

UMZIMVUBU LOCAL MUNICIPALITY



UMZIMVUBU
— LOCAL MUNICIPALITY —

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

OVERSIGHT REPORT ON THE ANNUAL REPORT FOR 2020/2021 FINANCIAL YEAR

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1. INTRODUCTION

The Constitution of the Republic of South Africa Act No. 108 of 1996 section 151 (2) stipulates that both Executive and Legislative powers rest within the municipal Council. This results in difficulty to clearly define the separation of powers. The Local Government: Municipal Structures Act No. 117 of 1998 as amended establishes committees of council in terms of section 79 and 80 thereof for effective and efficient performance of any of the Council functions or the exercise of any of its powers. The Municipal Finance Management Act No. 56 of 2003 calls for a committee of council that deals specifically with the annual oversight report of Council and other ad-hoc functions.

The MPAC has been established as a mechanism to enhance municipal performance of the municipality and promote accountability of the Executive Councilors to Council. It has been established as a standing committee of council that is responsible for consideration of the annual report and reporting to Council regarding the Annual Report.

Given the processes required by Council to effectively undertake its oversight role on the annual report, the establishment of the MPAC of council would provide appropriate mechanism in which Council could fulfill its oversight responsibility.

Given the complexity of the oversight responsibility to be played by the council in the area such as good governance which includes oversight accountability and institutional capacity, the establishment of the MPAC as Section 79 committee that discharges its responsibility throughout year, not to play its function at tail-end of the year would provide appropriate mechanism in which Council fulfills its oversight responsibility.

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2. COMPOSITION OF THE COMMITTEE

The Municipal Public Accounts Committee comprised of 9 non-executive councillors, four of whom are females:

- | | | |
|--------------------------------|---------------|-----|
| 1. Councillor M. Mataka | : Chairperson | (M) |
| 2. Councillor A. Jakuja | : Member | (F) |
| 3. Councillor X. Lungu | : Member | (M) |
| 4. Councillor N. Hlanekela | : Member | (F) |
| 5. Councillor A. Mkhonto | : Member | (M) |
| 6. Councillor P.K Thingathinga | : Member | (M) |
| 7. Councillor B. Mdingi | : Member | (F) |
| 8. Councillor M. Ngqasa | : Member | (M) |
| 9. Councillor L. Mapala | : Member | (F) |

3. THE OVERSIGHT (MPAC) REPORT PROCESS

Section 121(1) (2) and (3) of the MFMA determines as follows:

121(1) Every Municipality must for each financial year prepare an Annual Report. The Council must within nine months after the end of a financial year deal with the annual report of a municipality in accordance with section 129.

The purpose of an annual report is: -

- (a) To provide a record of the activities of the municipality during the financial year to-which the report relates;
- (b) To provide a report on performance against the budget of the municipality for the financial year; and
- (c) To promote accountability to the local community for the decisions made throughout the year by the municipality.

The annual report of a municipality includes the following-

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- (i) The annual financial statements of the municipality, and in addition, if section 122(2) applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of section 126(1);
- (ii) The Auditor-General audit report in terms of section 126(3) on those financial statements;
- (iii) The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act;
- (iv) The Auditor-General's audit report in terms of section 45(b) of the Municipal Systems Act, Act 32 of 2000;
- (v) An assessment by the municipality's Accounting Officer of any arrears on municipal taxes and service charges;
- (vi) An assessment by the municipality's Accounting Officer of the municipality's performance against the measurable performance objectives referred to in section 17(3)(b) for revenue from each source and for each vote in the municipality's approved budget for the relevant financial year;
- (vii) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d);
- (viii) Any explanations that may be necessary to clarify issues in connection with the financial statements;
- (ix) Any information as determined by the municipality;
- (x) Any recommendation as determined by the municipality; and
- (xi) Any other information as may be prescribed.

In terms of section 127(5) of the MFMA, the Accounting Officer must immediately after the Annual Report is tabled, make public the annual report, invite the local Community to submit representations in connection with the annual report and submit the annual report to the

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Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

According to section 129(1) of the MFMA, the council must consider the Annual Report 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 annual report which 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.*

PROCESS

a) Submission and tabling of the Annual Report

- The Draft Annual Report for 2020-2021 FY was tabled by the Mayor to Council on the 31 January 2022 in accordance with Section 127 of the MFMA.
- The Municipal Manager publicized the Annual Report on print media for public comments on the 04 February 2022 and also uploaded on the municipal website.
- Public comments were open but none were received.
- The Annual Report document was submitted to relevant authorities including the Internal Audit, Office of the Auditor General, Treasury and COGTA for input and comments.

