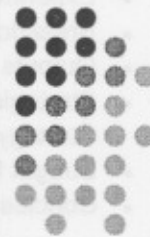


PC Pragmaad and  
local government  
11/03/08

## ANNUAL REPORT 2007/2008 MUNICIPAL DEMARCATION BOARD

### PRESENTATION TO THE PORTFOLIO COMMITTEE ON PROVINCIAL AND LOCAL GOVERNMENT

11 March 2008



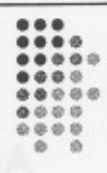
## REPRESENTATION AND DOCUMENTS

- From the Board:
  - Dr V Mlokoti – Chairperson: Municipal Demarcation Board
  - Mr RH Monare – Chief Executive Officer
  - Mr N Ligege – Chief Financial Officer.
- Document Tabled:
  - Annual Report 2007 - 2008



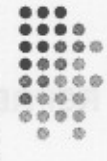
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## OVERVIEW



- The Board (RHM)
- Last Briefing – 30 October 2007 (RHM)
- Receipts for the Year: 2007/08 (NL)
- Expenditure for the Year: 2007/08 (NL)
- Breakdown of Expenditure (NL)
- Outputs and Developments 2007/08 (RHM)
- Strategic Direction – Medium Term Strategy 2008/09 – 2011/12 (RHM)
- Budget Programmes (NL)
- Conclusion (RHM)



## THE BOARD

- 9 Members since 1 February 2004.
- Chairperson the only full time member of the Board.
- CEO in charge of the Board's Administration.
- 4 Operational Clusters.
- 27 Staff Positions in the Establishment:
  - 8 Vacant at 31 January 2008;
  - 74% Black;
  - 47% Female;
  - 0% Disabled.
- The Board has approved a proposal to review the structure.





## LAST BRIEFING – 30 October 2007

- We took some time in last briefing to once again remind the portfolio committee of the concerns and reservations that members of the portfolio committee have raised in the past, and how we have explained those concerns and reservations to the committee.
- Because the concerns and reservations remain important, vis a vis the oversight role of this committee, it is worthwhile to keep raising them, and to re-assure the Committee that we remain conscious of them.
- The concerns and reservations had included:
  - The Board's expenditure being possibly excessive, and rising from year to year at too high a rate, with respect to:
    - Professional Fees;
    - Office Expenses;
    - Staff Remuneration;
    - Board Members Remuneration;
    - Travel and Accommodation.



5



## LAST BRIEFING – 30 October 2007

- Consultants employed by the Board possibly taking too substantial a portion of the Board's funding, whether the money being spent on consultants is justified, and that the money could be more appropriately spent on young emerging black graduates;
- Salaries being paid to Staff possibly being totally inappropriate, and thus the request for the salaries to be broken down for the Portfolio Committee, to determine if the salaries are appropriate.
- The possibility that the Board may be spending its money on things that are irrelevant in as far as its core mandate is concerned, and thus the financial difficulties it faced;



6

## LAST BRIEFING – 30 October 2007

- We explained to the committee that we have in the past provided the Committee with the following details in a memo, giving the Committee all the necessary details to explain the issues and concerns:
  - A breakdown of all expenses incurred on professional fees and on Office Expenses;
  - A clear indication that expenditure on professional fees was fully justified, and that it was incurred in direct pursuance of the Board's core mandate, and the fact that taking away the expenditure on professional fees would have seriously compromised the Board's work;
  - An explanation of the fact that the vast majority of the consultants that have been employed at the Board are emerging Black graduates and professionals, who actually gain a major boost in their careers as a result of working for the Board;



7

## LAST BRIEFING – 30 October 2007

- Confirmation of the fact that in view of the Board's mandate and projects, scaling down on consultants just for the sake of reducing numbers, would mean employing additional staff at the Board, and this would have a net effect of increasing costs rather than reducing them.
- A clear demonstration that the annual escalations on office expenses and staff salaries were perfectly normal, and that there was nothing excessive about the escalations.
- An explanation of how staff salaries at the Board are made up.
- An explanation of the fact that Board Members' remuneration are simply what has been determined by the Minister for them, as well as reimbursements of their out-of-pocket expenses while in the course of their duties as Board members. There is therefore nothing excessive about their remuneration.



8

## LAST BRIEFING – 30 October 2007

- With respect to travel and accommodation, an explanation of the fact that:
  - Board Members cannot be expected to be largely office-bound if they are going to be effective.
  - Board Members, who are all part time except the Chairperson, must travel to attend Board meetings.
- We also briefed the committee on the report of the Auditor-General to Parliament on the financial statements for the year ended 31 March 2007.
- In that report the Auditor-General had given an unqualified audit opinion.
- He had however raised some matters with respect to:
  - Irregular expenditure as a result of the procurement of certain consultants not in accordance with treasury regulation 16A and the supply chain management practice notes issued by the National Treasury.
  - Non-compliance with Treasury Regulation 15.10.1.1
  - Material corrections made to the financial statements for audit.
  - A number of inactive accounts found on the server.



9

## LAST BRIEFING – 30 October 2007

- Regular password changes not always enforced as the passwords for a number of user accounts were found not to have changed for a considerable period.
- No formally documented and approved IT security policy, disaster recovery plan and user management procedures had been established.
- No backups.
- No IT Steering Committee.
- Many of the above matters that the A-G raised in his 2006/07 report, seem to be repeats from the 2005/2006 report.
- However we said at the last briefing that there are valid explanations to the queries:
  - The irregular expenditure was with respect to two service providers who, at the time of the 2005/2006 audit, had already been contracted to provide the services, over the period going into 2006/07. Given that we were already at a stage where we could not reverse the appointment, we had to allow the contracts to run their course, being fully aware that they will trigger another irregular expenditure query in the 2006/07 audit.



