

**9.
REPORT OF THE JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE
(JAPAC) TO THE OVESTRAND MUNICIPAL COUNCIL**

3/2/3/12

**DC Van Der Heever
11 May 2018**

(028) 313 5035

Internal Audit Services

1. Executive Summary

The purpose of the report is to present Council with the Report of the Joint Audit and Performance Audit Committee (JAPAC) in terms of the reporting requirements as per paragraph 3 of the JAPAC Charter, approved by Council on 21 May 2017.

2. Service Delivery and Budget Implementation Plan - IGNITE

Office of the Municipal Manager
Internal Audit Services

3. Compliance with Strategic Priority

Provision of democratic, accountable and ethical governance

4. Delegated Authority

None

5. Legal Requirements

Section 166 of the Local Government: Municipal Finance Management Act, No 56 of 2003
Regulation 14(4)(a) of the Municipal Planning and Performance Regulations
Overstrand Municipality Joint Audit and Performance Audit Committee Charter

6. Background/Discussion

The reporting requirements as per the Joint Audit and Performance Audit Committee (JAPAC) Charter provides that the chairperson of the audit committee will report on a quarterly basis to the Overstrand Municipal Council on the operations of the Internal Audit Unit and the JAPAC.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

Annexure A: Report, dated 17 April 2018, prepared by the Chairperson of the JAPAC

Annexure B: Minutes of the JAPAC meeting dated 25 August 2017

Annexure C: Minutes of the JAPAC meeting dated 27 September 2017

RECOMMENDATION TO COUNCIL:

that the report from the JAPAC to the Overstrand Municipal Council be **noted**.

RESPONSIBLE OFFICIAL :**DC VAN DER HEEVER****TARGET DATE FOR IMPLEMENTATION :****30 MAY 2018**

Date: 17 April 2018

To: The Overstrand Municipal Council
c/o The Speaker – Alderman A Coetzee

Copied to:

- Members of the Joint Audit and Performance Audit Committee (for information)
- The Executive Mayor (for information)
- The Municipal Manager (for information)
- Chief Audit Executive (for information)

**REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2017/18 FINANCIAL YEAR**

Reporting Requirement(s)

In terms of paragraph 3.7 of the JAPAC Charter, the chairperson of the committee is required to report to the Overstrand Municipal Council on the operations of the Internal Audit unit and the Joint Audit and Performance Audit Committee/ Audit Committee. The reporting should include a summary of the work performed by Internal Audit and the Joint Audit and Performance Audit Committee/ Audit Committee against the annual work plan, issues, and related recommendations.

Attached, please find the following:

Annexure A: Report of the Joint Audit and Performance Audit Committee for the period 01 July 2017 to 30 Mar 2018.

Yours truly



BURTON VAN STAADEN

*Chairman of Joint Audit and Performance Audit Committee
Overstrand Municipality*

Email: burton@vsb.co.za
Cell: 073 212 4875
PO Box 285, CAPE GATE, 7562
84c Barnard Street, BELLVILLE, 7530

ANNEXURE A

**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2017/18 FINANCIAL YEAR**

1. REPORT ON ACTIVITIES OF THE JAPAC

During the period 01 July 2017 to 31 March 2018, the JAPAC convened three (3) meetings, namely:

- JAPAC Special Meeting on 25 August 2017
- JAPAC Meeting on 27 September 2017
- JAPAC Meeting on 13 March 2018

The attendance of JAPAC members at the meetings of the JAPAC was as follows:

Member	JAPAC Special Meeting 25 August 2017	JAPAC Meeting 27 September 2017	JAPAC Meeting 13 March 2018
Mr B van Staaden (Chairperson)	Attended	Attended	Attended
Mrs K Montgomery	Attended	Attended	Contract lapsed 31 October 2017
Mr H Liebenberg	Attended	Attended	
Mr R Kingwill	Attended	Attended	Attended
Mr. M Mdludlu	New members since 01 December 2017		Attended
Mr. T Lesihla			Attended

The Chairperson of the JAPAC attended the Performance Evaluation of the Municipal Manager and Directors for the period (January 2017 - June 2017) on the 6th November 2017 and the Performance Evaluation of the Municipal Manager and Directors for the period (July 2017 - December 2017) on the 12th of March 2018.

The Chairperson of the JAPAC attended the Annual Conference of Local Government Assurance Providers which took place on the 11 - 13 October 2017 at the ATKV Goudini Resort, Rawsonville.

2. REPORT ON INTERNAL AUDIT

During the period 01 July 2017 to 31 March 2018 the following internal audit reports/ documents were presented by the Chief Audit Executive and considered by the committee:

Meeting date	Internal Audit Reports
27/09/2017	1. Municipal Standard Charts of Account (mSCOA) Implementation Project
	2. Key Controls Assessment: Fourth Quarter (01 April 2017 – 30 June 2017)
13/03/2018	Internal Audit Documents Considered
	3. Overberg District Internal Audit peer review: External Quality Assessment Methodology and Framework
	4. Overberg District MOU Quality Assurance

The JAPAC is satisfied that adequate remedial action is being implemented by management in instances where findings of fundamental or high significance has been reported.

ANNEXURE A

**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2017/18 FINANCIAL YEAR**

3. INTERNAL AUDIT STAFFING

The JAPAC noted that the Internal Audit Services has been experiencing difficulty in filling a vacancy for one Internal Auditor position and that the unit was operating at 75% of its staff capacity.

During the reporting period the following appointments were made:

- an Internal Audit: Intern (Ms. S Mvaba) with effect from the 18th of April 2017 and
- an Internal Auditor, Mr E Essop with effect from 01 February 2018.

