

C 1966/01/2019
MC A/4929/01/2019

9.A.1 [CS]: OVERSIGHT REPORT IN TERMS OF SECTION 129 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: 2017/2018 ANNUAL REPORT: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

3/2/3/2/15

COMPETENCY: COUNCIL

RESOLVED

1. That in terms of Section 129 of the Local Government: Municipal Finance Management Act, No. 56 of 2003, the 2017/2018 Annual Report be approved without reservation.
2. That the recommendations of MPAC be endorsed and that the Mayoral Committee monitor progress on the mentioned issues.

MIDVAAL LOCAL MUNICIPALITY
AGENDA OF THE 1ST ORDINARY MEETING OF 2018 TO BE HELD ON THURSDAY,
24 JANUARY 2019 AT 12:30 AT THE COUNCIL CHAMBERS

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COMPETENCY: COUNCIL

PURPOSE

To submit the Oversight Report on the 2017/2018 Annual Report, for consideration.

RECOMMENDATIONS

1. That in terms of Section 129 of the Local Government: Municipal Finance Management Act, No. 56 of 2003, the 2017/2018 Annual Report be approved without reservation.
2. That the recommendations of MPAC be endorsed and that the Mayoral Committee monitor progress on the mentioned issues.

REPORT

The Municipal Public Accounts Committee of Midvaal (MPAC) considered the 2017/2018 Annual Report and subsequently thereto the report of the Auditor-General.

It was not necessary to amend the draft Annual Report substantially and the input of the Committee was conveyed to management.

The MPAC also had to consider the contents of the final report of the Auditor-General of which a copy is attached as Annexure 'A'. It is well known that the Midvaal Local Municipality received its 5th "clean" audit report.

DISCUSSION

Chapter 6.2 of the 2017/2018 Annual Report deals with the report of the Auditor-General and comments thereon.

The MPAC noted that the Council received an unqualified, clean audit report.

The Auditor-General states in the attached Annexure 'A' that the audit evidence that was gathered is sufficient for him to provide his audit opinion. In his opinion the financial statements as at 30 June 2018 represent fairly and in all material respects, the financial position of the Council.

He raised the following matters of emphasis that MPAC considered with a view to assist management, namely:-

1. MATERIAL IMPAIRMENTS

Consumer debtors balance has been significantly impaired (weakened). The allowance for impairment of consumer debtors amounts to R 125 239 484 (2016 – 2017: R104 820 714), which represents 49,7% (2016 – 2017: 47,3%) of the total consumer debtors.

Discussion

The negative economic climate and loss of jobs may have caused the weakened debt collection or payments of municipal accounts.

Recommendation

That efforts be made to improve debt collection, especially in respect of industries and businesses.

2. MATERIAL LOSSES – ELECTRICITY

As disclosed in notes 32 and 60 to the financial statements, material losses amounting to R26 922 405 (2016-2017: R27 264 019) were incurred as a result of electricity distribution losses which represent 11.2% (2016-2017: 11.8%) of total electricity purchased. The technical losses of electricity amounted to R14 474 411 (2016 - 2017 : R15 031 054). Non- technical losses amounted to R12 447 994(2016-2017: R12 232 965) of the total and are due to possible theft and possible illegal connections.

Discussion

The lower losses are noted as well as that the municipality recently embarked on a program to further curb electricity losses and these actions should most probably result in further reduction losses in future.

Recommendation

It is recommended that the efforts to reduce electricity losses should not be relaxed and that the Department intensify its actions to reduce electricity losses. It is recommended that the Electricity Directorate of the Engineering Services Department provide progress reports to the Mayoral Committee on a quarterly basis with regard to the curbing of electricity losses.

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CONCLUSION

The clean Audit Report on the 2017/2018 financial year is again welcomed. The MPAC is of the opinion that the Executive and Administration should be acknowledged for the hard work done to obtain a clean audit report.

The MPAC will continue to carry out its oversight role, namely to assist the Municipality to be accountable to its ratepayers and to make meaningful recommendations to assist the municipality.

The MPAC Committee therefor, at its meeting held on 16 January 2019, unanimously resolved to recommend that the 2017/2018 Annual Report be approved in terms of Section 129 of the Local Government: Municipal Finance Management Act No. 56 of 2003, without reservation.



Chairperson: Cllr. J. Mazibuko

Date: 16/01/2019

'A'

**Report of the auditor-general to the Gauteng Provincial Legislature and
the council on the Midvaal Local Municipality**

Report on the audit of the financial statements
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Opinion

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages ... to., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No. 3 of 2017) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

7. As disclosed in note 6 to the financial statements, consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R125 239 484 (2016-17: R104 820 714), which represents 49,7% (2016-17: 47,3%) of the total consumer debtors.

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Material losses – electricity

8. As disclosed in notes 32 and 60 to the financial statements, material losses of R26 922 405 (2016-17: R 27 264 019) were incurred, which represent 11,2% (2016-17: 11,8%) of the total electricity purchased. Technical losses amounted to R14 474 411 (2016-17: R15 031 054). Non-technical losses of R12 447 994 (2016-17: R12 232 965) are due to theft, network distribution losses and possible illegal connections.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Midvaal Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.
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Report on the audit of the annual performance report

Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPAs presented in the annual performance report of the municipality for the year ended 30 June 2018:

KPAs	Pages in the annual performance report
KPA 6 – physical infrastructure and energy efficiency	x – x
KPA 7 – services and customer care	x – x

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not raise any material findings on the usefulness and reliability of the reported performance information for these KPAs:
- KPA 6 – physical infrastructure and energy efficiency
 - KPA 7 – services and customer care

Other matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.
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Achievement of planned targets

21. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 6 – physical infrastructure and energy efficiency and KPA 7 – service and customer care. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

25. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in this auditor's report.
26. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. I have nothing to report in this regard.
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Internal control deficiencies

28. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor - General

Johannesburg

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence