

The Honourable Speaker
 Uthukela District Municipality
 33 Forbes Street
 Ladysmith
 3370

REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL OF UTHUKELA DISTRICT MUNICIPALITY

FOR THE PERIOD ENDED 30 JUNE 2019

The audit committee hereby submits this report to the Council of Uthukela District Municipality. This report is submitted in terms of the provision of sections 121 (3) (j), 166(2) (b) and 166(2) (c) of the Municipal Finance Management Act of 2003 (“the MFMA”) and covers the financial year from 1 July 2018 to 30 June 2019

The legal responsibilities of the Audit Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) read in conjunction with the National Treasury’s MFMA Circular 65.

Audit Committee members and attendance at meetings

The Audit Committee that was appointed in November 2015 was comprised of 5 independent, external members whose term ended in November 2018.

The new Audit Committee was appointed in February 2019. The new Audit Committee also consists of 5 members, being 4 new members and 1 returning members for continuity as per circular MFMA 65 of 2017. The Committee is required to meet at least 4 times per annum as per the Audit Committee Charter and the MFMA. However, additional meetings may be called as the need arises. Members’ attendance at the meetings is listed below:

<u>Name</u>	<u>Date of appointment</u>	<u>End of term</u>	<u>Meetings scheduled</u>	<u>Meetings Attended</u>
Ms. N Mchunu (Chairperson) – <i>Re-appointed</i>	01/02/2019		6	6
<i>Ms Z Khanyile</i>		31/01/2019	6	4
<i>Mr. D Mncwabe</i>		31/01/2019	6	3
<i>Mr S Majola</i>		31/01/2019	6	3
<i>Ms Y Joyi</i>		31/01/2019	6	3
Ms N Mba	01/02/2019		6	2
Mr T Makhetha	01/02/2019		6	3
Ms T Ngubane	01/02/2019		6	3
Mr B Dladla	01/02/2019		6	3

Apologies were received from members for meetings where they were unable to attend.

The following are standing invitees to the Audit Committee Meetings.

Representative from	Office of the Auditor-General (AG)
Representatives from	Provincial Treasury and COGTA
MPAC Chairperson	
The Administrator	
Internal Audit Manager	
The Municipal Manager (MM)	
The Chief Financial Officer (CFO)	
Heads of Departments	
PMS Manager	
Risk Manager	

Audit Committee responsibility

The Audit Committee has been set up in accordance with the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and operates within the terms of the Audit Committee Charter which has been approved by the Council of the uThukela District Municipality.

Section 121(4) (g) of the Municipal Finance Management Act, No. 56 of 2003 also requires that the annual report must include any recommendations of the Municipality's Audit Committee.

In the conduct of its duties, the Audit Committee has performed the following statutory duties:

1. Reviewed internal financial control and internal audits

For the purposes of executing its statutory duties as contained in section 166(2)(a) of the MFMA as well as its mandate as set out in the Audit Charter, the Audit Committee relies on the work performed by the Internal Audit Unit.

The risk based internal audit plan for the financial year ending 30 June 2019 was presented by Internal Audit and approved by the Audit Committee. The Audit Committee at each meeting; assesses performance against the plan and reviews the plan to assess whether critical risks relating to the administration and operations of Uthukela District Municipality are identified and addressed.

There have been various challenges encountered with the implementation of the annual audit plan for 2018/19. The challenges included inadequate resources within the internal

audit function, delays or non-submission of information required for audit, and delays in the responses from management regarding findings raised. This has resulted in delays in the finalisation of audit on some of the audit areas, and therefore delayed the fulfilment of the 2018/19 annual audit plan.

Several internal audit reports for the Municipality were completed and tabled at the Audit Committee meetings held during the reporting period. The audit conclusions relating to these were assessed from Medium to High Risk Exposure. The Committee was particularly concerned that for the areas assessed as High Risk exposure the finding mainly related to non-submission of documents or information which implies that there was a limitation of scope on these audits. In some areas it was due to lack of or inadequate controls which means that there is high risk that the weaknesses in these areas will be undetected or will not be prevented which puts the municipality at risk. There have been engagements with management regarding the findings, and the committee was informed that the process to address the findings is underway.

It was noted that while some of the concerns raised by the committee from the review of these reports are being addressed, there seems to be a slow pace and/or lack of urgency in the manner in which these matters are being addressed by management, while some recommendations were not been implemented at all. Further work needs to be done by management in addressing issues at the municipality especially matters relating to the breakdown in controls especially particularly the issue of overtime and expenditure management processes.

Leadership both political and administration is accordingly urged to hold those charged with a duty of responsibility to account, when it comes to non-compliance with the internal processes and non-implementation of recommendations made.

It is important for council to note that failure by management to address identified internal control breakdown, develop and implement key controls over financial and performance management has the impact of resulting in an unfavourable audit opinion from the AG and poor service delivery to community it seeks to serve.

2. Risk Management

The MFMA requires the accounting officer of the municipality to take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

The municipality currently has a system of managing risk, as required in terms of S 63 of the MFMA. This function involves an annual assessment of municipal risk, and periodic risk reviews carried out by the Risk Officer, management and relevant personnel at the municipality.

