



OVERSIGHT REPORT

WITH REGARD TO THE 2018/2019 ANNUAL REPORT

*Compiled in terms of the Local Government: Municipal System Act, 2000
(Act 32 of 2000)*

*Local Government: Municipal Finance Management Act, 2003
(Act 56 of 2003)*

OORSIGVERSLAG

MET BETREKKING TOT DIE 2018/2019 JAARVERSLAG

*Opgestel in terme van die Wet op Plaaslike Regering: Munisipale Stelsels, 2000
(No. 32 VAN 2000)*

*Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, 2003
(No. 56 VAN 2003)*



THE OVERSIGHT REPORT OF THE OVERSTRAND MUNICIPALITY IN RESPECT OF THE 2018/2019 ANNUAL REPORT IS COMPILED IN TERMS OF SECTION 129 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT 56 OF 2003).

INDEX

- A.** Item 5.12 of the Minutes of the Council meeting of the Overstrand Municipality dated 25 March 2020.
- B.** Minutes of the Municipal Public Accounts Committee of the Overstrand Municipality dated 09 March 2020.
- C.** Auditor General MPAC Briefing
- D.** Provincial Treasury Comments on Tabled 2018/2019 Annual Report.

5.12

CONSIDERATION OF THE 2018/19 ANNUAL REPORT AND ADOPTION OF AN OVERSIGHT REPORT

(ITEM 7, PAGE 23 : MAYORAL COMMITTEE MEETING : 25 MARCH 2020)

RESOLVED (SUPPORTED BY 21 COUNCILLORS):

that, in terms of Section 129 of the Local Government : Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) and having duly considered the 2018/19 Annual Report of the Overstrand Municipality and the content of this item, the said report **be approved** without reservation.

RESPONSIBLE OFFICIAL :

R LOUW

TARGET DATE FOR IMPLEMENTATION :

NOT APPLICABLE



MEETING OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

MINUTES

DATE : 9 MARCH 2020
VENUE : MAYOR'S COMMITTEE ROOM
HERMANUS
TIME : 10:00

OVERSTRAND

MUNICIPALITY / MUNISIPALITEIT / U-MASIPALA

**MINUTES OF A MEETING OF THE MUNICIPAL PUBLIC ACCOUNTS
COMMITTEE HELD IN THE MAYOR'S COMMITTEE ROOM, HERMANUS ON
9 MARCH 2020 AT 10:00**

PRESENT:

Cllr S Tebele (Chairperson)
Cllr D Botha
Cllr R Nutt

ABSENCE WITHOUT LEAVE:

Cllr B Molefe
Cllr L Ntsabo

OFFICIALS PRESENT:

Mr C C Groenewald
Ms D Arrison
Ms S Reyneke-Naudé
Ms R Louw
Ms S Swart


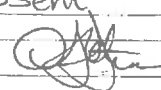

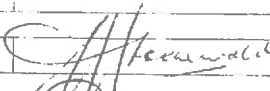
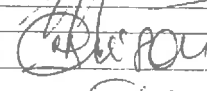
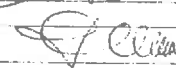


ALSO PRESENT:

Mr J Swarts (Repr the Auditor- General)
Ms M Khanye (Repr the Auditor-General)

**OVERSTRAND MUNICIPALITY
ATTENDANCE REGISTER**

MEETING: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

DATE OF MEETING: 9 MARCH 2020

CLLR TEBELE S	
CLLR MOLEFE B	Absent
CLLR BOTHA D	
CLLR NTSABO L	Absent
CLLR NUTT R	
MR GROENEWALD C	
MS ARRISON D	
MS REYNEKE-NAUDE S	
MS SWART S	Swart
J. ENRICH	
MPHO KHANTIE	

MINUTES OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
9 MARCH 2020

1. OPENING

The Chairperson, Cllr S Tebele, welcomed everyone present. The Municipal Manager, Mr C Groenewald, read the notice convening the meeting.

