

<b>ITEM 23</b>	<b>A</b>	<i>PORTFOLIO: MPAC</i> <i>DATE: 24/03/2022</i> <i>ITEM: 2</i> <i>PAGE: 1</i>	<i>MAYORAL COMMITTEE</i> <i>DATE:</i> <i>ITEM:</i> <i>PAGE:</i>	<i>COUNCIL</i> <i>DATE:28/03/2023</i> <i>ITEM:</i> <i>PAGE:</i>
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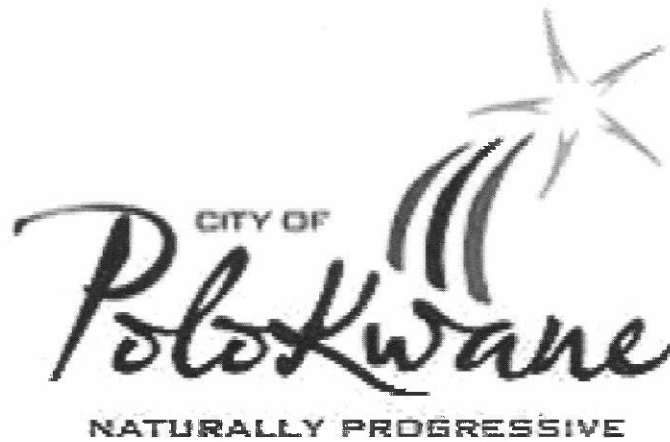
## **MPAC: OVERSIGHT REPORT ON THE 2021/2022 ANNUAL REPORT**

### **RECOMMENDATIONS**

That MPAC, having fully considered the 2021/22 Annual Report of Polokwane Municipality and its Entity Polokwane Housing Association (PHA), recommends that Council adopts the 2021/22 Oversight Report.

1. That the 2021/22 annual report be approved without reservations.
2. That the 2021/22 Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
3. 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.
4. That written notices be given to all poor performing contractors and service providers to enable the municipality to reject their Bids for future projects as per Section 38 1 (d) (ii) of the Municipal Supply Chain Management Regulations of 2005.
5. That Internal Audit form part of auditing the Annual Report and give their opinion before external audit resumes.
6. That an analysis/comparison of bids awarded during the 2022/23 financial year and 2021/2022 financial year be done to determine if the poor performing contractors are still being awarded works within the municipality.
7. That all errors identified as outlined in the annual report checklist be corrected prior publishing of the Annual report including the amount of expenditure on the projects.

**ACTION: MPAC CHAIRPERSON**



**OVERSIGHT REPORT ON 2021/2022 ANNUAL  
REPORT**

**PRESENTED TO COUNCIL**

**28 MARCH 2023**

## FOREWORD BY THE CHAIRPERSON OF MPAC

In accordance with the provisions of Section 79(A) of the Municipal Structures Act, no 117 of 1998, a Municipal Council must establish a committee called Municipal Public Accounts Committee. (a) Municipal Public Accounts committee to review Auditor-Generals reports and comments of the management committee and the audit committee and make recommendations to Council. (b) Initiate and develop the oversight report on annual reports contemplated in section 129 of the Local Government: Municipal Finance Management Act. The Municipal Public Accounts Committee of Polokwane Municipality was established by Council and the focus of MPAC is to assist Council to hold the executive to account, play oversight role on behalf of council and ensure the effective and efficient use of municipal resources.

The Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council with regard to the Annual Report and the preparation of an Oversight Report. Given the process required by Council to effectively undertake its oversight role, the establishment of the Municipal Public Accounts Committee (MPAC) of Council provides the appropriate mechanism through which Council can fulfil its oversight responsibilities. This time MPAC's primary role was to consider the Annual Report, probe and prepare Oversight Report for consideration by Council.

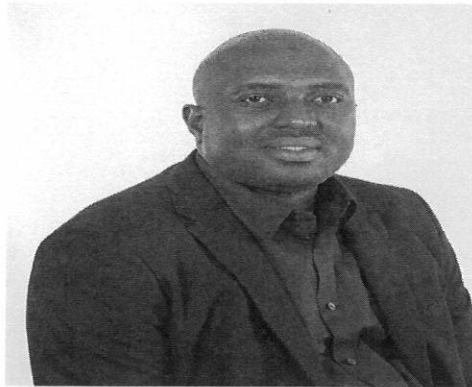
In the light of this responsibility, The Executive Mayor on the 30 January 2023 tabled the 2021/22 Annual Report of Polokwane Municipality for consideration. Council subsequently referred the 2021/22 Annual Report to MPAC for probing and Oversight.

