

GREATER TZANEEN MUNICIPALITY'S AUDIT COMMITTEE (AC) ANNUAL REPORT TO COUNCIL AND PROVINCIAL LEGISLATURE FOR PERIOD ENDED 30 JUNE 2016

1. INTRODUCTION

For and on behalf all the members of our esteemed Audit Committee (AC), I derive great pleasure and honor in presenting the annual audit committee report for the financial year 2015/2016 in accordance with the applicable legislative provisions.

2. Audit Committee Fiduciary Duties

In terms of Section 166 of the Municipal Finance Management Act (No. 56 of 2003), the Audit Committee must:

- (a) 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 controls 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 statements 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

3. AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The AC, consisting of independent outside members listed below, meets at least four times per annum as per its approved terms of reference, additional special meetings may be called as the need arises.

Name and Surname	Position	Number of meetings attended	
		Ordinary	Special
SAB Ngobeni	AC Chairperson	4 of 4	2 of 2
H.Masedi	AC member	4 of 4	2 of 2
M.Mofokeng	AC member	4 of 4	2 of 2
L.Langa	AC member	3 of 4	1 of 2

4. AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee (AC) reports that it has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The AC also reports that it has adopted appropriate formal terms of reference as its AC Charter, and it has regulated its affairs in compliance with this

charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

5. EFFECTIVENESS OF INTERNAL CONTROL

AC's review of the effectiveness of the internal control revealed that the internal control system is somewhat effective. However, there is a room for improvement in the system of internal control of the municipality. AGSA findings revealed a regression in system of internal control in respect of financial management/reporting, performance management and reporting, and compliance with laws and regulations. Notwithstanding the above, the Audit Committee notes management's commitment to correct the deficiencies.

6. IN YEAR/MONTHLY MONITORING REPORT

The municipality has monthly and quarterly reporting system to the Council as required by the Municipal Finance Management Act (MFMA). Monitoring and reviews of performance information were periodically in the year under review.

7. RISK MANAGEMENT

The AC is of the opinion that municipality's risk management maturity level is very low. There is a room for improvement in so far as establishment and capacitating the risk management unit (including location of the unit), implementation of appropriate risk management strategies, policies and activities to ensure that regular risk assessments including consideration of emerging risks, audit findings, and IT risks and fraud prevention.

8. FINANCIAL MANAGEMENT

The AC used a set of uniform key financial ratios and norms suitable and applicable to municipalities as articulated in MFMA circular no. 71 to assess the financial health and viability of the Municipality. The review revealed that the municipality is financial viable and there is no going-concern problem.

9. COMPLIANCE WITH LAWS AND REGULATIONS

A number of non-compliance with the enabling laws and regulations were revealed by Audit Committee, Internal Audit and AGSA during the year. Thus, there is a room for improvement in so far as establishing an effective system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance. Thus, the AC recommended development and implementation of compliance management system and framework in order to addresses the issues of non-compliance.

10. INTERNAL AUDIT

The AC is satisfied with the effectiveness of Internal Audit. The above conclusion is based on:

- Reviewal with management and approval the internal audit charter, strategic and operational plans, internal audit activities, staffing (including competence and qualifications), and organisational structure of the Internal Audit Unit;
- Implementation of the approved the annual internal audit plan and all major changes to the plan.
- There were no unjustified restrictions or limitations on work of the internal audit caused by the unit.
- Review the internal audit budget, resource plan, activities, and organizational structure of the internal audit function;
- Compliance with the IIA's international standards for the professional practice by Internal Auditing unit

There is a serious room for improvement in so far as implementation of recommendations of internal audit by management, since not all the recommendations made by internal audit were implemented.

11. EXTERNAL AUDIT

11.1 The AC did review the Auditor-General 's proposed audit scope and approach, including coordination of audit effort with internal audit in respect of 2014/15 financial year; and on a regular basis, met separately with the Auditor-General to discuss any matters that the committee or auditors believe should be discussed privately.

11.2 The AC evaluated management responses to the reports or findings of the Auditor-General (Action plan to address prior year findings) on quarterly basis and gave inputs and advice on how best to address the findings raised by the AGSA.

11.3 At the time of submission of the annual financial statements and performance report to AGSA for audit, not all the AGSA findings were resolved as at 31 August 2016.

11.4 AC interacted with Final Audit and Management Letter issued by AGSA and concurs with AGSA's observations.

12. COMMENDATIONS

The AC would like to take this opportunity and congratulate Council, Management and Shareholder for the attainment of unqualified audit opinion.

13. PERFORMANCE MANAGEMENT

The AC reviewed effectiveness and functionality of the performance management system and it appears to be not functional, there is a room for improvement in so far as achievement of planned targets is concerned, usefulness and reliability of performance information as well as management's adequate review and monitoring of performance management information/reports.

14. FINANCIAL REPORTING

The AC reviewed the quality, accuracy, usefulness, reliability and appropriateness of monthly, quarterly and annual financial reporting and observed that there is a

serious room for improvement in so far as compliance with section 122 of the MFMA and management's review and monitoring of financial reports.

15. IT GOVERNANCE

The AC did review current IT governance and arrangement and noted there is a room for improvement in respect of fully implementation of ICT Governance Framework.

16. IMPLEMENTATIONS OF AUDIT COMMITTEE RESOLUTIONS

As at the end of the year, material number of Audit Committee resolutions were not implemented satisfactorily.

17. IMPLEMENTATION OF COUNCIL AND COUNCIL RESOLUTIONS

As at the end of the year, the AC recommends development and implementation of Council resolutions management systems and possible automation of the management of council resolutions.

18. CONSEQUENCE MANAGEMENT FRAMEWORK

For Council to foster and integrate the culture of accountability in the municipality, the AC recommends development and implementation of consequence management framework.

19. INTEGRATED/COMBINED ASSURANCE FRAMEWORK

To enhance the governance and oversight function of the municipality, the AC recommends fully implementation of recently integrated/combined assurance framework.

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20. LEADERSHIP

Municipality Council did provide somewhat effective leadership based on a culture of honest and good governance. However, there is a room for improvement in so far as management's oversight on the financial statements, performance reporting and compliance with laws and regulations governing the Municipality.

21. CONCLUSION

The AC wishes to acknowledge the commitment from Council, management and staff of the municipality. We would also like to thank the Chairperson of the Council and Mayor for their support, Council, senior management for their efforts and internal audit for their contribution.

A handwritten signature in black ink, consisting of the letters 'SAB' followed by a stylized flourish, all enclosed within an oval shape.

SAB Ngobeni
Greater Tzaneen Municipality
Chairperson of the Audit Committee
09 January 2017