



OVERSIGHT REPORT

FOR THE MEETING HELD ON THE

17 MARCH 2014

TABLE OF CONTENTS

1.	INTRODUCTION	3
2.	BACKGROUND	4
3.	FUNCTIONS OF THE OVERSIGHT COMMITTEE	5
4.	COMPOSITION OF OVERSIGHT COMMITTEE	6
5.	THE OVERSIGHT REPORT	8
6.	ANNUAL REPORT CHECKLIST	9
7.	CONCLUSION	28

**To be read in conjunction with National Treasury MFMA Circular 32 –
The Oversight Report (attached at the end of this report)**

1. INTRODUCTION

The Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council in regards to the Annual Report and the preparation of an Oversight Report.

Given the processes required by Council to effectively undertake its oversight role, the establishment of an Oversight Committee of Council would provide the appropriate mechanism in which Council could fulfil its oversight responsibilities.

The Oversight Committee's primary role will be to consider the Annual Report, receive input from the various role players and to prepare a draft Oversight Report for consideration by Council.

2. BACKGROUND

The oversight role of Council is an important component of the financial reforms and it is achieved through the separation of roles and responsibilities between Council, the Executive (Mayor and Executive Committee) and Administration. Good governance, effective accountability, and oversight can only be achieved if there is a clear distinction between the functions performed by the different role players.

Non-executive Councilors are required to maintain oversight on the performance of specific responsibilities and delegated powers that they have given to the Executive (Mayor/Executive Committee). In other words, in exchange for the powers in which Council have delegated to the Executive, Council retains a monitoring and oversight role ensuring that there is accountability for the performance or non performance of the municipality.

The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight.

- ✓ Approval of budgets;
- ✓ Approval of Budget related Policies; and
- ✓ Review of the Annual Report and adoption of the Oversight Report.

3. FUNCTIONS OF THE OVERSIGHT COMMITTEE

The functions of the Oversight Committee are to:

- ✓ Undertake a review and analysis of the Annual Report.
- ✓ Invite, receive, and consider inputs from Councilors and Portfolio Committees, on the Annual Report.
- ✓ Consider written comments received on the Annual Report from the public consultation process.
- ✓ Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- ✓ Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report.
- ✓ Preparation of the draft Oversight Report, taking into consideration, the views and inputs of the public, representative(s) of the Auditor-General, organs of state, Council's Audit Committee and Councillors.

4. COMPOSITION OF OVERSIGHT COMMITTEE

4.1 Membership

The Oversight Committee is a committee of Council established under section 79 of the Municipal Structures Act, 1998. Section 79, allows for the co-option of advisory members to a Committee of Council, who are not members of the Council.

Due to the separation of roles and responsibilities, between Council and the Executive (Mayor and Executive Committee) it is not appropriate that members of the Executive Committee be members of the Oversight Committee.

4.2 Authority & Power

The Oversight Committee is delegated the responsibility to conduct meetings and to hold public hearings to receive and hear public submissions on the Annual Report, on behalf of Council.

Timely notice of all meetings should be given and all meetings held by the Oversight Committee must be open to the public and minutes of the meetings must be submitted to Council meetings.

4.3 Meeting Schedule

The Annual Report submitted to Council at its meeting which was held on the 27th of February 2014, was referred to the Oversight Committee subject to a few minor enhancements to the Report. The community was advised through the print media of the availability of the Annual Report and was invited to submit representations on the report before 07 March 2014.

The Annual Report was made available at all ward committee members and Municipal offices and was also placed on the Mkhambathini Municipality website. The Annual Report was submitted to the Auditor-General, Provincial Treasury and the Department of Local Government and Traditional Affairs.

At the closing date for public submissions of 07 March 2014, *no* submissions were received other than those that were made by Internal Audit Activity before publication.

5. THE OVERSIGHT REPORT

This Oversight Report is for the financial year ended 30 June 2013. The Annual Report was presented to Council on 27 February 2014 there were not issues raised in terms of the Annual Report and all Councilors were given a copy of the report to be circulated to all ward committee members for their comments.

