

ANNUAL REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2017

1. INTRODUCTION

On behalf of the Audit and Performance Audit Committee (APAC) I have a pleasure in submitting herewith the annual report of the APAC for the financial year ended 30 June 2017.

2. LEGAL FRAMEWORK GOVERNING THE AUDIT COMMITTEE

2.1 In terms of section 166(1) of the Local Government: Municipal Finance Management Act, 2003 (Act number 56 of 2003 as amended) (MFMA) each municipality is required to have an APAC.

2.2 Section 166 (2)(a) of the MFMA states that the APAC is an independent advisory body which must “amongst others” advise the municipal council on matters relating to -

- i. Internal financial controls 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.

2.3 Sections 166(2)(b), (c), (d) and (e) requires the Committee to review the annual financial statements, respond to Council on any issues raised by the Auditor-General of South Africa (AGSA) 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.

2.4 Regulation 14 (2)(a) of the Planning and Performance Management Regulations require the municipality to appoint and budget for a performance audit committee consisting of at three members, the majority of which may not be involved in the municipality as a councillor or an employee.

3. GOVERNANCE OF THE COMMITTEE

3.1 All members of the APAC are independent non-executive members and all meetings of the committee were held in accordance with the charter of the committee as approved by Council. The Manager: Internal Audit reports administratively to the Municipal Manager and functionally to the Audit Committee.

3.2 The APAC has executed its responsibilities in accordance with section 166 of the Local Government: Municipal Finance Management Act, 2003 (Act number 56 of 2003 as amended).

3.3 The Council entrench effective governance by adopting the recommendations of the King IV Report on Corporate Governance for South Africa.

3.4 The members of the APAC and Sub-committees during the period under review were:

Name	APAC	Sub-Committees	
		Risk Management Committee	Information Communication and Technology Governance Committee
Mr. S. Mofokeng	Chairperson	-	-
Ms. M.A.F. Moja	Member	Chairperson	-
Mr. H.G. Hlomane	Member	-	Chairperson
Ms. J.S. Masite	Member	-	-
Mr. M.P. Mongalo	Member	-	-
Adv. S.S.T. Kholong	Member	-	-

3.5 Risk Management Committee, is a management committee chaired by an independent APAC member to guide and advise management while providing close APAC oversight.

3.6 The contracts of the Chairperson and five (5) members of the APAC expired in March 2017 but were extended on a month to month basis till 30 June 2017. The new Committee was appointed effective July 2017.

4. INTERNAL CONTROLS

4.1 Internal Audit evaluated effectiveness of municipal system of internal controls following AG SA Methodology and using the tool provided by AG SA.

4.2 Internal Audit reported system weaknesses and recommended corrective actions for management to address the deficiencies. Management implemented internal audit recommendations to enhance the system of internal controls to the acceptable level.

5. INTERNAL AUDIT

5.1 The committee is satisfied that the internal audit has during the year under review effectively focused its available resources towards identified critical risk areas in accordance with the approved Risk Based Annual Audit plan for 2016/2017. The APAC also approved the Risk Based Annual Audit plan for the 2016/2017 reporting period and was given the assurance that every effort will be made by the Accounting Officer to have all the resources available to properly execute the plan.

5.2 All Internal Audit activities were completed in accordance with the approved Internal Audit Charter and no compromise of the independence or objectivity of the function was observed throughout for the year under review.

5.3 With Internal Audit follow-up reports, the committee has noted that management has implemented an appropriate tracking system in terms of which the various action plans by management to resolve the reported issues were tracked, managed at OPCA and reported to the APAC.

5.4 The committee noted an improvement in the percentage of audit findings resolved by management.

5.5 The committee also believes that Internal Audit has effectively carried out its mandate and responsibility in accordance with the MFMA and approved Internal Audit Charter.

5.6 One-on-one discussions with the Manager: Internal Audit did not reveal any matters of concern.

6. RISK MANAGEMENT

- 6.1 The Risk Management Committee and APAC Committee have assisted the Municipal Manager to execute his risk responsibilities.
- 6.2 From the various reports received the APAC is satisfied that the risk management processes were adequately designed although not effectively and efficiently implemented in some instances.
- 6.3 Further, the committee acknowledges the progress made in risk management processes which improved the risk management maturity level of the municipality.

7. PERFORMANCE MANAGEMENT

- 7.2 The APAC noted that Management has developed a performance management policy and procedure manual, which was approved by Council.
- 7.3 The APAC monitored management's evaluation of identified "external service providers" as required by section 46 of the Municipal Systems Act, 2000.
- 7.5 The Manager: Internal Audit in terms of the MFMA/MSA regulations on a quarterly basis audited the reported performance information. All system weaknesses reported were brought to the attention of the Municipal Manager.

8. COMPLIANCE WITH MFMA, THE ANNUAL DIVISION OF REVENUE ACT AND ANY OTHER APPLICABLE LEGISLATION

- 8.1 The APAC recommended improvement to the system implemented by management. The Manager: Internal Audit recommended that, the system to monitor compliance with applicable laws and regulations be enhanced to ensure reliability. The APAC also noted that compliance in some instances is not being addressed in a timely manner. However, the Risk Management Committee as a sub-committee of the APAC, assisted the APAC in tracking the progress by management in this regard.
- 8.2 The Council approved a materiality framework which provide for zero tolerance for non-compliance with laws and regulations.

9. REVIEW AND EVALUATION OF QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

The committee has:

- 9.1 Reviewed and discussed the Annual Financial Statements with management and AGSA, to be included in the Annual Report;
- 9.2 Reviewed the AGSA's management report and management's responses thereto;
- 9.3 Reviewed the changes in the Accounting Policies and Practices.

10 AUDITOR-GENERAL (SA) AUDIT OPINION

- 10.1 The committee has noted with concern that the audit opinion obtained by the municipality regressed from an unqualified opinion obtained in the previous two 2014/2015 and 2015/2016 financial year to a qualified audit opinion obtained in 2016/17. The APAC has requested management to develop an action plan for submission to the APAC and monitoring on a quarterly basis. The APAC will closely monitor implementation of the

corrective action program and on a regular basis report to Council on the progress made by management.

10.2 The APAC and the Chairperson of the APAC had meetings to discuss and resolve the concerns raised by the APAC and management regarding the external audit process. The APAC concurs with the opinion expressed by the AGSA.

11 INTERACTION WITH THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

The Chairperson of the APAC briefed the MPAC members about the processes followed by the APAC with regards to the evaluation of the Annual Report. The MPAC members were also briefed on the control system implemented by the Manager: Internal Audit for purposes of tracking progress on the resolution of audit findings reported by the Manager: Internal Audit and the Auditor-General (SA).

12 ONE-ON-ONE DISCUSSION WITH THE EXECUTIVE MAYOR

One-on-one discussions with the honorable Executive Mayor did not reveal any matters of concern.

13 APPRECIATION

In conclusion the APAC expresses its appreciation towards the Municipal Manager and all other role players for the effective meetings the APAC had during the financial year. One-on-one discussions amongst the members of the APAC also did not reveal any matters of concern.

H Hlomane

Chairperson of the Audit and Performance Audit Committee