



## **MONITORING AND REPORTING FRAMEWORK OF MUNICIPAL ENTITIES BY THE NEWCASTLE MUNICIPALITY**

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## Definitions

„AG“ means the Auditor General as defined in the Constitution and the Municipal Finance Management Act;

„company“ means a municipal entity (including the trust) of the Newcastle Municipality;

„Municipality“ means the Newcastle Municipality Metropolitan Municipality;

„ ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY“ means the Accounting Officer of the entity as defined in terms of section 93 of the Municipal Finance Management Act;

„Companies Act“ means Act No. 61 of 1973;

„Guidelines“ means the National Treasury Annual Reporting Guidelines, Municipal Finance Management Act, Circular 11 of 14 January 2005;

„IDP“ means the Integrated Development Plan of the Newcastle Municipality developed in terms of chapter 5 of the Municipal Systems Act;

„King Code“ means the King Code on Corporate Governance, 2002 and as amended from time to time;

„MFMA“ means the Local Government: Municipal Finance Management Act, 56 of 2003;

„MSA“ means the Local Government: Municipal Systems Act (as amended, 32 of 2000; and

## Purpose and Overview of the Reporting

### General

This document has been prepared as a guide to municipal entities in keeping with good governance practises and relevant legislation. A further objective of the guideline is to consolidate reporting requirements (both financial and non-financial) by incorporating a range of information required by various stakeholders thereby reducing duplication and improving communication. The major channel of communication with the shareholder and broad stakeholder community is envisaged to take place through the annual reports.

### Overview

The Local Government: Municipal Finance Management Act (MFMA), section 121(1), provides that every municipal entity must prepare an annual report for each financial year for which the purpose is:

- a) to provide a record of the activities of the entity during the financial year to which the report relates;
- b) to provide a report on performance against the budget of the entity for that financial year; and
- c) to promote accountability to the local community for the decisions made throughout the year by the entity.

The MFMA further provides that the annual report of the ME must include:

- a) the annual financial statements as audited by the Auditor-General;
- b) the Auditor-General's audit report;
- c) an assessment by the entity's accounting officer of the entity's performance against measurable performance objectives set in terms of the service delivery agreement;
- d) particulars of any corrective action taken or to be taken in response to issues raised in the audit report;
- e) any information as determined by the entity or parent municipality;
- f) any recommendations of the audit committee of the entity or the parent municipality; and
- g) any other information as prescribed.

In light of the above provisions the National Treasury developed an Annual Report Guideline (Attached hereto marked “A”) the purpose of which is to provide guidance on the development of annual reports.

Section 284 and 286 of the Companies Act also places an obligation on the directors of the company to prepare annual financial statements for every financial year as well as to include a directors’ report which is required to be audited. Section 302 of the Companies Act provides that a copy of the annual financial statements are to be sent to the members of the company and to all other people entitled to receive them.

Sections 87(11) of the MFMA provides for the compilation and submission of monthly statements.

Section 88 of the MFMA requires a mid-year budget and performance assessment by the entities.

This framework is primarily based on the legislative provisions of the MFMA, the National Treasury guidelines and the principles enunciated in the various codes on good governance, amongst others, the King Code. The further reporting requirements are taken from the King Code, relevant research conducted on reporting by companies to shareholders generally and the best practices as well as other legislative imperatives. The frequent reporting requirements will assist Newcastle Municipality in its legislative responsibility to monitor performance in an open and transparent manner and call the municipal entities to account.

In summary, the framework seeks to provide the entities with a guide for reporting, which guide sets minimum reporting standards, seeks to ensure compliance with relevant legislation; provides uniformity across the entities in the nature of the information provided in the monthly and annual reports and to allow ease of access of information by all stakeholders such as the Newcastle Municipality as parent municipality, National and Provisional Treasury, the Auditor-General and the local community.

