

Appendix G: Report of the Audit and Performance Audit & Performance Audit Committee

**REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE COUNCIL OF DR NKOSAZANA ZUMA MUNICIPALITY FOR YEAR ENDED 30 JUNE 2019**

**REPORT OF THE AUDIT & PERFORMANCE AUDIT COMMITTEE**

The Audit & Performance Audit Committee is pleased to present its annual report for the financial year ended 30 June 2019 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 (APAC) consisted of the members listed below. The Committee met at least four (4) 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.

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 a result of legislative reporting prescript, the committee reports to council through minutes of the meeting and also through the chair of the APAC.

As an initiative to strengthen governance and allow for improved communication the committee has also held bilateral meetings with the Accounting Officer and wishes further to extend such engagements to the Mayor, and the internal and external auditors. This practise is encouraged in the King IV report to allow for expedient engagement and address of issues with those charged with governance. Moreover the committee intends to build a stronger relationship with the MPAC in the spirit of cross pollination and to allow for collaborative effort on matters of common interest.

The APAC secretarial function continued to be performed by the Municipal Secretariat services. The Municipal Manager, Chief Financial Officer, Internal Audit Manager, COGTA 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. The committee further welcomed the filling of the 2 vacancies in senior management positions which are core service delivery drivers within the municipality. The details of members attendance at meetings held during the 2018/2019 financial year were as follows:

<b>Member</b>	<b>Meetings scheduled</b>	<b>Attended</b>
Ms SD Ncube Dlamini (Chair)	5	5
Mr LB van der Merwe	5	4
Mr VIV Made	5	5
Mr P Mntambo	5	2

#### **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 2019.

#### **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. This responsibility is facilitated through the follow up of prior year audit action plans for which management implemented a majority of corrective measures in the financial year. The audit committee has reviewed progress on the audit action plan and was satisfied that management has implemented corrective actions as committee with a few exceptions which efforts to address were beyond management control.

It must be noted however that there has been a regression in the quality of financial information presented in the financial statements with numerous adjustments during the audit. Management is encouraged to ensure qualitative financial reporting to uphold the credibility of the financial information compiled by council.

## **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 of the quarterly reports prepared and submitted by the Accounting Officer to the Audit & Performance Audit Committee, for review during the year under review. The committee however continues to emphasise the need for ratio analysis of the financial report to ensure that the information in the in-year budget reports is both interpreted and also understandable to any user of the information. The committee commends management for an improvement in the spending of grant funding relating to service delivery programmes which reflected in the significant reduction in the unspent grants at year end. Multi-year planning continues to be a focal point to fast track implementation of service delivery projects.

## **PREDETERMINED 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 over the lack of improvement in the submission of credible portfolio of evidence by management and delays in responding to audit findings by management. Greater oversight is required to ensure improvement in the reporting of predetermined objectives. The committee welcomed the filling of the key management positions which are critical in the attainment of the SDBIP commitments. This has provided greater comfort to the committee around accountability for the SDBIP attainment.

## **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. Efforts to obtain an external chairperson of the risk management committee have failed and the committee recommends that the risk management committee position be resolved urgently to ensure that consequential weakness of the internal control environment is managed. In the process the Accounting Officer must provide greater leadership to the function and hold management accountable for the function of risk management.

#### **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 internal audit. The internal audit plan was approved by the committee before the start of the financial to ensure that adequate time is provided for internal audit to effectively perform its role of assurance for the benefit of management and council. The committee is pleased that the plan was effected with completion which indicates an improvement from prior year and further provides timeous assurance to management of the control environment and provides them the opportunity to implement corrective measures well within time.

Key areas that the plan covered were procurement, asset management, payroll, fleet management, AFS review, ICT review and registry and archives management amongst others. Moreover the committee through internal audit reviewed performance information in each quarter of the financial year and although there has been improvement in the submission of POE there remains room for improvement in the packaging of performance information. The committee has further stressed the

necessity to ensure adequate staffing in the internal audit unit and plans to see an improvement in the following financial year.

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.

### **EVALUATION OF FINANCIAL STATEMENTS**

The Audit & Performance Audit Committee has reviewed both the interim AFS and the annual AFS produced within the financial year.

The Audit & Performance Audit Committee concur and accepts the Auditor-General's 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 the Accounting Officer and his management team, and the internal and external audit team for co-operation and support during the year under.