

ABAQULUSI LOCAL MUNICIPALITY

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE



OVERSIGHT REPORT 2013/14

CLLR. M.E. ZUNGU
CHAIRPERSON
COUNCIL: 31 MARCH 2015

FOREWORD BY THE CHAIRPERSON

DEAR COUNCILLORS,

The Council of AbaQulusi Local Municipality has the responsibility to oversee the performance of the Municipality, as required by the Constitution, the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA). On 29 January 2015, Council considered the Draft 2013/14 Annual Report of AbaQulusi Local Municipality and referred the Report to the Municipal Public Accounts Committee for review and the drafting of this Oversight Report.

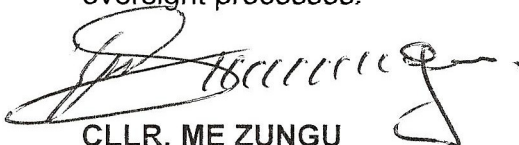
The Oversight Report is the final major step in the annual reporting process of a municipality. Section 129 of the MFMA requires the Council to consider the Annual Report and to adopt an Oversight Report containing the Council's comments on the Annual Report. The Oversight Report is therefore clearly distinguished from the Annual Report. The Oversight Report is a report of the Municipal Council and follows consideration and consultation on the Annual Report by the Council itself.

The Municipal Public Accounts Committee of the AbaQulusi Local Municipality fulfils the oversight role of Council. The mandate of the Municipal Public Accounts Committee includes an analysis of the institution's Annual Report and the development of appropriate recommendations to Council. The meetings of the Municipal Public Accounts Committee on the 2013/14 Annual Report, was held on 24 March 2015 where by open to the public to ensure a transparent and credible oversight process:

Furthermore, the 2013/14 Annual Report was subjected to a public comments between 09 February 2015 to 24 March 2015,. In addition, copies of the Draft 2013/14 Annual Report were made available for inspection at all municipal offices and on the municipal website, but however no comments were received.

The Municipal Public Accounts Committee noted both improvements in certain performance areas, as reflected in the 2013/14 Annual Report, but also unsatisfactory performance in some areas. As reflected in this Oversight Report, the Municipal Public Accounts Committee has also raised concerns on a number of issues requiring immediate intervention.

Finally, I would like to commend my fellow Municipal Public Accounts Committee members for their hard work and commitment. I would also like to thank the Speaker and the Officials for their support in the Oversight process, especially the Acting Municipal Manager, Acting Chief Operating Officer and Internal Audit Manager, who provided strategic support in this process. A word of thanks must also be given to the Office of the Auditor-General and the Audit Committee for their input in the Annual Report and oversight processes.



CLLR. ME ZUNGU
MPAC CHAIRPERSON

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1. BACKGROUND

Each municipality and each municipal entity must prepare an annual report for each financial year in accordance with the Municipal Systems Act (MSA) (Section 46) and the Municipal Finance Management Act (MFMA) (Section 121). In addition, Circulars 11 and 63, issued by National Treasury (NT), and the Annual Report Customised Template and Guidelines provided by the Provincial Department of Local Government and Traditional Affairs provide guidance to municipalities on compliance with the above legislation.

A municipal annual report includes the following key elements:

- *Annual performance report*, evaluating the year's performance against the performance objectives established in the IDP, Budget and Service Delivery and Budget Implementation Plans (SDBIPs);

- *Annual financial statements (AFS), Auditor-General's (AG) Audit Report on the AFS and management's responses* to address the AG's audit findings;

Audit committee report, on the effectiveness of risk management, control and governance process within the institution;

- *Other disclosures*, as required by the MFMA in Sections 121, 123, 124 and 125 (e.g. Councillor and top management compensation, grants, bank accounts and investment information).

The MFMA directs the annual report to be completed and tabled in Council by 31 January, for the financial year ended the previous 30 June 2014. Council must then review the annual report and adopt an oversight report containing its comments within 60 days.

