <li>Have arrears for rates and services owed by Councillors, in which the arrears were for more than 90 days been disclosed including the name of the councillor?</li> </ol>   | <ol style="list-style-type: none"> <li>Councillors arrears for rates are captured in the Financial Statements (Councillor's arrear consumer accounts)</li> </ol>  |      |

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|   | General and the views of the audit committee should be used to determine the accuracy and appropriateness of this information  | 4. Have the salaries, allowances and benefits paid to members of the board of directors, CEO and senior managers of the entity been disclosed?                       | 4. N/A - No entities.  |                                      |
| <b>Municipal Performance</b>                                    | <b>For Consideration</b>   | <b>Questions</b>   | <b>Response</b>  | <b>Recommended Corrective Action</b> |
| 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 ect? 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 survey been undertaken and, if so, how do | 1. Has the performance report been included in the annual report?  | Yes, the APR is part of the Annual Report.   | None                                 |
|   |  | 2. Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report?  | Yes.   | None                                 |
|   |  | 3. Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIPP approved for the financial year? | Yes  | None                                 |
|   |  | 4. What actions have been taken and planned to improve performance?  | An Audit Action Plan has been compiled and submitted with the Draft Annual Report to inform Council on the remedial actions to be implemented. | None                                 |

|                              |   |  |   |      |
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|                              | <p>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> | 5. Is the council satisfied with actions to improve performance?   | Yes.  | None |
|                              |   | 6. 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.  | None |
|                              |   | 7. Does the report evaluate the efficiency of mechanisms applied to deliver the performance outcomes?  | Yes   | None |
|                              |   | 8. Taking into account the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective      | Yes   | None |
| 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.  | 1. Have the recommendations of internal audit been acted on during the financial year?   | 1. Yes, the recommendation of the Audit Committee, were acted upon, for example, Council had adopted the Audit Plan and Charter. The independence of the Auditors reporting directly to the MM has been strengthened. | None |

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|  |   | 2. Have recommendations by the auditor-general been included in action plans to improve performance in the following year? | 2. The Auditor-General has made reference to lack of Performance Audit during the period under review. | None   |
| 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. This is in addition to the separate annual reports of the entities. 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 the municipal entities?                      | N/A  |  |
|  |   | 2. Has an assessment been included in the Annual Report on the performance of all contracted service providers?            | No   | This matter will be addressed to ensure that all service providers are subjected to performance evaluations. |
| For municipal entities – an assessment of the entity's performance against any measurable performance objectives | This is the separate report of the municipal entity and should contain details of service delivery agreements with the municipality and the   | 1. Has the entity performed in line with its service delivery agreements?  | N/A  |  |

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| <p>set in terms of the service delivery agreement or other agreement between the entity and municipality</p> | <p>performance measures therein. Council should consider similar issues to that outlined above for municipal performance of municipal entities. To what extent were the objectives and performance measures of the entity aligned to the overall strategic objectives of the municipality and its IDP? Is the report of the municipal entity consistent with the conclusions on performance evaluation by the municipality? What specific actions should be taken by the entity and the municipality to improve performance?</p> | <p>2. Have the objectives and performance measures of the entity been aligned to the overall strategy of the municipality?</p> | <p>N/A</p> |  |
|--|--|--|------------|--|

| General Information                               | For Consideration  | Questions  | Response  | Recommended Corrective Action |
|---|--|--|---|-------------------------------|
| <p>Relevant information on municipal entities</p> | <p>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.</p> | <p>1. Does the annual Report include detailed information on all municipal entities?</p> | <p>N/A</p>  |                               |
| <p>The use of any donor funding support</p>       | <p>What donor funding has the municipality received? Have the</p>  | <p>1. Has there been disclosure of donor</p>   | <p>No donor funding were received, but donations of property were</p> |                               |

