



ANNEXURE A

DRAKENSTEIN

MUNISIPALITEIT • MUNICIPALITY • UMASIPALA

Paarl | Wellington | Gouda | Saron | Simondium

Oversight Report

2017/2018 Annual Report

1 March 2019

A city of excellence

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1. INTRODUCTION

The Annual Report (AR) is one of the key instruments of transparent governance and accountability. It is a post-financial year document which provides an overview of the process of financial and non-financial performance in respect of the previous financial year, in this instance the 2017/2018 financial year. The adoption of an AR is a legislative requirement in terms of the Municipal Finance Management Act (MFMA).

2. PURPOSE

The purpose of this report is to present to Council for adoption, the 2017/2018 AR as well as the Oversight Report (OR) on the 2017/2018 AR as required in terms of Section 129 of the MFMA.

3. 2017/2018 ANNUAL REPORT

3.1 LEGAL FRAMEWORK

Section 121 of the MFMA determines that Drakenstein Municipality must deal with the preparation and adoption of the 2017/2018 AR as follows:

- “(1) Every municipality and every municipal entity must for each financial year prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129.*

- (2) The purpose of an annual report is:*
 - (a) To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;*
 - (b) To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and*
 - (c) To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.*

Section 127(2) of the MFMA also determines with regard to the submission and tabling of annual reports that the Executive Mayor must, within seven months after the end

of a financial year, table in the Municipal Council the AR of Drakenstein Municipality. This was done on 30 January 2019.

Section 129 of the MFMA determines with regard to the OR on the 2017/2018 AR that:

“(1) The council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council’s comments on the annual report, which must include a statement whether the council:

- (a) Has approved the annual report with or without reservations;*
- (b) Has rejected the annual report; or*
- (c) Has referred the annual report back for revision of those components that can be revised.”*

3.2 COMPONENTS OF THE ANNUAL REPORT

The format of the 2017/2018 AR is based on the annual report template issued by National Treasury in terms of MFMA Circular 63 of 2012. The Circular requires that an AR consists of six (6) chapters and attempts to cover all the aspects that needs to be reported on as derived from the MFMA and the Local Government: Municipal Systems Act.

4. 2017/2018 ANNUAL REPORT CONSULTATION AND ADOPTION PROCESS

4.1 MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

Council established a Municipal Public Accounts Committee (MPAC) in terms of Section 79 of the Local Government: Municipal Structures Act, 1998. The Terms of Reference tasks the MPAC with the responsibility to perform an oversight role over the process of preparing the AR of Council and to produce an OR based on the AR.

As required by the MFMA the City Manager attended the Council Meeting where the 2017/2018 AR was tabled by the Executive Mayor on 30 January 2019 to be released for public comment. The MPAC convened one meeting on 1 March 2019 to deliberate on the content of the 2017/2018 AR together with the comments received on the 2017/2018 AR. The City Manager attended the MPAC meeting as required to answer

questions posed by MPAC members on the 2017/2018 AR and written comments received.

The attendance of MPAC members for the purpose of compiling the OR is recorded in Table 1 below. Six members, including the chairperson, attended the meeting and two members tendered their apology. The minutes of the meeting is attached as Appendix 2 to the OR.

Table 1: MPAC Members and Attendance

Name	Capacity	Meeting Attendance: 1 March 2019
Cllr J Matthee	MPAC Chairperson	√
Cllr AML Buckle	Member	√
Cllr LS Sambokwe	Member	√
Cllr AJ van Santen	Member	Apology
Cllr A Bekeer	Member	√
Cllr NN George	Member	√
Cllr J de Wet	Member	√
Cllr WE Smit	Member	Apology

4.2 ADOPTION AND PUBLIC CONSULTATION PROCESS

The Executive Mayor tabled the Draft 2017/2018 AR in Council on 30 January 2019 compliant with the MFMA. The Draft 2017/2018 AR was made public on the municipal website within (5) days as well as within seven (7) days in the local newspapers after it was approved by Council.

Members of the community and any other stakeholder were invited to submit written comments on the 2017/2018 AR. In addition, the 2017/2018 AR was also made available at all municipal libraries and selected municipal offices.

The 2017/2018 AR was also submitted, in terms of Section 127(5)(b) of the MFMA to the Auditor-General (AG) of South Africa, Western Cape Provincial Treasury and the Western Cape Department of Local Government. The AG was also invited to attend the Council meeting held on 30 January 2019 as well as the MPAC meeting held on 1 March 2019.

The closing date for public comments was on 15 February 2019. No submissions from the public were received. Written comments were received from the Western Cape

Provincial Treasury, the Auditor-General and from the Internal Audit Division (Chief Audit Executive). These comments were tabled on considered at the MPAC meeting held on 1 March 2019.

4.3 MATTERS DISCUSSED BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

The MPAC met on 1 March 2019 to discuss and consider the adoption of the 2017/2018 AR. The MPAC members, prior to these meetings, perused through the content of the 2017/2018 AR as well as the written comments received (Appendix 1 to the OR). After taking management's comments on the written comments into consideration, MPAC's responses were documented in the MPAC minutes attached as Appendix 2 hereto for Council to consider.

In terms of Section 129(1) of the MFMA, Council must indicate whether the 2017/2018 AR is being adopted with or without reservations. The matters as discussed in Appendix 1 were finalised on 1 March 2019. As a result the MPAC is satisfied with the content of the Final 2017/2018 AR and as such recommends to Council that the 2017/2018 AR be adopted without any reservations.

5. CONCLUSION

As Chairperson of the MPAC, I would like to thank the MPAC members, the Mayoral Committee members, the City Manager and Senior Management, as well as the various contributors to the final 2017/2018 AR for their diligence and constructive commitment during the oversight period.

The MPAC is satisfied that the 2017/2018 AR provides an accurate overview of the process of financial and non-financial performance during the period under review and therefore would like to recommend the adoption thereof.

