

MINUTES OF THE AUDIT COMMITTEE

MEETING HELD IN THE COMMITTEE ROOM 3
ON TUESDAY, **27 MARCH 2007** AT 10H30.

PRESENT: Messrs A Jordan (Chairperson) (Andile Jordan Associates), Myakayaka (Consultant PJ), K Kabangu (K Kabangu Support Services), Layman (CEO: Pietermaritzburg Chamber of Business), and Ms SK Keshav (Keshav, Mkhize and Majola Associates).

ABSENT: Mr Ndwandwe (Performance Management).

OFFICIALS: Messrs Haswell JP (Acting Municipal Manager), Zwane (Acting Executive Manager [Internal Audit]), Cassimjee (Seconded to Internal Audit Unit) and Ms David (Committee Officer).

AUDITORS IN ATTENDANCE: Mr Moodley (External Auditor: KPMG) and Mrs M Vather (Auditor General).

1. **CAUCUS OF AGENDA ITEMS BY AUDIT COMMITTEE MEMBERS**

(Raised verbally)

Audit Committee members engaged in a caucus on agenda items from 09h00 – 10h30.

NOTED.

(At this point tea was served to other members).

2. **WELCOME AND APOLOGIES**

(Item 1 on agenda)

The Chairperson welcomed all present. An apology was received from the Acting Municipal Manager for his late arrival at the meeting, which was due to him attending a special meeting of the Executive Committee being held concurrently.

NOTED.

1. **CONFIRMATION OF MINUTES**

Meeting held on 21 November 2006.

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It was

RESOLVED

That the minutes of the Audit Committee meeting held on 21 November 2006 be confirmed subject to the following amendments:-

Page 1: Title under "Present": That the following name be replaced and recorded as 'Mrs Narshai'.

Item: 4.7: Page 3: That the last sentence in this paragraph be amended to read as follows: "*He advised committee that he was taking up a position as a Municipal Manager*".

4. **MATTER'S ARISING**

(Raised verbally)

4.1 Fraud Prevention Strategy

Concern was raised over the cost involved in compiling Council's Fraud Prevention Strategy.

4.2 Checklist for Audit Committee

In response to a query, the Chairperson advised that the checklist in question would highlight the respective legislative requirements to be checked by Audit Committee members in ensuring that the respective work was undertaken accordingly.

4.3 Clarity over Audit Committee Membership

Subsequent to discussion, it was pointed out that the Audit Committee Charter was very clear that the six members must be private.

It was also requested that the Audit Committee revisit the Municipal Finance Management Act and the Audit Committee Charter in order to review this matter.

Following further discussion, concern was expressed over Committee proposing to retain Mr Ndwandwe's membership on the Audit Committee. Reservation was expressed especially considering the fact that Mr Ndwandwe was newly appointed as a Municipal Manager at another municipality.

The Chairperson pointed out that Mr Ndwandwe was specifically appointed on the Audit Committee to oversee the Performance Management aspect of the Audit Committee's function.

It was advised that the Charter was very clear on the membership of Audit Committee members. Therefore, it was suggested that in the event of Committee giving any further consideration to Mr Ndwandwe's appointment on the Audit Committee, committee should consider revisiting the Audit Committee Charter.

It was thereafter proposed that this matter be referred to the Acting Municipal Manager for further consideration.

It was therefore

AGREED TO RECOMMEND TO THE EXECUTIVE COMMITTEE

- (a) That it be noted that Audit Committee Member (Mr Ndwandwe) appointed to oversee the Performance Management System aspect on the Audit Committee has been appointed as a Municipal Manager at Ilembe District Municipality.
- (b) That in consideration of (a) above, the matter of re-advertising and filling in Mr Ndwandwe's membership on the Audit Committee (Performance Management) be referred to the Executive Committee for consideration.

4.4 Reporting structure of Audit Committee

Committee members were advised that the Audit Committee was not a sub-committee of the Executive Committee. It was noted that the Audit Committee was an independent advisory board.

