
Oversight committee report

2010/11 financial
year

Lejweleputswa District
Municipality

CONTENT PAGE

No	Content description	Sub-content description	Page no.
1.	Introduction and background		3
2.	Functions and composition of the oversight committee		4
3.	Legislative requirements		5
4.	Implementation of a legislative process		5
5.	Main components of the annual report		6
6.	Geographic set up		6
7	Summaries of comments of the municipality's annual report per local municipality.		8
8.	Analysis of community participation process		15
9	General committee recommendations on the public participation process and project related logistics.		16
10.	Audit Action Plan		17
11.	Resolutions and statements to council		25
12.	Annexures		26

1. INTRODUCTION AND BACKGROUND

Council is vested with the responsibility to oversee the performance of their respective municipality, as required by the Constitution, the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA). This oversight responsibility of council is particularly important for the process of considering annual reports.

The MFMA and MSA recognize that council has a critical role to play to ensure better performance by municipal departments and entities. There now exists an explicit linkage between the strategic goals, set by council through the IDP, which are translated into the budget, and the delivery of those goals, which is reported in the Annual Report. It is important for council to ensure that the budget gives effect or expression to priorities contained in the IDP. A good budget will lay a basis for better oversight and cement the contracts between the executive/council, the administration and the public.

The MFMA gives effect to financial management reforms that place greater service delivery responsibilities on managers and makes them more accountable for performance. Whilst, in the first instance it is left to the mayor or the Executive Committee to resolve any performance failures, ultimately the council is vested with the power and responsibility to oversee both the executive and administration. Oversight occurs at various levels in a municipality and is explained in the following table:

¹Financial governance framework applicable to local government

	Responsible For	Oversight Over	Accountable To
Council	Approving Policy and Budget	Executive Committee	Community
Executive Committee	Policy, Budgets, Outcomes, Management of/Oversight Over Municipal Manager	Municipal Manager	Council
Municipal Manager	Outputs and Implementation	The Administration	Executive Committee
Chief Financial Officer and Senior Managers	Outputs and Implementation	Financial Management and Operational Functions	Municipal Manager

SEPARATION OF ROLES

The separation of roles between the Council and administration is intended to strengthen the oversight function of Councillors. Good governance and effective oversight and accountability are predicated on there being this separation of functions. It is fundamental for the achievement of the objects for local government in the Constitution relating to a democratic

¹ MFMA Circular No 32

and accountable system of local government. Council oversees the performance of the administration through Council and committee meetings. The Mayor provides the link between the Council and administration and is responsible for regular monitoring and for tabling reports before the Council. Therefore, the administration is responsible for the day-to-day operations. This separation avoids conflict of interest and a “referee/player” situation arising and is similar to the role played by Parliament.

The MFMA further assumes a separation between Councillors serving on the executive (i.e. Mayor or Executive Committee) and non-executive Councillors. This separation is vital to ensure Council maintains oversight for the performance of specific responsibilities and delegated powers to the Mayor or Executive Committee.

The MFMA gives Council a number of financial management tasks to fulfill its oversight role. The adoption of an “Oversight Report” is one such task. The diagram on the following page illustrates the various oversight intervention points for the adoption of the Integrated Development Plan (IDP), Budget, Annual Report and Oversight Report.

2. FUNCTIONS AND COMPOSITION OF THE OVERSIGHT COMMITTEE

The Oversight Committee’s primary role is to consider the Annual Report, receive input from various stakeholders and to prepare a draft Oversight Report for consideration by Council.

