



MKHAMBATHINI MUNICIPALITY

OVERSIGHT REPORT

2023/2024

Cllr M Cele
MPAC Chairperson

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1. INTRODUCTION

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

1.1. Section 129(1) of the Municipal Finance Management Act, Act 56 of 2003 requires the Council of a municipality to consider the Annual Report by not later than two months after the annual report was tabled in Council.

1.2. Given the processes required by Council to effectively undertake its oversight role, the establishment of MPAC of Council would provide the appropriate mechanism in which Council could fulfill its oversight responsibilities.

1.3. The MPAC'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. OVERSIGHT REPORT

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.

The purpose of this report is to present to Council for adoption, the final Annual Report 2023/2024 as well as the Oversight Report on the Annual Report as required in terms of Section 129 of the MFMA.

The Annual Report reflects the Municipality's financial and non-financial performance. The Municipal Public Accounts Committee (MPAC) was appointed by the Council and their primary function is to analyse the annual report and make recommendations on the Municipality's performance.

A key element of the Oversight Process is public participation and public involvement. Copies of the Draft 2023/2024 Annual Report were made available for inspection at the municipal offices, and library, Isolezwe newspaper and the municipal website.

The adoption of the annual report is a legislative requirement in terms of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003).

3. ROLES AND RESPONSIBILITIES OF THE OVERSIGHT COMMITTEE

3.1 Members

The Oversight Committee is a committee of Council established under section 79 of the Municipal Structures Act, 1998.

Mkhambathini Municipality Council resolved that the Municipal Public Accounts Committee (MPAC) in line with the guideline. 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.

3.2 Authority & Power

The Oversight Committee is delegated with the responsibility to conduct meetings and to hold public hearings, if necessary to receive and hear public submissions on the Annual Report, on behalf of Council. Timely notice of all meetings is provided, and all meetings held by the Oversight Committee is open to the public and minutes of the meetings recorded and submitted to Council meetings.

3.3 Meeting Schedule

The Annual Report submitted to Council at its meeting held on 25 January 2024, was referred to the Oversight Committee subject to a few minor enhancements to the Report. The community was advised through the website of the availability of the 2023/2024 Annual Report and was invited to submit representations on the report before 01 March 2024 as part of the public engagement process.

4. 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 Councillors 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 nonperformance 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

6. 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 Councillors 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.*
- ✓ *Prepare 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.*

7. ANNUAL REPORT PROCESS

The requirements for an annual report are contained in the Municipal Systems Act (MSA) Section 46 and the Municipal Finance Management Act (MFMA) Section 121. In addition, Circular 11 issued by National Treasury and the Annual Report Customized Template and Guidelines provided by the Provincial Department of Local Government and Traditional Affairs provide guidance to municipalities on compliance with the above legislation.

A municipal annual report includes the following key elements:

- *Annual performance report*, comparing the year's performance with the performance objectives established in the IDP, Budget and Service Delivery and Budget Implementation Plans (SDBIPs)
- *Annual financial statements (AFS), Auditor-General's (AG) Audit Report on the AFS and management's responses* to address the AG's audit findings.
- The MFMA directs the annual report to be completed and tabled in Council by 30 January for the financial year ended 30 June .

Council must then review the annual report and adopt an oversight report containing its comments within 60 days. MFMA Section 129 (1) and National Treasury's Circular 32 direct and guide the oversight process and the preparation of the oversight report.

Circular 32 recommends that the Council establish an Oversight Committee to prepare the oversight report, in order to provide all Councilors with a better oversight over the municipal performance.

