

Appendix G: Recommendations of the Municipal Audit Committee

BUFFALO CITY METROPOLITAN COUNCIL: 30 JANUARY 2013

REPORT OF THE CHAIRPERSON OF THE AUDIT COMMITTEE

1. PURPOSE:

The main aim of this report is to inform and advise the Council as required in terms of S166 of the Municipal Finance Management Act (MFMA)

2. INTRODUCTION.

The Audit Committee is an independent advisory body to the Council. The submission of this report is to enable the Audit Committee to engage with Management on the issues raised in the report for the purpose of providing Council with input in terms of S 166(2) (c) of the MFMA.

The committee has considered the Report of the Auditor General on the Consolidate Financial Statements and Performance information of Buffalo City Metro Municipality for the year ended 30 June 2012, as read with the report of the City Manager to the Audit Committee meeting held on 18 January 2013. The committee has noted the absence of a detailed action plan that allocates responsibility and timeframes.

The Auditor General (AG) report indicates a Qualified opinion which reflects an improvement compared to the previous financial period

3. CONSIDERATION OF THE AG REPORT

The Committee has noted the improved audit opinion although it is still unimpressive for the Metro and records a concern regarding the findings of the AG.

The main issues that have resulted in the Qualified opinion are set out hereunder:

1. Property Plant and Equipment
2. Investment Property
3. Irregular Expenditure
4. Depreciation
5. Service Charges
6. Aggregation/Accumulation of immaterial uncorrected misstatements

4. ROOT CAUSES OF THE QUALIFIED OPINION

The committee has noted that the main reasons for the Qualified opinion are the following:

1. Inadequate internal control process and inadequate implementation of internal control processes.
2. Lack of timeous implementation of resolutions taken.
3. The application and interpretation of Financial Accounting Standards and the related directives.
4. Lack of implementation of the municipality's Supply Chain Management (SCM) policy
5. Lack of stability in senior leadership and the poor relationship between political and administrative leadership.
6. Inadequate capacity and skills especially in SCM and Finance
7. Lack of Commitment and Performance Management Culture

4.1.1. Inadequate internal control process and inadequate implementation of internal control processes

Internal controls are vital organs of any healthy institution hence its of vital importance that systems be set up to record and monitor all legal and compliance matters on a continuous basis. Regular reconciliations and reporting are some of the control mechanisms that assist in detecting and rectifying problems early. Of concern to the committee is the irregular expenditure. It's necessary that a system be developed to record and report on this regularly.

Most of the findings of the AG are as a result of the inability of the municipality to develop monitor and implement the internal control system.

4.1.2. Lack of timeous implementation of resolutions taken.

A council resolution was taken to operationalize the BCDA and more than a year later this has not happened.

4.1.3 The application and interpretation of Financial Accounting Standards and the related directives

Although the majority of the issues that have been raised by the AG have been raised in the past a significant part of the issues in the current year are resulting from inability to interpret and apply the relevant GRAP standards and Directives as issued by the standard setting bodies. The main areas that have been affected by

this are the Property Plant and Equipment, Investment Properties. The findings by the AG indicate a serious lack of understanding of the stringent requirements of GRAP reporting framework.

4.1.4 Lack of implementation of the municipality's SCM policy

Irregular expenditure was not adequately disclosed, however it should be noted that an effort was done to manually identify this irregular expenditure at year end although it is advisable that this be done on a continuous basis. In addition the municipality was unable provide sufficient appropriate evidence to confirm compliance with its SCM requirements. It's of material concern to the committee that management has not been able to act prudently in this regard.

4.1.5 Lack of stability in senior leadership

The inability to permanently fill the key leadership position is a challenge that must be immediately addressed. The vacancies contribute towards the weakening of the internal control environment in the municipality. There seems to be a very poor working relationship between the political and administrative leadership which must be urgently addressed.

4.1.6 Inadequate skills, Capacity and Performance management culture.

There seems to be lack of necessary capacity and skills in the finance and SCM departments as evidenced by the AG report. Majority of the matters raised by the AG still point to the lack of understanding of the stringent reporting requirements of GRAP that the municipality is required to comply with. The institution has outside consultants that have assisted to achieve the current audit opinion however there are still vacancies in the organogram hence the skills transfer will be impractical.

The institution has no performance contracts for senior managers as required by section 57(2) (a) of MSA.

4.2. Emphasis of matter

The committee has noted with concern the matters raised by the AG that may affect the opinion if they are left unattended going forward.

4.3 Predetermined Objectives

The presentation and reporting on performance information is of great concern to the committee although the AG has not started to express an opinion on this. The council is advised that issues that have been raised by the AG need to be attended to, to avoid any negative opinion from the AG especially in the 2013/2014 financial year

5. RECOMMENADTIONS

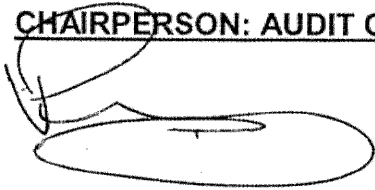
Aftercare full consideration of the matters that have been raised above the Committee Recommends the following:

1. The report of the AG on the Consolidated Financial Statements of the Buffalo City Metropolitan Municipality for the year ended 30 June 2013 be accepted by Council
2. The Council must note with concern the Qualified opinion as contained in the Report of Auditor General
3. That the Council notes the comments by management as set out in the report to the Audit committee held on 18 January 2013 and in noting the comments record that a detailed action plan has not been presented to the audit committee hence it must be submitted as a matter of urgency.
4. MPAC together with the, Executives , AG in liaison with the Internal Audit and Audit Committee monitor the implementation of the actions to be put in place by management in dealing with the AG report and report to council on a regular basis.
5. Each directorate that has contributed in the qualified opinion must be part of a team that will assist in resolving the issues as raised by the AG.
6. That the internal control system within the Metro be reviewed with supervision and monitoring controls enforced and appropriate action taken for non-compliance
7. That the process used to record and identify irregular, fruitless and wasteful expenditure, be reviewed and corrective action taken.
8. That the AG will be expressing an opinion on the performance information in 2013/2014 hence a need to adequately put the necessary systems in place now to effectively report the information correctly.
9. That the internal control deficiencies as identified by the AG be noted and urgent corrective action be taken
10. A skills and competence assessment must be undertaken to assist management in capacitating those that have gaps and the institutional organogram be finalised and filled with the relevant skilled personnel.

11. Implementation of a technology system that is configured with a checklist that will pro-actively prevent incurring any wasteful expenditure.
12. A clear and final decision must be taken around the entity BCDA.
13. A Concerted effort by Council to take resolutions with clear time frames to deal with the above recommendations.

MR. V. PANGWA

CHAIRPERSON: AUDIT COMMITTEE

A handwritten signature in black ink, consisting of a large, stylized initial 'V' followed by a series of loops and a long horizontal stroke, all contained within a large, irregular oval shape.