

CAPE AGULHAS MUNICIPALITY OVERSIGHT REPORT

2018/19

Resolution: 2/2020

31 January 2020



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
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1 INTRODUCTION

This document constitutes the Oversight Report on the 2018/19 Annual Report of the Cape Agulhas Municipality which has been compiled in terms of Section 129 of the Local Government Municipal Finance Management Act, Act 56 of 2003 (MFMA).

The Constitution, Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) vest the Municipal Council with the responsibility to oversee the performance of the Municipality. This oversight responsibility is of particular importance during the consideration of the annual report.

There is an explicit linkage between the strategic goals, set by Council through the IDP, which are translated into the Budget, and the Service Delivery Budget Implementation Plan (SDBIP). The SDBIP enables the Municipality to give effect to its IDP and Budget, can be seen as a "contract" between the Administration, Council and Community, and forms the foundation of the Annual Report.

2 FINANCIAL GOVERNANCE FRAMEWORK APPLICABLE TO LOCAL GOVERNMENT

The MFMA brought about financial management reforms that place service delivery responsibilities on managers and makes them accountable for performance and whilst assigning responsibility to the Executive Mayor to resolve performance failures. The Council is vested with the power and responsibility to oversee both the executive and administration.

Oversight occurs at various levels in a municipality and is explained in the following table:

FUNCTIONARY	RESPONSIBLE FOR	OVERSIGHT OVER	ACCOUNTABLE TO
Council	Approving policy and budget	Executive Mayor or Committee	Community
Executive Mayor or Committee	Policy, budgets, outcomes, management of/oversight over municipal manager	Municipal Manager	Council
Municipal Manager	Outputs and implementation	The Administration	Executive Mayor or Committee
Chief Financial Officer and Senior Managers	Outputs and implementation	Financial Management and Operational Functions	Municipal Manager

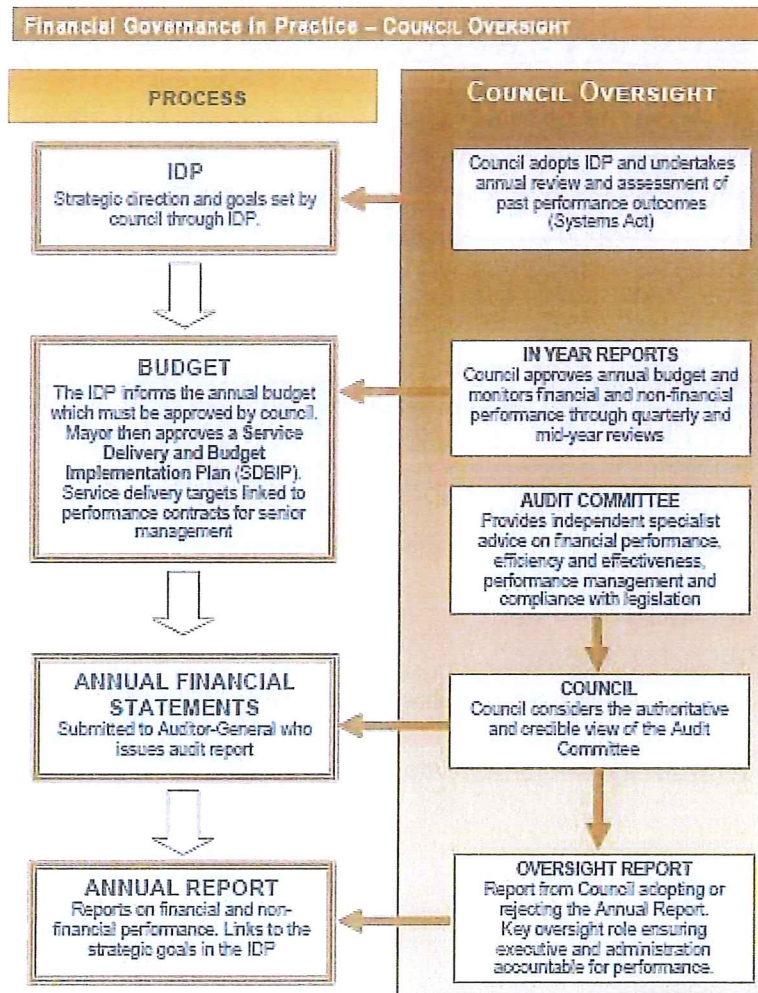
3 SEPARATION OF ROLES

The separation of roles between the council and administration is intended to strengthen the oversight function of councillors. Good governance, effective oversight and accountability are based on there being this separation of functions. It is also fundamental for the achievement of the local government Constitutional objective to promote a democratic and accountable system of local government. Council oversees the performance of the administration through

