

REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE OF GEORGE MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

We present our report for the financial year ended 30 June 2017.

RESPONSIBILITY

The GEORGE MUNICIPALITY (hereinafter referred to as GM) has constituted its Audit- and Performance Audit Committee (hereinafter referred to as the Audit Committee) to function in terms of the provisions of Section 166 of the Municipal Finance Management Act, 2003 (MFMA).

The audit committee is an independent advisory body to the council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation; and any other issues.

The role of the audit committee is to promote accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with applicable legislation.

TERMS OF REFERENCE

The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates in accordance with a written charter that incorporates the specific requirements of section 166 of the MFMA. The Committee amended the charter to reflect the revised membership composition as approved by the Council. The Municipal Manager has signed the charter as confirmation.

COMPOSITION OF THE AUDIT COMMITTEE

At the end of the financial year ended 30 June 2017, the Audit Committee comprised of four independent members. An independent member chairs the committee. Both the internal and external auditors had unrestricted access to the Audit Committee during the year under review.

Said members are:

1. Mr. J. Stoffels (Independent Member and Chairperson) – re-appointed 01.05.2015

2. Dr A. Potgieter – (Independent Member) re-appointed 01.04.2016
3. Mr C. Kritzinger – (Independent Member) appointed 01.11.2015
4. Mr S. Qumana - (Independent Member) appointed 01.04.2016.

ACTIVITIES

The Audit Committee met 6 times during the financial year ended 30 June 2017.

We carried out the following functions in terms of our charter:

1. Reviewed and amended the Audit Committee Charter, and referred it to Council for approval.
2. Reviewed and approved the rolling and annual internal audit plans including the definition of audit units, audit universe, and prioritisation of audit coverage taking into account the outputs of the risk assessments performed.
3. Reviewed executive summaries of all internal audit reports issued.
4. Reviewed the reporting by internal audit on performance management and performance information.
5. Issued reports and recommendations to Council on performance management and performance information.
6. Reviewed the annual financial statements as at 30 June 2017, the Final Management Report of the Auditor-General (hereinafter referred to as the A-G), as well as the Report of the A-G on the annual financial statements and the findings of the A-G on predetermined objectives and compliance with certain laws and regulations, and their detailed management letter.
7. Performed assessments on the effectiveness of the Committee for review and comment by the Municipal Manager and for presentation to Council.
8. Deliberated on the implementation of mSCOA
9. Considered other matters as deemed appropriate.

The A-G's assessment of the work performed by the Audit Committee is reflected on page 15, section 3.1.5 of the Final Management Report (hereinafter referred to as the A-G Report). In this section, the A-G reports as follows:

***“The audit committee has carried out its functions in accordance with its mandate. The financial statements submitted for auditing were reviewed by the audit committee prior to submission thereof for audit purposes.*”**

The work of the audit committee provides full assurance and the committee covered all the required aspects in terms its mandate.”

THE A-G REPORT

Report on the Annual Financial Statements

The municipality achieved a 6th consecutive clean audit outcome, and we would like to take this opportunity to congratulate Council and management on this significant milestone.

The A-G as well as Internal Audit raised certain concerns in their respective reports. The Audit Committee recommends continued focus on the implementation of all the recommendations of the A-G and Internal Audit in this regard.

We do not want to restate the pertinent issues highlighted in the A-G Report for the year 2016/2017. These are detailed on pages 4 to 32 of said report, dated 30 November 2017. However, we want to draw Council's attention to the following issues of concern highlighted in these documents.

Material Impairments

Irrecoverable debts in the amount of R 72 million have been written off during 2017.

Underspending of Conditional Grants

As disclosed in the Statement of Comparison of Budget and Actual Amounts, the municipality has materially underspent the budget on road transport to the amount of R 68 million.

Audit of the Annual Performance Report

The A-G's findings on their audit of the municipality's Annual Performance Report are detailed on pages 10-11 of the Final Management Report, and we will not restate these findings. Other matters deserving Council's attention are:

- **Performance Management**

There is still no performance management system in place for staff other than senior managers. In addition, the bi-annual and annual assessments of the municipal manager and managers reporting to the municipal manager did not take place during 2017. The Audit Committee has previously reported on the manner in which these assessments are conducted. We feel that this is an important compliance matter that deserves urgent intervention by Council.

- **Policies and procedures**

According to the A-G Report, management did not ensure that policies and procedures governing **overtime and leave administration** are in place to effectively manage these two critical HR functions. The Audit Committee has on numerous occasions highlighted these matters in our meetings as well as in internal audit steering committee meetings. It appears as if management do not want to take responsibility for what we regard as a huge risk of fraud and corruption for the organization. **We again urge Council to give this matter priority attention.**

RISK MANAGEMENT

To maintain an overall positive perception of the municipality and confidence in the municipality from the public and other stakeholders, well planned goals and objectives should be coordinated and achieved within the municipality. Section 62(1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) stipulates that the Accounting Officer must take all reasonable steps to ensure that the municipality has, and maintains, an effective, efficient and transparent system of financial- and risk management and internal control as well as the effective, efficient and economical use of the resources of the municipality.

The municipality has instituted such a systematic and formalised process to identify, assess, manage and monitor risks which effectively ensures achievement of those planned goals and objectives. Thus, risk management is essentially a good governance measure instituted to ensure the municipality accomplish its vision, mission and strategic plans.