MPAC noted improvements in certain performance areas, as reflected in the 2021/22 Annual Report and also noted areas of unsatisfactory performance and underperformance in some areas as reflected in the Oversight Report. As a result, MPAC has raised concerns and made recommendations on a number of issues that require immediate intervention by the Council. MPAC urge that management improve on areas of underperformance and improve on spending on grants and capital budget.

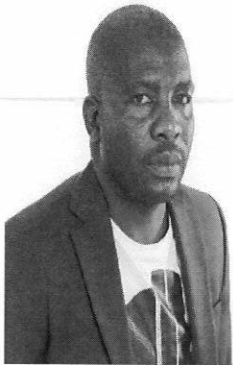
It is my belief that if Council considers these recommendations and the administration implements them fully, the municipality should move from unqualified Audit opinion to a Clean Audit opinion. The committee appreciate that the municipality improved from a qualified audit opinion to unqualified audit opinion. The committee also noticed a decrease in number of findings raised by AG and also appreciate that there were no findings raised on the performance report. The committee appreciate the entity (Polokwane Housing Association) for retaining an unqualified audit opinion, the Entity must address the issues raised by AG and aim at achieving a Clean audit.

Finally, I would like to extend special gratitude to the members of MPAC for their contribution, dedication and hard work in ensuring that this report was compiled and tabled in Council on time. I would also like to thank the administration led by the Municipal Manager for their cooperation with MPAC and MPAC support staff for their administrative support in ensuring that the activities assigned to the committee are fulfilled including the success of this Oversight Report.

**MEMBERS OF MUNICIPAL PUBLIC ACCOUNTS COMMITTEE**



**Cllr Ngoasheng LH – Chairperson**



**Cllr Makhafole MD**



**Cllr Dikgale SJ**



**Cllr Clarke S E**



**Cllr Mohlabeng DM**



**Cllr Mokobodi MV**



**Cllr Raphela TR**



**Cllr Ramakgolo MM**



**Cllr Chidi TD**



**Cllr Malatji M - Whippery**

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Cllr LH NGOASHENG

Ext. 2529

**DIRECTORATE: LEGISLATIVE SUPPORT (OFFICE OF THE SPEAKER)**

**ITEM:**

**FILE REF:**

**REPORT OF THE CHAIRPERSON: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE -  
OVERSIGHT REPORT ON THE 2021/2022 ANNUAL REPORT**

**1. INTRODUCTION**

The Local Government: Municipal Finance Management Act, Act 56 of 2003 (MFMA) read together with Local Government: Municipal Structures Act 117 Of 1998, assigns specific oversight responsibilities to Council with regard to the Annual Report and the preparation of an Oversight Report. The Municipal Public Accounts Committee was established for ensuring that the executive implements programmes and plans in consistent with policy, legislation and the dictates of the Constitution. The annual report is a key instrument of transparent governance and accountability.

It is a post-financial year document which provides an overview of the process of financial and non-financial performance in respect of the previous financial year, in this instance 2021/2022 financial year. The adoption of an Annual Report and oversight report is a legislated requirement in terms of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (MFMA).

Section 129 of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires the Council to consider the annual reports of its municipality and of any municipal entity to adopt an "oversight report" containing the Council's comments on each annual report. The Oversight Report is the final major step in the annual reporting process of the municipality.

The oversight report must include a statement whether the Council:

- Has approved the annual report, with or without reservations;
- Has rejected the annual report; or
- Has referred the annual report back for revision of those components that can be revised.

## **2. PURPOSE OF THE REPORT**

To submit the Oversight Report on the Annual Report for the 2021/2022 financial year in terms of Section 129 of the MFMA. To recommend to Council the consideration of the 2021/2022 Annual Report and to adopt an oversight report containing Council's comments on the Annual Report in terms of Section 129(1) of the Local Government: Municipal Finance Management Act, 2003 (Act no.56 of 2003).

## **3. BACKGROUND**

The 2021/22 Annual Report was tabled in Council by the Executive Mayor on the 30 January 2023. According to Section 129 of the MFMA, Council has to consider the Annual Report of the Municipality, its entity and by no later than two months from the date on which the annual report was tabled, adopt an oversight report containing the Council's comments on the report. Council has then referred the Annual Report to the Municipal Public Accounts Committee (MPAC) for consideration and probing (**CR/103/01/23**). The MPAC is expected to probe the Annual Report and compile an Oversight Report on the Annual Report on behalf of Council. The Oversight report is the final step in the Annual reporting process.

