

**ITEM: COUN 01 03/2017**

**OFFICE OF THE MUNICIPAL MANAGER: *OVERSIGHT COMMITTEE REPORT ON THE 2015/2016 ANNUAL REPORT***

**(10/2/1/1) (GR) (COUNCIL MEETING: 20 MARCH 2017)**

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**The Municipal manager reports as follows:**

The oversight report is the final major step in the annual reporting process of a municipality. Section 129 of the Municipal Finance Management Act, 56 of 2003 (MFMA) requires the council to consider the annual report of its municipality and to adopt an oversight report containing the council's comments on the annual report.

The Oversight Committee appointed by Council to oversee the content of the Annual Report on its behalf sat on 27 February 2017 to consider the report.

The Oversight Report is attached as **annexure 10**. (Page OR 1 – OR 6) and minutes of the Oversight Committee meeting is attached as **annexure 11**. (Page OV 1 – OV 5).

**The Municipal manager reports as follows:**

**RECOMMENDATIONS**

- 1. Council having fully considered the annual report adopts the oversight committee report.**
- 2. Council approves the 2015/16 annual report without reservations.**

**RESOLVED**

- 1. Council having fully considered the annual report adopted the oversight committee report.**
- 2. Council approved the 2015/16 annual report without reservations.**

*M.B*

**FRANCES BAARD  
DISTRICT MUNICIPALITY**



**OVERSIGHT COMMITTEE REPORT ON THE  
2015/2016 ANNUAL REPORT**

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## 1. INTRODUCTION

Frances Baard District Municipality is categorized as a medium capacity municipality by the National Treasury in terms of the implementation of the Municipal Finance Management Act, 56 of 2003 (MFMA).

The 2015/2016 draft annual report was tabled before Council on 7 December 2016 in compliance with the MFMA which requires under section 127(2) that:

- a) "The Mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality".
- b) When tabled, the annual report should include four main components, each of which has an important function in promoting governance and accountability. The main components are:
  - i) The annual performance report as required by section 46 of the MSA;
  - ii) Annual Financial Statements submitted to the Auditor-General;
  - iii) The Auditor-General's audit report on the financial statements in terms of section 126 (3) of the MFMA; and
  - iv) The Auditor-General's audit report on performance in terms of section 45 (b) of the MSA.
- c) Section 129 of the MFMA requires the council to consider the annual report of its municipality and to adopt an oversight report containing the council's comments on the annual report.

## 2. OVERSIGHT COMMITTEE

An Oversight Committee (the Committee) was established by Council resolution COUN 02 07/06 in terms of sections 33 and 79 of the Municipal Structures Act, 117 of 1998 as amended. In February 2012 the Council resolved (MAY 01 02/12) that the new members of the Finance Committee should continue the roles and responsibilities of the Oversight Committee as contained in the National Treasury Guidelines. The Committee<sup>1</sup> consists of:

Mr T Mabotsa	Chartered Accountant
Ms R van Rensburg	Teacher / Lecturer
Councillor M Kaars	Finance Committee member
Councillor SN Kika	Finance Committee member
Councillor AO Moremong	Finance Committee member
Councillor AM Siwisa	Finance Committee member
Councillor B Springbok	Finance Committee member

## 3. COMMENTS ON ANNUAL REPORT

The Committee considered the annual report for 2015/2016 according to a checklist provided by National Treasury in MFMA Circular No. 32 and Circular No. 63 for this purpose and reports as follows:

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<sup>1</sup> This structure includes the new councillors that were inaugurated in August 2016

### **3.1 Review of inputs**

No inputs were received by the municipality in response to the invitation for comments on the draft annual report for 2015/2016 placed in local newspapers on 10 January 2017 and the municipal website. No members of the public were invited to the oversight meeting.

### **3.2 Analysis of annual report**

#### **3.2.1 Interns in the LED Unit**

The interns located in the Local Economic Development (LED) are not included in the total for employees in the unit and will confuse the reader. A footnote will be included to indicate that the interns are not counted as part of the permanent staff for the unit.

#### **3.2.2 Repairs and maintenance for environmental health unit**

The formula must be verified to ensure that the correct variance is indicated for the repairs and maintenance of the environmental health unit as it indicates a variance to budget of -641%.

#### **3.2.3 Cash and investments**

The application of cash and investments more than doubled from R14m in the previous year to R37m in the year under review, indicating a variance of -810%. The return on investment is budgeted for and takes into consideration the interest that might be gained. However, at the end of the financial year this amount might not be collected on the investment.

#### **3.2.4 Operating ratios**

The operating ratios indicated do not reflect all the operations of the municipality as the template of National Treasury focusses only on employee cost, repairs and maintenance and finance charges and depreciation.

