

**ITEM: COUN 02 03/2020**

**OFFICE OF THE MUNICIPAL MANAGER: MPAC OVERSIGHT  
REPORT ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30  
JUNE 2019**

**(10/2/1/1) (GR) (COUNCIL: 25 MARCH 2020)**

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**The Municipal Manager reports as follows:**

“Section 129 of the Municipal Finance Management Act, 56 of 2003 (MFMA) requires the council to consider the annual report and to adopt an oversight report.

Thus, the three committees as appointed by Council sat as follows:

The Audit Performance and Risk Committee, appointed by Council with the primary purpose of advising Council, political office bearers and the accounting officer on matters relating to Section 166 (2) - (3) of Municipal Finance Management Act and other applicable laws and regulations, sat on 02 March 2020 to consider the report. The committee assessed the report and made recommendations to the Oversight Committee and the MPAC.

The *Audit Performance and Risk Committee* report is attached as **annexure 1 (APRC 1 - APRC 3)**.

The oversight committee appointed by Council to oversee the content of the annual report on its behalf also sat on the 03 March 2020 to consider the report.

The *report and minutes of the meeting* are attached as **annexure 2 (OVR 1 - OVR 11)**.

The Municipal Public Accounts Committee (MPAC) appointed by Council to amongst others oversee the content of the annual report on its behalf sat on 17 March 2020 to consider the 2018/19 annual report. The Committee took into consideration the inputs from the oversight committee and the audit, performance and risk committee.

The *MPAC oversight report* is attached as **annexure 3 (MPAC OVR 1 – MPAC OVR 8)**.

**The Municipal Manager recommends as follows:**

**RECOMMENDATION**

- 1. Council having fully considered the draft annual report of the Frances Baard District Municipality adopts the MPAC oversight report.**
- 2. Council approves the 2018/19 draft annual report without reservations.**

**RESOLVED**

1. Council approved the draft annual report of the Frances Beard District Municipality adopted the MPAC oversight report.
2. Council approved the 2018/19 draft annual report without reservations.

# **FRANCES BAARD DISTRICT MUNICIPALITY**



## **MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) OVERSIGHT REPORT ON THE 2018/2019 ANNUAL REPORT**

## CONTENT

<b>1. INTRODUCTION</b> .....	3
<b>2. MPAC COMMITTEE</b> .....	3
<b>3. REVIEW / ANALYSIS OF ANNUAL REPORT</b> .....	4
3.1 Review of inputs.....	4
3.2 Financial overview .....	4
3.3 Organisational development overview .....	4
3.4 Contingency fund .....	4
3.5 ICT Services .....	4
3.6 Employee Ratio .....	4
3.7 Financial performance .....	5
3.8 Financial ratio norm .....	5
3.9 Cash flow management .....	5
3.10 Acting HOD positions .....	5
3.11 Areas to be revised .....	5
3.12 General grammar / numerical corrections as they occur throughout the book.....	7
<b>4. OBSERVATIONS</b> .....	7
<b>5. COMMENDATIONS</b> .....	8
<b>6. RECOMMENDATION</b> .....	8

## **1. INTRODUCTION**

In accordance with the provisions of Section 79 (1) (a) (b) and (c) of the Municipal Structures Act 117 of 1998 as amended, a municipality may establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers and appoint the members of such committee from among its members. Furthermore Section 79 (2) of the Municipal Structures Act, 1998 provides the framework and guidelines within which such committees of council shall operate.

During the 2009 Association of Public Accounts Committee (APAC) Conference a resolution was taken stating that the Conference supports the establishment of Municipal Public Accounts Committees (MPACs) in each municipality in the country as part of improving financial management and accountability at local level.

Thus, in order to enhance, promote and consolidate the oversight role of the Council over the executive, the Department of Cooperative Governance, Human Settlements and Traditional Affairs having consulted the National Treasury and SALGA, has instructed that all municipalities to establish MPACs. The focus of the MPAC will be to assist Council to hold the executive to account and to ensure the effective and efficient use of municipal resources.