4.5 Remuneration of Audit Committee members

In response to a query, the Acting Executive Manager: Internal Manager advised that the delay in the remuneration of Audit Committee members was due to the payments being captured for the first time on the system. He assured committee that there would be no delay in future payments to Audit Committee members.

4.6 Fraud Prevention Strategy

The Deputy Chairperson pointed out that the Audit Committee must be involved with the development of the Fraud Prevention Strategy. He requested that the Audit Committee be engaged when the Strategy was being considered by management, but prior to submission to the Executive Committee.

Members concurred that the Audit Committee must also be involved in the finalisation of the Strategy.

The Acting Executive Manager: Internal Audit pointed out that subsequent to the Executive Management Committee making several amendments to the Fraud Prevention Strategy, no further work had been undertaken on the Strategy as the person dealing with the Strategy from Deloitte had left the company.

Concern was also expressed that Council had made payment to the consultants for an incomplete Strategy.

In response to this, the Acting Executive Manager: Internal Audit explained that he had requested copies of all invoices issued to Deloitte in respect of the Fraud Prevention Strategy, although he did not have sight of the invoices to date. However, it was pointed the consultants were paid for the work undertaken on the Strategy.

It was therefore

AGREED

- (a) That the person in charge of overseeing the compilation of Council's Fraud Prevention Strategy from Deloitte be invited to attend the next meeting of the Audit Committee in order to finalise the Strategy together with the Acting Municipal Manager and the Audit Committee prior to the Strategy being submitted to Council for adoption.
- (b) That all senior managers be instructed to attend the next meeting of the Audit Committee.

5. **AUDIT PLAN**

Copy of updated Audit Plan.

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Concern was expressed over omissions in the (a) stores audit which was only undertaken once in 2006, (b) the fleet management audit which was also undertaken once in 2007, (c) staff leave and (d) Subsistence and Travel Allowance.

In response to these queries, the Acting Executive Manager: Internal Audit reported that the a follow up audit was undertaken in respect of the Stores Unit, which management was required to remedy. He added that there was also some uncertainty as to which business unit Stores reported to, as according to the Supply Chain Management Policy, the Stores Sub-Unit fell within the Supply Change Unit. However, the Acting Executive Manager: Internal Audit undertook to follow through with management to ensure that all the respective audit issues have been resolved.

In terms of the query raised in regard to the Fleet Management Unit, it was reported that this work had not yet been complete due to the lack of capacity within the Internal Audit Unit.

The Acting Executive Manager: Internal Audit undertook to follow through with the Human Resource Support Managers on progress made with to the audit recommendations on leave. He also explained that Subsistence and Travel Allowance appeared more than once in the Plan as the audit was undertaken every quarter. In addition to this, he pointed out that in terms of items that reflected no costs on the Audit Plan, committee must note that this was an indication that the work was undertaken within the Internal Audit Unit.

Following a further query, it was reiterated that the term used in the Plan "municipal wide" had referred to all Council business units.

The Acting Executive Manager: Internal Manager was requested to ensure that the matrix must highlight what the problems were, the level of risks involved with each problem, together with a reflection on all action that had been undertaken in respect of the relevant issue and also a column highlighting the date of action.

It was thereafter

AGREED

- (a) That the project status outlined in the updated Audit Plan be noted.
- (b) That the Acting Executive Manager: Internal Manager compile a matrix containing management's response to audit queries and highlighting what the problems were within the business units, together with the level of risks involved with each problem, as well as a reflection o all action undertaken in respect of the relevant issue with the date of action.

6. **ADDRESS BY ACTING MUNICIPAL MANAGER**

(Raised verbally)

In response to a query raised on the responsibility of following through on recommendations by strategic executive managers, the Acting Municipal Manager undertook to follow through with the respective managers on delays in actioning audit recommendations.