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|  | <p>purposes and the management agreements for the funding been properly agreed upon? Have the funds been used in accordance with agreements? 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?</p>   | <p>funding received in the Annual Report, if applicable?</p>   | <p>received from SASSA and same has been disclosed in the AFS.</p>  |  |
| <p>Agreements, contract and projects under Private-Public-Partnerships</p> | <p>Information similar to the details of municipal entities should be provided. Council should ensure that all details have been supplied.</p>  | <p>1. Have details of all PPP's been disclosed in the Annual Report, if applicable?</p>  | <p>No PPP's were entered into during the financial year or are currently running as long term contracts.</p>  |  |
| <p>Service delivery performance on key services provided</p>               | <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. 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 or in statistical tables.</p> | <p>1. Is there a high level summary detailing the overall performance of the municipality against its strategic objectives</p> | <p>The quarterly performance evaluation of the Municipal Manager and that of Managers reporting directly to the Municipal Managers has been done.</p> |  |
| <p>Information on long-term contracts</p>                                  | <p>Details of all long-term contracts including levels of liability to the municipality should be included,</p>   | <p>1. Have all long term contracts been disclosed?</p>   | <p>No long term contracts</p>   |  |

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|  | council should ensure all information is correctly supplied.  |   |   |  |
| Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations | Details of significant IT activities should 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 summarised. Council should comment and draw conclusions on the information provided.   | 1. Have significant IT activities been disclosed?               | The Municipality is considering the purchase of the new Financial System to enhance the performance of the Municipality, but that has been postponed to afford National Treasury an opportunity to evaluate all financial systems and make recommendations on suitable systems. |  |
| Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework  | 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. | 1. Has a summary of the long-term capital plans been disclosed? | The Long-Term Capital Plans have been disclosed, especially in the Technical Section. However, a more detailed plan would be included in future to capture backlogs in terms of (MIG) and Department of Energy (DE).  |  |

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| Other considerations recommended                      | For Consideration   | Questions  | Response  | Recommended Corrective Action |
|---|---|--|---|-------------------------------|
| Supply Chain Management Regulations and Policy        | Certain disclosures on Supply Chain matters are required to be included in the Annual Report.   |  | The Supply Chain matters has been disclosed   |                               |
| Timing of reports                                     |   | 1. Was the Annual Report tabled by 31 January, as per legislative requirements?  | 1. The Draft Annual Report was tabled to Council on 28 January 2020   |                               |
|   |   | 2. Has a schedule for consideration of the report been adopted?  | 2. Council adopted the Draft Annual Report  |                               |
| Oversight Committee or other mechanism                |   | 1. What mechanisms have been put in place to prepare the oversight report?   | A schedule for the adoption of the Oversight Report has been adopted by the Oversight Committee   |                               |
|   |   | 2. Has a schedule for its completion and tabling been adopted?   |   |                               |
| Payment of performance bonuses to municipal officials | Refer to Section 57 MSA as amended. Bonuses based on performance may be awarded to a municipal manager of a manager directly accountable to the municipal manager after the end of the financial year and only after an evaluation of | 1. Have bonuses been paid based on achievements of agreed outputs and after consideration of the annual report by council? | 1. The payment of performance bonuses is subject to the adoption of the Annual and evaluation of managers' performance report by Council. |                               |

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|  | <p>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. Conclusions and comments on the evaluation and payment of performance bonuses of council should be included in the oversight report.</p> | <p>2. If so has a proper evaluation of performance been undertaken?</p>   | <p>2. Proper evaluation has been conducted by the Performance Evaluation committee.</p>                    |  |
|  |   | <p>3. Was the evaluation approved by council?</p>   | <p>3. Evaluation was submitted to Council and subsequently approved.</p>                                   |  |
|  |   | <p>4. 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?</p> | <p>4. Performance Report submitted to Council and approved</p>   |  |
|  |   | <p>5. Are the payments justified in terms of performance reported in the annual report?</p>   | <p>5. Payments were done in accordance with council approval and outcome of the Performance Assessment</p> |  |

## **9. RESERVATIONS AND COMMENTS**

### **9.1 Format of Annual Report**

A substantial amount of high quality work is reflected in the 2020/21 Annual Report and it is noted by the Committee. The Committee notes specifically that all of the information required to be included by the MFMA, is included. The Committee is further satisfied with the overall format of the Annual Report and the required Annexures thereto.

