

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 2018

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 2017 to 30 June 2018.

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>25/08/2017</u> <i>(special meeting)</i>	<u>27/11/2017</u>	<u>29/01/2018</u> <i>(special meeting)</i>	<u>09/04/2018</u>	<u>05/06/2018</u> <i>(special meeting)</i>	<u>25/06/2018</u>
Ms. N Mchunu (Chairperson)	6	✓	✓	✓	✓	✓	✓
Ms S Gertze	5	✓		✓	✓	✓	✓
Mr M Ngubane	3	✓	✓				✓
Mr B Dlamini	6	✓	✓	✓	✓	✓	✓
Mr S Ngwenya	5	✓		✓	✓	✓	✓

Apologies were received from members that could not attend the meetings.

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 Department	
The Municipal Manager (MM)	
The Chief Financial Officer (CFO)	
Heads of Departments	
PMS Manager	

Audit Committee responsibility

The Audit Committee has been set up in accordance with the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and operates within the provisions of the Audit Committee Charter which has been approved by the Council of the Amajuba District Municipality.

Section 121(4)(g) of the Municipal Finance Management Act, No. 56 of 2003 also requires that the annual report must include any recommendations of the Municipality's Audit Committee.

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 performed by the Internal Audit Unit which is internal structure within Amajuba District Municipality. The committee noted and raised concerns that the Internal Audit unit was under resourced throughout the year, which resulted in capacity constraints. The committee acknowledges the strides made by council and management in addressing this matter subsequent to year end, resulting in the appointment of the Chief Audit Executive.

The Audit Committee reviewed and approved the risk based internal audit plan for the financial year ending 30 June 2018 presented by Internal Audit. 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.

The findings from the reviews conducted by Internal audit are presented in the reports that include recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on.

The Audit committee assesses the effectiveness of the municipality's control environment through a review of the reports presented throughout the reporting period.

The findings generally related to, lack of or inadequate controls, capacity constraints, lack of co-ordinated efforts between departments, non-adherence to policies and in some areas lack of willingness to abide by the existing controls.

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.

2. 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.

Accordingly the Committee is charged with a duty to advise council, management and employees on matters relating to risk management.

The Committee has confirmed through various engagements with management that the municipality currently does not have a clear system and process for identifying and managing risk.

3. Review of financial statements and Accounting Policies.

The Audit Committee has the obligation to review the Municipality's Annual financial statements and provide 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.

The financial statements for the year ended 30 June 2018 were presented to the Audit Committee in a meeting held on 24 August 2018. It was established that there were materials errors that needed to be adjusted before finalisation, hence the Committee could not make recommendations to Council.

The financials were accordingly submitted to the Office of the Auditor – General South Africa (AGSA) for audit on 31 August 2018. This process unfortunately resulted in the municipality receiving a qualified audit opinion on the financial information for the year ended 30 June 2018. Qualification matters related to inventory, water losses, service charges, debt impairment, provisions and property, plant and equipment. This indicates that there has been deterioration in systems in the municipality, which is evident from the number of qualification matters in the current year, which is a regression from last year.

This was discussed with management, and representations were made regarding the challenges encountered by management during the course of preparation for audit readiness. The committee has urged management to prioritise the assessment of root causes for the weaknesses identified by the AG and formulation of action plans to address the findings. Management has been urged to also prioritise the implementation of the planned to actions, monitor progress on a monthly basis and also to engage with the AG as early as possible.

The Committee has also tasked internal audit to review progress made, and the portfolio of evidence supporting actual performance and to also report on this on a monthly basis.

The Committee will accordingly report to Council on the progress made, challenges encountered and other critical matters, on an ongoing basis.

Further to the above the Committee also noted with concern that the financial position at Amajuba remains critical, with current assets exceeding current liabilities by R 33.6 million (2017: R 47.3 million). This may seem to indicate a slight improvement when compared to prior year, however the municipality still does not have adequate resources to fund its day to day obligations. Council and management still have to strengthen measures to improve this situation, including improvement in revenue collection.

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

The Audit 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.

Management presented the financial reports and other reports to the audit committee during the year. Some of these reports were also subjected to various reviews by Internal Audit with findings. It was established, through engagements with management that there were areas that needed improvement, in order to ensure the credibility and reliability of reported information. This included existence of suitable evidence to support reported information. Various other matters were raised by the Committee, Internal audit and Auditor General, and management acknowledge that there may be a need to assess capacity within the municipality, to identify the critical areas with capacity constraints.

The committee also noted with concern that Amajuba was still not fully compliant with the new mSCOA as at 30 June 2018. It was a requirement from National Treasury that the all municipalities must implement the new mSCOA from 01 July 2017. Amajuba has experienced various challenges with implementing this system, and has been engaging the service provider concerned and National Treasury with no success. What is even more concerning are conflicting reports between the municipality and Treasury, regarding compliance with this new system. The committee has recommended that the municipality reports directly to National Treasury regarding financial information and compliance, and no longer use the service provider for this. Further to that the municipality must seek intervention from Cogta and Treasury regarding challenges relating to compliance with mSCOA.

5. 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 presented to the audit committee together with the reports from Internal Audit on performance management. Internal audit conducted reviews on these reports, mainly to test credibility, usefulness and relevance of information contained therein.

There were various findings on PMS mainly relating to the non-availability of the evidence supporting actual performance reported. This issue was discussed with management throughout the year, as this presents a limitation of scope on the work performed by internal audit.

The committee further raised concerns regarding the quality of performance reporting and the effectiveness of the Performance Management System in light of the matters raised by Internal Audit.

The committee has however noticed an improvement in this area especially based on the review of the annual performance report submitted in the meeting held on 24 August 2018. Performance information was also subjected to a review by the AG, and there were findings raised by the AG relating to the structuring of Key Performance Indicators and supporting evidence.

Management is currently addressing this with assistance from Cogta.

6. 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.

7. 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. Management has to exercise stricter controls when it comes to overall compliance at the municipality.

The committee will follow up on the progress of the management action plans and deadlines, through a review of the work conducted by the Internal Audit unit.

Recommendations

- Management and Council must prioritise the resolution of matters raised by the AGSA, especially matters that led to the qualification of the audit opinion.
- Management to form an audit steering committee, whose specific task will be to oversee the timeous implementation of the post audit action plan.
- Council and management to seek assistance from Cogta, Treasury and other government structures where there are capacity constraints.
- Management must address matters relating to IT governance and controls at the municipality, including reviewing all the contracts relating to IT services and determining the value derived by the municipality therefrom.
- 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.
- Management to incorporate the assessment of performance by service providers, as part performance management in line S46 of the Municipal Systems Act. Where there is non/underperformance, the service providers must be held accountable including the implementation of necessary contractual remedies.
- 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, and improvement in credit management.
- 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.
- Management and Council to assess the status of SCM in the municipality, in light of the Internal Audit and AG findings, assess whether Irregular expenditure has been incurred and take cognisance of the implementation of provisions of S32 of the MFMA where necessary.
- Management to draw up standard operating procedures for all the processes at the municipality, communicate these procedures to staff and implement consequence management where there are instance of non-adherence with the set processes.
- Management and Council to promote a culture of accountability in the municipality.
- Lastly, management and Council to ensure that the internal audit process is taken seriously and that non-submission of requested audit evidence by the various departments is dealt with in the most serious light.

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 some of the areas within the municipality, there is a significant amount of work that has to be done to improve systems and the cash flow position at the municipality.

On behalf of the Audit Committee

Ms Nosipho Mchunu
Chairperson
10 January 2018