

Oversight Report for the 2019/2020 financial year

To be presented to Council on 31 May 2021

Mrs Mayor,

With the introduction of the Karoo Hoogland Council Oversight Committee / MPAC Committee, an expectation has been created whereby effect would be given to section 152 (1) (a) of our Constitution, namely to provide democratic and accountable government for local communities.

The relationship between the IDP, Budget and Annual Report is well documented in National Treasury's MFMA Circular no. 11, which stated, "The **IDP and Budget** is forward looking, they set out what the municipality intends to do and the funds it will raise and spend. The **Annual Report**, on the other hand, is backward-looking as it reports on actual performance at the end of the financial year.

For the purpose of transparency and to the knowledge of all councillors and the public present today, I will table this report by means of a holistic approach for clarity purposes.

It should be taken into account that Covid-19 Pandemic affected South Africa and the world since the beginning of 2020. And thus it had a great effect on the oversight process which follows the financial year under discussion. An Extension notice was also gazetted that the timelines for the Annual Performance Report, the AFS and the Audit Report as well as the Oversight Report were extended with two months.

1) INTRODUCTION

- a) The 2019/2020 Annual Report was tabled to Council on the 29TH of **January 2021** and again on 31 March 2021 due to not all the components being finalised in compliance with the Municipal Finance Management Act (MFMA) which requires under Section 127(2) that:
 - i) "The Mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality".

The Extension Notice published under MFMA Circular No 104 on 7 August 2020 was clear on the Extension of timelines for submission of the Annual Report as well. Thus new Outer deadline to be 31 March 2021.

- b) 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:

- i) The annual performance report as required by section 46 of the MSA;
 - ii) Annual Financial Statements submitted to the Auditor-General;
 - iii) The Auditor-General's audit report on the financial statements in terms of Section 126 (3) of the MFMA; and
 - iv) The Auditor-General's audit report on performance in terms of Section 45 (b) of the MSA.
- c) Section 129 of the MFMA requires the council to consider the annual report of its municipality and to adopt an Oversight Report containing the council's comments on the annual report.

2) PURPOSE

- a) To submit the Oversight Report on the Annual Report of 2019/2020 in terms of Section 120 of the Municipal Finance Management Act, 2003, (MFMA) by the new outer deadline as per the extension notice by 31 May 2021.

3) BACKGROUND

- a) Council is vested with the responsibility to oversee the performance of their respective municipality, as required by the Constitution, The Municipal Finance Management Act (MFMA) and the Municipal Systems ACT (MSA). This **oversight responsibility** of council is particularly important for the process of considering annual reports.
- b) The MFMA and MSA recognise that **council has a critical role** to play to ensure better performance by municipal departments and entities. There 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.
- c) 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 to resolve any performance failures, ultimately the council is vested with the power and responsibility to oversee both the executive and administration. A good base for performance monitoring have been set in 2019/2020 to build on in the coming years. This area will need more in depth attention in the 2020/2021 year.

- d) The following are **strategic objectives** which are aligned to Organisational Performance management and also objectives which should enjoy more attention in the coming year:
- i. To monitor the implementation of the IDP (Integrated Development Plan)
 - ii. To monitor the effectiveness and efficiency of service delivery
 - iii. To achieve the organizational transformation
 - iv. To promote accountability
 - v. To create a performance culture
 - vi. To designate decision regarding alternative service delivery mechanisms
 - vii. To manage performance in a consultative, supportive and non-discriminatory way.
 - viii. To provide guidelines for the evaluation of the Karoo Hoogland Municipality's performance
- e) The separation of roles between the council and administration is intended to strengthen the oversight functions of councillors. Good governance and effective oversight and accountability are predicated on the separation of functions. It is fundamental for the achievement of the objectives for local government in the Constitution relating to a democratic and accountable system of local government.
- f) Council oversees the performance of the administration through council and committee meetings.
- g) In terms of a Council Resolution dated **6 March 2017**, such an Oversight Committee/MPAC Committee was established in terms of Section 79 of the Structures Act, 1998, to review the Annual Reports of the Council and prepare an Oversight report on the Annual Report.
- h) In terms of another Council Resolution dated **28 March 2019**, the Mayor appointed new members to serve on the Oversight Committee/MPAC Committee and they had their first meeting on **4 April 2019**. They also had another meeting on 26 September 2019 whereby their action plan was drawn up for 2019/2020 and tabled to Council for acknowledgement of their oversight planning process.
- i) The Council's 2019/2020 Annual Report was tabled to Council on **29 January 2021** in terms of Section 127 (2) of the MFMA, and was made public in terms of Section 127 (5) of the MFMA on **5 February 2021**. *No comments or input from the community was received by **6 March 2021**. (In terms of Sec 133 not all the components of the Annual Report were ready to be tabled and thus it was tabled again)*
- j) The Council's 2019/2020 Annual Report (with outstanding Auditor's General Report for 2019/2020) was tabled again to Council on **31 March 2021** in terms of Section 127 (2) of the MFMA, and was made public in terms of Section 127 (5) of the MFMA on **1 April 2021**. *No comments or input from the community was received by **1 May 2021**.*
- k) The Annual Report 2019/2020 was referred to the Oversight Committee for deliberation during May 2021. In dealing with the tabled Annual Report, Council is required to adopt an Oversight Report by not later than **two months from date of tabling**, which for the 2019/2020 Annual Report, will be 31 May 2021.

