

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

5/15/1/1

R Louw

Senior Manager: Strategic Services

11 March 2020

(028) 313 8071

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**1. Executive Summary**

The purpose of this report is to consider the 2018/19 Annual Report and to adopt an Oversight Report. **FOR PURPOSES OF CONSIDERING THIS ITEM COUNCILLORS ARE REQUESTED TO ALSO REFER TO THE ANNUAL REPORT, WHICH WAS TABLED ON 22 JANUARY 2020.**

**2. Service Delivery and Budget Implementation Plan - IGNITE**

Management Services  
Strategic Services

**3. Compliance with Strategic Priority**

Provision of democratic, accountable and ethical governance

**4. Delegated Authority**

None

**5. Legal Requirements**

Local Government : Municipal Systems Act, 2000 (Act 32 of 2000)

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

**6. Background/Discussion/Evaluation/Conclusion**

**Background**

In terms of the above legislation a Municipality must prepare an Annual Report for each financial year. The core components of such an Annual Report must include:

- a. a performance report;
- b. the financial statements;
- c. and audit report on the financial statements, and
- d. the audit report on the performance evaluation

The purpose of the Annual Report is to:

- provide a record of the activities of the Municipality;
- provide a report on performance in service delivery and against the budget;
- provide information that supports the revenue and expenditure decisions made; and
- promote accountability to the local community for decisions made.

The draft audited Annual Report, taking cognisance of the above-mentioned requirements, was tabled by the Executive Mayor at the Special Council meeting of 22 January 2020.

The local community was in terms of section 127(5)(a)(ii) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) invited to submit representations in connection with the draft Annual Report to the Municipality by submitting such representations to the Municipal Manager on or before 28 February 2020.

No comments from/by the public were received as at the date and time of closure. Comments were however received from Provincial Treasury, attached as **Annexure A**. The comment from the Municipality on the Provincial Treasury assessment is stated on page 4 in the Treasury document (Annexure A).

The Municipal Public Accounts Committee (MPAC) also considered the Annual Report on 9 March 2020. A representative of the Auditor-General, Mr Jacobus Swarts, attended the MPAC meeting. The minutes of the MPAC is attached as **Annexure B**.

The checklist for considering the Annual Report is attached as **Annexure C**.

Representatives of the Office of the Auditor-General and Provincial Departments of Local Government and Finance have been invited to attend the council meeting. Likewise have the chairperson of the municipality's Joint Audit and Performance Audit Committee (JPAC) been invited to attend the meeting. The MFMA furthermore provides for members of the local community, if any, to address the council.

For purpose of adopting an Oversight Report the MFMA requires the Council to consider the Annual Report to state whether the Council:

- approves the Annual Report, with or without reservations;
- rejects the Annual Report or;
- refers the Annual Report back for revision of those components that can be revised.

**7. Financial Implications**

Not applicable

**8. Staff Implications**

Report compiled in-house

**9. Comments from other Departments, Divisions and Administrations**

Various officials were interviewed and consulted during the information gathering phase.

**10. Annexures**

Annexure A: Comments from Provincial Treasury

Annexure B: Minutes of the Municipal Public Accounts Committee (MPAC)

Annexure C: Checklist for considering the Annual Report

**(Note: The Final Annual Report for 2018/19 is distributed in hard copy)**

**RECOMMENDATION TO THE COUNCIL:**

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**



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**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 28<sup>th</sup> 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**

<b>Strategic Objectives</b>	<b>Number of Targets in SDBIP</b>	<b>Number of targets achieved</b>	<b>Number of targets not achieved</b>	<b>Percentage of targets achieved</b>
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%
<b>Total</b>	<b>50</b>	<b>44</b>	<b>6</b>	<b>88.0%</b>

**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%	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.  Approved budget for 2019/20 is R16 million.
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	Service rendered to all households. 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)  Target to be reviewed during midyear review of 2019/20.
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	Service rendered to all households.  Contributing factors for target not met: Less residential development as anticipated (e.g. government funded housing projects



				<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**



## **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**

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**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)

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**MINUTES OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE  
9 MARCH 2020**

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**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 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**

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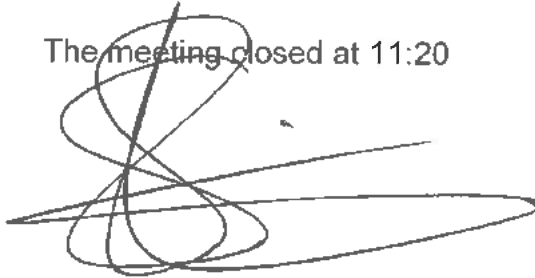
**RESOLVED TO RECOMMEND TO THE COUNCIL:**

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.

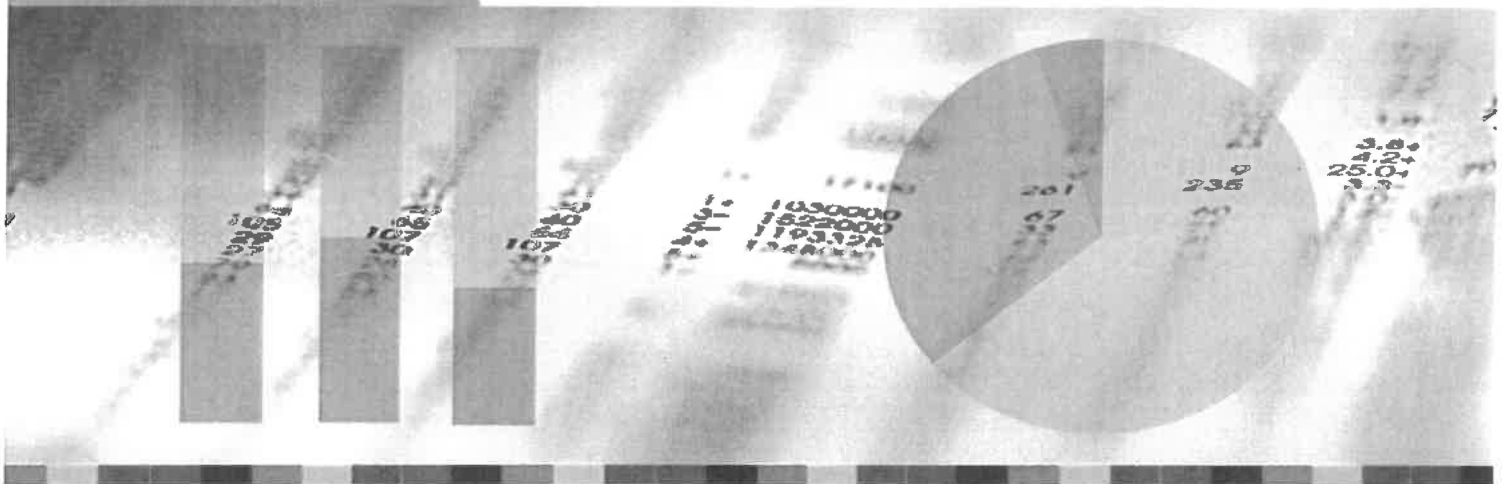
The meeting closed at 11:20



CHAIRPERSON

11/03/2020  
DATE

# MPAC BRIEFING NOTE



## Overstrand Municipality

9 March 2020



**AUDITOR - GENERAL  
SOUTH AFRICA**

**Overstrand Municipality**

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# What we do and what we do not do



## The Auditor-General South Africa



DO's



DONT'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

- ✗  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"> <li>Material misstatements in financial statements submitted</li> </ul>	No	No	No
<ul style="list-style-type: none"> <li>Late submission of financial statements</li> </ul>	No	No	No
<ul style="list-style-type: none"> <li>Procurement and contract management</li> </ul>	No	No	No
<ul style="list-style-type: none"> <li>Expenditure management</li> </ul>	No	No	No
<ul style="list-style-type: none"> <li>Human resource management and compensation</li> </ul>	No	No	No
<ul style="list-style-type: none"> <li>Service delivery matters</li> </ul>	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:

<b>Strategic Objective</b>
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: <b>GRAP pronouncement</b>	<b>Effective date</b>
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.