### **9.2 Report of the Auditor General on the Audit of the Financial Statements**

A Qualified opinion was issued by the Auditor General and based its opinion on the inability to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. The AG could not confirm cash and cash equivalents by alternative means. Consequently, the AG was unable to determine whether any adjustment was necessary to cash and cash equivalents stated at R5 172 398 (2020: R6 781 515) in the financial statements.

### **9.2 Emphasis of Matters Raise by the Auditor General on the Annual Financial Statements as well as the Annual Report**

#### **9.2.1 Restatement of Corresponding Figures**

As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2021.

#### **Management's Response**

No comment, as this matter was corrected during the audit.

#### **Recommendation**

That (i) it be noted that the fault has been corrected and that the Committee is satisfied with the explanation.

#### **9.2.2 Uncertainty relating to the future outcome of exceptional litigation**

With reference to note 41 to the financial statements, the municipality is the defendant in a number of claims against them. The municipality is opposing the claims, as it believes that the claims are fraudulent. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

#### **Management's Response**

The claim of Messrs Kommanisi Developers dates back for many years and the claim has since prescribed. Other claims involves the drowning of children in borrow pits and the Insurers are defending the claims obo the municipality. Any negligence proven on the side of the municipality will be offset by the Insurer.

No provision has been made in the budget for the liability as it would have the effect of an increase in tariffs.

### **Recommendation**

That (i) explanation by management be noted;

#### **9.2.1.3 Material Losses:**

##### **Electricity**

As disclosed in note 48 to the financial statements, material electricity losses of R8 907 499 (2020: R6 447 531) were incurred, which represent 28.02% (2020: 24.06%) of total electricity purchased. These losses was due dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering.

##### **Water**

Water losses to the amount of R2 683 658.00 (2018/19: R1 051 064.00) was disclosed in the AFS in the 2020/21 financial year. This figure represents 66,36% (2018/19: 33,68% of water purchased. This figure represents an increase of 100% in losses.

##### **Committees Response**

The excessive year on year losses incurred on water and electricity is an extreme concern to the Committee. It is noted that the losses increased during the period in overview. The losses are not within the norm for electricity and water losses and urgent attention should be given to this matter as these losses represent huge financial losses to the municipality. The year on year losses has the effect that tariffs increase on year to year basis with approximately the CPI index. Electricity losses are approximately five times the CPI index whilst that of water represents a ratio of 10 times the CPI index. This situation has the impact that tariffs are out of line and the municipality has to fund these losses from other sources of income which are generally rates and taxes, electricity, water, refuse and sewerage.

The norm for electrical network losses amounts to 10 -15%, and the norm for water losses amounts to 15% and officials should strive to bring down losses to be in line with the accepted norms. Having the current situation regarding losses, it is the Committee's view that the KPI's set in the SDBIP regarding trade losses are not linked to the real situation.

## **Management's Response**

Distribution losses in water and electricity have both financial and non-financial causes. The non-financial losses in the network are due to ageing of infrastructure which has the effect of regular pipe bursts and other water leaks. The reduction in these losses can only be properly eradicated as soon as the networks are upgraded.

Impairment of Trade debtors increased due to a change in measurement of the impairment of bad debts and due to the recommendation from the AG to ensure that the provision is more in-line with GRAP.

## **Recommendation**

- That
- (i) a detailed report be submitted to Council on the reasons for the substantial losses and measures to be implemented to bring losses down to the accepted norms;
  - (ii) water losses be included in the SDBIP as a Top Level KPI and be reduced on a year-to-year basis.

### **9.2.1.4 Underspending of conditional grants**

As disclosed in note 26 to the financial statements, the municipality materially underspent on the municipal infrastructure grant by R5 601 018. The underspending resulted to delays in the progress of the upgrading of Ngqandu and Madikane streets projects.

## **Management's Response**

Early appointment of contractors and project consultant before the start of financial year. Improve contract and contract management through contract management review regularly. Early identification of projects challenges and develop mitigation strategies. Open an account for each project for purpose of seamless spending and earning interest on the funds not utilise.

Lockdowns and unavailability of service providers were major contributing factors.

Slow bid committee processes are being reviewed & improvements have already been implemented. The SCM process is being reviewed and already approval processes are being speeded-up.

