

31 January 2015

**The Honourable Mayor
Cllr. Caroline M. Morajane
Lekwa Local Municipality
STANDERTON
2420**

Dear Honourable Mayor,

RE: ANNUAL REPORT OF THE AUDIT COMMITTEE OF LEKWA LOCAL MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

I hereby submit the Audit Committee report for the financial year which ended on 30 June 2014. This report has been done as required by Section 166 of the Municipal Financial Management Act (Act No. 56 of 2003).

1. Committee membership and attendance of meeting

Below is a table indicating the Audit Committee members and the number of meetings each member attended during the year:

Summary in respect of the number of meetings attended for 2013 / 2014 financial year:

Meeting Type	No. of meeting
Ordinary meetings	3
Special meetings	2
Executive Mayor's Meeting	4
Council Meeting	1
AGSA Meeting	2

Details of each member in respect of the meeting attended for the 2013/2014 financial year:

Initial and Surname	Date Appointed	Date of Resignation	Breakdown of meetings attended					Total meetings attended
			Audit Committee Ordinary meetings	Audit Committee Special meetings	Executive Mayor's Meeting	Council Meeting	AGSA Meeting	
A C Keyser			3	2	4	1	2	12
D W Prenzler			3	1	0	0	1	5

Detailed Summary of the Members Attendance:

Names	Ordinary Audit Committee Meetings			Special Audit Committee Meetings		Auditor General Meetings		Executive Mayor Meetings	Council Meetings	Total
	P	P	P	P	A	P	P			
A C Keyser	P	P	P	P	P	P	P	4/4 P	P	
D W Prenzler	P	P	P	P	A	P	A	1/4 P	A	

2. Audit Committee responsibilities on audit matters

It is pleasing to be able to report that the Audit Committee has complied with its responsibilities arising from Section 166(2) (b) of the MFMA Act 56 of 2003 and regulation 3 of the Treasury Regulations.

The Audit Committee can also report that it had adopted appropriate formal terms of reference as contained in its charter. It has been able to carry out the majority of its responsibilities and functions in compliance with its term of reference as contained in its approved charter. The Audit Committee is constituted of 2 members and they are all independent and have the required qualifications, skills and knowledge, which includes legal, business management, accounting, financial management and performance. However, where the need arose the Audit Committee is empowered to obtain the required information from the appropriate expert and/or consultants.

As stipulated in applicable legislation, MFMA, Division of Revenue Act (DoRA) the Audit Committee advised, where appropriate the Executive Mayor and the Accounting Officer on matters relating to internal financial controls, internal audits, risk management, accounting policy, adequacy, reliability, performance information and accuracy of financial reporting.

During the year the recommendations made by the Audit Committee as per Sec 121 (3) (i) and others were recorded in the minutes of the Audit Committee.

3. Effectiveness of Internal Controls

The Council system of internal control was originally designed to provide effective assurance that assets are safeguarded and liabilities and working capital are judiciously used. It is pleasing to be able to report that Risk Management has improved to such an extent that it enabled the Internal Audit unit to base its Internal Audit plan on the risks identified.

In accordance with the MFMA and King III Report on corporate governance requirements, internal audit should provide the Audit Committee and Management with the assurance that the internal controls are

appropriate and effective. This has been possible to do this year due to the assistance of the internal audit unit who managed the Risk responsibilities pending the appointment of a Risk Officer and the hands on approach of the Municipal Manager the Municipality received an unqualified audit for the first time in years. This is a major improvement.

The contents of the audit report on the annual financial statements and the AG Management letter has indicated that in certain instances non-compliance with prescribed policies and procedures, laws and regulations has occurred.

Further, the number of recurring areas of weakness identified by the Internal Audit unit and AGSA will continue to be monitored by the Audit Committee at every meeting where it appears on the agenda.

