

6. REPORT OF THE JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE (JAPAC) TO THE OVERSTRAND MUNICIPAL COUNCIL**3/2/3/12****DC Van Der Heever
16 November 2020****Internal Audit Services****(028) 313 5035**

1. Executive Summary

The purpose of the report is to present Council with the Reports 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. Annexure

Annexure A: Report 1 of the Joint Audit and Performance Audit Committee for the 2020/21 Financial Year

RECOMMENDATION TO THE COUNCIL:

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

RESPONSIBLE OFFICIAL :**DC VAN DER HEEVER****TARGET DATE FOR IMPLEMENTATION :****25 NOVEMBER 2020**

Date: 16 November 2020

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 2020/21 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 report 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 2020 to 31 October 2020.

Yours truly



BURTON VAN STAADEN

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

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**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2020/21 FINANCIAL YEAR**

1. REPORT ON ACTIVITIES OF THE JAPAC

During the period 01 July 2020 to 31 October 2020, the JAPAC convened two (2) meetings, namely:

- JAPAC Special Meeting held on 25 August 2020 (Virtual)
- JAPAC Meeting held on 27 October 2020 (Virtual)

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

Member	JAPAC Special Meeting 25 August 2020	JAPAC Meeting 27 October 2020
Mr B van Staaden (Chairperson)	Attended	Attended
Mr R Kingwill	Attended	Attended
Mr. M Mdludlu	Attended	Attended
Mr. G Serfontein	Attended	Absent (apology received)
Ms. M Koekemoer	Attended	Attended

2. REPORT ON INTERNAL AUDIT

During the period 01 July 2020 to 31 October 2020 the following internal audit reports/ documents were presented by the Chief Audit Executive and considered by the committee:

Meeting date	Internal Audit Reports
27/10/2020	1. Key Controls Assessment 1
	2. Theft and Vandalism (Follow-up)

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.

3. INTERNAL AUDIT STAFFING

The JAPAC noted with concern that the Internal Audit Services is operating at 50% staffing.

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 Meeting held on 24 June 2020 – Annexure B
2. Minutes of JAPAC Special Meeting held on 25 August 2020 – Annexure C

**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2020/21 FINANCIAL YEAR**

5. REPORT ON PERFORMANCE MANAGEMENT

At the JAPAC meeting held on 27 October 2020, the following quarterly report(s) in respect of performance management were presented and considered by the JAPAC:

4 th Quarter Reports (01 April 2020 to 30 June 2020)	1. Service Delivery and Budget Implementation Plan
	2. Internal Audit Report: Predetermined Objectives (Q4)

In reviewing the quarterly report(s) 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.

6. REPORT ON RISK MANAGEMENT

At the JAPAC meeting held on 27 October 2020, the following quarterly reports in respect of risk management were presented and considered by the JAPAC:

Meeting dates	Risk Management Reports
27/10/2020	1. High Risk Register as at 02 October 2020
	2. Progress Report on Risk Management Activities and Implementation Plan First Quarter (July 2020 - September 2020) for the financial year 2020/ 2021
	3. Fraud and Risk Management Committee minutes 17 June 2020
	4. Overstrand Municipality Combined Assurance Model First Quarter (July 2020 – September 2020) for the financial year 2020/2021

The CRO was absent from the meeting, however the Risk Management Committee Chairperson reported that two (2) additional risks relating to the Covid-19 pandemic were added to the Risk Register.

The JAPAC commented that they are satisfied with the Risk management so far and concurred that good progress has been made in respect of a Risk register as it provides a true reflection of those key issues of the municipality.

7. OTHER MATTERS

In reviewing the municipality's Draft AFS for 2019/20 financial period there were no material findings concerning the fair presentation of the reported information. Where uncertainties/ concerns were identified, robust and positive discussions were held with management, which included pro-active action (where necessary) by management.

In reviewing the Debtors Collection Report, the JAPAC noted with concern the growth in the outstanding debtor account balances. Assurances were provided by the Chief Financial Officer that the matter is being attended to. The JAPAC will continue to monitor this matter.

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**OVERSTRAND MUNICIPALITY
REPORT OF JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE MUNICIPAL COUNCIL
REPORT 1 OF 2020/21 FINANCIAL YEAR**

The Chairperson of the JAPAC attended the Performance Evaluation of Municipal Manager and Directors on 23 October 2020 and noted that, despite the many challenges faced by the municipality due to the lockdown restrictions relating to the Covid-19 pandemic, the municipal manager and directors performed extremely well in meeting most of their annual performance targets for the 2019/20 financial year.

8. NEXT MEETING

The next meeting date of the JAPAC is to be confirmed pending finalization of the JAPAC meeting calendar by the Chief Audit Executive.