The 2018/2019 annual report was tabled to Council on 10 December 2019 in compliance with Section 127 (2) of the Municipal Finance Management Act, 56 of 2003.

## **2. MPAC COMMITTEE**

An MPAC Committee was established by Council resolution COUN 01 11/11 in terms of section 79 of the Municipal Structures Act, 117 of 1998 as amended. The Committee consists of:

Cllr D Bishop	(Chairperson)
	Policy & Institutional Development Committee (member)
Cllr M Kaars	MPAC Committee
Cllr M Beylefeld	Planning and Development Committee
Cllr M A Mahutie	Policy & Institutional Development Committee
Cllr A K Zalisa	Planning and Development Committee
Cllr K M Sebego	Social Development Committee
Cllr K C Phiri	Finance Committee
Cllr F L Thulo	Finance / Infrastructure Development Committee

The MPAC Committee met on Tuesday, 17 March 2020 to consider the annual report. The committee considered the draft annual report for 2018/2019 according to a checklist provided by National Treasury in MFMA Circulars No. 11, 32 and 63 for this purpose. This report details the findings of the committee.

### **3. REVIEW / ANALYSIS OF ANNUAL REPORT**

#### **3.1 Review of inputs**

No public inputs were received by the municipality in response to the invitation for comments on the draft annual report for 2018/2019 placed in a local newspaper on 09 January 2020 and the FBDM website. The draft annual report was reviewed by the audit, performance and risk committee and the oversight committee.

#### **3.2 Financial overview**

The financial overview (pg. 14) must be expanded on, especially from paragraphs 3 to 6, to include more reasons as to why there has been a higher surplus than the previous year. The statement must put into context the reasons for underspending

#### **3.3 Organisational development overview**

Some of the write-up must be revised to reflect the organisational overview and not an account of actual activities implemented by the municipality.

#### **3.4 Contingency fund**

The write-up regarding the contingency fund must be revised to read as follows: “A contingency fund policy was adopted to assist vulnerable and poor communities during any disastrous events. The safeguarding of many communities in rural areas (as identified in the District Disaster Management Plan) is important to the district municipality and needs to be in line with national and provincial government policies. Thereby ensuring effective and efficient management of resources which will make a significant contribution towards alleviating the effects of disasters/incidents. The contingency fund is only utilised when a local municipality submits a request for assistance to destitute families within their jurisdiction. Assistance was provided to destitute families for an amount of R410,960 for purposes of replacement of damaged housing structures.”

#### **3.5 ICT Services**

The internet and telephone system upgrade (renewal) indicates the variance from the original to be -809%. This figure must be verified to ensure that it is correctly captured.

#### **3.6 Employee Ratio**

More information must be provided to explain why the ratio as provided by National Treasury has been exceeded. The ratio is inconsistently indicated in the book as in one instance it is indicated as 51% but in other instances there is reference to 62% (61.6%). The ratio will be corrected to be conform to 62% in all instances. More information must also be provided to explain why the ratio as provided by National Treasury has been exceeded. The word “workforce” in the heading should be replaced with “employee costs”.

### 3.7 Financial performance

The financial performance introduction on the pg. 92 must indicate reasons for increases or decreases in movements of certain elements in the financial statements.

The narrative does not explain why the district municipality had higher cash levels than normal. The underspending that occurred must be included to explain why there is more cash available. The major contributing factors must also be included. The allocations to local municipalities increased, it did not decrease in the 2018/19 financial year.

### 3.8 Financial ratio norm

The ratio norm indicated on pg. 92 and 98 (the graph) is 1:3, but on pg. 101 a ratio norm is indicated as 1.5:1. This needs to be corrected.

### 3.9 Cash flow management

The narrative on pg. 102 must be revised to ensure that the correct picture is given to the reader regarding the cash flow and investments of the municipality. The narrative must be linked to the AFS figures supplied. This must be applied to all instances where the financial overview/summary of the municipality is mentioned in the annual report.