10



## LAST BRIEFING – 30 October 2007

- We had indicated in our 2005/06 responses to the irregular expenditure query that there will still be some cases of irregular expenditure in 2006/07, but that in subsequent years we do not expect to have such cases coming up.
- There has now been improvement with respect to supply chain management. Proper policies and procedures on supply chain management are in place.
- We have a bank cash management policy in place in compliance with Treasury Regulation 15.10.1.1. With this policy in place, there is now daily preparation and review of bank reconciliations.
- The material misstatements were as a result of the calculation of depreciation on property, plants and equipment by the accounting system, that is different from the application of accounting standards. Accounting system did not recalculate depreciation on the net carrying amount of the respective assets, but instead recalculated depreciation of some assets from the time when the asset was first used. This resulted in a difference of R48,000.



11

## LAST BRIEFING – 30 October 2007

- With regard to irregular expenditure not being disclosed initially, this was due to the fact that the schedule of irregular expenditure was incomplete at the time of submission.
- With respect to inactive accounts and password changes not always being enforced, we did explain once again that:
  - "last logon" or inactive accounts are system accounts that may be required by software and if they are deleted the software could stop functioning.
  - There are no actual "user" accounts (an account that used to belong to a real person) that have not been logged on in over 30 days.
  - As users leave the organization their passwords are changed and email is routed for 3-4 weeks.
  - Once it is clear that they are no longer receiving business emails the accounts are disabled.
  - After another 3-4 weeks if it is clear the account does not need to be used again it is deleted.
  - Some accounts do not have a password age limits and are not required to change.



12

## LAST BRIEFING – 30 October 2007

- Software depends on these accounts to function and as a result they cannot be changed.
- Some can be changed at times but it requires significant reconfiguration of some software.
- > With respect to approved IT security policy, disaster recovery plan and user management procedures not being established, these have subsequently been approved by the Board.
- > With respect to the absence of an IT Steering Committee, we had in the past not seen the need to establish a separate IT Steering Committee, because all IT related matters are dealt with by the management committee.
- > We have subsequently decided to have the management committee doubling up as an IT Steering Committee. The management committee also doubles as a risk management committee.



13

## LAST BRIEFING – 30 October 2007

- Through its Audit Committee, the Board is monitoring implementation of recommendations from the 2006/07 report, and significant progress as indicated has been made in addressing those issues.
- We have outsourced the internal audit function, and we are pursuing a strategy to ensure that the Auditor-General will, for his 2007/08 external audit, rely on the work of our Internal Auditor.
- The idea is that as a result of relying on the work of our Internal Auditor, the Auditor-General will spend less time on his Audit at the Board, and thus the cost of his audit will be reduced significantly.



14

## RECEIPTS FOR THE YEAR 2007/2008



Original MTEF allocation	R 20,664,000
Other income	R 164,500
<b>TOTAL INCOME AT OUR DISPOSAL 2007/08</b>	<b>R 20,828,500</b>



15

## EXPENDITURE FOR THE YEAR 2007/08



Expenditure Item	Amount	Percentage of Total Income
Administrative expenses	1,954	13%
Staff costs	5,567	38%
Audit fees	835	6%
Project expenses	3,804	26%
Other operating expenses	2,191	15%
Finance costs	13	0%
Depreciation and amortisation	601	4%
<b>TOTAL EXPENDITURE</b>	<b>14,965</b>	<b>103%</b>
<b>Surplus/(Deficit) for the period</b>	<b>(372)</b>	<b>-3%</b>



16



## BREAKDOWN OF EXPENDITURE

<b>ADMINISTRATIVE EXPENSES</b>	<b>1,954</b>
- Insurance	176
- Members allowances	356
- Internal audit fees	183
- Conferences and seminars	
- Venue and facilities	31
- Training and staff development	40
- General and administrative expenses	516
- Advertisements	115
- Publications, etc.	291
- Telephone	191
- Legal fees	5
- Stationery and printing	40
- Bank charges	10



17

## BREAKDOWN OF EXPENDITURE

<b>STAFF COSTS</b>	<b>5,567</b>
- Staff salaries and wages	4,781
- Board members' emoluments	639
- Employer's contributions to UIF and other salary related costs	147
<b>PROJECT EXPENSES</b>	<b>3,804</b>
- Capacity assessment	3,713
- Consulting fees	91



18

## BREAKDOWN OF EXPENDITURE

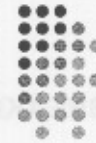


OTHER OPERATING EXPENSES	2,191
- Licence renewals	215
- Travel and subsistence	1,059
- Courier and delivery charges	44
- Maintenance, repairs and running costs	0
- Machinery and equipment	22
- Rentals in respect of operating leases	
- Buildings	775
- Plant, machinery and equipment	76



19

## BREAKDOWN OF EXPENDITURE



- 2007/08 MTEF allocation increased by 22.8% to R20,664 000 compared to R16,827,000 in 2006/07
- The deficit of R372,000 is due to delay in transfer of government grant
- Funds were subsequently received during February
- Our cost recovery on the sale of maps and SA Explorer was fairly consistent.
- Finance costs relate to a finance lease payments for a photocopier machine
- Projections to year end indicates that the Board will spend within its allocation, ascribed to intensive budgetary controls



20