END



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

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

MINUTES / NOTULE

DATE / DATUM: 24 JUNE 2020
(WEDNESDAY / WOENSDAG)

VENUE / PLEK: VIRTUAL (*VIA ZOOM*)

TIME / TYD: 14:00 HRS



MINUTES OF THE MEETING OF THE JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE (JAPAC) HELD VIRTUALLY (VIA ZOOM) WEDNESDAY, 24TH OF JUNE 2020 AT 14:00

1. OPENING BY CHAIRPERSON

The Chairperson, Mr B Van Staaden, welcomed everyone present to the video conference of the fifth JAPAC meeting in respect of the 2019/ 2020 financial year.

2. APPLICATION(S) FOR LEAVE OF ABSENCE

Apologies received from the following official(s)/ member(s):

1. Cllr A Komani (Management Services Portfolio)

Persons present - see the attached attendance register.

3. STATEMENTS AND COMMUNICATIONS FROM THE CHAIRPERSON:

- The JAPAC received the report regarding the allegations of misconduct against the Municipal Manager and have noted that the report indicated that there was no misconduct.
- The Executive Mayor indicated that Council made a recommendation that the Executive Mayor in consultation with the Municipal Legal team ascertain whether there is a case to be made, to sue the person that brought the application, for the costs that were involved in the investigation and that this process will now start.
- The Executive Mayor further indicated that Council took a decision that Mr. Dean O'Neil, who is currently the Municipal Manager of the Cape Agulhas Municipality be appointed as the new Municipal Manager for the Overstrand Municipality as from 1 November 2020 when Mr. Groenewald will retire at the end of October 2020. The JAPAC noted the statements made by the Mayor.
- The JAPAC also noted the JAPAC report submitted to Council, which was submitted late, therefore the Chairperson requested that the Internal Audit Services' secretariat manage the process regarding the submission of reports to Council to ensure that the JAPAC reports to Council are submitted every quarter and on time.
- The CAE requested the Chairperson to confirm and conclude that when the report is drafted by the CAE and sent to the Chairperson for review and signature, that it be responded to and signed accordingly.
- The JAPAC resolved that after every quarterly meeting the report should be drafted and made available to the JAPAC within two weeks after the quarterly JAPAC meeting, to enable the JAPAC to have enough time to present it Council.

4. CONFIRMATION OF PREVIOUS MINUTES

4.1 03 March 2020: Ordinary JAPAC Meeting

The JAPAC requested IAS to ensure that the action items that are identified in the minutes are highlighted, and that those items are transferred to the action register. Furthermore, IAS should list the questions raised in the meeting, this will give context to the responses when the minutes are read by the JAPAC.

The JAPAC adopted the minutes of the JAPAC meeting dated 03 March 2020 as correct.

5. MATTERS ARISING FROM THE PREVIOUS MINUTES

The JAPAC noted the External Quality Assessment report presented by the CAE on the action register and requested that this item be removed from the action register as an action item and be included as a standing item on the agenda under CAE status report under a separate sub-heading.



Furthermore, the JAPAC requested that the CAE should highlight on a separate progress report only the items recommended to be improved, what action has been implemented, the current status and a due date. The JAPAC will note those items completed and continue to monitor those items that are still in progress on a quarterly basis; once items are addressed IAS should remove the items from the report.

The JAPAC noted the External Quality Assessment report and will continue to monitor the progress made by IAS.

6. STANDING ITEMS

6.1. QUARTERLY BUDGET STATEMENT REPORT: THIRD QUARTER (JANUARY 2020 – MARCH 2020) FOR THE FINANCIAL YEAR 2019/2020

The CFO gave an overview of the third quarter report and provided updated figures as at 31 May 2020 which were more relevant during the JAPAC meeting. The following comments and questions were raised and discussed:

- The JAPAC enquired if there are any specific issues and areas of concern which the JAPAC should be aware of in preparation of the AFS.
- Management highlighted the risk of not having all the information on time due to Covid-19 and with the staff relying on internet connectivity. Management and other municipalities in the Western Cape are currently in the process of applying for extension or amendment of the National Treasury regulation, over and above that management will ensure that given remote working arrangements are in place, the relevant staff requested to ensure that the AFS are submitted on time.
- The MM further indicated that he has requested the relevant staff to perform their level best in ensuring that the AFS are submitted on time to the Auditor-General.
- Following the discussion regarding the risk of late submission of the AFS, the JAPAC recommended that management should consider additional resources to assist in the preparation and finalisation of the AFS, however, the JAPAC clearly indicated that it is entirely up to management as to what actions they take in mitigating the risk of late submission.

Action Item 01 of 24 June 2020

The JAPAC further requested that the CFO update them of the cost implications of the emergency budget presented by the Minister of Finance, should this have cost implications on the municipality

RESOLVED

The JAPAC noted the Budget Statement Report: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020.