council and committee meetings. The mayor provides the link between the council and administration and is responsible for regular monitoring and for tabling reports before the council. The administration is responsible for the day-to-day operations. This separation avoids conflict of interest and a "referee/player" situation arising and is similar to the role played by Parliament.

The MFMA further assumes a separation between councillors serving on the executive (i.e. mayor or executive committee) and non-executive councillors. This separation is vital to ensure council maintains oversight for the performance of specific responsibilities and delegated powers to the mayor or executive committee.

The MFMA gives council a number of financial management tasks to fulfil its oversight role. The adoption of an "oversight report" is one such task. The following diagram illustrates the various oversight intervention points from the adoption of the Integrated Development plan (IDP), Budget, Annual Report and Oversight Report.



Source: MFMA Circular 32

4 THE ANNUAL REPORT

Each municipality and each municipal entity must prepare an annual report for each financial year in accordance with the MFMA and MSA. The purpose of the annual report is:

- o to provide a record of the activities of the municipality or entity;
- o to provide a report on performance in service delivery and against the budget;
- o to provide information that supports the revenue and expenditure decisions made; and
- o to promote accountability to the local community for decisions made.

Annual reports are the key reporting instruments for municipalities to report against the performance targets and budgets outlined in their strategic plans. Annual reports are therefore required to contain information on service delivery and outcomes, in addition to financial statements. It is meant to be a backward-looking document, focusing on performance in the financial year that has just ended. It must demonstrate how the budget was implemented and the results of service delivery operations for that financial year.

When tabled, the annual report should include four main components, each of which has an important function in promoting governance and accountability. The main components are:

- o The annual performance report as required by section 46 of the MSA.
- o Annual Financial Statements submitted to the Auditor-General;
- o The Auditor-General's audit report on the financial statements in terms of section 126(3) of the MFMA; and
- o The Auditor-General's audit report on performance in terms of section 45(b) of the MSA.

The 2018/19 Draft Annual Report was tabled on 10 December 2019 and Councillors were informed that they have an opportunity to review the report and submit any comments / corrections / omissions to the administration.

5 THE OVERSIGHT REPORT

The oversight report is the final step in the annual reporting process of a municipality. Section 129 of the MFMA requires the council to consider the annual reports of its municipality and municipal entities 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:

- o has approved the annual report, with or without reservations;
- o has rejected the annual report; or
- o has referred the annual report back for revision of those components that can be revised.

The oversight report is a report of the Municipal Council and follows consideration and consultation on the annual report by the Council itself. Thus the full accountability cycle is completed and the separation of powers is preserved to promote effective governance and accountability.

6 MANDATE AND PROCESS FOLLOWED BY THE MPAC COMMITTEE

MFMA Circular 32 of 2006 guides the oversight process. This Circular must be read in conjunction with The Department of Cooperative Governance Guideline for Establishment of Municipal Public Accounts Committees (MPAC), which sets out the functions of MPAC including the

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consideration and evaluation of the content of the annual report and the making of a recommendation to council when adopting an oversight report on the annual report.

MPAC comprises the following members appointed by the Municipal Council:

NAME	DESIGNATION
Cllr Z Jacobs	Chairperson
Ald E Marthinus	Member
Cllr E Sauls	Member
Ald D Jantjies	Member

A special MPAC meeting was convened on 22 January 2020 to review the draft 2018/19 Annual Report and to compile the oversight report.

