



## OVERSIGHT REPORT 2016/2017

### OVERSIGHT REPORT FOR THE 2016/2017 ANNUAL REPORT OF KANNALAND MUNICIPALITY

#### Contents

1. PURPOSE OF THE REPORT .....	2
2. BACKGROUND .....	2
2.1 LEGAL REQUIREMENTS:.....	2
2.2 PURPOSE OF THE REPORT: .....	2
2.3 ANNUAL REPORT REQUIREMENTS:.....	2
3. PROCESS FOLLOWED BY COUNCIL .....	3
3.1 SUBMISSION AND TABLING OF THE ANNUAL REPORT 2016/17.....	3
3.2 MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) .....	4
4. THE OVERSIGHT REPORT: KEY COMMENTS .....	5
4.1 Auditor – General Report.....	5
4.2 Annual Performance Report.....	5
4.3 General Recommendations.....	5
5. RECOMMENDATIONS .....	8

## 1. PURPOSE OF THE REPORT

To consider the Municipality's Annual Report for the 2016/2017 financial year and to adopt an Oversight Report in terms of section 129 (Municipal Finance Management Act, 2003 (Act No 56 of 2003 – MFMA))

## 2. BACKGROUND

### 2.1 LEGAL REQUIREMENTS:

*Section 121 (1), (2) and (3) of the MFMA determines as follows:*

According to 121 (1) of the MFMA, every Municipality must prepare an annual report each financial year. The council must within 9 months after the end of a financial year deal with the annual report of a municipality and, in accordance with section 129. When considering the annual report Council must furthermore, adopt an oversight report containing it's comments on the annual report.

### 2.2 PURPOSE OF THE REPORT:

*The purpose of an annual report in terms of section 121 (2) is:*

- i) To provide a record of the activities of the municipality during the financial term to which the report relates;
- ii) To provide report on performance against the budget of the municipality for the financial year; and
- iii) To promote accountability to the local community for the decisions made throughout the year by the municipality.

### 2.3 ANNUAL REPORT REQUIREMENTS:

*The annual report of a municipality must include:*

- i) The annual financial statements of the municipality;
- ii) The Auditor General audit report in terms of section 126) (3) on those financial statements;
- iii) The annual performance report of the municipality prepared by the municipality in terms of the section 46 of the Municipal Systems Act;
- iv) The auditor general's audit report in terms of section 45 (b) of the Municipal Systems Act;
- v) An assessment by the municipality's accounting officer of any arrears on municipal taxes and services charges;
- vi) An assessment by the municipality's accounting officer of the municipality's performance against measurable performance objectives referred to in section 17 (3) (b) for revenue from each source and for each vote in the municipality's approved budget for the relevant financial year;
- vii) Particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to in paragraphs (b) and (d);

- viii) Any explanations that may be necessary to clarify issues in connection with the financial statements;
- ix) Any information as determined by the municipality;
- x) Any recommendations as determined by the municipality; and
- xi) Any other information as may be prescribed

In terms of section 127 (5) of the MFMA, the accounting officer must immediately after the annual report is tabled, make public the annual report invite the local community to submit representations in connection with the annual report and submit the report to the Auditor General, the relevant Provincial Treasury and the Provincial Departments responsible for Local Government in the Province.

According to section 129 (1) of the MFMA, the Council must consider the Annual Report by no later than two months from the date on which the annual report was tabled, adopted and Oversight Report containing the Council's comments on the Annual Report which must include a statement whether:

- The council has approved the annual report with or without reservations;
- Has rejected the Annual Report;
- Has referred the Annual Report back for revision of those components that can be revised.

### 3. PROCESS FOLLOWED BY COUNCIL

#### 3.1 SUBMISSION AND TABLING OF THE ANNUAL REPORT 2016/17

On the 30<sup>th</sup> of January 2018 the Executive Mayor has informed council of unforeseeable reasons which led to Council not being able to consider the completed Annual Report seven months after the financial year.

