Oversight report

on the Annual Report

for the financial year ending 30 June 2024

Prepared by the Municipal Public Accounts Committee (MPAC)

March 2025

1. Introduction

The Annual report is a document, which provides an overview of the process of financial and non-financial performance in respect of previous financial period 2023/2024. The adoption of the Annual report is a legislated requirement in terms of MFMA Act 56 of 2003. The Municipal Public Accounts Committee (MPAC) has a responsibility to provide oversight to support the performance of the municipality in terms of the legislative requirements. On the 31st of January 2025 the Executive Mayor tabled in council of Inxuba Yethemba Local Municipality the 2023/24 draft annual report.

Council considered the report and referred it to the Municipal Public Accounts Committee for review and drafting of the oversight report as per council resolution no C865/24

2. Background

The 2023/24 Annual Report was tabled in Council on 31 January 2025, reporting on the Municipality's performance for the period 1 July 2023 until 30 June 2024. By doing so, Council complied with Section 133 of the MFMA that stipulates that the Executive Mayor must table the draft Annual Report in Council within 7 months after the end of the financial year, i.e. by the end of January 2025. Council is legally compelled to engage with and finalize the Annual Report within 9 months after the end of the financial year, which is before 31 March 2024. Tabling the draft Annual Report signifies the start of the public participation period stipulated in Section 127(5) of the MFMA and Section 21 of the Systems Act.

Public comments on the 2023/2024 Annual Report were awaited from the public from 1 February to 28 February 2025. The draft Annual Report was made available at Municipal offices and other places. The Draft Annual Report was also submitted to the offices of the Auditor-General, Provincial Treasury and the MEC for Local Government and the Audit Committee for assurance. No public input was received. The draft Annual Report was tabled to the MPAC that acts as Council's Oversight Committee to prepare an Oversight Report on the Annual Report for 2023/24.

3. The roles identified in the Annual Reporting process

3.1. The role of Management

The Management is responsible for the preparation of the Annual Report and to submit the report to Council. The Council will refer the Annual report to the committee (MPAC) for consideration.

3.2. The role of the committee (MPAC)

The role of MPAC is to consider the structure and content of the Annual Report to determine whether it complies with standards set by the National Treasury, contains information required in terms of circular 63 and if such content fairly represent the achievements of the municipality over the relevant financial year. After consideration of the Annual report, MPAC must prepare an Oversight report in terms of the circulars.

3.3. The role of Council

The Councils role is to receive and consider the recommendations of the MPAC with a view of taking final decision on the matter.

4. Legislative framework

4.1 The Constitution of SA 108 of (1996)

4.2 The Municipal Structures Act 3 of (2021)

4.3 The Municipal Systems Act of 32 (2000)

4.4 The Municipal Finance Management Act 56 of (2003)

4.6 The Municipal Financial Management Act circular 32 & 63.

4.7 Municipal Public Accounts guide and Toolkit

5. **Purpose of the report**

The purpose of this report is to provide comments to the Council on the draft Annual report for the 2023/2024 year referred to MPAC by Council dated 31 January 2025, Council Resolution C607/24, and to prepare the Oversight Report on the Annual Report 2023/2024 and make appropriate recommendations for adoption.

6. **MPAC Processes**

6.1 **Members of MPAC**

The office of MPAC consists of 5 MPAC members from different political parties and 1 administrator listed in the table below.

COUNCILLORS	CLLR N. BIKO	MPAC CHAIRPERSON (ANC)
	CLLR J. REENERS	MEMBER (ANC)
	CLLR M.H FEATHERSTONEHAUGH	MEMBER (DA)
	CLLR C.SAUMELS	MEMBER (PA)
	CLLR A. DAKUSE	MEMBER (ANC)
ADMINISTRATOR	MR S. MAHLASELA	MPAC coordinator

7. MPAC Work plan and Meetings Conducted

The dates for MPAC meetings where the committee considered the Draft Annual Report 2023/2024 were held on:

i). 15 February 2025 – MPAC Committee planning for Annual Oversight Report
ii). 10 March 2025 – MPAC Committee meeting with Manager in Municipal Managers Office for appendices in the annual report.
iii). 24 March 2025 – MPAC work session interrogating the Draft Annual Report.