6.2 REPORT(S): SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

6.2.1 Third Quarter (January 2020 – March 2020) for the financial year 2019/2020

- The JAPAC enquired about the relationship between capital overspent and the deliverables in terms of the capital related items indicated in the SDBIP.

Action Item 02 of 24 June 2020

The JAPAC requested management to investigate and look at the correlation between the KPI's on the SDBIP and CAPEX in the financials as these two should be in line.

The Director: Management Services noted the remarks from the JAPAC.



RESOLVED

The JAPAC noted the reports on SDBIP: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020.

6.3. DEBT COLLECTION REPORT

The Debt Collection Report: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020 was presented to the JAPAC for review.

The CFO gave an overview of the status analysis of debtors older than 90 days.

Action Item 3 of 24 June 2020
The JAPAC requested that an analysis for debtors older than 90 days be included as part of the quarterly report to the JAPAC.

The CFO noted the JAPAC request.

RESOLVED

The JAPAC noted the Debt Collection Report: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020.

6.4. CREDITORS REPORT

The Creditors Report: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020 was presented to the JAPAC for review, no questions/ comments were raised.

RESOLVED

The JAPAC noted the Creditors Report: Third Quarter (January 2020 – March 2020) for the financial year 2019/2020.

6.5. AUDIT ACTION PLAN AS AT 22 MAY 2020

The JAPAC reviewed the content of the Audit Action Plan, no comments were raised.

RESOLVED

The JAPAC noted the Audit Action Plan as at 22 May 2020 for the financial year 2019/2020.

6.6. RISK MANAGEMENT

6.6.1 Risk Register as at 05 June 2020

The Risk Register Report dated 05 June 2020, which indicated the high risks, was presented to the JAPAC for comment - no comments/ questions were raised.

6.6.2 Report on Risk Management Activities and Implementation Plan for 2019/20

The Chief Risk Officer (CRO) presented and gave an overview on the content of the Report on Risk Management Activities and Implementation Plan.

The CRO indicated that she attended the provincial CRO and CAE forum that was held online on the 27th of May 2020.

The CRO also indicated that the Risk Management Unit is currently operating with only one employee *i.e.* the CRO, and that the newly appointed risk intern was supposed to start in May, however, due to the COVID-19 pandemic the intern is expected to start in July 2020.

6.6.3 Fraud and Risk Management Committee minutes 17 June 2020

The minutes of the Risk Management Committee Meeting held on 17 June 2020 were tabled in the meeting, no comments/ questions raised.



RESOLVED

The JAPAC noted all the reports from Risk Management.

7. CAE STATUS REPORT(S)

7.1 3rd CAE Report – status update for 2019/2020

The CAE indicated that the two interns have been appointed as of 01 May 2020 to assist IAS as it is currently under capacitated, they will be enrolled under **Diploma: Internal Audit Technician (IAT)** programme for 24 months.

The CAE also highlighted a significant disruption on the functioning of IAS due to COVID-19 lockdown and highlighted the number of days lost due to the pandemic.

The CAE also indicated that there were no scope limitations and impairment experienced regarding the independence and objectivity of Internal Audit Services for the third quarter period.

Action 04 of 24 June 2020

The JAPAC requested that the performance evaluation of the CAE be shared with the Chairperson of the JAPAC.

The MM and the CAE noted the request made by the JAPAC.

Action Item 05 of 24 June 2020

The CAE was therefore requested to revise the Status report and give explanations in his report about the incompleteness of the Internal Audit Plan for the year.

RESOLVED

The JAPAC referred back the CAE status report.

8.1 Joint Audit & Performance Audit Committee Charter

The JAPAC noted that there was no indication in the JAPAC Charter that the JAPAC must approve the Internal Audit Plan and that it appears that the JAPAC only reviews it.

Action Item 06 of 24 June 2020

The JAPAC requested that the JAPAC Charter be amended to the extent that the Charter makes provision that the JAPAC must approve the Internal Audit Plan.

RESOLVED

The Joint Audit & Performance Audit Committee Charter was reviewed and approved by the JAPAC.

8.2 Internal Audit Charter

The Internal Audit Charter was presented to the JAPAC with amendments.

The JAPAC noted the amendments and requested that in future all documents like Charters and Plans be discussed during a separate session with the JAPAC and CAE, and that proposed changes by the CAE should be in a word format in order for the JAPAC to track those changes.

RESOLVED

The JAPAC reviewed and approved Internal Audit Charter with amendments indicated by the CAE.



8.3 Operational Risk Based Audit Plan & Internal Audit Program for the financial period 2020/21

Operational Risk Based Audit Plan & Internal Audit Program for the financial period 2020/ 2021 was presented to the JAPAC, comments/ questions were raised, the JAPAC noted and approved the content of the Internal Audit Plan as it stands.