The specific functions are:

- Review and Analyze the Annual Report
- Facilitate the Input of Various Stakeholders on the Annual Report
- Conduct Public Hearings on the Annual Report
- Receive and Consider Audit Committee Views on the Annual Report
- Prepare a Draft Oversight Report for Consideration by Council

Composition of the Oversight Committee

The following councilors are members of the Oversight Committee of the municipality:

- Cllr C RADEBE
- Cllr R MASIENYANE
- Cllr CJ SCHLEBUSCH
- Cllr B SEAGE
- Cllr S THSEKLO
- Cllr P MASEKO
- Cllr JS MARAIS

3. LEGISLATIVE REQUIREMENTS

The Municipal Finance Management Act (MFMA) requires that the Municipality and its municipal entities prepare an annual report for each financial year. Section 46(1) of the Municipal Structures Act (MSA) requires municipalities to prepare a performance report for each financial year, setting out the performance of the municipality and its external service providers, a comparison between targets and performance in the previous financial year and measures taken to improve performance.

The 2010/11 annual report reflects on the performance of the district municipality for the period 1 July 2010 to 30 June 2011. The annual report has been prepared in compliance with Section 121(1) of the MFMA. The table below provides a detailed process that the municipality is required to follow when developing annual reports on an annual basis in terms of specifically the MFMA.

4. IMPLEMENTATION OF A LEGISLATIVE PROCESS

The committee reviews the contents of the draft report. The next process was to consult the public through public hearings and subsequently submits as part of the oversight committee report to council their recommendations. As the report provides a record of activities, it is therefore also necessary for the committee to solicit inputs from the audit committee as experts in determining relevance of the performance information against the targeted budget provided for the year under review. Comments of the Auditor General are also important to be noted and briefly highlighted so that future planning takes into account their impartial inputs in this regard.

The municipality submitted both the draft performance report and the annual financial statements before the end of August 2011. The office of the Auditor General then started with auditing process for a period until the end of November 2011 where a draft audit report was discussed but the municipality eventually received a final audit report by the middle of January 2012 which was quite after the required time frame and that pressed on officials to finalize the annual report for submission to council before the end of the January 2012.

In a council meeting held on the 29 January 2012, the draft annual report was then noted by council for purposes of public consultation processes to follow. The municipality was then required to publish the annual report for public comments and thus start with a process of consultation. A few meetings were held by the oversight committee among which was to find clarity from consulting with senior departmental

managers of the municipality. Presentations were delivered by HODs and issues were clarified before the community visits.

The following week of the 6th of March 2012 until the 14th of March 2012, visits were undertaken to all municipalities in the district. Officials accompanied the oversight committee members throughout the process. This process was not smooth as the committee experienced challenges of unrest especially in Masilonyana where some cars were stoned.

5. MAIN COMPONENTS OF THE ANNUAL REPORT

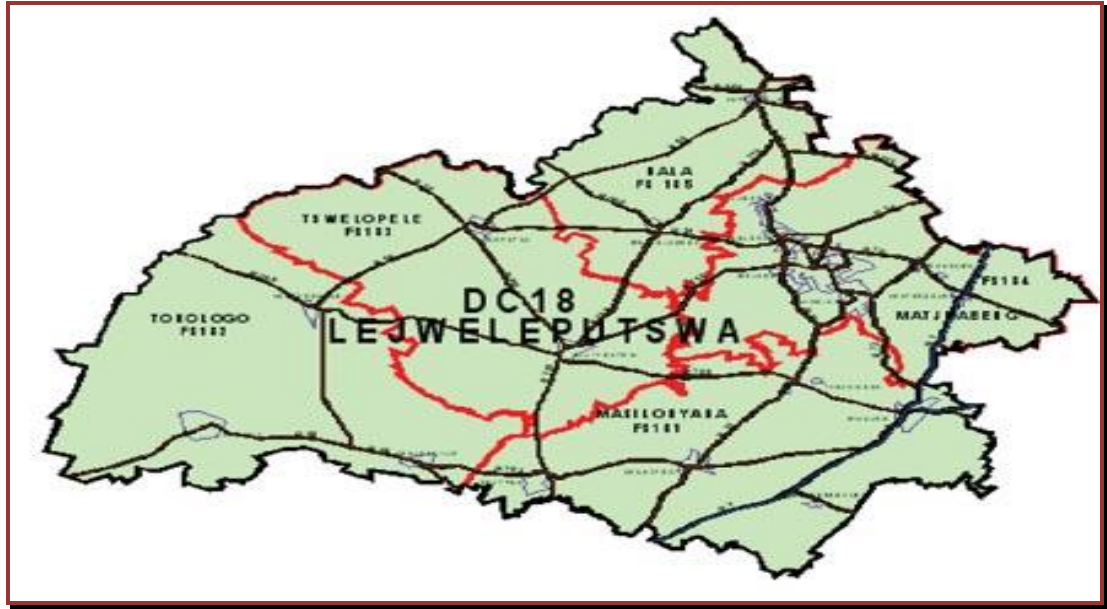
We have assessed the annual report for 2007/8 on the basis of the requirements that it contains these main components without which a negative assessment would arise. We have ensured that we comply with both MFMA requirements as stated in s121 as well as MFMA circular no.32 on the preparation of the oversight report and confirmed that the following legislated components are part of the report:

- *The Auditor-General's audit report on the financial statements in terms of section 126(3) of the MFMA; and*
- *The Auditor-General's audit report on performance in terms of section 45(b) of the MSA.*
- *the annual financial statements of the entity, as submitted to the Auditor-General for audit in terms of section 126(2);*
- *an assessment by the entity's accounting officer of any arrears on municipal taxes and service charges;*
- *an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms the service delivery agreement or other agreement between the entity and its parent municipality;*
- *particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to above*
- *any information as determined by the entity or its parent municipality;*
- *any recommendations of the audit committee of the entity or of its parent municipality; and*
- *any other information as may be prescribed.*

6. GEOGRAPHICAL SET UP

The area of jurisdiction of Lejweleputswa District Municipality includes the following five municipalities:

- Masilonyana; Tokologo; Tswelopele; Matjhabeng and Nala



Map 1 - Lejweleputswa District

The following maps indicate spatial locations of each of the municipalities and can be compared to map 1 as shown above.

Masilonyana	Tokologo	Tswelopele	Matjhabeng	Nala
Theunissen Verkeerdevlei Brandfort Soutpan Winburg	Dealesville Boshof Hertzogville	Bultfontein Hoopstad	Welkom Ventersburg Hennenman Virginia Allanridge Odendaalsrus	Bothaville Wesselsbron

7. SUMMARIES OF COMMENTS OF THE MUNICIPALITY'S ANNUAL REPORT

All comments received from the public during public engagements (see summary attached on schedule of meetings) concentrated on service delivery performance. Although copies of the same report were distributed in advance and an improved format, the majority of inputs and comments concentrated on specific projects that had bearing in their lives. The table below depicts a summary of projects and comments raised during the visits:

Municipality	Date of visit	Identified projects 2010/11	Recurrent projects 2007/8-10	Comments per project
Tokologo	06 March 2012	Truck	-	The district promised the municipality to buy truck for refuse removal as they were struggling to collect refuse. The promise was never and they are still waiting.
		Dustbins	-	Dustbins that the district municipality has delivered in Tokologo did not match the number of households and therefore there is a need for more dustbins in the area.
		Road upgrade	The province has neglected tarring of a connecting road between Boshoff and Hertzogville which can increase visitor numbers in the municipality.	Roads leading to Tokologo have all potholes and therefore there is no sufficient funding to repair these roads. Some of the interior roads require gravelling so that they are driveable as well.
		Bursaries	Lejweleputswa District to ensure that there is proportionate distribution of these benefits. There was no defined strategy prepared to equitably fund students throughout the district.	The municipality must increase the bursary funding to cater for most of the indigent students in the district.
		Electricity	-	There is a problem of some selected sites not electrified ever since establishments.
		Cooperatives funding	-	The district must give priority to cooperatives development as it increases opportunities for employment and self sustainability.

