

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 2019

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 2018 to 30 June 2019.

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>Date of appointment</u>	<u>Meetings scheduled</u>	<u>Meetings Attended</u>
Ms. N Mchunu (Chairperson)	01 May 2017	8	8
Ms S Gertze	01 May 2017	8	7
Mr M Ngubane	01 May 2017	8	8
Mr B Dlamini	01 May 2017	8	8
Mr S Ngwenya	01 May 2017	8	7

Apologies were received from members for meetings where they were unable to attend.

The following are standing invitees to the Audit Committee Meetings.

Representatives from Office of the Auditor-General (AG)
Representatives from Provincial Treasury and COGTA
The Honourable Mayor
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 was 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 an internal structure within Amajuba District Municipality. The Internal audit function is currently under resourced due to the resignation of the chief audit executive (CAE), towards the end of the financial year. This has put a strain on the unit's ability to deliver on its mandate as per Internal Audit strategic plan and charter.

The Audit Committee reviewed and approved the risk based internal audit plan for the financial year ending 30 June 2019 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 committee noted with concern that in some instances there were delays in the finalisation of audits, and this was mainly caused by unavailability or delayed submission of

information requested for audit and where management did not respond to the findings timeously.

The Internal Audit function is legislated as per S165 of the MFMA as such must be taken seriously by the municipality. The Internal Audit function is there to assist the municipality in strengthening its processes and the control environment.

The overall assessment indicated that the municipality still had control areas that have high risk exposure, due to inadequate controls.

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.

Further to the above the committee is concerned that some of findings reported by AG and Internal Audit in the prior year had not been adequately addressed as at 30 June 2019.

Management action plans to address all the findings will be followed up during the 2019/20 financial year.

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 managing risk.

Accordingly, the risks that affect the municipality may not be detected and addressed timeously in order to minimise exposure.

3. 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.

The committee sat to review the financial statements for the year ended 30 June 2019, in a meeting held on 25 August 2019. The financials presented were still pending material adjustments that needed to be processed, thus the committee could not make any recommendations to Council.

From the financial statements presented the following were noted:

- The municipality still experienced critical financial constraints, as at year end the municipality current liabilities exceeded current assets. The municipality is therefore not able to fulfil all its daily obligations.
- Not all the findings that were raised by the AG, especially, qualification matters had been addressed.

Management indicated that the findings were being addressed with the assistance from Provincial Treasury and Consultants. However, there was inadequate progress in some of the areas (especially Revenue management and Property, plant and equipment – PPE) which resulted in the matters not being fully resolved by 30 June 2019.

The audit outcome from the AG for 30 June 2019 resulted in a qualified audit opinion. The municipality has received qualified audit opinions for the past five years, which is of great concern to the committee as this indicates that the systems in Amajuba are not improving.

Management needs to therefore determine the root causes relating to the findings raised and implement strategies to address these matters without compromise.

Further to the above, those that are charged with a duty of responsibility must be held accountable, including implementation of consequence management where there is non-adherence.

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.

The review of the S71 reports presented to the audit committee revealed that the municipality is still in a critical financial position. Council and management must continue to strengthen efforts to contain costs of the municipality, also collect revenue due to the municipality in order to improve the financial position.

The committee also noted with concern that Amajuba was not fully compliant with the new mSCOA as at 30 June 2019. It was a requirement from National Treasury that 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 minimal success. This has further affected the reliability of reporting. 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 and the financial system.

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.

The municipality seems to have challenges in this area. The PMS reports were not submitted to the audit committee on time due to non-availability of information.

The committee also sat to review the annual performance report for 30 June 2019 in a meeting held on 25 August. This report could not be submitted to IA for review on time due to delayed submission of relevant information. Accordingly, the audit committee could not review the APR and therefore could not express any recommendations to Council.

This area requires commitment from management in the municipality and those responsible must be held accountable.

The committee accordingly could not exercise oversight over PMS and is therefore not able to advise council on the status of performance management in the municipality.

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.

The committee encountered challenges with the administration of the minutes of the committee and resolutions therefrom. There were instances where minutes were not captured or were delayed, which impacted the recording of resolutions taken by the committee for implementation by management.

This is quite concerning to the committee as it impacts on the committee's ability to track progress on the resolutions made, and the work done by the committee in discharging its duties.

This matter was previously discussed with management and had not been resolved as at 30 June 2019.

The committee recommends that this matter is urgently addressed by management and Council.

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. In the internal audit reports, management have provided

comments on the findings, recommendations and timing of the action thereof. Management has to exercise stricter controls when it comes to overall compliance at the municipality.

Further to the above, the committee also noted that the Unauthorised, irregular, fruitless and wasteful expenditure (UIFW) was raised by the AG in the previous year's audit. The action plan indicates that the UIFW was reported to Council and referred to MPAC, however no outcomes were reported as yet.

It was indicated that the MPAC had encountered challenges which affected quorum and therefore could not sit.

The committee would like to urge Management, Council and MPAC to ensure that this matter is prioritised so that root causes are identified and that appropriate steps are taken in line with S 32 of the MFMA.

Recommendations

- Management and Council must prioritise the resolution of matters raised by the AGSA, especially qualification matters.
- 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 and Council to prioritise the review and investigation of UIFW incurred in line with S 32 of the MFMA.
- 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.
- 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, and non-adherence to be dealt with decisively.
- 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, and consequence management to be implemented where necessary.
- Timeous submission of the reports to the audit committee to allow proper preparation.
- Management to prioritise filling critical vacant posts, especially the post of the Chief Audit Executive.
- 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 systems at the municipality, there is still room for improvement in terms of processes at the municipality, further to that 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
14 January 2020