#### **3.2.5 Chapter 5 introduction**

To ensure reader understanding and correct interpretation of facts the second, third and fourth paragraph should be reviewed to ensure that it reflects the correct overview of the financial performance of the municipality. (See further inputs under 3.2.9 for page 102)

#### **3.2.9 Areas to be revised:**

<b>Area</b>	<b>Observation / Proposal to rephrase / edit</b>
Page 8: The second last paragraph that starts with “It has been another good year....”	The word “opinion” should be included after the word audit in the sentence.

<b>Area</b>	<b>Observation / Proposal to rephrase / edit</b>
<p><u>Page 9:</u></p> <ol style="list-style-type: none"> <li>1. The second sentence in the first paragraph that starts with “Our operations...”</li> <li>2. The fourth paragraph, the first sentence that starts with “We can report to you...”</li> <li>3. The sixth paragraph, the first sentence that starts with “Our efforts to establish...”</li> </ol>	<ol style="list-style-type: none"> <li>1. The word “national” is spelled incorrectly.</li> <li>2. The date of year must change from 2014/15 to 2015/16.</li> <li>3. The word “has” must change to “have” and the word “needs” must change to “need”.</li> </ol>
<p><u>Page 12:</u> Under the heading “Opportunities” in the table.</p>	<p>The word “municipality” should change to “district”.</p>
<p><u>Page 29:</u> Under 5.7.2 the sentence starting with “The committee will...”</p>	<p>The word “consider” is spelled incorrectly.</p>
<p><u>Page 33 – 44:</u> The items that have been submitted to Council</p>	<p>The table should get a heading to indicate what it contains, i.e. “Council resolutions taken for the 2015/16 financial year”</p>
<p><u>Page 46:</u> The top administrative structure</p>	<p>The word “vacant” should be inserted in the box above the title for Director: Corporate Services, to indicate that the position is vacant.</p>
<p><u>Page 71:</u> The table referring to number of employees for LED</p>	<p>The number of employees does not add up to 7 but to 8 employees.</p>
<p><u>Page 102:</u></p> <ol style="list-style-type: none"> <li>1. The second paragraph, the last sentence that starts with “A deficit for the year...”</li> <li>2. The third paragraph, the first sentence that starts with “In addition to the assets...”</li> </ol>	<ol style="list-style-type: none"> <li>1. The sentence should read as follows: “A deficit for the year was realised, amounting to R16.4m which means the total expenditure exceeded the total revenue while a net current asset position was realised indicating that the total current assets exceeded the total current liabilities.”</li> <li>2. The sentence should read as follows: “In addition to the assets and liability management, the municipality is proud to report that the net asset position was realised in the 2015/16 financial year, which indicates that the total assets of the municipality exceeded its liabilities.”</li> </ol>
<p><u>Page 103:</u> The table with heading “Financial Summary”</p>	<p>For continuity the blank areas in table should be filled in with a dash sign and the 0.00% should also be replaced with a dash sign.</p>
<p><u>Page 104:</u> In the table with the heading “Financial Summary”.</p>	<p>The words “financial performance” must be removed.</p>

Area	Observation / Proposal to rephrase / edit
<p><u>Page 108 - 111:</u> The graphs on:</p> <ol style="list-style-type: none"> <li>1. liquidity</li> <li>2. cost coverage</li> <li>3. creditors system efficiency</li> <li>4. capital charges to operating expenditure</li> <li>5. repairs and maintenance</li> </ol>	<p>The narration must be revised to speak to graphs:</p> <ol style="list-style-type: none"> <li>1. the second sentence speaks to the previous years and not to 2014/15 and 2015/16 financial years</li> <li>2. the narrative should read: “the cost coverage decreased due to lower cash balances at year-end as a result of a deficit of R16m which was realised.”</li> <li>3. The second sentence should be removed. It should only indicate that there has been no movement.</li> <li>4. The narration should change to read as: “there has been a decline to 0.6%</li> <li>5. The narration should read: “There was an increase in repairs and maintenance ratio from 2.6% to 2.9%</li> </ol>
<p><u>Page 112:</u> The first sentence under the heading “Cash flow management and investments” starting with: “Council’s cash and investments...”</p>	<ul style="list-style-type: none"> <li>• Replace the word “Council” with “district municipality”.</li> <li>• The sentence should read as follows: “The district municipality’s cash and cash equivalent amounts to R69.3m which is a decrease of R18.2m as compared to the previous financial year.”</li> </ul>

### 3.2.10 Observations

The numbering of pages that is referred to in the Auditor-General’s report is indicated as x’s, however, this cannot be changed as it is the final report as received from the Auditor-General and must be captured as is.

### 3.2.11 Commendations

The Committee commended the municipality for being able to sustain the unqualified audit opinion without matters of emphasis for the 2015/16 financial year. The Committee encouraged the municipality to keep up the good work to become an example to other municipalities within not only the Northern Cape but the country as a whole.

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