6. RECOMMENDATIONS

It is recommended to Council that:

- 6.1 Council adopts the Oversight Report on the 2017/2018 Annual Report;
- 6.2 Council approves the 2017/2018 Annual Report without any reservations;
- 6.3 The Oversight Report on the 2017/2018 Annual Report be made public in accordance with Section 129(3) of the MFMA; and

6.4 The Oversight Report on the 2017/2018 Annual Report, the final 2017/2018 Annual Report and the minutes of the Oversight Committee meeting held on 1 March 2019 be submitted, in accordance with Section 129(2) and 132(2) of the MFMA, to the Auditor-General of South Africa, Western Cape Provincial Treasury, Western Cape Department of Local Government and the Western Cape Provincial Legislature.

7. APPENDICES

Appendix 1: Comments received on the 2017/2018 Draft Annual Report; and

Appendix 2: MPAC Minutes of 1 March 2019.



JOSEPH MATTHEE
CHAIRPERSON: MPAC

1 March 2019

Appendix A:
Comments received
from the
Western Cape
Provincial Treasury



Mr Ashley Rasool
Local Government Budget Office
Email: ashley.rasool@westerncape.gov.za
tel: +27 021 483 8992 fax: +27 21 483 4680

Reference: PTR/12/2/10/4

The City Manager
Drakenstein Municipality
PO Box 1
PAARL
7622

For attention: Dr Leibbrandt

PROVINCIAL TREASURY COMMENTS ON THE TABLED 2017/18 ANNUAL REPORT

1. INTRODUCTION

- a) MFMA section 121(1) states that every municipality and every municipal entity must for each financial year prepare an annual report. The council of a municipality must within nine months after the end of the financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.
- b) MFMA sections 121(3) and (4) sets out the framework relating to the content of the annual reports for both municipalities and municipal entities.
- c) National Treasury has further introduced the new annual report template and MFMA Circular No. 63 on 26 September 2012. MFMA Circular 63 aims to provide guidance to municipalities and municipal entities on the Annual Report format and its contents.
- d) The municipal council is then obliged to consider any views of the local community; the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the Annual Report.

2. LEGISLATIVE COMPLIANCE

2.1 Conformance

The conformance assessment highlights compliance by Drakenstein Municipality with the MFMA and Annual report MFMA Circular 63 is as follows:

- a) The Municipality submitted the draft 2017/18 Annual Performance report together with the AFSs to the Auditor General by 31 August 2018.
- b) The unaudited Annual report was not tabled before Council at least two months at the end of the budget year in accordance with MFMA Circular 63.
- c) The draft 2017/18 Annual report was tabled in Council on 30 January 2019, which is within 7 months after the end of the financial year in accordance to MFMA section 121(1).
- d) The draft Annual report was placed on the municipal website. The municipality is advised to indicate the date when statutory documents are placed on the website to enable the monitoring of compliance with section 75 of the MFMA.

2.2 Format of the Annual Report as per MFMA Circular 63

- a) The Annual Report complies with the Annual Report Template as prescribed by MFMA Circular 63. The required Appendices (A to T) are also included. The municipality is commended for its thoroughness in submitting all required Appendices and thereby closely following the prescribed outline as per the relevant legislation.
- b) The Mayor's Foreword is included. It is advised that in the final Annual Report the Mayor should also reflect on corrective actions whereby service delivery can be improved.
- c) The Municipal Manager's Foreword is included and in line with MFMA Circular 63 guidelines for this section. Furthermore, the Overview highlights the Financial Health as well as the top five risks were assessed with strategic actions undertaken.
- d) The socio-economic conditions are presented and discussed within the assessed document. Sufficient detail is covered in the analysis. The analysis is deemed credible based on the data and trends presented.

3. Chapter 3: Service Delivery Information and Performance

High Level Summary – Key Performance Areas

2017/18	KPA1- Governance & Stakeholder Participation	KPA2- Financial Viability	KPA3- Institutional Transformation	KPA4 - Physical Infrastructure & Services	KPA5- Local Economic Development	KPA6- Safety & Environ.	KPA7- Social & Community Dev.
SDMP Target Set (No of total KPI's)	8	12	7	14	19	7	9
Target Achieved (No of KPI's met)	7	8	7	14	14	6	7
% target achieved	87.5%	66.6%	100%	100%	73.6%	85.7%	77.7%

Comments

The municipality has captured its annual performance in line with its Strategic Objectives (SO) as well as listing performance in terms of the suggested guidelines of recommended KPA's. Furthermore, a comprehensive performance overview in this regard has been presented and for this the municipality is to be commended.

In terms of service delivery, the Annual report reflects that 82.8 per cent (63 of 79) of the top levels KPIs were achieved in the 2017/18 financial year. This reflects a variance of less than 20.0 per cent between actual and planned performance for 2017/18.

All of the targets set for the 2017/18 period in relation to Physical Infrastructure & Services, the municipality recorded a rate of 100 per cent of targets achieved. The importance of this specific KPA is the measuring of the provision of key municipal infrastructure related to Basic Service Delivery. With no variances reported the municipality is again commended on its performance relating to the key mandate of Basic Service delivery and the provision thereof.

The municipal KPA: "Planning & Economic Development", captures the household access to Basic Services by residents across the municipal area. The municipality is commended for its thorough reporting on this critical area with variance in missed targets across the key areas of percentage access to basic level of electricity, water, sanitation and solid waste removal no more than 2 per cent.

Any other matters that needs to be raised

The Auditor-General in its audit report did not find any material findings on the annual performance report concerning the usefulness and reliability of the information. The municipality is commended and encouraged to maintain these levels of governance and performance alike.

4. CONCLUSION AND RECOMMENDATIONS

Generally, the submitted Draft Annual Report 2017 – 18 of the Drakenstein Municipality has been thoroughly completed when cross referenced with MFMA – Annual Report Circular 63. The municipality is to be commended on following the prescribed structure and completeness when reporting on the various components.

For any further enquiries, please do not hesitate to contact Mr Ashley Rasool as per above details.

