

The Honourable Speaker
 Mtubatuba Local Municipality
 Lot 105 Nkosi Mtuba Road
 Mtubatuba
 3935

REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL OF MTUBATUBA LOCAL MUNICIPALITY

FOR THE YEAR ENDED 30 JUNE 2016

The audit committee has the pleasure in submitting this report to the Council of Mtubatuba Local 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 2015 to 30 June 2016.

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 February 2015 and is comprised of 3 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 August 2015</u>	<u>21 October 2015</u>	<u>21 April 2016</u>	<u>15 June 16</u>
Ms. N Mchunu (Chairperson)	4	✓	✓	✓	✓
Mrs. C Jugnarayan	4	✓	✓	✓	✓
Mr. D Mncwabe	4	✓	✓	✓	✓

The following are standing invitees to Audit Committee Meetings.

Representative from	Office of the Auditor-General (AG)
Representatives from	Provincial Treasury and COGTA
Chairperson	MPAC: Mtubatuba Municipality
Associate Director	Internal Audit Services (EY)
The Municipal Manager (MM)	
The Chief Financial Officer (CFO)	
Heads of Departments	

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 terms of the Audit Committee Charter which is to be approved by the Council of the Mtubatuba Local Municipality.

Section 121(4)(g) of the Municipal Finance Management Act, No. 56 of 2003 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 done by internal audit which is outsourced to EY (Ernst & Young) who were appointed in January 2015 on a three year contract. The internal audit function was operational from this date onwards.

The internal audit plan for the financial year ending 30 June 2016 was presented and accepted by the Audit Committee. The plan also included the hours for each audit in terms of capacity needed and capacity available. The Audit Committee at each meeting; assesses performance against the plan and reviews the plan to ensure that critical risks of the operations of the Municipality and the findings of the Auditor-General are addressed.

A total of eleven reports, including the one performance internal audit report for the Municipality (covering quarters 1), were completed and tabled at the Audit Committee meetings held during the reporting period. Further reports are expected to be tabled before the end of August 2016.

The reports presented to Audit Committee during the 2016 financial year include recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on. To further enhance the processes in place, internal audit conducts follow up audits on previously reported audit findings and report progress to senior management and the Audit Committee.

The audit conclusions resulting from internal audits conducted in various areas ranged from weak to unsatisfactory. An unsatisfactory conclusion represents a catastrophic and unacceptable exposure of the Municipality to risk, which requires urgent attention and intervention by management, meanwhile a weak conclusion represents a high exposure to risk which also requires attention by management. The audit findings were discussed with management, who agreed with the findings and presented action plans already implemented or to be implemented in order to improve systems at the Municipality. The committee also acknowledges that there was instability at the municipality during the year due to key management positions remaining vacant for a long time. This was also raised as a concern in the previous reports, and will expose the municipality to risk that certain key management functions will not be performed at the municipality, which will compromise operations and service delivery, which is also evident from the audit conclusions.

Accordingly the committee has expressed concern over the audit conclusions relating to various that the overall internal audit conclusions indicated an inadequate control framework resulting in control weaknesses being noted in certain areas. Management has made commitments to implement appropriate systems of internal controls and corrective action to address the identified weaknesses and possible irregularities; this will also require vigorous monitoring and evaluation by management at the municipality. The Audit Committee will monitor the progress of the management action plans through future follow up audits to be conducted by Internal Audit.

Risk Management

The Municipality conducted a risk assessment workshop for financial year 2014/15, assisted by Provincial Treasury, and the top key risks were identified, measured and prioritised. The risk register has not been reviewed for the 2015/16 year as required by the MFMA, and management has committed to addressing this matter urgently, with the assistance of Internal Audit. The 2014/15 Risk Register was however used as a basis of formulating the Annual Internal Audit plan, taking into account the prioritisation of the key risks. The Municipality currently does not have a resource/committee that is dedicated to Risk Management, nor does it have a clear system/framework for managing risk at the Municipality.

The Committee has raised this concern with management, and was assured that this will be looked into.

