

OVERSIGHT REPORT ON ANNUAL REPORT: 2018/2019 FINANCIAL YEAR

INTRODUCTION

The Annual Report is one of the key instruments of transparent governance and accountability. It is a post financial year document which provides an overview of the process of financial and non-financial performance in respect of the previous financial year. The adoption of an Annual Report is a legislative requirement in terms of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003).

The Oversight Report should be compiled and tabled in Council no later than 60 days from the date of which the Annual Report was tabled, in terms of Section 129 of the MFMA.

The tabling of the completed Annual Report was late due to the late submission of the Annual Financial Statements and the consequent late issuing of the Auditor General South Africa's Audit report in February 2020.

THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

Council mandated the Municipal Public Accounts Committee (MPAC) to serve as an Oversight Committee to exercise oversight over the executive obligations of Council to consider and evaluate the Annual Report as tabled to Council, and thereafter make recommendations to Council in this regard.

The Annual Report was tabled before the MPAC for discussion and recommendation purposes on the 23 March 2020.

OBJECTIVE OF THE OVERSIGHT REPORT

The purpose of the oversight report of MPAC is to provide an analysis of the accuracy of the report as compiled by administration.

- Review of past recommendation and the extent to which progress had been achieved.
- Departmental inputs on the compilation of the Annual Report
- Public Participation as per the legislative requirements
- To promote accountability and responsiveness to the local community for the decisions made throughout the year by the municipality
- The processes as undertaken by MPAC in dealing with the Annual Report.

ADOPTION AND PUBLIC CONSULTATION PROCESS **LEGAL REQUIREMENTS**

Section 121 (1) and section 127 (3) and (5) of the MFMA determines as follows:

Preparation, submission and adoption of Annual Reports

121 (1) Every Municipality must for each financial year prepare and Annual Report. The Council must within nine months after the end of a financial year deal with the Annual Report of a Municipality in accordance with Section 129 of the MFMA.



Section 127 (3) of the MFMA read as follows:

(3) 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 the 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 the outstanding components of the annual report as soon as may be possible.

The late submission of the Kannaland Municipality's Annual Financial Statements resulted in the Municipal Council not being able to submit a complete draft of the Annual Report by the end of January 2020.

Upon receipt of the 2018/ 19 financial year Audit outcome by the Auditor General of South Africa, the Annual Report for the 2018/ 19 financial year could not be finalised.

The Auditor General's audit report was received during February 2020.

The purpose of the Annual Reports

- (a). To provide a record of the activities of the Municipality during the financial year to which the report relates;
- (b). To provide a report on performance against the budget of the Municipality for the financial year; and
- (c). To promote accountability to the local community for the decisions made throughout the year by the Municipality.

The Annual Report of a Municipality must include-

- i) The Annual Financial Statements of the Municipality, and in addition, if Section 122(2) applies, consolidated Annual Financial Statements, as submitted to the Auditor-General for audit in terms of Section 126(1);
- 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 Section 46 of the Municipal Systems Act;
- iv) The Auditor- General Audit Report in terms of Section 45 (b) of the Municipal Systems Act, Act 32 of 2000;
- 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 the measurable performance objective 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 financial statements;
- ix) Any information as determined by the municipality;
- x) Any recommendation 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 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 Annual Report to the Auditor-General, the relevant Provincial Treasury and the Provincial Department responsible for Local Government in the province.

The incomplete draft Annual Report was made public on the 19th of February 2020 for the purposes of inviting public comment on the document.

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, adopt an 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 or*
- *Has referred the Annual Report back for revision of those components that can be revised.*

HIGHLIGHTS AND REMARKS

1. KEY NOTES ON CHAPTER 1 AND 2

The struggle of comparison of statistics remain the main challenge as we are dependent of the statistics from Municipal Economic Review and Outlook's and community surveys conducted by independent parties in partnership with Statistics South Africa. The general census will be conducted in 2020/2021.

