

**REPORT OF THE
AUDIT COMMITTEE (AC) AND PERFORMANCE
AUDIT COMMITTEE (PaC)
TO COUNCIL
FIRST & SECOND QUARTERS**

WEDNESDAY, 29 JANUARY 2020

1. PART A:

REPORT OF THE PERFORMANCE AUDIT COMMITTEE TO COUNCIL FOR JANUARY 2020

The Performance Audit Committee (hereinafter referred to as "PaC"), is an independent advisory committee appointed by the Municipal Council, is also established in terms the Municipal Planning and Performance Management Regulations, Regulation 14(2), and section 166 of Municipal Finance Management Act 53, of 2003. The PaC is required to advise the Municipal Council, the Political Office Bearers, the Accounting Officer and the management staff of council.

Section 166(1) of the Local Government: Municipal Finance Management Act, 2003 (Act number 56 of 2003 as amended) (MFMA) requires from each municipality to establish an Audit Committee.

Section 166(2)(a) of the MFMA provides that the Audit Committee is an independent advisory body which must "amongst others" advise the municipal council on matters relating to:-

- i. Internal financial control and internal audits;
- 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 this Act, the annual Division of Revenue Act and any other applicable legislation;
- viii. Performance evaluation; and
- ix. Any other issues referred to it by the municipality.

In addition, sections 166(2) (b), (c), (d) and (e) require from the committee to review the Annual Financial Statements, respond to Council on any issues raised by the Auditor-General (South Africa) in the Audit Report, carry out such investigations into the financial affairs of the municipality and to perform such other functions as may be prescribed by the Council.

The Committee considered the following:

PART A1.

6th August 2019 - Audit Committee and Performance Audit Committee	2.1.1 Induction of the Audit Committee 2.1.1(a) Minutes of the 48th Audit Committee January 2019
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PART A2.

23rd August 2019 - 49th Audit Committee and Performance Audit Committee	2.1.2	Audit Committee Charter 2018/9
	2.1.3	Internal Audit Charter 2018/9
	2.1.4	IDP 2019/20
	2.1.5	SDBIP 2019/20
	2.1.6	Budget 2019/20
	2.1.7	Internal Audit Reports 2018/19
	2.1.8	Draft Annual AFS – internal audit review

PART A3.

29th November 2019 - 50th Special Audit Committee and Performance Audit Committee	2.1.9	Minutes of the 23rd August 2019 49th PaC
	2.1.10	AGSA Draft Final Audit Report
	2.1.11	AGSA Draft Final Management Report

PART A3.

24th January 2020 – 51st Audit Committee and Performance Audit Committee	2.2.1	Minutes of the 29th November 2019 50th PaC
	2.2.2	AGSA Final Audit Report
	2.2.3	AGSA Final Management Report
	2.2.4	Audit Financial Statements 2018/2019
	2.2.5	Draft Annual Report 2018/19
	2.2.6	Quarter1 Audit Performance report 2019/20
	2.2.7	Midyear Performance Report 2019/20

2.1.1 Induction of the Audit Committee

Management arranged the Audit Performance Audit committee Induction. All members of the Audit and Performance Committees attended the induction. The committee resolved to review the Internal Audits documents, internal audit charter and its charter at its next ordinary meeting.

Resolution

1. That the committee approves the previous minutes of the PaC at its next meeting

2. That Internal Audit Committee documents and all charter be approved at the next meeting

2.1.1(a) Minutes of the 48th Audit Committee January 2019

The committee did not consider the minutes of the previous audit committee, since two members of the committee were new and were not familiar with the matters contained in the said minutes. The committee resolved to defer the minutes to its next ordinary meeting.

2.1.2 Audit Committee Charter 2018/9

The committee reviewed the charter and recommended changes to council for approval

2.1.3 Internal Audit Charter 2018/9

The committee reviewed the internal audit charter and approved changes and recommended it to council for adoption.

2.1.4 IDP 2019/20

The committee received the final approved IDP and noted it owing to the fact that when the Municipal council adopted the IDP there was no functional Audit and Performance Committee in place to advise the municipal council on the quality and the credibility of the IDP.

