

COUNCIL RESOLUTION

ITEM: COUN 01 03/2018

OFFICE OF THE MUNICIPAL MANAGER: *AUDIT PERFORMANCE AND RISK AND OVERSIGHT COMMITTEE REPORTS ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017*

(10/2/1/1) (GR) (COUNCIL: 28 MARCH 2018)

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 and risk committee.

Thus, the two 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 15 February 2018 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 external oversight committee.

The *Audit, Performance and Risk Committee oversight report* is attached as **annexure 16 (Pg. AC. 1 - AC. 3)**.

The oversight committee appointed by Council to oversee the content of the annual report on its behalf also sat on 20 February 2018 to consider the report.

The Oversight Committee report; Annexure 17 (Pg. 1 - 7) and minutes of the meeting are attached as **annexure 18 (Pg. OC. 1 – OC. 6)**.

The Municipal Manager recommends as follows:

RECOMMENDATION

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 oversight committee report.
3. Council approves the 2016/17 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 oversight committee report.
3. Council approved the 2016/17 annual report without reservations.



.....
MUNICIPAL MANAGER

23 Apr/2018
.....
DATE

**FRANCES BAARD
DISTRICT MUNICIPALITY**



**OVERSIGHT COMMITTEE REPORT ON THE
2016/2017 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 2016/2017 draft annual report was tabled before Council on 6 December 2017 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 2016/2017 according to a checklist provided by National Treasury in MFMA Circular No. 11, Circular No. 32 and Circular No. 63 for this purpose and reports as follows:

3.1 Review of inputs

The only inputs received were from the Audit Performance and Risk Committee. The draft annual report for 2016/2017 was placed in local newspapers on 10 January 2018 and the municipal website in December 2017.

3.2 Analysis of annual report

3.2.1 Council resolutions taken for the 2016/17 financial year

The information on the implementation of Council resolutions needs to be completed.

3.2.2 Chapter 5 introduction

Chapter 5 might not be easy to understand to a non-financial reader of the report. More explanation is required to enable the reader to understand the financial position of the municipality.

3.2.3 Matters arising from the Auditor-General's report for 2016/17

The material underspending and non-compliance to supply chain regulations that were raised in the Auditor-General's report, were not included in chapter 6 of the annual report. The matters were addressed and resolved during the audit process. The process of how these matters were addressed should be indicated in the introduction for chapter 5.

3.2.4 Areas to be revised:

Area	Observation / Proposal to rephrase / edit
<u>Page 14:</u> The last paragraph, the sentence starting with "Finance charges..."	The sentence should be corrected to read: "Finance charges and depreciation are reflected in the external loan agreement with the DBSA and the prescribed principles in terms of GRAP 17."
<u>Page 29:</u> The first sentence under 5.1.1	The sentence should be corrected to read: "The committee took note that the internal audit unit is headed up by a Chief Audit Executive (CAE) and supported by a number of staff members."
<u>Page 30:</u> Under heading 5.2, The fourth paragraph that starts with "The audit committee is..."	The sentence should be corrected to read: "The audit committee is committed to improving the combined assurance model where the committee receives assurance from management, internal and external audit and any other assurance provider that may be necessary from time to time."
<u>Page 31:</u> 1. Under the heading 5.6, the second sentence starting with "Throughout the financial year..." 2. Under the heading 5.7.3 the sentence should be rephrased to better explain the words "early adopt".	1. The sentence should be corrected to read: "Throughout the financial year management provided assurance on the reported performance information, supported by the report from internal audit." 2. The sentence should be corrected to read: "The committee considered any changes to the accounting standards (GRAP) and took note that the municipality did not elect to early adopt the amendments to the standards."

