



**BUFFALO CITY
METROPOLITAN MUNICIPALITY**

EFFECTIVE OVERSIGHT TO ENSURE QUALITY FINANCIAL STATEMENTS AND ANNUAL PERFORMANCE REPORTS



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PRESENTATION STRUCTURE

1. PREAMBLE
2. LEGISLATIVE AND REGULATORY FRAMEWORK
3. EFFECTIVE OVERSIGHT
4. OVERSIGHT STRUCTURES
5. EFFECTIVE OVERSIGHT FOR QUALITY REPORTING
6. QUESTIONS TO ASK
7. MANAGING YEAR-END DURING ELECTION PERIODS
8. CONCLUSION



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1. Preamble

- King V guidance notes emphasizes Municipal Council :
 - as a focal point of governance.
 - retains overall accountability for municipal governance & proper management .
- Councillors :
 - Act in the best interest of council and community regardless of political affiliations .
 - Ethical leadership is not optional.
- Key Governance Challenge:
 - Relationship between council and administration



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1. Preamble (Cont ...)

- Poor governance affects communities through:
 - Service delivery failures
 - Financial mismanagement
 - Erosion of public trust.
- Quality reporting is characterised by:
 - Clean Audits: Unqualified , no findings on legislative compliance and predetermined performance objectives.
 - Reliable Performance Information
 - Transparency : Quality AFS : Full disclosures of UIFWE



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1. Preamble (cont ...)

- Lack of oversight and accountability :
 - Instability : Ineffective municipal councils or oversight committees
 - Dysfunctionality : Systemic failures
 - fertile ground for maladministration, fraud and corruption
- Effective oversight
 - Capacity Building: Continuous improvement initiative & lifelong learning
 - Transparency: Stakeholders must know: how, why and by whom are decisions made
 - Consequence Management : Holding both executive & administration accountable

critical for good governance , financial management and service delivery



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2. Legislative & regulatory framework

- The following are relevant but not exhaustive
 - The Constitution of RSA, 1996
 - Section 152: mandates municipalities to strive—within their financial and administrative capacity—to achieve democratic governance, sustainable service delivery, economic development, a safe environment, and active community participation.
 - Section 153 : dictates municipalities to actively structure its administration, budgeting, and planning processes prioritizing basic needs of the community and promote social and economic development
 - Local Government: Municipal Systems Act, 2000 (as amended by Act 7 of 2011)
 - Section 4(2) dictates municipal council to exercise its executive and legislative authority and use the municipal resources in the best interests of the local community.



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2. Legal mandates and framework (cont....)

- Local Government: Municipal Finance Management Act, 2003
 - ☞ Section 53(1)(c)(ii) governs the Service Delivery and Budget Implementation Plan (SDBIP) mandates executive mayor to approve this detailed, one-year plan, mapping out how the municipal budget and service delivery will actually be implemented.
 - ☞ the MFMA, Circular 32 of 2006, provides the guidelines for the establishment of the Municipal Public Accounts Committee (MPAC), which is one of the key oversight mechanisms within the municipality.
 - ☞ Sections 165 & 166 establish the core pillars of internal oversight and governance for South African municipalities: mandates municipality and municipal entity to maintain an internal audit unit & establish an independent advisory body known as an Audit Committee



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2. Legal mandates and framework (cont....)

- Local Government: Municipal Finance Management Act, 2003....

- ☞ Section 62, the Municipal Manager has statutory responsibility to maintain effective, efficient and transparent systems of financial and internal control;
- ☞ Section 81, the Chief Financial Officer as an essential function in assisting the accounting officer to carry out his financial management responsibilities, in the development and maintenance of internal control policies and procedures;
- ☞ Section 78, mandates municipal Senior Managers and officials to take reasonable steps, to ensure established financial management system and internal control is carried out diligently.



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2. Legal mandates and framework (cont....)

- Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) (as amended by Act 51 of 2002)
 - Section 44(3) and 56(3) of the Municipal Structures Act 1998, the executive committee or the executive mayor is responsible for the development of a performance management system including the development of evaluation criteria and key performance indicators, whereas the municipal manager must implement and manage the performance management reporting system and provides advice to the municipal council regarding the reporting system that must be adopted
 - Sections 79 and 80 of the Municipal Structures Act 1998 provides for the establishment of portfolio committees to exercise oversight on service delivery projects.



