



ANNUAL REPORT OVERSIGHT REPORT 2021/2022

The Oversight Report is based on the Annual Report 2021/2022 and is drafted and submitted in accordance with the Municipal Finance Management Act (MFMA), no 56 of 2003

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1. INTRODUCTION

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

2. PURPOSE

The purpose of this report is to present to Council for adoption, the final Annual Report for 2021/2022 as well as the Oversight Report on the Annual Report as required in terms of Section 129 of the MFMA.

3. LEGAL FRAMEWORK

Herewith an extract from key legislative requirements as per the Local Government: Municipal Finance Management Act, Act 56 of 2003 (MFMA) relating to the Annual Report:-

121. Preparation and adoption of annual reports.

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

- (2) *The purpose of an annual report is—*
 - (a) *to provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;*

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

127. Submission and tabling of annual reports

- (3) *The mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control.*

129. Oversight reports on annual reports

- (1) *The council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council—*
 - (a) *has approved the annual report with or without reservations;*
 - (b) *has rejected the annual report; or*
 - (c) *has referred the annual report back for revision of those components that can be revised.*

4. BACKGROUND

The 2021/2022 Annual Report was tabled to Council on the 31 January 2023. However the item was not dealt with as the Council did not quorate. The Annual report was tabled and adopted as per Council Resolution RB7.1.4/13-03-2023 at a special council meeting held on 13 March 2023, reporting on the municipality's performance for the period 01 July 2021 until 30 June 2022.

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By doing so, Council complied with section 127 (2) of the MFMA, which stipulates that the Executive Mayor must table the Annual Report within 7 months after the end of the financial year.

Furthermore, the Council of Cederberg Municipality is required to engage with and finalize the Annual Report within 9 months after the end of the financial year.

4.1. 2021/2022 ANNUAL REPORT CONSULTATION AND ADOPTION PROCESS BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

In terms of Council Resolution, a Municipal Public Accounts Committee (MPAC) was established in terms of Section 79 of the Structures Act, 1998. In terms of the Terms of Reference of this Committee it is, inter alia, responsible to perform oversight over the process of preparing the Annual Report of Council and to produce an Oversight Report based on the Annual Report.

MPAC currently consists of the following members.

- i) Cllr M. Bergh (Chairperson)
- ii) Cllr. J. van Heerden
- iii) Cllr. M Heins

4.2. OVERSIGHT REPORT

The adoption of the Oversight Report is the final major step in the annual reporting process of a municipality. Section 129 of the MFMA required the Council to consider the annual reports of its municipality and to adopt an Oversight Report containing the Council's comments.

The oversight report must include a statement whether the Council:

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

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National Treasury issued Circular 32 on March 2006 on the preparation of Oversight Reports and provides guidelines on the processes to be followed in the adoption of the Oversight Reports to which this report conforms.

The Oversight Report is a separate product from the Annual Report. The Annual Report is submitted to the Council by the Accounting Officer and the Executive Mayor and is part of the process for discharging accountability by the Executive and Administration for their performance in achieving objective goals set by the municipality in the financial year under review. The Oversight Report follows consideration and consultation on the Annual Report and is considered a report of the municipal council.

4.3. ADOPTION AND PUBLIC CONSULTATION PROCESS

The draft Annual Report 2021/2022 was tabled to Council on 13 March 2023 in compliance with the Municipal Finance Management Act (MFMA), no 56 of 2003 which requires under Section 127(2) that:

“The Mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality.”

The draft Annual Report 2021/2022 was made public on the municipal website within five (days) and within seven (7) days notified the local community after it was approved by Council in March 2023.

Members of the community and other stakeholders were invited to submit written comments/inputs into the Draft Annual Report. In addition, the Draft Annual Report 2021/2022 was also made available at all municipal offices, libraries and municipal website.

The Annual Report was furthermore also submitted in terms of Section 127(5)(b) to the Auditor General of South Africa, Provincial Treasury (Western Cape) and the Department of Local Government (Western Cape).