ANNUAL REPORT CHECKLIST

Responses/comments in the table below are included merely as examples. Please reference in accordance with municipal documents.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA	Financial reporting matters to be considered	
121 (3)(a) The annual financial statements (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General.	The AFS are to be in the form as required by the applicable accounting standards. MFMA Circular 18 with annexures, 23 June 2005, provides guidelines on the accounting standards for municipalities. <u><i>Have the required standards been met?</i></u>	Yes. Refer to Chapter 7, Page 68 of the Annual Report.
121 (3)(a) 121 (4) 121 (4)(b)	The above applies also to the AFS of municipal entities.	Not applicable. There are no municipal entities.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
121 (3) (e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities.	<p>Has an adequate assessment been included?</p> <p>Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation?</p> <p>Is any other action required to be taken?</p>	<p>Yes.</p> <p>Refer to Page 24, the Annual Report.</p>
121 (3)(g) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports.	<p>The conclusions of the annual audit are:</p> <ul style="list-style-type: none"> ✓ an unqualified audit opinion with or without management issues, which means that the financial statements are acceptable; ✓ The objective of the municipality should be to achieve an unqualified audit opinion. ✓ Taking into account the audit report, audit opinion and the views of the audit committee, council considered: <ul style="list-style-type: none"> • To what extent does the report indicate serious or minor financial issues? • To what extent are the same issues repeated from previous audits? • Is the action proposed considered to be adequate to effectively address the issues raised in the audit report? • Has a schedule of action to be taken been included in the 	<p>Yes.</p> <p>Refer to Page 140 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	annual report, with appropriate due dates?	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>Note that actions taken on audit issues are to be reported to the provincial legislature, the MEC for Cooperative Government & Traditional Affairs to report on any omissions by municipalities in addressing issues. Council should confirm that the audit report has been forwarded to the MEC.</p>	
<p>121 (3)(f) An 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>	<p>The budget of the municipality must contain measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the IDP (MFMA Section 17(3)(b)). The accounting officer must include these objectives in the annual report and report on performance accordingly.</p> <p>Has the performance met the expectations of council and the community?</p> <p>Have the objectives been met?</p> <p>What explanations have been provided for any non-achievement?</p> <p>What was the impact on the service delivery and expenditure objectives in the budget?</p>	<p>Yes.</p> <p>Refer to page 159 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
121 (3)(i)(k) Any information as determined by the municipality, the entity or its parent municipality.	Review any other information that has been included in regard to the AFS.	Not applicable.
1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA	Financial reporting matters to be considered	
121 (3)(j) and 121 (4)(g) Recommendations of the audit committee in relation	Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity?	Yes. Refer to 137 of the Annual Report.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
to the AFS and audit reports of the municipality and its entities.	<p>What actions need to be taken in terms of these recommendations?</p> <p>Conclusions on these recommendations and the actions required should be incorporated in the oversight report.</p>	
<p>2. Disclosures - Allocations received and made - Section 123-125 MFMA</p>	<p>Considerations</p>	
<p>123 (1)(a) Allocations received by and made to the municipality.</p>	<p>The report should disclose:</p> <ul style="list-style-type: none"> ✓ Details of allocations received from another organ of state in the national or provincial sphere. ✓ Details of allocations received from a municipal, entity or another municipality. ✓ Details of allocations made to any other organ of state, another municipality, or a municipal entity. ✓ Any other allocation made to the municipality under Section 214(1) (c) of the Constitution. <p>Have these allocations been received and made? Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets? Does the audit report or the audit</p>	<p>Yes.</p> <p>Refer to Pages 22,</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	committee recommend any action?	
125 (1) Information in relation to outstanding debtors and creditors of the municipality and entities.	<p>Municipalities and entities are reminded of the requirement to include, in their annual financial statements, amounts owed to them and persistently delayed beyond 30 days, by national or provincial departments and public entities.</p> <p>It is also a requirement to report on whether the municipality or entity has met its statutory commitments, including the payment of taxes, audit fees, and contributions for pension and medical aid funds.</p> <p>Council should be satisfied that –</p> <ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. 	<p>Yes.</p> <p>Refer to Page 94 Notes 13 Annual Report.</p>
2. Disclosures - Allocations received and made - Section 123-125 MFMA	Considerations	
123 (1)(c)	Section 123 of the MFMA and MFMA guidance circular 11, require	Page 69 notes 14 the Annual Report.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
<p>Information in relation to the use of allocations received.</p>	<p>that the municipality provide information per allocation received per vote and include:</p> <ul style="list-style-type: none"> ✓ The current year and details of spending on all previous conditional grants, for the previous two financial years. Information is to be provided per vote. (For example, municipalities must report on all transfers received from provincial housing departments for housing subsidy grants for three financial years, and indicate how such funds were spent, and for what projects. ✓ Information stating whether the municipality has complied with the conditions of the grants, allocations in terms of section 214(1)(c) of the Constitution and allocations received from other than another organ of state. Where there is non-compliance, details of the reasons for non-compliance are to be provided. ✓ Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this. <p>This information is required on all allocations excluding the municipality's portion of the equitable share and where prescribed otherwise by the nature of the allocation.</p>	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>The Auditor-General will ensure that the audit process includes a proper assessment (and reconciliation) on all national grants received by a municipality. Council should consider this aspect of the audit report and comments by the audit committee on the use of allocations received.</p> <p>Council should be satisfied that –</p> <ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. <p>The comments of the Auditor-General and the views of the audit committee should be used to determine the accuracy and appropriateness of this information</p>	
3. Disclosures in notes to AFS	Considerations relating to section 124	
Information relating to benefits paid by municipality	Information on the following items is to be included in the notes to the annual report and AFS:	Yes. Refer to Page 68, Note 17 of the Annual Report.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