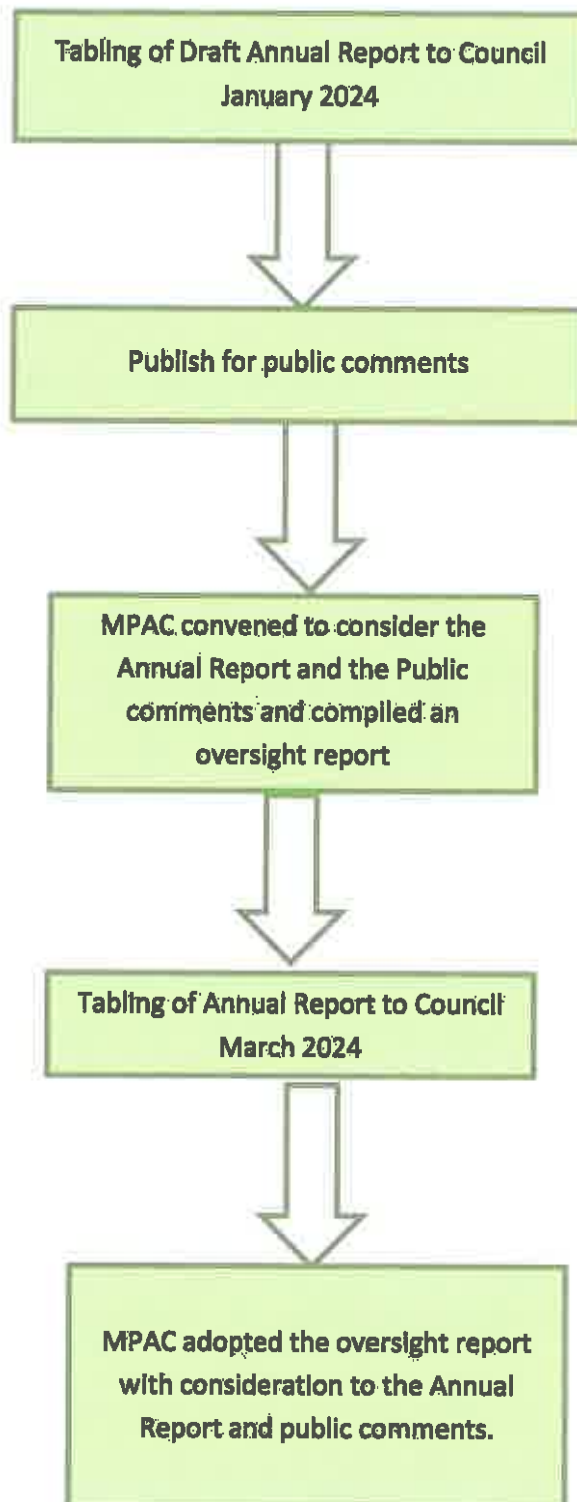
The Draft 2023/2024 Annual Report was tabled in Council on 25 January 2024 and was placed at the reception and library as well as published in the local newspaper and placed on the municipality website for public comments.

The Council is responsible for the preparation of the Annual Financial Statement for each financial year which fairly presents the situation of Council. The 2023/2024 Annual Financial Statements of Council were prepared in accordance with Generally Recognized Accounting Practice (GRAP) prescribed in terms of section 126(1)/ 126(2) of the Municipal Finance Management Act (MFMA).

The 2023/2024 Annual Report is available on the Mkhambathini Municipality website. The draft Annual Report was submitted to the Auditor-General in February 2024. Again, the Final Annual Report 2023/2024 will be submitted to the Auditor General after approval by the council on 30 March 2024 as well as to the National and Provincial Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA).

It must be noted that no comments were received from the public.