The process followed by the Committee in considering the annual report was as follows:

- o Consideration of any representations / comments received from the community / Auditor-General / Provincial Treasury, Department of Local Government and Cape Agulhas Audit Committee
- o An opportunity was given to MPAC members to ask questions and seek clarification on any matter relating to the 2018/19 annual report
- o Review of outstanding concerns and recommendations made in the 2017/18 Oversight Report
- o Consideration and review of the 2018/19 draft Annual Report that was tabled on 10 December 2019.

The minutes of the meeting are attached as **Annexure A**.

7 CONSIDERATION OF ANY REPRESENTATIONS / COMMENTS RECEIVED

The Draft 2018/19 Annual Report was made available for public comment from 18 December 2018 to 15 January 2019. It was advertised in the press and placed on the Municipal website. It was also submitted to the Provincial Department of Local Government, Provincial Treasury, Auditor General and Cape Agulhas Audit Committee. The closing date for comments was 15 January 2019.

The following is a summary of comments received:

Stakeholder	Comments
Public	None
Provincial Department of Local Government	None
Provincial Treasury	Comments were received after the closing date, so were thus not considered by MPAC at the meeting of 22 January 2020. The primary concern of Provincial Treasury is the number of KPI's not achieved. This concern was shared by MPAC and is addressed in the recommendations.

Ouditeur-Generaal / Auditor General	None
Cape Agulhas Audit Committee	None

8 REVIEW OF OUTSTANDING RECOMMENDATIONS MADE IN THE 2017/18 OVERSIGHT REPORT

The Oversight Report was considered by the Council on 31 January 2019. It was resolved as follows under Resolution 11/2019:

- (i) That the 2017/18 Annual Report be approved without reservations.
- (ii) That the reservations as contained in the Oversight Report as submitted by MPAC be disregarded for the following reason:
MFMA Circular 32 states that -
"In order to approve the annual report without reservations, Council should be able to agree that the information contained in the 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 reservations put forward by MPAC have insufficient or no relevance to the representation of the municipality's performance information as documented in the 2017/18 annual report or its annexures.
 - MPAC, in the first paragraph of their reservation "accept that the 2017/18 Annual Report is an accurate representation of the Municipality's performance". This is supported by paragraph 6 of the minutes of the special MPAC held on 18 January 2019, that state that "in the absence of further comments / questions, the Chairman indicated that he is generally satisfied that the 2017/18 Annual Report and its annexures are a fair representation of the municipality's performance for the year under review".
- (iii) The Chairperson of the MPAC is welcome to request a meeting with the Mayor to discuss the comments and reservations as indicated in his report"

The Chairperson of the IT and Finance Portfolio Committee extended an invitation to the Chairperson of MPAC to discuss the reservations that they had on the report. The invitation is still open. In view of the fact that Council approved the report without reservations there is no report on remedial actions.

9 CONSIDERATION AND REVIEW OF THE 2018/19 DRAFT ANNUAL REPORT

MPAC's concerns and comments are contained in the minutes of the meeting held on 22 January 2020. The following tables contain the recommendations of MPAC for improved reporting and governance.

9.1 RECOMMENDATIONS ARISING FROM THE ANNUAL REPORT

SECTION	PAGES	RECOMENDATIONS
2.4.10.2 (b) Ten highest bids	64	1. It is recommended that the Committee be provided with a breakdown of the scope of the top 4 bids, namely: <ul style="list-style-type: none"> • MATTER INDUSTRIES (PTY) LTD - Multi access network, services and component • MEYER BETON - The upgrading of RDP roads in Bredasdorp • MPACT PLASTIC CONTAINERS- Supply & delivery of wheelie bins • OPULENTIA FINANCIAL SERVICES - Short-term insurance portfolio for the period 2019 to 2022
2.4.10.2 (b) Ten highest bids	64	2. It is recommended that the BBEEE status of successful bidders be submitted to the IT and Finance Portfolio Committee every month as part of the Supply Chain monthly report.
Strategic performance	92	3. It is recommended that specific attention be given to the performance rate in terms of achievement of KPI's.
3.7.1 Water	121	4. It is recommended that a report be submitted to Council regarding the water supply problem in Struisbaai over the festive season as well as plans in place to address this.