2. APPLICATIONS FOR LEAVE OF ABSENCE

Cllr B Molefe

RESOLVED:

that **cognisance be taken** that Cllr B Molefe was **absent without leave**.

Cllr L Ntsabo

RESOLVED:

that **cognisance be taken** that Cllr L Ntsabo was **absent without leave**.

The Municipal Manager requested that the above-mentioned be referred to the Speaker for investigation.

3. PRESENTATION: AUDITOR GENERAL

Mr J Swarts, representative from the Auditor-General's office, requested that the Briefing Note, which was attached to the agenda, be replaced with the one which was handed out at the meeting. The Briefing Note is thus attached to the minutes as Annexure A.

RESOLVED:

that the presentation by Mr J Swarts, a representative of the Auditor General's office, **be noted**.

4. CONSIDERATION OF THE 2018/2019 ANNUAL REPORT

The Municipal Public Accounts Committee considered the content of the Municipality's 2018/2019 Annual Report.

MINUTES OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
9 MARCH 2020

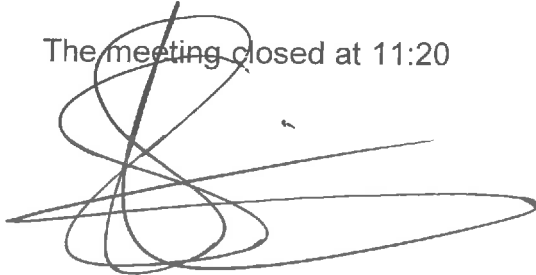
RESOLVED TO RECOMMEND TO THE COUNCIL:

that the draft Annual Report for the 2018/2019 financial year **be approved** without reservations.

5. CLOSURE

The Chairperson, Cllr S Tebele, afforded the Municipal Manager, Mr C Groenewald, the opportunity to speak, because this is the last MPAC meeting he will be attending where the Draft Annual Report is considered, as he will be retiring at the end of October 2020. Mr Groenewald then thanked all roleplayers involved in the compilation of the Annual Report.

The meeting closed at 11:20



CHAIRPERSON

11/03/2020
DATE

MPAC BRIEFING NOTE



Overstrand Municipality

9 March 2020



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Overstrand Municipality**CONTENTS**

1.	Introduction	1
2.	Overall message	1
3.	Audit opinion history	2
4.	Summary of findings identified	3
5.	Key focus areas	10
6.	Emerging Risks	11

What we **do** and what we **do not** do

The Auditor-General South Africa

DO's



Provide assurance that financial statements are free from misstatements



Report on material non-compliance with relevant legislation



Report on usefulness and reliability of the information in the annual performance report



Identify key internal control deficiencies to be addressed

DONT's



Provide assurance that all applicable legislation has been complied with



Identify fraud



Provide assurance that service delivery has been achieved

1. INTRODUCTION

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this document is to provide the political leadership with an overview of the audit outcomes and internal control deficiencies that may prevent the municipality from attaining the desired audit outcome, i.e. financially unqualified with no material findings on legislation and predetermined objectives (also known as a 'clean audit outcome'). Below are the summary of the 2018-19 audit outcomes.

2. Overall message

- The audit outcome is supported by the assurance provided by management and those charged with governance through the implementation of sound and effective policies and procedures together with the necessary internal financial controls that inherently creates an environment of effective leadership over financial governance, performance and compliance with legislation.

