



NEWCASTLE MUNICIPALITY

OVERSIGHT REPORT 2014/15

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ANNEXURES

Annexure 1	-	Audit Response Plan to AG Report 2014/15
Annexure 2	-	CoGTA comments on Annual Report 2014/15

Oversight Committee Members

Councillor S G Ndlovu : Chairperson

Councillor J K Gabuza

Councillor T S Hlabisa

Councillor D E Tshabalala

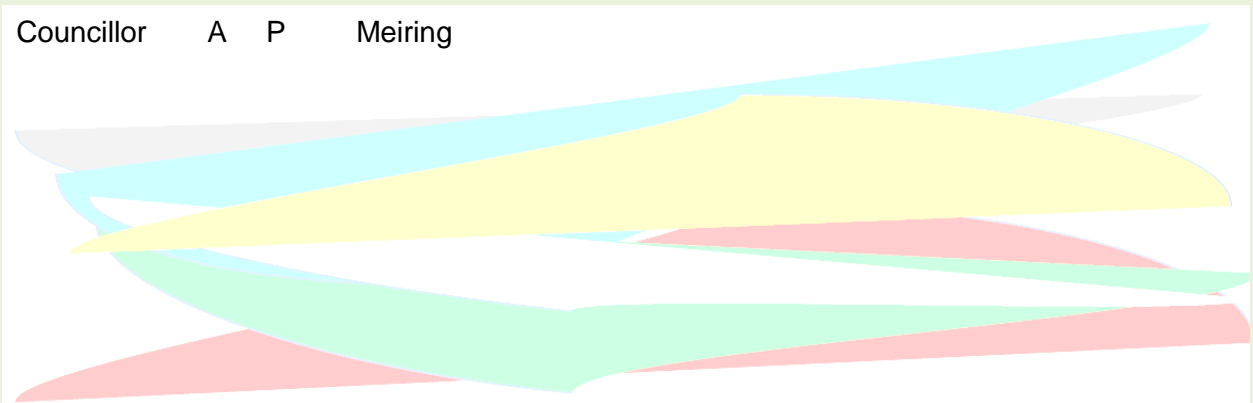
Councillor N A Zwane

Councillor T M Zulu

Councillor V V Bam

Councillor N T Ntshangase

Councillor A P Meiring



Executive Summary

In terms of the Municipal Finance Management Act (Act No 56 of 2003) and the Municipal Systems Act (Act No 32 of 2000), each municipality must prepare an Annual Report for each financial year. The purpose of the Annual Report is to:

- *To provide a record of activities of the municipality or municipal entity during the financial year to which the report relates;*
- *To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and*
- *To promote accountability to the local community for the decision made throughout the year by the municipality or municipality entity*

The Annual Report 2014/15 was tabled in Council on 27 January 2016.

The final step in the reporting process is for Council to consider the Annual Report in the light of the findings contained in an Oversight Report. This is in terms of section 129 of the MFMA. The Oversight Report is compiled by the Municipal Public Accounts Committee (MPAC) as established by Council. The MPAC represents a separation of powers between the Executive Committee and the Administration and is aimed at enhancing accountability and good governance.

The Oversight Report is prepared using guidelines prepared by National Treasury as per MFMA Circular 32. It attempts to address comments and submissions made by the community and stakeholders, as well as the observations and recommendations of the MPAC.