#### Applicability of reporting framework

This reporting framework applies to the municipal entities of the Newcastle Municipality

## Monthly Reports

In terms of section 87(11) of the MFMA, the ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY is required to submit to Newcastle Municipality Municipal Manager a statement on the state of the companies budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue per revenue source;
- (b) Actual borrowings
- (c) Actual expenditure
- (d) Actual capital expenditure
- (e) The amount of any allocations received;
- (f) Actual expenditure on those allocations, excluding expenditure on allocations, exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- (g) When necessary, an explanation of –
  - (i) any material variances from the company's projected revenue by source, and from the company's expenditure projections;
  - (ii) any material variances from the service delivery agreements and business plans; and
  - (iii) Any remedial or corrective steps taken to or to be taken to ensure that the projected revenue and expenditure remain within the companies approved budget.
- (h) The statement must include a projection of revenue and expenditure for the rest of the financial year, and any revisions from initial projections.
- (i) The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the companies approved budget.
- (j) The statement must be submitted in a signed hard copy by the accounting officer as well as electronically.

This legislative requirement will be fulfilled by the municipal entity providing such monthly reports to the NEWCASTLE MUNICIPALITY, in a format prescribed by the National Treasury from time to time which format shall be made available to the companies.

## Mid-Year Budget and Performance Assessment

In terms of section 88 of the MFMA, the ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY must by 20<sup>th</sup> January of each year –

- a) Assess the performance of the entity during the first half of the financial year, taking into account –
  - i. The monthly statements referred to in section 87 for the first half of the financial year and the targets set in the service delivery business plan or other agreement with the entity's parent municipality ; and
  - ii. The entity's annual report for the past year, and progress made on resolving problems identified in the Annual report; and
- b) Submit a report on such assessment to -
  - i. The board of directors of the entity; and
  - ii. The parent municipality of the entity.

The entity is required to report on the planned targets against predetermined objectives and key performance indicators aligned to the Service delivery plan and IDP of the Newcastle Municipality. The planning and reporting must be consistent with the Newcastle Municipality's Performance Management Framework (as amended from time to time).

## The Annual Report

This framework facilitates the monitoring role of the Newcastle Municipality and thereby the ability to detect performance problems in the entities at an early stage. It is proposed that the format outlined below be used by the entities in drafting annual reports. The reporting format is comprised of five key chapters as follows:

Chapter 1 – Introduction and Overview Chapter 2

– Performance Highlights

Chapter 3 – Human Resources and other organisational management Chapter

4 – Audited Statements and related financial information Chapter 5 –

Functional Service Delivery Reporting

The information on integrated sustainability reporting which is being called for in this framework is not a requirement of the National Treasury Guidelines and are thus to be considered as additional reporting requirements. These additional reporting requirements refer to the non-financial aspects of performance that may influence the ability of the entity to survive and prosper and so ensure value creation. The additional reporting requirements are also meant to act as a barometer to measure the companies' alignment with the IDP

and the Newcastle Municipality's strategic objectives as communicated from time to time.

As regards the implementation plan, process for developing the reports and the timeframes which are required to be complied with in terms of the MFMA in respect of these reports reference should be had to the section below headed, "Implementation, process and timeframes".

## Chapter 1 – Introduction & Overview

### **Foreword by the Chairperson of the Board**

The Chairperson of the Board is required to provide a summary of the company's performance generally during the period to which the report relates. The report must state the entities priorities for service delivery with established performance targets and measures taken or to be taken to improve performance. The foreword by the Chairperson is supplemented with detailed information provided for by the Board in the notes to the financial statements below.

### **Role of the Company**

The report must provide a short description of the entity as a whole, its purpose and a summary of the entity's geographic and demographic profile and changes both internal and external over the financial year.

### **Executive Summary**

The executive summary is a statement of the overall goals and priorities, and mission and vision for the entity and how it will impact on the community, with a short statement on the company's financial health. This information may be provided under the following headings:

#### **Report from the ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY**

The company's accounting officer ( ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY) must provide an assessment of the company's performance against any measurable performance objectives set in terms of the service delivery agreement or any other agreements as well as targets provided for in the approved business plan and directions of the Board of Directors.

