

## **REPORT OF THE AGANANG MUNICIPAL AUDIT COMMITTEE FOR THE YEAR ENDED – JUNE 2014**

We are pleased to present our annual report for the financial year ended 30 June 2014.

The report seeks to provide an overview of the activities that the Audit Committee conducted during the year under review and highlight issues that were raised for management's attention and progress thereof. Refer to Annexure 1.

### **Background**

The audit committee was appointed on a two year contract basis on a shared service model between Capricorn District Municipality and Aganang Local Municipality. A shared service level agreement was signed and state the appointment period as from 01 June 2012 to 31 May 2014, subsequent to that an extension agreement was also signed which covered a period from 01 June 2014 to 31 May 2015.

The Audit Committee report is aimed at providing the Council and relevant parties/ stakeholders with our assessments of the financial and performance management of Aganang Local Municipality over the year under review, measured against the applicable regulation, legislation and acceptable accounting practice as prescribed by GRAP and principle of good governance. It is based on our interaction and reports as presented by Auditor General, Internal Audit and various departments within the municipality to the Audit Committee including the recommendation made by the Audit Committee to management for implementation.

We acknowledge that our report is not exhaustive of all the issues and should not be used as a basis for any decision making without further investigation by the Council but rather should serve as a high level assessment of the status of the Municipality in its attempt to achieve its goals.

We have discharged our responsibilities as guided by Sec. 166 of the Municipal Finance Management Act, Sec 41 of the Municipal Systems Act, Local Government: Municipal Planning and Performance Management Regulation, 2001 Sec 4(a) (b) (c), Audit Committee Charter, relevant Treasury Regulations and circulars and other relevant legislations.

## **Mandatory roles of the Audit Committee**

Section 166 of the Municipal Financial Management Act (No. 56 of 2003) stipulates that each municipality must have an audit committee which serves as an independent advisory body.

- (a) The audit committee must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to-
- (i) *Internal financial control and internal audit;*
  - (ii) *Risk management;*
  - (iii) *Accounting policies;*
  - (iv) *The adequacy, reliability and accuracy of financial reporting and information;*
  - (v) *Performance management;*
  - (vi) *Effective governance;*
  - (vii) *Compliance with the MFMA, the DORA and any other applicable legislation;*
  - (viii) *Performance evaluation; and*
  - (ix) *Any other issues referred to it by the municipality*
- (b) Review the annual financial statement to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its effectiveness and its overall level of compliance with the MFMA, the DORA and any other applicable legislation
- (c) Respond to the council on any issues raised by the Auditor-General in the audit report;
- (d) Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request;
- (e) Perform such other functions as may be prescribed

The principles of King III, customised to municipal environment advise that the audit committee should:

- ensure that combined assurance model is applied to provide a coordinated approach to all assurance activities;
- satisfy itself of the expertise, resources and experience of the municipality's finance function;
- be responsible for overseeing of internal audit; and
- be an integral component of the risk management process

## **TERMS OF REFERENCE**

The Audit Committee consisted of 07 external members. The Audit Committee has adopted appropriate terms of reference which are encapsulated in an Audit Committee Charter, approved by

Council. The Audit Committee has approved an Internal Audit Charter which regulates the operations of the Internal Audit unit.

### **Audit Committee Members and Attendance of meetings**

The Audit Committee consists of the members listed hereunder and meets at least four times per annum as per its approved charter. During the year under review, the meetings of Audit Committee were held as follows: four (04) ordinary meetings which also served as performance meetings since the performance reports were considered in those meetings and four (04) special meetings, thus eight (08) meetings were held during the financial year 2013/2014. The following table illustrates the number of meetings attended by each member:

#### **Shared Audit Committee Members**

<b>Name of member</b>	<b>Ordinary audit committee meetings</b>	<b>Special audit committee meetings</b>
Mr Poopedi D.M (Chairperson)	4 of 4	4 of 4
Mr Ngobeni S.A.B	4 of 4	2 of 4
Mr Modisha I.W	4 of 4	3 of 4
Ms Ranape I.T.	3 of 4	2 of 4
Ms Badimo A.M.M	3 of 4	1 of 4
Prof Du Toit A	3 of 4	3 of 4
Adv. Khulong ST	4 of 4	2 of 4

#### **Audit Committee Responsibility**

The Audit Committee was established in order to assist in improving management reporting by overseeing internal and external audit functions, internal controls and the financial reporting process, compliance with accounting policies, legal requirements and other policies within the Municipality. The Audit Committee evaluates the effectiveness of the external and internal audit processes and review compliance with the code of ethics.

The Audit Committee reports that it has complied with its responsibilities arising from Section 166 of the Municipality Finance Management Act ("the Act") and Treasury Regulations 27.1.8 and 27.1.10. The Audit Committee consists of non-executive members including the chairperson and it has also adopted formal terms of reference as its Audit Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

## **AUDIT COMMITTEE COMMENTS**

The Audit Committee has discharged its activities as mandated by section 166 of MFMA and express its comments as follows:

### **The effectiveness of internal control**

The system of internal control is designed to provide cost effective assurance that assets are safe guarded and that liabilities and working capital are judiciously used. Also, IT controls are designed to provide assurance that assets are safe guarded and that the confidentiality, and integrity, and availability of information are assured under all circumstances. The internal audit unit of the Municipality has furnished the Audit Committee with reports of its evaluation of the effectiveness of the internal controls within the Municipality. Based on the findings reported by the Internal Audit, the Audit Committee expresses unsatisfactory opinion on the effectiveness of the system of internal control.