The Risk Committee reviews the status of the top 14 risks against management action plans from time to time. During this process emerging risks are also identified.

The Reports presented to the committee presented the risk status at the municipality relating to strategic risk, there were challenges with cascading this process down to the operational

level due to inadequate resources at the municipality. uThukela still relies on Provincial Treasury to assist with this process, which often results in delays. Therefore, operational risk was not always managed to an acceptable level during the 2018/19 financial year.

It was also noted that there did not seem to be a clear alignment between the risk process and project management, which often lead to the high-risk exposure affecting service delivery. The committee raised this with management during year, however no clear methodology was presented.

There have been improvements in the risk management reporting, based on the status presented however there are still areas of improvement, especially regarding timeous submission of information.

This has affected the effectiveness of the risk management processes at the municipality in that there has been no proper monitoring of the action plans to address operational risk and related controls.

The accounting officer has indicated that the risk management process and monitoring has been cascaded to the Heads of Departments (HOD's), and they will be reporting from time to time with the support of the risk officer. This process needs immediate attention of those charged with a duty of responsibility, and non-compliance must be dealt with seriously.

Failure by management to effectively manage the risk response plan may affect the achievement of strategic objectives of the municipality and result in poor service delivery.

3. Review of financial statements and Accounting Policies.

The Audit Committee has the obligation to review the Municipality's Annual financial statements and provide the Council with an authoritative and credible view of the Municipality's financial position, performance and cash flow position. In order to do this, the audit committee relies on the work conducted by the Internal Auditors, and therefore such reviews have been provided for in the Annual Internal Audit Plan.

The committee was presented with an action plan to address the findings raised by the AG. The status of the action plan was presented in meetings held during the year. It was determined that while the municipality has resolved some of the findings raised by the AG relating to 2017/18 audit, the process to resolve to revenue took longer to complete due to internal delays and this was eventually completed after year end as part of audit readiness. The committee thus could not review the extent to which qualification items were resolved.

The committee also sat to review the financial statements for the year ended 30 June 2019 in a meeting held on 24 August 2019. They were also subjected to a high level review by Internal Audit. The financials presented to the audit committee were still pending material adjustments that were to be processed by management before submission to AG. Audit committee and internal audit raised various queries which needed to be addressed by management before submission to AG. These queries mainly related to the completeness and accuracy of the information presented in the AFS, including presentation and disclosure in line with Generally Recognised Accounting Principles (GRAP).

The committee therefore could not make recommendations to council as the final financials were not presented to it.

The following matters were brought to attention of the committee as part of the review of the AFS:

- The municipality is still experiencing challenges with the new MSCOA system, which affected the accuracy and completeness of reported information.
- Monthly processes are still not being adequately performed, which resulted in reconciliations not being performed or reviewed and suspense not being cleared on time.
- The municipality has effectively implemented cost containment measures which have led to savings in other expenditure items for the year, while excessive overtime still remains a challenge.
- There are challenges with paying all outstanding creditors within 30 days in line with the MFMA due to financial constraints.
- The municipality still has a problem with the recoverability of long outstanding debtors, including government debt.
- Management should perform a detailed assessment of the recoverability of the long outstanding including data cleansing, council should consider writing off irrecoverable debts.
- Completeness and accuracy of indigent register should be assessed.
- There are still challenges with revenue management in the municipality, and the municipality has received assistance from National Treasury with this aspect.
- There is still a problem with the municipality's ability to fulfil its day to day financial obligations, hence some programs and projects have had to be reprioritised, including repairs to plant and equipment, which impact service delivery.
- Accordingly, the municipality must continue implementing the cost containment measures to ensure improvement and operational and financial sustainability.
- The financial statements indicated that the municipality is in a net current liability position, which casts significant doubt on the municipality's ability to settle its obligations as they fall due
- Some of the infrastructure projects were disclosed as taking significantly taking longer to complete, this exposes the municipality to a risk of escalated project costs, impairment of assets under construction and delayed service delivery to the people
- Large balances on uncleared suspense accounts further expose the municipality to fraud risk

The above were also raised by the AG during the 2018/19 audit, which resulted in a qualified audit outcome. The municipality has received qualified audit opinions for the past 3 years and as such which indicates that systems are not improving.

Decisive action needs to be taken by the management and council in addressing the root causes, and the consequence management must be implemented.

4. The adequacy, reliability and accuracy of financial reporting and information

The committee is also required to advise council on the adequacy, reliability and accuracy of financial reporting and information in accordance with S 166 of the MFMA.

Internal audit has conducted its reviews on the various cycles supporting reported information at the municipality

These reviews included an evaluation of the municipality's system of internal control, quality of reporting, status of records, review of the municipality's performance management system etc.

Various control weaknesses were identified by internal audit, AG and the Audit committee. Whilst management had formulated action plans to address these matters, some remained unresolved or were still in progress at year end.

Failure by Management and officials to submit credible information is a financial misconduct and those concerned must be held to account for non-adherence.