Kind regards



MR M BOOYSEN

DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE

DATE: 18 February 2019

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"AH"

Appendix B:
Comments received
from the
Auditor-General
of South Africa

Roneta Cupido

From: Abrahams, Kalthiemah (SM) <KalthiemahA@agsa.co.za>
Sent: Tuesday, January 29, 2019 2:27 PM
To: CFO; Cindy Lategan
Cc: Langford, Vivian; Siqola, Onke; Klein, Sikira; Allie, Nadia; Oerson, Natasha
Subject: Annual Report Review

Good Day

As discussed in the audit committee meeting, please see additional queries raised:

- Page 37 – There shows a total of 44 informal settlements but in PDO we use 42 informal settlements
- Page 44 – delete leadership and internal controls issues (we only report on it but does not impact audit outcome)
- Page 89 – Table 35 – Minimum service level does not agree to TL55 (97.62)
- Page 93 – We say 62.2% informal settlements do not have access to electricity but in TL54 we say 54.76% do have access. The sum does not agree to 100%. Look at Table 41 as well
- Page 94 The percentage electricity spend should be 99.72% and not 99.91%
- Page 111 – The amount spent of Roads and Stormwater does not agree to TL 30 - please update the narrative and the table
- Page 206 – Property rates, Service charges, finance charges and transfers recognised – capital amounts in column E which is the actual is the same as column D which is the budget
- Page 209 – Repairs and maintenance – Note 11.6 shows R254 195 671 – I couldn't find the difference
- Page 288 – 6.1.2 – Please relook at the paragraph – Suggested wording – “No material findings was identified on the audit of predetermined objectives. However, material non-compliance was identified in Procurement and Contract Management and was disclosed in note 42.3. The municipality is still in dispute....”
- Page 229 – Table 171 Heading should be 2017/18. Opinion should be conclusion. Clean audit opinion should be no material findings
 - 6.1.2.1 – Drakenstein Municipality received no material findings on the audit of predetermined objectives.
- Page 230 & 231 – 6.3.2 – The Auditor General identified material findings on other matters
 - Table 173 – same as Table 171 – opinion should be conclusion and clean audit opinion should be no material findings.
 - 6.3.2.1 – same as 6.1.21
 - 6.3.2.2 Drakenstein Municipality received no material findings on compliance with specific matters in key legislation.
 - 6.3.2.3 No significant internal control deficiencies were identified as no....
 - 6.4 – The Auditor-General therefore gave Drakenstein and unqualified audit opinion with no material findings on pre-determined objectives or compliance
- Page 288 – 291 – Once all changes are made and I have a final AR, I will issue an updated Audit Report with the correct page numbers.

Regards

Kalthiemah Abrahams (CA)SA

Senior Manager • Western Cape • Auditor-General of South Africa
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Auditing to build public confidence

AGSA e-mail disclaimer and confidentiality note

Appendix C:
Comments received
from the
Chief Audit Executive



DRAKENSTEIN

MUNISIPALITEIT • MUNICIPALITY • UMASIPALA

Paarl | Wellington | Gouda | Saron | Simondium

Annual Report 2017/18

Review

2018/19

February 2019

**Dr Leibbrandt
The City Manager
Drakenstein Municipality
Civic Centre, Bergriver Boulevard
P.O. Box 1
Paarl
7622**

Dear Dr Leibbrandt,

INTERNAL AUDIT – ANNUAL REPORT 2017/18 REVIEW

We have pleasure in submitting our final report on the agreed internal audit work performed in respect of the Annual Report 2017/18 Review as approved in the 2018/19 Internal Audit Plan. The attached report records our internal audit findings and recommends possible ways in which the controls could be improved to address the identified weaknesses or increase business efficiency.

It must be appreciated that the matters included in the attached report came to our attention during the execution of our internal audit procedures on the Annual Report. The nature and scope of these internal audit procedures did not constitute an audit of the financial records in accordance with International Standards on Auditing.

Whilst our report details those errors and weaknesses that came to our attention during our review, the responsibility for the prevention and detection of irregularities and fraud rests with management. We planned our review in such a manner, that should weaknesses and deficiencies in the system of internal control exist, we would have a reasonable expectation of detecting these. Our review however, should not be relied upon to disclose all irregularities that may exist.

Management was unable to provide supporting documentation as outlined in finding 5 which resulted in a limitation of audit scope.

The audit findings have been discussed with the relevant managers as well as the responsible Executive Managers (EM's) and their comments have been taken into account and included in this report. The comments provided were not validated. We would like to express our appreciation to the various staff members of the municipality who assisted us in performing our work.

This report has been prepared for the sole use of the Drakenstein municipality's management and staff.

We would be pleased to provide you with any further assistance and request that you do not hesitate to contact us.

Yours sincerely

.....

Rozan Jaftha

Chief Audit Executive

Date:

Acknowledgement of receipt of report by management:

I hereby acknowledge receipt of the report.

.....

City Manager

.....

Date

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Executive Summary

1. Legislative Background

The annual report is compiled in terms of the Local Government: Municipal Finance Management Act, 2003, and the Local Government Municipal Systems Act, 2000. The audit is therefore a legislative audit and not included in the IA plan based on a specific risk.

2. Audit Objectives & Scope

The overall objective of the internal audit is to give management assurance on whether risk treatments are adequate and effective to manage the risks to an acceptable level, resulting in the achievement of the strategic goals and objectives. The table below outlines the specific audit objectives and scope of the audit performed.

No.	Risk Treatment (RT)	Business Process Covered	Engagement Objective	Extent of RT Coverage
1.	The audit is a legislative compliance audit which is required by Chapter 5.2 of the National Treasury's Framework for Managing Performance Information (FMPII).	Annual Report	<ul style="list-style-type: none"> • Accuracy and Validity of the Annual Report; • Gap analysis – King 4 integrated Reporting requirements; 	<ul style="list-style-type: none"> • A sample of pages in the annual report were selected for testing; • All the King IV reporting requirements were tested; • Compliance testing in accordance with the reporting template/requirements.