9.2 RECOMMENDATIONS ARISING FROM THE ANNUAL FINANCIAL STATEMENTS

REFERENCE	PAGES	RECOMENDATIONS
Statement of financial position: Contracted Services	10-11	5. It is recommended that a workshop be held with Council on revenue optimisation and that the manner of reporting on fines as well as the writing off of fines older than 18 months be included as discussion items.
Note 48 Unauthorised, Fruitless and wasteful and irregular expenditure	98	6. It is recommended that the MPAC consider the report on unauthorised, fruitless and wasteful and irregular expenditure for 2018/19 at the next MPAC meeting
Note 50 Capital commitments	103	7. It is recommended that the Committee be provided with a report summarising the wheelie bin project (Expenditure / wheelie bins acquired)
Appendix F	125	8. It is recommended that the Committee be provided with a breakdown of the contracted services.

9.3 GENERAL

RECOMENDATIONS	
General absenteeism rate	9. It is recommended that the Division Head HR and OD do an investigation and submit a report to Council on the absenteeism rate.
Cost of office closure: Festive season	10. It is recommended that a report be submitted to Council on the financial implication of the office closure over the festive season.
Erf 599, Waenhuiskrans	11. It is recommended that a report be taken to Council regarding the repayment of the purchase price with a view to finalizing this matter.
KPI's and SDBIP alignment	12. It is recommended that a workshop be done with MPAC on SDBIP and KPI alignment.

10 RECOMMENDATION

After considering the 2018/19 Draft Annual Report, the Committee is satisfied that it reviewed all evidence and information provided and that it adequately performed its oversight function as envisaged by Section 129 of the MFMA.

The Committee is in a position to make an informed recommendation to Council to:

Approve the annual report without reservations

It must however be noted that a true reflection of financial stability and sustainability will only be possible if receivables would be reported separate from actual income. Employment and capital expenditure can only be kept on target and within parameters set if it is calculated on actual income. The current deficit per year would be greater if calculated correctly and would be the true representation of actual financial health and performance of KAM.

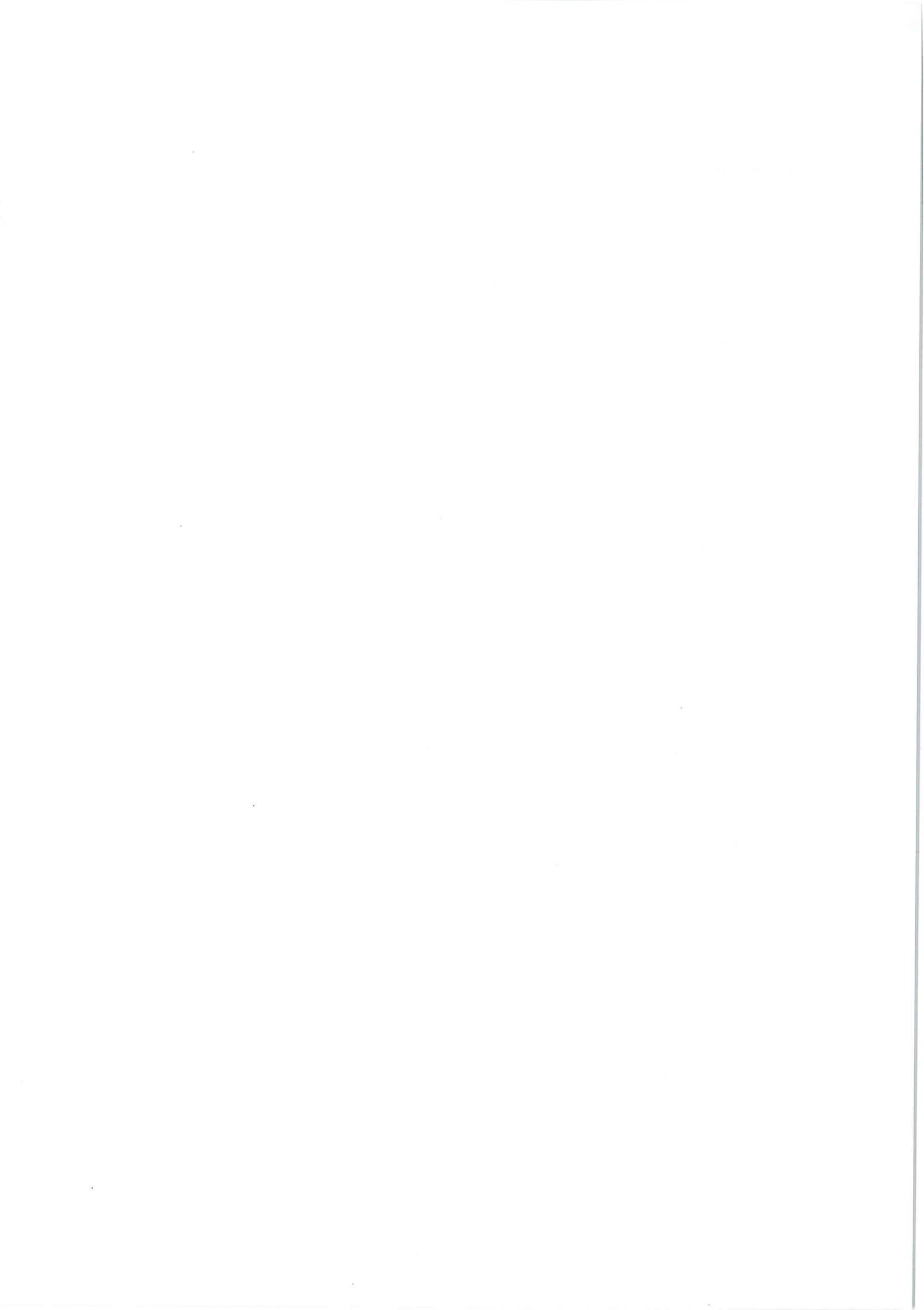
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CLLR Z JACOBS
CHAIRPERSON

