

The Honourable Speaker
 Amajuba District Municipality
 Private Bag X6615
 Newcastle
 2940

REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL OF AMAJUBA DISTRICT MUNICIPALITY

FOR THE PERIOD ENDED 30 JUNE 2017

The audit committee has the pleasure in submitting this report to the Council of Amajuba District Municipality. This report is submitted in terms of the provision of sections 121 (3)(j), 166(2)(b) and 166(2)(c) of the Municipal Finance Management Act of 2003 (“the MFMA”) and covers the financial year from 1 July 2016 to 30 June 2017.

The legal responsibilities of the Audit Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) read in conjunction with the National Treasury’s MFMA Circular 65.

Audit Committee members and attendance at meetings

The Audit Committee as appointed in May 2017 is comprised of 5 independent, external members and is required to meet at least 4 times per annum as per the Audit Committee Charter and the MFMA. However, additional meetings may be called as the need arises. Members’ attendance at the meetings is listed below:

<u>Name</u>	<u>No of Meetings Attended</u>	<u>August 2016 (previous AUDCOM)</u>	<u>01/06/2017</u>	<u>26/06/16</u>
Ms. N Mchunu (Chairperson)	2		✓	✓
Ms S Gertze	2		✓	
Mr M Ngubane	2		✓	✓
Mr B Dhlamini	2		✓	✓
Mr S Ngwenya	2	✓		✓

The audit committee has had three meetings for the year ended 30 June 2017. This is lower than the minimum number of four meetings as required in the MFMA, due to that the existing committee was only appointed in May 2017.

The following are standing invitees to the Audit Committee Meetings.

Representative from	Office of the Auditor-General (AG)
Representatives from	Provincial Treasury and COGTA
MPAC Chairperson	
Internal Audit Manager	
The Municipal Manager (MM)	
The Chief Financial Officer (CFO)	
Heads of Departments	
PMS Manager	

Audit Committee responsibility

In the conduct of its duties, the Audit Committee has performed the following statutory duties:

1. *Reviewed internal financial control and internal audits*

For the purposes of executing its statutory duties as contained in section 166(2)(a) of the MFMA as well as its mandate as set out in the Audit Charter, the Audit Committee relies on the work done by the Internal Audit Unit.

The risk based internal audit plan for the financial year ending 30 June 2017 was presented and accepted by the Audit Committee. The plan was based on the risk assessment conducted and findings from the audits conducted by the Auditor General and internal auditors. The Audit Committee at each meeting; assesses performance against the plan and reviews the plan to ensure that critical risks relating to the administration and operations of Amajuba District Municipality are identified and addressed.

Several internal audit reports for the Municipality, were completed and tabled at the Audit Committee meetings held during the reporting period, excluding ad hoc assignments.

The internal audit reports included recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on. To further enhance the processes in place, internal audit conducts follow up audits on previously reported internal audit findings and reports progress to senior management and the Audit Committee.

The Audit Committee has expressed concern that the internal audit conclusions indicated an inadequate control framework resulting from significant control weaknesses being noted in areas that were audited. Management has fully accepted the findings and has assured the Committee that they are currently in the process of implementing the appropriate systems of internal control and corrective actions to address the identified weaknesses and possible irregularities. Internal audit conducted a review of the status of the implementation of action plans to address audit findings, it appears that management has addressed some of the findings while some were still in progress as at year end. The committee expressed concern regarding the unresolved findings especially in relation to qualification matters.

The municipality obtained a qualified report from the Auditor General in respect of the 2016/17 audit. There were various matters that led to the qualification especially for areas relating to revenue management, inventory and water losses. This implies that there are inadequate controls surrounding these areas.

Risk Management

The MFMA requires the accounting officer of the municipality to take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

The municipality currently has a risk policy which has been submitted to the AUDCOM for review. However it appears that the municipality does not have a clear framework for managing risk. Further there is no dedicated resource for risk management nor does the municipality have a risk committee.

2. Review of financial statements and Accounting Policies.

The Audit committee has the obligation to review the Municipality's Annual financial statements and provide the Council with an authoritative and credible view of the Municipality's financial position, performance and cashflow position. In order to do this, the audit committee relies on the work conducted by the Internal Auditors.

A number of material findings were raised by the Office of the Auditor General (AGSA) during the audit of the 2015/16 financial statements. Management has formulated and implemented action plans to address the findings raised by the AGSA, and this process is ongoing.

The committee noted the action plans implemented by management in addressing the qualification matters as per audit management reports from the AG. However these matters could not be fully addressed during the year due to time constraints, hence the financials were qualified for 2016/17 as well.