The MFMA (Section 129 (1)) and National Treasury's (NT) Circular 32 direct and guide the oversight process and the preparation of the oversight report. Circular 32 recommends that Council establish an Oversight Committee to prepare an oversight report, in order that all Councillors be provided with a more detailed and comprehensive analysis of the Annual Report than would have been practical otherwise. This assists Council in providing better oversight over municipal performance. The 2013/14 Annual Report was tabled in Council on 29 January 2015, on schedule.

2. PROCESS FOLLOWED BY COUNCIL

On 29 January 2015, Council referred the 2013/14 Annual Report to the Municipal Public Accounts Committee (MPAC), which performs the function of an Oversight Committee. The MPAC consists of members from the ANC, NFP, IFP, DA and a minority party. The Committee is made up as follows:

- ❖ National Freedom Party – 3 members
- ❖ African National Congress – 3 members

- ❖ Democratic Alliance – 1 member
- ❖ Inkata Freedom Party – 1 member
- ❖ Minority parties (represented by Owetu) – 1 member

Other Councillors who were not members of the Municipal Public Accounts Committee attended its meetings from time to time, as did members of the public.

The Committee based its work on the following documents:

- 2013/14 Annual Report
- 2013/14 Service Delivery and Budget Implementation Plan (SDBIP), incorporated in the Annual Report
- 2012/13 Oversight Report
- MFMA
- NT's Circular 32 – The Oversight Report
- NT's Circulars 11 and 63 – The Annual Report

The Municipal Public Accounts Committee values community participation in the oversight process. In this regard, the following initiatives were made:

- An invitation to the public to submit comments on the Annual Report was advertised in the local printed newspaper on 09 February 2015 (Isolezwe), 11 February 2015 (Vryheid Herald), and posted on the municipal website.
- The Office of the Auditor-General were invited to all Municipal Public Accounts Committee meetings but they didn't make due to other commitment.
- The meetings of the Municipal Public Accounts Committee were open to the public

3. CONCLUSIONS

The conclusions and recommendations of the Municipal Public Accounts Committee are presented in two sections, as reflected below:

Compliance issues – This section contains the Committee's comments on whether the 2012/13 Annual Report included the items required by the MFMA and followed the guidance provided by NT Circular 32.

Other Annual Report issues – This section contains the Committee's substantive comments on the Annual Report and other issues raised by the Committee.

3.1 COMPLIANCE ISSUES

As documented below, the Annual Report complied with the requirements of the Municipal Systems Act and the Municipal Finance Management Act (MFMA), National Treasury guidance on the content of annual reports, as well as the *Customised Template and Guidelines for Annual Reports* provided as a skeleton in the National Treasury website.

3.1.1 MFMA REQUIREMENTS INCLUDED IN TABLED ANNUAL REPORT

- Headings and content recommended in National Treasury Circulars and Guidelines.
- Annual Financial Statements.
- Auditor-General's Audit Report.
- Performance report – Performance statistics and narratives are included, as required.
- Report of the Audit Committee.
- Conditional grants and assessment of compliance.
- Allocations to other organisations.
- Total payments for audit fees, taxes, levies, duties, pension and medical aid contributions, and if any amounts are outstanding at year-end.
- Each bank account (name, type, balances).
- Summary of all investments.
- Information on backlogs.
- Material irregular, fruitless or wasteful expenditure and whether recoverable.
- Salaries, allowances and benefits for each political office-bearer and top management official.
- Arrears owed by each AbaQulusi Local Municipality Councillor.
- Comparative performance information – Actual performance compared to the 2013/14 performance objectives, as well as performance information from the previous year.
- Analysis of arrears.
- Auditor-General's Report on Performance Management System.

3.1.2. FINDINGS NOTED ON THE ANNUAL REPORT 2013/14

The Municipal Public Account Committee considered the annual report as presented and noted the following omissions:

- a) The annual report does not include a report on the minimum competency level of staff more specially executive management and officials in finance.

- b) Report on assessment of service providers who renders services to the municipality was not attached as to whether they render optimum services as per service level agreement.

