



KGATELOPELE LOCAL MUNICIPALITY
AUDIT, PERFORMANCE AND RISK COMMITTEE
ANNUAL REPORT 2017-18

1. PURPOSE

The Audit, Performance and Risk Committee (APRC) is honoured to present its report for the financial year ending 30 June 2018. The committee was functional throughout the year and had several engagements with management on matters related to financial management, internal control, risk management, performance management, governance and information technology. The committee would like to acknowledge the attendance of the Honourable Mayor, the Honourable Acting Speaker and chairperson of MPAC, the Accounting Officer and Chief Financial Officer in committee meetings.

2. LEGISLATIVE REQUIREMENTS

We are required to present Council with an annual report for the primary purpose of advising the Municipal Council, Political Office Bearers and the Accounting Officer on matters relating to Section 166 (2) – (3) of the Municipal Finance Management Act (MFMA) and other applicable laws and regulations.

The committee has in terms of circular 65 of MFMA adopted appropriate formal terms of reference clearly setting out the establishment, purpose, authority, composition and the relationship with Council, management, internal and external auditors as its charter.

3. AUDIT COMMITTEE MEMBERS AND MEETING DETAILS

3.1 Committee Structure and Assessment

The Committee consisted of three independent external members listed below:

Initials and Surname	Date of Appointment	Role
Mr. J van Tonder	01 July 2017	Chairperson
Mr. WMS Calitz	01 July 2017	Member
Mr. S Thole	01 June 2017	Member

Mr. WMS Calitz's term as Chairperson came to an end on 30 June 2017 and Mr. J van Tonder was appointed as the subsequent Chairperson.

The Chairperson of the Committee assessed the performance of individual committee members based on several factors. These include;

- Expertise;
- Inquiring attitude;
- Objectivity and independence;
- Judgement;
- Understanding of the public sector business;
- Willingness to devote the time needed to prepare for and participate in committee deliberations;
- Timely responses; and
- Attendance of meetings.

Overall the chairperson is satisfied that the members have displayed sufficiently thorough behavior and attitude that the expectations set in the APRC Charter have been adhered to.

3.2 Meeting Details

The committee is required as per the MFMA Section 166(4)(b) to meet at least four times during a financial year. The committee has met on the dates set out below in the table to execute its mandate in accordance with the agenda of the day. The details of the meeting are as follows:

Meeting Date	Apologies	Nature of meeting (Normal/Special)
30 August 2017	Mr. S. Thole	Special
11 October 2017	None	Normal
22 November 2017	Mr. S Thole	Special
17 January 2018	None	Normal
26 June 2018	Mr. WMS Calitz	Normal

4. INTERNAL AUDIT

4.1 Internal Audit Staff

4.1.1 Staff

The committee took note that the internal audit unit is staffed by a Senior Internal Auditor who executes the role of Chief Audit Executive supported by 1 Audit Officer and two Interns. As per the approved organogram, there is 1 vacancy within the unit being that of Audit Officer.

4.1.2 Performance

The committee is satisfied that the Internal Audit Unit performed its activities in accordance with the approved internal audit charter and internal audit operational plan for the financial year and section 165 as per the MFMA. Quarterly internal audit reports reflecting the progress were adopted at the meetings held during the year and the committee is satisfied with the performance of the internal audit unit. This unit also performed the secretariat function of the APRC committee.

4.2 EXTERNAL AUDIT

The committee has the external audit as standing invitee to the committee meetings and special liaison meetings with the Office of the Auditor General South Africa. The committee discussed the Auditor General Report and took note of the disclaimer of audit opinion.

The committee took note of the significant issues as identified by the Auditor General and emphasized the importance of audit readiness to ensure no limitation of scope will occur.

The audit strategy, engagement letter and audit progress were presented to the committee.

4.3 EFFECTIVENESS OF INTERNAL CONTROL

The committee is of the view that the systems of internal controls are not adequate and effective. At senior management level there were 4 vacant positions: that of the Municipal Manager, Chief Financial Officer, Corporate Service Manager and Technical and Community Services Manager. There were officials acting in the positions of Municipal Manager and Chief Financial Officer. This contributed to the weak control environment with limited supervision and monitoring. Several instances of breach of controls at various departments were reported to the committee.

4.4 RISK MANAGEMENT

The committee reviewed the appropriateness of the risk management policy, strategy, methodology and implementation plan and made recommendations pertaining to the methodology for management's consideration. The annual risk assessment was presented to the committee and recommend for approval by Council. The committee is concerned with the effectiveness of the risk management processes and systems due to lack of senior management to implement and institutionalise it. The committee took note of the reports presented on the strategic risk register as well as the operational risk register of the business units and identified certain weaknesses from the register. The Risk Management Officer resigned during the year, in January 2018.

The committee further took note of the fraud risk register submitted to the committee and made its recommendations pertaining to the municipality to be zero tolerant to fraud and corruption.

4.5 PERFORMANCE MANAGEMENT

The performance management system and processes were reviewed and quarterly performance information assessed. These systems were not adequate and the achievement of the annual targets were low. The committee endorses the priority implementation of all recommendations by the internal and external auditors. Increased commitment is required to implement the recommendations suggested by the committee. This will ensure that the performance management system may continue to mature. The manner in which performance reviews is conducted have improved considerably, but there are still challenges in this regard. The performance reviews of the section 57 employees were not conducted for the financial year 2017-2018.

4.6 ANNUAL FINANCIAL STATEMENTS

The financial information reviewed during the year indicated that the municipality is under severe financial difficulty and need urgent financial turnaround. The 2017/2018 financial statements were compiled by contracted consultants. The draft annual financial statements was presented in the 20 August 2018 committee meeting. The committee reviewed the draft annual financial statements and noted several mistakes and that it was incomplete. The committee advised the Accounting Officer, the Chief Financial Officer and the Consultants to rectify the mistakes and complete the financial statements.

5. REPORTING

The committee submitted reports on a quarterly basis to Council and requested to discuss the reports with Council on a number of occasions. Unfortunately, none of these arranged Council meetings materialized.

6. CONCLUSION

While the committee strives to add value to strengthen the governance of the municipality, the benefit thereof can only be derived through concerted efforts of both management and Council to implement the resolutions and recommendations provided from the committee sittings. The committee would like to urge management and Council to work as a collective towards achieving better audit outcomes.



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Chairperson of Audit, Performance and Risk Committee

Mr. J. van Tonder