

APPENDIX B - COMMITTEES AND COMMITTEE PURPOSES

AUDIT COMMITTEE

(Section 166) of MFMA makes provision for the establishment of the Audit Committee, whose primary function is to assist Council on the oversight and advisory capacity on the Municipality. The committee is composed of Financial, Legal and Performance Management experts who guide and offer advice on Risk Management, Operational, Financial and Performance Management issues and any other matters referred to it by Council.

The Auditor General also values the opinion of the Audit Committee. Internal Audit submits reports to the committee for review.

MPAC

The Municipal Public Accounts Committee (MPAC) is established in terms of section S79 of the Municipal Systems Act and its primary function is oversight.

APPENDIX C - FUNCTIONS OF MUNICIPALITY / ENTITY

Municipal / Entity Functions		
MUNICIPAL FUNCTIONS	Function Applicable to Municipality (Yes / No) *	Function Applicable to Entity (Yes / No)
Constitution Schedule 4, Part B functions:		
Air pollution	Yes	No
Building regulations	No	
Child care facilities	No	
Electricity and gas reticulation	No	
Firefighting services	Yes	
Local tourism		Yes (Ugu SCT)
Municipal airports	No	
Municipal planning	Yes	
Municipal health services	Yes	
Municipal public transport	No	
Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically assigned to them under this Constitution or any other law	No	
Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto	No	
Storm water management systems in built-up areas	No	
Trading regulations	No	
Water and sanitation services limited to potable water supply systems and domestic waste-water and sewage disposal systems	Yes	
Beaches and amusement facilities	No	Yes

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MUNICIPAL FUNCTIONS	Function Applicable to Municipality (Yes / No) *	Function Applicable to Entity (Yes / No)
Constitution Schedule 4, Part B functions:		
		(Ugu SCT)
Billboards and the display of advertisements in public places	No	Yes (Ugu SCT)
Cemeteries, funeral parlours and crematoria	No	No
Cleansing	No	No
Control of public nuisances	No	No
Control of undertakings that sell liquor to the public	No	No
Facilities for the accommodation, care and burial of animals	No	No
Fencing and fences	No	No
Licensing of dogs	No	No
Licensing and control of undertakings that sell food to the public	No	No
Local amenities	No	No
Local sport facilities	No	No
Markets	No	No
Municipal abattoirs	No	No
Municipal parks and recreation	No	No
Municipal roads	No	No
Noise pollution	No	No
Pounds	No	No
Public places	No	No
Refuse removal, refuse dumps and solid waste disposal	No	No
Street trading	No	No
Street lighting	No	No
Traffic and parking	No	No
* If municipality: indicate (yes or no); * If entity: Provide name of entity		

Table C





Ugu District Municipality

UGU SHARED SERVICES EXTERNAL AUDIT COMMITTEE

(Established in terms of Section 166 of the Municipal Finance Management Act)

C/O SUITE NO. 5, UVONGO SQUARE, FOSTER STREET, UVONGO

E-MAIL: chantele@chantelleliott.co.za; paul@prestonlaw.co.za; bhekiidlada@gmail.com, bongeka@exclusivemail.co.za

UGU SHARED AUDIT SERVICES COMMITTEE
28 CONNOR STREET,
PO BOX 33, PORTSHEPSTONE
0396885700

UGU DISTRICT MUNICIPALITY

REPORT OF THE CHAIRPERSON: FINANCIAL YEAR 2015/2016

AUDIT & PERFORMANCE AUDIT COMMITTEE

EXTERNAL AUDIT SHARED SERVICES

Members of the Audit Committee:

Mr. Paul Preston	–	Chairperson
Mr. Bheki Dladla	-	Member
Mrs. Chantel Elliott	–	Member
Mrs. Bongeka Jojo	–	Member

Audit Committee meetings took place on the following dates:

1. 17 August 2015 Audit committee meeting
2. 28 August 2015 Draft Annual Financial Statement (AFS)
3. 25 September 2015 Audit Committee meeting and consolidated AFS
4. 11 December 2015 Audit committee meeting
5. 22 January 2016 Draft AG management Corrective action plans
6. 23 March 2016 Audit Committee/ AG Dashboard presentation
7. 17 June 2016 Audit committee meeting.

