



NEWCASTLE MUNICIPALITY

OVERSIGHT REPORT 2013/14

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Oversight Committee Members

Councillor	S	G	Ndlovu	:	Chairperson
Councillor	D	X	Dube		
Councillor	J	K	Gabuza		
Councillor	T	S	Hlabisa		
Councillor	M	S	Mlangeni		
Councillor	N	T	Ntshangase		
Councillor	D	E	Tshabalala		
Councillor	N	A	Zwane		
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 2013/14 was tabled in Council on 28 January 2015.

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.

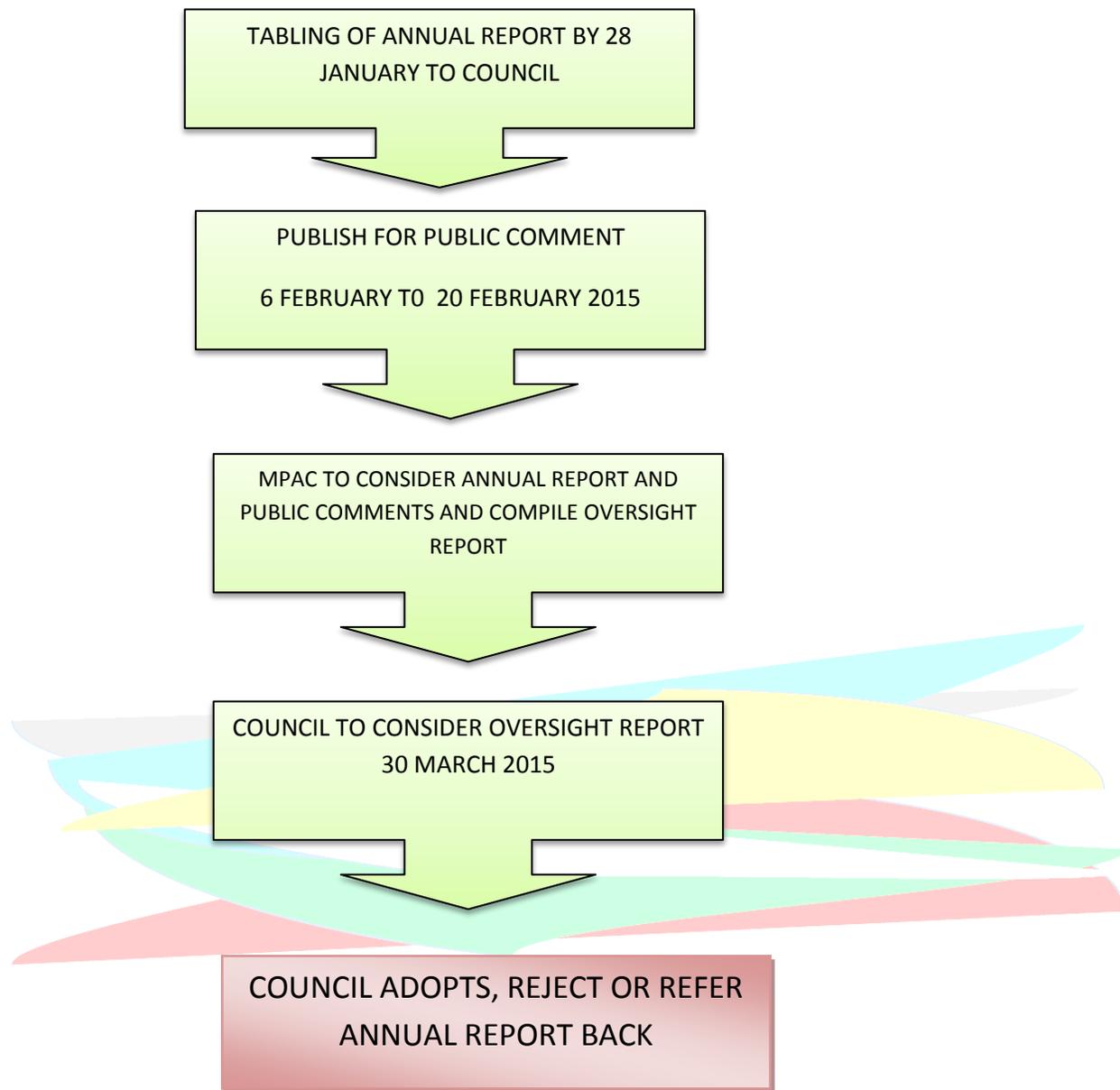
Background to Annual Report 2013/14

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 20TH February 2014. The Annual report was placed at all municipal offices, libraries and the municipal website www.newcastle.gov.za.