4. RESOLUTIONS OF THE JAPAC

Copies of the minutes of the JAPAC meetings will be forwarded to Council once the minutes has been approved by the JAPAC. The approved minutes of the JAPAC meetings will contain details of all resolutions of the JAPAC.

The following minutes of JAPAC meeting(s) has been approved during this reporting period and is hereby attached:

1. Minutes of JAPAC Special Meeting held on 25 August 2017 – Annexure B
2. Minutes of JAPAC Quarterly Meeting held on 27 September 2017 – Annexure C

5. REPORT ON PERFORMANCE MANAGEMENT

At the JAPAC meeting held on 27 September 2017 and 13 March 2018, the following quarterly reports in respect of performance management were presented and considered by the JAPAC:

4 th Quarter Reports (01 April 2017 to 30 June 2017)	1. Service Delivery and Budget Implementation Plan
	2. High Level Summary Report: Predetermined Objectives
	3. Internal Audit Report: Predetermined Objectives
1 st Quarter Reports (01 July 2017 to 30 September 2017)	4. Service Delivery and Budget Implementation Plan
	5. High Level Summary Report: Predetermined Objectives
	6. Internal Audit Report: Predetermined Objectives
2 nd Quarter Reports (01 October 2017 to 31 December 2017)	7. Service Delivery and Budget Implementation Plan
	8. High Level Summary Report: Predetermined Objectives
	9. Internal Audit Report: Predetermined Objectives

In reviewing the quarterly reports and the performance management system there were no material findings concerning the usefulness and reliability of the reported information. Where anomalies were identified, appropriate corrective action(s) were taken by management, as per Internal Audit Services recommendations, which included pro-active action by management to prevent a re-occurrence there-of.

**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2017/18 FINANCIAL YEAR**

6. REPORT ON RISK MANAGEMENT

At the JAPAC meetings held on 27 September 2017 and 13 March 2018, the following quarterly reports in respect of risk management were presented and considered by the JAPAC:

Meeting date	Risk Management Reports
27/09/2017	1. Risk Management Quarterly Report– First Quarter 2017/ 2018
	2. Risk Register as at 19 September 2017
13/03/2018	3. Risk Management Quarterly Report– Second Quarter 2017/ 2018
	4. Risk Register as at 06 March 2018
	5. Report on Risk Actions for risks with ineffective controls
	6. Combined Assurance Model – Second Quarter 2017/ 2018

7. OTHER MATTERS

7.1 DRAFT/ AUDITED ANNUAL FINANCIAL STATEMENTS (AFS) FOR 2016/17 FINANCIAL YEAR

At the JAPAC special meeting held on 25 August 2017, the draft Annual Financial Statements (AFS) for the 2016/17 financial year were presented and considered by the JAPAC.

The JAPAC was also presented with and considered the final Management Report and the audited Annual Financial Statements for 2016/17 financial year, at the JAPAC meeting held on 13 March 2018.

7.2 ANNUAL OVERSIGHT REPORT

The Annual Oversight Report of the JAPAC for the financial year ended 30 June 2017 was submitted by the Chairperson of the JAPAC on 11 January 2018.

7.3 FUNCTIONING OF JAPAC AND FILLING OF VACANCIES

JAPAC vacancies was not filled in time to ensure the effective and continued functioning of the JAPAC during the period under review. As a result, the JAPAC meeting scheduled for 29 November 2017 did not take place and this resulted in a carryover of reports to the subsequent meetings, overloading of the subsequent meeting agendas and delays in considering certain reports (i.e internal audit reports). We request that Council ensure better management of this process in future to prevent a similar delay in filling of JAPAC vacancies.

8. NEXT MEETING

The next meeting of the JAPAC will be held on 25 April 2018.

END



**SPECIAL MEETING OF THE JOINT AUDIT AND
PERFORMANCE AUDIT COMMITTEE**

**SPEZIALE VERGADERING VAN DIE GESAMENTLIKE
PRESTASIE OUDIT EN OUDIT KOMITEE**

MINUTES / NOTULE

DATE / DATUM: 25 AUGUST 2017
(FRIDAY / VRYDAG)

VENUE / PLEK COMMITTEE ROOM / KOMITEEKAMER
(GLASKAS)
CIVIC CENTRE / BURGERSENTRUM
HERMANUS

TIME / TYD 10:00HRS



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 25 August 2017

MINUTES OF A MEETING OF THE SPECIAL JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE (JAPAC) HELD IN THE COMMITTEE ROOM (GLASKAS) CIVIC CENTRE, HERMANUS ON FRIDAY, 25TH OF AUGUST 2017 AT 10:00

1. OPENING BY CHAIRPERSON

The Chairperson, Mr B Van Staaden, welcomed everyone present at the special Joint Audit & Performance Audit Committee meeting during which the Draft Annual Financial Statements (AFS) for the year ended 30 June 2017 was discussed. The JAPAC congratulated/ complimented the CFO and key personnel with the timeous completion of the AFS in order to grant the JAPAC the opportunity to review and comment on the AFS.

2. APPLICATION(S) FOR LEAVE OF ABSENCE

Apologies received from the following officials/members:

Ald R Smith (Executive Mayor)
Ald D Coelzee (Executive Deputy Mayor & Finance Portfolio)
Cllr R De Coning (Management Services Portfolio)
R Louw (Senior Manager: Strategic Services)
R Africa (Internal Auditor).

Persons present - as per attached attendance register.

3. STATEMENTS AND COMMUNICATIONS FROM THE CHAIRPERSON

No further statements and communications expressed by the Chairperson.

4. PRESENTATION: DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017.

The CFO gave an overview on the draft AFS for the year ended 30 June 2017.