The closing date for public comments was on 13 April 2023. No submissions from the public or other institutions were received.

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The process of the finalization and approval of the 2021/2022 Annual Report is set out in the table below:

ACTIVITY DESCRIPTION	PROVIDE FOR BY
Preparation of annual financial statements of the municipality and submission to the Auditor General	MFMA Section 122(1)(2)
Receipt of final report from Auditor General	MFMA Section 126(3)(b)
Tabling of Annual Report in Council by Executive Mayor	MFMA Section 127(2)
Allowing for comment by Community and relevant state organs	MFMA Section 127(5)(a) & (b)
Corrective actions to AG's opinion formulated and tabled in Council	MFMA Section 121(3)(g)
Consideration and adoption of Annual Report and Oversight Report	MFMA Section 129(1)
Submission of Annual Report and Oversight Report to AG, Provincial Treasury and MEC: Local Government	MFMA Section 129(2)(b)
Communication of final Annual Report and Oversight Report (website, hard copies and other mediums)	MFMA Section 129(3)

4.4. MATTERS DISCUSSED BY MPAC ON 17 MAY 2023

MPAC met on 17 May 2023 to discuss and consider the adoption of the 2021/2022 Annual Report. The Committee discussed the following aspects of the report.

4.4.1. Annual Report

The annual report was presented to MPAC with the focus on the 2021/2022 annual performance.

4.4.2. Annual Financial statements

The Annual Financial Statements were presented to MPAC. MPAC referred to note 10.2 (page 42 of the Annual Financial Statements) relating to "cost of land". MPAC requested an investigation on the matter for clarity.

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4.4.3. Audit Report

The following paragraphs are extracted from the Audit Report of 2021/2022:

Opinion

Paragraph 2:

In my opinion the financial statements present fairly, in all material respects, the financial position of the Cederberg Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with The Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (DoRA).

Report on the audit of the annual performance report

Paragraph 16:

In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

Paragraph 18:

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the municipality's annual performance report for the year ended 30 June 2022:

Strategic Objective	Pages in the annual performance report
Strategic Objective 1: Improve and sustain basic service delivery and infrastructure development.	10 – 14

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Paragraph 20:

I did not identify any material findings on the usefulness and reliability of the reported performance information for this strategic objective:

- Strategic objective 1: Improve and sustain basic service delivery and infrastructure development.

Report on the audit of compliance with legislation:

Paragraph 24:

In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

Paragraph 25:

The material findings on compliance with specific matters in key legislation are as follows:

Expenditure Management

Paragraph 26:

Money owned by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Paragraph 27:

Reasonable steps were not taken to prevent irregular expenditure amounting to R26 895 376 as disclosed in note 46.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations. Irregular expenditure amounting to R33 598 600 was incurred on not following proper SCM procurement process.

Paragraph 28:

Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 406 368 as disclosed in note 46.3 to the annual financial

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statements, in contravention of section 62(1)(d) of the MFMA. All of the disclosed fruitless and wasteful expenditure was caused by non-compliance of not making payments when they are due and payable. Fruitless and wasteful expenditure amounting to R3 406 109 was incurred on finance charges by Eskom.

Procurement and Contract Management

Paragraph 29:

Some of the goods and services of a transaction value above R 200 000 were procured without inviting competitive bids, as required by the Municipal Supply Chain Regulations 2005 (SCM), regulation 19(a). Similar non-compliance was also reported in the prior year.

Human Resource Management

Paragraph 30:

Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Revenue Management

Paragraph 31:

An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Annual financial statements, performance and annual report

Paragraph 32:

The oversight report adopted by council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

4.4.4. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (re: paragraph 27 and 28 above)

The following items with regards to unauthorised, irregular, fruitless and wasteful expenditure were discussed. MPAC requested the Municipal Manager to investigate the irregular costs and report to Council.