DATE

29-1-2020





KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

MINUTES OF A SPECIAL MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) MEETING HELD ON WEDNESDAY, 22 JANUARY 2020 IN THE CAPE AGULHAS MUNICIPALITY COUNCIL CHAMBERS, AUDREY BLIGNAULT STREET, BREDASDORP

1. ATTENDANCE

MEMBERS

Cllr. CJ Jacobs (Chairperson)
Ald. D Jantjies (Member)
Ald. E Marthinus (Member)
Cllr. E Sauls (Member)

OFFICIALS

Ms. T Stone (Divisional Head: Strategic Planning and Administration)
Mr. B Swart (Internal Auditor)
Mr. D O'Neill (Municipal Manager)
Mr. H Van Biljon (Director IT and Financial Services)
Mr. A Jacobs (Director Infrastructure Services)
Ms. N Mhlafi-Musewe (Divisional Head: HR & OD)
Ms. C Conradie-Lötter (Manager: Library Services)
Ms. N Henge (Western Cape Department of Local Government)
Mr. M Baatjes (Western Cape Department of Local Government)
Mr. D Swanson (Western Cape Department of Local Government)
Ms. C Dietrich (Administrative Officer: Committees)

2. APPLICATIONS FOR LEAVE OF ABSENCE

None

3. OPENING AND WELCOMING

The chairperson welcomed everyone present especially the delegation from the Department of Local Government, after which Alderman Jantjies opened the meeting with prayer.

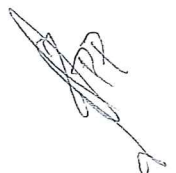
4. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 26 NOVEMBER 2019 THAT WERE DEFERRED FOR DISCUSSION DURING THE ANNUAL REPORT OVERSIGHT PROCESS