Municipality	Date of visit	Identified projects 2010/11	Recurrent projects 2007/8-10	Comments per project
Nala	14 March 2012	Multi-purpose sports centre	-	There was a need for a multi-purpose centre for people of the municipality.
		Increased access to government institutions	-	There is a challenge that people in the municipality do not access government assistance as should be required through mobile services. It was also identified that electricity is only provided during the day and therefore one cannot get it after hours and also have to get to town in order to buy a coupon. There must be an effort to ensure that these services reach the municipality like SEDA, FDC and NYDA as examples.
		Grading issue	-	The problem of irregular expenditure need to be resolved as they contribute negatively to the good work of the municipality. This will help resolve the problem as identified by the AG.
		LDA	-	There is a need to introduce the entity to the community as there is potential for the entity to resolve some of the community needs like unemployment and job creation challenges throughout government.
		Ethanol project	-	This project concept brought light and job anticipation when it was introduced. Community is worried that no one is talking about it and no explanation was given why it was no longer a viable project for job creation purposes.
		Cemeteries	-	The cemetery project must be extended to Nala Municipality as well. There was mention of problems of sinking graves in the township and therefore the project will assist preservation of the graves for eternity.

Municipality	Date of visit	Identified projects 2010/11	Recurrent projects 2007/8-10	Comments per project
Masilonyana	13 March 2012			
Specific comments	The meeting which was arranged for Masilonyana coincided with community protest such that our meeting was disrupted.			

Municipality	Date of visit	Identified projects 2010/11	Recurrent projects 2007/8-10	Comments per project
Matjhabeng	07 March 2012	Cemeteries	-	There was a request from the community to revitalize the Phumlani Cemetery project. All other related infrastructure projects must be monitored.
		Bursaries	List of beneficiaries. There must be proof of individuals given bursaries.	The municipality must try to allocate bursaries equitably throughout the region. Budget for bursaries must be increased in order to meet the needs of all learners throughout the district.
		LDA	-	The LDA is requested to conduct road shows in order to brief communities about their role.
		Ward Committees	Since the last time when the President visited Lejweleputswa District Municipality and the pronouncement that municipalities must start prioritizing ward committee there was never a budget for ward committees for purchasing of needed resources. There was also a linked complaint by members of ward committees that they were not receiving stipends and that there is a need for provision of stipend after	Ward committees needs and priorities must find space in council decisions.

			meetings.	
		Municipal Grading	Incorrect grading of the municipality which contributes to irregular expenditure must be resolved with speed.	

Municipality	Date of visit	Identified projects 2010/11	Recurrent projects 2007/8-2010	Comments per project
Tswelopele	08 March 2012	Sports grounds	-	There is a potential rise in youth numbers involved in crime because of partly lack of amenities in the municipality including sports fields.
		Cemeteries	-	Most of the cemeteries in the municipality are not fenced. It is a request that the district municipality must assist the local municipality to fence them.
		Aids campaigns	-	Although the report has indicated that there was an event organized with regard to Aids campaign, members of the community have opposed the event that was held by the municipality to be unrelated to Aids campaign.
		Food parcels	No distribution was made in ward 7 as the ward councilor there was an independent councilor and people there were disadvantaged.	Priority of food parcels must be given to needy people within the community.

8. ANALYSIS OF COMMUNITY PARTICIPATION PROCESS

For the first time in the 2010/11 financial year, the process was much improved than it used to be in the past four years. Senior managers were involved in providing background information in updating the committee with regard to circumstances around events for the financial year. It is therefore important to understand the purpose of the process and provide necessary interventions in our strategic documents. One of the major reasons is for us to understand challenges that communities pick up so that they are able to relay them to us.

The impact of community participation should therefore be gauged on the basis of frequency of similar questions raised and the level of attendance to that question. For instance, issues relating to the bursary fund and cemetery projects have been raised twice or more and no meaningful input was given to communities in terms of our response throughout the periods.

It must therefore be noted that community participation is not primarily meant for compliance because members of the community ask valid question but do not receive satisfying answers. The other issue that continues to be raised is the fact the district municipality, as a supporting, facilitating and coordinating entity throughout the district conducts these processes but does not give assistance to the locals to provide the same feedback.