Performance Audit Committee meetings took place on the following dates

1. 08 July 2015 Performance Audit Committee

1. INTRODUCTION

In terms of section 62(1)(c) of the Municipal Finance Management Act (MFMA), No.56 of 2003, the Municipal Manager is the Accounting Officer and is responsible from managing the financial administration of the Municipality. The Audit Committee is appointed in terms of Section 166 of the MFMA, to assist and to advise the Mayor, the Speaker and the Municipal Manager of the Municipality. It is a shared service Audit Committee appointed by the Ugu District. It is afforded wide powers and obligations.

Meetings with the Political Leadership and with the Audit Committee took place from time to time in the Honourable Mayor's offices and the Municipal Manager met with the Audit Committee in the office of the Municipal Manager from time to time.

2. MEMBERS AND MEETINGS OF THE AUDIT COMMITTEE

- 2.1 In terms of the Ugu District Municipality's Audit Committee Charter, the Audit Committee as at the 30 June 2016, included four external independent members. One is a Performance Management Specialist. None of the members were Councillors or the Municipal Manager. The Audit

MEMBERS:
BHEKI INNOCENT DLADLA – B Admin (Hons), MBA (UKZN), Dip Min Eng (WITS)
BONGEKA JOJO CA (SA)
CHANTEL VIOLETTA ELLIOTT - B Acc, B Com (Hons), CA (SA), RA , HDIP Vat
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APPENDIX D - AUDIT COMMITTEE CHAIRPERSON'S REPORT

Committee meets at least four (4) times per annum as per its approved Charter and as a Performance Audit Committee during the year.

It met with the Political Leadership, and specific members of the Political Leadership were invited to and attended Audit Committee meetings from time to time.

Meetings of a more informal nature with the Honourable Mayor, Speaker and Deputy Mayor took place. The Honourable Mayor has engaged frequently and has met with the Chair of the Audit Committee whenever requested to do so. These meetings included ongoing assessment of Statutory compliance, concerns with regard to the monthly financial reports, the Auditor General's interim Dashboard Reports and considered the Municipality's financial position, risk and compliance with its I.D.P. and pre-determined objectives as well as Statutory Compliances.

The Audit Committee also sits as a Performance Audit Committee in respect of Section 40, 41, 43 and 46 of the Municipal Systems Act (MSA).

The Auditor General has visited the Municipality regularly and interacted purposefully with it and then determined a Quarterly Dashboard Report, which has become a most useful and reliable tool in evaluating the performance of the Ugu District Municipality. An Audit Committee member is in attendance at the Auditor General's report back meetings to Councillors and Management with the Auditor General. This function is shared amongst the members of the Audit Committee.

Audit Committee members carefully reviewed and approved draft minutes of its own meetings. They met with one another and exchanged e-mails with the Manager: Internal Audit, between meetings as issues or concerns arose. An atmosphere of mutual trust and respect exists between the Audit Committee, Internal Audit and the Municipal Manager and he has called for a number of confidential meetings with the Audit Committee members; while all parties maintain independence.

2.2 The Auditor General tests the following in its Audit finding and the level of the Audit finding concerning a District Municipality:-

- 2.2.1 Compliance with Legislation concerning the Municipality.
- 2.2.2 Possible material misstatements in the Draft Annual Financial Statements or in the consolidated Draft Annual Financial Statements.
- 2.2.3 Compliance with Performance Indicators and the alignment of the I.D.P. with the SDBIP, with the Performance targets set by the Municipality.
- 2.2.4 Performance in areas governed by Performance Regulations of 2001 and the Key Performance Indicators, by accessing portfolios of evidence (POE's).
- 2.2.5 Considers Fraud and Risk.
- 2.2.6 The financial viability of the Municipality as a going concern.

3. AUDIT COMMITTEE'S RESPONSIBILITIES AND FINDINGS

In discharging its responsibilities for the year ended 30 June 2016 the Audit Committee did the following:-