j) Mrs Mayor, the Oversight Report for 2019/2020 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 **adopt an oversight report** containing the council's comments on each of the following statements:

1) Council has approved the annual report with or without reservations;

OR

2) Council has rejected the annual report;

OR

3) Council has referred the annual report back for revision of those components that can be revised.

k) The oversight report is thus clearly distinguished from the annual report. The annual report is submitted to the council by the **accounting officer and the mayor** and is part of the process for discharging accountability by the executive and administration for their performance in achieving the goals set by council.

l) The oversight report is a report of the municipal council and follows consideration and consultation on the annual report by the council itself.

m) Thus the full accountability cycle is now completed and the separation of powers is preserved to promote effective governance and accountability.

4) OVERSIGHT REPORT INCLUDES:

Mrs Mayor, included in our Oversight Report, we have attached all relative documentation, including the Minutes of the MPAC/Oversight Committee, the Annual Report Checklist, as per MFMA Circular 32, the Response and Action Plan applicable to all findings as defined in the Auditor-General's Report.

5) THE OVERSIGHT COMMITTEE

a) The appointment and compilation of the Council's MPAC/Oversight Committee on **28 March 2019**, has been done according to Section 127(3) of the Municipal Finance Management Act and in terms of section 79 of the Municipal Structures Act.

b) The MPAC/Oversight Committee comprises of the following members:

- A. Councillor JE Davids (Chairperson)
- B. Councillor J Jooste
- C. Councillor G Klazen
- D. Councillor JJ Jacobs

6) THE FUNCTIONS OF THE OVERSIGHT COMMITTEE:

- a) Undertake a review and analysis of the Annual Report.
- b) Invite, receive and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- c) Consider written comments received on the Annual Report from the public consultation process. (None received by 1 May 2021)
- d) Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report. *However, no representations were received.*
- e) Preparation of the draft Oversight Report, taking into consideration the views and inputs of the public, representative(s) of the Auditor General, organs of states, Council's Audit Committee and Councillors. *The Audit Committee must still meet in this regard and will submit their recommendations which will be annexed to the Final Annual Report.*
- f) Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report. *The Audit Committee must still meet in this regard and will submit their recommendations which will be annexed to the Final Annual Report.*

The recommendations from the Audit Committee for Q1, Q2 and Q3 which include the AFS tabling and the performance audit will be tabled to Council on 31 May 2021. There were no significant recommendations other than Council having to take note of the reports.

7) 2019/2020 ANNUAL REPORT CONSULTATION PROCESS

- a) The communities were advised, through the printed media and the Municipal website of the availability of the annual report at all the municipal offices.
- b) The annual report was available at all Municipal Libraries and identified offices. The annual report was also submitted to the Auditor General, National Treasury and Provincial Treasury and CoGHSTA.
- c) At the closing date (1 May 2021) for public submissions, no submissions were received and therefore no Public Hearing was necessary.

8) SUMMARY OF COMMENTS ON THE 2019/2020 ANNUAL REPORT

- a) The MPAC/Oversight Committee discussed the 2019/2020 Annual Report at the following meeting:
 - i) **21 May 2021**
- b) In this meeting, the Annual Report for 2019/2020 together with the Auditor General's basis of a **unqualified opinion** were discussed.
- c) A Guidance report (Audit Action Plan for 2019/2020) has been compiled on matters that should be addressed and considered by council and administration to rectify matters of the Auditor General to prevent any recapitulated reservations and/or possible disclaimers in the future.
- d) 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. Approval means the executive(Council) and administration have discharged in full, their accountability for decisions and actions and that their performance meets the criteria set by performance objectives and measures and is also acceptable to the community. The rectification and re-development of the SDBIP and performance measuring of personnel, the organisation and their service providers was addressed and prioritized during 2019/2020 and will be built on during 2020/21 to be able to be audited.
- e) To promote continuous improvement in the performance of the municipality, it is strongly recommended that council reward performance of the municipal manager and the managers directly accountable to the municipal manager in a manner that is commensurate with achievement of policy/framework outcomes and in a manner which will encourage them to keep on performing where budget is available and affordability has been investigated. Therefore, the payment of performance bonuses should be measurable with the extent of outcomes achieved. This can only be achieved if accurate and measurable targets are set, monitored and measured as well as performance agreements are in place. Where reservations exist, the seriousness of such should be taken into account before considering any part-payment of bonuses. No reservations exist at this stage and performance measurement was done for the MM and the Directors directly accountable to the MM by a performance audit committee(panel). The Cascading of performance agreements to middle managers should also be encouraged.