2.1.5 SDBIP 2019/20

The Committee received the final approved SDBIP and noted it owing to the fact that when the Municipal council adopted the IDP there was no functional Audit and Performance Committee in place to advise the municipal council on the quality and the credibility of the SDBIP.

Resolution

1. That the committee resolved to recommend to management, the Executive Mayor and Council to review the SDBIP at Midyear and to align it with the Municipal Council's Budget.

2.1.6 Budget 2019/20

The committee received the final approved budget and noted it owing to the fact that when the Municipal Council adopted the budget there was no functional Audit and Performance Committee in place to advise the Municipal Council on the completeness of revenue, the projected budget and the estimates of expenditure.

The Committee further noted that the budget approved by council was not fully funded as there was a projected deficit of approximately **R28 million**

Resolution

1. That the Committee resolved to recommend to management, the Executive Mayor and Council to revise the budget at midyear based on the revenue expected.
2. That Management presents a plan to the Committee prior tabling it to Council as to how Council will reduce the expenditure to meet its budget expectation
3. That Management presents a plan to the Committee prior tabling it to Council as to how Council will reduce the expenditure on salaries amounting 72% of the budget to meet its budget expectations.

2.1.6 Internal Audit reports 2018/19

The Committee received the reports of Internal Audit and did not review them owing to the fact that they were related to a period where there was no functional Audit Committee. The Committee also noted that Management did not implement the recommendations of Internal Audit and some reports were presented without Management comments.

2.1.7 Draft Annual AFS 2018/19– internal audit review

The committee received the report of Internal Audit conducted by Grant Thornton. The report and its recommendations were adopted by the CFO and Management. The Committee also conducted a high level review on the Draft Annual Financial

2.1.9 Minutes of the 23rd August 2019 49th PaC

The Committee reviewed and adopted minutes of it previous minutes and the Action List

2.1.10 AGSA Draft Final Audit Report

The AGSA presented it draft final audit report. The committee solicited management responses on the draft audit report. Management raised its disagreement on certain no compliance findings the AGSA had raised. The committee decried its concerns regarding the late tabling of the report by AGSA. Further that the committee did not have a meeting where the AGSA tabled it engagement letter and strategy to the committee for approval, albeit managed signed the engagement letter.

Resolution

1. The committee resolved to recommend to AGSA to resolved the dispute management had raised on compliance and performance information
2. That the Accounting Officer obtain legal opinion on the status of the work permit and resident status of the CFO.

2.1.11 AGSA Draft Final Management Report

The AGSA presented it draft final management report. The committee solicited management responses on the management report. Management raised its disagreement on certain no compliance findings raised the AGSA

Resolution

1. The committee resolved to recommend to AGSA to resolve the dispute management raised on compliance and performance information
2. That the accounting obtain legal opinion on the

2.2.1 Minutes of the 29th November 2019 50th PaC

The committee reviewed and adopted minutes of it previous minutes and the Action List

2.2.2 AGSA Final Audit Report

SUMMARY CONCERNS OVER THE ISSUES RAISED BY AG REGARDING THE 2018/19 AUDIT

ISSUES RAISED BY AG	CONCERN AND RECOMMENDATION
Implementation of the expanded mandate of AG	Council to create an enabling environment so that the Accounting Officer (MM) and authorities can exercise the legal obligation to prevent all irregularities and take action if it occurs
Inadequate reviews of AFS and Performance Information	The time provided for the review and implementation of the AC's recommendations
Audit action plans not adequately implemented to address prior year audit findings	There has been a vacuum in the prior year as the AC was not fully functional. Close monitoring of the action plan
Ineffective governance structure with regard to internal audit and AC	Lack of financial resources to hold meetings. Provision should be made for such
Compliance with Laws Regulations	Disregard of the legal framework. Close monitoring of this area
Performance Information	The concerns have been raised with Management and there is a solution to this

Resolution

1. The committee resolved to concur with the findings of the AGSA and urgent management to develop and Audit Action Plan
2. The Committee resolved to recommend to council to monitor the implementation of he AGSA recommendations

2.2.3 AGSA Final Management Report

The Committee received the detailed management report outlining the findings that found expression in the Audit report and the AGSA recommendations

The Committee considered the overall message conveyed by the AGSA in its report which details the status of internal controls in the municipality. The committee is also concerned with the overall message of the AGSA regarding the outcomes of the municipality which remained stagnant when compared to prior years. Although the Municipality has received an unqualified audit opinion, the overall message depicting a picture of regression, is undesirable due to repeat findings that have been independent during the audit cycle recently completed.

