

# **REPORT OF THE AUDIT COMMITTEE FOR THE YEAR** **ENDED 30 JUNE 2011**

## **PURPOSE**

The Audit Committee serves as an independent advisory body which advises the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:

- Internal financial control and the internal audit function
- Risk management
- Accounting policies
- The adequacy, reliability and accuracy of financial reporting and information
- Performance management and evaluation
- Effective governance
- Compliance with the Municipal Finance Management Act 56 of 2003, the annual Division of Revenue Act and any other applicable legislation; and
- Performance evaluation and
- Any issues referred to it by the municipality.

In addition, the Audit Committee reviews 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 efficiency and effectiveness and its overall level of compliance with the Municipal Finance Management Act 56 of 2003, the annual Division of Revenue Act and any other applicable legislation.

The Committee further is required to respond to the council on issues raised by the Auditor-General in the audit report and initiates and oversees such investigations into the financial affairs of the municipality as the council may request.

We have pleasure in presenting our report for the year ended 30 June 2011.

## **TERMS OF REFERENCE**

The Audit Committee has adopted appropriate formal terms of reference that have been approved by the council and mayoral committee, and has executed its duties during the past financial year in accordance with these terms of reference and the relevant legislative requirements.

## COMPOSITION

The Audit Committee comprises of four independent, outside members and meets at least six times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

During the 2010/2011 financial year six meetings were held.

Name of member	Qualifications	Period served	Meeting attendance					
			26-Aug-10	29-Oct-10	25-Nov-10	14-Jan-11	10-Mar-11	09-Jun-2011
Mr S G Zamisa (Chair)	MBA	01/07/04 - 30/06/11	✓	✓	✓	✓	✓	✓
Prof F E Prinsloo	MCom (Accounting) CA(SA)	01/07/04 - 30/06/11	✓	✓	✓	✓	✓	✓
Prof A Singleton	MCom (Taxation) CA(SA)	01/07/08 - 30/06/11	✓	✓	✓	✓	✓	
Dr R Snelgar	PhD	01/07/07 - 30/06/11	✓		✓	✓		✓

The Municipal Manager, the Director: Finance and Corporate Services, Directors of Infrastructure Services, Economic Development and Health Services respectively, and representatives from the external and internal auditors attend the Committee meetings by invitation only. The internal and external auditors have unrestricted access to the Audit Committee.

## AUDIT COMMITTEE RESPONSIBILITIES

The Committee reports that it has complied, as far as possible, with its responsibilities set out in its council approved terms of reference and the relevant legislative requirements.

## REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The Audit Committee has:

- Reviewed the audited annual financial statements;
- Reviewed management responses to the management report of the Auditor-General; and

- Concluded that the going concern premise is appropriate in preparing the annual financial statements.

The Audit Committee has noted the unqualified opinion expressed by the Auditor-General in his report on the Annual Financial Statements, as well as the “emphasis of matter” paragraph dealing with the restatement of corresponding figures due to changes in accounting policies and errors and irregular expenditure identified during the current financial year.

The Committee is satisfied that these matters relate to presentation and do not represent specific risk of losses to the district municipality.

The other matters raised in the balance of the report, as well as in the related management report, have been noted by the Committee, as have the measures identified by management to address these. During the 2011/2012 financial year the Audit Committee will monitor progress with the implementation of these remedial measures.

The comments in the audit report regarding the “material misstatements corrected during the audit” were also noted. It was noted that these misstatements related mainly to the following:

- Disclosure of unauthorized, irregular, fruitless and wasteful expenditure resulting from the difference in interpretation and application of the Preferential Procurement Policy Framework Act by management
- Assets and liabilities relating to Provincial Health Services (PHC) which should have been derecognized in the books of CDM at 01 January 2011 as the PHC had been transferred to Department of Health at this date
- No depreciation being provided for on buildings as these were merely revalued at the end of every year
- Disclosure of loss on de-recognition of assets related to the Demarcation of the District Management Area and Department of Health assets
- Omission of the required disclosure of amounts for the current annual period and previous four annual periods of Employee Benefits.

The committee further emphasised the need to meet with the Auditor-General to discuss:

- the expectations of the Auditor-General of the Committee and the CDM (see, for example, comments in next section),
- the Committee’s expectations of the Auditor General; as well as
- matters that may impact on the risks faced by the municipality over the medium to long term.

## **EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROLS**

The Audit Committee specifically noted the paragraph in the Auditor General’s report stating that “Improvement is needed with regard to financial reporting, compliance with SCM regulations, human resource management and addressing IT risks. Effort should be focused on the improvement of internal processes as well as the monitoring and review by an appropriate level of management...”

The Audit Committee would like to engage with the Auditor General and the management of CDM at its meetings during 2012 to discuss matters such as:

- The risk tolerance levels set by the council of CDM versus the expectations of the Auditor General. Given the financial constraints the CDM is under, should all risks be controlled to a very low level – even should the cost exceed the benefit thereof?
- How should the financial reporting oversight process be changed to prevent comprehensive and costly reviews being done to identify misstatements in the financial statements before the audit of the Auditor General commences? Such a pre-audit review will add significantly to the cost and it is questionable what benefit will be derived therefrom.
- The staffing of the finance and SCM departments. Given financial constraints and the size of the municipality it is impossible to achieve full segregation of duties – but what level of segregation is appropriate (bearing in mind the Council’s risk tolerance level and cost/benefit considerations)?

The Supply Chain Management (SCM) findings are of concern to the Audit Committee, and a number of remedial actions have been requested, including:

- Requesting the CDM management to improve the controls and policies in respect of SCM;
- Requesting that review of the controls relating to SCM be included in the work programme of internal audit;
- Requesting that any instances of possible fraud or corruption be reviewed by internal audit to ascertain whether forensic investigation is warranted;
- Requesting, based on internal audit’s recommendations, appropriate forensic investigations be undertaken.

Progress reports regarding the above will be requested during the Committee’s meetings in the 2011/2012 financial year.

It has been noted that the position of the Director of Economic Development was vacant for more than 12 months while the position of the Director of Infrastructure was vacant since January 2011. Both these positions have now been filled.

## **PERFORMANCE MEASUREMENT**

The municipality is monitoring and comparing actual to targeted progress on a regular basis according to a framework. The Service Delivery and Budget Implementation Plan (SDBIP) report is used which reflects planned completion dates for all projects. The Committee has noted that there has been a marked improvement in the quality of the framework and performance contracts in terms of measurability of the Key Performance Areas (KPA’s) and Key Performance Indicators (KPI’s).

The Committee has confirmed with management that reporting and monitoring is taking place as expected and progress on performance management is discussed at each audit committee meeting. Performance Measurement is a standing item on the Committee’s agenda.

## **CONCLUSION**

The Audit Committee accepts the conclusions of the Auditor-General on the annual financial statements for the year ended 30 June 2011 and recommends that the audited annual financial statements should be adopted by the council.

## **APPRECIATION**

On behalf of the Audit Committee, I would like to extend sincere appreciation to the municipal staff for their assistance and support during the financial year under review.

**S G Zamisa**  
**Chairman**

### *Glossary:*

**GRAP** Generally Recognised Accounting Practice

**GAMAP** Generally Accepted Municipal Accounting Practices

**GAAP** South African Statements of Generally Accepted Accounting Practice

**PAA** Public Audit Act, 2004 (Act 25 of 2004)