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**CAPE AGULHAS MUNICIPALITY**

**OVERSIGHT REPORT**

**ON THE**

**MUNICIPAL ANNUAL REPORT FOR**

**2014/15**

*Adopted by Council on 2 February 2016 - Resolution 3/2016*

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## Introduction

Council is vested with the responsibility to oversee the performance of their respective municipality, as required by the Constitution of the Republic of South Africa, 1996, the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This oversight responsibility of council is particularly important for the process of considering annual reports.

The MFMA and MSA recognise that council has a critical role to play to ensure better performance by municipal departments and entities. There now exists an explicit linkage between the strategic goals, set by council through the IDP, which are translated into the budget, and the delivery of those goals, which is reported on in the Annual Report. It is important for council to ensure that the budget gives effect or expression to priorities contained in the IDP. A good budget will lay a basis for better oversight and cement the contracts between the executive/council, the administration and the public.

The MFMA gives effect to financial management reforms that place greater service delivery responsibilities on managers and makes them more accountable for performance. Whilst, in the first instance it is left to the mayor or the Executive Committee to resolve any performance failures, ultimately 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:

### Financial governance framework applicable to local government

Functionary	Responsible for	Oversight over	Accountable to
<b>Council</b>	Approving policy and budget	Executive Mayor or Committee	Community
<b>Executive Mayor or Committee</b>	Policy, budgets, outcomes, management of/oversight over municipal manager	Municipal Manager	Council
<b>Municipal Manager</b>	Outputs and implementation	The Administration	Executive Mayor or Committee
<b>Chief Financial Officer and Senior Managers</b>	Outputs and implementation	Financial Management and Operational Functions	Municipal Manager

### 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 predicated on there being this separation of functions. It is fundamental for the achievement of the objects for local government in the Constitution



relating to 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. Therefore, 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 fulfill its oversight role. The adoption of an "Oversight Report" is one such task. The diagramme on the following page illustrates the various oversight intervention points from the adoption of the Integrated Development plan (IDP), Budget, Annual Report and Oversight Report.

### **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:

- to provide a record of the activities of the municipality or entity;
- to provide a report on performance in service delivery and against the budget;
- to provide information that supports the revenue and expenditure decisions made; and
- 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:

- The annual performance report as required by section 46 of the MSA.
- Annual Financial Statements submitted to the Auditor-General;

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- The Auditor-General's audit report on the financial statements in terms of section 126(3) of the MFMA; and
  - The Auditor-General's audit report on performance in terms of section 45(b) of the MSA.

The 2014/15 Annual Report was tabled and adopted by Council on 8 December 2015. Thereafter it was made available public and the local community were invite to submit representations. The Annual Report was also submitted to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the Province as required in terms of Section 127 (5) of the MFMA. The closing date for comments was 14 January 2016.

### **The 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 reports of its municipality and municipal entities and to adopt an "oversight report" containing the council's comments on each annual report.

The oversight report 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.

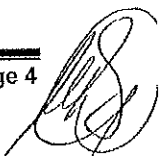
The oversight report is a report of the municipal Council and follows consideration and consultation on the annual report by the council itself. Thus the full accountability cycle is completed and the separation of powers is preserved to promote effective governance and accountability.

### **Processed followed**

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


- Consideration of the annual report and review of the contents given during the tabling of the annual report in Council on 8 December 2014; and
- Consideration of any representations / comments received from the community / auditor general/ provincial treasury / provincial department responsible for local government.
- Consideration of the annual report during the MPAC session on 21 January 2016.

The only representation received was an assessment of the Annual Report by Provincial Treasury.