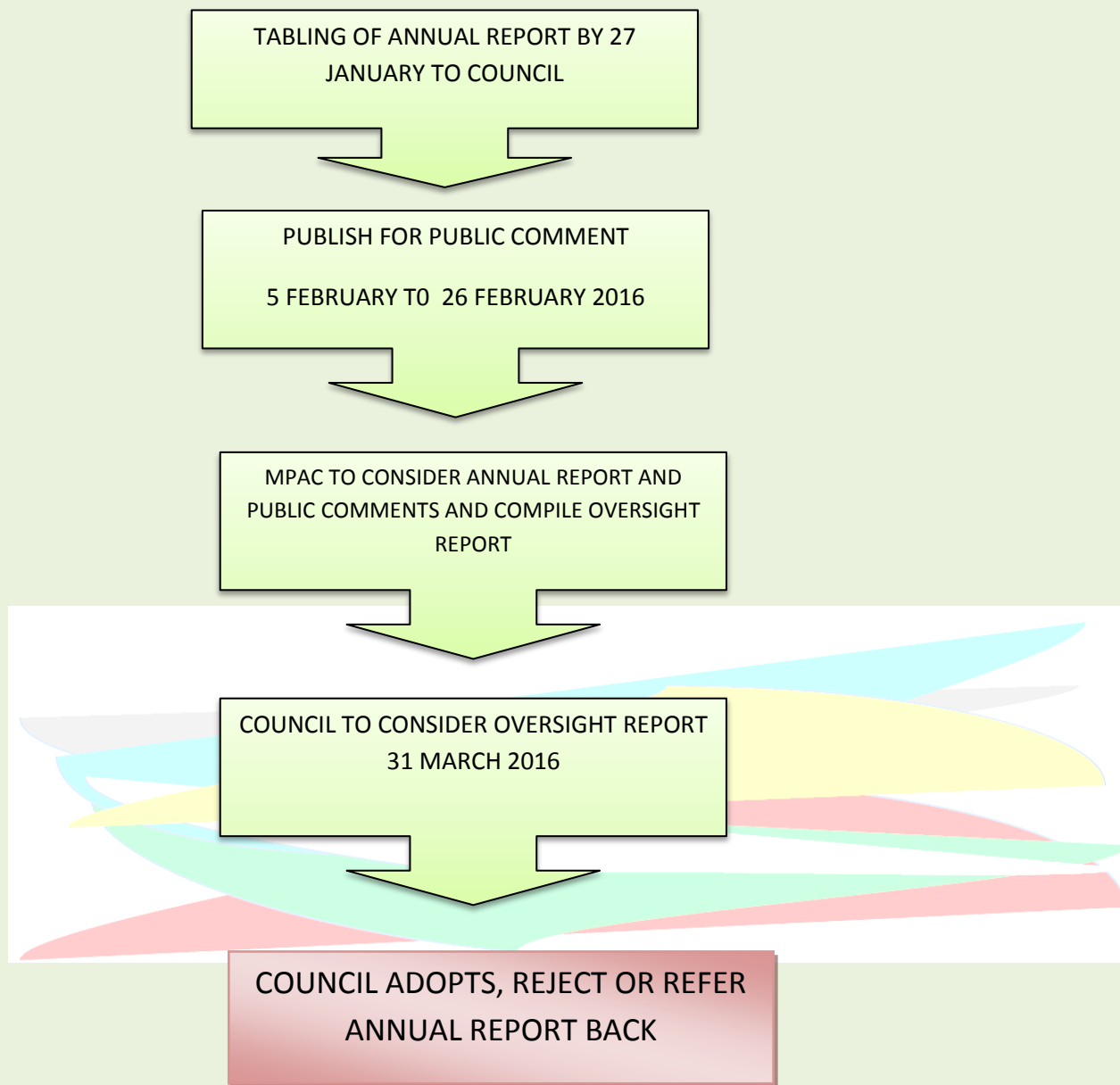
Background to Annual Report 2014/15

Section 121 of the Local Government : Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that “

1. *Every municipality and every municipality 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 activities of the municipality or municipal entity during the financial year to which the report relates;*
 - (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 decision made throughout the year by the municipality or municipality entity*

3. *The annual report of the municipality must include-*
 - (a) *The annual financial statements of the municipality, and in addition, if section 122 (2) applies, consolidated annual financial statements, as submitted to the Auditor General for audit in terms of section 126 (1);*
 - (b) *The Auditor General report in terms of section 126 (3) on those financial statements.*
 - (c) *The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal System Act;*
 - (d) *The Auditor General's audit report in terms of section 45 (b) of the Municipal Systems Act.*
 - (e) *An assessment by the municipality 's accounting officer of any arrears on municipal taxes and service charges;*
 - (f) *An assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue collection from each revenue sources and for each vote in the municipality's approved budget for the relevant financial year;*
 - (g) *Particulars of any corrective action taken or to be taken in response to the issues raised in the audit reports referred to in paragraphs (b) and (d)*
 - (h) *Any explanation that maybe necessary to clarify issues that in connection with the financial statements;*
 - (i) *Any information as determined by the municipality;*
 - (j) *Any recommendations of the municipality's audit committee; and*
 - (k) *Any other information as may be prescribed.*
4. *The annual report of a municipal entity must include-*
 - (a) *The annual financial statements of the entity as submitted to the Auditor General for audit in terms of section 126 (2) on those financial statements*
 - (b) *The Auditor General's audit report in terms of section 126 (3) on those financial statements;*
 - (c) *An assessment by the entity's accounting officer of any arrears on those financial statements;*
 - (d) *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*
 - (e) *Particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to in paragraph (b);*
 - (f) *Any information as determined by the entity or its parent municipality;*
 - (g) *Any recommendations of the audit committee of the entity or its parent municipality; and*
 - (h) *Any other information as may be prescribed."*