8. **The purpose of the MPAC Oversight Report**

The MFMA and MSA recognise that council has a critical role to play to ensure better performance by municipal departments. 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:

	Responsible for	Oversight over	Accountable to
Council	Approving policy and budget	Executive Mayor or Committee	Community
Executive Mayor or Committee	Policy, budgets, outcomes, management of/oversight over municipal manager	Municipal Manager	Council
Municipal Manager	Outputs and implementation	The Administration	Executive Mayor or Committee
Chief Financial Officer and Senior Managers	Outputs and implementation	Financial Management and Operational Functions	Municipal Manager

It is important to note that the oversight function of Council over the executive and the administration is not an event, but rather a process that unfolds throughout the financial year.

The Oversight Report is the final major step in the annual reporting process of the municipality.

Section 129(1) of the MFMA requires that the Council consider the annual performance report of the municipality and adopt an Oversight Report, containing the MPAC comments on the Annual Report.

9. **Exposition of facts**

Section 127(2) of the MFMA states "the mayor must, submit the Annual Performance Report of the municipality within a period of seven (7) months after the end of the financial year". On 31st of January 2025 the draft annual report was tabled in Council. The MFMA Circular 63 further directs the council to consider the report and to finalise its oversight report within 7 days of receipt of the Auditor-General's report, less than a month after it was tabled to council.

The MPAC attended the official handover of the draft Annual Report by the Manager in the Office of the Municipal Manager, on 6 February 2025. The first step for MPAC was to develop and adopt a work schedule and approach and to embark on scrutinizing the annual report together with the relevant referral documents.

10. MPAC deliberations and recommendations on the Draft Annual Report.

i) On the question whether sufficient explanation of financial issues is contained in the AFS, it must be noted that there is insufficient explanation, with reference to the following:

1. "Registered Auditors" (p1) as opposed to providing the names of the registered auditors employed by the municipality. This request has still not been addressed nor any engagement on the viability of the request entered into. The names of all the firms of Attorneys are listed on the same page. Why the discrepancy when dealing with the list of registered auditors used by the municipality?
2. "Net deficit of the municipality was R96 851292 (2023: deficit R159 657 968)." This represents a decrease of 39.3% over the period under review. This is a positive development but is still despite the final budget indicating that a deficit of only R585 863 would be realised over the period under review. (p9 Statement of Comparison of Budget and Actual Amounts). It is the 8th consecutive year that a deficit was recorded.
3. "... the municipality's current liabilities exceed its current assets by R561 762 944." Up from R340 368 424 from the 2022/2023 financial year.
4. Statement of Comparison of Budget and Actual Amounts (p9-p12). This report deserves intensive scrutiny as it reflects on the disjuncture between the Final (adjusted) Budget, Actual Amounts billed and finally the Actual amounts collected and spend.

a. This year the References for Variances were only applied to certain variances and others were left without any explanation.
"p35. Accounting Policy Note 1.25 **Budget Information**
The approved budget is prepared on accrual basis and relates solely to the municipality. The approved budget covers the fiscal period from 1 July 2023 to 30 June 2024. The municipality considers budget variance greater than 10% and R834 699 (approximately 0.5% of revenue) as material.
The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts."
b. Under Revenue from Exchange Transactions, the income from Service Charges, indicates projected income under the Final Budget column of R219 526 77, Actual income column shows R152 678 259, an under collection of -R66 848 518. Budget amount not achieved by -30.45%. N1: The variance is attributed to the following reasons: "Service Charges: The variance is largely related to electricity revenue not realised at year end. Refuse charges were also under collected. One of the factors causing the low performance on this line item is the electricity theft such as illegal connections. Internal controls were implemented regarding the collection."
c. On Interest Received shows a 28% under collection of R11 509 534 and is explained in Note 4 as followes: "Interest received: Performance on this line item is poor as it is below the 50% half yearly target and the quarter 4 target of 100%. Ineffective implementation of credit control contributed to slow realisation of interest charged on outstanding debt.

