

**ITEM: COUN 01 03/2016**

**OFFICE OF THE MUNICIPAL MANAGER: *AUDIT PERFORMANCE AND RISK, MPAC AND OVERSIGHT COMMITTEE REPORTS ON THE 2014/2015 ANNUAL REPORT***

(10/2/1/1) (GR) (COUNCIL MEETING: 23 MARCH 2016)

---

**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; the municipal public accounts committee (MPAC) and the audit and risk committee.

Thus the three committees as appointed by Council sat as follows:

The Audit Performance and Risk Committee, appointed by Council with the primary purpose of advising Council, political office bearers and the accounting officer on matters relating to Section 166 (2) – (3) of Municipal Finance Management Act and other applicable laws and regulations, sat on 03 February 2016 to consider the report. As part of its functions the committee has to assess the annual report of the municipality and make recommendations to the MPAC and external oversight committees. The Audit Committee oversight report is attached as ***annexure 8 (AR 1 – AR 4)***.

The Municipal Public Accounts Committee (MPAC) appointed by Council to amongst others oversee the content of the annual report on its behalf sat on the 15 February 2015. The MPAC oversight report and minutes the meeting are attached as ***annexure 9***.

The oversight committee appointed by Council to oversee the content of the annual report on its behalf also sat on the 11 February 2015 to consider the report. The oversight report and minutes of the meeting are attached as ***annexure 10***.

**The Municipal Manager recommends as follows:**

**RECOMMENDATIONS**

- 1. Council having fully considered the annual report of the Frances Baard District Municipality adopts the Audit Performance and Risk Committee oversight report.**
- 2. Council having fully considered the annual report of the Frances Baard District Municipality adopts the MPAC oversight report.**
- 3. Council having fully considered the annual report of the Frances Baard District Municipality adopts the oversight committee report.**
- 4. Council approves the 2014/15 annual report without reservations.**

**RESOLVED**

- 1. Council having fully considered the annual report of the Frances Baard District Municipality adopted the Audit Performance and Risk Committee oversight report**
- 2. Council having fully considered the annual report of the Frances Baard District Municipality adopted the MPAC oversight report.**
- 3. Council having fully considered the annual report of the Frances Baard District Municipality adopted the oversight committee report.**
- 4. Council approved the 2014/15 annual report without reservations.**



.....  
**MUNICIPAL MANAGER**

31 March 2016

.....  
**DATE**

# **REPORT OF THE AUDIT, PERFORMANCE AND RISK COMMITTEE TO THE FRANCES BAARD DISTRICT OVERSIGHT COMMITTEE ON THE DRAFT ANNUAL REPORT FOR THE YEAR ENDING 30 JUNE 2015**

## **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 and chapter 3 of the King III code 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 3<sup>rd</sup> of February 2016 to review the draft annual report. The minutes and quarterly report of the Audit Committee will be tabled to Council ensuring oversight and reporting to Council.

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. DRAFT ANNUAL REPORT 2014/15**

### **3.1 Chapter 1- Introduction**

There are terms that are used that may not be easily understandable to the user.

It is also noted on page 11 that the graph depicting poor households cannot be accurate given the current economic situation in the Northern Cape. The audit committee acknowledged Census 2011 as the source used to reflect on the reliable stats as at 2011.

The operating ratio on the financial overview for finance charges and depreciation of 5.45% cannot be higher than the employee costs of 5.04%. Employee cost should record the biggest expenditure, and the municipality does not have many debts

The municipality may refrain from referring to the going concern as the municipality shows to have a long term financial sustainability.

It appears that the signed report of the Auditor General does not specifically make reference to page numbers of its entire report; this makes difficult to follow numbering sequence when compiling the annual report. The Auditor General may be consulted with regard to this matter.

### 3.2 Chapter 2 – Governance

It is noted that in the effort to implement a sound supply chain management; the municipality has put measures to immediately disqualify those prospective service providers whom do not declare whether they are presently in the service of the state or not.

### 3.3 Chapter 3 – Service delivery

The municipality did identify a challenge of illegal dumping on environmental health waste management; however it is not recorded of how it has been managed to ensure that those illegal dumping are eliminated. The outcome of the achievements on the municipal health awareness and on compliance of food and non-food premises should be highlighted in the report.

### 3.4 Chapter 4 – Organisational development performance

The inaccurate number of employees has been reported, and should be rectified to correlate with the number recorded on the introduction.

### 3.5 Chapter 5 – Financial Performance

As the audit committee we raise a serious concern towards the formulas provided by National Treasury on the financial summaries and across the entire draft annual report. There are unreasonably high percentages of variances reported against the performance which gives the reader the impression that the municipality has poorly performed.

The financial ratios are also not giving a clear picture of the current situation and referring back to previous financial periods. Narratives should be provided to explain movement in the graphs. The drop of total outstanding service debtors has been noted given that the district municipality does not provide for basic services such as water and electricity, waste removal and sanitation.

### 3.6 Chapter 6 - Auditor General Audit findings

The audit committee commend favourably on the opinion of the Auditor General and as the audit committee we can place reliance on the financial information presented in the audited financial statements.

## Annual financial statements

The draft financial statements were considered by the Audit Committee on 24 August 2015.

The audit committee concluded that the draft annual financial statements submitted to the committee required more attention and in some instances reconsideration of the underlying recognition principles. Various adjustments were still required to the draft financial statements prior to the final product being submitted to the Auditor-General.

Our assessment of internal controls leading up to the submission of the draft financial statements is that the controls still need improvement to ensure that it provides the audit committee with reasonable assurance that the draft financial statements are complete and accurate, supported by a finally signed off audit file that meets the requirements set out in MFMA circular 50. In view of the above and our observations we cannot provide any assurance that the accounting policies, presentation and disclosure framework for the preparation of the draft annual financial statements were consistently and appropriately applied.

The audit committee did not have sight of the final set of financial statements submitted to the Auditor-General and therefore cannot provide the Council with an authoritative and creditable view of the financial position of the Council as at 30 June 2015 based on the financial statements submitted for audit purposes. The audit committee furthermore adopted a combined assurance model and will receive assurance on the financial statements during November 2015 where after the audit committee will be able to conclude on the opinion expressed on the fair presentation of the annual financial position and operating results for the 2014-15 financial year.

## Draft annual performance report

The committee considered the draft annual performance report submitted to us on 24 August 2015. A review of the draft performance report reflected some concerns that had to be addressed by senior management prior to the submission of the information to the Auditor-General.

The extent of underperformance reported to the committee prompted the committee to request internal audit to review the portfolio of evidence and assess the accuracy and completeness of the information disclosed. It is the view of the committee that the extent of possible underperformance may increase the overall risk on the opinion to be expressed on the performance results for the financial year.

The committee received a report from internal audit that supported our concerns on the accuracy of the reported information and the underperformance reported by management. We took note that the underperformance is as a result of internal deficiencies and factors beyond the control of the municipality.

#### 4 RECOMMENDATION

- The APRC accepts the report taking into consideration that the raised comments has been resolved.
- The APRC further recommends the 2014/15 draft annual report with the adjustments/corrections to the oversight committee and MPAC committee.
- The committee notes that overall the municipality is doing well despite certain challenges.
- The committee commends the municipality on a very good annual report for 2014/15.

Yours sincerely

AL Kimmie  
Chairperson of the Frances Baard District Municipality Audit, Performance and Risk  
Committee  
10 February 2016