2.2.4 Audit Financial Statements 2018/2019

The Committee received the detailed audit financial statements and raised concern with management due to the fact that the AFS although were fairly presented and were not free of any material misstatements as required by section 122 of the MFMA. The values of the misstatements amounted to R15 910 532, 00

The Committee was concerned with the financial sustainability of the municipality as disclosed in note 35 to the financial statements the municipality incurred a net loss of R48 633 998 (2018: R93 934 422) during the year ended 30 June 2019, and as of that date the municipality's current liabilities exceeded its current assets by R114 572 592 (2018: R65 938 593). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern

Resolution

1. The committee resolved to escalate the matter to the Municipal Council
2. That Council be persuaded to assess its budget and relook at its current budget with a view of reducing deficits
3. That Council take drastic measures to deal with issues that may affect the going concern status of the Municipality.

2.2.5 Draft Annual Report 2018/19

The Committee received the detailed draft annual report. The committee noted with concern that the report was incomplete and that the foreword of Mayor and Accounting still refers to past events of 2017/18. The Committee also noted the report was still a raw draft and will not assist MPAC to exercise oversight.

Resolution

1. The Committee resolved to recommend to management to revised the annual report before tabling to council

2.2.6 Quarter1 Audit Performance report 2019/20

The Committee received the report for Q1 and noted that the performance Q1 did not reflect unimpressive picture of the municipality's performance against its SDBIP.

2.2.7 Midyear Performance Report 2019/20

The Committee received the report for mid-year and noted that the performance Quarter 2 was not included with the midyear PMS report. The Committee also noted glaring contradictions in the achievements of targets in Q1 and midyear on certain Key performance indicators. The report was also not credible measured against the SDBIP

Resolution

1. That management revise and submit credible midyear report to council.

2. PART B: MATTERS BROUGHT TO THE ATTENTION OF THE ACCOUNTING OFFICER

- Findings of the AGSA and the development of the Audit Improvement plan by management
- Going concern matters identified in both the audit report of 2017/18 and 2018/19
- Going concern matters identified in the mid-year budget report 2019/20
- Performance management matters raised in both the AGSA report and the midyear PMS report of 2019/20

3. PART C: MATTERS BROUGHT TO THE ATTENTION OF THE MUNICIPAL COUNCIL

- Findings of the AGSA and the development of the Audit Improvement plan by management
- Going concern matters identified in both the audit report of 2017/18 and 2018/19
- Going concern matters identified in the mid-year budget report 2019/20
- Poor monitoring of compliance within the municipality by management
- Performance management matters raised in both the AGSA report and the midyear PMS report of 2019/20

4. PART D: MATTERS OF CONCERN

- None functional risk management process and none functional risk management committee
- Lack of continuous performance monitoring
- Lack continuous performance reporting to the appropriate structures of council
- Inadequate resources for the internal Audit and Audit committee to perform its functions.
- Regression in Internal and external audit findings
- Going concern status of the Municipality

5. ATTENDANCE

The meetings of the Performance Audit Committee were attended by:

- Members – well constituted
- Management
- Chairperson MPAC, Executive Mayors Office, Speakers Office
- Auditor General Of South Africa,
- COGTA and Provincial Treasury.

6. RESIGNATIONS

There are currently no resignations.