3. AUDIT OPINION HISTORY

Details	2018-19	2017-18	2016-17
Audit opinion	Unqualified with no other matters	Unqualified with no other matters	Unqualified with no other matters
Findings on compliance with laws & regulations	No	No	No
<ul style="list-style-type: none"> Material misstatements in financial statements submitted 	No	No	No
<ul style="list-style-type: none"> Late submission of financial statements 	No	No	No
<ul style="list-style-type: none"> Procurement and contract management 	No	No	No
<ul style="list-style-type: none"> Expenditure management 	No	No	No
<ul style="list-style-type: none"> Human resource management and compensation 	No	No	No
<ul style="list-style-type: none"> Service delivery matters 	No	No	No
Findings on predetermined objectives	No	No	No

Audit opinions

CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
UNQUALIFIED with findings on PDO and/or compliance
QUALIFIED AUDIT OPINION (with or without findings)
DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

4. SUMMARY OF FINDINGS IDENTIFIED

No material findings were identified during the audit process.

5. KEY FOCUS AREAS

5.1 Predetermined objectives

5.1.1 We have audited the following objective and no material findings were raised:

Strategic Objective
Objective 2 – The provision and maintenance of municipal services.

5.2 Procurement and contract management

5.2.1 No material findings were raised.

5.3 Financial Viability

5.3.1 Overall the financial viability was assessed as good.

5.4 Use of conditional grants

5.4.1 For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- *Municipal Infrastructure Grant (MIG).*

5.4.2 No material findings were raised.

5.5 Financial statements

The financial statements submitted for auditing were prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

6. EMERGING RISKS

6.1 New pronouncements

6.1.1 Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated: GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	1 April 2020
GRAP 35 - <i>Consolidated financial statements</i>	1 April 2020
GRAP 36 - <i>Investments in associates and joint ventures</i>	1 April 2020
GRAP 37 - <i>Joint arrangements</i>	1 April 2020
GRAP 38 - <i>Disclosure of interests in other entities</i>	1 April 2020
GRAP 104 - <i>Financial instruments</i> (Revised April 2019)	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 1 <i>Applying the probability test on initial recognition revenue</i> (amendments)	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	1 April 2019
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019
IGRAP 20 <i>Accounting for adjustments to revenue</i>	1 April 2020
Guideline <i>Accounting for arrangements undertaken in terms of the national housing programme</i>	1 April 2019
Guideline <i>Accounting for landfill sites</i>	To be determined
Guideline <i>The application of materiality to financial statements</i>	Voluntary*
* The Guideline on <i>The application of materiality to financial statements</i> was issued in April 2019. The Guideline is available for immediate consideration, to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the Guideline is voluntary, application is encouraged.	

6.2.1 SCM regulation 32

The supply chain management regulations issued in terms of the MFMA allows for the accounting officer to procure goods and services for the municipality or municipal entity under a contract secured by another organ of state in terms of regulation 32. However, the procurement

must occur whilst the originating contract is enforceable, i.e. active contract, and the nature, scope and duration of the contract must be consistent. Contracts secured through the application of regulation 32 cannot be amended, in terms of section 116(3) of the MFMA, if those amendments change the scope of the original contract. Non-adherence to these principles will be considered for non-compliance.

We wish to remind all municipalities of the principles and conditions when participating in contract secured by another organ of state in terms of regulation 32, which are as follows:

- The contract must have been procured through a competitive bidding process (not a deviation).
- The contract must be active at the time of participation.
- The procuring institution may not procure beyond the scope of the original contract, i.e. the original contract price, term and goods and services must remain unchanged.
- The municipality should participate in the contract of the other organ of state and should not enter into a new contract with the supplier.

6.2.2 Deviations

In terms of Municipal Supply Chain Management Regulation 36, an accounting officer may deviate from competitive bidding procurement processes, provided that such deviation is properly approved and justifiable.

Our audits at municipalities have brought to light that this regulation is increasingly being used by municipalities and approved by the accounting officer even though it was not impractical to invite competitive bids. Future audits will continue to focus on evaluating whether the deviations

are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons, to confirm that this regulation is not being used to circumvent competitive bidding.