The CFO highlighted some of the questions that were received from the JAPAC beforehand and answers thereto. See *Annexure A*.

The Chairperson granted the CFO an opportunity to provide feedback and to respond to further questions from the JAPAC members.

5. FOLLOW-UP QUESTIONS/ COMMENTS I.R.O. THE DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017.

The following questions/ comments were raised by JAPAC members during the meeting:

1. *Re: Review of draft AFS by the AG prior the submission date (31 August) - the JAPAC enquired whether the AG had performed a quick overview of the draft AFS before the final AFS are submitted to them.*

Deputy Director: Finance & SCM indicated that the AG has arrived and has started to do follow-ups, but had not reviewed the draft AFS. He further indicated that the AG usually performs a high level overview of the AFS after the submission date (31 August). If they found areas of concern they will then inform the municipality to make necessary changes.

The CFO also added that they have a "peer review" on the draft AFS prior to its submission to the AG with Drakenstein Municipality and Provincial Treasury, where they review each other's draft AFS and provide advice/ recommendation(s) where necessary.

The JAPAC suggested that in the absence of any independent review of the AFS that Internal Audit should be used to provide a quality review on the draft AFS prior to submission to the AG

2. *Re: mSCOA - the JAPAC enquired whether it was the purpose of the regulation to provide*



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 25 August 2017

standardization, consistency and similarities in the AFS of municipalities? And whether there is a guideline for the format of the Financial Statements of the municipalities.

The Deputy Director: Finance & SCM outlined that mSCOA is nothing more than just a Standard Chart of Accounts that is aimed at making the AFS identical for all municipalities and there is no template/ format for the AFS. He further indicated that the AFS are prepared using different templates due to the autonomous status of municipalities by legislation.

3. Re: Statement of Financial Position – the JAPAC noted that cash surplus increased dramatically from 2016 to 2017, whereas current liabilities did not increase as much, the JAPAC enquired whether the surplus belongs entirely to the municipality.

The CFO indicated that the municipality as a sphere of government has to consider the legislation regarding cash back requirements), and as a big chunk of surplus is from the sinking fund. Over the past 3 years the municipality's plan was to have a better cash position to finance fleet replacement as the municipality cannot take-up loans to finance fleet but to finance infrastructure projects.

4. Re: expected/ potential significant adjustments on draft AFS – the JAPAC enquired whether are there any significant adjustments anticipated on the draft AFS tabled to the JAPAC.

The CFO indicated that according to their (finance team) latest discussions no significant adjustments will be made.

5. Re: Total net assets/ community wealth – the JAPAC enquired regarding an increase of 1.25% year on year i.r.o the net cash, whether there is a formula on how it is calculated.

The CFO indicated that if one looks at industries that deal with long-term financial plans there is a perception that 1.5% is adequate, National Treasury have a reference of up to three months hence the calculation of 1.25%. She further indicated that she thinks it is prudent to rather be over conservative in terms of cash flow to make provisions for working capital.

6. Re: Statement of Financial Performance – the JAPAC indicated that the municipality made a surplus of R53 000 000 for 2015/16 financial year and R34 000 000 for 2016/17 financial year. Based on the latter, the JAPAC enquired whether the ratepayers and consumers will not be concerned that they may be paying more for municipal services.

The CFO indicated that the issue of cash surplus is a combination of more than one factor. She emphasized that the municipality needs to be as transparent as possible to the ratepayers/ consumers in order for them to have an understanding of cash back reserves and legislative requirements. She further indicated that, over the past 3 years the municipality embarked on a serious cost containment process where measures were put in place for cost savings.

Comparisons with other coastal municipalities were also taken into consideration when it comes to the level and cost of services rendered.

7. Re: Cash-backed provisions – the JAPAC enquired whether there are any significant provisions which are not cash-backed, if there are, are they properly disclosed in the AFS.

The CFO indicated that they are using a prescribed format in accordance with GRAP standards.

The Manager: Financial Accounting also indicated that the disclosures in the AFS are in accordance with GRAP Standards. She emphasized that only the short-term portions of significant provisions such as "employee benefits and landfill sites" are cash-backed.



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 25 August 2017

8. *Re: Statement of changes in net assets – the JAPAC noted that the prior year adjustments i.r.o Statement of Changes Net Assets are not referenced anywhere. The JAPAC suggested that the prior adjustments should be referenced to the notes in the AFS.*

The Manager: Financial Accounting indicated that at the bottom (footnote) reference is made (note 45).

9. *Re: Cash flow statement – the JAPAC suggested that the term(s) "other receipts" and "other payments" should be explained, a footnote should be added for the users'/ readers' understanding.*

The JAPAC also suggested that the wording "Cash flow from investing activities" should read as "Cash flow to investing activities" as it is money flowing out of the municipality.

The Deputy Director: Finance & SCM indicated that these amounts are not able to be tied anywhere in the AFS as these are cash received and paid.

10. *Re: Movement in financial assets - the JAPAC enquired what does the movement of R4 900 000 relate to.*

The Manager: Financial Accounting explained that it is a movement in sinking funds. She further indicated that i.r.o Cash Flow Statement, fair value adjustments are excluded on the movement and the sinking funds are based on fair value.

The JAPAC recommended that perhaps it should not be called "movement in financial assets", because the movement in financial assets is both the actual contributions to the sinking funds and fair value increases.

The Manager: Financial Accounting responded that they will consider the JAPAC recommendation.

11. *Re: Statement of comparison of budget and actual amounts - the JAPAC wanted to know with regard to "budget adjustments" if the reader will be able to understand/ know what those adjustments are as they lack explanation/ not referenced. The JAPAC further recommended thereto that a footnote with reference should be made.*

The Finance team noted the JAPAC recommendation and will make a footnote to add more details regarding adjustments.