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3. Effective oversight

- Meaningful & effective oversight :
 - Critical for integrity, accuracy and transparency of financial reporting.
 - Provides balanced ecosystem: Council committees, audit committees, assurance providers and management,
 - Ensures Internal controls, assess risks, and verify compliance
- Effective oversight must culminate in action
 - Implement Audit Action Plans
 - Address Material Irregularities
 - Enforce accountability for financial misconduct
- Structures of oversight
 - Internal
 - External



4. Oversight structures

- Internal
 - The Internal Audit Unit : independent and unbiased evaluation:
 - ensure efficiency, effectiveness, and compliance with law and regulations.
 - It helps identify risks, recommends improvements, and verifies the implementation of corrective actions
 - The Audit Committee: independent advisory body oversees
 - municipality's financial reporting processes,
 - internal controls,
 - risk management practices,
 - and performance management.

Council must treat Audit Committee reports as binding oversight instruments requiring formal Council resolutions — not only information-sharing sessions.

- Portfolio committees: advisory and oversight bodies
 - monitor administration & executive actions
 - and track budget

Challenge of separation of powers in Municipal environment



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4. Oversight structures (Cont...)

- Internal

The Municipal Council: Holds executive and administration accountable

- tracking budgets,
- monitoring performance metrics,
- enforcing legislation,
- and investigating financial irregularities using specialized council committees

– The Municipal Public Accounts Committee (MPAC): Holds executive & administration accountable for financial management and service delivery.

- analysing audit and financial reports,
- tracking the implementation of Auditor-General recommendations,
- reviewing cases of unauthorised, irregular, fruitless, and wasteful expenditure,
- and presenting oversight reports to the council.

Council should set measurable quarterly MPAC targets with regular reporting on progress.



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4. Oversight structures (Cont....)

- External

Provincial Departments

- COGTA: Monitor and support municipalities:

- Legal Compliance
- IDP Processes
- annual performance reports
- Corrective actions for underperformance

- Treasury: provide technical support & Monitor municipal financial performance,

- Consults National Treasury on financial interventions,
- reporting irregularities to provincial COGTAs for potential Section 139 interventions.



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4. Oversight structures (Cont....)

- External

- National Departments

- COGTA: Oversees municipal governance:

- performance reports
 - implementing national policy frameworks,
 - coordinates provincial interventions,
 - assesses municipal capacity and service delivery,
 - advises on national support or legislative changes

- Treasury: Manages municipal financial oversight:

- receiving monthly budget statements and Annual Financial Statements.
 - enforces financial compliance,
 - intervenes in cases of financial distress, and
 - maintains the Database of Restricted Suppliers and Register for Tender Defaults



4. Oversight structures (Cont....)

- External

- Section 9 Institutions

- THE AUDITOR-GENERAL (AG): provide an independent assessment of whether the Municipality spends its money lawfully
 - audit the spending and performance of municipalities.
 - Investigates compliance ,
 - Investigates fair representation of the municipality's financial statements.
 - provides assurance whether the financial statements are free from material misstatements



5. Effective Oversight for Quality Reporting

- Timeous submission of quality AFS and AR to the AG
 - enables timeous tabling to council.
 - Enables holding the AO to account
 - Enables decision making
 - Enables reporting and oversight actions by internal and external structures
- Quality Reporting is cumulative :
 - Monthly Reports: submitted to the executive and relevant treasury, detailing actual revenue, expenditure, and variance explanations.
 - Mid-Year Budget & Performance Assessments: assess operational & financial performance and address previous audit findings.
 - Annual Financial Statements (AFS): submitted to the Auditor-General and Treasury
 - Oversight Reports: Prepared by oversight committees to evaluate the final annual report
- Capacitated finance units
 - led by competent & experienced chief financial officers
 - who can provide stability and direction
 - can lead financial reporting



5. Effective Oversight for Quality Reporting

- Risk-based audit plans are crucial for quality reporting
 - to prevent repeat findings
 - address the root causes of findings
 - focus on strengthening the control environment
- Audit committees
 - review the financial statements
 - provide the council with a credible view of the municipality's financial performance.
- Audit Action Plan Oversight
 - Section 131 MFMA requires the accounting officer to develop an AAP. Council (via MPAC and relevant portfolio committees) must monitor implementation quarterly.
- Material Irregularities – Council's Role
 - The AGSA's Material Irregularity (MI) process under the Public Audit Act directly implicates Council when the accounting officer's response is deemed inappropriate. Council must:
 - (1) Receive and formally discuss MI notifications;
 - (2) Satisfy itself that appropriate corrective and consequence management actions are being taken;
 - (3) Understand that the AGSA may refer MIs to another public body (e.g. NPA, SIU) if Council fails to act



5. Effective Oversight for Quality Reporting

- Annual Financial Statements

Compliance Provisions	Frequency	Responsibility	Oversight	
			Internal	External
Sec. 71: Budget report	Monthly	Accounting Officer	Mayor	Provincial & National Treasury
Sec. 52(d): Budget implementation and financial position	Quarterly (July, October ,January, April)	Mayor	Council (* MPAC & Finance PC)	
Sec 11(4): Withdrawals not in budget	Quarterly	Accounting Officer	Council	Provincial Treasury & Auditor General
Sec. 72(1): SDBIP	Mid-year	Accounting Officer	Mayor	Treasury