"Cb"

3. Definitions and Reporting Framework

Report Rating Definitions

The three rating system used to draw an overall conclusion on internal control adequacy has been approved by management and the Audit Committee and consists of:

Report Rating for Internal Audit Reviews	
Satisfactory	No control matters of concern were noted. Some needed control enhancements and other issues may have been identified, which should be addressed within a reasonable timeframe
Needs Improvement	One or more substantial control matters of concern were noted, which, if not corrected promptly, could result in unacceptable levels of risk
Unsatisfactory	One or more critical control matters of concern and/ or a preponderance of important issues were noted that exposes the organization to an unacceptable level of risk.

Reporting Framework

The reporting framework used is presented below. The framework was developed to assist in assessing the severity of the items being reported. It is based on the following classification:

High Priority	An issue of such fundamental significance to the municipality that it requires the immediate attention of the line and senior management where the weakness is occurring and priority action for immediate resolution.
Medium Priority	An issue of substantial importance which requires the immediate attention of the responsible line management where the weakness is occurring and an agreed action plan for prompt resolution as soon as possible.
Low Priority	An issue which does not necessarily warrant immediate attention but which should have an agreed action plan for resolution within a reasonable timeframe.

High Level Summary of Engagement Results

Overall Conclusion on System of Internal Controls

Cast and cross casting of annual report tables	Needs Improvement
Accuracy and Validity of the Annual Report	Unsatisfactory
Gap analysis – King IV Integrated Reporting requirements	Needs Improvement
Compliance requirements of the Annual Report	Satisfactory

Summary of Findings and Management Action Plans

Finding No.	Risk Treatment	Executive Summary of Findings/Audit Area	Rating	City Manager Intervention Required	Management Plan	Action	Responsible Official	Responsible Executive Director
1.	The audit is a legislative audit which is required by the Local Government Municipal Planning	Cast and cross casting of annual report tables	Medium Priority					
3.		Evidence Insufficient to Verify the Reliability of Results Reported in the Annual Report	Medium Priority					

"C9"

Finding No.	Risk Treatment	Executive Summary of Findings/Audit Area	Rating	City Manager Intervention Required	Management Plan	Action	Responsible Official and Due Date	Responsible Executive Director
4.	and Performance Management Regulations and the Municipal Systems Act, therefore not included in the IA plan based on a specific risk.	Reported Performance Measurements Inaccurate	Medium Priority					
2.		No Supporting Evidence Submitted for Audit Purposes	High Priority					
N/A		Gap analysis - King 4 Integrated Reporting requirements Compliance requirements of the Annual Report	Medium Priority N/A	No findings				

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4. DISTRIBUTION LIST

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Drakenstein Municipality staff	To Take Action	To Secure Action	For Information
Dr J. Leibbrandt City Manager		✓	
Mr. J Carstens Chief Financial Officer	✓		
Mr. G. Esau Executive Director: Community Services	✓		
Mr. S. Johaar Executive Director: Corporate Services	✓		
Mr. D. Hattlingh Executive Director: Engineering Services	✓		
Ms. L. Waring Executive Director: Planning and Development	✓		
Office of the Auditor General			✓
Audit Committee			✓

DETAILED AUDIT FINDINGS

1. Annual Report tables not accurate

Rating

Medium Priority

Criteria

Management review and supervisory checks are performed to ensure that information contained in the Annual Report is valid, accurate and complete.

Audit Finding

Internal Audit performed a cast and cross casting of the Annual Report tables for the 2017/18 financial year. The following discrepancies were detected:

No.	Table Number	Discrepancy			
1.	189	Pg. 267 Capital Expenditure-New Assets Difference in recalculation (Other Assets) R'000			
		Column Ref	Figure Disclosed	Auditor Recalculation	Difference
		B	R30 373	R58 047	R27 674
		C	R6 700	R13 400	R6 700
		D	R3 459	R6 919	R3 460
		E	R3 453	R6 906	R3 453
		F	R11 000	R22 000	R11 000

No.	Table Number	Discrepancy
2.	189	Pg. 268 Capital Expenditure -New Assets

		Difference in recalculation (Biological or Cultivated Assets) R'000			
		Column Ref	Figure Disclosed	Auditor Recalculation	Difference
		B	R0	R4 428	R4 428
		C	R0	R3 000	R3 000
		D	R0	R2 658	R2 658
		E	R0	R2 658	R2 658
		F	R0	R2 250	R2 250

No.	Table Number	Discrepancy			
3.	189	Pg. 268 Capital Expenditure-New Assets Difference in recalculations (Total Capital Expenditure on new assets) R'000			
		Column Ref	Figure Disclosed	Auditor Recalculation	Difference
		B	R363 271	R395 248	R31 977
		C	R263 675	R272 375	R8 700
		D	R274 811	R280 041	R5 230
		E	R273 485	R278 709	R5 224
		F	R151 060	R163 560	R12 500
		G	R90 972	R91 472	R500

No.	Table Number	Discrepancy			
4.	191	Pg.275 Capital Expenditure-Renewal Programme Difference in recalculation (Other Assets) R'000			
		Column Ref	Figure Disclosed	Auditor Recalculation	Difference
		B	R3 077	R5 885	R2 808
		C	R0	R0	R0
		D	R7 824	R15 090	R7 266
		E	R7 795	R15 040	R7 245
		G	R2 250	R4 500	R2 250

No.	Table Number	Discrepancy			
6.	191	Pg. 276			
		Capital Expenditure-Renewal Programmed			
		Difference in recalculations			
		Total expenditure on renewed assets			
		R'000			
		Column Ref	Figure Disclosed	Auditor Recalculation	Difference
		B	R181 089	R180 819	R270
		C	R72 570	R72 615	R45

Root Cause

Lack of management review and supervisory checks to ensure the accuracy of information disclosed in the Annual Report.

Effect

Information reflected in the Annual Report could be inaccurate which could have a negative impact on the user's perception of the credibility of information provided by the Municipality.

Recommendations and Management's Response

<u>No.</u>	<u>Recommendations</u>	<u>Management's Response & Action Plan</u>	<u>Action Owner</u>	<u>Due Date</u>
1.	Management review and supervisory checks should be performed to verify the accuracy of the information reflected in the Annual Report. Management review and supervisory checks should include the casting and cross casting of information contained in the tables disclosed in the Annual Report.			