12. *Re: Appropriation statement – The JAPAC enquired where are the "restated figures/ outcome" sourced from.*

The Manager: Financial Accounting indicated that these are actual 2015/2016 figures that were restated after the previous AFS were audited.

13. *Re: Accounting policies - the JAPAC noted that there is no reference to any GRAP standards in which the municipality apply/ conform with (partially or fully), and those that were adopted early.*

The Manager: Financial Accounting indicated that it is not a requirement to disclose that, however, the last page regarding the accounting policies in the AFS outlines standards that will be effective but are not yet effective.

14. *Re: Unauthorised expenditure, fruitless and wasteful expenditure - the JAPAC noted that a paragraph regarding "treatment of expenditure not condoned" is not included under the heading(s) "unauthorised expenditure and fruitless and wasteful expenditure". The JAPAC*



wanted to know if expenditure is not condoned by National Treasury or the relevant authority, what happens?

The CFO indicated that they will consider including a paragraph under the heading(s) "unauthorised expenditure and fruitless and wasteful expenditure" which states what happens when expenditure is not condoned by National Treasury or the relevant authority.

15. Re: Heritage assets - the JAPAC enquired where the "accumulated impairment loss of R9 200 000" figure comes from, as it could not be linked to the previous year's comparatives

The Manager: Financial Accounting indicated that she has noted that and will do necessary changes.

16. Re: Ring-fenced internal funds and reserves within accumulated surplus - the JAPAC wanted to know if National Treasury can impose a penalty on some of these funds from the municipalities.

The CFO assured the members that this was highly unlikely to happen with the current legislation. She further indicated that the only penalty they can impose on municipalities is in terms of conditional grants.

17. Re: Consumer deposits - the JAPAC enquired as to whether consumers earn interest on their deposits that the municipality holds and whether this was a fair practice.

The CFO indicated that the municipality does not offer consumers interest on deposits. It is regarded as a fair practice as municipal services are rendered in advance by the municipality. The CFO further indicated that a legal opinion from the City of Johannesburg was also considered, which is in line with the municipality's perspective on consumer deposits.

The JAPAC further enquired whether there are any guarantees on consumer deposits.

The CFO indicated that there are no guarantees on deposits.

18. Re: Membership fees paid over to SALGA - the JAPAC enquired what this membership fee was for.

The Municipal Manager indicated that it relates to fees paid to the South African Local Government Association (SALGA). He further indicated that all municipalities must belong to SALGA and thus must pay membership fees.

19. Re: Remuneration of Councillors – the JAPAC enquired as to why there is an increase in the remuneration of Councillors from 2016 to 2017 although the number of members is still the same for the two consecutive years.

The CFO indicated that the number of Councillors did not change, however the members to the Mayco and their payment rates increased.

20. Re: Auditors remuneration – the JAPAC commended the drop in audit fees and stated that it could be as a result of efficiencies within the municipality's system. The JAPAC enquired how much the budget for the 2017/18 financial year is for the Auditor General (AG) as they have not met with them yet to consider this.

The CFO indicated that there is a meeting scheduled for the 5th of September 2017 to discuss the above.



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 25 August 2017

21. *Re: Comparative figures - the JAPAC indicated that one of the roles of the JAPAC is to review and challenge where necessary the arithmetic, accuracy and consistency of the draft AFS. However, most of the reasons for the restated figures are due to mathematical errors and oversight/ misinterpretation of facts. The JAPAC enquired as to why so many restated figures after the JAPAC has been provided with assurance on the accuracy and completeness of AFS.*

The Manager: Financial Accounting indicated that the majority is due to assets- the expenditure department performs a process of cleaning the asset register which decreases the amount of accounting errors but there are errors still occurring even after this process. Incorrect calculation on consumer debtors, as well as credit payments which also plays a huge role on restated figures.

The JAPAC suggested that perhaps the immaterial restated figures should not be included and only the significant restated figures, to draw the attention of the users on significant figures.

The Manager: Financial Accounting further indicated that it is the AG's recommendation that all previous year adjustments be disclosed on the current AFS.

The MM indicated that he will have an offline discussion with the Finance team, regarding information obtained from other departments to compile the AFS.

22. *Re: Property, plant and equipment (PPE) – the JAPAC enquired what is the nature of the error regarding PPE.*

The Manager: Financial Accounting indicated that it is mostly on depreciation on fixed assets (municipal and private property).

23. *Re: Public-private partnership - the JAPAC noted that the legal firm "Fairbridges Wertheim" is used more often than other firms and enquired if there is a particular reason for the preference as there are other legal firms that could be used by the municipality.*

The Municipal Manager indicated that the specific legal firm is familiar with local government law and it was chosen because they understand and know the municipality (Overstrand); and that there was a good working relationship between the legal firm and the municipality.

24. *Re: Contingent liabilities – the JAPAC enquired about a matter regarding a cheque with SARS, whether was it resolved.*

The CFO indicated that the matter is not resolved yet and that the account (SARS account) was moved to the control account of the municipality.

RESOLVED

That cognizance be taken of the content of the draft Annual Financial Statements for the year ended 30 June 2017 and that satisfactory responses were received from the CFO and the Finance team on questions/ comments raised by the JAPAC thereto.

6. GENERAL

No further items were listed for discussion.



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 26 August 2017

7. **CLOSING**

The meeting closed at 11:45

B VAN STAADEN
CHAIRPERSON

27/09/2017

DATE:



**ATTENDANCE REGISTER OF THE SPECIAL JOINT AUDIT AND PERFORMANCE
AUDIT COMMITTEE (JAPAC) MEETING**

Held in the Committee Room (Glaskas) Civic Centre, HERMANUS,
Friday, 25 August 2017 at 10:00.