Late receipts & non-approval of roll-over of grants have caused delays & internal budget to be made available to start bid processes earlier and such funds are recovered when grants are received.

Delegations have been reviewed to be implemented in the new financial year.

## **Recommendation**

- That
- (i) Municipality to revise the project plan and implement.

### **9.2.1.5 Adjustment of material misstatements**

The AG identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Objective 5: Ongoing maintenance of municipal infrastructure, Objective 6: Provide appropriate services to all households and Objective 7: Provide quality and sustainable municipal infrastructure within available resources. Management subsequently corrected the misstatements and the AG did not raise any material findings on the usefulness and reliability of the reported performance information.

#### **Management's Response**

**None.**

#### **Recommendation**

That (i) it be noted that the misstatements were corrected by management.

### **9.3 Report on the Compliance with Legislation**

The Committee is concerned that the Auditor General raised concerns with regard to material findings on compliance with specific matters in key legislation. The following matters were raised:

#### **9.3.1 Annual Financial Statements, Performance and Annual Report**

The financial statements were not prepared in all material respects in accordance with the requirements of Section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue and expenditure identified by the auditors in the AFS were corrected but supporting documents could not be provided resulted in the AFS to be receive an qualified audit opinion.

#### **Management's Response**

Management agrees with the finding of the AG and the documents will be located as part of the Audit Action Plan.

#### **Recommendation**

That (i) the corrective measures be noted.

#### **9.3.2 Expenditure Management**

(i) Expenditure management 31. Reasonable steps were not taken to prevent irregular expenditure amounting to R10 716 472 as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The

majority of the irregular expenditure was caused by non-compliance with supply chain management regulations.

- (ii) Reasonable steps were not taken to prevent unauthorised expenditure amounting to R27 818 818 as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the vote for community services.

### **Management's Response**

Management is committed not to over spend the vote and if the votes are overspend management will submit the proposed adjustment before the council.

### **Recommendation**

That (i) Management is must prevent unauthorised expenditure and must implement the UIF policy, to avoid over spending of the votes.

### **9.3.3 Strategic planning and performance management**

Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

### **Management's Response**

Management agrees with auditing findings and is committed to do due diligence when amending the IDP by thoroughly consulting all relevant stakeholders.

### **Recommendation**

That (i) Management must consult the district municipality as required by municipal planning and performance management regulations 3 (6)(a).

### **9.3.4 Procurement and contract management**

Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by supply chain management (SCM) Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a).

Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the upgrading of Mdikane and Ngqandu Street to block paving.

Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). This non-compliance was identified in the procurement processes for the electrification of Ezimbacweni.

Some of the tenders which achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with 2017 Preferential Procurement Regulation 5(7). This non-compliance was identified in the procurement processes for the Upgrading of Noupoort Sewer Network and Upgrading of President Swartz and Nieuwenhuizen Street to Paving.

Invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year

### **Management's Response**

Management agrees with the auditors' findings and will be committed to ensure that all regulations and SCM policy are complied with.

### **Recommendation**

That (i) municipality must procure goods or services in accordance with the SCM regulations and SCM policy and any other legislations applicable to the procurements of goods and services.

### **9.3.4 Utilisation of Conditional Grants**

Performance in respect of programmes funded by the Municipal Infrastructure Grant and Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

### **Management's Response**

Management agrees with audit findings and is committed to comply with section 12(5) of the DORA.

### **Recommendation**

- That
- (i) management to put measures in place to ensure that programmes undertaken under MIG be evaluated within two months after the end of the financial year;
  - (ii) corrective measures implemented be included in the Audit Action Plan.

### **10. Internal Control Deficiencies**

The AG considered internal control relevant to the audit of the financial statements, reported performance information and compliance with applicable legislation; however, the objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

The matters above, as they relate to the basis for the qualified opinion, and findings on compliance with legislation, will be summarised in the auditor's report as follows:

The municipality did not effectively exercise their oversight responsibility in respect of financial statements and compliance with applicable legislation by ensuring that daily and monthly reports are prepared and adequately reviewed to ensure credibility of the financial statements.