8. PROCESSES OF THE OVERSIGHT REPORT



9. ANNUAL REPORT CHECKLIST

No.	INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COMPLIANCE RESPONSE	YES	NO	RESPONSES/ COMMENTS
Financial Matters – Annual Financial Statements - Section 121 (3) MFMA					
a)	The annual financial statements (AFS) of the municipality and if municipality has municipal entities, consolidated financial statements as submitted to the Auditor-General, for audit.	The AFS to be in the form as required by the applicable accounting standards. MFMA Circular 18 with annexures	✓		The AFS were reviewed by the Municipality's audit committee, prior to submission to A-G. These were later audited by the A-G, there were queries and issues raised, and these have been addressed. Pg 1-61 attached
b)	The Auditor General's audit report in terms of section 126 (3) of the MFMA and section 45(b) of the MSA.	The AG's audit report included regarding the AFS.	✓		The AFS was audited by the A-G, there were queries and issues raised, and these have been addressed. The AG report is included in the Annual Report.
c)	Municipality's annual performance report as per section 46 of the MSA;	Section 45, MSA requires that the Auditor-General must audit the results of performance measurements, as part of the internal auditing processes and annual.	✓		The annual performance report has been included in the Annual Report.
d)	An assessment by the municipality's Accounting Officer of any arrears on municipal taxes and services charges.	Adequate assessment and sufficient explanation of the causes of the arrears and actions to be taken to remedy the situation.	✓		Outstanding debtors were included in the report. Furthermore, the municipality is in the process of following up with arrears, debtors and those in arrears, are handed over for collection.

e)	An assessment by the accounting officer of the municipality's measurable performance objectives for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year.	The budget of the municipality must contain measurable performance objectives for revenue from each source and for each vote in the budget, considering the IDP (MFMA s17 (3)(b)). The accounting officer must include these objectives in the annual report and report on performance accordingly.	✓	Quarterly Service Delivery Budget Implementation Plan report are submitted to Council, and this includes measurable performance objectives. Management assessments were conducted to ensure achievement of set objectives and set measures for improvements where necessary. The performance management unit is continuously revising and improving the performance management system and working documents to ensure that the reported achievements are realistic and reliable. This improvement was evident in the AG report. Office of the Municipal Manager is continuously revising evidence relating to the POE's.
f)	Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports.	The conclusions of the annual audit are: ✓ 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.	✓	The audit opinion was unqualified,
g)	Any explanation that may be necessary to clarify issues in	Actions taken on audit issues are to be reported to the	✓	The Annual Financial Statements, Audit report and Management Report together with the

	connection with the financial statements;	provincial legislature, the MECs for Local Government and Finance to report on any omissions by municipalities in addressing issues. Council should confirm that the audit report has been forwarded to the said MECs			action plans were forwarded to the MEC for Co-operative Governance & Traditional Affairs and the MEC for Provincial Treasury
h)	Any information as determined by the municipality and any other information as may be prescribed.	Review any other information that has been included regarding the AFS.	✓		Misstatements in the AFS were corrected subsequently to the AFS submitted to the A-G.
Financial reporting matters to be considered					
a)	A performance report reflecting performance of both the municipality or any service provider during the financial year to which the annual report relates including development and service delivery priorities and performance targets for the next financial year;	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.	✓		Management reported quarterly to Council on the SDBIP's and to COGTA District Technical Advisory Committee which meets quarterly. The Scorecard, SDBIP and IDP have subsequently been aligned to monitor compliance and to measure performance. This is being reviewed to address the audit queries raised by the A-G. Performance of the different departments is reported, and analysis included in the Annual Performance Report.
b)	GRAP compliant financial statements;	Municipal Financial Statements follow Circular No. 18 and in compliance about GRAP	✓		Yes, the Municipal Financial Statements are in compliance with Circular No. 18 and total in compliance with regard to GRAP. Pg 30-31
c)	An audit report on the financial statements and the annual performance report referred to in the MSA section 46;	Section 46, MSA requires that the Auditor-General must audit the results of performance measurements, as part of the	✓		Performance of the different departments is reported, and analysis included in the Annual Performance Report