### **Alignment with IDP**



In terms of the Municipal Systems Act every municipality is required to undertake development orientated planning to ensure that it strives to achieve the local government objectives and developmental duties as contained in and required by the Constitution, and together with other organs of state, contribute to the progressive realisation of the fundamental rights contained therein. The Integrated Development Plan („IDP“) is the strategic plan of Newcastle Municipality seeking to achieve the above and link, integrate and coordinate plans taking into account proposals for the development of the municipality. The IDP aligns the resources of the municipality with the implementation of the plan, it forms the policy framework and general basis on which the annual budgets are based, and it is compatible with provincial and national development plans. The companies are required to state the extent to which their plans, projects and activities generally are aligned with Newcastle Municipality's IDP (attached hereto marked **‘B’**), particularly Newcastle Municipality's vision for the long term development.

#### The company's relationship with Newcastle Municipality and other companies

The company must comment on its relationship with Newcastle Municipality, the departments within the Municipality as well as other Municipality companies, being municipal entities and strategic partnerships. This reporting requirement seeks to measure and monitor the extent of integration of strategic projects and their respective progress across Newcastle Municipality.

#### Integrated Sustainability Report

Sustainability refers to the non-financial aspects of performance that may influence the ability of the company to survive and prosper and so ensure value creation. In line with King II, non-financial reporting is required, which will include safety, health, environmental and ethical practices as well as transformation issues pertaining to amongst others, Broad-Based Black Economic Empowerment.<sup>1</sup>

The entity must report on the nature and extent of its social and economic transformation, ethical, occupational health policies and practises. Below are examples of what needs to be reported on.

#### Social and transformation policies and practices.

The social and transformation report will include a statement on the following legislation and

compliance therewith or any projects undertaken in terms thereof:

- The Employment Equity Act which obliges companies to develop an Employment Equity Plan and to report on the progress in achievement of the objectives set out in the plan;
- The Skills Development Act and the Skills Development Levies Act which govern the provision of resources for skills development and training by companies;
- The Promotion of Access to Information Act which provides for access to information held by companies to encourage better transparency;
- The Broad-Based Black Economic Empowerment Act and relevant codes of empowerment.

and

- How the company is meeting the above legal requirements;
- Any violations of the above laws could also be included;
- The nature of policies and practices in place to promote equal opportunities for previously disadvantaged individuals, in terms of realising their full potential and reaching executive and managing positions in the entity;
- The extent of initiatives to support broad based black economic empowerment, particularly in respect of procurement practises and investment strategies;
- The company's policy on investment of corporate funds i.e. pension funds should include a Statement of Investment Principles and Policies whether or not they take into account socially responsible investment criteria when making investment decisions.

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<sup>1</sup> Corporate Business Administration, Corporate Reporting

## Ethical management policies and practices.

This reporting requirement is intended to elicit a demonstration by the company of its commitment to organisational integrity or code of ethics. The entity will use the following criteria in this report:

- The creation of systems and procedures to introduce, monitor and enforce the ethical code of the entity;
- The assignment of individuals to oversee compliance to the ethical code;
- Assessing the integrity of new appointees in the selection and promotion procedures;
- Exercising due care in delegating discretionary authority;
- Communicating with, and training of all employees regarding entity values, standards and compliance procedures;
- Providing, monitoring and auditing safe systems for reporting of unethical or risky behaviour;
- Enforcing appropriate discipline with consistency;
- Responding to offences and preventing re-occurrence.

The above report must include a statement from the Board as to the extent of compliance with the ethical standards and above mentioned criteria by the company as a whole<sup>2</sup>.

## Occupational safety and health policies and practices; and environmental management policies and practice (SHE).

With regard to safety issues, the company should measure their effort to reduce workplace accidents, fatalities and safety related incidents against an ongoing improvement objective and past performance. This occupational health and safety report must include a statement on compliance with the Occupational Health and Safety Act.

The environmental issues to be reported on will include the nature of their environmental policies, ethos and values; open and transparent disclosure on environmental issues relating to the company. The following should be reported on:

- whether the company complies with the applicable law regarding SHE policies and practises;
- how legal compliance is tested and SHE performance is monitored;
- any SHE issues which can materially impact on the financial statements of the

company;

- what benchmarking criteria against industry norms were used;
- whether the business is sustainable taking into consideration SHE aspects;
- what efforts are made regarding continual improvement in SHE efforts;

## Chapter 2 –Performance Highlights

Provide a brief narrative of all the services provided by the company and the performance highlights for the period to which the report relates. Comment on the progress in eliminating backlogs in service delivery against strategic interventions and projects.

