



**OVERSIGHT REPORT ON 2018/2019 ANNUAL
REPORT**

PRESENTED TO COUNCIL

26 NOVEMBER 2020

VIRTUAL

FOREWORD BY THE CHAIRPERSON OF MPAC

In accordance with the provisions of Section 79(1) (a) of the Municipal Structures Act, no 117 of 1998, a Municipality may establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers. 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 29 September 2020 tabled the 2018/19 Annual Report of Polokwane Municipality for consideration. Council subsequently referred the 2018/19 Annual Report to MPAC for probing and Oversight.

MPAC noted improvements in certain performance areas, as reflected in the 2018/19 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 a qualified Audit opinion to at least an unqualified Audit opinion. The committee was not pleased that the municipality retained a qualified audit opinion, however the committee appreciate the entity (Polokwane Housing Association) for acquiring the unqualified audit opinion.

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 lastly 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.

Polokwane Municipality PUBLIC ACCOUNT COMMITTEE

MPAC COMMITTEE



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Cllr MM Tsiri

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DIRECTORATE: LEGISLATIVE SUPPORT (OFFICE OF THE SPEAKER)

ITEM:

FILE REF:

**REPORT OF THE CHAIRPERSON: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE -
2018/2019 OVERSIGHT REPORT**

1. INTRODUCTION

The Local Government: Municipal Finance Management Act, Act 56 of 2004 (MFMA), 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 a way 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 2018/2019 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 2018/2019 financial year in terms of Section 129 of the MFMA. To recommend to Council the consideration of the 2018/2019 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 2018/19 Annual Report was tabled in Council by the Executive Mayor on the 29 September 2020. 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 No: 14/09/2020). 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 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.

- Polokwane Municipality was unable to deal with the annual report of the municipality and its entity within nine months as required by MFMA, due to delay in release of the audit report and audited financials.

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.

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.

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 2018/19 Annual Report was tabled in Council 29 January 2020, however the report was incomplete since it did not have the audit report and the audited financials. The completed annual report with the audit report and audited financials was then tabled in council on the 29 September 2020. Annexure B

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

- The 2018/19 Annual Report was made public on the Municipal Website, Municipal clusters, municipal libraries within five (days) and within seven (7) days in the local newspapers after it was approved by Council on 29 September 2020. 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 2018/19 Annual Report was also made available at all Municipal Libraries, All Cluster Offices, Municipal Website and other stakeholders. Annexure C
 - The municipality did not receive any comments from the members of the public and relevant stakeholders. 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 2018/19 Annual Report were submitted in terms of Section 127(5) (b) to the following stakeholders, Provincial Treasury, National Treasury, Provincial COGHSTA and Auditor General. (Proof of Submission attached as Annexure D)
- 5.5.** The Municipal Public Accounts Committee held a meeting to adopt the Action Plan for probing the 2018/19 annual report Annexure E
- Meetings were held as per adopted action plan
- 5.6.** The committee conducted a project side inspection / visits on the 02, 04 and 06 November 2020. project visits report is attached as annexure F
- 5.7. MPAC Public Participation**
- Due to Covid-19 restrictions MPAC did not conduct a public participation a normal way, whereby the Executive Mayor will present the annual report and members of the public will pose questions to the Executive Mayor to respond. However the committee published a notice to request members of the public to submit written comments for MPAC consideration in the oversight report. The notice was in compliance with Section 21 (a) of the Municipal Systems Act No. 32 of 2000.
 - The committee further distributed the summary of the 2018/19 Annual report to all municipal clusters, published a notice in local newspaper, municipal facebook page and municipal website. Annexure G
- 5.8.** MPAC held a public hearing on the 17th of November 2020, the hearing was conducted virtually due to Covid 19 cautions. The link was shared with members of the public and relevant stakeholders in terms of Section 44 of the Municipal Systems Act No. 32 of 2000. Annexure H

6. MPAC Findings

- The Municipality is not doing well in terms of service delivery since projects are not completed within the planned timeframe.
- Poor performing contractors are being terminated which MPAC applaud, however those contractors are costing the municipality more money, since the municipality will have to restart the tender processes.
- Terminated contractors and contractors abandoning sites compromise the quality of work claimed and paid for, for example the contractor left site or is terminated after doing compaction for pavement, when the new contractor comes to site will have to redo the work since the quality might be compromised due to erosion and destabilisation.
- Poor monitoring of consultants.
- There is no record of skills transfer within the municipality from appointed consultants to internal staff.
- The committee realised that the lowest bidding contractors are costing the municipality since they are unable to complete projects on time; they decline appointments and abandon projects indicating that they quoted less for the work awarded.
- The loss of grants due to municipality not being able to spend the grants given.
- The municipality's application for roll over was declined and that will have a serious impact on the implementation of projects and financials of the municipality.
- The records of the municipal operations are individual based; it is difficult to access information since officials keep information in their offices which leads to loss of information in case of retirements, resignation, relocation and death.
- The process that PHA applies to reallocate the units at Ga-Rena might lead to litigations since units are allocated to hijackers and people not meeting the qualifying criteria.
- Report of the Auditor- General has indicated that awards were made to service providers who are in service of the municipality and failed to declare that as required by SCM regulation 13 (c).
- Report of the Auditor – General indicated that awards were made to providers who were in the service of other state institutions or whose directors were in service of other state institutions, in contravention of MFMA 112 (j) and SCM regulation 44.
- The municipality is not assessing performance of the Municipal Manager and Directors as required in terms of Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006.

- Internal Audit officials are not registered with professional bodies Institute of Internal Audit South Africa (IIASA) and they were excluded during audit of annual financial statements.

7. MPAC Recommendations

- The municipality must implement stringent measures to improve performance on Grants and capital spending.
- The municipality must look into poor performing contractors and not consider them for future projects since they are costing the municipality.
- Management implement an effective methods for records of municipal information so that in case of resignations, retirements, relocation of offices and death, information will be easily retrieved.
- Polokwane Housing Association must ensure that the process applied for reallocation of units will not lead to litigations against the entity and municipality.
- The Municipal Manager and Directors be assessed/evaluated quarterly and annually in terms of Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006.

8. MPAC Recommendations to Council

That MPAC, having fully considered the 2018/19 Annual Report of Polokwane Municipality and its Entity Polokwane Housing Association (PHA), recommends that Council adopts the 2018/19 Oversight Report.

1. That the 2018/19 annual report be approved with reservations.
2. That the 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, National and Department of Co-operative Governance and Traditional Affairs in accordance with Section 132(2) of the Municipal Finance Management Act 56 of 2003.
4. That the Municipal Manager and Directors accountable to the Municipal Manager be assessed/evaluated quarterly and annually in terms of Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006.
5. That Risk Management Unit further investigates the findings of Auditor- General to determine whether there has been transgression committed by Municipal Employees and those of other states of the organisation. Further advice on whether the Municipality can be in a position to recover the money in the event of a loss incurred by the municipality.

6. That Polokwane Housing Association (PHA) must apply allocation process that will not lead to litigations against the entity/municipality when allocating units.
7. That Database and allocation of units by PHA be audited to give assurance that units are allocated according to their property admin policy.
8. The municipality must have mechanism to monitor and enforce skills transfer from consultants to internal staff.
 - Provide MPAC with a detailed report on performance of consultants, indicating their purpose, achievement and the cost incurred by municipality.
9. That the municipality ensures that Internal Auditors are registered with professional bodies (Institute of Internal Audit South Africa) and they form part of audit of annual financial statements.



Cllr: MM Tsiri
MPAC: Chairperson

20/11/2020
Date