



EMADLANGENI MUNICIPALITY

OVERSIGHT REPORT

2013/14

TABLE OF CONTENTS

1. MEMBERS OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE	3
1. INTRODUCTION	4
2. BACKGROUND	5
3. FUNCTIONS OF THE OVERSIGHT COMMITTEE	7
4. COMPOSITION OF OVERSIGHT COMMITTEE	8
5. THE OVERSIGHT REPORT	9
6. ANNUAL REPORT CHECKLIST.....	10
7. CONCLUSION	25
ANNEXURE 1: AUDITOR GENERAL REPORT 2013/14	27
ANNEXURE 2: MANAGEMENT AUDIT REPORT ACTION PLAN	32
ANNEXURE 3: RESOLUTION EXTRACT FOR TABLING AN ANNUAL REPORT...35	
ANNEXURE 4: ADVERT FOR PUBLICATION OF THE ANNUAL REPORT	36

1. MEMBERS OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE



Chairperson: Cllr S Nkomonde



**Member:
Cllr B
Phengane**



**Member: Cllr
M A Gama**



**Member: Cllr
P Collins**



**Member: Cllr T V
Members**

The Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council in regards to the Annual Report and the preparation of an Oversight Report.

Given the processes required by Council to effectively undertake its oversight role, the establishment of an Oversight Committee of Council would provide the appropriate mechanism in which Council could fulfil its oversight responsibilities.

The Oversight Committee's primary role will be to consider the Annual Report, receive input from the various role players and to prepare a draft Oversight Report for consideration by Council.

2. BACKGROUND

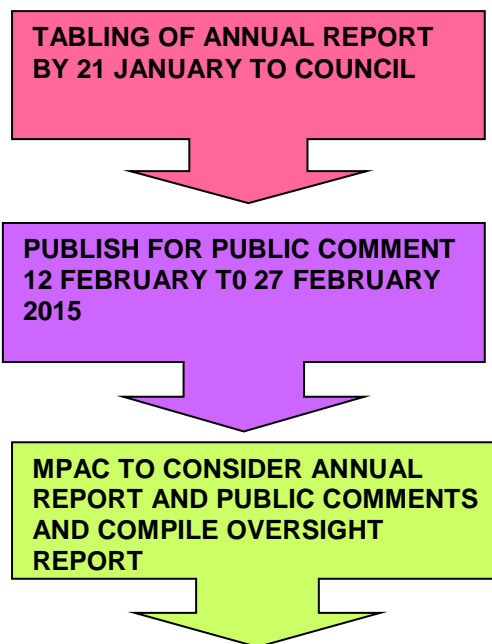
The oversight role of Council is an important component of the financial reforms and it is achieved through the separation of roles and responsibilities between Council, the Executive (Mayor and Executive Committee) and Administration. Good governance, effective accountability, and oversight can only be achieved if there is a clear distinction between the functions performed by the different role players.

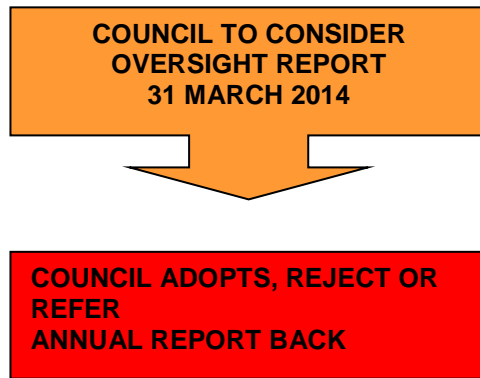
Non-executive Councillors are required to maintain oversight on the performance of specific responsibilities and delegated powers that they have given to the Executive (Mayor/Executive Committee). In other words, in exchange for the powers in which Council have delegated to the Executive, Council retains a monitoring and oversight role ensuring that there is accountability for the performance or non performance of the municipality.

The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight.

- ✓ Approval of budgets;
- ✓ Approval of Budget related Policies; and
- ✓ Review of the Annual Report and adoption of the Oversight Report.

In preparation of the 2013/14 financial year Annual Report the municipality followed the following process as clearly outlined in the legislation.