The comments received were circulated for responses by management and referred to the MPAC for consideration at its meeting on the 05 March 2015. The meeting adjourned and re-convened on the 19th March 2015 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

The public comments received from Cogta and the Newcastle Rate-Payers Association (NRA) within the public submission period is attached as Annexure 1.

It should be noted that the NRA had made a subsequent submission, however this was made after the public submission closure date. For the purpose of this report, the late submission is not considered by the MPAC – but is being referred to management to be addressed.

Management Response thereto is tabulated as follows:

SUBMISSION BY COGTA (1)	
COMMENT/QUESTION	RESPONSE
<p>2.1 It is noted that what is included is an “Audit Committee Report “and there are no recommendations of the Audit Committee as required by section 121(3)(j)</p>	<p>Received from Audit Committee Chairperson to be inserted in Annual Report :</p> <p><i>“ The Newcastle Audit committee is expected to present its report on the review of the Annual Report in terms of Section 121 (1) (3) (J) of the Municipal Finance Management Act 56 of 2003.</i></p> <p><i>The Audit Committee received the draft annual report on its meeting held on the 25th of August 2014 prior to its submission to the office of the Auditor General. Furthermore, a complete report was forwarded at the beginning of February 2015 for Audit Committee’s final review and comments. The Committee satisfied itself with the compliance of the compilation of</i></p>

SUBMISSION BY COGTA (1)

COMMENT/QUESTION	RESPONSE
	<p><i>the Annual Report and also concurs with the content which was presented with its appendices as recommended.</i></p> <p><i>However the Committee has its reservations with the continuous Qualifying Opinion on its Auditor General’s Report more effort and focus is needs to address this issue. Secondly Debtors Management needs to be revisited and ensure that the program of ten point plan that the municipality started is revived. Furthermore the Municipality should not shy away from the Emphasis of Matters that were raised as they have a negative impact on the Municipality’s image.</i></p> <p><i>The Audit Committee Recommends to the Oversight Committee that the Annual Report be approved taking into consideration the public input “</i></p>
<p>2.2 The Municipality did not include the consolidated annual financial statements as required by section 121(3)(a)</p>	<p>Management Response :</p> <p>The municipality did not include the consolidated annual financial statements as required by section 121(3) (a) as it does not apply to Newcastle Municipality.</p> <p>We have included our investment in Uthukela Water in the annual financial statements. This is</p>

SUBMISSION BY COGTA (1)	
COMMENT/QUESTION	RESPONSE
	reflected as the investment in associate.
<p>3. The Annual Report is aligned to the format as recommended by MFMA Circular 63, however there are no appendices as set out in the circular</p>	<p>Management Response :</p> <p>Most of the information required as per the National Treasury guidelines are covered within the Annual Report under the relevant Chapter, and therefore inclusion under a separate appendix would have resulted in duplication, and the Annual report becoming too bulky.</p> <p>Every attempt to ensure inclusiveness and compliance as per the National Treasury guidelines will be addressed in the 2014/15 Annual Report.</p>

SUBMISSION BY NEWCASTLE RATE-PAYER'S ASSOCIATION	
COMMENT/QUESTION	MANAGEMENT RESPONSE
<p>Again, as stated in previous reports, reference was made to inadequate reports and systems as well as Council's poor debtor collection practices. Of grave concern is his finding that the financial statements were not prepared in all material respects in accordance with the requirements of Section 122 of the MFMA. This is a direct reflection on the ability of Council's staff and service providers to comply with legal requirements.</p>	<p>The issue of credit control has been identified as a critical area by the municipality and is receiving urgent attention. The process of appointing a service provider will be finalized by the end of March. The service provider will be responsible for collecting debt older than 60 days. The Municipality is in the process of establishing a credit control unit who will be responsible for collecting debt from 0 – 60 days by doing the following procedures:</p> <ul style="list-style-type: none"> - Making telephone calls on a daily basis to customers who have arrear accounts

