

REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE COUNCIL OF DR NKOSAZANA ZUMA MUNICIPALITY FOR YEAR ENDED 30 JUNE 2018

REPORT OF THE AUDIT & PERFORMANCE AUDIT COMMITTEE

The Audit & Performance Audit Committee is hereby pleased to present its annual report for the financial year ended 30 June 2018 in accordance with sections 166(2)(3) of the Municipal Finance Management Act, No. 56 of 2003 (MFMA), read with MFMA Circular 65 and other applicable Treasury Regulations and circulars including the Audit committee charter.

AUDIT & PERFORMANCE AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit & Performance Audit Committee consisted of the members listed below. The Audit & Performance Audit Committee serves as a Performance Audit & Performance Audit Committee. The Committee met at least six (6) times during the financial year at which meetings matters of the financial statements, in year budget reporting, risk management, internal control and performance information were reviewed. The committee held two (2) inquorate meetings in August to review the financial statements of the financial year 2016/2017 which were later endorsed at the next quorate committee meeting.

In addition, the chairperson has attended the mid-year and annual performance assessment meetings as part of the performance assessment committee as mandated by the MFMA. As the result of legislative reporting prescript, the Chairperson of the Audit & Performance Audit Committee further attended two (2) council meetings to provide feedback on the work of the committee. The committee has also agreed to have the minutes of the committee serve at council meeting as part of reporting on the work of the committee.

The Chairperson of the Audit & Performance Audit Committee met on several occasions, individually with Municipal Accounting Officer and intends to extend the meetings to the Auditor General and internal audit so as to improve its governance role as prescribed in the King IV report on corporate governance.

Audit & Performance Audit Committee secretarial function was performed by the Municipality Secretariat services. The Municipal Manager, Chief Financial Officer, Internal Audit Manager, COGTA Administrator & Auditor General attended most of the meetings and an invitation continues to be extended to other senior managers particularly for accountability on performance information and other internal control issues. It is understood that most senior management positions were left vacant within the year and the committee has raised concerns over the delay in the filing of the

positions to ensure stability in administrative leadership. The attendance of the provincial treasury and COGTA remained low once again in the financial year. The details of members attendance at meetings held during the 2017/2018 financial year were as follows:

AUDIT AND PERFORMANCE AUDIT COMMITTEE ATTENDANCE RECORD FOR THE PERIOD 1 JULY 2017 TO 30 JUNE 2018					
MEMBER	QUALIFICATIONS	ENGAGEMENT DATE	TERM END	SCHEDULED	ATTENDED
MRS S.D. NCUBE DLAMINI (CHAIR)	B COMM ACCOUNTING, B COMM (HONS) MANAGEMENT ACCOUNTING, CERTIFICATE IN MFMP, SENIOR ASSOCIATE (CIGFARO), MEMBER OF THE IOD(SA)	01-Apr-17	30-Jun-20	6	2
MR P. MTAMBO	B COMM ACCOUNTING, MBA, PROJECT MANAGEMENT, FORENSIC INVESTIGATION, PROFESSIONAL ACCOUNTANT (SA), AGA (SA)	01-Apr-17	30-Jun-20	6	4
MR. B. VAN DER MERWE	REGISTERED GOVERNMENT AUDITOR, SENIOR ASSOCIATE (CIGFARO)	01-Apr-17	30-Jun-20	6	6
Mr. V. MADE	BACHELOR OF LAW, ADMITTED ATTORNEY	01-Apr-17	30-Jun-20	6	6

AUDIT & PERFORMANCE AUDIT COMMITTEE LEGISLATIVE ROLES AND RESPONSIBILITIES

The Audit & Performance Audit Committee is constituted in terms of sections 166(1) (2) and 166 (6) (b) of the Municipal Finance Management Act, No. 56 of 2003 (MFMA), MFMA Circular 65 and applicable Treasury Regulations with a balance in expertise ranging from Accounting, Auditing, Legal, Performance management and Local Government Governance. The Audit & Performance Audit Committee is an independent advisory body which must advise the Municipal Council, the Accounting Officer and the management staff of the municipality. It advises on matters relating to:

- Internal financial control and internal audits;
- Risk management;
- Accounting policies;
- The adequacy, reliability and accuracy of financial reporting, records and information;
- Performance management;
- Effective governance;
- Compliance with Municipal Finance Management Act, its related circulars and regulations and any other applicable legislation;