The committee sat to review the draft financial statements of Amajuba District Municipality in a meeting held on 25 August 2017. The Committee raised a concern regarding the cash flow position at the municipality, where the current liabilities significantly exceeded the current assets. This issue was also raised by the AG in their report for 2016/17, where the financial position at the municipality was assessed as critical.

Management reported that they have commenced with the implementation of cost containment strategies, including restricting expenditure on certain expenditure items. It should however be noted that it will take some time for the impact to be effective. Further to the measures taken to curtail expenditure, management and council need to also implement an aggressive strategy to improve the collection of funds owed to the municipality.

3. *The adequacy, reliability and accuracy of financial reporting and information*

The committee is also required to advise council on the adequacy, reliability and accuracy of financial reporting and information in accordance with S 166 of the MFMA.

It was reported by management that the municipality has been assisted by Provincial Treasury in updating and reconciling its financial records.

The committee also sat to review the draft financials, and matters raised were communicated with management for implementation before submission to the AG, these included the completeness and accuracy of revenue, which unfortunately could not be fully addressed before submission for audit.

Management has been urged to prioritise the implementation of measures to address the AG and Internal Audit findings in order to improve and strengthen the controls at the municipality. This will also assist in resolving matters that resulted in the qualified audit opinion for 2016/17.

4. *Performance Management*

The Audit Committee also serves as the performance Audit Committee for Amajuba District Municipality. The legal responsibilities of the Audit Committee in this regard are set out in terms of the Local Government: Municipal Planning and Performance Management Regulations 2001.

Performance reports were generated but could not be completed on time as some of the Departments within the municipality had not submitted the required information.

The committee also noted with concern that various issues had been raised by internal audit regarding quality of performance reporting, timeliness of performance information, alignment to SDBIP reported and other issues raised in this area.

The municipality obtained a qualified opinion from the audit of performance information, this was predominantly due to the structuring of the indicators and limitation of scope.

5. *Effective Governance*

The Audit Committee fulfils an oversight role regarding the Municipality's reporting process, including the system of internal financial control. It is responsible for ensuring that the Municipality's internal audit function is independent and has the necessary resources, standing and authority within the Municipality to enable it to discharge its duties. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the Council and these functions.

The internal and external auditors have unlimited direct access to the Audit Committee, primarily through its chairperson.

6. *Compliance with Legislation and Ethics*

The Audit Committee has noted some instances of non-compliance with policies and procedures, the Municipal Finance Management Act and National Treasury Regulations.

The areas of non-compliance have been noted, mainly through the reports submitted by internal audit and the AG. In the internal audit reports, management have provided comments on the findings, recommendations and timing of the action thereof. Provincial Treasury has also raised issues of non-compliance with the municipality. Management has to exercise stricter controls when it comes to overall compliance at the municipality.

Recommendations.

- Council and management to prioritise the implementation of action plans to address the Internal and external audit findings in order to improve systems at the municipality. Where there is non-adherence to procedures, the responsible personnel must be held accountable.
- Council and management need to exercise stricter monitoring controls over performance management and reporting, including holding management accountable for the non-submission of relevant information supporting actual performance.
- The Council and management must continue to exercise stricter budgetary controls in order to improve the financial position at the municipality. This must include the implementation of the financial recovery plan, without compromise.
- The municipality must focus on the credit management at the municipality, in order to improve the collection of outstanding balances owed by debtors. This should also form part of the cash flow management strategy. Council to also assist with this.
- Management must review the use of consultants at the municipality against the capacity and resources available, where capacity does not exist, management must formulate a plan for the transfer of the procured skills to the municipality, including a review of the organogram.
- The process of risk management should be prioritised as part of management tools that will assist in improving systems and governance at the municipality.

- Management to formulate and implement a system of monitoring compliance at the municipality.

Conclusion

The implementation and maintenance of proper systems of internal controls, risk management, the prevention of fraud and errors, safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are the responsibility of Council. The role of the audit committee is to monitor the efficiency of the procedures and mechanism which Council has put in place in order to ensure that its policies and procedures are adhered to.

We can report that, taking into account the exceptions noted, recommendations made above and based on the reports submitted to us, our overall impression is that although there has been an improvement in the systems at the municipality, the municipality is currently facing a very critical cash flow position, which could potentially affect its going concern. It is therefore important that great effort is made in exercising stricter budgetary controls including maximising efforts to collect outstanding revenue by the municipality, to improve the cash position.

On behalf of the Audit Committee

Ms Nosipho Mchunu
Chairperson