A major challenge was funds were gazetted in accordance with the Division of Revenue Act but no allocations were made. It hampered the planning of projects which result negatively on performance targets set on the execution of intended projects such as the Swartberg dam and the Ladismith Waste Water Treatment Works.

Human settlements service provider was appointed in the 2019/20 financial year.

The engagements start in the 18/19 financial year to conclude a shared services for the functions of internal audit and risk management with Garden Route District Municipality. The MOA is in progress for the next financial year.

As per the Circular 63 compliance table, we did not adhere to the dates, however we managed to submit more credible Annual Financial Statements and Annual Performance Report a month after for audit purposes although compliance timeline was exceeded with a month compared to six months the previous year.

As the name indicates, the Back2Basics programme improved the Municipality's capacity in terms of basic service delivery to our community. The Back2Basics is a reference to the implementation of capital expenditure which speaks to the water and sanitation including drought mitigation. The Municipality strengthened the Back2Basics programme and actively engaged the other stakeholders at the various forum meetings that were held.

A Memorandum of Agreement is in process of finalisation with the Garden Route District Municipality to face in a shared service for the internal audit and risk management functions. Engagements with the District Municipality started in the financial year in review and will be implemented in the last quarter of the 2019/2020 financial year.

Communication were improved via the Kannaland Municipality Facebook page where complaints were identified and addressed.

2. KEY NOTES ON CHAPTER 3 - BASIC SERVICES DELIVERY PERFORMANCE INFORMATION

Challenges identified as follows:

- a. Management oversight – Improved communication between the IDP/ Performance Co-ordinator through the Office of the Municipal Manager
- b. Performance monitoring and evaluation of service providers;
- c. Planning should be done properly special emphasis on conditions and risks of the projects to prevent delays and insufficient funding with regards to the successful implementation of projects.
- d. The description of KPI's and the performance targets set should be realistic and achievable from the onset.
- e. The following KPIs speak to the above challenges

KPI 38: Upgrade of the Zoar Sportsfield

KPI 40 – Spent 90% of WSIG grant funding (Calitzdorp Bloekomlaan)

KPI 46: REVIEW THE SDF AND SUBMIT TO COUNCIL BY 31 MARCH 2019

The Spatial Development Framework is crucial as it is the framework within which the IDP and the Budget operate.

It must be concluded by the end of the 2019/2020 financial year.

KPI 47: SUBMIT THE DRAFT ZONING SCHEME TO COUNCIL BY 31 MARCH 2019

We acknowledge work done by the Building Control, Town Planning section, the GDRM and Rural Development. The conclusion of this activity must be concluded by 30 June 2020, as it directly links with the Revenue Enhancement Strategy, the Financial Recovery Plan and ties with improved targets set for the next financial year.



KPI 50: Construct 175 top structures in Calitzdorp Bergsig by 30 June 2019

KPI 51: Construct a K53 testing course in Ladismith by 30 June 2019

3. POLITICAL ENVIRONMENT

The financial year in review marked the third year of this current government's tenure without any major changes in political leadership, which brought about stability within the organisation.

Council meetings during this financial were less disruptive.

4. FINANCIAL RECOVERY PLAN

The Kannaland Municipality ratios based on the Audited 2015/16 Financial Statements indicate the dire state of the finances at Kannaland Municipality, which required a serious intervention in respect of the preparation of the existing Financial Recovery Plan.

With due regard to the resolution taken at a Special Council meeting of the Kannaland Municipal Council held on Friday, 2 December 2016, the Provincial Executive resolved to intervene in the Municipality in accordance with the requirements of Section 139 (5) of the Constitution, read with the relevant provisions of the MFMA. The Financial Recovery Plan was thus prepared as a result of the provincial intervention referred to in Section 139(5) of the Constitution read together with Section 139(1) and 141 to 142 of the Municipal Finance Management Act (MFMA).

Key strategic areas in the development of the Financial Recovery Plan were Strategic leadership, Institutional Stabilisation and Transformation, Financial Management and Focused Sustainable Service Delivery.