- Performance evaluation;
- Any other issues referred to it by the municipality;
- Review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with Municipal Finance Management Act, and any other applicable legislation and regulations;
- Respond to the council on any issues raised by the Auditor-General in the audit report;
- Review the quarterly financial state of the municipality;
- Make submissions to the Council on any matter concerning all the above functions; and
- Receiving and dealing appropriately with concerns or complaints relating to auditing of the municipality including development and implementation of a policy and plan of a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

TERMS OF REFERENCE

The Audit & Performance Audit Committee has adopted formal terms of reference, herein referred to as the Audit Committee Charter, which was presented, deliberated upon and recommended for final approval by Municipal Council. The charter is reviewed annually to ensure improvements and alignment with relevant development both in legislation and governance. Further the committee reviews the internal Audit charter for recommendation to council. The Audit & Performance Audit Committee has executed its duties in accordance with the Charter during the year ended 30 June 2018, however the committee notes that the assessment of the committee and its individual members was not conducted in the year under reporting. This will as a result be prioritised for conclusion in the 2018/2019 financial year and thereafter annually going forward.

EFFECTIVENESS OF INTERNAL CONTROLS

The systems of internal control are the legislated responsibility of the accounting officer and executive management in line with requirements of MFMA, principles of King IV Report on Corporate Governance, MFMA Circular 65, and International Standards for the Professional Practice of Internal Auditing and applicable national treasury regulations. Internal Audit Function provides the Audit & Performance Audit Committee and management with assurance that the system of internal control is appropriate, adequate and effective. This is achieved through risk assessment,

identification of corrective action, enhancement of controls and operational processes together with review and evaluation of the adequacy and effectiveness of existing controls, development and implementation of recommendations for improvement. During its meetings, the Audit & Performance Audit Committee could not review the adequacy and effectiveness of the system of internal financial control including its approach on the municipality's exposure to the business and financial risks and whether processes are in place to safeguard the assets of the organisation. It must be noted that this was due to the delays in the finalisation of the risk assessment exercise which adversely impacted on the committee's ability to effectively play its role in risk management and further the finalisation of the audit plan for the 2017/2018 financial year. As such the committee could not perform a review of the internal control systems due to the lack of internal audit reports being submitted on the state of controls. Resultantly this concurs with the AGs conclusion that inadequate controls were employed over the preparation of financial statements.

As such the committee has recommended that the risk assessment exercise be concluded before the start of each financial year. The risk assessment and the resultant audit plan were therefore rolled over to 2018/2019.

THE QUALITY OF IN YEAR MONITORING, MONTHLY AND QUARTERLY REPORTS SUBMITTED IN TERMS OF TREASURY REGULATIONS AND MUNICIPAL FINANCE MANAGEMENT ACT

The Audit & Performance Audit Committee was satisfied with the content and quality of monthly and quarterly reports prepared and submitted by the Accounting Officer to the Audit & Performance Audit Committee, for review during the year under review. The second quarter meeting was not held and as such the committee lost valuable time to assess the adequacy of the information presented on performance against budget and equally the implementation on the budget. The committee has thus requested management to ensure a calendar of meetings is prepared for the committee to ensure proper forward planning. The audit committee charter further details the frequency of meetings and submission dates of agenda packs for the meetings which must be adhered to consistently by management.

The committee also adopted a work plan which details the reports which the committee seeks to review in order to play effective oversight. The committee has emphasised the need for ratio analysis of the report to ensure that the information in the in-year budget reports in both interpreted and also understandable to any user of the information. The committee noted the underspending on the capital budget mainly due to the late appropriation of the funds from the

national fiscus. Management is encouraged to ensure multi-year planning of projects procurement to ensure that fewer delays are experienced in service delivery implementation due to SCM process.

REDETERMINED OBJECTIVES, PERFORMANCE MANAGEMENT AND EVALUATION

The legislative framework prescribes that the Accounting Officer develop, establish, maintain, monitor and evaluate the effectiveness and efficiency of the performance management system, with performance indicators and performance targets in accordance with the relevant regulations and legislation. The Audit & Performance Audit Committee through Internal Audit is responsible for ensuring that the system of performance management, measurement, monitoring, reporting and applicable systems of internal control that underpin the performance management framework remain responsive and are adequately covered in the annual internal audit plan. The Audit & Performance Audit Committee has reviewed quarterly performance information as reported by the municipality at quarterly Audit & Performance Audit Committee meetings throughout the year.