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Description	Expenditure Category	Amount (Vat Incl)	Cluster	Reason for classification
MAAA0190198	Irregular	R 566 919,51 26	Council	Appointment of service provider through Council resolution without procurement process
MAAA0718917	Irregular	R 30 319,75	Cederberg Municipality	Goods delivered and services rendered without an order
MAAA0325154	Irregular	R 2 092,67	Cederberg Municipality	Goods delivered and services rendered without an order
MAAA0328859	Irregular	R 296 043,66	Cederberg Municipality	Goods delivered and services rendered without an order
Identified during Audit				
RT 25: Financial System	Irregular	R 167 014,00 1	Cederberg Municipality	Extension of a contract not procured through the SCM policy of the municipality
CED 12/2021-2022: The maintenance of water and sewerage pumps, motors, pump stations and telemetry for as and when and as and where basis within the Cederberg Area	Irregular	R 664 600,31 1	Cederberg Municipality	Competitive bidding process not followed when awarding work to suppliers from panels
CED 18/2020-2021: The provision of debt collection services	Irregular	R 743 125,51 2	Cederberg Municipality	Competitive bidding process not followed when awarding work to suppliers from panels

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CED 16/2021-2022: Supply and delivery of construction materials and hiring of construction plant / machinery	Irregular	R 792 609,03	Cederberg Municipality	Competitive bidding process not followed when awarding work to suppliers from panels
CED 27/2020-2021: Rates Tender for Civil, Building and Fencing Works	Irregular	R 335 875,19	Cederberg Municipality	Competitive bidding process not followed when awarding work to suppliers from panels

TOTAL

R 33 598 599,63

Description	Expenditure Category	Amount (Vat Incl)	Cluster	Reason for classification
MAAA0324116	Fruitless and Wasteful	R 3 406 108,59	Cederberg Municipality	Interest charged on overdue account
MAAA0022875	Fruitless and Wasteful	R 74,20	Cederberg Municipality	Interest charged on overdue account
MAAA0157998	Fruitless and Wasteful	R 132,80	Cederberg Municipality	Interest charged on overdue account
S00008	Fruitless and Wasteful	R 51,96	Cederberg Municipality	Interest charged on overdue account
MAAA0287287	Fruitless and Wasteful	R 0,60	Cederberg Municipality	Interest charged on overdue account

TOTAL

R 3 406 368,15

4.4.5. OPCAR (OPERATION CLEAN AUDIT REPORT)

Attached OPCAR which was presented to the Audit Committee. That the MPAC take note of the OPCAR.

5. GENERAL COMMENTS BY MPAC ON THE AUDIT REPORT 2021/2022

- MPAC noted that based on paragraph 2 of the Audit Report that they do not believe that the financial statements are presented fairly.
- MPAC noted that based on paragraph 16 of the Audit Report that the performance management indicators are not useful and the statistics produced are not accurate.

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- MPAC disagrees with statistical finding related to paragraph 20 of the Audit Report as service delivery has regressed.

6. CONCLUSION

MPAC is satisfied that the 2021/2022 Annual Report provides an overview of the process of financial and non-financial performance during the period under review and therefore would like to recommend the adoption thereof.

7. RECOMMENDED RESOLUTION TO BE ADOPTED BY COUNCIL

In accordance with Section 129(1) of the MFMA it is **RECOMMENDED** to Council:-

1. That Council, having fully considered the Oversight Report from MPAC on the Annual Report 2021/2022 of Cederberg Municipality, **ADOPTS** the Oversight Report.
2. That Council, having fully considered the Final Annual Report 2021/2022, attached hereto, **ADOPTS** the Annual Report 2021/2022 with reservations re:4.4 above;
3. That the Oversight Report 2021/2022 be made public in accordance with Section 129(3) of the MFMA, and;
4. That the Oversight Report on the Annual Report 2021/2022 be submitted to the Provincial Legislature in accordance with Section 132(2) of the MFMA.

CLLR. Cllr M. Bergh

CHAIRPERSON:

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

ANNEXURE

Annexure A: Final Annual Report 2021/2022