Below are some of the critical issues which came to our attention through the Internal Audit and Auditor General reports:

- Non-compliance to Supply Chain Management processes
- Dilapidating infrastructure resulting in inadequate business investment which has a direct impact on the social challenges faced by the municipality
- Unmonitored distribution losses on both Electricity and Water Supply
- Escalating Eskom, DWA and the Department of transport (license fees) debt
- Lack of monitoring Performance Management System
- Failure to pay creditors on time resulting in interest charges being levied against the Municipality (Eskom)

4. Evaluation of Financial Statements

- The Audit Committee has reviewed the unaudited draft financial statements and as in previous years highlighted inconsistencies and errors in the draft AFS and Annual Report;
- Reviewed the Auditor-General's Management letter and Management's response thereto where these were received by the Audit Committee in time. For the 2013/2014 year, the final

Management letter was only given to the Audit Committee in January 2015. As a result the Audit Committee could not interact with it and discuss it with the AGSA. The Audit Committee is hopeful that next year there will be sufficient time to do what is required by all parties.

- Reviewed, where possible, Council's compliance with legal and regulatory provisions;
- Accounting policy and procedures;
- All significant adjustments resulting from the Audit;
- Major variances from the prior year; and
- The last two were only done in January 2015

5. Evaluations of the Effectiveness of Internal Audit and Internal Control Systems

5.1 Internal Audit Unit

The internal audit process undertaken by the Lekwa Local Municipality Internal Audit unit provides oversight to obtain reasonable assurance regarding management assertions that objectives outlined have been obtained. In the opinion of the Audit Committee the Internal Audit unit was effective in executing their legislated responsibilities as this was also confirmed by the Auditor General in its management letter. However the Internal Audit unit was unable to complete its approved audit plan due to the fact that they over estimated their capability. Notwithstanding that the major audits were all done.

6. Fraud/Irregular Activities

During the year under review the fruitless expenditure was mainly due to interest charged by Eskom on the overdue account. It is pleasing to note that no fraudulent activity was discovered.

7. Performance Management System (PMS)

During the year under review this section of the municipality again did not receive the attention it deserves but there was an improvement on the previous year. Internal Audit was not able to audit all the Quarters. Again the Performance of the Municipality was found to be wanting by the AGSA. The Internal Audit has

also indicated in its reports that there is a challenge in the submission of POE's (Portfolio of Evidence) relating to the implementation of the SDBIP (Service Delivery and Budget Implementation Plan) resulting in the targets set out in the IDP (Integrated Development Plan) not being achieved. The Audit Committee is in agreement with AGSA opinion regarding the weaknesses identified.

Chapter 3, paragraph 8 of the Municipal Planning and Performance Management Regulations, 2001 stipulates that:-

A performance management system must be adopted before or at the same time as the commencement by the municipality of the process of setting key performance indicators and targets in accordance with its integrated development plan.

The municipality did not establish and implement the Performance Management System as required by legislation and should this part not be attended to by management it will again have a serious impact on the achievement of the set objective and assessment of senior manager's performance for the financial year 2014 - 2015.

8. Enterprise Risk Management

During the year under review a risk workshop was again performed by Provincial Treasury flowing from which the following documents were compiled:

- Risk Assessment Report
- Risk Registers
- Risk Management Strategy and
- Risk Management Policy

During the year under review the Municipality did not have a Risk Committee and this has resulted in the Municipality not being compliant. Since year end Council has appointed a Chief Risk Officer who is assisting Council and Internal Audit in this regard.

9. Conclusion and Appreciation

The Audit Committee would like to take this opportunity to thank the Hon Executive Mayor CM Morajane for meeting with it during the year, she has shown a keen interest in the workings of the committee and she has thrown her full weight behind the committee.

The Head of Internal Audit together with his team has done a sterling job with very limited resources. We are pleased to be informed that the position of a Chief Financial Officer has been filled for the 2013/2014 year. We appeal to the LLM Hon Executive Mayor and her team of Councilors including the management to support the newly appointed CFO to ensuring that the “purse” of the municipality is well managed.

It would be inappropriate not to thank the Municipal Manager, Mr. L Tshabalala for the support and dedication to ensure that the Audit Committee performs its duties as laid down in its charter

I would also like to thank the members of the Audit Committee for the diligent way in which they carried out their duties.

Yours faithfully,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

AC Keyser

Chairperson of the Audit Committee: Lekwa Local Municipality