Auditor's Response

"CIS"

2. Gaps identified in the Annual Report 2017/18

The content of the Annual Report was considered in the light of the King IV reporting requirements and the following gaps were identified.

King IV Recommended Practice	GAP	Recommendation
<p>Principle 2: The council should govern the ethics of the municipality in a way that supports the establishment of an ethical culture.</p>	<p>It is mentioned that the municipality is in the process of drafting an Ethics Policy in response to gaps identified in Internal Audit's King IV Review.</p> <p>Specific focus on arrangements governing ethics management, ethics focus areas, monitoring ethics, ethics outcomes and planned areas for future focus not mentioned in the Draft Annual Report.</p> <p>No mention is made of arrangements governing corporate citizenship management, focus areas, monitoring, outcomes and planned areas for future focus.</p>	<p>Management should give consideration to the reporting requirements outlined in the King IV report and incorporate the relevant disclosure requirements in the Annual Report.</p>
<p>Principle 7:</p>	<p>No attendance record has been disclosed for FARMCO, MPAC and Portfolio Committees.</p>	

"C16"

King IV Recommended Practice	GAP	Recommendation
<p>The council should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p>No reference is made to the AC's view of the effectiveness of the CFO and Finance function.</p>	
<p>Principle 11: The council should govern risk in a way that supports the municipality in setting and achieving strategic objectives.</p>	<p>No reference is made to combined assurance The nature and extent of risks and opportunities that the organisation is willing to take has not been disclosed and Unexpected or unusual risks and risks taken outside of risk tolerance levels has been disclosed. Planned areas of future focus have not been included.</p>	
<p>Principle 12: The council should govern technology and information in a way that supports the municipality setting and achieving its strategic objectives.</p>	<p>Planned areas of future focus have not been disclosed</p>	

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King IV Recommended Practice	GAP	Recommendation
<p>Principle 13: The council should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the municipality being ethical and a good corporate citizen.</p>	<ul style="list-style-type: none"> • Overview of the arrangements for governing and monitoring compliance has not been disclosed. • Key areas of focus during the reporting period have not been disclosed. • Actions taken to monitor the effectiveness of compliance management and how the outcomes were addressed have not been disclosed. • Planned areas of future focus have not been disclosed. • Material or repeated regulatory penalties, sanctions or fines for contraventions of or non-compliance with statutory obligations have not been disclosed. • Details of monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws 	

"C18"

King IV Recommended Practice	GAP	Recommendation
<p>Principle 15: The council should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the municipality's external reports.</p>	<p>and criminal sanctions and prosecutions have not been disclosed.</p> <p>The processes underlying the preparation and presentation and statement of the report and statement by Council on the integrity of the report have not been disclosed.</p>	
<p>Principle 16: In the execution of its governance role and responsibilities, the council should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the municipality over time.</p>	<ul style="list-style-type: none"> • An overview of the arrangements for governing and managing stakeholder relationships has not been disclosed • Key areas of focus during the reporting period have not been disclosed • Actions to monitor the effectiveness of stakeholder management and how the outcomes were addressed have not been disclosed • Future areas of focus have not been disclosed 	

"C19"

Management's response	Recommendation	Management Response and Action Plan
<p>Principle 2: The council should govern the ethics of the municipality in a way that supports the establishment of an ethical culture.</p>	<p>Management should give consideration to the reporting requirements outlined in the King IV report and incorporate the relevant disclosure requirements in the Annual Report.</p>	
<p>Principle 7: The council should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>		
<p>Principle 11: The council should govern risk in a way that supports the municipality in setting and achieving strategic objectives.</p>		
<p>Principle 12: The council should govern technology and information in a way that supports the municipality setting and achieving its strategic objectives.</p>		
<p>Principle 13:</p>		

"C20"

Management's Response:	Recommendation	Management Response and Action Plan
<p>The council should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the municipality being ethical and a good corporate citizen.</p>		
<p>Principle 15: The council should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the municipality's external reports.</p>		
<p>Principle 16: In the execution of its governance role and responsibilities, the council should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the municipality over time.</p>		

"C21"

3. Evidence Insufficient to Verify the Reliability of Results Reported in the Annual Report

Rating

Medium Priority

Criteria

The municipality's achievements are reported in the Annual Report. Systems and processes are in place to collate the supporting evidence supporting the results reported in the Annual Report. Management review and supervisory checks are performed to ensure the validity, accuracy and completeness of performance results reported.

Audit Finding

The evidence provided to support the results reported in the Annual Report for the below-mentioned information is insufficient and therefore Internal Audit was unable to verify the validity, accuracy and completeness of the reported results. The details are as follow:

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
1	Page 88, Table 34	Engineering Services	Waste Water (Sanitation Services) - Total sewerage blockages serviced 2017/2018	4,300	0	Monthly back to basics excel reports submitted. This information is not sufficient and does not confirm whether these installations and services occurred.

"CJa"

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
			Waste Water (Sanitation Services) - Installation of new domestic sewer connections 2017/2018	32	0	Evidence not sufficient to verify reported results.
			Waste Water (Sanitation Services) - Newly installed sewers/pipelines (in meter) 2017/2018	4,116	0	
2	Page 92, Table 40	Engineering Services	Electricity Service Delivery Levels - Households - Electricity - conventional (min. service level) 2017/2018	7,554	0	Evidence is not reliable. Excel spreadsheet submitted for audit purposes. No formula, numbers have been typed in.
3	Page 116, Table 63	Planning and Development	Applications for Land Use Development - Planning applications received	1,581	0	The Evidence submitted for audit purposes is not sufficient to verify reported results (An e-mail correspondence with the Service Provider Collaborator).
			Applications for Land Use Development Determination	1,846	0	

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
			made in year of receipt			
			Applications for Land Use Development - Determination made in following year	673	0	
			Applications for Land Use Development - Applications outstanding at year end	27	0	
4	Page 152, Table 93	Community Services	Traffic, Licensing and Law Enforcement Service Data - Number of by-law infringements attended	3,212	0	Number of handwritten notices report amounted to 201,447 notices issued, however the evidence submitted is not sufficient to determine if it includes all by-law infringements attended to.