**ANNEXURE C TO MFMA CIRCULAR NO 32****CHECKLIST FOR CONSIDERING THE ANNUAL REPORT**

The MFMA provides that the purpose of the annual report of a municipality or a municipal entity for each financial year is:

- to provide a record of activities;
- to provide a report on performance against the budget; and
- to promote accountability to the local community for decisions made throughout the year.

The MSA provides that an annual *performance report* must be prepared for each financial year to report on the performance of the municipality and each external service provider, compared with targets set for performance.

The annual report requirements are provided in Chapter 12 of the MFMA, section 45 and 46 of the MSA and the annual Division of Revenue Act.

The following checklist summarises what must be included in the annual report and is designed to support and guide councillors and officials. It should be noted however, that this list is not exhaustive and from time to time other information requirements may be prescribed. Consideration must also be given to specific circumstances and conditions in which other questions may be appropriate. Councillors and officials are encouraged to make suggestions to enhance this checklist and send these to the National Treasury.

Council should verify that the required information is contained in the annual report and then consider the relevance and accuracy of information accordingly. The checklist provides guidance on how matters could be considered.

The oversight committee and the full council may use this checklist as a means to organise the report and to manage requests for additional information. The questions suggested may be used by all councillors to gain clarification on contents of reports and also to verify compliance with the MFMA and MSA. Responses to many of these questions should be provided by the accounting officer of the municipality and/or municipal entities.

Note that the views of the Audit Committee and the findings of the Auditor-General are primary sources of information to assist council in determining a decision on the annual report.

**CHECKLIST FOR CONSIDERING THE ANNUAL REPORT FOR THE 2018/19 FINANCIAL YEAR, OVERSTRAND MUNICIPALITY**

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
<p><b>Financial Matters</b></p> <p>The annual financial statements (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General</p>	<p><b>Financial Reporting Matters to be Considered</b></p> <p>Where the municipality has sole or effective control of a municipal entity, consolidated financial statements are required. 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 new accounting standards for municipalities.  <i>Have the required standards been met – refer audit report and report of audit committee for views on this?</i></p>	<p>Yes,                      Annexure A: Financial Statements (AFS) (pg.1 -72)</p>
	<p>The above applies also to the AFS of municipal entities.</p>	<p>n/a</p>
<p>The Auditor-General's reports on the financial statements of the municipality and the entities</p>	<p><i>Is the audit report included in the annual report as tabled?                      If not, when will the audit report be tabled?                      What are causes of the delays?                      What actions are being taken to expedite the report?</i></p>	<p>Yes,                      Annexure B: Report of the Auditor-General</p>
	<p>The above applies also to the AFS of municipal entities.</p>	<p>n/a</p>
<p>Any explanations that may be necessary to clarify issues in connection with the financial statements</p>	<p>The accounting standards require that notes accompany the statements to provide explanations of issues and matters reported. Refer also points below on information in notes to AFS.  <i>Taking into consideration the audit report and the audit committee comments, is sufficient explanation of financial issues contained in the notes to the statements?</i></p>	<p>Yes,                      Notes attached as part of Annexure A, (pg.26-64) of the AFS</p>
	<p>The above applies also to the AFS of municipal entities.</p>	<p>n/a</p>
<p>An assessment by the accounting officer on any arrears on municipal taxes and service charges including municipal entities.</p>	<p><i>Has an adequate assessment been included?                      Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation?                      Is any other action required to be taken?</i></p>	<p>Yes,                      Chapter 5,                      Section 5.11-5.12 (pg.394-395)</p>
	<p>The conclusions of the annual audit may be either –</p>	<p>Yes,</p>