Section 127 (3) requires that if the mayor for whatever reason, is unable to table in the council the annual report of the municipality, or the annual report of any municipal entity under the municipality's sole or shared control, within seven months after the end of the financial year to which the report relates, the mayor must:

- a) *promptly submit to the council a written explanation referred to in section 133 (1) (a) setting out reasons for the delay, together with any components of the annual report listed in section 121 (3) or (4) that are ready; and*
- b) *submit to the council the outstanding annual report or outstanding components of the annual report as soon as may be possible.*

As per legislation requires, the Annual report has to be tabled to council seven months after the beginning of the financial year under reviewed and nine months the Oversight must be tabled to Council.

On the 20<sup>th</sup> of March 2018 the completed Annual report was tabled to Council for its consideration and referral to the MPAC for oversight purposes.

The Annual Report was brought before MPAC on the 20<sup>th</sup> of March 2018 for discussion and oversight purposes.

### 3.2 MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

Having considered the guidelines issued by National Treasury on the establishment of Municipal Public Accounts Committee (MPAC) council established the MPAC on the 24<sup>th</sup> of January 2017. Council further resolved on the 7<sup>th</sup> of December 2017 that the duties and responsibilities of the Oversight Committee shall be delegated to the MPAC.

That the MPAC committee consists of the following members:

1. Cllr. P. Antonie (Chairperson);
2. Cllr. J. Johnson; and
3. Cllr. J. Donson.

One of the key responsibilities of the MPAC is to analyse and review annual reports in detail following their tabling in Council and then drafting an oversight report that may be taken to Council for consideration.

MFMA Circular 32 of the National Treasury serves as the guiding document for the MPAC committee when it deals with the oversight process of the Annual report.

The following documents relevant to the committee's responsibilities should be distributed to each committee member and should be in their possession.

- The 2016/17 Annual Report
- National Treasury Circular 32 – Oversight Report
- Report of the Auditor General as contained in the Annual Report

The MPAC committee places a high priority on community participation in the oversight process and is going to take the following actions to gain the community's participation:

- The community will be advised through the print media of the availability of the 2014/2015 Annual Report, as per the municipal notice, and will be invited to submit representation on the report by a certain date;
- The Annual Report will be available at all municipal libraries
- The Annual Report will be placed on the municipal website at [www.kannaland.gov.za](http://www.kannaland.gov.za)
- The Annual Report will also be submitted to the Auditor General, Provincial Treasury, National Treasury and the relevant local government departments.

## 4. THE OVERSIGHT REPORT: KEY COMMENTS

The comments from the MPAC are reflected below:

### 4.1. Auditor- General Report

Kannaland Municipality received a "qualified audit" for the 2016/2017 Financial Year. Opinion: "The financial statements present fairly, in all material respects, the financial position of the Kannaland Municipality as at 30 June 2017 and its financial performance, and cash flows for the year ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA."

The Auditor General identified four key findings that give rise to the "qualified audit" opinion, namely:

1. Contingent liabilities;
2. Property, plant and equipment;
3. Taxes; and
4. Irregular Expenditure.

### 4.2. Annual Performance Report

The Annual Performance Report was a considerable improvement on the report for the previous financial year. The Committee is concerned about the lack of staff training programmes, and urges Council to urgently look into this matter. The Committee commends Council for the successful completion of various MIG projects, including Sakkiesbaai- and Zoar paving projects.

The SDBIP process should lead to the revision of the KPI's to make them more credible with due consideration of ancillary documents such as the Master plans and Financial Recovery Plan.

That better monitoring and evaluation of staff be done through an improved oversight role by the Mayoral Committee. This monitoring and evaluation will further improve through the implementation of the electronic performance management systems.