Root Cause

- Lack of systems and processes to prepare reliable performance information; and
- Lack of management review and supervisory checks to ensure that the documented evidence support the results reported in the Annual Report.

Effect

"C24"

The reported annual report information may be incorrect which could negatively impact the users and relevant stakeholders' perception of the credibility of the information reported by the Municipality.

"C25"

Recommendations and Management's Response

<u>No.</u>	<u>Recommendations</u>	<u>Management's Response & Action Plan</u>	<u>Action Owner</u>	<u>Due Date</u>
1.	Management should assess whether the systems and processes that are used to prepare the annual report information is adequate to provide information that is valid, accurate and complete. The necessary corrective measures should be implemented to enhance the systems and processes where required.			
2.	Management review and supervisory checks should include the review of the annual report information as well as the results captured on the annual report template to ensure consistency between the evidence provided and the results reported on the annual report template.			
3.	Management should update the annual report information and/ or update the evidence to accurately reflect the reported information.			

"C26"

Auditor's Response

"C27"

4. Reported Performance Measurements Inaccurate

Rating

Medium Priority

Criteria

The Annual Report information is compiled on a continuous basis throughout the financial year to which it relates to support the results reported in the Annual Report. Management review and supervisory checks are performed to ensure the validity, accuracy and completeness of supporting information.

Audit Finding

In respect of the following reported information in the annual report for the 2017/2018 financial year, the actual annual report results reported was inaccurate when compared to the supporting evidence submitted for audit purposes. The details are as follow:

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
1	Page -83, Table 28	Engineering Services	Total use of water by sector 2017/2018 (cubic metres) - Other	3,319,361	3,319,358	The evidence provided differ from what has been reported in the Annual Report.
			% Water losses 2017/2018	14.88%	14.16%	
2	Page 92, Table 40	Engineering Services	Electricity Service Delivery Levels Households - Electricity - prepaid (min.	36,266	26,931	The active household meters total as per the PDF system generated summary report is 26,931. The figure

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
			service level) 2017/2018			does not agree with what is reported in the Annual Report.
3	Page 111, Table 59	Engineering Services	Storm water Infrastructure 2017/18 – Storm water measures upgraded (km)	4.83	1.83	Supporting evidence did not agree with the figures reported in the Annual Report.
4	Page 26/103	Community Services	Housing Demand Database – Number of people on the Waiting List (Demand).	19,500	19,728	The evidence provided consists of 19,728 housing demand for low cost houses and differ from what has been reported in the Annual Report.
			Housing Demand Database – Mayors foreword: persons on the Waiting List	40,977	19,728	The Total on the housing Demand Database of the municipality consists of 41,860 persons. The database are made up of 19,728 persons waiting (Active), 5,818 persons approved (Assisted) and 16,314 applications that have been cancelled due to various reasons. The amount as reported in the Mayors

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Audited results as per portfolio of evidence provided	Comment
						foreword includes the whole database of applicants.
5	Page 33, Table 5	Planning and Development	Economic Activity by Sector - 2016/2017 Total	19,817,000,000	19,898,000,000	The documented evidence provided differ from what has been reported in the Annual Report.
			Economic Activity by Sector - 2017/2018 Total	21,239,000,000	21,240,000,000	The documented evidence provided differ from what has been reported in the Annual Report.
6	Page 146, Table 86	Planning and Development	Environmental Education and Awareness Events	41	37	Counted 37 for the period 01 July 2017 - 30 June 2018. The balance falls outside of this period.
7	Page 107, Table 56	Financial Services	Free basic services delivered per service Electricity	18,857	18,860	The documented evidence provided differ from what has been reported in the Annual Report.
8	Page 152, Table -93	Community Services	Traffic, Licensing and Law Enforcement Service Data - Number of road traffic accidents during the year	3,334	3,428	Accidents and casualties report for 01 July 2017 to 30 June 2018 indicates 3,428 on the Report. Amount found not accurate to what has been reported in the Annual Report.

Root Cause

Inadequate management review and supervisory checks to ensure that the evidence supporting the results reported in the annual report, are accurate.

Effect

The reported information may be incorrect which could negatively impact the user's perception of the credibility of the information reported by the Municipality.

Recommendations and Management's Response

<u>No.</u>	<u>Recommendations</u>	<u>Management's Response & Action Plan</u>	<u>Action Owner</u>	<u>Due Date</u>
1.	Management review and supervisory checks should include the review of the supporting evidence to ensure consistency between the evidence provided and the results reported in the Annual Report.			
2.	Management should update the reported information and/ or update the supporting evidence to accurately reflect the reported performance information.			

Auditor's Response

" C32 "

5. No Supporting Evidence Submitted for Audit Purposes

Rating

High Priority

Criteria

Documented evidence is maintained to support the results reported in the Annual Report. Management review and supervisory checks are performed to ensure the validity, accuracy and completeness of supporting evidence and the performance results reported.

Audit Finding

Internal Audit assessed the validity, accuracy and completeness of information reported in the 2017/2018 Annual Report.

The following supporting evidence were not provided for audit purposes and therefore Internal Audit was unable to verify the validity, accuracy and completeness of the reported information in the Annual Report. The details are as follows:

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Comment
1	Page 92, Table 40	Engineering Services	Electricity Service Delivery Levels Households - Electricity - prepaid (<min. service level) 2017/2018	3,220	No Supporting evidence provided.
2	Page 109, Table 57	Engineering Services	Gravel Road Infrastructure 2017/2018 - Total Gravel Roads	38.85	No Supporting evidence provided.
			Gravel Road Infrastructure 2017/2018 - Gravel Roads Graded/Maintained	38.85	

No	Annual Report Page & Ref No	Department	Description	Actual results reported	Comment
3	Page 111, Table 59	Engineering Services	Storm water Infrastructure 2017/18 - Total Storm water measures	355.27	Supporting evidence could not be provided due to desktop IMQS
			Storm water Infrastructure 2017/18 – Storm water measures Maintained	355.27	System which is no longer available. The system was indicated to be web based now and will be active in January 2019.