The Acting Municipal Manager drew committee's attention to the two forensic investigations were undertaken with Council. He advised that these investigations had left certain units almost dysfunctional. He informed committee that as a result of these investigations, there had been a massive seizure of documentations. Thereafter, the Acting Municipal Manager notified members that his office had been broken into and his lap top was stolen. He added that a majority of the concerns facing council had been inherited prior to his acting appointment as Municipal Manager. However, despite the large backlog of work, the Acting Municipal Manager gave committee his assurance in trying to improve working conditions. He further added that Council was in the process of approving its draft budget. The Acting Municipal Manager had indicated his full support to assist the Internal Audit Unit where necessary.

Members noted with great concern the problems highlighted by the Acting Municipal Manager. Committee concurred that the Internal Audit Unit should focus largely on the high risk areas.

(The Acting Municipal Manager left the proceedings in order to return to the special meeting of the Executive Committee)

It was noted that a company named "The Firm" had been appointed by the Minister of Local Government and Traditional Affairs to undertake the forensics investigations. In consideration of this, it was emphasized that there was nothing impeding the Audit Committee from obtaining information on the progress of the investigations.

NOTED.

(Mr Layman left the proceedings at 11h15).

7. **EXTRACT OF MINUTES OF THE EXECUTIVE COMMITTEE RESOLUTION
DATED 06 JUNE 2006**

(Page 10 of agenda)

It was

AGREED

That the extract of minutes of the Executive Committee resolution dated 06 June 2006, be noted.

8. **INTERNAL AUDIT CHARTER (AS AMENDED)**

(Page 12 of agenda)

It was

AGREED

That the Internal Audit Charter, as amended, be noted.

9. **AUDIT COMMITTEE CHARTER (AS AMENDED)**

(Page 23 of agenda)

It was

AGREED

That the Audit Committee Charter, as amended, be noted.

10. **FOLLOW UP ON CHECKLIST FOR AUDIT COMMITTEE**

(Raised verbally)

Responding to a query, the Acting Executive Manager: Internal Audit mentioned that the Audit Committee Charter was a guideline and checklist requested for the responsibilities of the committee. He mentioned that portions of the Charter will be extracted and summarized for the Checklist requested by committee.

Discussion thereafter proceeded on the interpretation of the Municipal Finance Management Act and the Charter in relation to the membership of Audit Committee members. Members then concurred that Mr Ndwandwe's membership should be retained on the Audit Committee.

It was thereafter unanimously

AGREED

That Mr Ndwandwe's membership on the Audit Committee be retained.

11. **PERFORMANCE MANAGEMENT SYSTEM**

(Item 8 on agenda)

The Acting Executive Manager: Internal Audit briefed committee and reported that the Performance Management System Policy was still in draft format and therefore not yet approved by Council.

Members concurred that the PMS Policy must be submitted to the Audit Committee prior to Council for approval.

It was also suggested that the Audit Committee follow up on performance contracts with Council's suppliers.

It was reported that Performance Contracts for Process Managers have not yet been signed to date, as the Act was not very clear on this matter.

It was therefore

AGREED

- (a) That the Acting Executive Manager: Internal Audit submit the draft Performance Management System Policy to the Audit Committee for perusal prior to submission to Council for adoption.
- (b) That the Acting Executive Manager: Internal Audit in consultation with the Acting Municipal Manager compile a report for the Audit Committee on the intension on the signing of the all Performance Management Systems Contracts.

12. VERBAL REPORT: AUDITOR GENERAL

(Item 9 on agenda)

It was reported that the Auditor General Report for the financial year 2005/2006 was with the Office of the Auditor General: Pretoria being reviewed. It was anticipated that the report would be received before the end of March 2007.

NOTED.

13. GENERAL

13.1 Advertising of Contract for External Audit

It was noted that the contract for external audit services was due to terminate at the end of June 2007. Members were notified that the contract for a new service provider would be advertised as a proposal call.

NOTED.

14. DATE OF NEXT MEETING

It was

AGREED

That the date of the next Audit Committee be tentatively set for either 22 May 2007 or 29 May 2007, subject to confirmation by the Chairperson.

The meeting ended at 12h30.

Confirmed by

CHAIRPERSON

PIETERMARITZBURG

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