9) SUMMARY OF COMPONENTS OF THE OVERSIGHT REPORT

- i. The Audited Annual Financial Statements 2019/2020.
- ii. The Auditor General's Report 2019/2020 on the financial statements received on 23 April 2021.
- iii. The Auditor General's Report on the Performance Measurement of Karoo Hoogland Municipality 2019/2020, however the Auditor General's did not give an opinion on the Annual Performance Report for 2019/2020.
- iv. The Recommendations of the Audit Committee on the AFS and the performance evaluation are still awaited and requested by 4 June 2021.
- v. The Recommendations of the Audit Committee on the Auditor General's Report/opinion for 2019/2020 are still awaited and requested by 4 June 2021.
- vi. Disclosures and additional information, as detailed in the annual report checklist.
- vii. Copies of the audited financial statements were submitted to officials for their comments.
- viii. MPAC/Oversight Committee questions of clarity and responses from officials.
- ix. Reservations (none), recommendations and action plans. (*Audit Action Plan 2019/2020 will be monitored*)
- x. Copies of minutes of meetings of this committee.
- xi. MPAC/Oversight Committee Action Plan and activity schedule with deviation notifications due to MFMA extension Notice.

10) CONCLUSION

- a) Mrs Mayor, the committee concludes that despite the significant improvement in the Annual Report and the Annual Financial Statements, improvement is still needed in certain areas as stipulated by the Auditor-General and particularly in the following areas: Information Systems area, AFS, Performance Management, SCM, Revenue, Internal Audit Unit Reporting area, Consequence Management and Asset Management areas of council.
- b) The Committee thanks all the committee members for their constructive input during the oversight period, the Auditor-General and the Audit Committee for their support and co-operation in completing this Oversight process which has resulted in this Oversight Report with the exception of the outstanding recommendations from the Audit Committee.
- c) The Committee thanks the Internal Auditor for her input and guidance in this process.
- d) The committee also wish to request the current members of MPAC/Oversight and the future members to do their oversight **earlier** in a financial year so that the Annual Report can be submitted by December 2021 and that the Oversight Report be submitted to Council by January 2022 so that the administration have enough time to correct and implement measures to address the outcome of the Audit. As it is now a challenge to addresses the issues and recommendations in only 2 months before the financial year end.
- e) The committee is honoured for the opportunity to be of service to Karoo Hoogland Municipality and provide their oversight role.
- f) It is worth mentioning and recommended that the members of the MPAC should attend all their meetings where possible and take their responsibilities serious to assure oversight, transparency and fairness. Where members do not attend meetings from MPAC without a understandable reason they should be replaced by the Mayor with a willing member.
- g) Taking the above into consideration MPAC wish to request the Mayor to replace Councillor JJ Jacobs with another Councillor.

**11) RECOMMENDED RESOLUTION TO BE ADOPTED BY COUNCIL,
IN ACCORDANCE WITH MFMA SECTION 129(1):**

- a) That cognisance be taken of the Oversight Report on 2019/2020 Annual Report, as submitted by the MPAC/Oversight Committee;
- b) That Council, having fully considered the annual report of the municipality for the 2019/2020 financial year and the Auditor General's representations on the AFS for 2019/2020, adopts the Oversight Report 2019/2020;
- c) That Council adopts and approves the 2019/2020 Annual Report without reservations;**
- d) That Council take note of the outstanding Recommendations of the Audit Committee on the AFS and the performance of the municipality and that they are still requested to make their recommendations on the Audit Report for 2019/2020 as soon as possible (before 4 June 2021) and that these recommendations be addressed by the MPAC/Oversight Committee and Council during June 2021;
- e) That the Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act, 56 of 2003.
- f) That the Oversight Report on the Annual Report 2019/2020 be submitted to the provincial legislature in accordance with Section 132(2) of the Municipal Finance Management Act, 56 of 2003 as well as to the AG.

Thank You

Councillor JE Davids

Chairperson : MPAC/Oversight Committee of Karoo Hoogland Municipality

AFTER ADOPTION BY COUNCIL THIS REPORT MUST BE SIGNED:

DATE OF ADOPTION BY COUNCIL

: 31 May 2021

SIGNED BY MUNICIPAL MANAGER

DATE: 31 MAY 2021

SIGNED BY THE MAYOR

DATE: 31 MAY 2021