Root Cause

Inadequate management review and supervisory checks to ensure that the evidence supporting the results reported in the annual report are submitted as per the timelines provided.

Effect

The reported information may be incorrect which could negatively impact the user's perception of the credibility of the information reported by the Municipality.

"C34"

Recommendations and Management's Response

<u>No.</u>	<u>Recommendations</u>	<u>Management's Response & Action Plan</u>	<u>Action Owner</u>	<u>Due Date</u>
1.	Management should ensure that documented evidence supporting the results reported in the Annual Report is maintained and safeguarded for management reference and audit purposes.			

Auditor's Response

"C35"

DRAKENSTEIN MUNICIPALITY

MINUTES: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

ORDINARY MEETING HELD IN THE COUNCIL CHAMBERS, FIRST FLOOR, CIVIC CENTRE, BERG RIVER BOULEVARD, PAARL ON FRIDAY, 1 MARCH 2019 AT 11:00

<u>PRESENT:</u>	Councillors:	J Mathee (Chairperson)	
		A Bekeer	
		A M L Buckle	
		J De Wet	
		L S Sambokwe	
		N N George	
	Officials:	Dr J H Leibbrandt	(City Manager)
		S Johaar	(Executive Director: Corporate Services)
		J Carstens	(Chief Financial Officer)
		G Esau	(Executive Director: Community Services)
		L Waring	(Executive Director: Planning and Development)
		R Jaftha	(Chief Audit Executive)
		A V Marais	(Snr Manager Legal and Administrative Service)
		R Geldenhuys	(Manager: Communications)
		E Sieberhagen	(Forensic and Risk Performance)
		W Prins	(IDP and Performance Management)
		A Danso	(Technical Advisor: Engineering Services)
		F P Goosen	(Manager: Administrative Support Services)
<u>ABSENT:</u>	Councillors:	A J van Santen	(apology)
		W E Smit	(apology)

MINUTES: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
1 MARCH 2019

1. DECLARATION OF INTEREST BY COUNCILLORS AND OFFICIALS

None.

2. CONFIRMATION OF MINUTES

The minutes of the Ordinary meeting of the Municipal Public Accounts Committee held on 11 April 2018 was **confirmed as correct**.

3. OVERSIGHT REPORT ON THE 2017/2018 ANNUAL REPORT: CONSIDERING THE 2017/2018 ANNUAL REPORT AND WRITTEN COMMENTS RECEIVED

The Committee considered the following documents:

1. Provincial Treasury written comments;
2. Comments from the Auditor-General of South Africa;
3. Comments from the Chief Audit Executive;
4. Replacement pages based on the comments received; and
5. Draft oversight report.

The Chairperson worked through the Annual Report and allowed the members of MPAC the opportunity to provide further input. The following issues were discussed, some of which require attention by the administration:

- (i) Maintenance of services in the informal settlement areas;
- (ii) Allegations of staff members operating loan schemes;
- (iii) Lack of sanitation facilities on farms;
- (iv) Staircases at the flats to be upgraded;
- (v) Ownership of flats;
- (vi) Number of funded and unfunded posts on the organisational structure;
- (vii) Waste management challenges;
- (viii) Progress with the implementation of TASK; and
- (ix) Contingent liabilities as per the financial statements.

The City Manager indicated that many of these aspects are already been attended to, and that Management would continue to attend to these.

Mr Langford of the Auditor General attended the meeting and presented the attached MPAC Briefing Note, dated 1 March 2019 (The document was handed out at the meeting).

"A2 2"

MINUTES: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
1 MARCH 2019

It was

RESOLVED that

1. MPAC's response on the written comments received be approved as reflected on the attached schedule of comments on the Draft Annual Report 2017/18;
2. It be recommended to Council that:
 - 2.1 The Draft Annual Report 2017/18 be approved without reservations;
 - 2.2 The Draft Oversight Report 2017/18 be adopted and be made public in accordance with Section 129(3) of the MFMA; and
 - 2.3 The Oversight Report on 2017/18 on the Annual Report, the minutes of the Oversight Committee meeting held on 1 March 2019 and the final 2017/18 Annual Report be submitted, in accordance with Sections 129(2) and 132(2) of the MFMA, to the Auditor-General of South Africa, Western Cape Provincial Treasury, Western Cape Department of Local Government and the Western Cape Provincial Legislature.

Meeting: MPAC: 1/3/2018	Submitted by Directorate: Financial Services		
Ref No: 9/1/2	Author/s: J Carstens		
Coll No: 1460207	Referred from:		
CLAUSE:	ACTION: Implement decision	RESPONSIBLE DEPT: Chief Financial Officer	DUE DATE:

The meeting ended at 13:53.

