

REPORT OF THE AUDIT COMMITTEE TO THE EXECUTIVE MAYORAL COMMITTEE AND COUNCIL OF THE SALDANHA BAY MUNICIPALITY

The Audit Committee has been established as an independent Committee, in terms of Section 166 of the MFMA Act No. 56 of 2003. The Committee has adopted formal terms of reference, which are regularly updated and approved by Council.

The Committee presents its report for the financial year ended 30 June 2017.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Committee, consisting of the members listed below, should meet at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises. During the year under review, five Audit Committee meetings were held.

Other meetings with Internal Audit, Senior Management, Mayoral Committee (Mayco), Council and the Auditor-General were also held.

Name of member	Qualifications	Tenure Period	Capacity	Number of meetings attended
Judy Gunther	CIA, CRMA, AGA Masters in Cost Accountning	Since 13 October 2015	Chairperson	5
K I Theletsane	BMil, BMil Hons, MMil, MSc Proj Man, PhD,	Since 25 July 2012	Member	5

The vacancy on the audit committee was not filled during the year, the post became vacant when one member's term came to an end in 2017. Nominations were made and the appointment will be made during the 2017/18 financial year.

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from **Sections 165 and 166** of the **Municipal Finance Management Act (MFMA)**.

The Audit Committee reports that it has adopted an appropriate formal Terms of Reference, has regulated its affairs in compliance with these Terms and has discharged all its responsibilities as contained therein.

REVIEW AND EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

The Committee has:

- reviewed and discussed the annual financial statements of the municipality to be included in the annual report, with the Auditor-General and management;
- reviewed the Auditor-General's management letters and management's response thereto;
- reviewed and discussed the report and audit opinion of the Auditor-General with the Auditor-General and management;
- reviewed changes in accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

These financial statements are prepared in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No 12 of 2009) (DORA).

Report of the Auditor-General South Africa

The Audit Committee has:

- reviewed the AGSA's Management Report and Management's responses thereto;
- on a quarterly basis reviewed the Department's implementation plan for audit issues raised in the prior year.
- has met with the AGSA to ensure that there are no unresolved issues that emanated from the regulatory audit.

Corrective actions on the detailed findings raised by the AGSA are monitored by the Audit Committee on a quarterly basis.

EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL

The Committee has considered the work performed by Internal Audit on a quarterly basis and has reviewed the findings by the Auditor-General on internal controls for the year ended 30 June 2017. The Audit Committee notes that there has been improvement in internal controls in the areas of financial statements, performance reporting and compliance with legislation.

In line with section 62 (c) (ii) of the MFMA, Internal Audit provides the Audit Committee and Management with reasonable assurance that the internal controls are adequate and effective. This is achieved by an approved risk-based internal audit plan, Internal Audit assessing the adequacy of controls mitigating the risks and the Audit Committee monitoring implementation of corrective actions.

The following assurance engagements were approved and completed in the 2016/17 Internal Audit Plan:

- Provision of Basic services - Waste Management Review
- Provision of basic services – Electrical Infrastructure Review
- Governance Review
- Performance Monitoring & Reporting Stationary Compliance Review & Quarters 1 & 3
- DoRA Quarter 4 2015/16 Review
- DoRA Statutory Compliance & Quarter 3, 2016/17 Review
- Municipal Standard Chart of Accounts 1st Phase Assurance Review

The following areas still need attention:

- action plans to address improvement in controls to ensure that reliable planned and actual performance is reported.
- actions are implemented and managed to prevent recurring findings;
- proper record keeping in a timely manner to ensure reliable performance information;

The Committee further wishes to draw attention to the following areas:

Information Systems

The Municipality has implemented a new financial system as well as a HR/payroll system during the year under review to ensure compliance with the new MSCOA requirements.

The new ICT Policy Framework has been delayed to incorporate the changes and the AC will monitor the progress and implementation of the new framework on a quarterly basis. The municipality has made progress to improve control over IT systems including user access, security management and disaster recovery. However, there are still areas for improvement that needs management attention and intervention. From audits performed, by both Internal as well as External Audit, change management plans, defined processes and a system development life cycle plan should be developed and implemented to assist in objective setting and achievement, deploying ICT systems effectively and efficiently which meets organisational needs, safeguards and ensures credible information, adds value and contributes to the organisations value creation and achievement of objectives by improving the processes to effectively, efficiently and economically deliver services.

Resolving Internal Control Findings

The audit committee noted improvement in the extent of external and internal audit findings resolved, however recurring findings still occurred. The different oversight bodies and individuals need to improve the monitoring of implementation of corrective actions and take appropriate sanctions where audit findings are not adequately addressed.

Combined Assurance Framework

The municipality has not yet adopted a formal combined assurance framework and this will be dependent on the finalisation of a fully implemented enterprise risk management system.

ASSESSING AUDIT EFFECTIVENESS

The Committee reviews internal audit quality throughout the year with an emphasis on auditing governance, methodology, independence, scope of work and outputs. The committee remains concerned about the high vacancy rate and the level of skills available in the internal audit department. Vacancies in the Internal Audit Department need to be filled as a matter of urgency. Failure to fill these vacant posts threatens the performance of the Internal Audit in giving assurance to management regarding the execution of their responsibilities.

This important internal control component needs to receive the necessary support to contribute towards the achievement of objectives and sustained and improved performance.

INDEPENDENCE STATEMENT

The External Audit activities are performed by the Office of the Auditor General (SA).

The Internal Audit activities are completed by an Internal Audit Activity that performs the work in terms of an Internal Audit Charter and an audit plan approved by the Audit Committee.

PERFORMANCE MEASUREMENT

The Committee has reviewed and given consideration to the in-year performance reports and performance results reported by management. Considerable improvements were noted in the effectiveness of the processes and the quality of information reported, however challenges are still experienced with the reliability of information reported. The Audit Committee is pleased that resources to drive and monitor the process for planning, monitoring and reporting of predetermined objectives have been allocated.

RISK MANAGEMENT

Risk management has still not been fully embedded at the municipality. The Audit Committee has noted the effort to establish a Risk Committee and the employment of a dedicated risk officer. The Audit Committee also notes the improvement in populating the risk registers and will monitor the usefulness of risk registers through-out the Municipality. The strategic risk register for the Municipality has been updated.

CONCLUSION

The Audit Committee concurs and accepts the AGSA's opinion regarding the Annual Financial Statements, and proposes that these Audited Annual Financial Statements be accepted and read together with AGSA's report. The Audit Committee commends the Municipality for maintaining an unqualified audit opinion with no material findings.



Judy Gunther

Chairperson of the Audit Committee

Date: 11 January 2018