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
<p>Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports</p>	<ul style="list-style-type: none"> <li>• an unqualified audit opinion with or without management issues, which means that the financial statements are acceptable;</li> <li>• a qualified audit opinion setting out reasons for qualification, which means that certain issues need to be addressed before an unqualified opinion can be achieved; or</li> <li>• the auditor will disclaim the statements and not offer an opinion. In this case there may be serious financial issues to be addressed.</li> </ul> <p>The objective of the municipality should be to achieve an unqualified audit opinion.</p> <p><i>Taking into account the audit report, audit opinion and the views of the audit committee, council should consider:</i></p> <ul style="list-style-type: none"> <li>• <i>To what extent does the report indicate serious or minor financial issues?</i></li> <li>• <i>To what extent are the same issues repeated from previous audits?</i></li> <li>• <i>Is the action proposed considered to be adequate to effectively address the issues raised in the audit report?</i></li> <li>• <i>Has a schedule of action to be taken been included in the annual report, with appropriate due dates?</i></li> </ul> <p>Note that actions taken on audit issues are to be reported to the provincial legislature, the MEC's 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 MEC's.</p>	<p>Chapter 6 (section 6.2), pg. 400</p> <p>Annexure B- AG report, paragraph 2 (opinion)</p>
<p>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 above applies also to the AFS of municipal entities.</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's 17(3)(b)). The accounting officer must include these objectives in the annual report and report on performance accordingly.</p> <p><i>Has the performance met the expectations of council and the community? Have the objectives been met?</i></p> <p><i>What explanations have been provided for any non-achievement?</i></p>	<p>n/a</p> <p>Yes, Chapter 3, Service delivery performance, (pg. 108 -338)</p>

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
	<p><i>What was the impact on the service delivery and expenditure objectives in the budget?</i> Council should comment and draw conclusions on performance and explanations provided.</p>	
<p>An assessment by the municipal entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and the municipality</p>	<p>Agreements between the municipality and its entities for service delivery are to include measurable performance objectives. This will include measures of services delivered to the community, financial targets, expenditure targets, etc. The entity's annual report must include an assessment by the accounting officer, or performance against these objectives. In order to show the linkage between the entity and the municipality, the report of the municipality should also include the performance of entities.</p> <p><i>Has the performance met the expectations of council and the community? Have the performance objectives been met?</i></p> <p><i>What explanations have been provided for any non-achievement?</i></p> <p><i>What was the impact on the service delivery and expenditure objectives in the budget?</i></p> <p>Council should comment and draw conclusions on performance and explanations provided.</p>	<p>n/a- no municipal entities</p>
<p>Any information as determined by the municipality, the entity or its parent municipality</p>	<p>Review any other information that has been included in regard to the AFS.</p>	
	<p>The above applies also to the AFS of municipal entities.</p>	<p>n/a- no municipal entities</p>
<p>Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and its entities.</p>	<p><i>Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity?</i> <i>What actions need to be taken in terms of these recommendations?</i> Conclusions on these recommendations and the actions required should be incorporated in the oversight report.</p>	<p>Yes, Annexure C: Report of the Audit Committee Pg. 2-3. Paragraphs 4, 5, 6, 7</p>

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
<p><b>Allocations received and made</b></p> <p>Allocations received by <u>and</u> made to the municipality</p>	<p><b>Considerations</b></p> <p>The report should disclose:</p> <ul style="list-style-type: none"> <li>• Details of allocations received from another organ of state in the national or provincial sphere.</li> <li>• Details of allocations received from a municipal, entity or another municipality.</li> <li>• Details of allocations made to any other organ of state, another municipality or a municipal entity.</li> <li>• Any other allocation made to the municipality under Section 214(1)(c) of the Constitution.</li> </ul> <p><i>Have these allocations been received and made?</i>  <i>Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets?</i>  <i>Does the audit report or the audit committee recommend any action?</i>            Council should comment and draw conclusions on information and explanations provided.</p>	<p><b>Comments</b></p> <p>Yes,            Chapter 5: Financial performance,            Section 5.3.1 – grant performance (pg. 364-365); Section 5.13.3 (pg.397-398)</p> <p>Also- notes of AFS provides detail of government grants and subsidies</p>
<p>Allocations received <u>and</u> made to the municipal entity</p>	<p>The report should disclose:</p> <ul style="list-style-type: none"> <li>• Details of allocations received from any municipality or other organ of state.</li> <li>• Details of any allocations made to a municipality or other organ of state.</li> <li>• Other information as may be prescribed.</li> </ul> <p><i>Have these allocations been received and made?</i>  <i>Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets?</i>  <i>Does the audit report or the audit committee recommend any action?</i>            Council should comment and draw conclusions on information and explanations provided.</p>	<p>n/a</p>
	<p>Section 123 of the MFMA and MFMA guidance circular 11, require that the municipality provide information per allocation received per vote and include:</p>	<p>Yes,            Chapter 5: Financial performance,            Section 5.3.1 – grant performance</p>