It is against this background that the annual report in respect of the 2013/2014 financial year was submitted to Council on the 28th January 2015 as per the following process flow :-



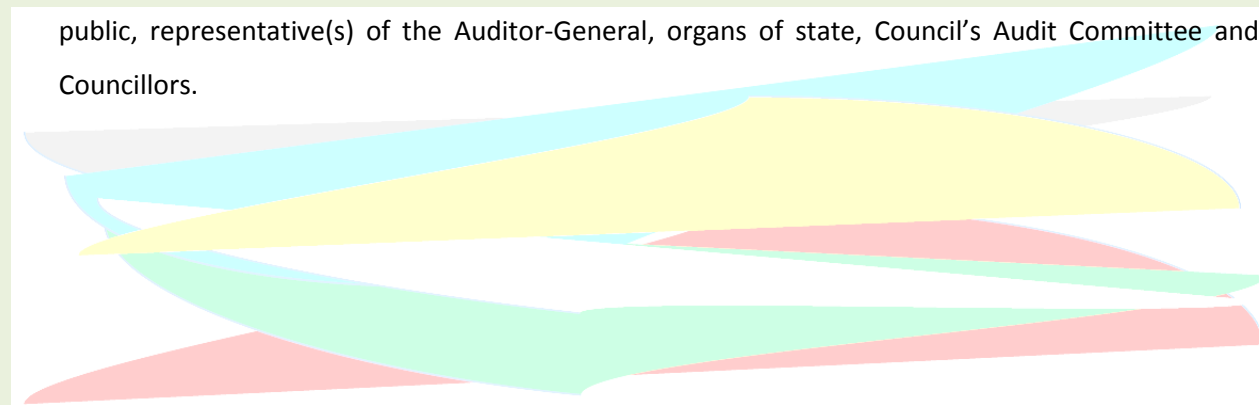
Accordingly, notice was given in terms of section 21 of the Municipal Systems Act, No 32 of 2000 read with section 127(5) of the Municipal Finance Management Act that the Annual Report was open for comments and/or inputs by the community and stakeholders by the 26TH February 2016. The Annual report was placed at all municipal offices, libraries and the municipal website www.newcastle.gov.za.

It is noted that no comments were received from the public. The committee acknowledges the comments received from COGTA as attached as Annexure 2 which was considered at its meeting on the 22nd March 2016. The meeting adjourned and re-convened on the 24th and again on the 29th March 2016 to finalise the Oversight Report for submission to Council.

Functions of the Municipal Public Accounts Committee (MPAC)

The functions of the MPAC 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.

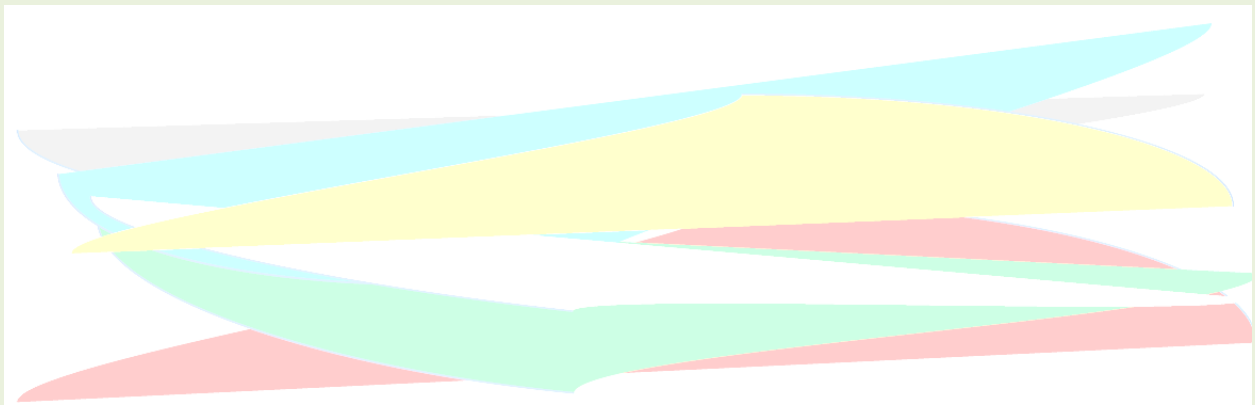


Summary of comments received from stakeholders and response thereto

Management Response thereto is tabulated as follows:

SUBMISSION BY COGTA		CONCLUSION BY MPAC
COMMENT/QUESTION	MANAGEMENT RESPONSE	
<p>The analysis highlights that the following items are not included in the Annual Report : -</p> <p>2.1 An assessment by the accounting officer on any arrears on municipal taxes and services charges, including municipal entities</p>	<p>This is included in the Statement of Financial Performance on page 6 and Financial Analysis report as included in the Annual Report</p>	<p>It is noted that An assessment by the accounting officer on any arrears on municipal taxes and services charges, including municipal entities is included in the Statement of Financial Performance on page 6 and Financial Analysis report as included in the Annual Report</p>
<p>2.2 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>This is included in the Statement of Financial Performance on page 6 and Financial Analysis report as included in the Annual Report.</p>	<p>It is noted that 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 is included in the Statement of Financial Performance on page 6 and Financial Analysis report as included in the Annual Report.</p>
<p>2.3. The Annual Report appears to not be in the format as recommended in MFMA Circular 63</p>	<p>The MFMA Circular 63 serves as a guideline to support the development of the Annual Report. Unless the Circular is adopted by Council, the legislative requirements serve as the basic minimum requirement which is being complied with. The Annual Report Checklist is used as a guideline for this purpose.</p> <p>Whilst the MFMA circular 63 does advocate the</p>	<p>The response of Management is noted. However, the Committee is of the opinion that as a high capacity municipality every attempt should be made to comply with MFMA Circular 63 going forward.</p> <p>Accordingly, the Circular must be submitted to Council for adoption, and the Annual Report Framework to be compiled accordingly.</p>

SUBMISSION BY COGTA		CONCLUSION BY MPAC
COMMENT/QUESTION	MANAGEMENT RESPONSE	
	<p>implementation of best practice, the management is of the view that the Annual Report should be User friendly whilst still complying with the legislative requirements. The guidelines will be explored further by the Administration going forward for possible adoption by Council.</p>	



Checklist For Consideration Of The Annual Report

Information required	Council Consideration and questions	
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Financial Matters	Financial reporting to be considered	Responsible Official
The annual financial statement (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General	Attached as Appendix 1	CFO
The Auditor-General's reports on the financial statement of the municipality and the entities	Included Chapter 6	CRO
Any explanations that may be necessary to clarify issues in connection with the financial statements	Notes to the Financial Statements from page 46-84	CFO
An assessment by the accounting officer on any matters on municipal taxes and services charges, including municipal entities	Statements of Financial Performance on page 6 and Financial Analysis report as attached	CFO / DIRECTOR REVENUE
Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports	Included – Chapter 6 Page 155	Chief Risk Officer

Financial Matters	Financial reporting to be considered	Responsible Official
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	Statements of Financial Performance on page 6 and Financial Analysis report as attached	CFO/ DIRECTOR REVENUE
An assessment by the municipal entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivered agreements or other agreement between the entity and the municipality	Included in Annual Performance Report _ appendix 2	SED : Technical Services
Any information as determined by the municipality, the entity or its parent municipality	None	MM/COO
Recommendations of the audit committee in relation to the AFS and the audit report of the municipality and its entities	Included – Chapter 7	Chairperson of Audit Committee

Allocations received and made	Considerations	Responsible Official
Allocations received by <u>and</u> made to the municipality	Will be included in the Notes AFS Note 26 page 63	CFO/ DIRECTOR BUDGET AND FINANCIAL REFORMS
Allocations received <u>and</u> made to the municipality entity	None	CFO/ DIRECTOR BUDGET AND

Allocations received and made	Considerations	Responsible Official
		FINANCIAL REFORMS
Information in relation to the use of allocations received	Notes of AFS Note 26 page 63	CFO/ DIRECTOR BUDGET AND FINANCIAL REFORMS
Information in relation to outstanding debtors and creditors of the municipality and entities	Note to the AFS Note 14 and Note 21	DIRECTOR REVENUE & DIRECTOR BUDGET AND FINANCIAL REFORMS