## **4. LEGAL FRAMEWORK**

### **4.1. Preparation and adoption of annual reports.**

Section 121 (1) of the MFMA requires that every municipality and every municipal entity must for each financial year to prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.

- Tabling of this report to Council confirms the compliance of the municipality with sec 121 (1) of the MFMA, the annual report was dealt with within nine months after the end of the financial year.

### **4.2. The purpose of an annual report**

Sec 121 (2) Municipal Finance Management Act, Act 56 of 2003 indicates the purpose of the Annual Report as: —

- a) To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;

- b) To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and
- c) To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

#### **4.3. Tabling of the Annual Report**

Section 127 of the MFMA says 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 and of any municipal entity under the municipality's sole or shared control.

- The Municipality complied with Sec 127 of the MFMA, the Executive Mayor tabled the annual report of the municipality and its entity Polokwane Housing Association (PHA) within seven months after the end of the financial year (30 January 2023).

#### **4.4. Submission of the Annual Report**

Section 127 (5) (b) of the MFMA requires the Accounting Officer to submit annual report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

- The municipality complied with Sec 127 (5)(b) of the MFMA, the annual report was submitted to office of the Auditor-General, Provincial treasury and Provincial department (CoGHSTA) responsible for local government in the province.

#### **4.5. Oversight reports on annual reports**

The oversight report is compiled in terms of Section 129 (1) of the Municipal Finance Management Act, No. 56 of 2003 which reads as follows: " The council of a municipality must consider the annual report of the municipality and of any municipality entity under the municipality's sole or shared control and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include statement whether the council:-

- (a) Has approved the annual report with or without reservations;
- (b) Has rejected the annual report
- (c) Has referred the annual report back for revision of those components that can be revised".



## 5. ANNUAL REPORT CONSULTATION PROCESS

5.1. Section 127 (2) of the MFMA says “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 2021/22 Annual Report was tabled in Council of 30 January 2023 with all the required attachments including the annual performance report, consolidated audited financials, audit reports of the municipality and its entity PHA. **Annexure B**

5.2. Section 127 (5) (a) (i) of the MFMA requires the Accounting Officer to make the annual report public.

- The 2021/22 Annual Report was made public on the Municipal Website, Municipal clusters, municipal libraries and Municipal Facebook page within five (days) and within seven (7) days in the local newspapers after it was approved by Council on 30 January 2023. **Annexure C**

5.3. Section 127 (5) (a) (ii) of the MFMA requires the Accounting Officer to invite the local community to submit representations in connections with the annual report.

- A notice was published to invite members of the community and other stakeholders to submit written comments/inputs into the Annual Report. In addition, the 2021/22 Annual Report was also made available at all Municipal Libraries, All Cluster Offices, Municipal Website and Municipal Facebook page. **Annexure C.**
- The municipality (MPAC) did not receive any comments from the members of the public and relevant stakeholders Within the 21 days of opening for comments from members of the public.

5.4. Section 127 (5) (b) of the MFMA requires the Accounting Officer to submit annual report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

- Copies of the 2021/22 Annual Report were submitted in terms of Section 127(5) (b) to the following stakeholders, Provincial Treasury, National Treasury, Provincial COGHSTA and Auditor General. **Annexure D.**

5.5. The Municipal Public Accounts Committee held a meeting to adopt the Action Plan for probing the 2021/22 annual report. **Annexure E.**

- Meetings were held as per adopted action plan and other meetings were also convened due to volume of documents to be considered.

5.6. The committee conducted a project site inspection / visits on the 28 February 2023, 01 & 02 March 2023. The projects visited are Seshego Waste water treatment, Construction of Sand river north water treatment works, Chuene/Maja RWS phase 11, Sports Complex at Molepo area, Upgrading of internal streets at Utjane and Upgrading of road from Gamosi via Sengatane to Chebeng.

#### 5.7. **MPAC Public Participation**

- MPAC held a public Participation meeting on the 14<sup>th</sup> of March 2023 in terms of Section 21 (a) of the Municipal Systems Act No. 32 of 2000.
- Members of the Public and municipal stakeholders were invited in terms of Section 21 (a) of the Municipal Systems Act No. 32 of 2000, the Acting Executive Mayor for the session presented the annual report and members of the public posed questions to the Executive Mayor to respond.
- The committee further distributed the summary of the 2021/22 Annual report to all municipal clusters, published a notice in local newspaper, municipal Facebook page and municipal website. **Annexure F.**

5.8. MPAC held a public hearing on the 16<sup>th</sup> of March 2023 at the New Council Chamber. Management led by the Municipal Manager was responding to clarity seeking questions posed by MPAC members. Members of the public, media and stakeholders were invited to the hearing in terms of Section 20, Chapter 4 of the Local Government: Municipal Systems Act. 32 of 2000 and Section 130 of the Municipal Finance Management Act, No. 56 of 2003. **Annexure G**

#### 6. **MPAC Findings**

- 6.1. Financial statements of the municipality and its entity were not prepared in all material aspects. The committee is concerned about the process of reviewing the AFS in the municipality and its entity since this is a recurring finding.