It is also important to highlight that a notice was given in terms of section 21 of the Municipal Systems Act, No 32 of 2000 read with section 127(5) of the Municipal Finance Management Act that the Annual Report was open for comments and/or inputs by the community and stakeholders by the 12 February 2015. The Annual report was placed at all municipal offices, libraries and the municipal website www.emadlangeni.gov.za.

After the closing date for submission of comments and inputs on the annual report, the municipality did not receive any comments from the members of the public for consideration by the Management and Municipal Public Accounts Committee as an oversight body.

3. FUNCTIONS OF THE OVERSIGHT COMMITTEE

The functions of the Oversight Committee are to:

- ✓ Undertake a review and analysis of the Annual Report.
- ✓ Invite, receive, and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- ✓ Consider written comments received on the Annual Report from the public consultation process.
- ✓ Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- ✓ Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report.
- ✓ Preparation of the draft Oversight Report, taking into consideration, the views and inputs of the public, representative(s) of the Auditor-General, organs of state, Council's Audit Committee and Councillors.

4. COMPOSITION OF OVERSIGHT COMMITTEE

4.1 Membership

The Oversight Committee is a committee of Council established under section 79 of the Municipal Structures Act, 1998. Section 79, allows for the co-option of advisory members to a Committee of Council, who are not members of the Council.

Due to the separation of roles and responsibilities, between Council and the Executive (Mayor and Executive Committee) it is not appropriate that members of the Executive Committee be members of the Oversight Committee.

4.2 Authority & Power

The Oversight Committee is delegated the responsibility to conduct meetings and to hold public hearings to receive and hear public submissions on the Annual Report, on behalf of Council.

Timely notice of all meetings should be given and all meetings held by the Oversight Committee must be open to the public and minutes of the meetings must be submitted to Council meetings.

4.3 Meeting Schedule

The Annual Report submitted to Council at its 21 January 2015 meeting, was referred to the Oversight Committee subject to a few minor enhancements to the Report. The community was advised through the print media of the availability of the Annual Report and were invited to submit representations on the report.

The Annual Report was available at all municipal libraries and offices and was also placed at the eMadlangeni Local Municipality website. The Annual Report was submitted to the Auditor-General, Provincial Treasury and the Department of Local Government and Traditional Affairs.

At the closing date for public submissions of 27 February 2015, no submissions were received. The Public were invited to the tabling of the Oversight Report to Council on 31 March 2015, and no members of the public attended the meeting.

This Oversight Report is for the financial year ended 30 June 2013 and addresses 2013/14 annual report. The said Annual Report must at least address the following:

Introduction and Overview

Overview of the Municipal Area

Human Resource and Organisational Management

Municipal services

Political and Administration structures

Performance highlights and challenges

Service delivery highlights of the past year and possible improvement interventions.