The municipality has an approved risk management policy, framework and implementation plan as approved by council. The policy is reviewed annually. The risk management function is facilitated internally by the Chief Internal Auditor. However, no Risk Committee meetings were held during the year under review.

SPECIFIC FOCUS AREAS

Financial Viability

The A-G's audit included a high-level overview of the financial viability of George Municipality as at 30 June 2017. This financial viability assessment provides management with useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon.

The A-G looked at Expenditure management, Revenue Management, Asset and Liability Management as well as Cash Management. According to the A-G Report in Note 56 on page 23:

“the municipality is in a healthy financial position”.

Given the financial constraints of municipalities, this is a commendable achievement.

Water/Sanitation and Roads Infrastructure

The A-G's findings on the above, listed in sections 4.6 and 4.7 on page 27 makes for disquieting reading.

National Government allocated R 90 million to the GM to establish a Water Purification Plant. According to verbal reports by councillors during the last

Council meeting in December 2017, this plant is currently mothballed and not working. Given the fact that George is facing a potential water crisis, this situation borders on serious dereliction of duty by the responsible officials, as well as lack of oversight by Council. Urgent intervention in this regard is needed.

Deviation from competitive bidding processes

In terms of SCM regulation 36, an accounting officer may deviate from official competitive bidding procurement processes established by the SCM policy and procure any required goods or services through any convenient process, provided that such deviation is properly approved and justifiable. SCM regulation 36(1)(a) sets out the circumstances under which a deviation could be justifiable and SCM regulation 36(2) sets out the recording and reporting requirements regarding such deviations.

The A-G expressed concern about the fact that GM increasingly uses this SCM regulation to circumvent processes of competitive bidding, even when it is not impractical to invite competitive bids. It is the duty of the accounting officer to ensure that these deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons.

George Municipality disclosed in note 52 to the financial statements that R28,7 million of good and/or services were procured during the 2016-17 financial year using SCM regulation 36 (2015- 16: R15,3 million). The Audit Committee has repeatedly warned against this practice, and fully concurs with the A-G in this regard. Council is advised ensure that demand and acquisitioning are properly planned to limit the use of SCM regulation 36 to instances where deviations are unavoidable and that such cases are properly motivated/justifiable and documented.

Bid Adjudication Committee (BAC)

This committee is not functioning properly. The chairperson of the Audit Committee attended all the Bid Adjudication Committee meetings for the year, and we can report that there are serious control deficiencies in this critical aspect of our procurement and contract management programme. It poses enormous financial- and reputational risks for the municipality, and we have highlighted this in our meetings and reports to Council. The chairperson has also alerted both the municipal manager and the Executive Mayor about the huge risks that this problem poses for the municipality.

We would like to take this opportunity to urge Council to give priority attention to the complete restructuring/re-composition of the BAC and the Bid Evaluation Committee.

EMERGING RISKS

- mSCOA

The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. mSCOA took effect on 1 July 2017 and will thus impact on the 2017-18 financial statements and audits of all local government auditees.

- **GIPTN**

The GIPTN roll-out programme has been fraught with ongoing challenges since its inception. Continued focus by the municipality on capacitation of its internal resources to facilitate adherence to all contractual requirements is necessary.

The A-G issued a 9-page COMAF (Communication of Audit Finding) on 31 October 2017, in which it details various problems regarding GIPTN. Contentious issues like bus fares, bus tickets, the operator agreement, monitoring and oversight, pre-payment agreements as well as internal control deficiencies about leadership and financial and performance management, are highlighted and questioned.

Council should treat this Communication No. 18 of 2017 as a top priority.

- **Environmental Issues**

The ongoing drought and veld fires appear to have become part of our daily lives. Council is aware of the challenges faced by the municipality, and should remain vigilant and proactive in this regard. So are the challenges about Waste Removal.

- **Unemployment, homelessness**

During the last 6 years, the unemployed and the homeless in the Greater George area have grown beyond our wildest estimates. They are not going to disappear, and are putting tremendous strain on our resources. Rapid urbanisation and the socio-economic problems it brings will need visionary leadership from politicians and senior officials alike. We need to take this into account when we do our future planning.

We will also see more service delivery protests in future, and Council needs to develop deadlock-breaking mechanisms to deal with this complex matter.

EVENTS AFTER THE REPORTING DATE

Mr S. Qumana resigned as a member of the Audit Committee on 30 September 2017.

We also extend our condolences to the families of staff and councilors who passed away during 2017.

CONCLUSION

The Audit Committee acknowledges that the environment within which management is operating is difficult given the many challenges, and the fact that grant funding has decreased. There have also been ongoing changes to accounting practices, systems, policies and procedures (note mSCOA) which have been difficult to adopt especially given the scarcity of skills.

The Audit Committee remains concerned about the validity and credibility of “clean audit outcomes” achieved by municipalities, and the exorbitant costs involved in these external audits. We again issue a word of caution about complacency in this regard. GM has achieved a 6th clean audit outcome in 2017, but there remain significant deficiencies in our practices, policies, procedures and systems, and these will be exacerbated by the introduction of mSCOA.

We would also like to urge councilors to refrain from using their political influence to encroach on the operational/administrative activities of the municipality.

In conclusion, it is our wish that all stakeholders will work harder in future in order to improve the quality of the lives of the people we serve.

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J.STOFFELS – MEMBER AND CHAIRPERSON
(On behalf of the Audit Committee)

28 December 2017.