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
<p><b>Allocations received and made</b></p> <p>Information in relation to the use of allocations received</p>	<p><b>Considerations</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this.</li> </ul> <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> <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><i>Council should be satisfied that –</i></p> <ul style="list-style-type: none"> <li><i>the information has been properly disclosed;</i></li> <li><i>conditions of allocations have been met; and</i></li> <li><i>that any explanations provided are acceptable.</i></li> </ul> <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>	<p><b>Comments</b></p> <p>(pg. 364-365); Section 5.13.3 (pg.397-398)</p> <p>Pg. 394-395, only cites debtors per service. The differentiation by national and provincial is available, but not included</p>

Information Required to be Included in Annual Reports	Council Considerations and Questions	Comments
<p><b>Allocations received and made</b></p> <p>Information in relation to outstanding debtors and creditors of the municipality and entities</p>	<p><b>Considerations</b></p> <p>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, included the payment of taxes, audit fees, and contributions for pension and medical aid funds.</p> <p><i>Council should be satisfied that –</i></p> <ul style="list-style-type: none"> <li>• <i>the information has been properly disclosed;</i></li> <li>• <i>conditions of allocations have been met; and</i></li> <li>• <i>also that any explanations provided are acceptable</i></li> </ul> <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>	<p><b>Comments</b></p> <p>because it's not a requirement for inclusion in the AR by neither the MFMA, GRAP nor the AG.</p>
<p><b>Disclosures in notes to AFS</b></p> <p>Information relating to benefits paid by municipality and entity to councillors, directors and officials</p>	<p><b>Considerations relating to section 124</b></p> <p>Information on the following items is to be included in the notes to the annual report and AFS:</p> <ul style="list-style-type: none"> <li>• salaries, allowances and benefits of political office bearers, councillors and boards of directors, whether financial or in kind;</li> <li>• 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;</li> <li>• salaries allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager;</li> <li>• contributions for pensions and medical aid;</li> <li>• travel, motor car, accommodation, subsistence and other allowances;</li> <li>• housing benefits and allowances;</li> <li>• overtime payments;</li> <li>• loans and advances; and</li> <li>• any other type of benefit or allowance related to staff.</li> </ul>	<p><b>Comments</b></p> <p>Yes, Notes 27 and 28 in AFS (pg. 45- 47 of AFS)</p>

Disclosures in notes to AFS	Considerations relating to section 124	Comments
	<p>Council should be satisfied that –</p> <ul style="list-style-type: none"> <li>• the information has been properly disclosed;</li> <li>• conditions of allocations have been met; and</li> <li>• that any explanations provided are acceptable.</li> </ul> <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>	
<p><b>Municipal Performance</b></p> <p>The annual performance reports of the municipality and entities</p>	<p><b>Considerations</b></p> <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 measurers taken to improve performance. The report must form part of the annual report. Questions that may be considered are –</p> <p><i>Has the performance report been included in the annual report?</i>  <i>Have all the performance targets set in the budgets, SDBIP, service agreements, etc. been included in the report?</i>  <i>Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIP approved for the financial year?</i>  <i>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.?</i>  <i>To what extent has performance achieved targets set by council?</i>  <i>Is the council 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?</i>  <i>What actions have been taken and planned to improve performance?</i>  <i>Is the council satisfied with actions to improve performance?</i>  <i>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?</i></p>	<p><b>Comments</b></p> <p>Yes,  Chapter 3, Service delivery performance, pg. 108-338</p>