5. Performance Management

The Audit Committee also serves as the performance Audit Committee for uThukela District Municipality. The legal responsibilities of the Audit Committee in this regard are set out in terms of the Local Government: Municipal Planning and Performance Management Regulations 2001.

The PMS Quarter 3 report was presented in a meeting held in May 2019. This report was also submitted to Internal Audit for review.

The PMS Repots presented to the committee during the financial year indicated that there were a number of targets that were not achieved. Some related to budgetary constraints, while some related to non-submission of information supporting actual performance reported, hence scope limitation.

The Accounting Officer was urged to address these matters with the departments concerned and hold those that are responsible accountable.

The audit committee also reviewed the Annual Performance Report in a meeting held on 24 August 2019. The report presented was not complete, as not all the information had been submitted to PMS, at the time of presentation.

Accordingly, no recommendations could be made to council in this regard.

The Annual Report was subjected to a review by the AG as part of the 2018/19 audit, and this process resulted in a qualified opinion, mainly relating to the reliability of reported information.

6. Effective Governance

The Audit Committee fulfils an oversight role regarding the Municipality's reporting process, including the system of internal financial control. It is responsible for ensuring that the Municipality's internal audit function is independent and has the necessary resources, standing and authority within the Municipality to enable it to discharge its

duties. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors and serves as a link between the Council and these functions.

The internal and external auditors have unlimited direct access to the Audit Committee, primarily through its chairperson.

The Municipality is currently under S 139 Intervention by the Department of Co - Operative Governance. The audit committee has indicated its support in assisting the municipality and the Administrator in improving systems in the Municipality as part of the process. The Administrator is a standing invitee in the Audit Committee meetings and the engagements therefrom have been ongoing.

During the year the audit committee experienced various challenges in the performance of its duties, which have since been discussed with management.

Some of the matters that were raised by the committee included:

- Audit committee meetings were sometimes cancelled or postponed, which often affected the audit committee workflow.
- Audit committee recommendations were not always implemented by management timeously.
- Slow progress in implementing action plans to address audit findings.
- Late submission of documents and reports required by the Audit Committee, which negatively impact on the committee's ability to perform at required capacity.

7. Compliance with Legislation and Ethics

The Audit Committee has noted some instances of non-compliance with policies and procedures, the Municipal Finance Management Act and National Treasury Regulations.

The areas of non-compliance have been noted, mainly through the reports submitted by internal audit and the AG. The Council's attention was drawn to the findings relating to SCM that were raised in these reports.

The MFMA requires the municipality to prevent the incurrence of unauthorised, Irregular, Fruitless and wasteful expenditure and where such expenditure has been incurred S32 of the MFMA must be complied with.

More importantly Council has to identify the root causes for such non compliances so that remedial action can be implemented, including consequence management.

The committee noted that there were instances where Unauthorised, Irregular and Fruitless and Wasteful expenditure were incurred in the 2018/19 financial year, which indicated that SCM Regulations and policies were not always complied with.

Management and Council have to exercise stricter controls when it comes to overall compliance at the municipality, and consequence management must be implemented where there is non-compliance with laws and regulations.

8. Recommendations:

- Council and management need to exercise stricter monitoring controls over performance management and reporting, including holding management accountable for the non-submission of relevant information supporting actual performance.
- The Council and management must continue to exercise stricter budgetary controls in order to improve the financial position at the municipality. This must include the implementation of the financial recovery plan, without compromise. This process must be led by Council.
- The municipality must focus on data cleansing, credit control and debt collection at the municipality, in order to improve the collection of outstanding balances owed by debtors. Council must lead this process, through a special committee that will be formed together with management and officials. Also, Council should consider reviewing its indigent register to ensure that only consumers who can afford to settle their accounts are billed for services provided by the municipality.
- The process of risk management should be prioritised as part of management tools that will assist in improving systems and governance at the municipality.
- Management to formulate and implement a system of monitoring compliance at the municipality.
- Consequence management must be implemented where there are instances of non – compliance with procedures.
- Leadership should hold management accountable for non-implementation of risk response plans/internal controls to address major risks, non-implementation of the remedial actions to address internal audit and AGSA findings and non-implementation of audit committee recommendations
- Council should focus more on revenue enhancement strategies and curbing excess overtime to improve the cash flow position of the municipality.
- Appropriate action must be taken to address the issue of overtime in order to curb the incurrence of undue expenditure.

9. Conclusion

The implementation and maintenance of proper systems of internal controls, risk management, the prevention of fraud and errors, safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are the responsibility of Council. The role of the audit committee is to monitor the efficiency of the procedures and mechanism which Council has put in place in order to ensure that its policies and procedures are adhered to.

We can report that, taking into account the exceptions noted, recommendations made above and based on the reports submitted to us, our overall impression is that although there have been improvements in some of the areas, management and council's attention is still required in some of the areas especially with the municipality currently facing a critical cash flow position. It is therefore important that great effort is made in exercising stricter budgetary controls including maximising efforts to collect outstanding revenue by the municipality, to improve the cash position.

On behalf of the Audit Committee



Ms Nosipho Mchunu
Chairperson
14 January 2020