1. Do you or your partner have any financial or other interest in the subject matter of the meeting, which may be considered as constituting a real, potential, or apparent conflict of interest? Y/N
2. Is there anything else, or the perception by others, that could affect your objectivity and independence in this meeting? Y/N

By signing this register, I hereby declare that the disclosed information is correct and no other situation of real, potential or apparent conflict of interest is known to me. I undertake to inform the meeting of any status changes that may be brought to light as a result of any issue that may arise as the meeting progresses. I also undertake to timely inform the department of any changes in these circumstances during the period when I am still serving as an Audit Committee member.

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
B van Staaden	Chairperson JAPAC		No	No
KE Montgomery	Member		No	No
HV Liebenberg	Member		No	No
R Kingwill	Member		No	No

NAME	POSITION	SIGNATURE
R Smith	Executive Mayor	APOLOGY
D Coetzee	Executive Deputy Mayor & Finance Portfolio	APOLOGY
R de Coning	Management Services Portfolio	APOLOGY
C Groenewald	Municipal Manager	
D Arrison	Director: Management Services	
S Reyneke- Naude	Director: Finance (CFO)	
R Louw	Senior Manager: Strategic Services	OFF SICK
D Van Der Heever	Chief Audit Executive (CAE)	
C Le Roux	Deputy Director: Finance	
B King	Senior Manager: Financial Services	
V Allen	Manager: Financial Accounting	
R Africa	Internal Auditor	APOLOGY
Z Mazuthu	Internal Auditor	
S Mvaba	Intern: Internal Auditor	



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 26 August 2017

OVERSTRAND MUNICIPALITY
JAPAC QUESTIONS - 2016/17 UNAUDITED ANNUAL FINANCIAL STATEMENTS

<p>7. Note 55: Cash balances increased by R85m. Reason per note 55: 35.4% - Variance on cash and cash equivalent is due to savings on expenditure. Difference between actual and budgeted expenditure is R48m, therefore no reason for R37m</p> <p>Refer p35 Note 14 – Growth R85m (Actual/Actual) Refer p8, - Net cash flows from operating activities = R69.811m (Budget vs Actual 2016/17 - Not comparing 2 years (Budget/Actual, therefore explaining 35.4%); Also Refer p5.</p>
<p>8. Note 55: Interest received - 108.5% (In total) – Interest received on investments in excess of budgeted amount. Why? Variance will amount to 43.5 % due to final alignment; In direct correlation with growth in cash.</p>
<p>9. Note 55: General Expenses - (13.2%) - Expenditure less than that of budgeted amount. This can be due to various factors, eg. Savings made or certain projects that did not realize. Reasons should be factual, not speculative. Due to extend of expenditure line items, and accompanying particular reasons, this reason thus presenting a fair and combined reference.</p>
<p>10. Note 55: Lease rentals on operating leases - (32.8%) - Lease rentals less than that of budgeted amount. This can be due to various factors, eg. savings made or certain projects that did not realize. Reasons should be factual, not speculative. Due to extend of expenditure line items, and accompanying particular reasons, this reason thus presenting a fair and combined reference.</p>

- Unspent conditional grants and receipts Notes 17 & 24 refer:- 2017 / R6,476,214 vs 2016/ R1,379,804 – what has determined the unspent portion at R6.5million? A more detailed explanation for better understanding as a committee member would be appreciated

A grant, (Fire Fighting) valued at R1,2 million, reflected on the adjustment budget which served before Overstrand Municipality's council in January 2017. Efforts to spend the funds had commenced mid January 2017 with the possibility of procuring a Samil. Senior officers conducted a site inspection at R21 Trucks.

Due to time constraints, specifically the closing of the financial year (13 April 2017), Overstrand Municipality was unable to spend the funds timeously and therefore requested a roll-over of the allocated funds from 2016/2017 to 2017/2018.

Further efforts were put in place with the possibility of piggy-backing on other municipal tenders. Although the funds are not spent, it is committed to the procurement of a firefighting appliance, a Medium Pumper with equipment, which will increase capacity and service delivery. A memo, dated 12 May 2017, was sent via email to Mr Graham Pause requesting a roll over of the grant. The process for the procurement of a firefighting appliance has already commenced.

Roll-over of funding is requested for the Hawston Library upgrade. The 3rd draft building plan was only received by the Overstrand Municipality from the Provincial Directorate: Professional and Project Management Services on 7 December 2016. The procurement process could only commence in 2017 after the festive season and the closing date of the tender was 24 March 2017. No successful adjudication could be made, because tender offerings exceeded the available budget. The Municipality scaled down the scope of work for the next round of procurement. The funding will be spend by the latest 30 June 2018.

Human settlements development grant: Approval of housing project applications were delayed by the Provincial Housing Department, thus projects could not be completed by due dates. Unspent portion relating to title deeds will be spent over multiple financial periods.



Special Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 25 August 2017

OVERSTRAND MUNICIPALITY

JAPAC QUESTIONS - 2016/17 UNAUDITED ANNUAL FINANCIAL STATEMENTS

• Drought:-

- o What was the overall financial impact of the drought on water income vs expenditure given the water restrictions and current climate (how did drought impact on cost to service water needs of ratepayers)
- o How will the continued drought impact service delivery & Revenue vs Cost in the current financial year?

Both the water income and expenditure reflects variances above budgeted amounts by 7% and 3% respectively. No water restrictions were in place during the financial year under review.

It is foreseen that increased revenue would be realised in proportion to increased costs.

