

ANNUAL REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL OF THE NELSON MANDELA BAY MUNICIPALITY FOR 2015/2016

OBJECTIVE

The purpose of this report is to present the Audit Committee's progress to date in carrying out its oversight responsibilities, including oversight for the statutory audit process for the financial year ended 30 June 2016.

TERMS OF REFERENCE

The mandate of the Audit Committee is legislated in terms of section 166 of the Municipal Finance Management Act, 2003 (MFMA) which requires the Audit Committee to advise the Accounting Officer and Council on matters relating to: Internal financial control and internal audits; risk management; adequacy, reliability and accuracy of financial reporting and information; Accounting policies; performance management and evaluation; effective governance; Compliance with the MFMA, the Annual Division of Revenue Act (DORA) and any other applicable legislation and / or policies and any other issues referred to it by the municipality.

The Audit Committee is also required to fulfill the functions of a Performance Management Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

The MFMA also requires the Audit Committee to review the annual financial statements, respond to Council on matters raised by the Auditor General and carry out investigations into the financial affairs of the Municipality.

COMPOSITION OF THE AUDIT COMMITTEE AND ATTENDANCE

The Audit Committee comprises five independent members. The City Manager, the Executive Mayor and the Auditor General (hereinafter referred to as the AG) have standing invitations to all Committee meetings. An independent member chairs the Committee. Both the Internal and External Auditors have unrestricted access to the Audit Committee. During the year ending 30 June 2016, the Audit Committee held meetings comprising of ordinary (4) and special meetings (3).

Names of members	Appointed	Total number of meetings 2015 - 2016	Number of meetings attended 2015 - 2016
Greg Billson	April 2014	7	6 (absent April 2016)
Jose Neves	April 2014	7	7
Michelle Nicholls	September 2014	7	6 (Absent 16 Nov 2015)
Tracy Cumming	September 2014	7	7
Loren Smith	September 2014	7	7

Dates are as follows:

25 August 2015	Special AC
31 August 2015	Quarterly
10 September 2015	Quarterly
16 November 2015	Special (AG report)
10 December 2015	Quarterly
5 April 2016	Special
6 April 2016	Quarterly (cancelled 17 March 2016)
23 June 2016	Cancelled
29 August 2016	2017 fin year (new fin year)

1. Internal financial control and internal audits

The Internal Audit unit completed almost 90% of its audit plan in terms of audit field work and reporting for the 2015/16 financial year. Only 6% of audits planned were still in progress in terms of fieldwork at year end while 5% had been placed on hold until 2016/2017. This was due to management's request for postponement, extensions of scope on certain audits. As a result of the audit activities being planned, performed and reported on a quarterly basis to the Audit Committee, activities relating to the current quarter is reported to AC in the next quarter. The carryover has been completed in 2017.

The final results of the audit plan, is reliant on the timeous turnaround of information by management, hence allowing management to comment on audit work performed up to 30 June. Reporting on the 4th quarter is discussed during the Audit Committee meeting held in the first quarter of the next financial year (2016/2017) which affects the % completion of the plan as at 30 June 2016.

The Internal Audit universe included reviews over the areas of:

- Supply Chain Management, irregular expenditure, financial management, IT within various directorates, compliance with Policies and Regulations, Corporate Governance, major capital projects, water losses, compliance with the Division of Revenue Act (DORA), HR effectiveness, Assistance to the Poor programme (ATTP), quarterly performance management, leave accrual, financial statement close process, income from electricity, status of records, procurement within the Electricity and Energy Directorate, and the critically important area of mSCOA implementation.
- Internal Audit conducted four (4) quarterly reviews of the AG action plan for 2015/2016 (Monitoring control matrix) which show that most directorates achieved limited or no progress in addressing Internal Audit and Auditor General high risk findings.
- The lack of progress by Senior Management in addressing the findings of the Internal Audit assurance reports remains a critical area in respect of non-performance together with those risk areas identified, not being appropriately addressed.