2. 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 cash flow position. In order to do this,

the audit committee relies on the work conducted by the Internal Auditors, and therefore such reviews have been provided for in the Annual Internal Audit Plan.

The Committee will accordingly sit to review the Municipality's Annual Financial Statements (AFS) for the year ended 30 June 2016 during August before submission to the Auditor General, in line with the S166 of the MFMA.

This review by the Audit Committee will include a review of the technical application of the correct Accounting Standards in the treatment of transactions and disclosure thereof. The 2nd aspect of the review will be of a qualitative nature mainly relating to assertions affecting each balance. The final review relates to the analytical assessment of the information contained in the financial statements which gives an indication on the financial position, performance and cash flow position of the Municipality.

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

The Committee has reviewed reports relating to controls affecting the credibility and reliability of reported information. There were findings in this area mainly relating to the status of records at the municipality. Management has since implemented initiatives to address the findings identified, including the performance and review of monthly financial reconciliations, and the committee believes that this will further enhance accuracy and completeness of financial reporting at the municipality.

The committee was also furnished with the progress on the implementation of the AG action plan. There seems to progress in this area, although some of the findings remain unresolved. Management assured the committee that all the AG findings will be resolved before the submission of the financial statements and draft annual report by the end of August.

The committee has raised concerns with regards to the status of performance reporting at the municipality, this was also raised in the previous reports and has been discussed with management as well.

4. *Performance Management*

The Audit Committee also serves as the performance Audit Committee for Mtubatuba 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 (Section 14) (Regulations).

Two performance reports (Quarter 1 and 2) have been submitted to the committee to date. However, an audit could only be conducted on PMS for quarters 1 2015/16 due to unavailability of information. The conclusion of the audit was that the controls around PMS were unsatisfactory.

It also transpired from the audit findings, and discussions with management that the municipality does not have a clear framework for managing performance at the, nor does

it have capacity to drive this important function. This has therefore led to the breakdown in the PMS systems at the municipality, which implies that the municipality has challenges in monitoring its performance against pre-determined objectives effectively. If this is not addressed urgently, it will have a negative impact on service delivery.

The above concerns were discussed with management and it transpired that although the municipality was experiencing challenges with PMS, programs on the ground had been implemented and that the information was available, although not reported as required by the Municipal Systems Act.

Management therefore assured the committee that the findings and recommendations made by the auditors and the committee were being addressed, including the engagement of a PMS and compliance manager, and improvements in this area were imminent.

5. *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.

6. *Compliance with Legislation and Ethics*

The Audit Committee has noted 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. In the internal audit reports, management have provided comments on the findings, recommendations and timing of the action thereof.

The committee also noted with concern that the Annual report for the year ending 30 June 2015 was subjected to review by the oversight committee of the municipality, within 2 months after tabling as required by S 129 of the MFMA. This was an oversight on the part of the municipality and a contravention of the MFMA.

This was discussed with management who have assured the committee that this matter was addressed in compliance with the MFMA and necessary remedies were performed. Further to that a dedicated resource will be allocated to oversee Annual Report process in line with the MFMA requirements.

The committee will follow this matter up with management during future audits.

Recommendations

- The Council and management need to urgently implement the policy and monitor controls over assets management;
- The Council and management need to further enhance internal controls over SCM and expenditure management processes;
- The filling of key vacant positions needs to be addressed urgently as a priority.
- Management should ensure that accurate, reliable and complete financial and performance information is submitted quarterly for review by the Committee;
- Management should prioritise the implementation of the AG action plan, to ensure that matters raised by the AG are addressed timeously.
- The Council and Management to incorporate risk management as part of its daily operations and to also exercise responsibility over this area.
- The Council and management need to urgently implement the policy and monitor controls over performance management and reporting.
- Management to review the IT environment at the municipality and implement recommendations made by the auditors, to enhance IT security and safeguarding of information.

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 the systems and procedures implemented by Management and Council are steadily improving, but still require an extensive review in some areas and proper monitoring.

The status of implementation of corrective measures is to be reported at every meeting of the Audit Committee to enable monitoring.

On behalf of the Audit Committee



Ms Nosipho Mchunu
Chairperson

23 June 2016