1. Standby overtime for Directors and Managers – The Committee noted the reduction.

2. Productivity, capital spending R16m – R18m vs. R26m budgeted – The Committee are concerned that 33% of the Municipalities KPI's for 2018/19 were not achieved.
3. Fruitless expenditure: Mayors Office – The Committee noted that this matter is included in a report on fruitless and wasteful expenditure that was submitted to Council and is pending consideration by MPAC.
4. Allocation of R750m: Smart City: The Committee noted that this expenditure was transferred from operational to capital for the SMART CITY Project and approved by Council. The CFO will provide the Committee with the resolution.
5. Procurement process with regards to the rental agreement with Agrichange: Not discussed.
6. Procurement of legal advisors for Council – The Committee noted that this was done in terms of section 32 of the MFMA, and was a piggy back on an ODM tender, which was still permissible at the time. The AG has since issued findings on this process to all Municipalities. Other legal service providers are used on matters handed over to them prior to award of the new tender.
7. Electrical connections / illegal structures. (Refer to Page 49 of the Annual Report (Strategic Risks).The Committee noted that there is control of informal structures, specifically those within the 500 metre buffer zone of the land fill site.
8. Chief Building Inspector: Arbitration hearing – The Committee noted that the case has been finalized, and that there were no settlement costs involved. Only legal fees.
9. General absenteeism rate – The Committee are concerned about the high absenteeism rate reported in the bi-monthly HR and OD reports and recommend that the Division Head HR and OD do an investigation and submit a report to Council in this regard.
10. Erf 599, Waenhuiskrans – The Committee noted that there is no contingent liability in respect of this transaction on the AFS, only provision under creditors for repayment of the purchase price. It is recommended that a report be taken to Council in this regard with a view to finalising this matter.
11. Outstanding debt: Elim – to be held in abeyance
12. HR – unapproved overtime – The Committee noted that overtime has reduced.
13. Final attendance of Bid Adjudication Committee - to be held in abeyance
14. Detailed deviations for financial year to date; sole providers, etc. The Committee noted the detail of the deviations on page 64 of the Annual Report
15. KPI's and SDBIP not aligned – it was confirmed that there is full alignment. The Committee recommended that a workshop be done with them on the SDBIP and KPI's alignment.
16. Financial implication of closure of offices during festive season – The Committee recommended that a report be submitted to Council on the financial implication of the office closure.
17. Procurement process – multi access network and appointment of industries – not discussed

5. **OVERVIEW AND PURPOSE OF THE OVERSIGHT PROCESS AND REPORT**

The Committee noted MFMA Circular 32 as attached on pages 4 to 20 of the agenda.



6. REMEDIAL ACTIONS IN RESPECT OF RECOMMENDATIONS AS CONTAINED IN THE 2017/18 OVERSIGHT REPORT

The Committee noted that that Council approved the 2017/18 Annual Report without reservations, hence there is no report on remedial actions but the invitation to discuss MPAC's comments and reservations with the Mayoral Committee is still open.

7. CONSIDERATION OF COMMENTS RECEIVED ON THE 2018/19 ANNUAL REPORT

The Committee noted that the Cape Agulhas Audit Committee is satisfied with the Annual Report as is, and that no comments were received from the public, Auditor General, Provincial Department of Local Government or Provincial Treasury by the due date.

8. OVERSIGHT AND REPORTING ON THE MUNICIPALITY'S 2018/19 ANNUAL REPORT

The Chairperson gave the members of the committee an opportunity to make comments and ask questions on the 2018/19 annual report:

8.1 2018/19 ANNUAL FINANCIAL STATEMENTS – ANNEXURE A

SECTION	PAGE	COMMENT / CONCERN / CLARIFICATIONS
Statement of financial position Note 26	10-11 82	<p>REVENUE BY SOURCE</p> <p>Property rates – the CFO explained that the higher than anticipated income was as a result of the amount of development in the area.</p> <p>Rental of facilities and equipment – the CFO explained that this item includes all income received by the Municipality as rental.</p> <p>Fines, penalties and forfeits – the committee is concerned that the manner in which this item is reported (namely fines issued) gives a distorted view of the Municipalities true income and figures related to this such as personnel expenditure.</p> <p>Interest earned – The Committee expressed concern that this is a book entry and not a reflection of the actual.</p> <p>EXPENDITURE BY TYPE</p> <p>Contracted services – The CFO provided a breakdown of the income and expenditure relating to the recovery of traffic fines. It is further recommended that a workshop be held with Council on revenue optimisation and that the writing off of fines older than 18 months be included as a discussion item.</p>
Statement of financial position Note 18 and 19 and 23	10-11 64-65 78	<p>Employee costs – The CFO explained that all salary and benefit costs including EPWP are included in personnel expenditure. EPWP costs are covered by the grant, except for some contract workers employed during the holiday season who are paid by the Municipality but employed on EPWP principles. Business plans are submitted for all EPWP projects. The Committee is concerned that the % employee costs is distorted due to receivables such as</p>

