

## **Okhahlamba Local Municipality**

### **Audit Committee Report to the Executive Council: 27 June 2012**

#### **Duties and Responsibility of Audit Committee:**

2 An Audit committee is an independent advisory body which must

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality. Or the board of directors, the accounting officer and the management staff of the municipal entity. On the matters relating to-
  - (i) Internal financial control and internal audits:
  - (ii) Risk management
  - (iii) Accounting policies
  - (iv) The adequacy, reliability and accuracy of financial reporting and information;
  - (v) Performance management;
  - (vi) Effective governance
  - (vii) Compliance with this Act, the Annual Division of Revenue Act and any other applicable legislation,
  - (viii) Performance evaluation; and
  - (ix) Any other issues referred to it by the municipality or municipal entity.

The following issue has come to the attention of Audit Committee meeting held in January and special meeting held in February. As the Audit Committee we believe these issues required special and immediate attention as they could impact the image, financials and general operation of the municipality as a whole:

## **Appointments of HODs**

It has been brought to our attention that during October 2011 candidates were interviewed for the HOD positions in the different departments, however none have been appointed. The previous HODs contracts have come to an end as of 31 January 2012. Since then the positions have been vacant.

### **Audit Committee Recommendations:**

- New or acting HODs should be appointed with immediate effect to fill those vacancies.

## **Performance Management Systems**

During the audit of 2010/2011 the office of the Auditor-General raised concern regarding the Performance Management Systems. During that particular period the service provider UBAC consulting was appointed to assist with PMS. The audit committee request copies of councils contract with them, and a progress report on the work carried out thus far.

### **Audit Committee Recommendations:**

- The Municipal manager should engage COGTA for assistance with PMS.

## **Irregular Expenditure**

During the 2010/2012 financial year-end the office of the Auditor-General and the Internal Audit Department during January/February 2012 raised concern regarding the irregular expenditure which was as a result of not following proper Supply Chain Management regulations. The Total Amount of **R3 405 667.12** was incurred by the municipality as a result of irregular expenditure.

### **Audit Committee Recommendations:**

- The council should apply Section 32(2) of the MFMA in recovering the irregular expenditure.
- The Municipal manager must inform the council of the deviations incurred in terms of Section 36 of the SCM regulations.

## **Supply Chain**

The Audit Committee has noted that the Supply Chain of the Municipality was run by two interns who were inexperienced to head such an important department for the municipality. We have raised this issue a number of times during our meetings, and we have been told the SCM officer was on suspension. This is of concern to the AC as non compliance may lead to irregularities in the supply chain.

### **Audit Committee Recommendations:**

- With immediate effect the Municipality must appoint senior supply chain personnel who have an experience in the municipalities and hold suitable qualifications from a recognized institution in the republic of South Africa. In the interim the council should appoint independent investigators to investigate all irregularities in the supply chain.
- The municipality must also advertise the invitation to invite suppliers to register on the database.

### **Contract Management**

It has come to the attention of the Audit Committee that there is no contract proper contract in place between the municipality and several of its contractors including UBAC and KZN Generators. In the event of disputes between the municipality and the contractors there are no documents to refer to.

### **Audit Committee Recommendations:**

- The council should make every effort to find the relevant documents and if none exist then council should seek legal advice before terminating the service of the existing suppliers.

### **IT and Electrical Infrastructures**

In order for the organization to function efficiently there must be function of IT (access to email, internet etc) and electricity. Current and former staff members at the moment are using their personal emails which could put the municipality at risk because when the staff leaves the organization they will leave with important information for the organization.

### **Audit Committee Recommendations:**

- The municipality should appoint the contractors to assist with IT and electrical infrastructures and further appoint the internal IT specialists to assist with internal problems should any arises.

### **Internal Audit**

Internal Audit department is one of the departments that are playing a critical role in assisting the municipality and its accounting officers regarding the weaknesses' in internal control and improving that internal control.

The committee noted that there is only one manager at the internal audit department which is difficult to perform planning, execution and reporting.

#### **Audit Committee Recommendations:**

- It is recommended that the municipality will consider getting one audit supervisor as well as three staff to assist in the internal audit department.

#### **Council Project Management**

The key responsibility of the municipality is to deliver services to the community under its jurisdiction. During the audit committee meeting it has noted that there were council projects which was still pending and were beyond the completion date, some has no proper start and end date. There were payments made which constitute irregular payments.

#### **Audit Committee Recommendations:**

- The Council should appoint the project manager under the office of HOD technical department to manage the projects and report the status/progress of the projects. The incumbent must ensure that projects are completed within the agreed end date.

#### **Municipal Administration Offices**

The municipality is currently renting the premises to the land lord, and the special features of the lease appears not to be reasonable, this include rental paid, lease period etc. This also constitutes irregular expenditure.

#### **Audit Committee Recommendations:**

- The council should exhaust all options available to ensure that the lease in place is valid and does not contain errors. This should be done through consultation with attorneys and ensure that those attorneys appointed are independent.