

ITEM : COUN 01 03/2019

OFFICE OF THE MUNICIPAL MANAGER: *AUDIT PERFORMANCE AND RISK COMMITTEE AND OVERSIGHT COMMITTEE REPORTS ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018*

(10/2/1/1) (GR) (COUNCIL MEETING : 27 MARCH 2019)

The Municipal Manager reports as follows:

“Section 129 of the Municipal Finance Management Act, 56 of 2003 (MFMA) requires the council to consider the annual report and to adopt an oversight report compiled by its oversight committee and the audit, performance and risk committee.

Both the oversight committee and the audit, performance and risk committee had their respective sitting to consider the annual report.

The oversight committee had its meeting on 14 February 2019 and the audit, performance and risk committee sat on 19 February 2019. Both committees have expressed themselves on the satisfaction with the current financial management and liquidity of the municipality. However, they caution that the municipality need to exercise serious financial management to remain operational and liquid. The reports also identified technical errors on the drafting of the document that needed to be corrected. The corrections have since been applied.

The oversight report is attached as **annexure 11 (Pg. OVR 1 – OVR 7)** and minutes of the meeting are attached as **annexure 12 (Pg. OV 1 – OV 6)**.

The audit, performance and risk committee oversight report is attached as **annexure 13 (Pg. AUD OVR 1 – AUD OVR 4)**.

The Municipal Manager recommends as follows

RECOMMENDATION

1. **Council having fully considered the draft annual report of the Frances Baard District Municipality adopts the Audit Performance and Risk Committee oversight report.**
2. **Council having fully considered the draft annual report of the Frances Baard District Municipality adopts the oversight committee report.**
3. **Council approves the 2017/18 draft annual report without reservations.**

**FRANCES BAARD
DISTRICT MUNICIPALITY**



**OVERSIGHT COMMITTEE REPORT ON THE
2017/2018 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 2017/2018 draft annual report was tabled before Council on 19 December 2018 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 consists of:

Mr T Mabotsa	Chairperson (external member)
Ms R van Rensburg	Member (external member)
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 2017/2018 in line with a checklist in MFMA Circular No. 11, Circular No. 32 and Circular No. 63 issued by the National Treasury. The committee reports as follows:

3.1 Review of inputs

The draft annual report was tabled in Council on 19 December 2018 and Council resolved that the draft must be published for public comment.

The draft was placed in the local newspapers on 09 January 2019 and the municipal website in January 2019. The closing date was 29 January 2019. The municipality did not receive inputs by the closing date.

3.2 Analysis of annual report

3.2.1 Financial overview

The financial overview (pg. 14) must be revised to include the initiatives embarked on to improve the financial management and financial position of the municipality. The narrative needs to reflect the increase in cash balances from R50m in 2017 to R51m in 2018 and that the reasons for the increase in cash balances were driven primarily from positive cashflow which was generated from operating and investing activities; which turned around the net deficit position of the municipality from R19.17m (2016/17) to R969 thousand in 2017/18. The current assets of the municipality have also not increased but has decreased.

3.2.2 Liquidity ratio

The liquidity ratio discussed in the introduction of chapter 5 (pg. 93) needs revision. The liquidity ratio was 3.60:1 (calculated by dividing current assets over current liabilities) which means the municipality was able to pay its current short-term liabilities 3.6 times over. There was an increase in the liquidity and not a decrease as stated, as the liquidity ratio increased from 2.68 to 3.60. There has also not been a decrease in monetary assets.

3.2.3 Financial ratios

Corrections need to be applied to the graphs (page 99) which indicate the financial ratios and must be aligned to the corrections to the liquidity ratio as discussed under bullet 3.2.2. The ratio (pg. 102) against which the norm is measured is not indicated. The short-term period against which cash flow problems may be experienced is also not indicated.

3.2.4 Cashflow management and investment

Further explanation needs to be included on pg. 103 to indicate what impacted on cashflow during the year. The following should be added to the narrative: *“The key contributors to the positive cashflow management of the municipality was as a result of the municipality generating a positive cashflow from operating and investing activities in the current financial year as compared to the 2016/17 financial year when the municipality did not generate positive cashflow from operating and investment activities.”*

3.2.5 GRAP compliance

The narrative should indicate the municipality’s compliance (pg. 104) with the applicable GRAP standards of accounting and not just explain the concept. The narrative should:

- Indicate an overview of the audit conducted by the Auditor-General and the audit outcome for the 2017/18 financial year;
- Include that there were no findings issued by the Auditor-General, in the audit opinion, of any instances of non-compliance with GRAP standards; and
- Include that as a result the municipality is fully compliant with all applicable and effective GRAP standards and interpretations and directives issued by the Accounting Standards Board.