Financial Information

Annual Financial Statements

Audit Committee Report

Report of the Auditor-General

Management Responses to the Audit Report

6. ANNUAL REPORT CHECKLIST

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA	Financial reporting matters to be considered	
121 (3)(a) The annual financial statements (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General.	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 accounting standards for municipalities. <u>Have the required standards been met?</u>	Yes. Refer to Chapter 6.
121 (3)(a) 121 (4) 121 (4)(b)	The above applies also to the AFS of municipal entities.	Not applicable. There are no municipal entities.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
121 (3) (e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities.	<p>Has an adequate assessment been included?</p> <p>Is there sufficient explanation of the causes of the arrears and of actions to be taken to remedy the situation?</p> <p>Is any other action required to be taken?</p>	<p>Yes.</p> <p>Refer to Chapter 1 of the Annual Report.</p>
121 (3)(g) Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports.	<p>The conclusions of the annual audit are:</p> <ul style="list-style-type: none"> ✓ an unqualified audit opinion with or without management issues, which means that the financial statements are acceptable; ✓ The objective of the municipality should be to achieve an unqualified audit opinion. ✓ Taking into account the audit report, audit opinion and the views of the audit committee, council considered: <ul style="list-style-type: none"> • To what extent does the report indicate serious or minor financial issues? • To what extent are the same issues repeated from previous audits? • Is the action proposed considered to be adequate to effectively address the issues raised in the audit report? • Has a schedule of action to be taken been included in the annual report, with appropriate due dates? 	<p>Yes.</p> <p>Refer to chapter 6 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>Note that actions taken on audit issues are to be reported to the provincial legislature, the MEC for Cooperative Government & Traditional Affairs to report on any omissions by municipalities in addressing issues. Council should confirm that the audit report has been forwarded to the MEC.</p>	<p>Yes.</p>
<p>121 (3)(f) 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 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 s17(3)(b)). The accounting officer must include these objectives in the annual report and report on performance accordingly.</p> <p>Has the performance met the expectations of council and the community? Have the objectives been met? What explanations have been provided for any non-achievement? What was the impact on the service delivery and expenditure objectives in the budget?</p>	<p>Yes. Refer to chapter 4 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
121 (3)(i)(k) Any information as determined by the municipality, the entity or its parent municipality.	Review any other information that has been included in regard to the AFS.	Not applicable.
1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA	Financial reporting matters to be considered	
121 (3)(j) and 121 (4)(g) Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and its entities.	Have the recommendations of the audit committee in regard to the AFS been adequately addressed by the municipality and/or the entity? What actions need to be taken in terms of these recommendations? Conclusions on these recommendations and the actions required should be incorporated in the oversight report.	Yes. Refer to Chapter 2 of the Annual Report.
2. Disclosures - Allocations received and made - Section 123-125 MFMA	Considerations	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
<p>123 (1)(a) Allocations received by and made to the municipality.</p>	<p>The report should disclose:</p> <ul style="list-style-type: none"> ✓ Details of allocations received from another organ of state in the national or provincial sphere. ✓ Details of allocations received from a municipal, entity or another municipality. ✓ Details of allocations made to any other organ of state, another municipality, or a municipal entity. ✓ Any other allocation made to the municipality under Section 214(1) (c) of the Constitution. <p>Have these allocations been received and made? Does the audit report confirm the correctness of the allocations received in terms of DORA and provincial budgets? Does the audit report or the audit committee recommend any action?</p>	<p>Yes. Refer to chapter 6 of the Annual Report</p>
<p>125 (1) Information in relation to outstanding debtors and creditors of the municipality and entities.</p>	<p>Municipalities and entities are reminded of the requirement to include, in their annual financial statements, amounts owed to them and persistently 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, including the payment of taxes, audit fees, and contributions for pension and medical aid funds.</p> <p>Council should be satisfied that –</p>	<p>Yes Refer to Chapter 6 of the annual report</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. 	
<p>2. Disclosures - Allocations received and made - Section 123-125 MFMA</p>	<p>Considerations</p>	
<p>123 (1)(c) Information in relation to the use of allocations received.</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> <ul style="list-style-type: none"> ✓ 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. ✓ 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 	<p>Refer to Note 23 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>of the reasons for non-compliance are to be provided.</p> <ul style="list-style-type: none"> ✓ Information on whether allocations under the DORA were delayed or withheld and the reasons advanced for this. <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>Council should be satisfied that –</p> <ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and ✓ that any explanations provided are acceptable. <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>	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
3. Disclosures in notes to AFS	Considerations relating to section 124	
<p>Information relating to benefits paid by municipality and entity to councillors, directors and officials.</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"> ✓ salaries, allowances and benefits of political office bearers, councillors and boards of directors, whether financial or in kind; ✓ 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; ✓ salaries allowances and benefits of the municipal manager, CEO of a municipal entity, CFO and every senior manager; ✓ contributions for pensions and medical aid; ✓ travel, motor car, accommodation, subsistence and other allowances; ✓ housing benefits and allowances; ✓ overtime payments; ✓ loans and advances, and; ✓ any other type of benefit or allowance related to staff. <p>Council should be satisfied that –</p> <ul style="list-style-type: none"> ✓ the information has been properly disclosed; ✓ conditions of allocations have been met; and 	<p>Yes.</p> <p>Refer to Note 26 of the Annual Report.</p> <p>Refer to Notes 26 of the Annual Report.</p> <p>Refer to Notes 46 of the Annual Report.</p> <p>Refer to Note 25 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>✓ that any explanations provided are acceptable.</p> <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>4. Municipal Performance</p>	<p>Considerations</p>	
<p>The annual performance reports of the municipality and entities.</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 measures taken to improve performance. The report must form part of the annual report. Questions that may be considered are –</p> <ul style="list-style-type: none"> ✓ Has the performance report been included in the annual report? ✓ Have all the performance targets set in the budgets, SDBIP, service agreements etc, been included in the report? ✓ Does the performance evaluation in the annual report compare actual performance with targets expressed in the budgets and SDBIP approved for the financial year? <p>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</p>	<p>Yes.</p> <p>Refer to Chapter 5 of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>volumes, library usage statistics etc?</p> <ul style="list-style-type: none"> ✓ To what extent has performance achieved targets set by council? ✓ Is the council satisfied with the performance levels achieved? ✓ Is the community 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? ✓ What actions have been taken and planned to improve performance? ✓ Is the council satisfied with actions to improve performance? ✓ 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? ✓ 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 	