### **Backlogs in service delivery**

The guidelines also provide for reporting on Backlogs in Service Delivery which relates to core services which may only be applied to the companies providing such service. Backlog reporting is intended to reflect *the number of households that do not have access to minimum services (level and standard) as specified by the relevant sector department or within national policy.*

### **Level and Standard of service**

The entity is required to report on the planned targets against predetermined objectives and key performance indicators aligned to the Service delivery plan and IDP of the Newcastle Municipality. The planning and reporting must be consistent with the Newcastle Municipality's Performance Management Framework (as amended from time to time).

### **Chapter 3 – Human Resources and Other Organisational Management Issues**

The company must comment on its organisational structure, how that structure relates to each function, various initiatives as they relate to employment issues and their relative success. This may include programmes designed to improve employment equity and skills development, and highlight significant human resource management policies and practices that may build capable personnel. This should also cover performance, governance, transformation and institutional development.

The following information should be provided on staffing:

- number of staff per function expressed as total positions and current vacancies.  
Express as full time staff equivalents.
- skills or levels of education attained by staff, and the success of training and development initiatives, internship programmes, skills levy claims and application of refunds received.
- the conditions or opportunities for previously disadvantaged individuals to progress through the company.
- mechanisms to reinforce the value of diversity in the workplace and the company's related progress and performance.
- the age of employees.
- trends on total personnel expenditure over the last 3 to 5 years, compared to total budget, this will include the financial investment in employee training and development initiatives;
- the number and name of pension and medical aid funds including an assessment of future risks or liabilities;
- arrear (outstanding monies) owed to the company or Newcastle Municipality by staff and non- executive directors;
- succession planning;
- performance management;
- any policies on bonus and/or reward payments.

This information must be reconciled with the staff salary disclosures required in the Annual Financial Statements by section 124 of the Municipal Finance Management Act and the section 89 reports on staff salaries, allowances and benefits to be submitted to council. If the salary disclosures were omitted from the financial statements then this information must be incorporated in the annual report. The table (Table 1) below provides a format for disclosure:

<i>Description</i>	<i>Chairperson of the Board</i>	<i>Non-Executive Directors (List individually)</i>	<i>Chief Executive Officer</i>	<i>Chief Financial Officer</i>	<i>Other senior Manager (List individually)</i>	<i>Total</i>
Non-executive remuneration						
Annual fee (Retainer)						
Fees per meeting						
Fees per committee meeting						
Salaries and Wages R '000						
Normal						
Overtime						
Contributions R'000						
Pensions						
Medical Aid						
Other						

<i>Description</i>	<i>Chairperson of the Board</i>	<i>Non-Executive Directors (List individually)</i>	<i>Chief Executive Officer</i>	<i>Chief Financial Officer</i>	<i>Other senior Manager (List individually)</i>	<i>Total</i>
Allowances R'000						
Travel and Motor car						
Accommodation						
Subsistence						
Housing Benefits and Allowances R'000						
Loans and advances R'000						
Other Benefits and allowances R'000 (Specify)						
Arrears owed to Newcastle Municipality or the Entity <sup>3</sup>						

<sup>3</sup> Being municipal accounts such as rates, water, electricity etc. due to the Newcastle Municipality.

## Chapter 4 – Audited Financial Statements and related financial information

For each financial year the company must prepare annual financial statements which fairly present the state of affairs of the company, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its financial results, and its financial position as at the end of the financial year.

The notes to financial statements must disclose the information required in terms of 123 to 125 of the MFMA. The sections are outlined hereunder.

### Notes to the Financial Statements

Information on the following must be disclosed:

- (a) any allocations received by the company from any municipality or other organ of state
- (b) any allocations made by the company to a municipality or organ of state; and
- (c) any other information as may be prescribed.