SUBMISSION BY NEWCASTLE RATE-PAYER'S ASSOCIATION

COMMENT/QUESTION	MANAGEMENT RESPONSE
	<ul style="list-style-type: none"> - Making arrangements for payments - Indigent management including verification <p>The annual financial statements have been prepared in accordance to section 122 of the MFMA. There has been no contravention of the act in the preparation of the annual financial statements.</p>
<p>The comments pertaining to procurement and contract management is an indictment against the Accounting Officer and Management with regard to the implementation of the Supply Chain Management Policy and Regulations. The fact that awards were made contrary to the MFMA and SCM Regulations calls for an immediate investigation. The fact that Section 112 (1) (k) of the MFMA is not being complied with could be seen as a contributing factor for these adverse comments.</p> <p>The previous report revealed irregular expenditure to the amount of R55 032 583 which was condoned and written off by Council. This was contrary to the provisions of the MFMA. For the financial year under review Council again incurred irregular expenditure for the total amount of R57 203 428 as set out in paragraph 49 of the financial statements. Will Council again just condone this expenditure without a proper investigation? As in the previous report the</p>	<p>The office of the CFO will prepare a report summarizing all the irregular expenditure, identified in the 2013/2014 financial year and present it to the Accounting Officer. On this report, it will be recommended that these expenditures are dealt with in terms of circular 68 of MFMA, Annexure C. Annexure C (Included) provides a guideline, which is a flow chart format, indicating how the irregular expenditure should be treated.</p>

SUBMISSION BY NEWCASTLE RATE-PAYER'S ASSOCIATION

COMMENT/QUESTION	MANAGEMENT RESPONSE
<p>Auditor General found that Management did not comply regarding financial reporting and compliance with specific legislation and regulations as well as with regard to internal control and we await Council's response on how it intends dealing with this matter.</p>	
<p>We would appreciate it to be informed what action will be put in place to recover outstanding consumer accounts from Councillors which totals an amount of R319 031. This is a very bad reflection on Councillors who dismally failed their responsibility.</p>	<p>Deduction on outstanding amounts from councilors from their salaries is done on a monthly basis. The amount outstanding by councilors has decreased and differences are also attributable due to the change in appointments of councilors during the year under review.</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	AFS attached as Annexure 1	CFO/KPMG
The Auditor-General's reports on the financial statement of the municipality and the entities	Included as Chapter 6	CFO/MM
Any explanations that may be necessary to clarify issues in connection with the financial statements	Provided under each note to the AFS	CFO/KPMG
An assessment by the accounting officer on any matters on municipal taxes and services charges, including municipal entities	Included under Chapter 9	CFO/KPMG/ SED : Technical Services (WSA)
Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports	Included under Chapter 6	CFO/KPMG/CRO

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	Included under Chapter 3	CFO/KPMG
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 delivery agreements or other agreement between the entity and the municipality	Included as Appendix 6	SED : Technical Services (WSA)
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 under Chapter 7	Chairperson of Audit Committee

Allocations received and made	Considerations	Responsible Official
Allocations received by <u>and</u> made to the municipality	Included in the Notes To Financial Statements Note 24	CFO/KPMG
Allocations received <u>and</u> made to the municipality entity	None	CFO/KPMG

Allocations received and made	Considerations	Responsible Official
Information in relation to the use of allocations received	Included in the Notes To Financial Statements Note 19	CFO/KPMG
Information in relation to outstanding debtors and creditors of the municipality and entities	Notes 12 and 17 to the AFS have details of outstanding debtors and creditors respectively	CFO/KPMG

Disclosures in notes to AFS	Considerations relating to section 124	Responsible Official
Information relating to the benefits paid by municipality and entity to councilors, directors and officials	Included in the Notes to Financial Statements, Note 25 – Employee Related Cost. Note 26 – Remuneration of Councillors	CFO/KPMG

Municipal Performance	Considerations	
The annual performance reports of the municipality and entities	Included under Chapter 5	Performance Manager : SED : Technical Services (WSA)

Municipal Performance	Considerations	
Audit report on performance	Included under Chapter 6. Noted that no findings received in respect of Predetermined Objectives	CRO
Performance of municipal entities and municipal service providers	Included under Chapter 5 and Appendix 5 <i>It is noted that no monitoring framework exists for the Entity</i>	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 under Chapter 5 and Appendix 5 <i>It is noted that no monitoring framework exists for the Entity</i>	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	Included under Chapter 3 and Chapter 5, and Appendix 6	SED : Technical Services (WSA)
The use of any donor funding support	None	CFO/KPMG
Agreement, contracts and projects under Private -Public- Partnerships	None	CFO/KPMG