- The JAPAC noted the way in which the Risk Based Audit Program was updated (where the CAE indicated that some of the risks are accepted by the management and hence, no need for the Internal Audit Services to provide extra assurance on them).

Action Item 07 of 24 June 2020

The Chairperson requested that the JAPAC and the CAE should schedule a separate session together to discuss the risks associated with the Risk Based Audit Plan and further related issues to ensure the level of understanding.

RESOLVED

The JAPAC noted and approved the 2020/ 2021 Risk Based Internal Audit Plan.

9.1 Fraud Prevention and Anti-Corruption plan

The Fraud Prevention and Anti-Corruption Plan was not discussed/ considered as the JAPAC recommended its adoption by Council during its 03 March 2020 meeting.

RESOLVED

The Fraud Prevention and Anti-Corruption plan was not discussed/ considered as it was already considered by the JAPAC during its meeting held on 03 March 2020.

9.2 INTERNAL AUDIT REPORTS

The management indicated that they accepted all the reports and agreed to the actions to be instituted where it relates to their respective directorates/ departments.

9.2.1 Division of Revenue Act No.16 of 2019

The report was presented to the JAPAC. No comments/ questions were raised regarding the report.

RESOLVED

The JAPAC noted the report of Division of Revenue Act No.16 of 2019, for the financial year 2019/20.

9.2.2 Predetermined Objectives (PDO's): Third Quarter (January 2020– March 2020) for the financial year 2019/ 20

The report was presented to the JAPAC.

RESOLVED

The JAPAC noted the report of Pre-determined objectives (PDO's): Third Quarter (January 2020– March 2020) for the financial year 2019/20.

9.2.3 Follow-up Audit re Armed Robberies (Susceptibility of armed robberies at municipal buildings)

The report was presented to the JAPAC.

RESOLVED



The JAPAC noted the report of Follow-up audit *re* armed robberies (susceptibility of armed robberies at municipal buildings).

9.2.4 Evaluating Risk Management Process

The report was presented to the JAPAC.

RESOLVED

The JAPAC noted the report of the Evaluation of risk management process.

9.2.5 Disaster Management Function

The report was presented to the JAPAC.

RESOLVED

The JAPAC noted the report of the Disaster management function.

9.2.6 Limited Specialized Emergency Vehicle (Fire, Rescue and Disaster Management)

The report was presented to the JAPAC.

RESOLVED

The JAPAC noted the report of the limited specialized emergency vehicle (fire, rescue and disaster management)

9.2.7 Matters Struck from the Court Roll

The report was presented to the JAPAC.

RESOLVED

The JAPAC noted the report of the Matters struck from the court roll.

9.2.8 Salary & Wage increase audit memorandum

The audit memorandum was presented to the JAPAC.

RESOLVED

The JAPAC noted the Audit Memorandum regarding Salary & Wage Increase.

The JAPAC noted that there is a significant number of reports that were issued, where the outcomes indicated that the Governance processes, Risk management processes and Control processes are inadequate, inappropriate and ineffective. The JAPAC considered that as a concern, therefore requests management to intervene.

Management agreed to convey a message to the Municipal Manager

10. AUDIT FINDING(S) TRACKING REGISTER (FOLLOW-UP REGISTER)

The CAE gave an overview of the Audit finding(s) tracking register. The JAPAC noted the tracking report and suggested that completed items should be removed.

Action Item 08 of 24 June 2020

The JAPAC requested that the CAE should compile a summary of the recommendations that have been implemented/ resolved.

RESOLVED

The JAPAC noted the Audit finding(s) tracking register.



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11. **GENERAL**

No items were listed for discussion.

12. **NEXT MEETING**

The next JAPAC meeting will be held on the 25th of August 2020 at 14:00 as a Special JAPAC meeting to discuss the 2019/ 2020 draft Annual Financial Statements.

13. **CLOSING**

The meeting closed at 17:02.

B VAN STAADEN
CHAIRPERSON

27 October 2020

DATE



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

Held virtually (via Zoom) on Wednesday, 24 June 2020 at 14:00

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.

JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE MEMBERS

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
B Van Staaden	Chairperson JAPAC		No	No
R Kingwill	Member			
M Mdludlu	Member		no	no
M Koekemoer	Member		N	N
G Serfontein	Member		no	no

INTERNAL AUDIT SERVICES

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
D Van Der Heever	Chief Audit Executive (CAE)		No	No
E Essop	Internal Auditor		No	No
N Tsholoba	Intern: Internal Audit		No	No
S Makvetu	Intern: Internal Audit		No	No



**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 2020
(TUESDAY/ DINSDAG)

VENUE / PLEK VIRTUAL (VIA ZOOM)

TIME / TYD 14:00HRS



MINUTES OF THE MEETING OF THE JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE (JAPAC) HELD VIRTUALLY (VIA ZOOM) WEDNESDAY, 25TH OF AUGUST 2020 AT 14:00

1. OPENING BY CHAIRPERSON

The Chairperson, Mr B Van Staaden, welcomed everyone present to the video conference of the Special JAPAC meeting where the Draft Annual Financial Statements (AFS) for the year ended 30 June 2020 was discussed in respect of 2019/20 financial year.