3.2. MATTERS OF CONCERN NOTED BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE.

3.2.1. OUTSTANDING RESOLUTIONS

The Municipal Public Accounts Committee express its concern on the resolution taken by MPAC and Council which are still not yet implemented. The following are resolutions taken:

Resolution Description	Committee
Report on forensic investigation	Council
Report on resolution taken by council to suspend SCM manager	Council
Introducing service providers to MPAC and list of active projects	MPAC

3.2.2. AUDIT REPORT BY AUDITOR-GENERAL

The Municipal Public Accounts Committee noticed the improvement of unqualified audit opinion received from the Auditor-General and the matters of emphasis expressed in the Audit Report. These matters include:

- ✓ Material distribution losses amounting to **R29,61 million** for electricity and **R20,29 million** for water were incurred as a result of electricity and water distribution losses.
- ✓ Impairment losses on receivables from traffic fines of **R4,99 million** and impairment of receivables from exchange transactions of **R31,40 million**, due to poor collection practices.
- ✓ Going concern – loss of revenue due to significant electricity and water losses and a high rate of non-payment of Debtors. Section 25(2) of the Municipal Systems Act determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the Municipal Systems Act, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to the development priorities in the annual performance report, without adoption by the municipal council. This was due to inadequate reviews conducted on the annual performance report to ensure the consistency and alignment between the planning and reporting documents.
- ✓ The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. A total of 26% were not specific in clearly identifying the nature and required level of performance.
- ✓ The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Performance indicators must also be verifiable.

- ✓ The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and formal standard operating procedures.
- ✓ The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Overall, 91% of the targets were not reliable because we were unable to obtain sufficient appropriate audit evidence for them. In addition, 64% of the significantly important targets] were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.
- ✓ Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
- ✓ The annual performance report for the year under review did not include a comparison with the previous financial year, as required by section 46(1)(b) of the MSA.
- ✓ 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, contrary to SCM regulation 36(1).
- ✓ Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
- ✓ Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
- ✓ Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
- ✓ Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
- ✓ Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
- ✓ Management did not put adequate measures in place to implement the action plan or prevent material misstatements and material non-compliance, primarily due to vacancies in key positions during the year.

- ✓ Management did not implement adequate systems to ensure the accuracy and completeness of the financial statements and annual performance report due to poor record keeping and lack of timely reconciliation being and skilled personnel to monitor and report on performance information.
- ✓ The risk assessment process did not adequately address the accuracy and completeness of financial and performance reporting resulting in material misstatements and non-compliance with legislation. The risk assessment did not identify risks pertaining to skilled personnel with the ability to report in a timely manner.

4. RECOMMENDATIONS

4.1. OVERSIGHT REPORT

The Municipal Public Accounts Committee recommends that the Acting Municipal Manager submits quarterly reports on the progress made with the implementation of the Oversight Report recommendations to the Municipal Public Accounts Committee.

4.2. MATERIAL DISTRIBUTION LOSSES

- (a) The Municipal Public Accounts Committee recommends that, in order to address the high level of water and electricity losses experienced in AbaQulusi Local Municipality, all Councillors become more active in reporting water leaks, illegal connection of electricity and follow up reported cases until the problem is fixed.
- (b) The Municipal Public Accounts Committee recommends that a communication/media campaign be launched to educate residents where and how they can report water leaks and illegal connection of electricity in their community.
- (c) The Municipal Public Accounts Committee recommends that an independent service provider be hired to assess all aspects of the municipal water and electricity services system, including the billing system, and the fact that the aging infrastructure is contributing to leakages, with a view to developing a sustainable solution.