Disclosures in notes to AFS	Considerations relating to section 124	Responsible Official
Information relating to the benefits paid by municipality and entity to councillors, directors and officials	Notes of AFS, Note 29 & 30	DIRECTOR BUDGET AND FINANCIAL REFORMS

Municipal Performance	Considerations	
The annual performance reports of the municipality and entities	Appendix 2 and 6	Performance Manager & SED : Technical Services (WSA)
Audit report on performance	Included – Chapter 6	Auditor-General

Municipal Performance	Considerations	
Performance of municipal entities and municipal service providers	Included in Annual Performance Report	Performance Manager : SED : Technical Services (WSA)
For municipal entities –an assessment of the entity’s performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between in entity and municipality	Included in Appendix 2 and 6	SED : Technical Services (WSA) and Uthukela Water

General information	The following general information required to be disclosed in the annual report.	Responsible Official
Relevant information on municipal entities	None	SED : Technical Services (WSA)
The use of any donor funding support	None	CFO

General information	The following general information required to be disclosed in the annual report.	Responsible Official
Agreement, contracts and projects under Private -Public- Partnerships	None	CFO
Service delivery performance on key service provided	Included – Appendix 2	Performance Manager
Information technology and systems purchases and the effectiveness of these systems in the delivery of services and for ensuring compliance with statutory obligations	Included – Chapter 2 Page 115	Director : IT
Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework	Included – Chapter 10	SED : Technical Services

Comments and Recommendations

Infrastructure assets

The Committee expresses concern on the following issues relating to assets :

- ✓ Despite appointing a service provider to assist with the gaps identified in the assets by the Auditor-General in the prior year, a qualification is received yet again on assets for the year under review ;
- ✓ Whilst it is noted that the Administration have requested a secondment to the position of Acting Assets Manager from the service provider, it is necessary to have an internal person responsible and accountable for Assets. For this purpose, the post of Manager : Assets must be given priority despite the moratorium on the filling of posts pending the finalization of the re-engineering process. Interim measures to ensure that the incumbent in Acting position be internal must be addressed immediately by Management

Significant uncertainties

Whilst the Management Action plan is noted, the monitoring on lawsuits against the municipality and the status thereof is recommended. This includes the use of independent law firms and the cost implications thereof.

Supply Chain Management

The Committee notes with concern that the issues relating to SCM issues could be the result of a weak SCM policy and internal controls. For this purpose it is necessary for any conflict between the policy and legislation be identified. The alignment process must pay particular attention to section 32 and section 36 to prevent SCM irregularities.

The alignment of the policy MUST also include internal workflows to be specified for all SCM processes.

Section 117 of the MFMA should in all instances be complied with, and the implementation thereof MUST remain the responsibility of the Administration. No political interference will be condoned in the procurement of services, and SCM processes must be complied with at all times. Specifications relating to the roadshows specifically must be compiled through the IDP office in consultation with the Mayor's Offices and submitted to SCM unit for further action.

The Committee also expresses concerns on the number of deviations and section 32 appointments, and requires that these be monitored more regularly by MPAC accordingly.

Loans

The Committee acknowledge as specified in the Annual Report, specifically the Financial analysis, that the municipality need to reduce loan commitments and increase cash equivalents. The basis of this submission as per the financial analysis report is that 50% of liabilities are loan commitments. Accordingly the capacity of the municipality to service additional loans must be submitted monitored with input to be considered from National Treasury. Council is encouraged to take necessary precautions over loan commitments.

Irregular, Fruitless and Wasteful expenditure

The Committee requires that all Irregular, Fruitless and wasteful expenditure be identified timeously and reported accordingly. The Committee does not condone such and requires that those responsible for such Irregular, Fruitless and wasteful expenditure be held accountable in terms of relevant policies and procedures of Council, and Council accordingly to take decisions to deal with such timeously. Recovery of such Irregular, Fruitless and wasteful expenditure must be done in terms of section 32 of MFMA.

Municipal assets including farms and vacant land

Management must investigate options of accumulating assets, but also maximize revenue from Council owned land. Furthermore, it is necessary from a broader revenue enhancement perspective that all municipal land leased out be investigated to establish if a fair market rental is being applied - and that this be reviewed by MPAC accordingly.

Uthukela Water (Pty) LTD

Of concern to the Committee is the Emphasis of Matter by Auditor General on Uthukela Water as a going concern with its imminent transfer of bulk services to a new institution as specified in its report to the financial statements. This comes as a surprise to the Committee as no reports on this was brought to the attention of Council. It is necessary that a detailed report on this matter be presented to Council urgently.