### 4.3. General recommendations

#### a. *Property, plant and equipment*

Unable to obtain sufficient audit evidence on the depreciation of Property Plant & Equipment. PPE were not accessed and impaired in terms of GRAP 26. After debating the interpretation of GRAP 26, we (Kannaland) agreed to the finding that we did not do enough to look for indicators of impairment.

Plans for remedial action are in place and all immovable assets will be investigated annually between May and June internally for that specific financial year, to see if there are indicators

of impairment to be treated as such in accordance with the accounting treatment in GRAP 26.

**b. Contingent liabilities**

Unable to obtain sufficient audit evidence for contingent liabilities as disclosed in note 49 of the AFS, as not all external legal confirmations were received. We were unable to obtain legal confirmation from lawyers that Kannaland Municipality did business with during the 2015/2016 financial year.

A remedial action strategy has been developed to ensure that we can provide adequate audit evidence that there is no undisclosed liability. Kannaland Municipality did liaise with the Auditor General and the material findings will be audited within the beginning of July 2018 to ensure we did enough to address them and prevent a reoccurrence of these identified material findings.

**c. Irregular Expenditure**

Unable to obtain sufficient appropriate audit evidence that irregular expenditure was accurately disclosed within the annual financial statements.

We have revisited the population but the evidence provided was too late to be audited.

	2016/17	2015/16
<b>Irregular expenditure</b>		
Reconciliation of irregular expenditure:		
Opening balance	43,537,933	(3,597,939)
Corrections to the opening balance		24,101,134
Restated opening balance 2015/16		<b>20,503,195</b>
Irregular expenditure current year	36,945,207	51,566,932
Investigated and written off by Council		(8,532,194)
Transfer to receivables for recovery		
Irregular expenditure awaiting further action	<b>99,483,140</b>	<b>63,537,933</b>
Irregular expenditure awaiting condonement from National Treasury		
Incident	Disciplinary steps/criminal proceedings	
SCM procedures not followed	None	3,466,182
SCM procedures not followed	To be investigated	24,387,702
SCM procedures not followed	Forensic investigation	8,089,323
		26,358,030
		28,510,438
Note: We have disclosed all irregular expenditure based on our investigation for 2016/17 & 2015/16.		
The amounts disclosed as irregular expenditure include incidents that are subject to ongoing forensic investigation.		
	<b>55,943,237</b>	<b>51,566,932</b>

The two R 24 million Rand amounts disclosed with 2015/16 and 2016/17 both relate mainly to appointment processes that need to be investigated to ensure that expenditure incurred is indeed irregular in nature (ASLA & VE Reticulation).

The **remedial action** is that the ASLA & VE Reticulation contracts be brought in line with the legal requirements to prevent a repetition of the irregularity of the SCM processes.

That a complete list of items identified by the Auditor General as irregular, fruitless and wasteful expenditure be placed before the MPAC committee for consideration of potential regularisation or referral to other bodies such as the Audit Performance Committee and Council, so as to improve consequence management within the municipality.

It is recommended that the SCM processes should be aligned with the annual procurement plan which include the annual tender process, and the relevant registers be put in place and continuously updated.

The implementation of the MSCOA framework will limit the occurrence of irregular, fruitless and wasteful expenditure.

**d. Value Added Tax (VAT)**

Unable to obtain sufficient audit evidence on the restatement of Value Tax (VAT).

The correction that was made, relates to prior year (pre 2015/16 financial year) misstatements and the movement subsequently was audited and found to be correct. The remedial action is to are research the origin of the problem to obtain the requested audit evidence but are also of the opinion that we did enough to motivate and support the correction.

**e. Receivables from Exchange Transactions**

The increase in debtors for services is still escalating alarmingly.

The remedial action is that Council must review the implementation of Credit Control and Debt Collecting policies and align its implementation with the revenue enhancement strategy.

**f. Governance structures**

That the governance structures such as the MPAC, Audit Performance Committee and Internal Audit function be activated through the scheduling of regular meetings to improve the oversight role within the municipality.