General information	The following general information required to be disclosed in the annual report.	Responsible Official
Service delivery performance on key service provided	Included in Annual performance Report	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	<i>Included under Chapter 2</i>	Director : IT
Three year capital plan for addressing infrastructure backlogs in terms of the Municipal Infrastructure Grant (MIG) framework	Included under Chapter 9	SED : Technical Services

Conclusions on the annual report of the municipality

The MPAC acknowledges with appreciation the improvement in the quality of annual reporting made by the management .

As indicated in the Checklist for Annual Report as issued by Cogta and included in this report, the MPAC is also 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;*

It is concerning however, that whilst the municipality have excelled in so far as it related to service delivery, the Municipality has received a qualified audit opinion from the Auditor-General for five consecutive years. The findings of the Auditor-General and management response thereto, as per Annexure 2 of this report, are noted. The MPAC further 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 most of the issues raised in previous qualifications 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. The MPAC trust that the new Audit Committee will ensure continuity in its efforts to support the Clean Audit strategy of the Municipality.

It is noted that the entity, Uthukela Water (Pty) Ltd has received an unqualified audit opinion for the year under review. The Council is pleased that the transfer of the reticulation service back to the municipality in the year under review has occurred without any interruptions to service delivery. There is a need to fast track the process of the development and monitoring tool for the Entity and to ensure that the recommendations of the MEC in so far as the Bulk services are implemented, monitored and reported.

The issue of debt management remain a huge challenge for Council, specifically due to the decline in the payment factor and the the escalating of outstanding debt. The MPAC notes with concern that the 10 Point Debt Management Plan was not effective and identifies the need too urgently review this, and fast track the appointment of a service provider to address debt management holistically. Furthermore, the Council need to review its Revenue Enhancement Strategy and monitor its implementation more regularly to ensure the future financial viability and sustainability of the municipality. Monthly reports are also required as this is an intervention area which should also be a standing item on all statutory committees, including all portfolio committees as it is deemed relevant for all departments to fulfill its responsibilities in so far as revenue enhancement is concerned.

In so far as maintaining a healthy cash flow is concerned, the MPAC acknowledges the efforts of management and EXCO to cost cut without compromising on service delivery standards - and also to consider other funding options for the implementation of the capital programme.

The MPAC is pleased with the report on performance, specifically in terms of the number of targets achieved for the year under review and the number of capital projects completed. 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.

The number of vacancies in top management presently is rather disturbing. It is deemed a priority to ensure that the posts of Municipal Manager and SED : Budget and Treasury specifically is fast tracked as these are critical to ensuring administrative stability and financial discipline within the organisation.

The MPAC would like to congratulate 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 strongly believes that Newcastle Municipality and its citizens will realize substantial and tangible benefits if a similar process is consistently followed in the following years. The Committee is grateful for the opportunity to be of service to Newcastle Municipality and its citizens.

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 2013/14 Financial Year, adopts the Oversight Report for the 2013/14 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 2013/14 Financial Year without reservations ;

- c) That the submissions as received and included as Annexure 1 to the Oversight Report, and the related management response be noted, and that this be communicated to the relevant parties accordingly ;
- d) That it be noted that the late submission of the Newcastle Ratepayers Association (NRA) not be considered for the purpose of this Oversight Report, but that Management respond to the NRA accordingly on the relevant and pertinent issues raised ;
- e) That the legitimacy of all organisations be verified through the IDP Representative Forum in future and that a Public Participation Policy be developed accordingly ;
- f) That in respect of the new service provider to be appointed for Credit Control and Debt Collection, that management include a clause to cater for Door-to-door visits as part of the strategies to collect outstanding debt ;
- g) That Council initiate a public consultation process as part of its campaign to reduce outstanding debt (viz. roadshows);
- h) That the Management Response Plan to the Auditor-General Report be a standing item on the MPAC agenda and progress reports be submitted to MPAC accordingly;
- i) That the Newcastle Oversight Report 2013/14 be made public in accordance with Section 129(3) of the Municipal Finance Management Act 56 of 2003.
- j) 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.