2. APPLICATION(S) FOR LEAVE OF ABSENCE

Apologies received from the following:

1. Cllr A Komani (Management Services Portfolio)
2. Rochelle Louw (Strategic Management)

Persons present - as per attached attendance register.

3. STATEMENTS AND COMMUNICATIONS FROM THE CHAIRPERSON

No further statements and communications expressed by the Chairperson.

- The MM highlighted that the Minister of Finance has granted an extension to local authorities for the submission of their Annual Financial Statement's to 31 October 2020.
- The MM also mentioned that during the Municipal Manager Forum (MMF) meeting it was indicated that the Auditor General (AG) has also been granted an extension for the finalisation of the MFMA audits until 28 February 2021.
- The Overstrand municipality initially opted for the AFS to be submitted by 31 August 2020, hoping that the audit outcome will be provided by the end of November 2020, however municipalities were informed that even if the AFS were to be submitted by 31 August, the audit outcome will still be made available on 28 February 2021, as a result Overstrand Municipality will not submit on 31 August 2020.
- The MM also highlighted that the draft Annual Report is available, it includes financial information and has already been finalised. The Council will consider it during the next Council meeting, and further amendments in the financial statements and annual report will be done accordingly.
- The JAPAC noted the highlights/ comments made by the MM.

4. PRESENTATION: DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Chairperson afforded the CFO an opportunity to make general statements and comments on the draft AFS and to respond to further questions raised by the JAPAC members.

In comparison with the last financial year's AFS and the current draft AFS in terms of revenue and debt collection ratio, the CFO indicated and acknowledged that there has been a slight regression, however management is handling the situation very actively and that the municipality is in the favourable cash position.

The CFO gave feedback to all questions and comments on the draft AFS that were received from



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the JAPAC prior to the meeting. Refer to *Annexure A*.

5. FOLLOW-UP QUESTIONS/ COMMENTS I.R.O. THE DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

1. The JAPAC enquired whether there are any main issues relating to the AFS that management is aware of from last year that they are comfortable to say they have addressed.

The CFO confirmed that they have dealt and considered everything that they are aware of/ known to them and also what might have been brought to their attention during the forum meetings. Management is not aware of any risks or issues at this point in time that should be brought to the attention of the JAPAC.

2. The JAPAC concluded and confirmed that they are satisfied with the preparation of the draft AFS and the responses received from the CFO relating to the questions raised in respect of draft AFS, and the JAPAC commended the CFO and the Finance team for a job well done.

The MM further mentioned to the JAPAC that management has been informed by PT that there is a possibility that the audit fees will increase by 6% and that will have to be negotiated with the AG.

RESOLVED

That cognizance be taken of the content of the draft Annual Financial Statements for the year ended 30 June 2020 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.

7. CLOSING

The meeting closed at 14:53


B VAN STAADEN
CHAIRPERSON

27 October 2020
DATE:



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Annexure A
Page 1 of 5

Mr B van Staaden

1. Statement of financial performance: What are materials (R42,444,335) and is it possible to provide a note that provide more detail on the item.
Materials is Inventory and this consists of Stores Materials (Consumables) issued, Materials & Supplies (non-stores items) and Fuel.
2. Note 3: PPE: Recon of WIP: What are the major infrastructure assets that makes up the amount of R143,233,299.
Major areas: Elec Networks (R17m), Water Networks (27.5m), Roads / Stormwater (R69.7m), Sewerage (R14m).
3. Note 4: Intangible assets: Given the fact that all software eventually becomes obsolete or is being upgraded or replaced is the statement that it has an indefinite correct? Are there really no plans to upgrade or replace any/some of the software in the foreseeable future? (indefinite = lasting for an unknown or unstated length of time).
Correct, relates to time & Attendance software. The municipality purchased the right to use the software, which includes future upgrades. No end date stipulated in the contract.
4. Note 10 – receivables from exchange transactions: What is Prepayments of R4,038,581.
SALGA payment for Membership Fees at discounted rate, if paid in advance.
5. Note 17 – Provisions: What is the reason for 42% increase in leave pay provision. Is it that staff are not taking their leave?
Staff did not take leave at the same trend, due to working during the national lockdown
6. Note 26 – Public contribution & donations: Please provide more information as to the nature of the R23,629,771 current year receipts.
Receipt of R19.9m contribution for consideration, capex current year.
7. Note 34 – Contracted services: What is reason for significant increase in Mini Dumping Sites expenses (PY: R8m, CY R13m).
Increased costs for dumping at new Cell 4 Karwyderskraal (operated now by ODM, previously dumped at Cell 3, and managed by Overstrand).
8. Note 35 – General Expenses: Why is Eskom connection an expense in current year (R6,188,264) but not in prior year?
Once-off Eskom upgrading of notified Max demand (NMD) thus Operational Costs.