The municipality's deviation register reflects that R30, 1 million of contracts were concluded during the 2018-19 financial year using deviations (2017-18: R47, 2 million), the largest procurement deviations relating to impracticality. The municipality is advised to ensure that, where deviations are unavoidable, such cases are properly motivated/justifiable and documented and that the requirements of section 217 of the Constitution of the Republic of South Africa, 1996, i.e. fair, equitable, transparent, competitive and cost-effective, are considered throughout.

6.2.3 Material irregularities

In terms of section 1(g) of the Public Audit Amendment Act, 2018 (Act No. 5 of 2018) a material irregularity is defined as any *non-compliance* with, or contravention of, legislation, *fraud*, *theft* or a *breach of a fiduciary duty* identified during an audit performed under this Act that resulted in or is likely to result in a *material financial loss*, the *misuse or loss of a material public resource* or *substantial harm to a public sector institution or the general public*.

Accounting officers have a legal obligation to prevent all irregularities and take action if it occurred. The AGSA's focus is only on material irregularities.

Accounting officers commit financial misconduct if they:

- wilfully or negligently contravene sections 60 to 79 of the MFMA which deal with their responsibilities
- incur or permit unauthorised, irregular or fruitless and wasteful expenditure misconduct.

Officials commit financial misconduct if they wilfully or negligently fail to exercise duty or power assigned by the accounting officer.

Financial misconduct must be investigated and appropriate action taken.

Auditors will take the following action upon detection of known or suspected material irregularities:

- The accounting officer will be notified without delay of the material irregularity in writing
- The content of the notification and the response required from the accounting officer are prescribed in the material irregularity regulations.
- The notification will provide all the relevant information on the material irregularity and will request written feedback, substantiating documents and other forms of proof within 20 working days that appropriate steps are being taken to:
 - stop the irregularity (if ongoing)
 - prevent any loss, misuse or harm, or recover any losses
 - determine who the responsible person or entity (e.g. supplier or implementing agent) is and take appropriate action

The material irregularity will be reported in the audit report. A certificate of debt can be avoided by implementing the directive to quantify the financial loss and take steps to recover the losses.

The commencement date agreed with the president is 1 April 2019. For the 2018-19 financial year a phased in approach was implemented on selected auditees only, but the requirements of the Act will be applicable to all auditees for the 2019-20 financial year's audit process.

6.2.4 Bid adjudication committee (BAC) composition

MFMA regulation 29(2) states that a BAC must consist of at least four senior managers of the municipality or municipal entity which must include-

- (i) the chief financial officer (CFO) or, if the CFO is not available, another manager in the budget and treasury office reporting directly to the CFO and designated by the CFO;
- (ii) at least one senior supply chain management (SCM) practitioner who is an official of the municipality or municipal entity; and
- (iii) a technical expert in the relevant field who is an official of the municipality or municipal entity, if the municipality or municipal entity has such an expert.

Each award should be adjudicated by a committee that is composed in compliance with regulation 29(2).

The following principles were confirmed with National Treasury:

- (i) the senior manager referred to above are managers as envisaged by s56 of the Municipal Systems Act
- (ii) the senior SCM practitioner does not have to be a manager as envisaged by s56 of the Municipal Systems Act
- (iii) The CFO cannot fulfil the role of both the CFO and the SCM practitioner
- (iv) Not any senior manager can fulfil the role of SCM practitioner for purpose of the BAC – the SCM practitioner's daily duties and functions should primarily include SCM functions
- (v) A voting member of a bid evaluation committee (BEC) cannot also be a member of the BAC. A member of the BEC can be present to provide clarity but may not do work of the BAC i.e. to review the decision of the BAC.



