



MAKANA
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**MAKANA
MUNICIPALITY AUDIT
AND RISK COMMITTEE
REPORT 2015/16**

Presented by Mrs. Fungai Mushohwe – Acting
Audit and Risk Committee Chairperson.

Abstract

This report covers the duties and responsibilities of the committee. The report further discusses the main issues identified for the attention of the Council and related parties.

25 January 2017

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Honorable Speaker, Executive Mayor, Mayoral Committee, Management, Community of Makana Municipality, Auditor General, all Key Stakeholders good morning. We are pleased to present our report for the year ended 30 June 2016.

Duties and responsibilities of the audit committee

The primary purpose of the Audit Committee is to assist Makana Municipality Council in fulfilling its oversight responsibilities to ensure that the municipality has and maintains effective, efficient and transparent systems of financial management, risk management, governance and internal control.

Advisory

The Municipality's Audit Committee is established in terms of Section 166 of the MFMA, Municipal regulations and the King IV Report on Corporate Governance. The committee as an independent advisory body, must advise the Municipality, Accounting officer and the Management staff on matters relating to:

- Internal financial control and internal audits ;
- Risk management;
- Accounting policies;
- The adequacy, reliability and accuracy of financial reporting and information ;
- Performance management;
- Effective governance;
- Compliance with MFMA Act,
- Annual Division of Revenue Act and any other applicable legislation;
- Performance evaluation; and
- Any other issues referred to it by the municipality.

Annual Financial Statements Review

The Audit and Risk Committee is also expected to 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 this Act, the annual Division of Revenue Act and any other applicable legislation ;

The committee must respond to the Council on any issues raised by the Auditor General in the Audit Report; as well as to carry out such investigations into the financial affairs of the Municipality as the Council of the municipality may request. The Audit Committee is also expected to any other functions as prescribed.

In performing its functions, the Audit and Risk Committee must have access to the following:

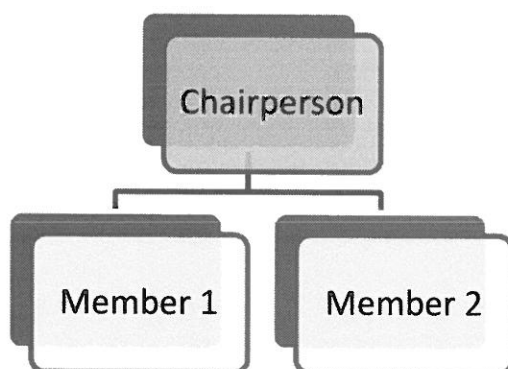
- Financial records and other relevant information of the Municipality; and

- Liaise with the Internal Audit Unit of the Municipality; and
- The person designated by the Auditor-General to audit the financial statements of the Municipality.

Other Key Functions and Responsibilities

- Oversight over the operations of Internal Audit Unit.
- The Audit Committee discharges its duties in line with its Charter that was regularly reviewed by Council and regulates affairs of the committee.
- The Audit Committee strives to comply with relevant legislation as it discharges its responsibilities.
- The External Auditors and Internal Audit Unit provides the Audit Committee and Management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

Audit Committee Composition



The Committee has three members that were appointed on 04 December 2014, all of whom are competent in discharging their responsibilities, with all of them forming a quorum.

The Municipal Manager, Senior Management, assurance providers Risk Manager, Internal and External Auditors are invitees to attend the Committee meetings. Where necessary, in – committee meetings are held with only the Acting Municipal Manager, Internal Audit Manager.

Issues Identified

From the various reports of the Internal Audit Unit, the Audit Report on the Annual Financial Statements and the management report of the Auditor-General South Africa, it was noted that significant matters were

reported that indicated material deficiencies in the system of internal control or any deviations there from. Accordingly, we report that the system of internal control over financial reporting for the period under review was not efficient and nor effective.

Internal Audit

The committee is concerned that the Internal Audit Unit has only one official as at 30 June 2016. To quote from the Auditor General's report, paragraph 55 read as follows "*The Internal Audit Unit did not function as required by section 165(2)*"

Internal Audit function has not addressed all risks pertinent to Makana Municipality in its annual plan and audits. This is mainly because the Unit does not have the capacity to effectively execute the functions as required by section 165 of the Municipal Finance Management Act. Meaningful contribution of audit committee is influenced by the work of Internal Audit, as at year-end the Internal Audit Unit only had one official.

We are however pleased with the appointment of an additional staff member post the financial year. A request is submitted for urgent attention be concentrated to building of capacity of this Unit.