Matters considered by the Cape Agulhas Municipal Accounts Committee	Committee's comments
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Financial Matters	
<p>The quality and GRAP compliance of the municipality's annual financial statements (AFS) and consolidated statements as submitted to the Auditor-General.</p>	<ol style="list-style-type: none"> <li>1. The Committee has considered the quality and GRAP compliance of the 2014/15 financial statements, including the entities statements as included in the consolidated statements.</li> <li>2. It is also noted with satisfaction that the Audit Committee also did a high level review of the draft AFS as is required by legislation and that they have expressed their satisfaction with the statements as well.</li> <li>3. It is also noted that the Western Cape Provincial Treasury also considered the statements and with minor inputs was satisfied with the GRAP compliance of the statements.</li> <li>4. Furthermore, the Auditor-General also did an in depth audit and with minor immaterial changes accepted the statements with no qualification.</li> </ol>
<p>The Auditor-General's reports on the financial statements of the municipality and the entities.</p>	<ol style="list-style-type: none"> <li>1. The Committee also expresses its satisfaction that the municipality has once again received an unqualified report on the AFS.</li> <li>2. The surplus of R6.2m is noted and the Committee expresses its gratitude that a surplus has been affected for the past 7 years with the exception of the 2010/11 financial year.</li> <li>3. It is also noted that there were no material findings by the AG during their audit which indicates that the internal controls to ensure correct financial statements are in place and effective. The Finance department is thanked for this improvement.</li> </ol>
<p>Explanations provided to clarify issues in connection with the financial statements</p>	<ol style="list-style-type: none"> <li>1. The Committee is satisfied that enough information is contained in the notes to the financial statements.</li> <li>2. The report of the Audit Committee (Annexure C of the Annual Report) was also considered regarding financial matters and it is noted that no specific matters of concern regarding financial matters were raised.</li> <li>3. In view of the AG's audit, the minor and immaterial adjustments made to the AFS in terms of that audit and the Audit Committees review of the financial statements, the Committee is satisfied that sufficient information and explanations are contained in the AFS and that satisfactory explanations has been given to the Committee where required.</li> </ol>



Financial Matters	
Assessment of arrears on municipal taxes and service charges	The credit control policy of the municipality is implemented diligently and the municipality obtained a debt recovery rate of 107.7% for the year under review. However, it is found that there was a further rise year-on-year in arrears on municipal service charges of R1.5m.
Particulars of corrective actions taken or to be taken in response to issues raised in the audit reports	<p>The Committee considered the action plan that was developed after the Auditor-General's audit when it was tabled in Council for approval on 8 December 2015. The plan is driven by the Internal Audit function and monthly progress reports are made to Council.</p> <p>The Committee also notes that the monthly progress reports are also submitted to the Provincial Treasury and Audit Committee and expresses its gratitude for their involvement in assisting the municipalities in this regard.</p> <p>In view of the regular reporting and the progress made to date the Committee is satisfied that issues raised by the AG is receiving adequate attention.</p>
Assessment by the municipality's accounting officer of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each vote in the approved budget	<p>After considering the contents of the annual report and explanations provided, the Committee is satisfied that-</p> <ul style="list-style-type: none"> <li>• The performance met the expectations of council and the community;</li> <li>• The objectives have been met;</li> <li>• There was no negative impact on the service delivery and expenditure objectives.</li> </ul> <p>The Committee is also pleased that the municipality obtained a clean audit on performance measurements for a third year in a row.</p> <p>However, it also notes the concerns raised by the AG regarding the adequacy of evidence submitted to support the actual achievement of objectives. It also takes note of the performance workshop held with all management on 15 December 2015 and the further workshops that will be scheduled on specific areas as and when required.</p>
Assessment of the municipal entity's Southernmost Agency (Pty)(Ltd) performance against any measurable performance objectives	The Committee is aware that the entity was disestablished in terms of a Council resolution of May 2013, that the entity was in existence for a very short period and that no annual report or performance targets were set for them. It is satisfied that adequate disclosure was made in the annual report in this regard.
Any other information the entity or its parent municipality	<p>The Committee takes note of the comments regarding the entity included in the annual report and also notes that the deregistration process is still in process.</p> <p>The Committee also notes the inclusion of the entity's financials in the consolidated AFS and is satisfied that the AG raised no matters regarding the entity's financial statements.</p>



Financial Matters	
Operating ratios	<p>Although there was a slight increase in the expenditure on repairs and maintenance year-on-year, the Committee take note of the still low percentage of 4.8% for 2014/15, which is well below the Treasury's expected norm of 8%.</p> <p>However, it is noted that some expenditure on maintenance may have been allocated against a capital project which understates the maintenance expenditure. This situation should be looked at and addressed as far as possible during the 2016/17 budget process.</p>
Deviations from normal procurement practices	<p>The Committee is satisfied with the continued low number of approvals for deviations from the normal procurement processes which indicates that this matter is well under control.</p>

