



REPORT TO NDWEDWE MUNICIPAL COUNCIL

SUBJECT: AUDIT COMMITTEE REPORT FOR THE PERIOD 01 JULY 2017 TO 30 JUNE 2018 (ANNUAL REPORT)

DATE: 26 September 2018

1. PURPOSE

The purpose of this report is to apprise Council on the audit committee's progress in carrying out its oversight responsibilities in terms of section 166 of the Municipal Finance Management Act (Act 56 of 2003) as amended (MFMA) read with circular 65 published by the National Treasury on the outcome of the work done by the Audit Committee during the period 01 July 2017 to 30 June 2018.

2 DELEGATIONS

The Audit Committee is a sub-committee of Council.

3 LEGISLATIVE PROVISIONS / POLICIES

3.1 In terms of provisions of section 166 (2) (b) of the Municipal Finance Management Act of 2003 ("the MFMA"), an Audit Committee is an independent advisory body which must advise the Municipal Council, the political office bearers, the Accounting Officer and Management staff of the municipality on matters relating to:

- (i) Internal financial control and internal audits;
- (ii) Risk management
- (iii) Accounting policies;
- (iv) The adequacy, reliability and accuracy of financial reporting information;
- (v) Performance management;
- (vi) Effective governance;
- (vii) Compliance with the Act, the annual Division of Revenue Act and other applicable legislation;
- (viii) Performance evaluation; and
- (ix) Any other issues referred to it by the municipality

4 BACKGROUND

- 4.1** The Audit Committee of the Municipality submits its report to Council in terms of the provisions of section 166 (2) (b) of the MFMA and this report covers the financial period from 01 April 2018 to 30 June 2018.
- 4.2** The report records the outcome of the work done by the Audit Committee for the period indicated above. The committee from time to time made recommendations as preventative or corrective measures to the weaknesses identified by Internal Audit Unit in the municipality or from reports and information supplied to the Audit Committee. This report also serves to bring to the Council's attention matters which may significantly impact the financial health of the organisation.
- 4.3** The advice or recommendations contained in this report have been made based on information supplied to the Audit Committee and is subject to change after due consideration of any new information it may receive as well as subsequent deliberation with the municipality.

5 MOTIVATION/DISCUSSION

5.1 Membership

The Audit Committee consists of the members listed hereunder and meets as a minimum, four times a year as per the approved Audit Committee Charter. The composition of the committee is a minimum of three members as per section 166(4)(a) of the MFMA.

5.2 Names of Members

Dr TI Nzimakwe (Chairperson);
Mr B Dladla;
Ms M Ndlovu; and
Mr LCT Nkosi.

During this period Mr LCT Nkosi indicated that he had not accepted appointment to serve in the Ndwedwe Municipal Audit Committee.

5.3 Overview of Activities

The Committee held 1 meeting during Quarter 4 of 2017/18 (the period 01 April 2018 to 30 June 2018) on 05 June 2018. All members attended the meeting. Council should note that the first meeting of the new Audit Committee happened on 29 January 2018, and there was no further meeting until 05 June 2018.

5.4 Audit Committee Responsibilities

The Audit Committee has complied with its responsibilities arising from section 166 of the Municipal Finance Management Act, Act 56 of 2003, (MFMA) and clause 14(2) (a) of the Municipal Planning and Performance Management Regulations of 2001.

The Audit committees work is guided and regulated by the Audit Committee Charter, which is reviewed, amended and ratified by Council on an annual basis or as there are changes in legislation and has discharged all its responsibilities as contained therein.

The Audit Committee is further guided by the guidelines issued by the Public Sector Committee Forum on 26 February 2018.

5.5 Internal Audit Function & Systems of Internal Control

- 5.5.1 In terms of S165 (1) of the MFMA, each municipality is required to have an Internal Audit function. The Internal Audit Charter regulates the work of the Internal Audit activities. The Internal Audit Charter was adopted by Council and is reviewed on an annual basis.
- 5.5.2 S165 (3) of the MFMA allows the municipality to co-source the internal audit function if the Municipality requires assistance to develop its internal capacity. Circular 65 of the MFMA also provides guidance on the Outsourcing or Co-sourcing of Internal Audit Activity.
- 5.5.3 Due to lack of capacity as a result of a high vacancy rate, the Ndwedwe Internal Audit Unit is completely outsourced.
- 5.5.4 The Internal Audit three year rolling audit plan for the 2017/18 – 2019/20 and the detailed annual Internal audit plan for the 2017/18 financial year were submitted by the Internal Audit Unit to the Audit Committee and approved at a meeting which was held on 05 June 2018.
- 5.5.5 Internal Audit Plan Update
- 5.5.6 The committee reviewed the progress on the implementation of the approved Internal Audit Plan for the year ending 30 June 2018 and noted that whilst the delay in management responses is still prevalent, there is no reason to believe that the plan will not be completed.
- 5.5.7 Of particular concern however, is the considerable number of completed audits of which the design and operation of the systems of internal control are respectively inadequate and ineffective making the journey towards achieving a clean audit administration rating that much more difficult.
- 5.5.8 The detailed audit reports contain recommendations to address the weaknesses identified. These were approved by the committee and management is urged to implement them as soon as possible.
- 5.5.9 The committee noted the Internal Audit findings and the overall assessment of the control environment as well as the recommendations proposed to strengthen controls and the management comments thereof

5.6 Implementation of External and Internal Audit Findings

As a municipality we need to take note that in order to achieve positive audit outcomes we need to implement the recommendations of Internal Audit; the Audit Committee and the Auditor-General. The Audit Committee is concerned that many of the recommended actions from Audit Reports and resolutions taken by the Audit Committee are not being actioned and may result in undesirable audit outcomes.

5.7 Performance Management Reporting

The Audit Committee noted the Quarter 3 Performance Reports submitted by the Performance Management Unit and raised concerns that the PMS Manager reported that information is submitted very late by various departments. This delays the verification of information. It is recommended that this be rectified.

5.8 Risk management

A risk progress report was presented by internal audit and management made commitment to address significant risks highlighted in the report.

6 CONCLUSION

The Audit Committee noted the vacancy in the Finance Division. It is recommended that the key position of Chief Finance Officer (CFO) be filled so that the municipality can move in the right direction. As the Audit Committee also remained confident that other positions will be filled on time when they become vacant.

The Audit Committee confirms its commitment to assist Council to make significant progress towards clean administration. The Audit Committee also wishes to thank Council and management for its support and the teams from internal and external audit for their contributions.

Submitted by:

Dr TI Nzimakwe – Chairperson

On behalf of the Audit and Performance Committee