<b>Municipal Performance</b>	<b>Considerations</b>	<b>Comments</b>
	<p>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 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?</p> <p>Council should comment and draw conclusions on information and explanations provided.</p>	
<p>Audit reports on performance</p>	<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.</p> <p>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>Yes,            Chapter 2: Good Governance,            Pg. 85-87 - Section 2.11 (Internal Auditing)</p> <p>Chapter 6: Section 6.2- AG report 2018/19            (pg.400)</p> <p>Annexure C- Report of the AC- pg.3            paragraph 6</p>
<p>Performance of municipal entities and municipal service providers</p>	<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.            The report should evaluate the effectiveness of these services and whether alternative mechanisms should be considered.</p> <p>Is the council satisfied with the evaluation and conclusions of the municipality?            What other actions are considered necessary to be taken by the accounting officers?</p>	<p>Yes, only for contracted service providers,            Chapter 3,            Section 3.2.3 (pg. 127-166)</p> <p>No municipal entities.</p>
	<p>This is the separate report of the municipal entity and should contain details of service delivery agreements with the municipality and the performance measures therein.            Council should consider similar issues to that outlined above for municipal performance to determine a view on the performance of municipal entities.</p>	<p>No municipal entities- not applicable</p>

<b>Municipal Performance</b>	<b>Considerations</b>	<b>Comments</b>
For municipal entities – an assessment of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and municipality	To what extent were the objectives and performance measures of the entity aligned to the overall strategic objectives of the municipality and its IDP? Is the report of the municipal entity consistent with the conclusions on performance evaluation by the municipality? What specific actions should be taken by the entity and the municipality to improve performance?	
<b>General Information</b>	<b>The following general information is required to be disclosed in the annual report</b>	<b>Comments</b>
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. <i>What donor funding has the municipality received? Have the purpose 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? 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?</i>	No municipal entities - not applicable  Yes, Chapter 5, Section 5.3.3- Grants received from sources other than the DORA (pg.368-370)
The use of any donor funding support		
Agreements, contracts and projects under Private-Public Partnerships	Information similar to the details of municipal entities should be provided. Council should ensure that all details have been supplied.	No municipal entities - not applicable
Service delivery performance on key services provided	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.	Yes, Chapter 3- Service Delivery performance, Figure 11: Overall performance per Strategic objective (pg.109)

<b>General Information</b>	<b>The following general information is required to be disclosed in the annual report</b>	<b>Comments</b>
	Council may draw conclusions on the overall performance of the municipality. This information may be found in an executive summary section of the annual report and or in statistical tables.	Pg.183- 200- Overall performance per directorate
Information on long-term contracts	Details of all long-term contracts including levels of liability to the municipality should be included. Council should ensure all information is correctly supplied.	Yes, Chapter 5- Financial Performance, Section 5.13- Borrowings and Investments (pg. 395)
Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations	Details of significant IT activities should be outlined indicating the effectiveness of the IT projects and the quality of IT services. Council should consider how effectively the IT services support and facilitate performance of the municipality and whether value for money has been obtained. Details of any future IT proposals should be summarised. Council should comment and draw conclusions on the information provided.	Yes, Chapter 3- Section 3.10.4 ICT services (pg.326-328)
Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework	A summary of the long-term capital plans and how these address the backlogs of services in the municipality should be provided. 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. 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.	Pg. 384-392- MIG spending for 2018/19

<b>Other considerations recommended</b>		<b>Comments</b>
Timing of reports	Was the report in the time prescribed? Has a schedule for consideration of the report been adopted?	Yes, draft audited tabled at Special Council meeting on 22 Jan 2020,

<b>Other considerations recommended</b>		<b>Comments</b>
Oversight committee or other mechanisms	<p><i>What mechanisms have been put in place to prepare the oversight report? Has a schedule for its completion and tabling been adopted?</i></p>	<p>1 month public comments period, Final report to Council on 25 March 2020 MPAC meeting scheduled, 9 March 2020</p>
Payment of performance bonuses to municipal officials	<p>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 reported in the annual report. <i>Have bonuses been paid based on achievements of agreed outputs and after consideration of the annual report by council? 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?</i></p> <p>Conclusions and comments on the evaluation and payment of performance bonuses of council should be included in the oversight report.</p>	<p>Overstrand municipality pays no performance bonuses for Section 56 appointees. The Municipal Manager (Section 54A appointee) is entitled to a bonus for 2018/19.</p>

Payment of performance bonuses to municipal officials