The notes to the annual financial statements and the quarterly progress statements must include particulars of salaries, allowances, and benefits of members of the board; and the chief executive officer of the company, every senior Municipal Manager and such categories of other officials as may be prescribed. This information may be provided in the format outlined in Table 1 above (information on staffing).

Other compulsory disclosures to be included in the notes to the financial statements include:

- (a) in respect of each bank account held by the company during the period to which the report relates; the name of the bank, the type of account and opening and closing balances of the account;
- (b) a summary of all investments of the company as at the end of the financial period;
- (c) particulars of all contingent liabilities of the entity as at the end of the period to which the report relates;
- (d) particulars of:
  - (i) all material losses and material irregular or fruitless and wasteful expenditure<sup>5</sup>,

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<sup>5</sup> „Fruitless and wasteful expenditure“ means expenditure that was made in vain and would have been avoided had reasonable care been exercised.



- (ii) any criminal or disciplinary steps taken as a result of such losses or such irregular or fruitless and wasteful expenditure; and
- (iii) any material losses recovered or written off; and
- (e) particulars of non-compliance with the MFMA.

Also to be included in the notes to the financial statements for those entities which are private companies is the company secretaries certificate on the annual return.

The following information is also required for notes to the financial statements:

### **The Report of the Directors / Trustees**

The report of the directors / trustees must be completed by the board and should outline the overall goals and priorities, and mission and vision for the entity. This should state how this will impact on the community. As stated this report contains more detailed information than the information provided for by the chairperson in the Executive summary above.

This report must include a statement of the entity's relative financial health as well as record the facts and assumptions underlying the entities annual "going concern" assessment and to record the steps it will take to the extent it concludes the entity will not continue as a "going concern".

The board must make a statement as regards the entities compliance with all legislation affecting the company, regulations and codes of business practice. A statement must be included concerning whether it has adopted a definition of materiality, reserving specific powers to itself.

The following in Table 2 can be adapted to record the required information:

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„Irregular expenditure“ is defined as expenditure incurred in contravention of the MFMA and which has not been condoned on terms of section 170; in contravention of the MSA, in contravention of the supply chain management policy, and any of the municipality's by-laws giving effect to the supply chain policy.

<i>Board member</i>	<i>Municipality: Executive/Non- Executive</i>	<i>Board Committee Membership</i>	<i>Race &amp; Gender</i>

The total number of board meetings held during the year should also be disclosed, an example as follows. Table 3

<i>Board Meetings Total</i>	<i>Remuneration Committee Meetings</i>	<i>Audit Committee Meetings</i>	<i>Risk Committee Meetings</i>	<i>Human Resource Committee Meetings</i>	<i>Other Committee Meetings</i>

The entity should have a statement on remuneration philosophy for executive management. This statement needs to set out the formal and transparent procedures adopted by the company for the development of a policy on executive remuneration which is to take into account Newcastle Municipality's policy on the upper limits of salaries.

The following disclosures by the board are also required:

- the Board is accountable for the process of risk management and the system of internal control;
- the process of risk management and the system of internal control are regularly reviewed for effectiveness;
- the Board is accountable for establishing appropriate risk and control policies;
- the Board is accountable for communicating appropriate risk and control policies through the entity;
- a process for identifying / evaluating / managing significant risks was in place throughout the year under review;
- an on-going process for identifying, evaluating and managing significant risks:
- exists;
- was in place for the period under review;
- was in place up to the date of approval of the annual report and financial statements;

- an adequate system of internal control exists to mitigate those significant risks identified to an acceptable level;
- the system of internal control is designed to manage, rather than eliminate, risk failure or opportunity risk;
- the system of internal control can only provide reasonable, but not absolute assurance;
- a documented and tested business continuity plan exists to ensure continuity of business critical activities;
- any additional information to assist understanding of risk management processes and system of internal control; and statements of the facts and a suitable explanation where the Board cannot make any of the above disclosures;
- Whether the Board has a Board Charter setting out its responsibilities.