Mr G Serfontein

Would appreciate it if you (or a team member) could be prepared at the JAPAC meeting just to talk to discuss issues that you and the Exco either know about, or suspect the AG might be concerned about during the upcoming external audit. From a strategic point it might be beneficial to ensure the JPAC is informed upfront and aligned with management's approach.



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Annexure A
Page 2 of 5

Audit Action Plan: Emerging risks identified by the AG (Management Report – Nov 2020):

Accounting, performance management/reporting and compliance matters:

EMERGING RISKS			
	Accounting, performance management (reports)	New pronouncements/requirements Standards of GRAP	2018-19 Management Report

OM response (Finalised 30 Jun 2020):

1. Assess the GRAP standards to determine impact on the municipality's systems and process where applicable.
2. Update the GRAP implementation Plan.
3. Implement the necessary actions as identified.

Other emerging risks identified:

18	29	Audit findings on matters that may be recognised as material irregularities in future audits	<p>104. The amendments to the PAA and the Material Irregularities Regulations issued in terms of the PAA became effective on 1 April 2019.</p> <p>105. The amendments introduce the concept of a material irregularity. As per the definition in the PAA, a material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.</p> <p>106. The AG has a statutory discretion to determine the manner of, and time frames within which to implement certain elements of the amendment. For the 2018-19 audit, the AG opted to apply a phased approach to the handling of material irregularities, which includes implementing the process only at selected auditees.</p>	2018-19 Management Report
19	29	Audit findings on the annual performance report that may have an impact on the audit opinion in future	<p>101. The planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the Performance Management Reporting Framework:</p> <p>1) Presentation and disclosure – Overall presentation:</p> <ul style="list-style-type: none"> o Overall presentation of the performance information in the annual performance report is comparable and understandable. <p>2) Relevance – Completeness of relevant indicators:</p> <ul style="list-style-type: none"> o Completeness of relevant indicators in terms of the mandate of the auditee, including: o relevant core functions are prioritised in the period under review o relevant performance indicators are included for the core functions prioritised in the period under review. <p>102. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion(s) of the selected objectives in this report. However, it may impact on the audit opinion in future.</p>	2018-19 Management Report
		Risks that require continuous monitoring	<p>Malware attacks</p> <p>107. Management is alerted to the fact that the municipalities have are increasingly being targeted via malware attacks. Malware, or malicious software, is any program or file that is harmful to a computer user. Types of malware can include computer viruses, worms, trojan horses and spyware. These malicious programs can perform a variety of different functions such as stealing, encrypting or deleting sensitive data, altering or hijacking core computing functions and monitoring users' computer activity without their permission. During the malware attacks the ability of the municipality to access data may be compromised. This vulnerability poses a risk to the municipality that should be mitigated to prevent services delivery interruptions.</p>	2018-19 Management Report

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Emerging Risk No 18, 19: Noted
Emerging Risk No 20:

The municipality runs the Sophos Product suite for its workstations (Intercept) and its servers (Intercept X). All workstations and servers are protected and actively managed via a central management system, and integrates to our Firewall to provide end-to-end internal protection. Some of the main aspects of the systems are: (<https://www.sophos.com/en-us/products/endpoint-antivirus.aspx>)

- Endpoint Detection and Response (EDR) - Auto detect and prioritize potential threats
- Anti-Ransomware - Ransomware file protection, automatic file recovery, and behavioral analysis
- Deep Learning Technology - AI detects both known and unknown malware without relying on signatures
- Exploit Prevention - Deny attackers by blocking the exploits
- Managed Threat Response - team of threat hunters and response experts neutralize targeted threats
- Active Adversary Mitigations - reverts persistence on machines, credential theft protection, and malicious traffic detection.