### **Effectiveness of governance**

The Audit Committee reviewed the performance report of the municipality and the committee is not satisfied with effectiveness of governance on the basis that performance of Senior Managers was not assessed during the year. Corrective measures to improve poor performance were not developed and implemented which compromised service delivery accountability.

### **Effectiveness of Internal audit function**

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and accomplished its annual operational plan. The audit unit comprises of five (5) staff members, which are Chief Internal Auditor, two (2) Internal Auditors and two (02) Trainee Internal Auditors.

The committee is of the view that the unit was effective for the year 2013/14 as it was able to discharge its responsibilities as set out in the approved audit plan and section 165 of the Municipal Finance Management Act.

### **Risk Management**

The committee is partially satisfied with the effectiveness of the risk management processes and systems though the Risk Management Committee was establishment and functional most of the risks were not mitigated to the acceptable level. There were no consistency in submitting monthly monitoring reports to Management, Executive Committee and Council thus what constitute poor mitigations of the risks identified during the year

### **Evaluation of expertise and resources of finance function**

The Audit Committee has evaluated the expertise and experience of the staff in the finance unit of the municipality and is of the view that capacity building need to be prioritized to enhance the competency level. The high vacancy rate within the department is a call for concern to the committee which needed urgent attention. The Audit committee is also concerned about the lack of competence by the accounting staff regarding the application programs used by the municipality to generate financial records.

### **The quality of in-year management reports submitted in terms of the S 71 & 72 of Municipal Finance Management Act**

The Audit Committee has reviewed and discussed with the Accounting Officer the quarterly financial reports and it is the view of the Audit Committee that the quarterly reports were not compiled fully in terms of the requirements of National Treasury template as recommended in section 71 and 72 of MFMA.

The Audit Committee is not satisfied with the contents and quality of monthly and quarterly reports prepared and issued by the management during the year under review including the reports on performance information as audited by internal audit prior submission to the Audit Committee. The Audit Committee raised a concern over the reliability and correctness of the figures in the financial reports. It is the view of the Audit Committee that the performance reports of the municipality were not specific, measurable, achievable, reliable and timely. i.e. (SMART) compliant.

### **Year-end Process Plan**

The municipality failed to prepare and the interim (quarterly, half yearly & nine months) financial statements in accordance with GRAP standards during the financial year as recommended by the Audit Committee in preparation of the year annual financial statements. It is a concern to the committee regarding the capability and expertise of the finance staff to prepare credible and fair Annual Financial Statement without material misstatements.

### **Evaluation of the Annual Financial Statements**

The Audit Committee has:

- Reviewed and discussed with the Accounting Officer the Audited Annual Financial Statements to be included in the Annual Report;
- Reviewed the Auditor General's report, management letter and management response; and
- Significant adjustments resulting from the audit were submitted to the Audit Committee for review.

## **OVERALL OBSERVATION AND CONCLUSION**

While Audit Committee strives to add value to strengthen the governance of the municipality with each meeting held, the benefit therefore can only be derived through concerted efforts by both the Management and Council to implement the resolutions and recommendations provided from the committee sittings.

Audit Committee advise and present to the light of Council that;

- The committee reviewed and interrogated the quarterly section 71 financial reports and noted that the reports were not submitted to Internal Audit for review and verification before submission to Audit Committee.
- The committee reviewed and interrogated the quarterly section 71 financial report and noted that the figures were not correct and reliable.

### **Resolving Internal Control Findings**

- The management failed to implement recommendations of the Audit Committee that seeks the municipality to compile interim/half yearly financial statements during financial year 2013/14.
- Progress with regard to corrective measures on issues raised by Internal Audit is not satisfactory as management did not priorities addressing findings raised by Internal Audit which some dated as far as the financial year 2008/09.
- With regard to corrective measures on issues raised by Auditor General, the committee was not satisfied since the management failed to resolve all major audit findings raised in the previous year 2012/13 before the commencement of the audit for 2013/14.

### **Performance Measurement.**

- The municipality should consider establishment of a separate performance audit committee with an independent chairperson with engineering or project management experience as required by legislations to focus quarterly on the assessment and monitoring of the poor performance of the organization in capital projects.

### **Combined Assurance Framework.**

Formal engagements occurred between the Audit Committee, management, MPAC, Mayoral Committee, Council and the Auditor General during the year. These engagements continue to be regularized and developed in order to strengthen and enhance the combined assurance model of the municipality. Further to that Provincial treasury and Coghsta have a standing invitation to all meetings.

## **Auditor-General South Africa**

The Audit Committee concurs with and accepts the conclusions of the Auditor General on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements and the reported predetermined objects be accepted and read together with the report of the Audit General.

*For detail resolutions refer to annexure A:*

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**Mr. Masoga Poopedi**

**Chairperson of the Audit Committee**