The afore-mentioned led to the following strategic projects being put in place for short, medium and long- term implementation:

1. Budgeting and Expenditure Management;
2. Revenue Management;
3. Customer Care;
4. Cash Management, Financial Controls;
5. Asset Management;
6. Supply Management;
7. Strategic Leadership, Institutional Stabilisation and Transformation;
8. Accounting, IT and Data Management; and
9. Liability Management.

The institution of the Financial Recovery Plan also brought about the Back2Basics program where different stakeholders could assist the Municipality in their area of expertise. During the Back2Basics meetings the Municipality received good support from the Department of Local Government and MISA in critical service delivery areas. The other relevant stakeholders' role within the Back2Basic are not to be disregarded, but could have been improved by further involvement outside the meeting setup.



Mr Edward Jantjies was appointed the Administrator to administer the implementation of the Kannaland Municipality Recovery Plan in conjunction with the Manager of the Financial Recovery Plan, Mr Leslie Holland, in a more hands-on approach from the Western Government. We acknowledge and recognise the valuable contributions made by Mrss Jantjies and Holland.

The major challenges remains that the programmes within the financial recovery Plan are not properly funded. The lack of support staff dedicated to the Administrator is still challenge.

5. FINANCIAL RATIOS

The Municipality's collection rate was influenced by external factors such as the drought, a high indigent and unemployment rate, but is still regarded as high compared to preceding financial years with reference 2014/15 and 2015/ 16 financial years.

The Municipality furthermore conducted both water and electricity meter audits during this financial year to identify potential revenue losses but the funding was not sufficient to complete the projects.

The other financial ratios are still a matter of concern and are being addressed as we roll out the implementation of the Financial Recovery Plan, at the moment there is a big focus on revenue enhancement measures, such the general valuations, supplementary valuations and Geographic Information System to improve collection as per a particular erf.

6. ELECTRONIC SUPPORT SYSTEMS

The implementation of Municipal Standard Charter of Accounts financial within the Administration and more particular its synchronisation challenges with the Municipality's financial system was well documented during the previous financial year and was brought under the attention of the Municipal Council throughout that financial year.

Kannaland Municipality during the 2018/19 financial year improved in its performance of tabling a budget that was moreover MSCOA compliant by making strides in resolving the matter to make the budget and the system respectively MSCOA compliant and functional.

The municipality acquired other electronic support systems to improve effective and efficient administration. These systems are listed as follows:

1. Ignite system - Performance Management and Customer Care system;
2. Collaborator - Electronic Records Management system.

7. GOOD GOVERNANCE

The Municipality enhanced its commitment to Good Governance by having better functioning governance structures such as the MPAC, Disciplinary Board and Audit and Performance Committee to ultimately improve the confidence in the Municipality within the sphere of local government. The optimal functioning of these structures was compromised due to the Memorandum of Agreement with the Garden Route District Municipality for Internal Audit and Risk Management that could not be concluded during the financial year.

The Municipality furthermore improved the functioning of the above-mentioned committees and enhanced its oversight role during the next financial year.

8. DROUGHT

Kannaland Municipality, as the rest of the Western Cape, was hit by a severe drought that led to various interventions being made which included the provision of funds for drought mitigation.

The Municipality was able to mobilise the necessary resources and personnel to successfully mitigate the effects of the drought on the local community.

The drought situation in Kannaland Municipality had a knock-on effect on other projects such as the Calitzdorp (Bergsig) Housing project.

9. BASIC SERVICE DELIVERY

The optimal provision of basic services to the Kannaland broader community was a challenge throughout the financial year, because of the Municipality's dire financial state. Regardless of the latter situation it should be emphasized that the staff did their utmost best to provide basic services optimally to the community as it is also reflected in the performance actuals for basic services.

Providing basic services to the Informal Settlements is still a major challenge for the Municipality as these areas are not yet formalised. The Municipality in conjunction with the National Department of Rural Development and Land Reform, MISA, Western Cape Department Environmental Affairs & Development Planning and Provincial Human Settlements are in the process of formalising these areas in the current financial year.