21	30	Risks that require continuous monitoring	<p>SCM regulation 22</p> <p>109. The supply chain management regulations issued in terms of the MPMMA allow for the accounting officer to procure goods and services for the municipality or municipal entity under a contract secured by another organ of state in terms of regulation 22, however the procurement must occur whilst the originating contract is enforceable, i.e. active contract, and the nature, scope and duration of the contract must be consistent. Contracts secured through the application of regulation 22 cannot be amended, in terms of section 116(3) of the MPMMA. If there are amendments that change the scope of the original contract, non-compliance will be considered for non-compliance.</p> <p>109. We wish to remind all municipalities of the principles and conditions when participating in a contract secured by another organ of state in terms of regulation 22, which are as follows:</p> <ol style="list-style-type: none"> The contract must have been procured through a competitive bidding process (no a deviation). The contract must be active at the time of participation. The nature of the contract must not deviate beyond the scope of the original contract, i.e. the original contract type, form and goods and services must remain unchanged. 	2019-19 Management Report
22	30	Risks that require continuous monitoring	<p>Deviations</p> <p>110. In terms of Municipal Supply Chain Management Regulation 22, an accounting officer may deviate from competitive bidding procurement processes provided that such deviation is properly approved and justifiable.</p> <p>111. Our audits of municipalities have brought to light that this regulation is increasingly being used by municipalities and approved by the accounting officer even though it was not practical to invite competitive bids. Future audits will continue to focus on evaluating whether the deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons, to confirm that this regulation is not being used to circumvent competitive bidding.</p> <p>112. The municipality's deviation register reflects that R20.1 million of contracts were concluded during the 2018-19 financial year using deviations (2017-18: R47.2 million), the largest procurement deviations relating to impracticality. The municipality is advised to ensure that where deviations are unavoidable, such cases are properly motivated, justifiable and documented and that the requirements of section 217 of the Constitution of the Republic of South Africa, 1996, i.e. fair, equitable, transparent, competitive and cost-effective, are considered throughout.</p>	2019-19 Management Report
23	31	Risks that require continuous monitoring	<p>Bid adjudication committee (BAC) composition</p> <p>113. MPMMA regulation 29(2) states that a BAC must consist of at least four senior managers of the municipality or municipal entity which must include:</p> <ol style="list-style-type: none"> (i) the chief financial officer (CFO) or, if the CFO is not available, another manager in the budget and treasury office reporting directly to the CFO and designated by the CFO; (ii) at least one senior supply chain management (SCM) practitioner who is an official of the municipality or municipal entity; and (iii) a technical expert in the relevant field who is an official of the municipality or municipal entity. If the municipality or municipal entity has such an expert. <p>114. Bids decided should be adjudicated by a committee that is composed in compliance with regulation 29(2).</p> <p>115. The following principles were confirmed with National Treasury:</p> <ol style="list-style-type: none"> (i) the senior manager referred to above are managers as envisaged by s16 of the Municipal Systems Act (ii) the senior SCM practitioner does not have to be a manager as envisaged by s16 of the Municipal Systems Act (iii) the CFO cannot fulfil the role of both the CFO and the SCM practitioner (iv) Not any senior manager can fulfil the role of SCM practitioner for purposes of the BAC – the SCM practitioner's daily duties and functions should primarily include SCM functions (v) A voting member of a bid adjudication committee (BAC) cannot also be a member of the BOC. A member of the BOC can be present to provide clarity but may not do work of the BAC i.e. to review the decision of the BAC. <p>116. It is understandable that in some cases, municipalities/municipal entities do not have the staff establishment to have an adequately composed BAC however this does not negate the responsibility of complying with regulation 29(2). We direct municipalities/municipal entities to s170 of the MPMMA regarding departure from treasury regulations or conditions.</p>	2019-19 Management Report

Emerging Risk No 21, 22, 23: Completed



Other matters that the AG might be concerned about during the upcoming external audit:

Please note that considerations with regard to COVID related disclosure are currently in process of discussion and evaluation, based on:

1. Overstrand compiled a Working Paper – COVID-19 (checklist), compiled based on Accounting Standards Board's document (Accounting implications of the COVID-19 crisis)
2. Peer Review, and planned discussions with PT and other muni's for next week.

Ms M Koekemoer

Note 2 page 27 – What is the reason for the R7 200 000 investment property transfer in the current year? Did one of the properties become occupied by the municipality's own operations during the year. I can see a corresponding transfer under PPE for land.

Transfer of Tennis and squash Courts. Previously leased, now utilised as mun offices

Note 3 Page 29 – What is the main contributor to losses in disposals R3 119 834 – assets scrapped or sold for less than book value? Which assets?

Replacement of redundant Infrastructure Assets R709 000, Vehicles beyond economic repair R1.4m.

Note 5 Page 31- Which conservation assets carried R9,25 mil impairment losses in 2020?

Accumulated Impairment on Nature Reserves across Overstrand since before 2015.

Note 10 Page 35 – I would have expected a much higher Trade debtor balance at the end of 2020 than 2019 due to the deferred Covid 19-period accounts?

This represents Unbilled Revenue, levied in July in respect of June consumption, (no COVID impact)

Note 10 Page 35 – Prepayments – Reason for R4,038,581 prepayment?