The municipality developed an audit plan to address issues that were raised by the internal and external auditors in the prior financial year, however, management did not adequately address prior year issues. This is evident from repeat findings identified in the current year in the financial statements as well as compliance with legislation.

Management has not implemented adequate controls to ensure that accurate, complete and reliable financial statements and performance reports can be prepared on a regular basis. Management makes use of consultants to prepare the financial statements, but has not implemented the required controls to ensure that effective oversight over the review of the quality, completeness and accuracy of this work can be assured.

Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, are conducted and that a risk strategy to address the risks is developed and monitored. As a result, internal controls were not designed and implemented to address risks that are present at the municipality.

### **Management's Response**

Management agrees with auditor's findings and is committed to perform regular risk assessment and update risk register, especially the top 10 strategic risks.

### **Recommendation**

That (i) municipal must implement appropriate risk management activities to ensure that regular risks assessments are conducted and that risk strategy is developed to address the identified strategic risks.

## **11. Other Reports**

The AG drew attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of the AG's opinion on the financial statements or it's findings on the reported performance information or compliance with legislation.

### **11.1 Investigations**

In the 2018-19 financial year, the Hawks conducted an investigation on alleged fraudulent activities in salaries. The matter has been referred to the Colesberg Magistrate Court for prosecution with no outcome at the date of this report.

National treasury and COGSTA conducted an investigation on maladministration and SCM matters at the municipality. A report was issued to the municipal council and the accounting officer, however, the municipality are disputing the outcome of the report resulting in the matter being referred to the court of law with no outcome at the date of this report.

### **Management's Response**

The comments of the AG is noted.

### **Recommendation**

That (i) the comments of the AG be noted.

## **12. Conclusion**

The Committee would like to express its dissatisfaction with management with the qualified audit report, which is not an improvement on the previous years' audit report received from the Auditor General. The Committee concludes that improvement is still needed in critical areas such as the issues raised by the Auditor General under the heading "Emphasis of Matters". The Committee is of the view that the Management Team should place a high priority on producing an Annual Report and Annual Financial Statements in accordance with the MFMA and National Treasury guidelines, and strive to eliminate the emphasis of matters expressed by the Auditor General.

In an effort to adequately address the findings of the AG and Audit Action plan was developed by management and this plan is attached as an Annexure to the Oversight report to enable Council and role players to have a comprehensive insight in all the issues raised by the AG during the audit and remedial actions to be instituted by the Accounting Officer. Seeing that the Audit Action plan was part of the submission of the draft Annual report the Committee will not elaborate on the document's content.

The Committee would like to express a word of thanks to the Mayor, the Speaker, Councillors and the entire management team of Umsobomvu municipality, the Auditor General, Audit Committee and the Internal Audit Section for their support and co-operation in completing the annual report oversight process. The Committee strongly believes that ULM and its citizens will realize substantial and tangible benefits if a similar process is consistently followed in the following years. The Committee is grateful for the opportunity to be of service to municipality and its citizens.

**12. Recommended resolution to be adopted by Council, in accordance with MFMA Section 129 (1):**

Having performed the following tasks:

- Reviewed and analysed the Draft 2020/21 Annual Report;
- Considered comments and representations received;
- Received and considered Council's Audit Committee's views and comments on the annual financial statements and the performance report; and
- Prepared the draft 2020/21 Oversight Report, taking into consideration the views and inputs from the public, representatives of the Auditor-General, organs of state, Council's Audit Committee, Councillors and the Accounting Officer

The MPAC has pleasure in presenting the Oversight Report to Council to consider the following resolution:

- (i) Council having fully considered the 2020/21 Annual Report of the Umsobomvu Local Municipality for the 2020/21 financial year, adopts the Oversight Report for the 2020/21 financial year;
- (ii) approves the 2020/21 Annual Report without reservations;