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>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>	
Audit reports on performance.	<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. 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>The Audit Committee highlighted areas of improvement which management adopted and implemented.</p> <p>Refer to Chapter 2 & 3, of the Annual Report.</p>
Performance of municipal entities and municipal service providers.	<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.</p> <p>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 officer?</p>	<p>Yes.</p> <p>Refer to Chapter 5, of the Annual Report.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
5. General information	The following general information is required to be disclosed in the annual report.	
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.	Not applicable. There are no municipal entities.
The use of any donor funding support.	<p>What donor funding has the municipality received?</p> <ul style="list-style-type: none"> ✓ Have the purposes 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? 	Not Applicable. No donor funding was received.
Agreements, contracts and projects under Private-Public-Partnerships.	<p>Information similar to the details of municipal entities should be provided.</p> <p>Council should ensure that all details have been supplied.</p>	Not applicable.
Service delivery	This may be a high level summary, in	Refer to Chapter 3 of the Annual

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
performance on key services provided.	<p>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.</p> <p>Council may draw conclusions on the overall performance of the municipality.</p> <p>This information may be found in an executive summary section of the annual report and or in statistical tables.</p>	Report.
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.	Not applicable
Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations.	<p>Details of significant IT activities should be outlined indicating the effectiveness of the IT projects and the quality of IT services.</p> <p>Council should consider how effectively the IT services support and facilitate performance of the municipality and whether value for money has been obtained.</p> <p>Details of any future IT proposals should be summarised. Council should comment and draw conclusions on the information provided.</p>	Not applicable
Three year capital plan for addressing	A summary of the long-term capital plans and how these address the backlogs of services in the municipality should be	Not included in the report.

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
<p>infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework.</p>	<p>provided.</p> <p>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.</p> <p>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.</p>	
<p>6. Other considerations recommended</p>		
<p>Timing of reports.</p>	<p>Was the report tabled in the time prescribed?</p> <p>Has a schedule for consideration of the report been adopted?</p>	<p>Yes.</p>
<p>Oversight committee or other mechanism.</p>	<p>What mechanisms have been put in place to prepare the oversight report?</p> <p>Has a schedule for its completion and tabling been adopted?</p>	<p>Yes.</p> <p>The schedule was adopted.</p>
<p>Payment of performance bonuses to municipal officials.</p>	<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</p>	<p>No performance bonuses were paid to any Section 57 Managers.</p>

INFORMATION REQUIRED TO BE INCLUDED IN ANNUAL REPORTS	COUNCIL CONSIDERATIONS AND QUESTIONS	RESPONSES/ COMMENTS
	<p>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.</p> <p>Have bonuses been paid based on achievements of agreed outputs and after consideration of the annual report by council?</p> <ul style="list-style-type: none"> ✓ 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? 	
Overtime Policy.	An approved overtime policy could not be produced during the audit. However, a number of employees worked overtime in the current year.	Not Applicable.

7. CONCLUSION

The onerous requirements of so many legislative mandates, makes it difficult to achieve an unqualified report, a feat that very few municipalities achieve in South Africa. This achievement is recognised by the Oversight Committee.

The Oversight Committee commends Council, the Municipal Manager, the Senior Managers and all staff at eMadlangeni Local Municipality on the strides made towards good governance. However, much needs to be done in planning and reporting on performance information and the 2013/14 financial year must target focussed attention in this area.