### 3.10 Acting HOD positions

On pg. 125 the name of the acting CFO is not indicated on the general information page of the annual financial statements (AFS). Previously the Audit Committee advised that the acting incumbent details should not be included in the AFS if the person was not acting in the position for the full financial year. However, the Oversight Committee noted that the acting CFO signed off on other financial documentation, including the section 71 comments on pg. 106, thus indicating that there was someone in the position who was assigned the powers to execute the duties of the position. This should apply to all the other acting HOD positions indicated in the AFS.

### 3.11 Areas to be revised

The following areas need revision to ensure that the document is of a professional standard and is factually correct:

Area	Observation / Proposal to rephrase / edit
<u>Page 7:</u> The first paragraph, the second sentence starting with “A decision was...”	The sentence should be corrected to read as follows: “A decision was, therefore, taken to cut down on the following operating expenditures to enable the municipality to invest in capital expenditures in the district as well as at our local municipalities; namely advertisements, bursaries and trainings, catering for commemorative days, entertainment and resettlement costs.”

Area	Observation / Proposal to rephrase / edit
<p><u>Page 8:</u> The second paragraph, the first sentence starting with “Our challenges...”</p>	<p>The word “has” must be replaced with “have”.</p>
<p><u>Page 14:</u> The first paragraph, the last sentence starting with “Cost curtailment is now...”</p>	<p>The word “stride” must be replaced with “strides”.</p>
<p><u>Page 15:</u> The second sentence starting with “This is a concern...”</p>	<p>1. The word “which” is spelled incorrectly.</p>
<p><u>Page 39:</u> The first paragraph: The second sentence starting with “There are clear...”</p>	<p>The sentence should read as follows: “There are clearly defined responsibilities among officials and politicians, and there is a clearly defined assurance provided through regular monitoring and oversight.”</p>
<p><u>Page 43:</u> Under the heading <i>Supply Chain Management</i>, the sentence starting with: “The supply chain management of...”</p>	<p>The sentence should read as follows: “The supply chain management of the municipality is implemented in line with the Municipal Finance Management Act, its regulations and the policy.”</p>
<p><u>Page 58:</u> The information on jobs created during 2018/19 by LED initiatives, the 2018/19 row has not been completed.</p>	<p>The information will be sourced from the relevant unit.</p>
<p><u>Page 60:</u> Under the heading <i>Sanitation Awareness Campaigns</i>, the number of sanitation campaigns is indicated by two totals, which confuses the reader as to how many campaigns were conducted.</p>	<p>The correct information will be sourced from the relevant unit.</p>
<p><u>Page 61:</u> Under the heading <i>Waste management awareness campaigns</i>:</p> <p>The first sentence that starts with “Littering is bad...”</p> <p>1. The first paragraph, the last sentence.</p>	<p>Saying that “littering is bad” indicates emotion and expresses an opinion. The words “is bad” should be removed and the sentence should start with “littering pollutes”.</p> <p>1. The words “deters and builds” must be replaced with “deter and build”.</p>
<p><u>Page 92:</u> The fourth paragraph, the first two sentences.</p>	<p>The sentence should read as follows: “The liquidity ratio which is used to measure the municipality’s ability to pay its bills is calculated by dividing the monetary assets (due within one year) by the municipality’s current liabilities, the current norm is 1:3. The increase in the liquidity ratio from 3.2 (2017/18) to 3.4 (2018/19) is due to an increase in cash levels at year-end.</p>

Area	Observation / Proposal to rephrase / edit
	<p>The municipality is therefore able to comfortably pay its current liabilities with the cash available at year-end.</p> <p>This is an indication that the municipality will be able to meet its short to medium term commitments.”</p>
<p><u>Page 92:</u> The fifth paragraph, the fourth sentence.</p>	<p>The sentence should read as follows: “The decrease in operational expenditure of R17,522,000 is as a result of cost containment measures implemented and savings realised on the vacant director’s positions.”</p>
<p><u>Page 92:</u> 1. The last sentence of paragraph six. 2. The word “monetary” in paragraph four, first sentence.</p>	<p>1. The sentence must be removed as it does not add value to the narrative. 2. The word “current” must replace it.</p>
<p><u>Page 101:</u> The sentence in the paragraph starting with, “For instance, the....”</p>	<p>The sentence must read as follows: “For instance, the liquidity ratio indicates the extent to which current assets can be translated into cash in the short term to cover the claims of short-term current liabilities.</p>
<p><u>Page 102:</u> The sentence that starts with: “The key contributors...”</p>	<p>The sentence should read as follows: “The key contributors to the positive cash flow management of the municipality was as a result of the municipality generating a positive cash flow from operating activities in the current financial year as compared to the 2017/18 financial year when the municipality did not generate positive cash flow from operating and investment activities.”</p>