• SUPPLY CHAIN MANAGEMENT REPORT IN TERMS OF CLAUSE 6(2) OF THE SCM POLICY –

I note that all transactions marked VORSTER & STEYN INC simply have Vorster and Steyn as the Comment/Line Description – Is it perhaps important to be more specific as is the case with all the other listed suppliers?

We will amend the description accordingly.

• To what extend has future costs relating to the rehabilitation of Karwyderskraal been accounted in the financial statements.

No provision needs to be made in terms of the current agreement as Overstrand does not have any liability.

• Are there any contingent liabilities relating to the Karwyderskraal dispute that needed to be accounted.

No provision needs to be made in terms of the current agreement as Overstrand does not have any potential liability.



**MEETING OF THE JOINT AUDIT AND PERFORMANCE
AUDIT COMMITTEE**

**VERGADERING VAN DIE GESAMENTLIKE PRESTASIE
OUDIT EN OUDIT KOMITEE**

MINUTES / NOTULE

DATE / DATUM: 27 SEPTEMBER 2017
(WEDNESDAY / WOENSDAG)

VENUE / PLEK: COMMITTEE ROOM /
KOMITEEKAMER (GLASKAS) CIVIC
CENTRE / BURGERSENTRUM
HERMANUS

TIME / TYD: 14:00HRS



Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 27 September 2017

MINUTES OF A MEETING OF THE JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE (JAPAC)
HELD IN THE COMMITTEE ROOM (GLASKAS) WHITE HOUSE, CIVIC CENTRE HERMANUS ON
WEDNESDAY, 27TH OF SEPTEMBER 2017 AT 14:00

1. OPENING BY CHAIRPERSON

The Chairperson welcomed everyone present at the JAPAC meeting and specially welcomed the Executive Deputy Mayor & Finance Portfolio, Councillor: Management Services, Municipal Manager, Management and the JAPAC members.

2. APPLICATION(S) FOR LEAVE OF ABSENCE

Apologies received from the following officials/ members:

1. Ald R Smith (Executive Mayor)
2. R Louw (Senior Manager: Strategic Services)

Persons present - see the attached attendance register.

3. STATEMENTS AND COMMUNICATIONS FROM THE CHAIRPERSON

The Chairperson

- 3.1 The Chairperson indicated that the CAE had forwarded to the JAPAC the Fraud Questionnaire received from the AG (SA) and that the JAPAC was concerned with the communication protocol used by the AG (SA) to request information from JAPAC. The JAPAC requested that for future consideration, communication between the AG (SA) and JAPAC should be directed to the Chairperson of the JAPAC who will communicate to the members of the JAPAC.
- 3.2 The JAPAC noted COMAF No.1 received from the AG (SA) regarding *external assessments on Internal Audit*. It was agreed by the JAPAC that the Municipal Manager and CAE will respond to the COMAF.
- 3.3 The Chairperson further indicated that a Treasury Circular was received regarding the Annual Conference of Local Government Assurance Providers which will take place on the 11 - 13 October 2017. The Chairperson will be attending the conference.
- 3.4 The JAPAC requested an update from the Municipal Manager regarding the JAPAC vacancies. The Municipal Manager indicated that an advertisement was placed on different newspapers and on the municipality's website on the 14th September 2017 with the closing date being 09 October 2017.
- 3.5 The JAPAC noted that formal evaluations of the Municipal Manager and Directors will take place on the 6th November 2017.

4. CONFIRMATION OF PREVIOUS MINUTES

4.1 28 June 2017: Ordinary JAPAC meeting

The minutes of the ordinary JAPAC meeting dated 28 June 2017 were tabled and considered by the JAPAC. No changes/ amendments were made to the minutes.

RESOLVED

That the minutes of the JAPAC meeting dated 28 June 2017 be adopted.



5. MATTERS ARISING FROM THE PREVIOUS MINUTES

- 5.1 Item 6.6 of 28/06/2017 – The Chief Risk Officer (CRO) gave a progress update i.r.o Business Continuity Framework (BCF), which has been approved and adopted by Council. The CRO indicated that Risk Management Unit (RMU) is currently in the process of compiling the terms of reference (TOR) for the working group's functionality. RMU will give an update report to the JAPAC on the process during the third quarter of 2017/18 financial year.
- 5.2 Item 6.6 of 28/06/2017 – The CRO stated that with regards to the perceived ineffective controls, RMU is the co-ordinator and vehicle of the RM process, the administrators who are the risk champions, evaluate their controls and give a risk rating that is added to the risk register.

STANDING ITEMS

6.1. QUARTERLY BUDGET STATEMENT REPORT FOURTH QUARTER (APRIL 2017 – JUNE 2017) FOR THE FINANCIAL YEAR 2016/2017

The JAPAC reviewed the Budget Statement Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017.

The JAPAC comments on the report:

- *Re: Significant financial problems/ risks facing the municipality* – The JAPAC noted that the report indicates that the municipality has not experienced any significant financial problems/ risks, however, the risk register tabled before the JAPAC points out that for some risks "budget constraints" is considered to be the cause; and those are considered to be financial problems/risks.

The CFO explained that the report is a prescribed template that is submitted to National Treasury to report on the progress and results in comparison to the budgeted figures with regards to the risks for the quarter.

The JAPAC suggested that the word "none" be used in context for the reader's understanding.

- *Re: Revenue from property rates (R7.3 million)* - The JAPAC enquired about the revenue received and whether the revenue was from industrial/ residential property.

The CFO explained that these were rates received from; approval of building plans, improvement values, and interim valuations from individual households.

RESOLVED

That cognizance be taken of the content of the Quarterly Budget Statement Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The JAPAC noted the report.