Having performed the following tasks:

- ✓ Reviewed and analysed of the Annual Report;
- ✓ Invited, received, and considered inputs from Councilors and Portfolio Committees, on the Annual Report;
- ✓ Considered that no written comments were received on the Annual Report from the public consultation process;
- ✓ Conducted Public Hearings to allow the local community or any organs of state to make representations on the Annual Report;
- ✓ Received and considered Council's Audit Committee views and comments on the annual financial statements and the performance report; and
- ✓ Prepared the draft Oversight Report, taking into consideration, the views and inputs of the public, representatives of the Auditor-General, organs of state, Council's Audit Committee and Councilors;

The Oversight Committee has pleasure in presenting the Oversight Report to Council to consider one of the following resolutions and then to be forwarded to the relevant Departments and Provincial Legislature:

RESOLVED TO RECOMMEND

1. That Council having fully considered the Annual Report of the eMadlangeni Local Municipality for the 2013/14 Financial Year, adopts the Oversight Report for the 2013/14 Financial Year.
2. That Council approves the Annual Report of the eMadlangeni Local Municipality for the 2013/14 Financial Year with no reservations as included in the comments in the Oversight Report as referred to in part (1) of this resolution.
3. That the Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
4. That the Oversight Report be submitted to the Provincial Legislature in accordance with Section 132(2) of the Municipal Finance Management Act 56 of 2003.

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON EMADLANGENI MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Emadlangeni Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Emadlangeni Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses and impairments

8. As disclosed in note 47 to the financial statements, material electricity losses to the amount of R1,78 million were incurred as a result of distribution inefficiencies.
9. As disclosed in note 11 to the financial statements, the municipality made a provision for impairment of R14,25 million in debtors, whose recoverability is considered doubtful, due to poor collection practices.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014.

Objective 2: Infrastructure and services on pages xx to xx

Objective 3: Social and local economic development on pages xx to xx

Objective 4: Spatial and environmental development on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*(FMPPI).

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the selected objectives are as follows:

Usefulness of reported performance information

Consistency of objectives, indicators and targets

19. Section 41(c) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 24% of the reported indicators and 28% of the reported targets were not consistent with the indicators/targets as per the IDP. This is due to indicators and targets reported in the annual performance report that were changed in-year without following the process as prescribed in section 34 of the MSA and/or without adoption by the council of the municipality.

Reliability of selected objectives in the annual performance report

Validity, accuracy and completeness

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to inadequate review and monitoring of source documentation to ensure that it is valid, accurate and complete.

Additional matter

21. I draw attention to the following matter: My conclusion is not modified in respect of this matter.

Achievement of planned targets

22. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs xx to xx of this report.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of fixed assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

26. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting. In addition, key vacancies were not filled in a timely manner in order to mitigate deficiencies to achieve desired control objectives.

Financial and performance management

27. Adequate processes were not in place to communicate timely and relevant information to oversight and regulatory parties, in that monthly reporting was not at optimal levels. This is evidenced by material corrections in the financial statements as well as weaknesses in the usefulness and reliability of performance reporting.

Governance

28. The audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements and deficiencies in the annual performance report.