**Western Cape
Government**

Provincial Treasury

Ms Nobahle Silulwane
Local Government Budget Office
Email: Nobahle.silulwane@westerncape.gov.za
tel: +27 021 483 9265 fax: +27 21 483 4680

Reference: PTR 12/2/9/4

The Municipal Manager
Overstrand Municipality
PO Box 20
HERMANUS
7200

For attention: The Municipal Manager, Mr C Groenewald

PROVINCIAL TREASURY COMMENTS ON THE TABLED 2018/19 ANNUAL REPORT

1. INTRODUCTION

- a. MFMA section 121(1) states that every municipality and every municipal entity must for each financial year prepare an annual report. The council of a municipality must within nine months after the end of the 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.
- b. MFMA sections 121(3) and (4) sets out the framework relating to the content of the annual reports for both municipalities and municipal entities.
- c. National Treasury has further introduced the new annual report template and MFMA Circular No. 63 on 26 September 2012. MFMA Circular 63 aims to provide guidance to municipalities and municipal entities on the Annual Report format and its contents.
- d. The municipal council is then obliged to consider any views of the local community; the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the Annual Report.

2. LEGISLATIVE COMPLIANCE

2.1 Conformance

The conformance assessment highlights compliance by Overstrand Municipality with the MFMA and Annual report MFMA Circular 63 is as follows:

- a. The Municipality submitted the draft 2018/19 Annual Report to the Auditor-General by 31 August 2019.
- b. The unaudited Annual Report was tabled in Council on 28th August 2019, at least two months at the end of the budget year in accordance with MFMA Circular 63.
- c. The draft audited Annual report was tabled to Council on **22 January 2020** which is within 7 months after the end of the financial year in accordance to MFMA section 121(1).
- d. The draft Annual report was placed on the municipal website on the **22 January 2020** in accordance to section 75 of the MFMA.

2.2 Format of the Annual Report as per MFMA Circular 63

- a. The Annual Report comply with the Annual Report Template as prescribed by MFMA Circular 63 as all the relevant chapters are included.
- b. All the required Appendices A to T (refer to MFMA Circular 63) are included in the Draft Annual report.
- c. The Mayor's Foreword is broadly in line with MFMA Circular 63 guidelines for this section.
- d. The Municipal Managers Foreword is broadly in line with MFMA Circular 63 guidelines for this section.
- e. The Annual Report provide a comprehensive overview of the demographics, population, growth, highlights and challenges faced in the municipal are during the 2018/19 financial year.
- f. The Report provide description and pictures of projects embarked on and completed as a form of portfolio of evidence.

3. Chapter 3: Service Delivery Information and Performance

The table below indicates the top layer performance of Overstrand Municipality against the Municipality's Strategic Objectives as derived from the Municipality's Integrated Development Plan(IDP) for the period 1 July 2018 – 30 June 2019.

NON-FINANCIAL PERFORMANCE SUMMARY

Strategic Objectives	Number of Targets in SDBIP	Number of targets achieved	Number of targets not achieved	Percentage of targets achieved
The provision and maintenance of municipal services	18	15	3	83.3%
The provision of democratic, accountable and ethical governance	20	18	2	90.0%
The promotion of tourism, economic and social development	8	8	0	100%
The encouragement of structured community participation in the matters of the municipality	1	0	1	0.0%
The creation and maintenance of a safe and healthy environment	3	3	0	100%
Total	50	44	6	88.0%

Comments

- a. The amended top layer SDBIP indicates that the Municipality had a total of 50 Key Performance Indicators (KPI's) of which the Municipality met 44 (88 per cent) in the 2018/19 financial year. This reflects a variance of more than 12 per cent between planned and achieved targets, an improvement from 15 per cent variance recorded in 2017/18. As such, the overall performance improved compared with 2017/18 when 86 per cent of targets were met.
- b. Of the Top Service Delivery and Budget Implementation Plan, Strategic objectives "the promotion of tourism, economic and social development" and "the creation and maintenance of a safe and healthy environment" achieved all the targets (100%) as per the Top Layer SDBIP.
- c. Although the municipality did not achieve the target pertaining to "The encouragement of structured community participation in the matters of the municipality", in full the municipality came very close at 97.4 per cent (114 of 117 meetings).
- d. Progress regarding achievement as reflected in the Mayor's foreword and the Municipal Manager's Overview, as well as the Municipality's commitment to sustained service delivery and sound financial management is noted.