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4. INTERNAL AUDIT COMMENTS AND FINDINGS ON THE ANNUAL REPORT FOR 2020/2021 FINANCIAL YEAR

DISTRIBUTION LIST

This report is distributed to the following members of Audit Committee and Management:

Name	Designation	Action Required	
		For Information	For Action
Mr S. Mnguni	Audit Committee Chairperson	x	
Mr S. Ngqwala	Audit Committee Member	x	
Mr P. Buthelezi	Audit Committee Member	x	
Mr G.P.T Nota	Municipal Manager		x
Mr T. Fundira	Chief Financial Officer		x
Mrs TT Ngcongca	Senior Manager: Corporate Services		x
Mrs K Tshazi	Senior Manager: Citizen & Community Services		x
Mrs N. Zembe	Senior Manager: Special Programmes and Communication		x
Mr S. Ntinzi	Senior Manager: Local Economic Development		x
Mr J. Moleko	Senior Manager: Infrastructure & Planning		x
Mr Z Tyebisa	Manager: IDP & PMS		x

1. INTRODUCTION AND BACKGROUND

We have completed our internal audit high level review on 2020/2021 Annual Report. This audit was conducted in terms of the 2020/2021 Internal Audit Plan approved by both Audit Committee and Management.

2. INDEPENDENCE

Umzimvubu Internal Audit is an independent function within the municipality that provides independent and objective assurance and consulting services, designed to add value and improve municipal operations. The role of Internal Audit is therefore to assist management to accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control process.

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3. INHERENT RISKS

The following are the overall key inherent risks in preparation of the annual report:

- material misstatements may occur which renders annual report incredible; and
- Inadequate disclosure of all material matters as per to statutory requirements;

We have planned and developed our review procedures to evaluate the effectiveness of internal controls designed by management to reduce the likelihood and impact of inherent risks highlighted above.

4. AUDIT OBJECTIVE

Primary Objective

Our primary objective for this assignment is to express an opinion on the adequacy of the design and effectiveness of the operation of the system of internal control around the preparation of the Annual Report processes.

Ancillary Objectives

To ensure that:

- the annual report provides a record of the activities of the municipality during the financial year to which the report relates;
- the annual report provides a report on performance against the budget of the municipality for that financial year;
- the annual report provides a report on service delivery performance against the Integrated Development Plan (IDP);
- the annual report promotes accountability to the local community for the decisions made throughout the year by the municipality;
- the annual report is factually correct and complies with all the requirements of MFMA and MFMA circulars issued by National Treasury;
- the annual report was published for comments by the members of the public;
- the community of Umzimvubu was advised through the media about the meetings of the Council and oversight committee where the Annual Report was to be discussed and decisions taken;
- the Annual Report was submitted to Auditor-General, Provincial Treasury, Department of Cooperative Governance and Traditional Affairs (COGTA) and Provincial Legislature;

5. SCOPE

The scope of this audit is limited to the annual report for period from 01 July 2020 to 30 June 2021 and covers Umzimvubu Local Municipality.

6. AUDIT APPROACH

The audit approach is detailed below.






We,

- discussed the engagement planning memorandum during a pre-engagement meeting with the Manager: IDP and PMS;

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- obtained the Annual Report and performed the necessary reviews
- prepared an audit programme to test the system of internal control around the preparation of Annual Report;
- discussed all findings with management in order to obtain the root cause of deviation from the procedures; and
- Concluded and issued a report.

7. KEY TO CONTROL WEAKNESS RATINGS

Symbol	Risk Rating Definition
	Catastrophic - refers to a control deficiency, which requires <i>immediate</i> management intervention as continuous or non-existence of measures to address the deficiency or the risk exposure has the potential to have an extreme impact and will result in major unfavorable consequences (quantitatively and qualitatively) e.g. loss of organizational image or substantial material financial loss or loss of lives or completely put operations at a dead stop.
	High - refers to a control deficiency, which requires <i>immediate</i> management intervention as continuous or non-existence of measures to address the deficiency or the risk exposure has the potential to have a high impact and may result in major unfavorable consequences (quantitatively and qualitatively) e.g. loss organizational image or material financial loss.
	Medium - refers to a control deficiency, which does not require immediate management intervention (is deferrable) as continuous or non-existence of measures to address the deficiency or risk exposure has the potential to have moderate impact and may result in major unfavorable consequences in the long term (quantitatively and qualitatively).
	Low - refers to a control deficiency, which does not require management intervention as continuous or non-existence of measures to address the deficiency will not necessarily result in major unfavorable consequences (quantitatively and qualitatively).
	Insignificant: refers to a control deficiency, which does not require immediate management intervention as continuous or non-existence of measures to address the deficiency will certainly not result in major unfavorable consequences. However, this deficiency requires continuous monitoring by management.

