

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.**

REPORT OF THE AUDIT, PERFORMANCE AND RISK COMMITTEE TO THE FRANCES BAARD DISTRICT MUNICIPAL COUNCIL ON THE DRAFT ANNUAL REPORT FOR THE YEAR ENDING 30 JUNE 2018

1. PURPOSE

The purpose of the report is to recommend to the oversight committee on any issues to be corrected in the draft annual report as required by section 166(2) of the Municipal Finance Management Act (MFMA) of 2003.

2. BACKGROUND

Section 166(2) of the MFMA read with the Charter, King III and IV clarifies the roles and responsibilities of the Audit Committee.

The audit committee must respond to Council on any matters to be corrected in the annual report. A meeting was held with management on the 19 February 2019 to review the draft annual report. The minutes detailing the analysis of the annual report will be tabled to Council in ensuring oversight and reporting thereof.

The Audit Committee noted that the draft annual report was tabled to Council on 19 December 2018 and that the Oversight Committee performed their review on 14 February 2019.

Although these processes will continue in the future, it appears appropriate that the Audit Committee reports in terms of section 166(2) as soon as possible after discussion of the report.

3. REVIEW OF DRAFT ANNUAL REPORT 2017/18

The audit committee took note of the oversight committee review of the draft annual report and highlight the following matters for consideration:

- The accuracy of all figures, percentages and calculations in tables to be confirmed
- Assurance be provided by management that the financial and non-financial information match the audited results

Chapter 1 – Mayor’s foreword and executive summary

We draw your attention to the view of the honourable Mayor that the decline in the financial position is a reality that cannot be overlooked.

We draw your attention to the statement by the municipal manager that the municipality received an unqualified audit opinion with findings.

Chapter 2 – Political & Administrative Governance

We draw your attention to the audit committee comments on internal audit and finding a balance between providing an internal audit function and the need to establish the optimal staff compliment to fulfil this function.

Overall the audit committee applaud the political structure and municipal manager for establishing and governing the entity in its current format and executing its responsibilities. The economic pressure on the district municipality may however beg the question if the entity will continue to fulfil its role and responsibility in the future. We recommend that the oversight committee apply their mind and objectively advise Council how to ensure that the district municipality remains relevant now and in the future.

Chapter 3 – Service Delivery Performance

We took note of the service delivery performance as reported and commend the entity for being able to commit financial and human resources in the manner they have done. The continuous pressure on local municipalities to repair and maintain existing assets with limited resources is a major concern and we urge the municipality to continue its support, but also finding innovative ways of assisting local municipalities in taking care of their assets.

3.3.2 Disaster Management and Fire Fighting

The Municipality should consider developing strategies on how to respond to disasters as well as communication options to be used. We recommend that lessons be learned from municipalities like Knysna and George on how to respond to disasters and specifically how to deal with the breakdown of modern communication options.

3.4.5 Year-on- Year Comparison report on Institutional Performance

The Audit Committee takes note that performance information reported for 2016/17 to 2017/18 has been audited. The continued strengthening of the inter-governmental relationships and improving the responses from local municipalities remains an important focus area to improve performance.

Chapter 4 – Organisational development performance

Human resource management is key to the municipality and we draw your attention to the number of vacant positions in the municipality. We urge the oversight committee to consider the impact of these vacancies on key operational activities and how if in any way it impacts on service delivery.

We commend the municipality on the occupational and health statistics reflecting zero temporary or permanent disablement and zero fatalities in the work place. The minor type of injuries resulting in injury leave taken should however be assessed to consider the underlying root cause and take precautionary steps in this regard.

Chapter 5 – Financial Performance

We recommend management to ensure that all figures on the financial tables tie back to the figures in the audited annual financial statements.

We draw your attention to the decline in the liquidity ratios reflected in the tables under paragraph 5.4 and urge you to apply your mind on the way forward.

The continued rise in employee costs, given the vacancies on the establishment, continues to remain a concern to the audit committee and a fine balance between an optimal human resource compliment and affordability of the approved structure versus the available resources and responsibilities must be found. The oversight committee should apply their mind on how do we remain relevant as a district municipality when the majority of funds are utilised to fund employees. A review of the functions, duties and optimal human resource compliment should be considered in the future linked with the approved positions and vacancies not filled.

The audit committee took note of the increase in repair and maintenance and advise that the oversight committee obtain assurance that a proper repair and maintenance plan is in place and implemented. We have seen an increase in own capital assets acquired and do foresee a need to increase the allocation of funds to ensure proper repair and maintenance of assets.

We advise timeous assessment of the impact of upcoming GRAP standards and the oversight committee, council and the audit committee should request assurance that these standards have been considered.

Chapter 6 - Auditor General Audit findings

The audit committee took note of the audit findings.

Volume II

Annual financial statements

The draft financial statements were considered by the Audit Committee on 28 August 2018. We place reliance on the financial information presented in the audited financial statements.

General comments

- To correct the font of the letter “t” throughout the report and check for spelling mistakes in the entire report.
- Grammar must be correctly used throughout the report.

4 RECOMMENDATION

- The APRC recommends the adjustments and corrections as well as that of the Oversight Committee on the 2017/18 draft annual report of the Municipality for finalisation.
- The Committee is satisfied with the overall improvement of the municipality and efforts by management in putting together the annual report.

- The Committee further commends the municipality for a much better product produced.

Yours sincerely

Smartyk Calitz

WMS Calitz

Chairperson of the Frances Baard District Municipality Audit, Performance and Risk Committee

11 March 2019