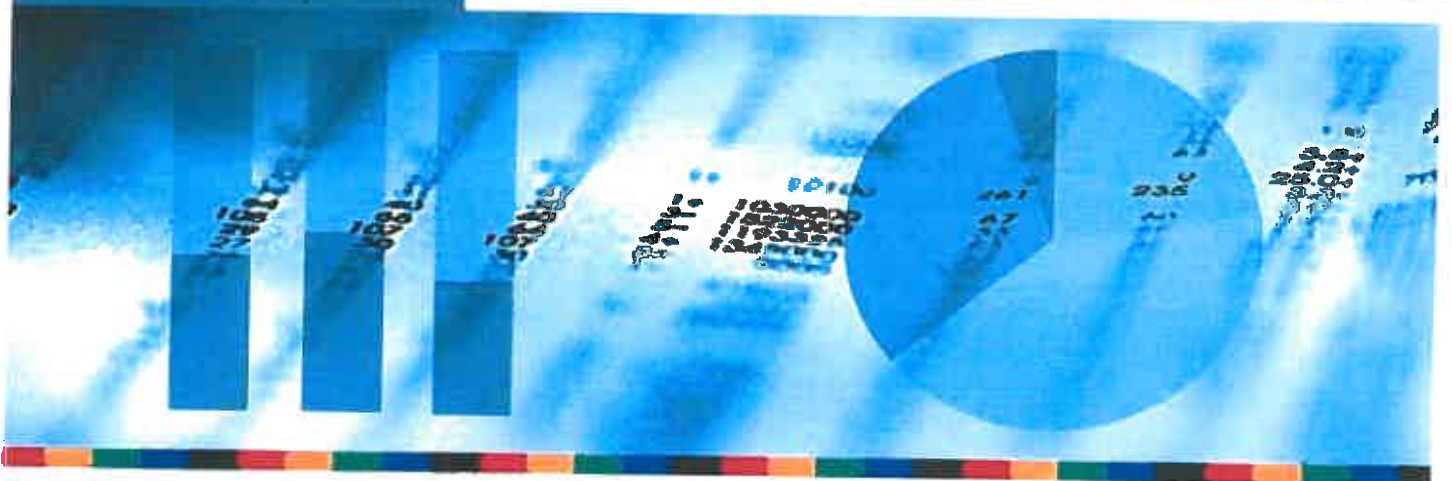
CHAIRPERSON:

DATE:

Confirmed on with / without amendments.
FG/rs

'AR 3"

MPAC BRIEFING NOTE



Drakenstein Municipality

1 March 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence 11
A2 4

CONTENTS

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"A2 5"

1. INTRODUCTION

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with laws and regulations of the Drakenstein municipality for the 2017 -18 financial year.

1.3 Overview

Drakenstein municipality's vision

"A City of excellence" which is guided by values of transparency, excellence, responsiveness, accountability, accessibility and integrity.

The vision is supported by the following strategic objectives:

- To promote proper governance and public participation.
- To ensure financial sustainability.
- To provide an effective and efficient workforce by aligning our institutional arrangements to our overall strategy.
- To ensure efficient infrastructure and energy supply for all citizens.
- To facilitate sustainable economic environment through the development of related initiatives including job creation and skills development.
- To contribute to the health and safety of communities through the pro-active identification, prevention, mitigation and management of health including environmental health, fire and disaster risks.
- To assist and facilitate with the development and empowerment of the poor and the most vulnerable that include the elderly, youth and disabled.

1.4 Organisational structure

Designation	Incumbent
Executive Mayor	Mr. CJ Pool
Executive Deputy Mayor	Mr. G Combrink
City Manager	Dr JH Leibbrandt
Chief Financial Officer	Mr. J Carstens
Executive manager: Corporate services	Mr. S Johaar
Executive manager: Planning and economic development	Ms. L Waring
Executive manager: Infrastructure services	Mr. D Hattingh
Executive manager: Community services	Mr. G Boshoff



1.5 Funding

The Drakenstein municipality spent R2,09 billion of an operational budget of R2,2 billion resulting in an operational under-expenditure of R84,67 million (3.9%) and furthermore spent R652,98 million of its capital budget of R654,68 billion resulting in a capital underspending of R1,7 million (0.3%) as disclosed in the statement of comparison of budget versus actual amounts on pages 12 and 13 of the financial statements.

2. AUDIT OPINION HISTORY

Details	2017-18	2016-17	2015-16
Audit opinion	Unqualified with findings on compliance matters	Unqualified with no other matters	Unqualified with no other matters
Findings on compliance with laws & regulations	Yes	No	No
<ul style="list-style-type: none"> Material misstatements in financial statements submitted 	No	No	No
<ul style="list-style-type: none"> Procurement and contract management 	Yes	No	No
<ul style="list-style-type: none"> Expenditure management 	No	No	No
<ul style="list-style-type: none"> Human resource management and compensation 	No	No	No
<ul style="list-style-type: none"> Service delivery matters 	No	No	No
Findings on predetermined objectives	No	No	No



Audit opinions

CLEAN AUDIT OPINION (financially unqualified with no findings on PDO or compliance with laws & regulations)
UNQUALIFIED with findings on PDO and/or compliance
QUALIFIED AUDIT OPINION (with or without findings)
DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

2.1 Emphasis of matters

Restatement of corresponding figures

- 2.1.1 As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material impairments

- 2.1.2 As disclosed in notes 19.1, 19.2 and 20.1 to the financial statements, the municipality has provided for an impairment of receivables amounting to R259,3 million (2016-17: R258,9 million), based on the recoverability of gross receivables.

Significant uncertainties

- 2.1.3 As disclosed in note 50 to the financial statements, the municipality is the defendant in a case where it is being sued for R449 million. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result in this regard has been made in the financial statements.

Significant additional matters

Unaudited supplementary schedules

- 2.2.1 The supplementary information set out on pages 125 to 132 does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

- 2.2.2 In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

3. KEY FOCUS AREAS**3.1 Predetermined objectives**

No material findings were raised.

3.2 Procurement and contract management

3.2.1 Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). The majority of the irregular expenditure was caused by circumventing the procurement process with regards to the award for the Paarl Waste Water Treatment Works which amounted to irregular expenditure of R46 299 919.

3.2.2 Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

3.3 Human resource management and compensation

No material findings were raised.

3.4 Material misstatements to financial statements

No material findings were raised.

3.5 Internal control deficiencies (Compliance)

3.5.1 Management failed to prevent the occurrence of irregular expenditure due to the incorrect application of the supply chain management policy.

3.5.2 Management failed to properly motivate the reason for dispensing with the official procurement processes with regards to deviations.

4. MPAC RESOLUTION

Any outstanding resolution is dealt with as part of the schedule of matters receiving attention that forms part of each meeting's agenda.

5. EMERGING RISKS (Detail as stated in section 6 of the 2017-18 Drakenstein municipality's management report)

5.1 Accounting, performance management/reporting and compliance matters

5.2 Risk that require continuous monitoring

5.3 Audit findings on the annual performance report that may have an impact on the audit outcome in future

6. OTHER REPORTS

We have not identified any engagements conducted by various parties that have or could potentially have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters.

"A29"