Area	Observation / Proposal to rephrase / edit
<u>Page 40:</u> Under the heading 2.2, the fourth paragraph, the second sentence starting with: “All executive managers...”	The year period, 2016, should be included in the sentence.
<u>Page 42:</u> Under the heading LED Forum	Move the bullet about the purpose of the LED Forum to the next page.
<u>Page 45</u> Under the heading 2.5.1, the sentences that starts with: “The approved Supply Chain Management Policy...”; “The municipality...” and “This unit...”	The spelling for the following words should be corrected: <ul style="list-style-type: none"> • Maintained • Strives • Operates
<u>Page 46:</u> Under the heading 2.5.2: 1. The fourth paragraph, the first sentence that starts with: “There is a long way....” 2. The fourth paragraph, the second sentence. 3. The fourth paragraph, the third sentence.	1. The sentence should be corrected to read: “There is a long way to go in reducing all identified risks to acceptable levels and to creating an environment that is free from maladministration, inadequate internal controls and fraud.” 2. The word “was” should change to “were” 3. The word “in” should change to “with”
<u>Page 48:</u> The sentence that starts with “Section 88(1) and...”	The word “define” should be written without the “s”
<u>Page 49:</u> 1. In the first table below the heading 3.1.3, the amount spent for Kgotso Pula Nala. 2. Include additional row to the bottom of the table.	1. The 2 decimals in the amount spent must be removed. 2. The additional row should be populated with the totals for allocation and the amount spent.
<u>Page 50:</u> Under the heading 3.1.5. the last sentence of the paragraph that starts with: “The following services...”	The sentence should read as follows: “The following services, as outlined in the table below, are available to the local municipalities.”
<u>Page 54:</u> The special projects table for Programme Management and Advisory Services.	The variance from original budget column is not populated.
<u>Page 56:</u> Under the heading: “Co-funding for the upgrading of the Warrenton Water Treatment Works. The second sentence starting with: The bulk of the funding...”	The word “provided” is spelled incorrectly.
<u>Page 64:</u> The table on jobs created	The row for 2016/17 have not been populated.

Area	Observation / Proposal to rephrase / edit
<p><u>Page 83:</u> Under the heading records management:</p> <ol style="list-style-type: none"> 1. The first sentence 2. The second sentence 	<ol style="list-style-type: none"> 1. The sentence should be corrected to read: “The electronic document management system, called MunAdmin EDMS, as introduced in 2002, was meant to simplify the administration function of the municipal officials and move towards a green economy.” 2. The word “system” should change to “systems”
<p><u>Page 90:</u> Under the heading 4.5, the sentence that starts with: “Unplanned training needs....”</p>	<p>The sentence should be corrected to read: “Unplanned training needs have resulted in an overspending of the training budget and the only way to control unplanned expenditure is by adhering to the original training needs submitted during the skills audit exercise.”</p>
<p><u>Page 92:</u> Under the heading 5.1:</p> <ol style="list-style-type: none"> 1. The first sentence, first paragraph 2. The first sentence, the second paragraph 3. The first sentence, the third paragraph 4. The second sentence, the fourth paragraph 	<ol style="list-style-type: none"> 1. The word “the” should be removed so that the sentence starts with “Overall” 2. The sentence should be corrected to read: “Although the municipality relies heavily on grant funding to finance its operations, it still succeeded in building the capacity of the local municipalities in its area of jurisdiction to assist them to perform their functions and exercise their powers.” 3. The sentence should be corrected to read: “The important ratios remains positive which indicates that the municipality will be able to meet future financial obligations and there is no indication that the going concern is deteriorating.” 4. The sentence should be corrected to read: “Notwithstanding the negative economic growth forecast, the municipality was able to allocate 37% of its revenue to make a difference in the lives of many people in the district in a number of areas that influence their daily lives.”
<p><u>Page 94:</u> In the financial summary table, under the heading asset management</p>	<p>The accuracy of the variance figure indicated (for the original and adjustment budget columns) for the asset register summary (WDV) needs to be verified.</p>
<p><u>Page 101 & 102:</u> The paragraph starting with “Financial viability....” (pg. 101) and the paragraph below the heading 5.5. (pg. 102)</p>	<p>The font size or line spacing of the paragraphs should be consistent for the entire document.</p>

Area	Observation / Proposal to rephrase / edit
<u>Page 212:</u> In the table “Appendix A”, the actual outcome as a % of final and original budget for the decrease (increase) in non-current investments.	A formula error has occurred and should be fixed.

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

- The words “however” and “respectively” should have a comma before and after, when used in a sentence.
- Amounts should be written uniformly i.e. R3.8 million instead of R3,800,000 and R868 thousand instead of R868,109.00.
- Ensure that all tables look uniform i.e. where the last 2 columns of a table are bold, apply to all similar tables.

3.2.6 Observations

The numbering of pages that is referred to in the Auditor-General’s report is indicated as x’s. This is the final report as received from the Auditor-General and is captured as is. The Auditor-General’s Report is duplicated, it should appear only once.

3.2.7 Commendations

The Committee is satisfied that the municipality achieved the unqualified audit opinion, though with matters of emphasis. The Committee encouraged management to address these matters going forward, to obtain another unqualified audit opinion without any findings.

-- END --