### 3.12 General grammar / numerical corrections as they occur throughout the book

- There are several typing errors across the book that need to be corrected.
- Numbering conventions in terms of financial amounts should be uniform i.e. R0.0m instead of R0.0 million and R0,000,000; R000 thousand instead of R000,000.00.
- Verify font style to ensure that text throughout the book is uniform, except for images inserted from other sources.
- The spelling of the word “programmes” should be uniform throughout the book, as in certain instances the word was abbreviated to the American format “program”.
- The appearance of the AFS pages in the layout must be adjusted to make it look more reader friendly. In some instances, like on pg. 133, there seem to be some text disappearing or hidden. The font styles in the AFS also differ from the rest of the document.

### 4. OBSERVATIONS

- The challenges with financial management and governance continue to pose major problems at local municipalities such as Dikgatlong and Magareng which has become a major concern.

- The AFS document must be verified with the Office of the Auditor-General to confirm that the correct version is included in the report. The final draft of the annual report must be submitted to the Office of the Auditor-General before it is printed into a book format. Any changes to the AFS such as font style and size will be cleared with the Office of the Auditor-General.
- Assurance be provided by management that the financial and non-financial information match the audited results.
- The Committee cautioned management to make sure that more information is given regarding underspending to provide clarity, especially in this instance where the municipality's underspending occurred on employee costs (operational expenditure) and not on the capital expenditure.
- Only two of the five director level position are filled, and the length of time these senior management positions have not been filled remains a concern
- The Committee advised that the decline in allocations to local municipalities should be explained in more detail so that the municipality is not perceived to compromise on its mandate for the sake of saving money, rather than rendering services.
- The continuous pressure on local municipalities to repair and maintain ageing infrastructure with limited resources is a major concern, however, the municipality should continue its support, but also finding innovative ways of assisting local municipalities in taking care of their assets.
- The district municipality is providing support to the three local municipalities in its jurisdiction to implement the provision of the Disaster Management Act, however, the implementation of the fire-fighting function in Phokwane needs to be finalised.
- Employee costs currently stands at 62% of the total budget of the municipality, this continues to remain a concern.

## **5. COMMENDATIONS**

The Committee wish to commend the management of the municipality for:

- Being able to maintain the status quo and for remaining a benchmark for other municipalities;
- Being able to commit financial and human resources in the manner they have done.

## **6. RECOMMENDATION**

The Committee recommends that Council approves the 2018/19 annual report without reservations, with the corrections as indicated by the audit, performance and risk and oversight committees respectively.

**- End -**

# **REPORT OF THE AUDIT, PERFORMANCE AND RISK COMMITTEE TO THE FRANCES BAARD DISTRICT MUNICIPAL COUNCIL ON THE DRAFT ANNUAL REPORT FOR THE YEAR ENDING 30 JUNE 2019**

## **1. PURPOSE**

The purpose of the report is to recommend to the oversight committee on any issues to be corrected in the draft annual report as required by section 166(2) of the Municipal Finance Management Act (MFMA) of 2003.

## **2. BACKGROUND**

Section 166(2) of the MFMA read with the Charter and King IV clarifies the roles and responsibilities of the Audit Committee.

The audit committee must respond to Council on any matters to be corrected in the annual report. A meeting was held with management on the 02 March 2020 to review the draft annual report. The minutes detailing the analysis of the annual report will be tabled to Council in ensuring oversight and reporting thereof.

The Audit Committee noted that the draft annual report was tabled to Council on 10 December 2019 and that the Oversight Committee performed their review on 03 March 2020.