		finances being book entries and not actuals.
Note 22	74	Property rates –The CFO explained the difference between the various public classifications
Note 48	98	Unauthorised, fruitless and wasteful and irregular expenditure – The CFO explained that the primary reason for the irregular expenditure was the EEDSM lights which were provided for on the operational budget and capitalised at financial year end as well as tenders awarded in terms of Section 32 of the MFMA (Piggy back tenders) The Internal Auditor has compiled a full report for Council on these expenditures which was submitted to Council and referred to MPAC. The Committee recommend that this item be considered at the next meeting.
Note 49	100	Audit Fees – The Internal Auditor explained that the Chairperson of the Audit Committee and members receive a sitting allowance in accordance with a National Treasury Circular.
Note 50	103	Capital commitments – The Director Infrastructure explained the roll out of the wheelie bin project. The Committee requested a report summarising the project (Expenditure / wheelie bins acquired) The Committee expressed concern that a local contractor was not appointed for the RDP roads projects. It was explained that the project had to be completed within a very tight deadline and that provision was made for the employment of local labour.
Appendix F	125	Expenditure by type: Contracted services – The Committee recommend that the CFO provide a breakdown of the Contracted services.

8.2 DRAFT 2018/19 ANNUAL REPORT

SECTION	PAGE	COMMENT / CONCERN / CLARIFICATIONS
1.5.1 Municipal Organisation And Development highlights -	29	EPWP – Refer to item on employee costs under 8.1
1.6 Auditor General Report	31	It was noted that the OPCAR contains only matters identified by the AG and not matters identified by Internal Audit. It was furthermore noted that the OPCAR is presented at every Council Meeting until such time as all actions are finalised.
2.4.1.1 Fraud and risk Committee	47	The Division Head Strategic Services explained that the FARMCO Chair is remunerated per sitting on the same principles as the Audit Committee in line with a National Circular and that this is budgeted for and approved as part of the annual budget
2.4.10.2 (b) Ten highest bids	64	The Committee requested a breakdown of the scope of the top 4 bids, namely:

		<ul style="list-style-type: none"> • MATTER INDUSTRIES (PTY) LTD - Multi access network, services and component • MEYER BETON - The upgrading of RDP roads in Bredasdorp • MPACT PLASTIC CONTAINERS- Supply & delivery of wheelie bins • OPULENTIA FINANCIAL SERVICES - Short-term insurance portfolio for the period 2019 to 2022 <p>It is recommended that the BBBEEE status of successful bidders be submitted to the IT and Finance Portfolio Committee every month as part of the Supply Chain monthly report.</p>
3.4 Strategic performance	92	The Committee are concerned that 33% of the Municipalities KPI's for 2018/19 were not achieved. It was explained that in many cases, the KPI's were actually achieved but not within the time frame and in terms of the AG's prescripts the actual had to be recorded as zero. It is recommended that specific attention be given to this.
3.7.1 Water	121	The Committee expressed concern about the recent water supply problem in Struisbaai during the holiday season, and that there are insufficient plans in place to address it'. It is recommended that a report be submitted to Council in this regard
3.7.2 Sanitation	124	The Committee asked whether there is already funding spent on the refurbishment of the WWTW and it was confirmed that the designs have been completed and paid for.
3.7.3 Electricity	126	The Committee commended the Manager Electrical Services for his achievements in terms of acquiring additional funding. Other Mangers were also thanked for their efforts in this regard

8.4 RECOMMENDED RESOLUTION ON THE 2018/19 ANNUAL REPORT

Alderdady Marthinus proposed that it be recommended to Council to:


Approve the annual report without reservations

This was then seconded by the Chairperson and agreed upon by the Committee

9. ADJOURNMENT

The meeting adjourned at 11:05

CONFIRMED ON THIS 29 day of Jan. 2020



 CHAIRPERSON