3.2.6 Areas to be revised

The committee expressed itself on the technical errors on the document that needed to be corrected. The corrections were to be made as follows:

Area	Observation / Proposal to rephrase / edit
<p><u>Page 7:</u> The first paragraph, the sentence starting with “We had to tighten...”</p>	<p>The sentence should be corrected to read: “We had to tighten the belt much more than we ever had in the past, to ensure that we serve our communities to the best of our abilities.”</p>
<p><u>Page 8:</u> 1. The third paragraph, the first sentence starting with “We had to improve...” 2. The fourth paragraph, the sentence starting with “With opportunities in mining...”</p>	<p>The word “the” is spelled incorrectly.</p>
<p><u>Page 9:</u> The first paragraph, the first sentence starting with “To sustain and maintain...”</p>	<p>The word “have” must be replaced with “has”.</p>
<p><u>Page 12:</u> Under the heading <i>Phokwane Local Municipality</i>, the third sentence starting with “The project is in retention...”</p>	<p>1. The word “and” is spelled incorrectly.</p>
<p><u>Page 13:</u> Under the sub-heading <i>Youth Entrepreneurship Development Programme (YEDP)</i></p>	<p>Only the first paragraph is related to the YEDP sub-heading. More sub-headings need to be inserted that speaks to the information captured in the subsequent paragraphs.</p>
<p><u>Page 14:</u> The fourth paragraph: 1. the second sentence starting with “The results are due to...” 2. the last sentence starting with “The municipality has addressed...”</p>	<p>1. The word “vacancy” must be “vacancies”. 2. The second “has” in the sentence must be replaced with “have”.</p>
<p><u>Page 16</u> 1. The third paragraph, first sentence starting with: The adopted a firewall...” 2. The third paragraph, the second sentence starting with: “National Treasury through...” 3. The fifth paragraph, the first sentence starting with: “In June 2018...”</p>	<p>1. The sentence should read as follows: “Council adopted a firewall policy to protect the internal network of the municipality against unauthorised access”. 2. The following words are spelled incorrectly: • “update” • “containment” 3. The sentence should read as follows: “In June 2018 the municipality conducted a team building exercise as part of its employee assistance programme”.</p>

Area	Observation / Proposal to rephrase / edit
<p><u>Page 18:</u> The first sentence under the heading <i>Political Governance</i></p>	<p>The word “is” must be replaced with “are”.</p>
<p><u>Page 37:</u> 1. The second paragraph, the second sentence starting with: “The success of the municipality...” 2. The fourth paragraph, first and third sentences.</p>	<p>1. The “s” on the following words must be removed:</p> <ul style="list-style-type: none"> • Provide • Give • Improve <p>2. The words “is” and “more” must be replaced with “are” and “better”, respectively.</p>
<p><u>Page 42:</u> Under the heading <i>Risk Management</i>: 1. The third paragraph, the first sentence. 2. The fourth paragraph, the second sentence starting with: “There were no cases of...”</p>	<p>1. The word “have” must be replaced with “has”. 2. The date of “2016/17” should change to “2017/18”</p>
<p><u>Page 49:</u> Under the heading <i>Water reticulation in town – replacement of steel/asbestos pipes in Barkly West</i>, the sentence that starts with: “Three (3) years ago the...”</p>	<p>The sentence should read as follows: “Three (3) year ago the whole project was estimated at a total project cost of R42m.”</p>
<p><u>Page 50:</u> Under the heading <i>Kingston – Provision of water supply for 338 stands</i>, the first sentence that starts with: “FBDM originally provided...”.</p>	<p>The sentence should read as follows: “FBDM originally provided Phokwane municipality with the requested funding for water and sanitation provision for the Guldenskat new development”.</p>
<p><u>Page 51:</u> Under the heading: <i>Geographic Information System (GIS)</i>; the second sentence starting with: For the financial year....”</p>	<p>The sentence should read as follows: “For the financial year 2017/18 a project has been carried out in Sol Plaatje Municipality to capture high resolution oblique imagery to be used for valuation and planning purposes”.</p>
<p><u>Page 67:</u> The table on financial performance of the executive and council</p>	<p>The remuneration of councillors in the actual column should align to the amount as captured in the statement of financial performance on page 139, i.e. the amount 7,310 should be replaced with 6,567.</p>
<p><u>Page 102:</u> The sentence that starts with: “To ensure that...”</p>	<p>The word “and” must be inserted between the words ratios and benchmarks.</p>
<p><u>Page 103:</u> 1. The first sentence starting with: “The district municipality’s cash and...” 2. The second sentence starting with: “The district municipality’s cashflow...”</p>	<p>1. The word “equivalents” is spelled incorrectly. 2. The sentence should read as follows: “The district municipality’s cashflow is improving due to a decline in allocations to its local municipalities within the district”.</p>

3.2.7 General grammar / numerical corrections as they occur throughout the book

- There are several typing errors across the book that need to be corrected.
- Numbering conventions in terms of financial amounts should be uniform i.e. R0.0m instead of R0.0 million and R0,000,000; R000 thousand instead of R000,000.00.
- Verify font style to ensure that text throughout the book is uniform, except for images inserted from other sources.
- All the graphs in the book should be uniform. The figures must include decimals.

3.2.8 Observations

There is consistency with the Auditor-General report in terms of the issues related to underspending of the budget and irregular expenditure.

3.2.9 Commendations

The audit opinion of the municipality remained unchanged from the previous year, an unqualified audit opinion, and the Committee wish to commend the management of the municipality for being able to maintain the status quo; notwithstanding the non-compliance issues for which remedial action has been outlined.

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