10. BUILDING CONTROL AND TOWN PLANNING

The appointment of a permanent employee as Building Control Officer has a positive effect on the processing of building plans with a high percentage rate within the legal timeframes.

The Town Planning services were assisted by the involvement and continued engagements with stakeholders such as the Department of Rural Development and the provincial Department of Environmental Affairs and Development Planning. The afore-mentioned assisted the municipality in starting the process for the development of a Zoning Scheme and revision the Spatial Development Framework.

11. LOCAL ECONOMIC DEVELOPMENT

The municipality continued engagements with Inovasure on the Energy Vault project which is seen as a major Game Changer in stimulating the local economy and improving the financial sustainability of the municipality. The proposed is a one billion rand investment. We envisaged the registration of Public Private Partnership in the current financial year.

In establishing a Local SMME forum the Municipality played a leading role as one of the stakeholders to enhance the stimulation of local economic activity which is beneficial to the small scale business enterprises.



Kannaland Municipality identified the lack of tourism and local economic activities in the Zoar area as a potential area to improve and will ensure funding will be made available to address the shortcoming. The funding of a local tourism office for Zoar is recommended.

12. ORGANISATIONAL RENEWAL

The Kannaland Municipal Council adopted a new organisational structure at a Council meeting held on 12 March 2019.

The Municipality underwent the process of adopting a new Corporate Identity to be more inclined to the current trends and needs of the Municipality's commitment to organisational renewal.

The adoption of an Induction Policy by the Municipality is further testament to the Municipality's view that organisational renewal include the change in behaviour by employees through their knowledge of what the municipality entails and what it seeks to achieve. The adoption of the Leave Management policy, the Standby Policy and the Placement Policy

The roll-out of formal training of staff remains a particular challenge as the training budget does not reflect the training needs identified as part of the Work Skills Plan (WSP).

13. SCM PROCESSES

The improvement of Supply Chain Processes let to a reduction in deviations, irregular, unauthorised and fruitless and wasteful expenditure. It showed a marked improvement from the previous financial years and confirm that the Municipality is now moving away from the non-compliant practices of the past.

The following is a comparison between the 2016/ 17, 2017/18 financial years and the financial year that's in review, 2018/ 19 financial year:

Unauthorised Expenditure

2016/2017	2017/2018	2018/2019
24 726 708.00	19 178 385.00	4 123 020.00

Fruitless and Wasteful

2016/2017	2017/2018	2018/2019
2 175 863.00	1 748 047.00	1 570 519.00

Irregular Expenses

2016/2017	2017/2018	2018/2019
35 943 207.00	20 159 190.00	12 447 097.00

14. AUDIT OUTCOME

Kannaland Municipality showed improvement through its latest Audit outcome, the 2018/19 financial year, whereby it was given an unqualified audit opinion with lesser findings than in the 2017/18 financial year, but also compared to the Disclaimer Opinion for the 2015/16 financial year and Qualified Opinion for 2016/17 financial year.

As part of the Memorandum of Agreement processes with the Garden Route District Municipality, the Chief Audit Executive of the District Municipality is in the process of finalising the Audit Action Plan to address the 2018/19 audit findings, which will be presented to the Performance Audit Committee before the implementation commences.

The afore-mentioned audit outcome is indicative of the Municipality's progress with regards to governance structures and implementation of systems. The Municipality must be congratulated for the achievement with regards to strengthening the governance, both financial and non-financial.

CONCLUSION:

The purpose of the MPAC oversight role was to provide an accurate overview of the process of the financial and non-financial performance during the period under review.

RESOLVED:

1. That the 2018/2019 Oversight Report together with the Annual Report 2018/2019 be adopted with due consideration of the Financial Recovery Plan with reservations;
2. 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;
3. That the Oversight Report and Annual Report 2018/2019, 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;
4. That Management presents an Action Plan to address the findings and other issues listed in the Auditor General of South Africa's 2018/2019 Audit Management Report to the Performance and Audit Committee, for tabling to MPAC and the Council.


CHAIRPERSON

2020-03-25
DATE