<p>and entity to councillors, directors and officials.</p>	<ul style="list-style-type: none"> ✓ salaries, allowances and benefits of political office bearers, councillors and boards of directors, whether financial or in kind; ✓ any arrears owed by individual councillors to the municipality or entity for rates and services, which at any time were outstanding for more than 90 days, including the names of councillors; ✓ salaries allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager; ✓ contributions for pensions and medical aid; ✓ travel, motor car, accommodation, subsistence and other allowances; ✓ housing benefits and allowances; ✓ overtime payments; ✓ loans and advances, and; ✓ any other type of benefit or allowance related to staff. <p>Council should be satisfied that –</p> <ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. <p>The comments of the Auditor-General and the views of the audit</p>	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	committee should be used to determine the accuracy and appropriateness of this information.	
4. Municipal Performance	Considerations	
The annual performance reports of the municipality and entities.	<p>Section 46, MSA requires municipalities to submit a performance report reflecting the performance of the municipality and each service provider, a comparison of the performance with targets set for the previous year and measures taken to improve performance. The report must form part of the annual report. Questions that may be considered are –</p> <ul style="list-style-type: none"> ✓ Has the performance report been included in the annual report? ✓ Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report? ✓ Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIP approved for the financial year? <p>In terms of key functions or services, how has each performed? E.g. have backlogs for water, sanitation, and electricity been reduced?</p>	<p>Yes. Refer to Page 156 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>What are the refuse collection volumes, library usage statistics etc?</p> <ul style="list-style-type: none"> ✓ To what extent has performance achieved targets set by council? ✓ Is the council satisfied with the performance levels achieved? ✓ Is the community satisfied with performance? Has a customer satisfaction survey been undertaken and, if so, how do the results align with the annual report contents? What were the outcomes of public consultation and public hearings? ✓ What actions have been taken and planned to improve performance? ✓ Is the council satisfied with actions to improve performance? ✓ Did the targets set in the budgets, SDBIP agree with the targets set in the performance contracts of the municipal manager and each senior manager? ✓ Does the report evaluate the efficiency of mechanisms applied to deliver the performance outcomes? ✓ Taking into account the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective? ✓ To what extent have actions planned for the previous year been 	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>carried over to the financial year reported upon?</p> <p>✓ Have any actions planned in the reported year been carried over to the current or future years? If so are any explanations been provided by the municipal manager and are these satisfactory?</p> <p>Council should comment and draw conclusions on information and explanations provided.</p>	
Audit reports on performance.	<p>Section 45, MSA requires that the Auditor-General must audit the results of performance measurements, as part of the internal auditing processes and annually. Have the recommendations of internal audit been acted on during the financial year? Have recommendations by internal audit and/or the auditor-general been included in action plans to improve performance in the following year?</p>	<p>Although Council has made considerable progress, the concerns of the Committee in respect of the Performance Management System is noted.</p>
Performance of municipal entities and municipal service providers.	<p>The annual report of the municipality should provide an assessment of the performance of the municipal entities and all contracted service providers. This is in addition to the separate annual reports of the entities.</p> <p>The report should evaluate the effectiveness of these services and</p>	<p>Non-compliance.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>whether alternative mechanisms should be considered.</p> <p>Is the council satisfied with the evaluation and conclusions of the municipality?</p> <p>What other actions are considered necessary to be taken by the accounting officer?</p>	
5. General information	The following general information is required to be disclosed in the annual report.	
Relevant information on municipal entities.	The municipality should disclose all information relating to the municipal entities under the sole or effective control of the municipality. Information to be disclosed includes names and types of entities, members of the board, addresses, and contact details for entities, the purpose of the entity, the functions, and services provided the type and term of service level agreements with the entities.	Not applicable. There are no municipal entities.
The use of any donor funding support.	<p>What donor funding has the municipality received?</p> <ul style="list-style-type: none"> ✓ Have the purposes and the management agreements for the funding been properly agreed upon? ✓ Have the funds been used in accordance with agreements? ✓ Have the objectives been achieved? 	No donor funding received in the current year.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<ul style="list-style-type: none"> ✓ Has the use of funds been effective in improving services to the community? ✓ What actions need to be taken to improve utilisation of the funds? 	
Agreements, contracts and projects under Private-Public-Partnerships.	<p>Information similar to the details of municipal entities should be provided.</p> <p>Council should ensure that all details have been supplied.</p>	Not applicable.
Service delivery performance on key services provided.	<p>This may be a high level summary, in addition to detailed information on performance, which sets out overall performance under the strategic objectives of the municipality. Overall results on the strategic functions and services should be summarised. This should cover all services whether provided by the municipality, entities or external mechanisms.</p> <p>Council may draw conclusions on the overall performance of the municipality.</p> <p>This information may be found in an executive summary section of the annual report and or in statistical tables.</p>	Will be attended to in 2014/2015.
Information on long-term	Details of all long-term contracts including levels of liability to the	Not Applicable.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
contracts.	municipality should be included. Council should ensure all information is correctly supplied.	
Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations.	<p>Details of significant IT activities should be outlined indicating the effectiveness of the IT projects and the quality of IT services.</p> <p>Council should consider how effectively the IT services support and facilitate performance of the municipality and whether value for money has been obtained.</p> <p>Details of any future IT proposals should be summarised. Council should comment and draw conclusions on the information provided.</p>	Refer to Page 44 of the Annual Report.
Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework.	<p>A summary of the long-term capital plans and how these address the backlogs of services in the municipality should be provided.</p> <p>This should include details of types and scale of backlogs, projected cost implications, strategies to address the backlogs and plans proposed and/or approved. The summary here should cross reference to the performance reports in the annual report and also will be highlighted in the coming budgets.</p>	This will be taken care of in the 2014/2015 financial year. The oversight committee notes that with concerns

