



Umkhandlu wakwa - **NONGOMA** - Local Municipality

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AUDIT AND PERFORMANCE COMMITTEE REPORT

OF THE

NONGOMA LOCAL MUNICIPALITY

FOR

2016/17 FINANCIAL YEAR

EXECUTIVE COMMITTEE : (Cllr M.A. Mncwango – Hon. Mayor ; Cllr A.N. Xulu – Hon. Deputy Mayor; Cllr B.W. Zulu- Hon. Speaker (**Ex –Officio**) ; Mrs V.T Sokhela –Municipal Manager (**Ex- Officio**) ; Cllr. B.J. Ntshangase ; Cllr N.G. Xaba ; Cllr N.M. Mthembu ; Cllr R.Z. Buthelezi ; Cllr A.N. Ndabandaba ; Cllr S.A. Hlongwane).

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1. Audit and Performance Committee mandate

The Nongoma Local Municipality has established an Audit and Performance Committee in accordance with section 166 of the Municipal Finance Management Act, Act no 56 of 2003 (MFMA) and section 14(2)(c) of the Local Government Municipal Planning and Performance Regulations, 2001 (Regulations). Consideration has also been given to section 14(2)(c) of the Regulations and MFMA Circular No. 65 issued by the National Treasury in November 2012 as well as the recommendations contained in the King Report on Governance for South Africa 2009.

2. Audit and Performance Committee members

The Audit and Performance Committee consists of the independent members is required to meet at least 4 times per annum as per the Audit Committee Charter, although additional meetings may be called as the need arises.

Details	Qualifications	Meetings	Status
Mr P Mntambo	BCom	2	Resigned
Ms. Nqobile Thungo	LLB	4	Active
Dr Thokozani Nzimakwe	PhD	5	Active

3. Functions of the Audit and Performance Committee

The role of the Audit and Performance Committee is to assist the Nongoma Local Municipality in achieving its strategic goals and objectives, by providing assurance on effective internal controls, risk management, accurate financial reporting and corporate governance processes, and other such duties as may be directed by the Council and Accounting Officer.

3.1. The Effectiveness of Internal Controls

The systems of internal control are the responsibility of the management and are designed to provide effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. For the committee to be effective and able to advise a Municipal Council, an Internal Audit Unit of the Municipality should perform audits, prepare and submit reports to the Accounting Officer as well as the Audit Committee.

We have noted with serious concerns that the internal audit function is not adequately resourced to perform its duties and responsibilities as the Internal Audit Manager was appointed in February 2017 and had to re-establish the internal audit function with very limited capacity, as a result internal audit was not functioning during the first and the second quarter of the 2016/17 financial year. We have however obtain reassurance from the Accounting Officer that internal audit will be capacitated during this financial year.

Despite the capacity challenges, the Audit Committee through the assistance of internal audit function provided oversight on the work conducted by the internal audit. The following provides the summary of the results of the work performed by internal audit during 2016/17

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financial year. Management made commitments to address all findings raised by internal audit.

No	Audit Area	Process Rating	Comments
1.	Supply Chain Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
2.	Leave Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
3.	Assets Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
4.	Revenue and Debtors Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
5.	Expenditure Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
6.	Performance Management Reports Q3, Q4 and Annual Performance Information	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
7.	Performance Management Reports Q3	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
8.	Performance Management Reports Q4	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
9.	Annual Performance Information	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
10.	Payroll Management	Weak	Significant control weaknesses were noted which if not addressed, may result in a material exposure.
11.	Follow up (Audit Action Plan)	Weak	Only 30% of the findings were fully address and 49% were partially address this was mainly to due to the instability in the senior management positions as Directors were suspended in most of 2016/17 financial year
12.	Investigation on the Licencing Department	Not rated	Investigation finalised and case of theft opened at the SAPS
13.	Investigation on Asset Management	Not rated	In progress
14.	Assisting MPAC with investigation on fruitless and wasteful, irregular and unauthorised expenditure as per the Council resolution	Not rated	In progress
15.	Annual Financial Statement Review	Not rated	Weaknesses were identified and subsequently corrected by management
16.	Risk Management	Not rated	Progress Report on Risk Management is presented to Management Committee as well as Audit Committee on the regular basis
17.	Compliance Checklist	Not rated	Compliance Checklists are presented to Management Committee as well as Audit Committee on the regular basis.

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3.2. Corporate Governance and Risk Management

The Audit Committee plays a major role in corporate governance regarding the Municipal's direction, control, and accountability. As an advisor of the Municipal Council, the Audit Committee is involved in the internal control, accounting and financial reporting, regulatory compliance and risk management.

The Audit Committee noted, a suspension of Chief Financial Officer, HOD Social Services and HOD Planning and Development who were implicated in the forensic investigation conducted by PWC, however, such suspension may possibly threaten the stability and sustainability of the Municipality if such critical positions are not filled timely.

The timeous implementation of the Municipal Standard Chart of Accounts (mSCOA) remains a high risk facing the municipality. The deadline for implementation has been met however there was still a challenge facing the Municipality on promoting awareness on mSCOA.

3.3. Compliance with Legislation and Ethics

Areas of non-compliance have been brought to the attention of management by Auditor-General and internal audit, a compliance checklist has been developed to address the shortcomings. The Audit Committee reviewed compliance checklists on quarterly basis.

4. Draft Annual Report 2016/2017

The Audit Committee reviewed the draft Annual Report which was submitted to and endorsed by Council in August 2017.

5. 2016/17 Draft Annual Financial Statements

The Audit Committee reviewed the draft Annual Financial Statements as well as the draft Annual Performance Report which was submitted to and endorsed by Council in August 2017.

6. Audit Action Plan

The Audit Committee reviewed Audit Action Plan, which was developed by Internal Audit Unit. The Audit Action Plan was in place to ensure that, all issues raised by Auditor-General are resolved to enhance prospects of attaining clean audit in 2016/17 financial year. However, the committee would like to record that, only 30% of the findings were fully address and 49% were partially address this was mainly to due to the instability in the senior management positions as Directors were suspended in most of 2016/17 financial year.

7. Conclusion

The Audit Committee confirms its commitment to assist Council to make significant progress towards clean administration. The Audit Committee also wishes to thank Council and management for its support and the teams from internal and external audit for their contributions.

Dr TI Nzimakwe – Chairperson

On behalf of the Audit and Performance Committee

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