10. GENERAL COMMITTEE RECOMMENDATIONS ON THE PUBLIC PARTICIPATION PROCESS AND PROJECT RELATED LOGISTICS.

As a committee, we have learned positive lessons that we can only improve on the developmental status of municipalities in the sanctioning of the public participation processes for the district municipality in respective local municipalities. We must also request that all senior managers are sanctioned to attend these meetings as a matter of priority.

Among a number of proposals that we recommend need to be considered are:

- The Auditor General's comments in the annual report and the audit action plan;
- Outstanding issues raised by communities which are not implemented;

10. Audit Action Plan

Page no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
Contingent liabilities												
45	Contingent Liability: amount not disclosed (EX.50)			✓				✓				
Employee costs												
11	Compensation of Employees - Overpayment of Councillors' salaries and allowances (EX.10)			✓			✓			✓	✓	✓
12	Compensation of Employees - Not aligned to Public Office Bearers Act No. 20 of 1998 (EX.51)			✓			✓					
16	Compensation of Employees - Performance Agreement not in place (EX.58)			✓			✓					
46	Compensation of employees - Post not advertised (EX.16)				✓			✓		✓		
47	Compensation of employees: Appointment not in terms of the requirements of post (EX.17)				✓			✓				
48	Compensation of employees - appointments were not short listed (EX.18)				✓			✓		✓		
50	Compensation of employees: Internal control weakness – No HR plan (EX.19)				✓			✓				

Page no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
103	Compensation of Employees: Differences between SDL paid and Recalculation (EX.60)	✓						✓	✓			
General IT controls												
50	ISA - USER ACCESS CONTROL (EX.63)				✓			✓				
51	ISA - PROGRAM CHANGE MANAGEMENT (EX.64)				✓			✓				
53	ISA - INFORMATION TECHNOLOGY GOVERNANCE (EX.65)				✓			✓				
Unauthorised expenditure												
17	Unauthorised Expenditure not disclosed in the financial statements (EX.21)			✓			✓					
Control environment												
18	Internal control deficiencies - Risk Assessment (EX.1)			✓			✓		✓			
19	Internal control deficiencies - Audit Committee and Internal Audit (EX.2)			✓			✓			✓		
23	Internal audit & performance audit committee (EX.49)			✓			✓					
54	Internal control deficiencies - Policies and Procedures (EX.3)				✓			✓		✓		

Page no.	Finding	Classification					Rating			In which years was it reported		
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55	Internal control deficiencies - Vacancies in key management positions (EX.4)				✓			✓		✓		
56	Internal control deficiencies - Fraud Prevention Plan (EX.6)				✓			✓		✓	✓	
105	Internal control deficiencies – Committees not in place (EX.24)				✓			✓				
Financial Statements												
57	Financial statement: Communication of deviations found in the Annual Financial Statements through a high-level overview of LDM 2 (EX.23)			✓				✓				
Irregular expenditure												
24	Irregular expenditure - Prior year not disclosed (EX.29)			✓			✓					
59	Irregular, fruitless and wasteful expenditure: Expenditure not reported (EX.83)			✓				✓				
Procurement and contract management												
25	Procurement and Contract Management: Deviations not disclosed in the financial statement (EX.86)			✓			✓					
60	Procurement and Contract Management: Contract awarded in service of the organ of state (EX.82)			✓				✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
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Contingent Assets & Liabilities												
62	Contingent Assets: Understatement (EX.36)			✓				✓				
Immovable assets												
27	Fixed Assets: Land and Buildings not separated (EX.33)			✓			✓					
63	PPE: Land not registered in the name of the Municipality (EX.11)				✓			✓			✓	
Investments												
64	Non-compliance - Investments: Reporting to Mayor and Council (EX.13)			✓				✓		✓		
Property, Plant & Equipment												
28	Depreciation: Accounting policy inconsistently applied (EX.40)			✓			✓					
65	Property, Plant & Equipment: Controls over asset count (EX.46)				✓			✓		✓		
66	Property, Plant & Equipment: Asset count (EX.12)				✓			✓				
67	PPE: Differences identified in the reconciliation of restatements (EX.34)	✓						✓				