d)	Other reporting requirements in terms of the other legislation; benefits paid by municipality and entity to councilors, directors, and officials.	Internal auditing processes annually	✓	All the required information was disclosed in the AFS, and the A-G was satisfied with the disclosures
	✓ salaries, allowances and benefits of political office bearers, councilors and boards of directors, whether financial or in kind; ✓ any arrears owed by individual councilors to the municipality or entity for rates and services, which at any time were outstanding for more than 90 days, including the names of councilors; ✓ 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. Council should be satisfied that – ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ That any explanations provided are acceptable. 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.			
e)	An annual performance report to form part of the municipality's Annual Report in terms of Chapter 12 of the MFMA.	✓ Has the performance report been included in the annual report?	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 –	✓		The annual performance report has been included in the annual report. Management reported quarterly to Council on the SDBIP's and to COGTA District Technical Advisory Committee which meets quarterly. The Scorecard, SDBIP and IDP have subsequently been aligned to monitor compliance and to measure performance. This is being reviewed to address the audit queries raised by the A-G. Performance of the different departments is reported, and analysis included in the Annual Performance 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? In terms of key functions or services, how has each performed? E.g., have backlogs for water, sanitation, and electricity been reduced? What are the refuse collection volumes, library usage statistics etc? ✓ Have the performance targets achieved 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? ✓ Are there actions 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? ✓ Considering the audit report and opinion and the views of the audit committee, is performance considered to be efficient and effective?		

		✓ Are actions planned for the previous year been carried over to the financial year reported upon? ✓ 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? Council should comment and draw conclusions on information and explanations provided.			
Disclosures - Allocations received and made - Section 123-125 MFMA					
a)	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.	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.	✓		Mkhambathini Municipality does not have a municipal entity. Not applicable

b)	It is also a requirement to report on whether the municipality or entity has met its statutory commitments, including the payment of taxes, levies, audit fees, and contributions for pension and medical aid funds.	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	✓	The Auditor General, Audit Committee's recommendations were adequately addressed by the Municipality. The Internal Audit audited the AFS as per the recommendations by the Audit Committee
c)	As part of the monitoring of national and provincial allocations reconciliation will be undertaken to ensure all amounts are correctly reported.	Section 123 of the MFMA and MFMA guidance circular 11, require that the municipality provide information per allocation received per vote and include: ✓ 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	✓	The information was disclosed as required by the MFMA. All Grant allocations were cash-backed. The Equitable Share is an unconditional grant and is utilized for free basic services and rates relief. No DORA allocations were delayed and/or withheld. All information was disclosed as required by the MFMA. Explanations were also given. The A-G was satisfied with the disclosures

			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.			
d)	Information in the Annual Report Format is requested in terms of S74 of the MFMA	This information is required on all allocations excluding the municipality's portion of the equitable share and were prescribed otherwise by the nature of the allocation. 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. Council should be satisfied that	✓			The A-G was satisfied with the disclosures

		✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. 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.			

10. CONCLUSION

The Oversight Committee commends Council, the Management, and staff at Mkhambathini Municipality on the strides made towards good governance.

10.1 The Unqualified Audit Report for Mkhambathini Municipality for the 2023/2024 annual financial statements received from the Office of the Auditor General, be noted with appreciation.

10.2 The MPAC commends the Council, the management, and staff of Mkhambathini Municipality on maintaining its record of good governance and once again achieving an unqualified audit report.

10.3 An Audit Action Plan be drafted to assist responding to matters raised in the Management Report and audit report, and to work towards a clean audit in the next financial year.

Having performed the following tasks:

- ✓ *Reviewed and analyzed of the Annual Report.*
- ✓ *Invited, received, and considered input from Councilors and Portfolio Committees, on the Annual Report;*
- ✓ *Done Public Announcements to allow the local community or any organs of state to make representations on the Annual Report.*
- ✓ *Prepared the draft Oversight Report, taking into consideration, the representatives of the Auditor-General, organs of state and Councilors.*

11. RESOLVED

The Oversight Committee has pleasure in presenting the Oversight Report to Council to consider the following resolutions:

RESOLVED TO RECOMMEND

- *That the oversight committee resolve to recommend to council to adopt the Annual Report with the amendments and without reservations.*
- *That the oversight report and the Annual Report be forwarded to the Provincial Legislature, the Provincial Department of Co-operative Governance and Traditional Affairs and the Provincial Treasury.*
- *That the Annual Report be posted on the website within seven days of the adoption.*
- *That the notice be published in the local media indicating that the Annual Report has been adopted, and*
- *That copies of the minutes of the Oversight Committee and Council dealing with the Annual Report be submitted to the Auditor-General, Provincial Treasury and the Department of Co-operative Governance and Traditional Affairs.*