

**GREATER TZANEEN MUNICIPALITY**  
**ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR**  
**ENDED 30 JUNE 2017**

We are pleased to present our report for the financial year ended 30 June 2017.

**1. Audit Committee Responsibility**

The Audit Committee (AC) report 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 Audit Committee 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.

**2. Audit Committee members and attendance**

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

Initials and Surname	Position	Meetings Attended
SAB Ngobeni	AC Chairperson	6 of 6
L Langa	AC Member	5 of 6
H Masedi	AC Member	6 of 6
M Motwedi	AC Member	5 of 6

**3. The Effectiveness of Internal Control**

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the municipality revealed certain weaknesses, which were then raised with the municipality.

There are several deficiencies in the system of internal control and/or deviations there were reported by the internal auditors and the Auditor-General South Africa (AGSA). In certain instances, the matters reported previously have not been fully

and satisfactorily addressed. The AC notes management's commitment to correct the deficiencies. During the year under review there was consistent monitoring of action plans and progress.

#### **4. In-Year Management and Monthly/Quarterly 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.

#### **5. Performance Management**

The AC reviewed the functionality of the performance management system and it appears to be functional, however there is a room for improvement in so far as achievement of planned targets is concerned and increasing capacity within the performance management unit.

#### **6. Risk Management**

The AC is of the opinion that municipality's risk management appears to be effective for the better of the year and material respect, and the municipality did implement a comprehensive risk management strategy and related policies. Management has a sound and effective approach that has been followed in developing strategic risk management plans and there is a sense of appreciation of the impact of the municipality's risk management framework on the control environment.

Furthermore, the AC did review the municipality's fraud prevention plan so as to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate fraudulent activities.

#### **7. Compliance with laws and regulations**

A number of non-compliance with the enabling laws and regulations were revealed by Internal Audit during the year. Thus there is 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.

## **8. Internal Audit**

The AC is satisfied with the effectiveness of Internal Audit, and commend Management and Council for capacitating this unit. The above conclusion is based on:

- Reviewal with management and approval of the Internal Audit Charter, strategic and operational plans, internal audit activities, staffing (including competence and qualifications), and organisational structure of the Internal Audit activity;
- Implementation of the approved annual internal audit plan and all major changes to the plan.
- There were no unjustified restrictions or limitations on work of the internal audit activity.
- Review with the Chief Audit Executive the internal audit budget, resource plan, activities, and organisational structure of the internal audit activity;
- Compliance with the International Standards for the Professional Practice of Internal Auditing by the internal audit activity.
- Implementation of remedial action plan on internal audit findings by management.

## **9. External Audit**

The AC did review AGSA's proposed audit scope and approach, including coordination of audit effort with internal audit in respect of the 2016/17 financial year; and on a regular basis, met separately with AGSA to discuss any matters that the committee or auditors believe should be discussed privately.

Furthermore, the AC evaluated management responses to the reports or findings of the AGSA on a quarterly basis.

## **10. Audit Outcome**

The AC concurs with the unqualified audit opinion and would like to congratulate Council under leadership of the Mayor and Management under the stewardship of the Municipal Manager for such an achievement and their commitment towards clean governance.

The AC urges Management to develop clean audit strategy with the objective of attainment of sustainable clean audit opinion supported by high impact service delivery. Furthermore, the said clean audit strategy should focus mainly on root-causes, findings, consequence management and recommendations as proposed by the AGSA.

**11. Progress in implementation of AGSA findings from prior year**

Not all of the prior year audit findings were addressed by management. There is room for improvement in this regard and AC recommend to the municipality to fast-track the implementation of recommendations by AGSA.

**12. Progress on implementations of Internal audit recommendations**

Not all of the internal audit recommendations were implemented by management. There is room for improvement in this regard and thus, AC recommend to the municipality to fast-track the implementation of recommendations by Internal Audit.

**13. Implementations of Audit Committee Recommendations by management**

Not all of the AC recommendations were implemented by management. There is room for improvement in this regard and thus, AC recommend to the municipality to fast-track the implementation of recommendations by AC.

**14. Progress on implementations of Risk Mitigation Actions**

A number of risk mitigation actions were implemented by management satisfactorily. There is room for improvement in this regard and thus, AC recommend to the municipality to fast-track the implementation of risk mitigations measures.

**15. Progress on implementations of Risk Management Committee (RMC) recommendations**

Not all of the RMC recommendations were implemented by management. There is room for improvement in this regard and thus, AC recommend to the municipality to fast-track the implementation of recommendations by the Risk Management Committee.

**16. Review of the Draft Annual Financial statements**

The AC did review the draft annual financial statements before submission to the external auditors for audit.

**17. Review of Draft Annual Performance Report**

The AC did review the draft annual performance report before submission to the external auditors for audit.

**18. Consequence Management**

The AC urged management to develop a consequence management framework for implementation.

**19. Combined Assurance Framework**

The AC urged management to develop a combined assurance framework.

**20. Conclusion**

The Audit Committee wishes to acknowledge the commitment from Council, management and staff of the municipality. The stability in terms of the political and administrative leadership of the municipality has contributed to these improvements reported above. We would also like to thank the Mayor for his support, Councillors, senior management for their efforts and internal audit for their contribution.

A handwritten signature in black ink, consisting of the letters 'SAB' in a stylized, bold font, enclosed within an oval shape.

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**SAB Ngobeni (Mr)**  
**Chairperson of the Audit Committee**  
**Greater Tzaneen Municipality**  
**06 January 2018**