Of further concern are the existing institutional arrangements at Uthukela Water with a potential risk of conflict of interest – as the representative of a service provider served the portfolios of both the Acting CFO and Acting Managing Director.

The Committee notes that a monitoring mechanism for the Entity was not implemented for the year under review, but acknowledges that the Framework for the monitoring of municipal entities was

approved for implementation in the 2015/16 financial year. It is noted that the section 72 assessment submitted to Council for the 2015/16 financial year included a report for the Entity. It is noted also that the business plan of the Entity was to be revised in line with the MEC recommendations and the revised Service Level Agreement.

Furthermore, the following must be implemented by Management with immediate effect :-

- ✓ More regular reporting on the Entity – this is to be a standing item on the Exco and Council agenda
- ✓ A detailed report on the Financial affairs of UThukela water to be submitted
- ✓ Clear protocol be developed and how Council is informed on operations of the Entity. It is noted that a report is included in the Section 72 report of 2015/16 as presented in January 2016 to Council.
- ✓ Reports on Shareholders meetings by Council representatives is to be submitted to the Council as soon as possible after a Shareholders meeting
- ✓ Management urgently enter into engagements on the transfer of bulk services to another institution with all relevant stakeholders and give feedback accordingly ;
- ✓ Management submit recommendations to Council regarding a secondment of a competent official to UThukela Water in order to protect Council's interest at the Entity
- ✓ Clarity be obtained regarding funding allocation by DWS to 2 different institutions for the same project; and an agreement be negotiated on both the institutional arrangements and relationship with Umgeni water urgently ;
- ✓ That the SED Technical Services compile a report incorporating MEC recommendations, Ministerial interventions etc. and Council resolutions pertaining to the Entity ;
- ✓ That a progress report on the action plan to the Auditor General's report be submitted by the Entity monthly for monitoring by MPAC ;

Information and Communications Technology

Whilst there were no issues raised on IT by the Auditor-General's in the report, it is necessary to note that ICT plays a strategic role in the governance of the municipality. It is therefore imperative that all ICT strategies and ICT risks are addressed. For this purpose, the Committee acknowledges that an ICT Steering Committee is recently established. Regular reporting to Council is necessary on strategic ICT matters.

An audit of all systems being utilised by the different departments must be undertaken, with an action plan to be developed to ensure alignment to the IT strategic plan and policies. In this regard, all IT related issues must be referred to the IT department for review before implementation. The gap

analysis must be submitted to MPAC with clear interventions to address IT risks and functionality. The report should include alternative solutions to ensure cost savings and efficiencies by all end users.

Debt Management

The continued escalation of the debtors book is worrying to the Committee. These impact directly on the financial stability of the municipality. Of concern is the cash flow management of the municipality and the direct impact of inadequate revenue collection on the reserves of the municipality.

Regular financial reporting and monitoring is at this stage imperative by all statutory committees and Council. Management are instructed to develop and implement cost cutting measures immediately, and to take care in management the cash resources of the municipality.

The service provider appointed for debt collection is to submit quarterly reports to enable Council to monitor the progress on debt collection.

The Committee further recommends that campaigns to collect outstanding debt be intensified to improve the payment factor and reduce outstanding debt.

This MUST be a standing item on the agenda of EXCO and Council until the cash flow situation normalizes.

Financial performance & Unauthorised expenditure

Having done a comparative between the financial performance in the Annual Financial Statements to the Section 72 report for 2015/16, it is critical that Management comply with- and synergize budget expenditure to the IDP and SDBIP's- as approved. Any expenditure not in line with the approved budget and IDP will not be condoned. In the event of a conflict being identified between actual expenditure to approved budget and IDP - Council must resolve on this timeously and necessary corrective action to be taken accordingly.

In this regards, internal controls and processes must be specified to prevent and eliminate unauthorized expenditure. Any unauthorized expenditure must immediately be brought to the attention of Council.