3.1 Audit Committee Meetings and Functions

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The Audit Committee:-

- Reviewed the quality of the financial information provided, financial reports and consolidated annual financial reports and other reporting which was tabled regularly before the Audit Committee, and reviewed the monthly financial information sent to Treasury;
- Reviewed the draft annual financial statements and draft consolidated annual statements and the draft Performance Audit and consolidated Performance Audit information prior to submission to Council and to the Auditor-General and made prior suggestions and recommendations on enhancing the quality of compliance and disclosure;
- Reviewed financial reports from time to time, and reviewed performance information to ensure they present a balanced credible and understandable assessment of the performance and going concern viability of the Municipality;
- Reviewed the Auditor General's draft management letter and final report in relation to the year ended June 2016;
- Discussed issues, materiality of the findings and queries arising from the Auditor General's Audit of the Municipality;
- Reviewed the management response with regard to the corrective action to be undertaken in response to any significant internal audit findings;
- Always dealt with matters arising from previous minutes;
- Reviewed the Performance Information Reports and has established that credible portfolios of evidence exist.
- Reviewed and recommended the Internal Audit Plan and Audit Committee Charters.
- Dealt with Risk and considered the Risk and Fraud Risk Register;
- Dealt with the Asset Register and Property Plant and Equipment generally;
- Dealt with Revenue Management and water billing at every meeting;
- Dealt at every meeting with Legislative and Statutory compliances in the various Laws governing the Municipality;
- Considered possible misstatements in Annual Financial Statements;
- Participated in Performance Assessments for Senior Managers;
- Raised queries related to VAT and SARS VAT directives.

3.2 Performance Management

The Audit Committee, sitting as a Performance Audit Committee, considered matters relating to performance management as prescribed in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

These responsibilities included:

- A review of the quarterly reports required to be submitted by internal audit and the mid-year Performance Review.
- Reviewed the Performance Management System and the pre-determined objectives and tested the functionality and corresponding compliance with the Municipal Systems Act and the MFMA.
- Focussed on the economy, effectiveness, efficiency, reliability and impact applicable to the Municipality's own key performance indicators and key performance areas and their alignment with the SDBIP and the relevant P.O.E.'s, and with Statutory Regulations.
- Considered the application of Sections 40, 41, 43 and 46 of the MSA, with reference to the Municipalities' I.D.P. and reviewed these, prior to submission to the Council and the Auditor General and the levels of compliance.

The I.D.P. and the SDBIP and the pre-determined objectives must be aligned to create service delivery. Senior managers receive facts and information which they evaluate and report, based on such information and this must align with the Integrated Development Plan (I.D.P.), and the Key Performance areas and pre-determined objectives. If done properly, it is a very good system.

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This is the essence of good governance and represents proper compliance with Section 52 and Section 195 of the Constitution of South Africa. The Municipality has improved its Compliance obligations in the last year and unsurprisingly a credible level of service delivery has resulted.

3.3 Revenue

3.3.1 Water Billing and Consumer Debt have received better administrative attention. A minimum monthly remittance by water users is required to sustain water revenue income. A revenue shortfall impacts on Ugu's viability as a going concern, and poses a pervasive risk.

3.3.2 Cash flow continues to be of material concern. The under-recovery in respect of water revenue and the anomalies in the billing system underpin this difficulty which therefore poses significant risk.

3.3.2.1 Leave, as a previous finding has been resolved.

3.3.2.2 Water breaks and call outs and the urgency and overtime have been considered frequently and this is an area of material improvement.

3.3.2.3 The Audit Committee dealt extensively with the asset valuation of both immovable and movable assets as well as servitudes.

3.4 Internal Control and Internal Audit

The External Audit Committee is responsible for the effective functioning of the Internal Audit activity, as provided for in Section 165 of the MFMA. Internal Audit reports functionally to the Audit Committee and administratively to the Accounting Officer. The Audit Committee:-

- has direct access to Internal Audit through a reporting relationship with Internal Audit. This underpins its independence from management;
- The Chairperson has conducted regular private telephone calls and exchanged e-mails, and had meetings with the Manager of Internal audit to allow for frank discussion of issues and concerns;
- evaluated the performance of internal audit by consideration of the relevant Internal Audit Plan and did so with reference to the Auditor General's Dashboard Reports, which reviewed internal audits' integrity;
- considered the scope of the internal auditor's review of internal control over financial reporting, and obtained reports on significant findings and recommendations, together with management's responses;
- evaluated controls over the overall operational and financial reporting environment and reviewed the effectiveness of the internal controls in conjunction with the Auditor General's Dashboard Findings;
- assessed the adequacy of performance of the internal audit function, and available internal audit resources;
- reviewed the frequency of dealing with corrective action taken in response to significant Auditor General's findings raised in the prior year;
- reviewed and approved the Internal Audit Charter, Internal Audit Plans and Internal Audit's findings with regard to internal control;
- at all Audit meetings discussed matters with respect to risk assessment, revenue impairment and asset management;
- discussed at length the challenges in water-billing and revenue management;
- discussed Property Plant and Equipment;
- discussed compliance with VAT and SARS directives;
- discussed GRAP;
- considered the valuation of, or of misstatements of the Municipality's Assets;
- considered internal audit reports at every Audit meeting;

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- specific members attended meetings concerning Performance Evaluation of Senior Managers;
- Considered the Risk and Fraud Risk register.