SALGA payment for Membership Fees at discounted rate, if paid in advance.

Note 11 page 35 – How does OM recoverability rate for fines compare to other municipalities?

Compares favourably. Many municipalities are providing for impairment in excess of 60 – 90% of their gross Fines debtors.

Note 13 Page 36 – the percentage provision for impairment in 2020 is 31% vs 2019's 26% - is this the expected Covid-19 effect?

Yes.

Note 14 Page 38 – What was the reason for the reconciling difference between ABSA 3220000035 bank statement account balance and cash book balance at end of 2019 year, that is now in perfect balance at end of 2020?

Outstanding items at previous year-end but no outstanding items this year as this account is no longer the primary account, in process of phasing out (Tender awarded for new banker as from 1/7/2019)

Note 18 Page 41 – Main reason for higher trade payable balance end of current year?

Eskom Bulk Accounts paid 15 Jul were R5m more than previous year. Also, 6 invoices only paid 15 Jul 2020 due to late submission amounted to R10.4m.



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<i>Note 21 page 42 – Which construction contract revenue lead to the significant increase in this income line since last year?</i>
GRAP 109 became effective 1 July 2019 which resulted in the implementation of GRAP 11 Construction Contracts for the Housing programmes. And had to be applied retrospectively. The extent of the grant received for this year would determine how much we recognize when spent. The quantum of the grant received fluctuates from year to year.
<i>Note 21 page 42 – What was the main contributor to insurance claims received in 2020?</i>
Riots (SASRIA) claims finalised and Claims with regard to Overstrand-wide wild fires in Jan 2019
<i>Note 21 page 42 – The Skills Development Levy refund – does that relate to the ‘SDL holiday’ that was granted during the lockdown period? In other words did you still account for the normal 1% SDL during these months and just show the corresponding income relief?</i>
Not COVID related, receives on an annual basis, for refunds on skills development levy (Training expenses claimed) - can fluctuate.
<i>Note 22 page 42 – I take it that the reason for the increase in interest charges on trade and other receivables would mainly be the effect of interest on deferred Covid-19 period accounts?</i>
Represents a normal increase.
<i>Note 22 – Page 42 – what was the Interest received – other in 2020?</i>
Interest received on the purchase price for purchasing of Schulphoek land in trust account with attorneys.
<i>Note 23 page 43 – Why did property rates on all sections increase since prior year but rates received from government drop?</i>
HPP (Improvement District levies previously included if outstanding, discontinued from 1 July 2019. Also the effect of Interim Valuations due to Betties Bay Fires impacting on property values.
<i>Note 25 page 43 – What will the K9 unit grant be used for/was used for?</i>
The Dept of Community Safety entered into a partnership agreement with Overstrand to increase local Law Enforcement capability through the establishment of a K9 unit to address crime contributions on a local municipal level. The agreement is supported by a business plan in line with the objective of the Overstrand Safety Plan.
<i>Note 25 Page 44 – Reason for repayment of R280 000 unspent grant for Financial Management Support and also R240 000 for Financial Management Capacity Building?</i>
Monies not utilized within timeframe due to unsuccessful outcome of advertising for Bursaries / SAMRAS Fin system not ready with web development to implement modules
<i>Note 26 page 46 – What is included under public contributions non-cash and what is the reason for the significant drop since last year?</i>
Turn-Key project Assets, and sports club assets
<i>Note 32 page 49 – reason for significant consumer debtor impairment in 2020 vs 2019?</i>
Increase Debtors outstanding and subsequent impact of COVID on Impairment
<i>Page 50 reason for significant decrease in Security Services outsourced services.</i>
The amount for 2018/2019 reflects the levies paid to HPP, which was discontinued from 1 July 2019.



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

Held virtually (via Zoom) on Tuesday, 25 August 2020 at 14:00

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.

JOINT AUDIT AND PERFORMANCE AUDIT COMMITTEE MEMBERS

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
B Van Staaden	Chairperson JAPAC	<i>[Signature]</i>	No	No
R Kingwill	Member	<i>[Signature]</i>	No	No
M Mdludlu	Member	<i>[Signature]</i>	No	No
M Koekemoer	Member	<i>[Signature]</i>	N	N
G Serfontein	Member	<i>[Signature]</i>	No	No

INTERNAL AUDIT SERVICES

NAME	POSITION	SIGNATURE	QUEST.1	QUEST.2
D Van Der Heever	Chief Audit Executive (CAE)	<i>[Signature]</i>	No	No
E Essop	Internal Auditor	<i>[Signature]</i>	No	No
N Tsholoba	Intern: Internal Audit	<i>[Signature]</i>	No	No
S Makwetu	Intern: Internal Audit	<i>[Signature]</i>	No	No