Pietermaritzburg

28 November 2014



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

ANNEXURE 2: MANAGEMENT AUDIT REPORT ACTION PLAN

Nature of Audit Query	Audit Query	Response from Municipality
Material losses	As disclosed in note 47 to the financial statements, material electricity losses to the amount of R1,78 million were incurred as a result of distribution inefficiencies	<p>Management will review prepaid electricity sales reports to identify consumption behaviour with the intention of identifying any possible illegal connections by consumers. Once we have identified illegal connection on the exceptions report, we will report to MANCO and Council.</p> <p>As for the conventional meters we will continue to monitor the exceptions report and identify any inconsistencies on the consumption of electricity and effect disconnections if necessary.</p> <p>During 2013/14 financial year the municipality had budgeted R3 000 000 for electricity infrastructure and to date R 1 200 000 was spent on replacing 800 meter cables, transformers and upgrade of mini sub stations.</p> <p>Furthermore we will table reports on a monthly basis to MANCO meetings, portfolio committee</p> <p>Due to backlog the municipality is in contact with DBSA to source funding for electricity infrastructure.</p>
Material Impairment	As disclosed in note 11 to the financial statements, the municipality made a provision for impairment of R14,25 million in debtors, whose recoverability is considered doubtful, due to poor collection practices	<p>We will continue the issuing of disconnection notices to enhance our collection. And if customers do not afford to pay for municipal services, we will conduct affordability verification on them, trace the aging of debt and then consider providing incentives, handing them over for collection, writing of their debts and inclusion in the indigent register.</p> <p>We will also finalise indigent register.</p> <p>Various stakeholders will be involved in finalising the indigent register</p> <p>We will also appoint a service provider to verify the people listed as indigent and their credentials and furthermore verify whether those debtors are not economically active somewhere.</p>
Consistency of objectives, indicators and targets	Section 41(c) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 24% of the reported indicators and 28% of the reported targets were not consistent with the indicators/targets as per the IDP. This is due to indicators	<p>Management has developed a system of reporting on a monthly basis on the set target for each department. This reporting also informs the items to the portfolio committees which then help the council to monitor the progress on the implementation of the strategies and set targets.</p> <p>Furthermore we will develop procedure manual for each targets and key performance indicators to help the responsible HOD's understand the steps</p>

Nature of Audit Query	Audit Query	Response from Municipality
	and targets reported in the annual performance report that were changed in-year without following the process as prescribed in section 34 of the MSA and/or without adoption by the council of the municipality	<p>that they will have to undertake to ensure that they achieve their targets.</p> <p>During the 2014/15 IDP review the municipality had corrected all the strategies that were not linked to the key performance indicators and targets in the SDBIP.</p>
Validity, accuracy and completeness – reliability of objectives in the annual report	The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to inadequate review and monitoring of source documentation to ensure that it is valid, accurate and complete.	<p>Management has developed a system of reporting on a monthly basis on the set target for each department. This reporting also informs the items to the portfolio committees which then help the council to monitor the progress on the implementation of the strategies and set targets.</p> <p>Furthermore we will develop procedure manual for each targets and key performance indicators to help the responsible HOD's understand the steps that they will have to undertake to ensure that they achieve their targets.</p> <p>Personal Assistance from different departments will be designated with a responsibility to ensure validity and accuracy of the POE's.</p> <p>We will ensure that at the year end all departments participate in the compilation of the Audit File which will then be given to Internal Audit for verification prior being given to Auditor General for audit.</p>
Annual Financial Statements	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of fixed assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	<p>We will review the accuracy of the fixed asset register including the useful life of the assets, impairment and depreciation prior to submission of AFS to Auditor General.</p> <p>National Treasury Checklist will be utilised to ensure compliance will GRAP standards. We will ensure that at the year end all departments participate in the compilation of the Audit File which will then be given to Internal Audit for verification prior being given to Auditor General for audit. a process plan will be developed by the end of April which will detail activities to carried out to ensure preparation of AFS which are valid, accurate and complete.</p>
Leadership	The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting. In addition, key vacancies were not filled in a timely manner in order to mitigate deficiencies to achieve desired control objectives	We will ensure that all key positions at a senior level are filled in order to ensure that the targets that have been set are achieved. In relation to the PMS we have appointed the Service Provider to ensure that in the meantime while we are trying to attract the relevant skills, we are in a position to stabilise the organisation and that systems are in place to monitor and measure performance.

Nature of Audit Query	Audit Query	Response from Municipality
Financial and Performance management	Adequate processes were not in place to communicate timely and relevant information to oversight and regulatory parties, in that monthly reporting was not at optimal levels. This is evidenced by material corrections in the financial statements as well as weaknesses in the usefulness and reliability of performance reporting.	<p>We will ensure timeous processing of transactions, and performing of monthly reconciliations and review thereof. Furthermore will ensure that monthly section 71 reports are submitted with 10 days period after the end of the month to Municipal Manager and LG Database.</p> <p>Management has developed a system of reporting on a monthly basis on the set target for each department. This reporting also informs the items to the portfolio committees which then help the council to monitor the progress on the implementation of the strategies and set targets</p>
Governance	The audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements and deficiencies in the annual performance report.	We will beef up capacity within our internal audit unit so that they will be able to evaluate systems and control processes for audit committee to be able to perform its duties as expected.