Allocations received and made	
Allocations received by and made to the municipality	<p>The Committee is satisfied that the annual report contains the required detail regarding allocations received from another organ of state in the national or provincial sphere. The Committee is satisfied that the annual report contain correct information regarding allocations. It also notes that the Audit Committee also has no comments in this regard.</p>
Information relating to the use of allocations received	<p>The Committee considered the detail of spending on all conditional grants, including the previous financial year comparative figures as well as the municipality's compliance with the conditions of the grants. It also notes that there were no issues raised by the AG during their 2014/15 audit and that they are satisfied with the accuracy and appropriateness of this information. It also notes that the Audit Committee also has no comments in this regard.</p> <p>After considering all information, the committee is satisfied that-</p> <ul style="list-style-type: none"> <li>• The information has been properly disclosed;</li> <li>• Conditions of allocations have been met; and</li> <li>• Explanations provided are acceptable.</li> </ul>
Information in relation to outstanding debtors and creditors of the municipality	<p>The Committee scrutinised the information contained in the annual report and is satisfied that --</p> <ul style="list-style-type: none"> <li>• The information has been properly disclosed;</li> <li>• Explanations provided are acceptable; and</li> <li>• That the municipality has paid its taxes, audit fees to date and contributions to pension and medical aid funds.</li> </ul> <p>It also notes that there were no issues raised by the AG during their 2014/15 audit and that they are satisfied with the accuracy and appropriateness of this information. It also notes that the Audit Committee also has no comments in this regard.</p>

Disclosures in the notes to AFS	
Information relating to benefits paid by the municipality to Councillors, Municipal Manager, Directors and officials	<p>After scrutinising the AFS the Committee is satisfied that –</p> <ul style="list-style-type: none"> <li>• The information has been properly disclosed; and</li> <li>• Explanations provided are satisfactory.</li> </ul> <p>It also notes that there were no issues raised by the AG during their 2013/14 audit and that they are satisfied with the accuracy and appropriateness of this information. It also notes that the Audit Committee also has no comments in this regard.</p>

Municipal Performance	
The annual performance reports of the municipality and entities	<p>After considering the annual report, the committee is satisfied that–</p> <ul style="list-style-type: none"> <li>• The performance report has been included in the annual report as required;</li> <li>• That all the performance targets set in the budgets, SDBIP, service agreements etc. had been included in the report;</li> <li>• That the performance evaluation in the annual report compare actual performance with targets expressed; and</li> <li>• That the Committee is, to some extent, satisfied with the performance levels achieved (see concerns raised below);</li> </ul> <p>However, the Committee is concerned there were still issues where inadequate supporting documents were kept to support actual performance.</p> <p>In spite of the above, the Committee is satisfied that the municipality has a 0% backlog in the delivery of basic services in terms of the targets set.</p>
Performance challenges	<p>The various challenges highlighted in the annual report is noted. Every effort must be made to eliminate these threats as they can have a serious impact on the municipality's performance in terms of service delivery.</p>

General information	
Information on long-term contracts	<p>Detail of all long-term contracts including levels of liability to the municipality are included in the annual report and the Committee is satisfied that all information is correctly supplied.</p>
Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations	<p>The Committee is satisfied with the progress made in the ICT section with specific reference to the progress made with the implementation of the new national ICT Framework.</p>

Provincial assessment



<p>Content and format of the annual report</p>	<p>Current Local Government Legislation does not make provision for any national or provincial department to prescribe the format of the annual reports of municipalities. The Systems Act states only in Sec 46 that a municipality must compile an annual performance report and that this report must be included in a municipal annual report. The MFMA states in Sec 121 that a municipality must compile an annual report and provides a list of documents that must be included in municipal annual reports.</p> <p>The format of a municipal annual report is in the prerogative of the municipality and since this document is a public document that must report to the public on the performance of the municipality and it must therefore be as user friendly as possible in order for all our stakeholders to easily understand the content. It cannot look like a completed questionnaire for National or Provincial Treasury. The guide provided in NT circular 63 is exactly what it is, a <b>GUIDE</b>. However, although it is only a guide the municipality complied fully with it to the extent that it provided the information where it is relevant, readily available and applicable. The Municipality choose not to provide the various types of information in separate annexures but rather provided it throughout the document in the applicable chapters as this would make the reading and flow of the document and information more reader- and user friendly.</p> <p>The performance report and annual report were fully audited by the Office of the Auditor-General and they did not indicate any non-compliance with any "prescribed" format as already mentioned above the content of circular 63 is a <b>GUIDE</b>. The Municipality In fact received an unqualified audit report for the 2014/15 financial year.</p>
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Other considerations	
<p>Timing of reports</p>	<p>The Committee takes note of and is satisfied with the timeous completion and tabling of the annual report.</p>
<p>Payment of performance bonuses to municipal officials</p>	<p>The Committee also considered and is satisfied that –</p> <ul style="list-style-type: none"> <li>• Bonuses had been paid based on achievements of agreed output and that proper evaluation of performance have been undertaken and that the evaluation has been approved by Council;</li> <li>• That the performance evaluation align and reconcile with the performance reported in the annual report; and</li> <li>• That the payments are justified in terms of performance reported in the annual report, however it should be noted that there are concerns with regard to the evaluation process and that the respective directors be held accountable for the quality of the evidence to be produced.</li> </ul>