- e. The municipality identified "corrective measures" where targets have been missed (refer table below). However, in most cases the motivations provided are actually reasons for variances. The municipality should therefore distinguish between reasons for variances and corrective measures.

Response from Municipality: Comment under item e above is noted.

KPI	Unit of measurement	Target	Actual	Corrective measure
Submit progress reports on the revision of the top 10 risks as a corrective action to the Executive Management Team	Number of progress reports submitted	4	3	No EMT held in December, Council in recess. Meeting held in March 2019
Financial statement submitted to the Auditor-General by 31 August 2018	Financial statements submitted	1	0	<p>The Annual Financial Statements (AFS) was submitted for auditing to the Auditor-General on 01 September 2018 at 03h44, 3 hours and 44 minutes after 30 June 2018, thus it was not submitted within two months after the end of the financial year (31 August 2018) as required by section 126(1)(a) of the MFMA.</p> <p>The Office of the Auditor-General has however considered the matter and the outcome in the Audit Report confirmed that the Overstrand Municipality has sustained a clean audit outcome for the 2017/2018 financial year</p>
Ward committee meetings held to facilitate consistent and regular	Number of ward committee meetings per annum	117	114	No meetings in Quarter 1 for wards, 5, 6, and 12 due to conflict situation in community.

communication with residents				meeting cycle continued in Quarter 2, 3 and 4.
Limit unaccounted water to less than 20% {(Number of kilolitre water purified - Number of kilolitre water sold)/Number of kilolitre purified x 100}	% of water unaccounted for	19%	24.25%	<p>Grey water excluded from water sold for 2018/2019. The increase in burst pipes may also be partly as a result of no budget allocation for water pipe replacement programme in 2017/18 and 2016/17.</p> <p>Approved budget for 2019/20 is R16 million.</p>
Provision of cleaned piped water to all formal households within 200 m from households (MPPMR Reg. 10 (a))	No of formal households that meet agreed service standards for piped water	30 209	29 800	<p>Service rendered to all households.</p> <p>Contributing factors for target not met: Less residential development as anticipated (e.g. government funded housing projects delayed). General redevelopment of properties on initiative of property owners (e.g. consolidation of properties)</p> <p>Target to be reviewed during midyear review of 2019/20.</p>
Provision of sanitation services to formal residential households (A household is defined as a residential unit billed for the particular services rendered by way of the financial system (SAMRAS)) (MPPMR Reg. 10 (a))	No of formal residential households which are billed for sewerage in accordance to the SAMRAS financial system	29 841	29 631	<p>Service rendered to all households.</p> <p>Contributing factors for target not met: Less residential development as anticipated (e.g. government funded housing projects)</p>

				<p>delayed). General redevelopment of properties on initiative of property owners (e.g. consolidation of properties).</p> <p>Target to be reviewed during midyear review of 2019/20</p>
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4. GENERAL

With regards to the Auditor General findings, Overstrand Municipality has retained its clean audit report status for 2018/19.

5. CONCLUSION AND RECOMMENDATIONS

Overstrand Municipality has complied with legislation regarding tabling, publishing the document for comments, submission to Provincial Treasury and placement on the website within the time frames prescribed in the MFMA section 121.

In terms of the content the annual report is aligned to the MFMA circular 63; all the required sections and annexures are attached in the report. The Municipality has thus performed well in embracing the reforms advocated as per MFMA Circular 63.

The Municipality produced a detailed 2018/19 Annual Report reflecting comprehensive information pertaining to the Municipality's performance during the year under review. The Municipality's performance has improved from 2017/18 to 2018/19.

Kind regards



MR M BOOYSEN

SENIOR MANAGER: BUDGET MANAGEMENT: LOCAL GOVERNMENT

DATE: 27 February 2020