Expenditure.

d. Employee-related cost, was budgeted for R111 031 964. The actual amount spent on this item was R14 500 518 (13.06%) over the budgeted amount. N8 – mainly due to new hires and salary increases that took place in the current year. *Unauthorised expenditure.*
e. Finance costs were R29 185 171 over the Final Budget, a variance of 201.28%. "N10: Finance Costs: Interest has increased due to the high Eskom account debt and late payment of creditors." *Unauthorised and Fruitless and Wasteful expenditure.*
f. Lease rentals on operating lease. There is a 100% variance recorded with no explanation and "ins" as reference. *Unauthorised expenditure.*
g. Bulk purchases. The variance between Final Budget and Actual amounts is R51 868 088 – 79.8% higher than the approved budget. Reference "N11: Bulk purchases: The variance is more. IYM has entered into an agreement with Eskom for Debt relief on the bulk account. IYM tries to adhere to conditions specified on the Debt programme of the ensuring payments."
h. Contracted Services presents a variance of R8 764 412, which translates to an overspent of 32.25%. "N12: Contracted Services: The budget for contracted services was incorrect. The average cost over the past 3 years amounted to R19.1m." *Unauthorised expenditure.*
i. General expenses show a variance of R19 264 731, which represents an overspent on the approved budget of 54.57%. "N13: General Expenditure: The budget for general expenditure was unreasonable at R35 million. Unforeseen general expenditure had to be incurred, including more spending on trainings of staff." *Unauthorised expenditure.*
j. Operating Deficit presents a variance of R96 265 429, which is a sizeable overspent on the approved budget.
k. Distribution losses. The notes on Distribution losses reveals an increase of 2 413 858 units purchased from Eskom, with 426 600 less units sold to consumers. The value of distribution losses has increased from R10 338 763 (12%) to R16 824 230 (16.27%).

The explanation on page 62 under Note 44 indicates approximately 3.1% of electricity losses are attributed to technical and transformer losses. "these remaining losses are attributable to electricity line losses within the electricity network infrastructure due to faulty meters and theft."

Recommendations:

1. Comprehensive information is needed to ensure credible annual report and annual financial statements, MPAC Oversight Report recommendation 2020/2021. This recommendation has not been implemented as the AFS 2022/2023 is still only referring to "Registered Auditors" despite our request to correct it since the 2020/2021 AFS.
2. A comparative figure for the previous financial year should be provided in the AFS 2022/23 financial year – paragraph 2 Going Concern (p4 AFS).
3. There should be more focus in the forewords of both the Accounting Officer as well as the Executive Mayor on the operational challenges and the plans put in place to deal with problems experienced in the institution.
4. Budgeting processes and procedures should be reviewed, and the Budget Policy should be strictly implemented.
5. In-year reporting procedures should be elevated to receive intensive scrutiny and variances should be immediately identified and addressed.
6. The Audit Improvement Plan should be expanded to address identified challenges from the Annual Financial Statements.
7. Electricity losses must be dealt with in an intensive programme coordinated between the Budget and Treasury Office and Technical Services Departments. Council must be appraised on a quarterly basis on progress against a realistic target for improvement.

v) Assessment on any arrears on municipal taxes and service charges. Receivables from exchange transactions are set out under Note 4, and Consumer Debtors under Note 7 in the annual financial statements. It is a standard generic explanation, and it does not address the cause of the arrears specifically and no note on remedial actions taken. Receivables from exchange transactions and Consumer Debtors were increased by 12.35% and 18.45% respectively over the 12 months under review.

Recommendation: An action plan to address the problem must be included in the Audit Improvement Plan (AIP) 2024/2025.

vi) Does the Auditor-general report indicate serious or minor issues? The Auditor-General Report indicates serious financial issues. In the Audit Report paragraph 7 – "I draw attention to note 50 to the financial statements which indicates that an accumulated surplus of R575.4m was incurred during the period ended 30 June 2024 and, as of that date the current liabilities exceeded its current assets by R561.8. As stated in note 50, these events or conditions, along with other matters as set forth in note 50, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern." The same concern was raised in 2019/2020, 2020/2021, 2021/2022 and the 2023/2024 audit reports. The Audit Improvement plan (AIP) is included in the Annual Report 2023/2024. MPAC has not been provided with proof that the audit report has been forwarded to the MEC.

Recommendations: 1. The Audit Report of the Auditor-General must be submitted to the Office of the MEC of COGTA every year. MPAC must be provided with the proof of submission to that office.

The Municipal Public Accounts Committee thus recommends Council to:

Resolve that:

1. The Council having fully considered the annual report of the municipality and representations thereon, adopts the oversight report; and
2. Council approves the annual report with no reservations.
3. Management to commit to take the recommendations contained in the Oversight Report on board in order to improve municipal performance.
4. Oversight Report to be made public within 7 days from being adopted in Council.

Cllr Nkosinathi Biko (MPAC Chairperson)