That the Audit Action Plan be adopted and referred to the above-mentioned structures so as to improve the oversight and effective consequence management with regards to the audit outcome.

**g. General valuation roll**

Municipal revenue can be enhanced by a General valuation roll, and the Committee advises that the municipality initiate this process in year 18/19 for implementation in year 19/20. The general valuation roll will increase our revenue from properties significantly.

That he Department of Local Government (DLG) and Provincial Treasury will be requested to assist Kannaland Municipality with this process. Due to the high costs involved in this process we have no other option but to make use of the shared services model with bigger municipalities that already have valuers in their employment.

That the Building Plan and Town planning registers be updated to improve the data for the establishment of the General Evaluation roll.

**h. Budgetary provision for Maintenance**

That due consideration be had that Kannaland Municipality does not have its own operational capital.

The remedial action is that the financial recovery plan identified that budgetary provision of 6% be made for maintenance of property, plant and equipment for the 2018/19 financial year.

**Conclusion**

That the Annual Report for 2016/2017 is a considerable improvement from the previous year, where the municipality received a disclaimer of opinion.

The administration can be commended on the efforts made on the presentation of the Annual Report.

## **5. Recommendations**

- a) That the 2016/2017 Oversight Report together with the Annual Report 2016/2017 be adopted with due consideration of the Financial Recovery Plan with reservations;
- b) That the Oversight Report be made public by the Municipal Manager in accordance with Section 129 (3) of the Local Government: Municipal Finance Management Act, 2003;
- c) That the Oversight Report and Annual Report 2016/2017, be submitted to the provincial legislature by the Municipal Manager in accordance with section 132 (2) of the Local Government: Municipal Finance Management Act, 2003;
- d) That the full list of unauthorized, irregular and fruitless and wasteful expenditure as reflected in the Annual Financial Statements 2016/2017 be submitted to the Municipal Public Accounts Committee.
- e) That the classification, validation and recoverability of unauthorized, irregular and fruitless and wasteful expenditure as reflected in the Annual Financial Statements 2016/2017, be determined by the Municipal Public Accounts Committee for consideration and referral to the Audit Committee and Council for consideration and adoption.
- f) That better monitoring and evaluation of staff be done through an improved oversight role by the Mayoral Committee
- g) That it be that budget allocations for repairs and maintenance for the 2016/17 financial year has improved but that the allocation for the 2018/19 financial year must be 6% to align it with the target of the Financial Recovery Plan;
- h) That effective Credit Control and Debt collecting practices be implemented in line with the Credit and Debt Collecting policy, with due regard to the Revenue Enhancement strategy;
- i) To research the origin of the Value Added Tax problem to obtain the requested audit evidence but are also of the opinion that we did enough to motivate and support the correction.

- j) That proper record should be done within the building plan and town planning registers;
- k) That the current organizational structure be revised and implemented as soon as possible in line with the Financial Recovery and Budget norms and standards
- l) That the issues raised by the Auditor General in relation to Supply Chain Management and Contract Management, be attended to urgently in line with the proposed Audit Action Plan.
- m) that the SCM processes should be aligned with the annual procurement plan which include the annual tender process, and the relevant registers be put in place and continuously updated.
- n) that the compilation of the proposed Audit Action Plan to implement the findings of the Auditor General on the 2016/17 financial year be concluded by 15 April 2018.
- o) That the Audit Action plan be referred to the Audit Performance Committee, MPAC and be submitted to Council by 30 April 2018.
- p) That the process regarding the Internal Audit function be finalised by 30 April 2018.
- q) That the SDBIP process should lead to the revision of the KPI's to make them more credible with due consideration of ancillary documents such as the Master plans and Financial Recovery Plan.
- r) Note that the Auditor General will conduct an audit on the four major findings during the first week of July 2018.



CHAIRPERSON OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

DATE: 2018-03-28