6.2. REPORT: SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP) FOURTH QUARTER (APRIL 2017 – JUNE 2017) FOR THE FINANCIAL YEAR 2016/2017

The JAPAC reviewed the SDBIP Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. No questions/ comments were raised by the JAPAC.

RESOLVED

That cognizance be taken of the content of the SDBIP Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The JAPAC noted the report.



6.3. DEBT COLLECTION REPORT

The JAPAC reviewed the Debt Collection Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The JAPAC noted the report.

RESOLVED

That cognizance be taken of the content of the Debt Collection Report of the Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The JAPAC noted the report.

6.4 CREDITORS REPORT

The JAPAC reviewed the Creditors Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. No questions/ comments were raised by the JAPAC.

RESOLVED

That cognizance be taken of the content of the Creditors Report: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The JAPAC noted the report.

6.5. AUDIT ACTION PLAN AS AT 14 AUGUST 2017

The JAPAC reviewed the Audit Action Plan (AAP): Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017. The committee raised a few questions/ comments:

Re: Awaiting feedback from NT regarding indemnification of correctness of data on Central Supplier Database (CSD). The JAPAC enquired about the status and what is meant by this status.

The CFO explained that a Central Supplier Database is a database that the municipality's Supply Chain Management (SCM) uses, it serves as the source of all supplier information for organs of state. The CFO further indicated that National Treasury indemnifies itself from any deviations experienced from the supplier database. The Municipality is in the process of querying this indemnity with National Treasury as it deems this to be not reasonable.

RESOLVED

That cognizance be taken of the content of the Audit Action Plan as at 14 August 2017.

6.6. RISK MANAGEMENT

6.6.1. Risk Management Quarterly Report

The Chief Risk Officer (CRO) gave an overview on the Report:

The Combined Assurance Model was finalised, inputs were received and will be presented to the next ordinary meeting of the JAPAC.

The JAPAC raised a few comments/questions on the report:

- The Top 5 risks of the Municipality are an indication that the Municipality is operating effectively as JAPAC does not consider the top 5 risks as strategic in nature. The concern is to assess whether the effect of the risks will not impact on the achievement of the strategic objectives of the municipality.
- Whether Risk Management Unit (RMU) is content with the progress of the Municipality regarding the Risk Management process.

Director: Management Services explained that the risks are high operational risks for specific departments, hence the risks are categorized as high. The Director also gave a feedback on the



Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 27 September 2017

Code of Ethics.

Action Item 01 of 27 September 2017

The Combined Assurance Model to be presented at the next ordinary JAPAC meeting.

Action Item 02 of 27 September 2017

The Risk Management Committee minutes to be included to the Risk Management Reports for the next ordinary JAPAC meeting.

The Risk Management Report was noted by the JAPAC.

6.6.2. Risk Register as at 19 September 2017

The JAPAC reviewed the Risk Register, a few comments/ questions were raised.

The JAPAC questioned the heading "perceived ineffective controls" and what was done to address those risks with perceived ineffective controls and how those risks were mitigated.

The CRO explained that the risks with perceived ineffective controls are addressed by management's risk actions.

Action Item 03 of 27 September 2017

Risk Management Unit to present a separate report to the next JAPAC meeting i.r.o risks that have perceived ineffective and management plans to address the control deficiencies.

The Risk Register was noted by the JAPAC.

6.6.3. Risk Action Report as at 19 September 2017

The JAPAC noted the Risk Action Report and commended RMU's improvement on the format of the report presented.

The Risk Action Report was noted by the JAPAC.

RESOLVED

That cognizance be taken of the content of the Risk Management Report(s) for September 2017.

6.7. COMPLIANCE WITH GIFT POLICY – GIFT REGISTERS FROM DIRECTORATES

No gift registers/ declarations were submitted for consideration.

RESOLVED

The JAPAC noted that no gift registers/ declarations were submitted for consideration.

6.8. INTERNAL AUDIT SERVICES (IAS) INDEPENDENCE AND OBJECTIVITY

IAS Declaration of Independence and Objectivity is based on the International Standards for the Professional Practice of Internal Auditing. The following standards are quoted:

Standard 1100 – Independence and Objectivity

The Internal Audit Activity (IAA) must be independent, and internal auditors must be objective in performing their work

Standard 1110 – Organizational Independence



The Chief Audit Executive (CAE) must report to a level within the organization that allows the IAA to fulfill its responsibilities. The CAE must confirm to the Audit Committee, at least annually, the organizational independence of the IAA.

Standard 1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

RESOLVED

That cognizance be taken of IAS independence and objectivity declaration.

6.9. SCOPE LIMITATIONS

The CAE indicated that there were no scope limitations to be reported.

RESOLVED

That cognizance be taken of the reporting i.r.o no scope limitations experienced.

6.10. CAE STATUS REPORT

The CAE informed the JAPAC about the status of the audit reviews and internal audit staffing. He also congratulated the Internal Auditor (Mrs Z Mazuthu) on achieving Internal Audit Technician (IAT) certification.

The CAE attended a workshop on financial misconduct and is in the process of drafting a report thereto.

The CAE has engaged with the IIA(SA) regarding a course on the Quality Assessment Review (QAR) and how to conduct the review for Municipalities. The CAE will discuss the logistics with the Chairperson about the Local Government Assurance Provider Training.

The Municipal Manager indicated that a discussion with the Steering Committee for the budgeting of the QAR will be considered.

The JAPAC requested that they should be informed of any reasons when the audit hours spent have exceeded the budgeted hours, in order to find resolutions to the reasons thereof.

RESOLVED

That cognizance be taken of the CAE status report.