## Amendments to the Annual Report

After consideration of the report the following small amendments to the report are suggested:

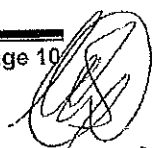
- Page 37, par. 152: The wording "*Long term financial sustainability of Council*" is misleading as the challenge does not relate to the Council only. The wording should be changed to "... *Municipality*".
- Page 40, par. 1.7: The paragraph includes the sentences "*The Municipality has again maintained its record of unqualified audits with no matters (clean audit) for 2014/15. This serves to emphasize the Municipality's commitment to excellent service delivery and its commitment to clean administration and good governance*". The reference to excellent service delivery should be removed as the audit outcome is more relevant to clean administration and good governance and not so much to service delivery on the ground.
- Page 117, par. 5.5.1: Change the reference to pre audit outcome to audit outcome.
- Page 118, par. 5.5.3: Change the reference to pre audit outcome to audit outcome.
- Page 179, par. 5.5.3: Change the reference to pre audit outcome to audit outcome.
- Page 180, par. 5.5.4: Change the reference to pre audit outcome to audit outcome.

## Conclusion

### 1. Summary of concern2

After consideration of the annual report for 2014/15 the Committee wishes to raise the following concerns:

- I. The number of performance targets that have not been achieved. Even though it is accepted that some targets were nearly met and that there are valid reasons for some targets not being met, it still constitutes a non-compliance which needs to be rectified. It is recommended that a complete report be generated of all non-achievement items for the Committee for further evaluation.
- II. The keeping of adequate supporting documentation for actual performance achieved.
- III. The current efforts to ensure the municipality's financial sustainability to ensure continuous service delivery must be maintained in view of the continuous decline in revenue and the CCR fund balance.
- IV. The various challenges highlighted in the annual report are noted. Every effort must be made to eliminate these threats as they can have a serious impact on the municipality's performance in terms of service delivery.
- V. The low percentage (4.8%) of expenditure spent on repairs and maintenance which well below the Treasury's expected norm of 8% of property, plant and equipment. This situation should be looked at and addressed as far as possible during the 2016/17 budget process.



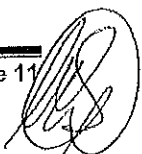
- vi. The statistics on basic services only relates to the services provided in the urban areas of the municipal district and excludes privately owned properties. Consideration should be given to the development of a policy on rebates for private land owners in rural areas if they provide basic services to their people that would normally be provided by the municipality.
- vii. The Committee is very concerned about the high increase of sick leave days year-on-year (44.9% increase), especially at the Finance (71.6%), Technical (86.9%) and Electrical (89.8%) Directorates. This matter should be investigated to determine the root cause and appropriate steps taken to rectify the situation.
- viii. The Committee is concerned about staff going on training and then leaving the municipality. This is not only a loss of newly acquired skills but also a financial loss in terms of the return on investment for such training. Consideration should be given to possible amendments to the policy to retain the services of staff for a certain period after completing their training.
- ix. The current composition of the ward committees that does not always represent all areas/organisations of a ward, which could result in less effective ward committees.

## 2. Recommendations

The Committee has fully considered the annual report and recommends that:

1. That the inputs and recommendations for semantical corrections to the report given by the Committee be accepted;
2. That the high increase in sick leave days be investigated;
3. That the process of collecting substantiating documents for performance measurements, and the review thereof, be reviewed to increase its effectiveness and to ensure that the AG do not raise similar findings in the future;
4. That the expenditure on repairs and maintenance be increased as far as possible in the 2016/17 financial year in order to ensure proper maintenance of infrastructure assets in order to ensure sustainable service delivery in the future;
5. The Council adopts the oversight report; and
6. Council approves the annual report without reservations.

The minutes of the oversight meeting is attached as Annexure A.





**Chairperson**

**22 January 2016**