- 6.2. Annual report of the Municipality and its entity (PHA) was not properly reviewed, errors were identified during probing through the annual report checklist template (recurring).
- 6.3. Directors are not reviewing reported information prior submission to Council hence obvious errors and other indicators not reported were detected by MPAC during probing (recurring).
- 6.4. Supply Chain Management processes on procurement of service providers takes time to unfold and that lead to late appointment of service providers which ultimately contribute to delay in service delivery (recurring).
- 6.5. Grant funded projects are not completed in time and the municipality is losing grants which also contributes to delay in service delivery (recurring).
- 6.6. Poor performance on capital works programmes was due to late appointment of contractors, late appointment of consultants, poor performance of service providers and tenders which are advertised but service providers are not appointed on time (recurring).
- 6.7. The municipality has spent millions of Rands on the replacement of Asbestos pipes with AC pipes, but the municipality is still experiencing high Water losses.
- 6.8. The Municipality did not perform well in terms of service delivery, projects which were planned to be completed in 2021/22 financial year were not completed within the planned timeframe as per SDBIP targets (recurring).
- 6.9. Performance of some of the contractors or service providers are not monitored as required by section 116(2) of the MFMA (recurring).
- 6.10. The municipality is reporting revenue collection of over 90% but still raise a challenge of budget constraints when planned projects are not implemented. This is a concern that must be looked into since all projects in the Service Delivery Implementation Plan (SDBIP) are aligned to the approved budget for the financial year (recurring).
- 6.11. Persons in service of the municipality whose close family members had a private or business interests in contracts awarded by the municipality failed to disclose such interests, in contravention of SCM regulation 46(2) (e), the code of conduct for councilors issued in terms of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA) and the code of conduct for staff members issued in terms of the MSA. This was also raised in the previous audit report.

## **7. Conclusion**

Management must ensure that Supply Chain Management process on appointment of service providers is effective and appointments are made in time. If the issue of Supply Chain Management on the late appointment of consultant and contractors is not resolved in time, the municipality will continue losing grants allocated which will affect service delivery negatively towards the citizens of Polokwane Municipality.

The municipality must implement stringent measures to improve performance on Grants and capital spending. The municipality must look into poor performing contractors, Company Directors and not consider them for future projects.

The municipality must continue with assessment of service providers and in the event of unsatisfactory performance, written notices be written to the poor performing service providers. Bids from poor performing service providers be rejected. Should it be evident that poor performing service providers are awarded bids, consequences management be applied. The municipality must also fast track the process of replacing asbestos cement pipes to reduce the water losses experienced by the municipality.

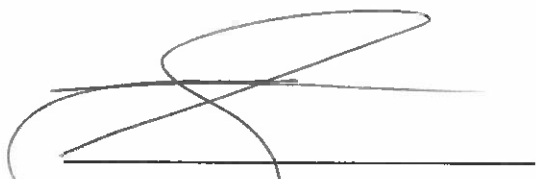
Municipal Manager must hold accountable directors who deliberately do not review reported performance in their directorates and allow incomplete performance reports to serve in Council.

## **8. MPAC Recommendations to Council**

That MPAC, having fully considered the 2021/22 Annual Report of Polokwane Municipality and its Entity Polokwane Housing Association (PHA), recommends that Council adopts the 2021/22 Oversight Report.

1. That the 2021/22 annual report be approved without reservations.
2. That the 2021/22 Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
3. 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.
4. That written notices be given to all poor performing contractors and service providers to enable the municipality to reject their Bids for future projects as per Section 38 1 (d) (ii) of the Municipal Supply Chain Management Regulations of 2005.
5. That Internal Audit form part of auditing the Annual Report and give their opinion before external audit resumes.

6. That an analysis/comparison of bids awarded during the 2022/23 financial year and 2021/2022 financial year be done to determine if the poor performing contractors are still being awarded works within the municipality.
7. That all errors identified as outlined in the annual report checklist be corrected prior publishing of the Annual report including the amount of expenditure on the projects.



**Cllr: LH Ngoasheng**  
**MPAC:Chairperson**

24/03/2023  
**Date**