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	Council should consider whether the plans appropriately address the backlogs and are consistent with the strategic policy directions of council and needs of the community.	
6. Other considerations recommended		
Timing of reports.	Was the report tabled in the time prescribed? Has a schedule for consideration of the report been adopted?	Yes.
Oversight committee or other mechanism.	What mechanisms have been put in place to prepare the oversight report? Has a schedule for its completion and tabling been adopted?	Oversight Committee formed. Yes.
Payment of performance bonuses to municipal officials.	Refer to Section 57 MSA as amended. Bonuses based on performance may be awarded to a municipal manager or a manager directly accountable to the municipal manager after the end of the financial year and only after an evaluation of performance and approval of such evaluation by the municipal council. Preferably such evaluation should be considered along with the annual report. The basis upon which performance is evaluated for payment of bonuses should be reconciled with the municipal performance	No performance bonuses were paid to any Section 57 Managers.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>reported in the annual report.</p> <p>Have bonuses been paid based on achievements of agreed outputs and after consideration of the annual report by council?</p> <ul style="list-style-type: none"> ✓ If so has a proper evaluation of performance been undertaken? ✓ Was the evaluation approved by council? ✓ Does the performance evaluation align and reconcile with the performance reported in the annual report? If not, what reasons have been given for non-reporting of the basis of evaluation in the annual report? ✓ Are the payments justified in terms of performance reported in the annual report? 	

7. CONCLUSION

The onerous requirements of so many legislative mandates, makes it difficult to achieve an unqualified report, a feat that very few municipalities achieve in South Africa. This achievement is recognised by the Oversight Committee.

The Oversight Committee commends Council, the Municipal Manager, the Senior Managers and all staff at Mkhambathini Municipality on the strides made towards good governance. However, much needs to be done in planning and reporting on performance information during 2014/2015 financial year.

Having performed the following tasks:

- ✓ Reviewed and analysed of the Annual Report;
- ✓ Invited, received, and considered inputs from Councillors and Portfolio Committees, on the Annual Report;
- ✓ Considered that there were no written comments were received on the Annual Report from the public consultation process;
- ✓ Conducted Public Participation to allow the local community or any organs of state to make representations on the Annual Report;
- ✓ Received and considered Council's Audit Committee views and comments on the annual financial statements and the performance report; and
- ✓ Prepared the draft Oversight Report, taking into consideration, the views and inputs of the public, representatives of the Auditor-General, organs of state, Council's Audit Committee and Councillors;

The Oversight Committee has pleasure in presenting the Oversight Report to Council to consider one of the following resolutions and then to be forwarded to the relevant Departments and Provincial Legislature:

RESOLVED TO RECOMMEND

1. That Council having fully considered the Annual Report of the Mkhambathini Municipality for the 2012/2013 Financial Year, adopts the Oversight Report for the 2012/2013 Financial Year, a copy of which is attached to the signed minutes of this meeting.
2. That Council approves the Annual Report of the Mkhambathini Municipality for the 2012/2013 Financial Year with the reservations as included in the comments in the Oversight Report as referred to in part (1) of this resolution.

OR

2. That Council does not approve the Annual Report of the Mkhambathini Municipality for the 2012/2013 Financial Year and refers it back to the Oversight Committee for further consideration.
3. That the Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
4. That the Oversight Report be submitted to the Provincial Legislature in accordance with Section 132(2) of the Municipal Finance Management Act 56 of 2003.

ATTACHMENTS

**Annual report
Management Progress Report to AG**