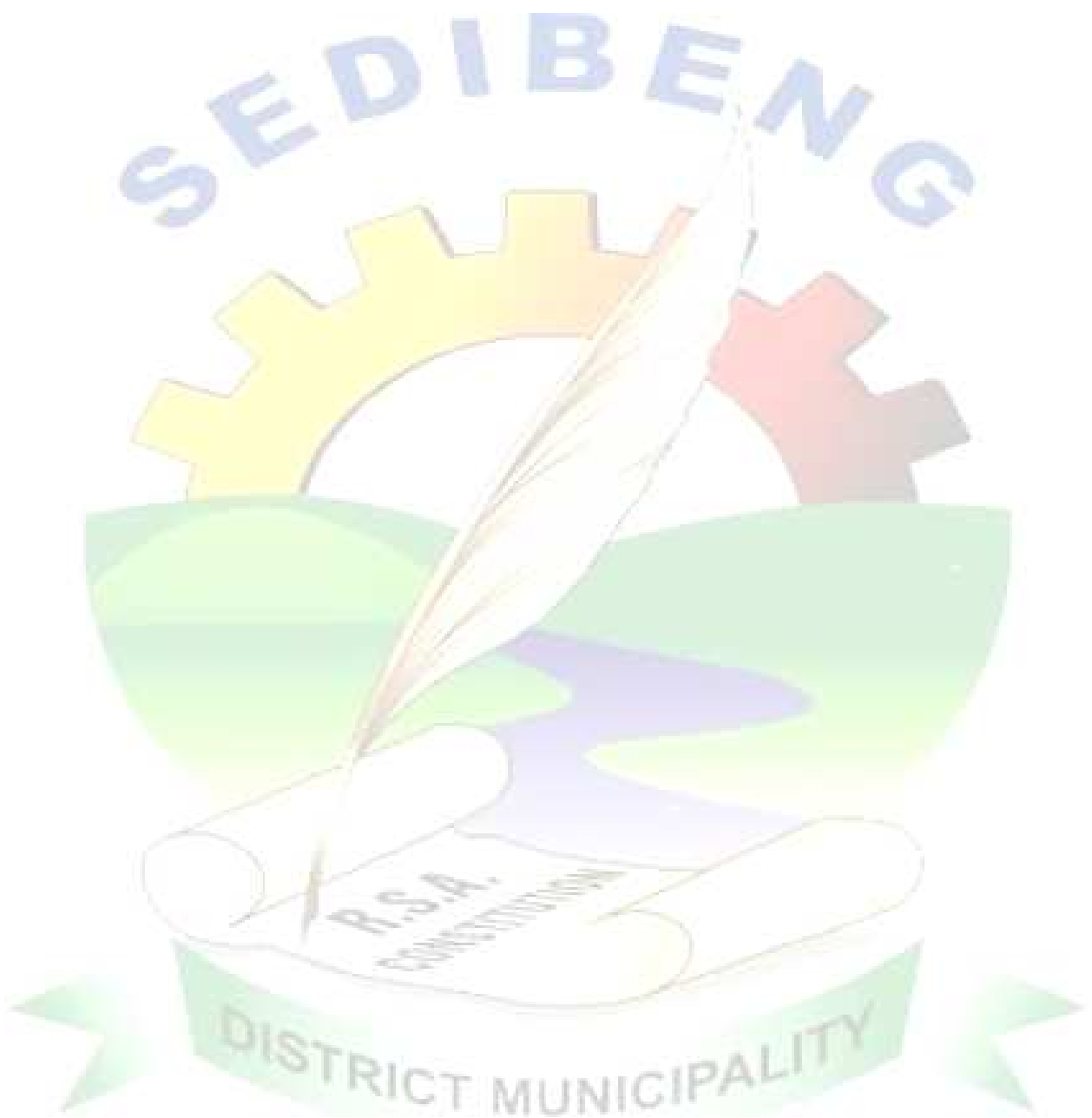
7. APPRECIATION

On behalf of the Audit Committee and Performance Audit Committee, we would like to express our appreciation to the Speaker of Council, Executive Mayor, MMCs and Senior Management for their commitment in supporting the efforts of the committee as mandated by legislation.

8. RECOMMENDATIONS

That Council adopts the report as tabled.

Ms N Jaxa
Chairperson of the Audit Committee
For and on behalf of the Audit and Performance Audit Committee



DISTRICT MUNICIPALITY