7. INTERNAL AUDIT REPORTS

7.1 INTERNAL CONTROL REPORTS

7.1.1 Review: mSCOA Implementation Project

Based on the audit work performed, IAS is of the view that the state of readiness relating to mSCOA implementation are well manifested within the municipality and that full mSCOA compliance with regards to the Regulations by 01 July 2017 are progressing. However, the municipality's ability to be mSCOA compliant by 01 July 2017 may be compromised by:

- a) material constraints and/ or challenges currently being experienced by the municipality with the vendor relating to its:
 - inability to integrate third party systems with an mSCOA solution.
 - capacity to deliver in terms of the functionality requirements as per RT25-2016 transversal tender which include transactional processing.



Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 27 September 2017

- b) unresolved issues and/ or problems logged with the vendor remains a challenge. This can be ascribed to the fact that issues logged/ reported to the vendor are either not resolved timeously or are being "closed" by the vendor without any resolution or explanation to the municipality. (Refer to CIMS Report).

Furthermore, the municipality needs to be mindful of and continue to monitor and manage the critical and material risks associated with mSCOA as part of their risk management processes.

The CFO gave an overview of the report and findings thereof.

RESOLVED

That cognizance be taken of the report on the Review: mSCOA Implementation Project. The JAPAC noted the report.

7.1.2 Key Controls Assessment: Fourth Quarter (April 2017 – June 2017)

The Key Controls Assessment: Fourth Quarter (April 2017 – June 2017) for the financial year 2016/2017 was tabled to the committee, no questions/ concerns were raised.

RESOLVED

That cognizance be taken of the content of the Key Controls Assessment. The JAPAC noted the report.

8.2 COMPLIANCE REPORTS

8.2.1 HIGH LEVEL REPORT

The Predetermined Objectives (PDO): High level report for the Fourth Quarter (April 2017 – June 2017) for 2016/2017 financial year was tabled to the committee. No questions/ concerns were raised.

RESOLVED

That cognizance be taken of the content of the Predetermined Objectives (PDO): High level report for the Fourth Quarter (April 2017 – June 2017) for 2016/2017 financial year.

8.2.2 DETAILED REPORT

The Predetermined Objectives (PDO): Detailed report Fourth Quarter (April 2017 – June 2017) for 2016/2017 financial year was tabled to the committee. The JAPAC noted the Report.

RESOLVED

That cognizance be taken of the content of the Predetermined Objectives (PDO): Detailed report for the Fourth Quarter (April 2017 – June 2017) for 2016/2017 financial year.

9. GENERAL

Karwyderskraal landfill site

- 9.1 The Municipal Manager gave an update on the Karwyderskraal landfill site. The rehabilitation of the landfill site has been considered resolved and a discussion with environmental affairs was that minor rehabilitation will be necessary and will have no impact on rehabilitation costs in the financial statements. The current lease agreement is at a deadlock and no consensus was reached and the municipality will consider an arbitration and finally declare a dispute. The Municipality is still using the landfill site under the renewed lease agreement and the District is considering increasing the lease.



Joint Audit & Performance Audit Committee meeting
Minutes of meeting: 27 September 2017

9.2 Condolences were passed to the CAE of the passing of his Mother-in law by the Municipal Manager and everyone present.

10. NEXT MEETING

The next JAPAC meeting is scheduled for 25 October 2017.

11. CLOSING

The meeting closed at 15:27



B. VAN STAADEN
CHAIRPERSON

18/03/2018

DATE:



**ATTENDANCE REGISTER OF THE JOINT AUDIT AND PERFORMANCE AUDIT
COMMITTEE (JAPAC) MEETING**
Held in the Committee Room (Internal Audit) Magnolia House, Nerina Street, HERMANUS,
on Wednesday, 27 September 2017 at 14:00. *ELASMAS*

1. Do you or your partner have any financial or other interest in the subject matter of the meeting, which may be considered as constituting a real, potential, or apparent conflict of interest? Y/N
2. Is there anything else, or the perception by others, that could affect your objectivity and independence in this meeting? Y/N

By signing this register, I hereby declare that the disclosed information is correct and no other situation of real, potential or apparent conflict of interest is known to me. I undertake to inform the meeting of any status changes that may be brought to light as a result of any issue that may arise as the meeting progresses. I also undertake to timely inform the department of any changes in these circumstances during the period when I am still serving as an Audit Committee member.

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
B van Staaden	Chairperson JAPAC	<i>[Signature]</i>	No	No
KE Montgomery	Member	<i>[Signature]</i>	No	No
HV Liebenberg	Member	<i>[Signature]</i>	No	No
R Kingwill	Member	<i>[Signature]</i>	No	No

NAME	POSITION	SIGNATURE
Ald R Smith	Executive Mayor	<i>[Signature]</i>
Ald D Coetzee	Executive Deputy Mayor & Finance Portfolio	<i>[Signature]</i>
Cllr R de Coning	Management Services Portfolio	<i>[Signature]</i>
C Groenewald	Municipal Manager	<i>[Signature]</i>
D Arrison	Director: Management Services	<i>[Signature]</i>
S Reyneke-Naude	Director: Finance (CFO)	<i>[Signature]</i>
R Louw	Senior Manager: Strategic Services	SICK LEAVE
D Van Der Heever	Chief Audit Executive (CAE)	<i>[Signature]</i>
A Riddles	Chief Risk Officer	<i>[Signature]</i>
W Louw	Intern: Risk Management	<i>[Signature]</i>
R Africa	Internal Auditor	<i>[Signature]</i>
Z Mazuthu	Internal Auditor	<i>[Signature]</i>
S Mvaba	Intern: Internal Audit	<i>[Signature]</i>