The performance information quarterly reports were reviewed and audited by internal audit for verification, assurance and enhancement recommendation before being submitted to the Audit & Performance Audit Committee for deliberation and recommendation. The Audit & Performance Audit Committee remains concerned about the lack of improvement in the submission of credible portfolio of evidence by management and delays in responding to audit findings by management. Again the committee was able to review the reports in the third quarter as the second quarter meeting was not scheduled. Internal Audit has however audited the performance management information for the period under review and the recommendations of the committee have also been submitted to council through the minutes of the committee meetings.

It was also highlighted by the committee the need to speedily fill the positions of senior managers particularly those impacting on service delivery being the Public Works and Basic Services and Community Services. The issues raised in the audit report must be prioritised by management in the mid-year SDBIP review to ensure that improvements are effected urgently in performance management systems. The committee has further recommended that the SDBIP be reviewed to only have targets which are focused on strategic issues and allow for all other operational indicators to be included in the operational plan at a departmental level for the accounting officers monitoring.

RISK MANAGEMENT AND GOVERNANCE

The Municipal Accounting Officer has a legislated responsibility to establish and maintain effective, efficient transparent system of risk management in accordance with King IV espoused in the King Report on Corporate Governance. The Audit and Risk Committee could not successfully, adequately

and effectively execute its oversight responsibility as prescribed in regulation 23(4) and regulation 24(4) of National Treasury Public Sector Risk Management Framework read with Annexure D of KZN Provincial Treasury Risk Management Framework for Municipalities and Municipal Entities. The Audit & Performance Audit Committee continues to be concerned with the municipality internal Risk Management Committees not operating as intended resulting in delays in the implementation of risk mitigation strategies by Risk Owners and failure to provide Audit & Performance Audit Committee with adequate and sufficient quarterly risk management reports as evidence of how management is implementing risk management strategies, risk framework and risk mitigation controls. It is understood that risk assessment services were previously provided by Provincial Treasury which service was terminated in the year under review. The Accounting officer has thus appointed the Internal Audit Manager as a Risk Officer which was supported by the committee. The Internal Audit Manager has also been provided with an intern to provide support.

The delay in the finalisation of the risk assessment contributed immensely to the committees inability to approve, review and monitor risk management activities. As such the Audit & Performance Audit Committee did not obtain adequate assurance as quarterly risk management reports were not submitted and deliberated by Risk Management Committee as prescribed by Risk Management Framework with the exception of the report tabled in the fourth quarter. The report was also referred to risk management committee for further improvements. It is understood that the risk assessment function was previously provided by Provincial Treasury however management needed to

INTERNAL AUDIT FUNCTION

The Audit & Performance Audit Committee in its oversight responsibility to evaluate and monitor internal controls, works in close co-operation and partnership with the internal audit function. The internal audit charter, three-year risk based internal audit strategic plan and annual operational plan were developed by Internal Audit in consultation with management and approved by Audit & Performance Audit Committee late in the financial year and as such no significant projects could be completed with the exception of the performance management information.

The Internal Audit Manager reported functionally to the Audit & Performance Audit Committee and had unrestricted access to the Audit & Performance Audit Committee Chairperson and the entire Audit & Performance Audit Committee at all times. All internal audit work as well as quarterly progress reports were reviewed and approved by the Audit & Performance Audit Committee.

Internal Audit attended all Audit & Performance Audit Committee meetings and deliberations and presented a summary of the salient findings of the performance information audits carried out for the period including management response to recommended corrective action. Internal Audit was unable to complete and achieve its annual operational plan as approved by the Audit & Performance Audit Committee resulting in work backlogs being rolled forward to the following year except for the issues detailed above internal audit was effective for the year under review. A co source partner was also procured to provide technical support to the Internal Audit Manager in the execution of the plan. The committee continued to stress the separation of the internal Audit Manager from administrative work of management to allow Internal Audit time to perform the work of Internal Audit with the required independence.

EVALUATION OF FINANCIAL STATEMENTS

The Audit & Performance Audit Committee has reviewed both the interim AFS and the annual AFS although the meeting was inquorate comments were submitted to internal audit via email by members. The minutes of the inquorate meetings were endorsed by the committee at its following meeting after August 2017. The committee has encouraged the preparation of interim financial statements to ensure controls over the preparation of the AFS are monitored over regular intervals. This will assist in improving the reporting for audit purposes.

The Audit & Performance Audit Committee concur and accepts the Auditor-General report on the annual financial statements and are of the opinion that the audited annual financial statements should be accepted together with the audit report of the Auditor-General.

CONCLUSION

The Audit & Performance Audit Committee hereby thanks the Municipal Council, Accounting Officers, Chief Financial Officers, Senior Managers, Internal Audit Manager, Auditor-General as well as all management and staff for co-operation and support during the year under.