The effectiveness of internal control and management response

Concerns relating to efficiency and effectiveness of the system of internal control as assessed by Internal and External Auditors in **successive** audit reports and inadequate interventions by management to improve on previous indicated deficiencies in the system of internal control.

Furthermore, management attitude to the control environment was not consistent throughout the year. This is evidenced by the fact that many issues raised by the Auditor General and the Internal Audit Unit were not adequately resolved for better part of the year however we are encouraged by the efforts management as at year end.

Risk Management and Effective Governance

We are encouraged by Management interventions and commitment mid and post year end regarding Risk Management, we believe that the efforts are effective and do promote transparency as required by King IV Report on Corporate Governance. This culture must be embedded throughout the year. Risk Management is one of the drivers of good governance in an organisation.

Annual Financial Statements Review

The committee reviewed the draft Annual Financial Statements and accounting practices in detail and is satisfied that the information contained in the annual financial statements as well as application of accounting policies and practices applied are reasonable. The committee reviewed the draft Annual Performance Report and the Annual Report. We accepted the credibility of the AFS subject to our review comments.

We further recommend that the preparation of Quarterly Financial Statements based on credible monthly reporting be initiated. This will benefit this Municipality going forward.

Institutional Performance Management System

We are concerned that quarterly performance reports continue to not being submitted to the Internal Audit Unit on time as a result this led to the Audit Committee not being able to monitor institutional performance. This means therefore quality of in year management and monthly/quarterly reports submitted in terms of the MFMA was not monitored by the Audit Committee.

Individual Performance Evaluation

The Audit Committee Chairperson formed part of the panel that evaluated annual performance for senior managers. We are encouraged that through the leadership of the Executive Mayor and Acting Municipal Manager, this was achieved and we are hopeful that in this financial year performance evaluation for all staff members could be undertaken. We appreciate the fact that there are commitments made by Senior Management to initiate individual performance management for all staff members.

Vacant Senior Management positions

We note that the Municipality has got vacancies at key strategic positions i.e. Senior Management more especially the position of Municipal Manager, Corporate and Shared Services as well Supply Chain Manager (as at year end vacant but subsequently filled 01 November 2016). As management are 1st level assurance provider in terms of the Combined Assurance Model, we are concerned by the credibility of reporting in general and these positions should be filled soon. We hope the municipality will increase the efforts to complete the processes.

Supply Chain Management System

With the vacancy noted above and under capacity of the section, it is concerning that the section at present is unable to discharge its responsibilities fully. However we are encouraged by the additional staff appointments post year end.

Litigation and Cash flow

Our Municipality is in financial distress, this is evidenced by the number of litigations, attachments of municipal property and summonses that the municipality had to deal with during the year under review. We are encouraged by the establishment of revenue enhancement committee.

Compliance with laws and regulations

We need to improve on compliance with laws and regulations as material non – compliance findings were identified during the financial year. We believe senior management, Internal Audit Unit, Risk and Compliance as well as Legal should work together. Oversight will be improved by all oversight bodies within the Municipality. This will improve compliance with SCM policy and relevant procurement legislation and reduce section 32 matters i.e. Unauthorized, Irregular, Fruitless and Wasteful Expenditure.

Municipal Grants Spending

National Treasury approved a roll-over of R8, 1m on MIG. We have to work together to ensure that in the current year we spend in the current year and ensure that value for money is achieved.

Other Matters

Municipal Public Accounts Committee

The Chairperson of MPAC committee is invited in Audit Committee meetings and this ensures that we work closely and improve the co-ordination of our work. The invitation applies to all senior management.

Audit Action Plan

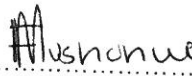
The committee has reviewed draft Audit Action Plan and the remedial actions suggested to address audit findings raised on the management report of the Auditor-General 2015/16. We have analyzed the adequacy of the plan and intended remedial actions and we believe management should review the plan.

Auditor-General South Africa

The Municipality has entered into a payment plan agreement for unpaid audit fees from previous years. We should do everything possible to clear this account. The Auditor General is a standing invitee to our Audit and Risk Committee meetings.

Appreciation

The Audit committee expresses its sincere appreciation to the Honorable Speaker, Executive Mayor and entire Council, Acting Municipal Manager, Senior Management Team, Internal Audit Unit and the Auditor General of South Africa.

 25/01/17

Chairperson of the Audit and Risk Committee (Acting)

Mrs Fungai Mushohwe

Date: 25 January 2017

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