- There was no evidence of action taken to address *high risk repeat* audit findings.
- The lack of progress in addressing audit findings results in the municipality:
 - Conducting operations in a weak control environment,
 - Being exposed to increased high risks of inaccurate information and errors,
 - Management being unable to detect incidents of possible fraud.
- Both Internal Audit and the Audit Committee reviewed the Annual Financial Statements prior to submission thereof to the AG.
- The Committee further received copies of all Communications of Audit Findings throughout the audit. The final AG Audit Report and Management Report were also considered.
- The Audit Committee notes various challenges by the Legal Services Division in the discharge of their responsibilities. It is recommended that the capacity and competencies of this division be reviewed to ensure that these challenges are adequately addressed to ultimately limit the material cost of utilizing external third party legal service providers.
- It is noted that the City Manager has included the KPA to reduce the overall AG findings in the performance score cards of the Executive Directors and these must be closely monitored and reported upon on a quarterly basis.

2. Forensic Investigations

- Feedback by management and evidence on the resolutions of numerous forensic investigations dating back to 2013 remain outstanding.
- Substantial costs have been incurred through forensic investigations undertaken with no evidence of action in respect of forensic findings.
- Recommendations and required actions in respect of forensic reports should be concluded as soon as possible following the finalization of these reports.

3. Risk Management

- The timeous implementation of the Municipal Standard Chart of Accounts (mSCOA) remains a high risk facing the municipality. The deadline for implementation has been deferred three times, the final being 1 July 2017. A Risk Management Committee was established, although progress in the committee's effective operation during 2016 has been hampered through the approval process of the committee's chairperson together with resource capacity constraints existing within the Risk Management unit.
- Due to limited capacity, the Risk Management unit conducted assessments on the top 5 service delivery directorates only. (Human settlements, Budget and Treasury, Infrastructure and Engineering. Electricity and Energy and Public Health).
- A new Chief Risk Officer was appointed in October 2016 where such appointment is seen to be an encouraging development in identifying and managing risk within the Municipality going forward.

4. Performance management and evaluation

- Good progress has been made in addressing all historically outstanding performance management evaluations for section 57 managers for 2014 and 2015.
- Required performance management evaluations for section 57 managers for the 2016 financial year have been completed.
- An improvement has been noted in senior management being held accountable for their performance, although it is critical that a culture of accountability and consequence management be driven down through all levels within the institution.
- The Audit Committee is required to provide input into the mid-year performance report presented to Council. However this report was only submitted to the Audit Committee two (2) days prior to council approval who were unable to provide meaningful input within the limited time frame available.

5. Effective governance

- Management reports requested by the Audit Committee often do not address the specific concerns raised by the Committee, with key challenges and / or specific measurable actions not being included in reports submitted. The effective turnaround time frame in addressing specific noted concerns therefore remains lengthy.
- Effective control over tender files within Supply Chain Management remains a major weakness. This contributed to the significant reported irregular expenditure that formed the basis for the qualified opinion by the AG on the 2016 annual financial statements.
- Reported unauthorized, irregular or fruitless and wasteful expenditure continues to be significant whereon an emphasis of matter was raised by the AG.
- The effective implementation of Internal Audit assurance report recommendations by management should result in a meaningful reduction in the total reported figure.
- Consequence management remains an issue within the supply Chain Management Unit in that there appears to be little or no accountability for missing tender files and documentation. A major turnaround strategy is required.
- The viability / sustainability of the Fresh Produce Market (FPM) remain a concern where a detailed analysis of current operations together with a business plan for the market remains outstanding.
- The FPM was assessed to be operating at an annual loss of twenty million (20m) rand. It is recommended that Internal Audit conducts a further review of the Fresh Produce Market's income statement while giving further consideration to the immediate and long term capital funding needs of the FPM in respect of the required business plan.

- The Housing Revolving Fund has required that considerable totals be impaired. Over the past year interventions have been implemented to properly manage the administration of this fund. It is critical that this Fund be managed on a monthly basis with all payments therefrom only effected when all contractual and supply chain management requirements have been adhered to. The reconciliation and submission of claims to the Provincial Department of Human Settlements should be prepared within the shortest possible time frames.
- Attendance of the Audit Committee quarterly meetings by Executive Directors averages between 50% and 70%. It is imperative that the senior management of the institution attend all Audit Committee meetings to ensure that relevant concerns and required actions as may be applicable to each directorate may be timeously and effectively addressed.

In conclusion, progress has been made in addressing performance management at a senior management level. Effectively addressing those findings of Internal Audit and the Auditor General's assurance reports will have a meaning impact on the reported control environment within the Municipality. Senior management should promote a culture in which administrative controls are constantly improved upon and where evidence of accountability and consequence management remains a key focus.

Greg Billson

Chairperson: Audit Committee

9 January 2017