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8. SUMMARY OF AUDIT RESULTS

Based on our samples, key areas of both favourable and unfavourable findings have been noted below.

Our detailed recommendations on controls over the above processes are included in Section B.

8.1 Favourable Audit Results

1. The 2020/21 Annual Report has been prepared in accordance with Section 121 (3) of the Municipal Finance Management Act (MFMA) the following documents have been incorporated in the annual report:

- a) The 2020/21 audited Annual Financial Statements;
- b) The Municipality's Annual performance Report prepared in terms of section 46 of the Municipal Systems Act (MSA)
- c) Report by Auditor General on the Annual Financial Statements of 2020/21 and Annual Performance report as per section 45 (b) of Municipal Systems Act (MSA)
- d) An assessment by the accounting officer on any arrears on municipal taxes and service charges;
- e) An assessment by the municipality's accounting officer of the municipality's performance against measurable objectives for revenue collection from each revenue source and for each vote in the approved budget;
- f) Remedial action plan in response to issues raised in the audit report on both Financial Statements and Performance Information;
- j) A detailed Audit Committee Report with recommendations

2. The Annual Report was tabled to the Council within nine (9) months after the end of the financial year; as per Municipal Finance Management Act Section 127 (2) and Treasury circular 104.

3. The Accounting Officer made public the Annual Report, invited the local community to submit representations in connection with the annual report and submitted the annual report to Auditor General; Provincial Treasury and COGTA as required by Municipal Finance Management Act section 127 (5).

4. All the six chapters to the Annual Report have been populated as per the Municipal Finance Management Act and Circular 63.

5. The Cogta Key Performance Indicators were populated and included in the Development of the Annual Report as required by COGTA Circular 1 of 2014.

6. The Annual Report was placed on the municipality's website, copies sent to various authorities and made available to the wider community (e.g., placed in libraries, local municipal offices, etc.).

7. There were no public comments received as at the time of review.

8.2 Unfavourable Audit results

None were noted.

9. AUDIT OPINION

After careful consideration of the overall system of internal control within the areas audited and based on our assessment, the controls are **adequate and effective**.

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10. CONCLUSION

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusion was based on a comparison of the circumstances, as they existed at the time of the audit against the audit criteria. The conclusion is only applicable for the processes audited. The evidence gathered meets professional audit standards and is sufficient to provide management with proof of the conclusion derived from the Internal Audit.

11. FRAUD AND INTERNAL CONTROL

While we have identified certain areas of departure from the key controls, internal audit procedures alone, even when carried out with due professional care, do not guarantee that all fraud and errors will be detected. We have ensured that all internal audit work conducted is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, our reviews and investigations as internal auditors should not be relied upon to disclose all matters of fraud, defalcation or other irregularities, which may exist. Management's attention is drawn to the inherent limitations in the reliance on internal controls and procedures mentioned above.

5. THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE HAS CONSIDERED THE ANNUAL REPORT FOR 2020/2021 WITH THE FOLLOWING RECOMMENDATION:

- That the Annual Report for 2020/2021 financial year be adopted without reservations.

6. SERVICE DELIVERY IMPLICATIONS

- The Annual Report is a yardstick to measure achievement of predetermined objectives and targets within a period of one year. It gives a reflection of whether or not the municipality or Council is progressing in achieving the pre-determined objectives set in its Integrated Development Plan.
- It further gives the municipality an opportunity to correct and improve reported non-performance in future.
- The Oversight Report is a tool for instilling public confidence over service delivery issues as the Council plays a more precise oversight responsibility through the MPAC.

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OTHER PARTIES CONSULTED

Treasury

COGTA

Office of the Auditor General

Internal Audit

7. RECOMMENDATIONS

The Oversight Committee recommends the following:

1. That Council should note the Oversight Committee report on the annual report for 2020/2021 FY.
2. That the Oversight Committee report on the Annual Report for 2020/2021 FY be adopted by Council.
3. That the Annual Report for 2020/2021 FY be adopted by Council without reservations.