Financial Analysis

The report as submitted was noted. The following issues must be monitored and reviewed further by MPAC :-

- ✓ Loans
- ✓ Budget Roadshows conducted in 2014/15 financial year

- ✓ Ncandu River Project
- ✓ Tower Block project
- ✓ Over-expenditure on votes and expenditure on items not budgeted for (if any)
- ✓ Expenditure on savings identified on capital programme

Conclusions on the annual report of the municipality

As indicated in the Checklist for Annual Report as issued by Cogta and included in this report, the MPAC is pleased to note that all components of the Annual Report are included as is required in terms of section 121(3) of the MFMA as follows :-

- *The annual financial statements of the municipality,*
- *The Auditor General report*
- *Report of the Audit Committee*
- *The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal System Act;*
- *The Auditor General's audit report in terms of section 45 (b) of the Municipal Systems Act.*
- *An assessment by the municipality 's accounting officer of any arrears on municipal taxes and service charges;*
- *Particulars of any corrective action taken or to be taken in response to the issues raised in the audit reports*
- *Any explanation that maybe necessary to clarify issues that are in connection with the financial statements.*

As recommended above, the quality of the Annual Report should improve once the Council adopts the MFMA Circular 63 for implementation.

Once again this year- whilst the municipality have soared great heights in so far as service delivery, the Municipality has received a qualified audit opinion from the Auditor-General. The findings of the Auditor-General and management response thereto, as per Annexure 1 of this report, are noted. The MPAC acknowledges the steps taken by Management and the service provider to ensure that the municipality works towards a clean audit. In this regards, it is pleasing to note that all the issues raised in previous qualifications, except infrastructure assets, have been cleared. It is imperative however, that in order to achieve the clean audit goals of the Municipality, that the Audit Response Action Plan is monitored by all relevant governance structures including the MPAC on a monthly basis. In this regard, monthly progress reports from management must be a standing item on the EXCO, Council, Audit Committee and MPAC agenda.

The Committee also acknowledges the role played by the Audit Committee in so far as its advisory role in concerned, and that of Cogta in so far as its support to the Administration.

It is noted that the entity, Uthukela Water (Pty) Ltd has received an unqualified audit opinion for the year under review. However, the lack of reporting on the imminent transfer of the bulk services to

another institutions is rather concerning. Management is instructed to give regular feedback to Council regularly as recommended above.

The issue of debt management remains a huge challenge for Council, specifically due to the escalating of outstanding debt and its impact on the cash flow and reserves of the municipality. Council need monitor cash management strategies strictly to ensure the future financial viability and sustainability of the municipality. Accordingly monthly reports are required for this intervention area as a standing item on all relevant statutory committees of Council.

The MPAC is concerned about the financial performance of the municipality, as expressed in the financial analysis report. In this regards there is a need for Management to improve cash management practices without compromising on service delivery standards of the municipality.

The MPAC concurs with the progressive state of development of this growing City as expressed in the annual report, and further acknowledges the progress made to reduce backlogs towards the Millennium development goals and to address service delivery imbalances.

As was the case last year, the number of vacancies in top management presently is rather disturbing. The slow pace for the filling of key positions of Municipal Manager and CFO is negatively impacting on the quality of governance and operations of the municipality. The posts of Municipal Manager and SED : Budget and Treasury MUST be fast tracked as these are critical to ensuring administrative stability and financial discipline within the organisation.

The MPAC would like to congratulates the Mayor, Executive Committee and Management and all officials for tirelessly ensuring progressive service delivery by completing many infrastructure and social development projects that improved the lives of the previously disadvantaged communities, and on maintaining and improving on service delivery standards elsewhere. This has resulted in many accolades for this growing City in the year under review as highlighted in the Annual Report.

Conclusion

The Committee thanks the Speaker of the Newcastle Municipality, Councillors, the Mayor, Municipal Manager, the management team, the Auditor General, and COGTA , for their support and co-operation in completing this annual report oversight process.

The Committee is grateful for the opportunity to be of service to Newcastle Municipality and its citizens, and wishes all those contesting the imminent local government elections well.

Resolutions and Statement

Resolved to Recommend :-

- a) That in terms of section 129 of the Local Government : Municipal Finance Management Act 56 of 2003, that Council having fully considered the Annual Report of the Newcastle Municipality and the municipal entity – Uthukela Water (Pty) Ltd for the 2014/15 Financial Year, adopts the Oversight Report for the 2014/15 Financial Year, a copy of which is attached hereto;
- b) That in terms of section 129(1)(a), Council approve the Annual Report of the Newcastle Municipality for the 2014/15 Financial Year without reservations ;
- c) That the Newcastle Oversight Report 2014/15 be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
- d) 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.

- e) That the recommendations as specified in the Oversight Report be approved, and monthly progress reports be submitted to MPAC for the monitoring thereof.