- (iii) the rectification of deviations listed in the Annual Report Checklist be included in the performance plans of the Municipal Manager and Managers directly accountable to the Municipal Manager;
- (iv) the oversight process be continued on an on-going basis by means of the Municipal Public Accounts Committee (MPAC), and that the MPAC perform a quarterly review of progress towards meeting ULM's IDP and budget commitments, preparation of the following year's annual report, implementation of commitments made in response to the prior year's annual report issues, and any other issues as directed by the Council;
- (v) the Oversight Report be made public as provided for in terms of Section 129(3) of the Municipal Finance Management Act, 2003 (Act 56 of 2003);
- (vi) the Oversight Report and the final 2020/21 Annual Report be submitted to the Provincial Legislature in accordance with Section 132(2) of the Municipal Finance Management Act, 2003 (Act 56 of 2003);
- (v) sufficient budgetary provision is made by Council to address the capacity issues raised in the MPAC Report and those raised by the Auditor General;
- (vi) the "Recommended Corrective Actions" contained in the Checklist and Reservations And Comments be adopted and same be included in the Audit Action Plan.

Umsobomvu Municipal Oversight Committee

By \_\_\_\_\_  
**Councillor J.P. Matthee (Chairperson)**

By \_\_\_\_\_  
**Councillor V.P. Harmse**

By \_\_\_\_\_  
**Councillor A. Poyo**

08 March 2022

## **ANNEXURE A**

### **PUBLIC NOTICE: INVITATION TO SUBMIT COMMENTS ON THE 2020/21 DRAFT ANNUAL REPORT**

Notice is hereby given to the general public, interest groups and role-players in terms of Section 21A of the Local Government: Municipal Systems Act, 2000 Act 32 of 200) and Section 127 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) that the municipality has prepared a Draft Annual Report for the financial year 2020/21 and that same has been tabled at a Council meeting dated 27 January 2022. The Draft Annual Report lies open for inspection at the various municipal offices and public Libraries for public input. The report consists of: (i) the 2020/21 Draft Annual Report; (ii) the audited Annual Financial Statements for the period 1 July 2020 to 30 June 2021; (iii) Report of the Auditor General on the 2020/21 Financial Statements; (iv) the Audit Action Plan; and (v) the 2020/21 Report of the Audit Committee. The public and interest groups are requested to submit written comments on the Draft Annual Report to the Municipal Manager on or before 4 March 2022 at close of business. Persons who cannot read or write are requested to visit the offices where they will be assisted to make submissions.

**A.C. MPELA**

**MUNICIPAL MANAGER**

Notice No. 2/2022

Date: 28 January 2022

## **ANNEXURE B**

### **PUBLIC HEARINGS ON THE 2020/21 DRAFT ANNUAL REPORT**

The Oversight Committee planned to visit the various communities depicted in the table to do public hearings across all wards in Umsobomvu municipal jurisdiction, however some meetings became unruly and disruptive and due to safety concerns, some of meetings were postponed and re-scheduled, but eventually abandoned.

Proper minutes were kept of the meetings that were held and are available from the Record Office upon written request.

| <b>DATE</b>                 | <b>WARD</b>       | <b>STATUS OF MEETING</b>             | <b>VENUE</b>                          |
|-----------------------------|-------------------|--------------------------------------|---------------------------------------|
| <b>15 FEBRUARY<br/>2022</b> | <b>1</b>          | <b>CONDUCTED</b>                     | <b>KWAZAMUXOLO<br/>COMMUNITY HALL</b> |
| <b>15 FEBRUARY<br/>2022</b> | <b>2</b>          | <b>CONDUCTED</b>                     | <b>JJ CLAASES COMMUNITY<br/>HALL</b>  |
| <b>16 FEBRUARY<br/>2022</b> | <b>7</b>          | <b>CONDUCTED</b>                     | <b>NORVALSPONT COMMUNITY<br/>HALL</b> |
| <b>21 FEBRUARY<br/>2022</b> | <b>3, 4 AND 6</b> | <b>CONDUCTED – NOT<br/>FINALISED</b> | <b>KUYASA COMMUNITY HALL</b>          |
| <b>22 FEBRUARY<br/>2022</b> | <b>7</b>          | <b>CONDUCTED</b>                     | <b>LOWRYVILLE COMMUNITY<br/>HALL</b>  |
| <b>23 FEBRUARY<br/>2022</b> | <b>5</b>          | <b>CONDUCTED – NOT<br/>FINALISED</b> | <b>COLEBERG CIVIC CENTRE</b>          |