The Audit Committee received highly satisfactory levels of support from the Internal Audit Unit and the Internal Audit Plan was maintained very well.

3.5 Compliance and Ethics

From a review of various reports and discussions held at Audit Committee meetings the Audit Committee noted that a Fraud Prevention Strategy is in place. The Statutory Code of Conduct for municipal staff and Councillors in terms of the Municipal Systems Act is applied by the municipality. Declarations of interest in respect of risk posed by attempts to by-pass the Supply Chain Management process have been obtained from all persons contracting with the Municipality stating on oath that they are not in the employ of the State. Employees are subject to the same scrutiny.

The Audit Committee has reviewed the effectiveness of mechanisms for the identification and reporting of compliance with Statutory laws as set out in the Internal Audit Plan and relevant Regulations; and the findings of regulatory bodies or audit observations. It has tried to eliminate material misstatements from Draft Annual Financial and Consolidated Financial Reports forwarded to the Auditor General. Fraud is very difficult to detect at every level.

3.6 Section 71 (of the MFMA) Management Report

This is requested at each Audit Committee meeting. It is a report in a prescribed format due to be submitted to Treasury. It is most helpful in providing a contemporaneous indication of the financial health and economic state of the Municipality at any given time. Monthly Section 71 Management reports should be considered by the Counsel during the year.

3.7 The Consideration of the Auditor General's Report

The Auditor General has tabled its Final Management Report and Audit Finding in respect of the year under review. The Auditor General expressed an **unqualified opinion with other matters**. It is significant that the AG agreed that the performance of the Municipality is significantly improved from the previous financial year.

The holistic approach by the Political leadership and management to the operational obligations and the purposeful corrective action in respect of the challenges at Ugu has rendered favourable outcomes. The information provided by the Municipality in respect of Revenue, Water Billing, Assets, its value of its assets, and with regard to Performance is regarded by the Auditor General, as credible and compliant in which formed the basis of its Audit Report.

3.8 In-year reports submitted in terms of the MFMA

The quarterly performance management reports, the Council's approved budget, and the SDBIP, Internal Audit reports and the Annual Performance Reports have been called for by the Audit Committee. The Audit Committee reviewed these reports and was satisfied. The quarterly management reports and the minutes of the External Audit Committee reflects this. Performance Evaluation has improved significantly.

3.9 Internal and External Audit Function

During the year under review, an audit plan was prepared based on the Internal Audit Plan, and on Annual Risk Assessment. The following is a list of received Internal Audit and Management's high levels of attention:

- Ethics
- Asset Management Review and Restatement of Asset Values
- Bi-annual reviews of Performance Management
- Cash Flow oversight and going concern issues

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- Financial Discipline Review
- Overtime
- Water Revenue
- Fleet Management
- Audit Committee Review
- Follow Up Review: Revenue Management
- Information Technology
- Supply Chain Management discipline review
- Corrective Action Plans: A-G Management Report & Audit Reports
- Section 36, Section 12 and 17(1)(c) of Supply Chain Management Regulations
- Annual Financial Statements
- Fraud Prevention
- Statutory Compliance
- Risk/Risk Register
- Performance Management and the SDBIP and Performance Regulations
- The Internal Audit Plan
- VAT
- Property, Plant and Equipment
- Valuation of Fixed and Movable Assets and Servitudes
- GRAP
- Compliance with Legislation and relevant Statutory Regulations and By-Laws

An annual assessment of the Internal Audit Function had been completed the Audit Committee. The External Audit Committee is satisfied with the performance of the Internal Audit function and reports that all projects in terms of the approved risk based annual audit plan had been adequately provided to the Audit Committee as required by Law.

The Auditor General has stated in its Management letter and Dashboard Reports, that internal and external audit functions at the Municipality are conducted in a satisfactory manner.

4. EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The Audit Committee reviewed on more than one occasion, the credibility of the draft annual financial statements and consolidated Annual Financial Statements and the Municipalities Performance Management for the year ended 30 June 2016 prior to submission to the Auditor General on the 31 August 2016. The Committee reviewed the accounting policies and practices and evaluated the draft annual financial statements and the draft consolidated Annual Financial Statements based on the information provided to the Committee and considered the integrity of the said statements complying in all material respects with the requirements of the MFMA and Treasury Regulations as well as the requirements of Generally Recognised Accounting Practice (GRAP) and SARS VAT directives. The quality of the draft statements prior to submission to the Auditor General was improved.

5. RESOLUTIONS

With reference to Treasury Circulars, the Audit Committee Resolved as follows, at its Audit Committee meetings for the year in question:-

1. To deal with necessary Corrective Action in terms of Section 131 of the MFMA at every meeting.
2. To deal with water billing and water revenue accounts at every meeting.
3. To monitor Performance Management at every meeting.
4. To follow up with regard to the updating of an asset register, valuation of assets and Property Plant and Equipment generally.
5. To consider Ugu's viability as a going concern at each meeting.
6. To consideration of Section 71 Management Reports.

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7. To consider VAT.
8. To interrogate supply chain management.
9. To comply with relevant Treasury Circulars.

6. AUDIT OUTCOME

The Auditor General awarded the District Municipality an **Unqualified Audit with certain additional matters** as the finding; which further progress for the District. It received its best Audit Finding ever.

7. THE POLITICAL LEADERSHIP

The Political Leadership has continued to interact purposefully with the Audit Committee. The Audit Committee believes that a sound relationship of trust has evolved. Since the previous Audit Report the Honourable Mayor, the Honourable Deputy Mayor, the Honourable Speaker and Counsellors have again interacted at meetings of the Audit Committee in a concerned and informed manner. This involvement has been helpful in fulfilling the functions of the Audit Committee in terms of Section 166 of the MFMA, and has also given effect to Section 195 of the Constitution of South Africa.

8. CONCLUSION

I would like to thank Mr. Dladla, Mrs. Jojo and Mrs. Elliott for making themselves available to serve on this Committee and the significant contribution in their interrogation and consideration of draft financial statements and the draft Performance Reports, is helpful to all concerned. This has been noted by the Auditor General. As an Audit Committee, we rely to a great extent on Ms. Zevile Dlamini; Manager: Internal Audit and her staff in the Internal Audit Department for their support and assistance and, in particular, for the role they continue to play in improving the accounting and internal auditing systems and controls at Ugu District Municipality. We are indebted to them and the fine quality of the Board Packs.

There has been robust discussion with the Council, specifically the Honourable Speaker, Madam Mayor and The Honourable Deputy Mayor. Councillor Mavundla remains most helpful. We are also grateful to the helpful and very honest input of the Municipal Manager and his integrity in all matters. The Chief Financial Officer and the Auditor General have given ongoing guidance, CoGTA, Treasury, Private Auditors and all other invitees to our meetings, including the external service providers, provide invaluable information to the Committee.

This Municipality has improved significantly in the financial year concerned.

Mr Paul Preston

Chairperson: Ugu District Municipality

Shared Services Audit Committee

Date: December 2016

MEMBERS:

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APPENDIX E - DISCLOSURES OF FINANCIAL INTEREST

Related party transactions

Interest of related parties

Directors and/or management of the entity have relationships with businesses as indicated below:

Related Person	Designation	Related Party Relationship
HR Kelly	Director	50% partner in Riverbend Farm
HR Kelly	Member	33% shareholder of Top Croc CC
PT Jeffreys	Director	100% membership in Wild Five Adventures CC
J Harris	Proprietor	Sole proprietor of One plus 1 Events
Ugu District Municipality	Shareholder	100% shareholding in the company
Municipalities per note 11	District and local municipalities	Sponsoring municipalities
South Coast Development Agency NPC		- Common control

Compensation of related parties

Compensation of key management personnel and directors is set out in notes 15 and 16 of these financial statements.

Purchases from related parties

The entity did not buy goods from any companies which can be considered to be related parties.

Other related party transactions

The entity has an Information Office situated at Riverbend Crocodile Farm. Payments to the amount of R14 842 (2015 - R15 578) for rental as well as educational tours which were conducted at the farm.

The entity utilised Top Croc CC t/a Outlook Trading Post as a venue for an Area AGM. Payment of R1 482 (2015 - Nil) was made.

The entity utilised Wild 5 Adventures CC for the use of their facilities for familiarisation trips. Payment of R2 260 (2015 - Nil) was made.