Although these processes will continue in the future, it appears appropriate that the Audit Committee reports in terms of section 166(2) as soon as possible after discussion of the report.

## **3. REVIEW OF DRAFT ANNUAL REPORT 2018/19**

The audit committee took note of the oversight committee review of the draft annual report and highlight the following matters for consideration:

- The accuracy of all figures, percentages and calculations in tables to be confirmed
- Assurance be provided by management that the financial and non-financial information match the audited results.
- Wording and grammatical errors checked and corrected.

Chapter 1 – Mayor’s foreword and executive summary

We draw your attention to the view of the honourable Mayor that the challenges with financial Management and governance continue to pose major problems at local municipalities such as Dikgatlong and Magareng which has become a major concern.

We draw your attention to the statement by the municipal manager that the municipality received an unqualified audit opinion with findings.

## Chapter 2 – Political & Administrative Governance

We draw your attention to the administrative structure wherein only two of the five director level positions are filled, and the length of time these senior management positions have not been filled remains a concern to the audit committee.

Overall the audit committee applaud the political structure and municipal manager for governing the entity in its current format and executing its responsibilities.

## Chapter 3 – Service Delivery Performance

We took note of the service delivery performance as reported and commend the entity for being able to commit financial and human resources in the manner they have done. The continuous pressure on local municipalities to repair and maintain ageing infrastructure with limited resources is a major concern and we urge the municipality to continue its support, but also finding innovative ways of assisting local municipalities in taking care of their assets.

### 3.3.2 Disaster Management and Fire Fighting

The Audit Committee takes note of the support provided to the three local municipalities in its jurisdiction to implement the provision of the Disaster Management Act. However, urge for the implementation of the fire-fighting function in Phokwane to be finalised.

### 3.4.5 Year-on- Year Comparison report on Institutional Performance

The Audit Committee takes note that performance information reported for 2017/18 to 2018/19 has been audited. The continued strengthening of the inter-governmental relationships and improving the responses from local municipalities remains an important focus area to improve performance.

## Chapter 4 – Organisational development performance

Human resource management is key to the municipality and we draw your attention to the number of vacant positions in the municipality. We urge the oversight committee to consider the impact of these vacancies compared to the cost of overtime.

We commend the municipality on the occupational and health statistics reflecting zero temporary or permanent disablement and zero fatalities in the work place. The minor type of injuries resulting in injury leave taken should however be assessed to consider the underlying root cause and take precautionary steps in this regard.

## Chapter 5 – Financial Performance.

Employee costs currently stands at 62% of the total budget of the municipality, this continues to remain a concern to the audit committee. The oversight committee should apply their mind on how we remain relevant as a district municipality when most funds are utilised to fund employees. In this regards a review of the functions, duties and optimal human resource compliment should be considered to ensure that the organisational structure remains relevant.

The audit committee took note of the decreased expenditure on fixed assets, particularly in the fleet of the environmental and health departments, as we endeavour to find efficiencies in the manner we operate let it not at the same time weaken the ability of the municipality to deliver critical services.

We advise timeous assessment of the impact of upcoming GRAP standards and the oversight committee, council and the audit committee should request assurance that these standards have been considered.

## Chapter 6 - Auditor General Audit findings

The audit committee took note of the audit findings.

## Volume II

### Annual financial statements

The draft financial statements were considered by the Audit Committee on 26 August 2019. We place reliance on the financial information presented in the audited financial statements.

### General comments

- The Auditor General report must be included with the annual financial statements in Volume II, and page numbering on the Auditor General SA report and annual financial statement should be adjusted to form part of the annual report.
- Pages x to x indicated in the Auditor General report must be aligned to the page where this will appear in the pages of the annual report.

### Recommendations

- The Committee is satisfied with the overall improvement of the municipality and efforts by management in putting together the annual report.
- The Committee further commends the municipality for a much better product produced.

Yours sincerely

TDJ Mogoli

Chairperson of the Frances Baard District Municipality Audit, Performance and Risk Committee

16 March 2020