5. Effective Oversight for Quality Reporting

- Annual Financial Statements

Compliance Provisions	Frequency	Responsibility	Oversight	
			Internal	External
Sec 28 & 29: Adjustment Budget	Mid year	Mayor	Council (* MPAC & PC)	Treasury, COGTA & AG
Sec. 16(2), 17& 87(3): Draft Budget	Annually	Mayor	Council	PT, NT , COGTA &AG
Sec. 16(1),24(1), 24(2), 53(1)(c)(i) Budget Approval	Annually	Mayor	Council	PT, NT , COGTA &AG
Sec.9(b): Bank account details	Annually	Accounting Officer		PT, NT &AG



5. Effective Oversight for Quality Reporting

- Annual Report

Compliance Provisions	Frequency	Responsibility	Oversight	
			Internal	External
Sec.69(3) (a &b), Sec. 53(1)(c)(ii): SDBIP & Performance Agreements	Annually	Accounting Officer	Mayor	
Sec. 53(3)(a& b): Make Public SDBIP & APA	Annually	Mayor	Council	COGTA
Sec. 131(1): Audit Action Plan for AR	Annually	Accounting Officer	Mayor (* MMC & PC)	
Sec. 126(1)(a), 126(2): Submit AFS& AR :Municipality with/without entity	Annually	Accounting Officer		AG



5. Effective Oversight for Quality Reporting

- Annual Report

Compliance Provisions	Frequency	Responsibility	Oversight	
			Internal	External
Sec 127(2), Table Annual report,	Annually	Mayor (* MMCs)	Council (* MPAC)	
Sec 127(5): Make Public Annual report, Submit to organs of state	Annually	Accounting Officer		Provincial Treasury, COGTA & AG
Sec. 121(1), sec. 129(1): Consider annual report , approve oversight report	Annually	Council (MPAC)	Council	
Sec129(2)(a & b): Public Hearings: Departmental engagements, Submit minutes	Annually	Accounting Officer	Council (MPAC)	Provincial Treasury and COGTA



6. Questions to Ask

Concrete questions to ask during the AFS/APR oversight process

On the AFS:

- Was the Audit Committee's review of the AFS documented before submission?
- Are all material misstatements corrected and material irregularities dealt with?
- What is management's plan to resolve qualifying and misstated line items?

On the APR:

- Is the Portfolio of Evidence complete and independently verified?
- Are SOPs aligned to National Treasury requirements such as Circular 88?

On Compliance:

- Have all UIFWE items been subjected to MFMA section 32 treatment?

On the Audit Action Plan:

- What percentage of prior-year recommendations are implemented, and who is accountable for those outstanding?



7. Managing Year-End During Election Periods

Local government elections may create a practical risk with possibility of disrupted oversight processes

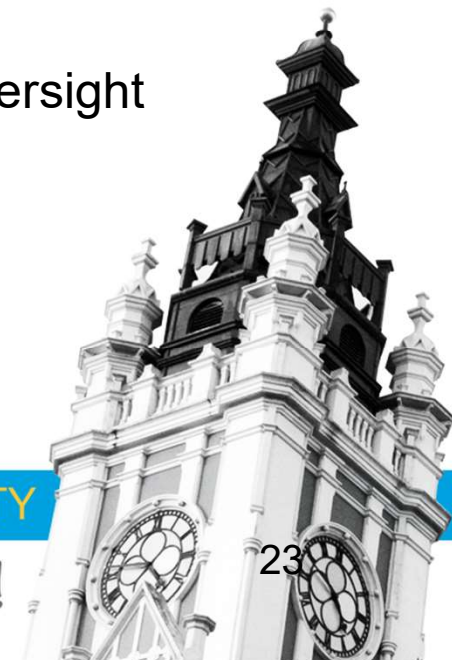
During election periods:

- The outgoing council remains obligated under s126 MFMA to table the annual report;
- The accounting officer's duties under s62-65 MFMA are continuous regardless of political transitions;
- MPAC and the Audit Committee maintain their mandates until new structures are constituted;
- Incoming councillors must be capacitated immediately on their oversight obligations, particularly regarding the AAP and any open material irregularities.



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8. Conclusion

- Accountability starts with leadership (Political & Administrative) setting the right tone
- Accountability requires responsible & quality reporting to oversight structures, stakeholders and the public,
- reporting on whether and how mandates have been fulfilled,
- Meaningful oversight enables decisions & actions taken to ensure swift consequences for transgressions and poor performance.



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