### **The Financial Statements**

The format and requirements for the annual financial statements are contained in the circulars, regulations or notices of the National Treasury and are to be used in the drafting of financial statements of the municipal entities. These circulars, regulations or notices may be amended or modified from time to time in which case the NEWCASTLE MUNICIPALITY will advise the companies accordingly.

### **Chapter 5 – Functional Service Delivery Report**

This chapter provides information on each functional area provided by the entity which includes an overview, description and detailed analysis of each function and follows a spread sheet format (example in the National Treasury Guidelines).

The format can be enhanced with additional information where functions provided by the company are not listed in the spread sheet. Details must also be provided on the extent of free basic services including the number of households to which the service is being provided and the extent of service delivery.

## 1. Implementation, process and timeframes

A broad timeline has been developed in terms of the MFMA for the above reporting requirements. The exact due dates for submissions by the entities to Newcastle Municipality will be forwarded on an annual basis in the tabular form below:

Relevant Section	Requirement	By whom	Report to	Due date
87(11)	A statement on the entities budget reflecting the particulars listed in 3 above in Chapter 1 [monthly report]	ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of the entity	Newcastle Municipality	7 working days after the end of <u>each month</u>
87(11)	The NEWCASTLE MUNICIPALITY analyses the monthly report and reports same to the Mayor	NEWCASTLE MUNICIPALITY	Newcastle Municipality, The Mayor	Monthly
126(2)	Entity to prepare annual financial statements and submit	ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of entity	Newcastle Municipality Auditor General to audit	By 31 August
126(3)	Financial Statements to be audited and audit report drafted	Auditor General	Accounting officer of entity	Before end November <sup>6</sup>
127(1)	Entity's annual report to be submitted	ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of entity	Newcastle Municipality (CM)	Before end December <sup>7</sup>
128	Compliance on section 121 and 126 to be monitored, establish the reasons for any non-compliance and report non-compliance to	Municipality Municipal Manager (represented by the NEWCASTLE MUNICIPALITY)	Council, Provincial Treasury and Auditor General	Before council meeting in January
127(2)	Annual report of entity to be tabled in council	The mayor	Municipality Of Cape Town *Council	By 31 January <sup>8</sup>

<sup>6</sup> If AG unable to meet timeline, reasons to be submitted to the entity and provincial legislature and parliament

<sup>7</sup> If the entity fails to do so, then AG can submit AFS and audit report directly to Newcastle Municipality, NT, PT, MEC (Section 127(4)(b))

<sup>8</sup> If Mayor unable to meet deadline, report to council on explanation and submit annual report or parts thereof as soon as possible

Relevant Section	Requirement	By whom	Report to	Due date
127(5)(a)	The annual report must be made public (in terms of section 21 of the MSA) inviting the local community to submit representations in connection with the annual report	Municipality Municipal Manager (represented by the NEWCASTLE MUNICIPALITY)	Public	Immediately after council meeting
(b)	Annual report to be submitted	Municipality Municipal Manager (represented by the NEWCASTLE MUNICIPALITY)	The Auditor General, provincial treasury and the provincial department responsible for local government	Immediately after council meeting
129(1)	Annual report to be considered and oversight report containing councils comments to be adopted <sup>9</sup> taking public representations to account	Council (assisted by NEWCASTLE MUNICIPALITY)	Council meeting open to the public <sup>10</sup>	By 31 March
129(3)	Oversight report to be made public	ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of entity	Public	7 days after adoption of oversight report / by 07 April
132(2)	Oversight report and annual report adopted by council to be submitted	Municipal Manager (represented by NEWCASTLE)	Provincial legislature	7 days after adoption of oversight report
129(2)	Copies of minutes of council meeting to be submitted	ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of entity	The Auditor General, provincial treasury and the provincial department responsible for local government	Once minutes are made available

<sup>9</sup> The Oversight report must include a statement from council on whether it approves, rejects or wishes it be referred back for further revision. The Oversight Report to be drafted by Newcastle Municipality must be in accordance with the structure and requirements of National Treasury circular 32 as amended from time to time. <sup>10</sup> The ACCOUNTING OFFICER OF THE MUNICIPAL ENTITY of the municipal entity is to attend council meeting in order to respond to questions concerning annual report.