4.3. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- (d) The Municipal Public Accounts Committee recommends that the Acting Municipal Manager obtain guidance from National Treasury on how the Council should address irregular, fruitless and wasteful expenditure and submit an action plan reflecting remedial action to address the matters of emphasis raised by the Auditor-General, as well as the matters of concern expressed by MPAC, as set out in this Oversight Report to the Mayoral Committee, MPAC, Council and other Council structures, and report progress being made on the implementation of the action plan on a quarterly basis.
- (e) The Municipal Public Accounts Committee recommends that, due to the fact that there are currently very few or no consequences for officials who incur irregular, fruitless and wasteful expenditure, and as a measure to curb same, Council adopt the stance that some form of action be taken against officials involved in

such action, unless it can be proved that such expenditure was incurred because of circumstances beyond the control of the person(s) involved.

- (f) The Municipal Public Accounts Committee recommends that the Acting Municipal Manager submit quarterly reports on the progress made with investigations of alleged fraud and corruption cases within the institution for possible intervention by the Committee, if necessary.
- (g) The Municipal Public Accounts Committee recommends that the Acting Municipal Manager and the Chief Financial Officer ensure compliance with Section 32 of the Municipal Finance Management Act and Regulation 74 of the Municipal Budget and Reporting Regulation in respect of unauthorized, irregular, fruitless and wasteful expenditure.

4.4. DEVIATIONS

The Municipal Public Accounts Committee recommends that the Acting Municipal Manager draw up an Action Plan of measures that can be put in place to reduce the unacceptable number of deviations, which the Committee deems to stem from a lack of proper planning.

4.5. DECLARATION OF INTEREST

The Municipal Public Accounts Committee recommends that the Acting Municipal Manager, the Chief Financial Officer and the Executive Director: Corporate Services ensure that a proper system be developed by requiring all officials in the service of the AbaQulusi Local Municipality to make a yearly declaration, disclosing whether or not they or any of their close family members have business relations with the Municipality or any other state organisation, and that any misrepresentation by officials in respect of such declaration be punishable by disciplinary action to be taken by the Municipality against such officials.

4.6. PERFORMANCE MANAGEMENT

The Municipal Public Accounts Committee recommends that the Executive Management should ensure SMART compliant to all objectives, indicators, and targets. Furthermore, in order to improve the percentage of targets achieved during every financial year, the Acting Municipal Manager ensures that quarterly performance sessions be held by the Executive Management Committee to examine progress reports/scorecards in respect of work done relating to targets, and identify and correct problems in time before the end of the financial year.

4.7. VACANCIES

The Municipal Public Accounts Committee recommends that the Acting Municipal Manager together with Executive Director Community Services ensures that urgent attention be given to the speedy filling of vacancies in the Community Services Department and prioritisation be made to fill other critical positions within the Municipality as matter of urgent to ensure effective and efficient of operations.

4.8. OVERTIME MANAGEMENT

The Municipal Public Accounts Committee recommends that the Acting Municipal Manager and Chief Financial Officer should develop measures to curb massive expenditure incurred for overtime and thereafter progress on minimising high expenditure on overtime should be report to MPAC and Council on a quarterly basis.

4.9. REVIEWAL OF POLICIES

The Municipal Public Accounts Committee recommends that the review of all policies should take place and policy workshop dates be initiated as matter urgent.

5. RESOLVED TO RECOMMEND

That Council, having fully considered the AbaQulusi Local Municipality 2013/14 Annual Report, resolves that:

- (a) the Oversight Report be adopted;
- (b) the Annual Report be approved with the reservations, comments and recommendations included in the Oversight Report;
- (c) the Annual Report be amended, as reflected in paragraph 3.1.2 of the Oversight Report.
- (d) the recommendations of the Municipal Public Accounts Committee reflected on paragraph 4.1- 4.9 be adopted and that the implementation progress be reported on a continuous basis to MPAC and Council;
- (e) That the minutes of the meetings where the Annual Report was discussed, in the presence of the accounting officer (Acting Municipal Manager), be submitted to the Auditor- General, KZN Provincial Treasury and KZN COGTA, as attached to the report, in terms of section 129(2) of the MFMA.
- (f) That the 2013/14 Oversight Report of the AbaQulusi Local Municipality be made public in terms of Section 129(3) of the MFMA; and be submitted to the KZN Legislature in terms of Section 132(2) of the MFMA.