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68	Fixed Assets: Existence of asset could not be verified (EX.38)	✓						✓			✓	
72	Fixed Assets: Barcodes not as per the FAR (EX.39)				✓			✓		✓		
73	Fixed Assets: Lack of controls regarding custody of assets (EX.41)				✓			✓			✓	
76	Fixed Assets: Register not adjusted with Possible Impairment (EX.43)	✓						✓		✓		
77	Fixed Assets: Completeness of assets could not be confirmed (EX.44)				✓			✓		✓		
80	PPE: Losses not investigated (EX.52)	✓						✓		✓		
Operating expenditure												
30	Procurement - Contract awarded without following normal bidding process (EX.85)	✓						✓				
31	Procurement: Supplier register not evaluated and updated (EX.9)			✓				✓		✓		
82	Expenditure: No indication that SCM procedures were followed (EX.30)	✓						✓		✓		
84	Expenditure: Supplier paid based on Quotation (EX.31)				✓			✓				
85	Expenditure: Incorrect classifications (EX.32)	✓						✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
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87	Procurement & Contract Management - Competency Levels of SCM Officials (EX.35)				✓			✓		✓		
88	Subsistence and Travelling: No supporting documentation for credit card expenditure (EX.59)			✓				✓				
89	Procurement and contract management: Irregular expenditure not disclosed (EX.84)	✓						✓		✓		
90	Procurement and Contract management: Non adherence to SCM Policy (EX.87)			✓				✓				
Payable												
92	Internal control deficiency: Inadequate creditors' reconciliations performed (EX.7)				✓			✓		✓		
Predetermined objectives												
33	Performance Information : The validity and accuracy of reported performance against indicators could not be confirmed (EX.54)		✓					✓				
35	Performance Information: Reported performance against indicators is not valid when compared to source information (Reliability) (EX.55)		✓					✓				
38	Performance Information : Shortcomings noted in IDP (EX.62)		✓					✓				

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93	Performance information: SDBIP not approved within required timeline (EX.14)		✓					✓		✓		
94	Performance Information : No mid-year performance review conducted (EX.15)		✓					✓		✓		
95	Performance information: No control in place to ensure actual results on programme is complete (EX.25)		✓					✓				
96	Performance Information: Municipal Entity Service level agreement not linked with Municipality's KPI (EX.37)		✓					✓				
98	Performance Information : Difference between audited and actual (EX.57)		✓					✓				
100	Performance Information: IDP not submitted to MEC (EX.8)		✓					✓				
106	Performance Information : Targets not met (EX.61)		✓						✓			
Receivables												
39	Receivables – Outstanding amounts not followed-up (EX.48)			✓			✓			✓		
41	Receivables - Interest not charged on arrears (EX.56)			✓			✓			✓	✓	✓
Reserves												

Page. no.	Finding	Classification					Rating			In which years was it reported		
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42	Capital Reserve: Correctness of amounts could not be verified (EX.47)			✓			✓					
Revenue												
100	Revenue: Overstatement of outstanding debtors and other income. (EX.45)	✓						✓				
Taxes												
101	Internal control deficiency – Value Added Tax (VAT) reconciliation not reviewed (EX.5)				✓			✓		✓		

11. Resolutions and statements to council

Council resolves that:

Having fully considered the attached consolidated annual report and annual financial statements of the municipal municipality and municipal entity and representations thereon, especially with regard to the auditor general's opinion on its affairs and thus trusting that internal processes will be undertaken to correct some of the conditions, adopts the oversight report and thereby subsequently

- **Council approves the consolidated annual report of the municipality and the municipal entity for 2010/11 with reservations that we cannot as yet express ourselves on the correctness of the annual report as a result of non-cooperation of municipal administration.**
- **Council extends mandate of the oversight committee to deal with outstanding matters and report in the next ordinary council meeting.**

12. Annexures

1. Attendance registers
2. Schedule of meetings
3. List of comments from the community
4. An advert for community consultation process