**REPORT BY THE AUDIT COMMITTEE CHAIRPERSON**

**Audit Committee Responsibilities:**

The Audit Committee functions in accordance with the Audit Committee Terms of Reference as approved by Cabinet and the Accounting Officer of the respective Departments. The Terms of Reference dictates the required statutory requirements and disclosures of the Audi Committee.

**Emerging and continuing Transversal Risks for Departments discussed in this report:**

1. Treasury Regulations – may introduce new requirements once effective.
2. Modified Cash Standards – including Componentisation of fixed assets, Inventory Disclosure (postponed).
3. SCM and the continuous changes implemented by National Treasury including the Centralised Supplier Database and National Contracts.
4. Predetermined Objectives – well defined and how reported on/ National Indicators not well defined and how to deal with these/ process/ AG working towards expressing an Opinion therefore every year the Audit will become more onerous.
5. Cash-flow management under extreme budgetary constraints.
6. Inadequate measures to protect personal information due to non-implementation of POPI requirements, resulting in financial and reputational risk – Plans to mitigate this risk is being attended to by Legal services under DOTP.
7. The Water, Business Continuity, Misaligned Organizational Culture and Budget risks have been included in the Provincial Risk Register.

**Department of the Premier: Vote No: 1**

**AUDIT COMMITTEE: Governance & Administration Cluster**

|  | **Action taken** |
| --- | --- |
| **Internal Audit assignments completed during Quarters 1 and 2** 1. **DPSA Directive on Delegations (Assurance Assignment)** - areas for improvement were recommended and management actions were agreed by the department.
2. **Service Excellence Awards (Assurance Assignment)** – concluded that the approved Provincial Service Excellence Awards Framework was consistently applied in all material respects during the assessment and adjudication stages of the 2017 awards process. No recommendations made.
3. **Policy Comment Co-ordination (Assurance Assignment)** – control weaknesses were identified and recommendations made. Action plans to address weaknesses were agreed by the department.
4. **Implementation of the ICT Governance Framework (Assurance Assignment)** - areas for improvement were recommended and management actions were agreed by the department.
 | The agreed actions are monitored for implementation by the Audit Committee. The Department’s Internal Control Unit reports on the implementation status at every Audit Committee meeting. |
| **Risks influencing the Department** * Inadequate financial resources resulting in DotP being less impactful and influential in the longer term.
* Inability to comply with continuous changing SCM environment
* Loss of assets
* Resource and capacity to deliver on mandate and responsibility
* Inadequate IT capacity
* The inability to access critical IT systems or information

*(From top 5 departmental risks Q1 & Q2 and AC emerging risk discussion)* |  |

**Western Cape Provincial Treasury: Vote No: 3**

**AUDIT COMMITTEE: Governance & Administration Cluster**

|  | **Action taken**  |
| --- | --- |
| **Internal Audit assignments completed Quarters 1 and 2**1. **DPSA Directive on Delegations (Assurance Assignment)** – minor areas for improvement were recommended and management actions were agreed by the department.
2. **Monitoring and Reporting of Status of Implementation of Agreed Management Action Plans (Consulting Engagement)** – assisted the department with designing a proactive internal follow up process to improve the implementation rate of agreed management action plans. Specific focus was on identifying and documenting the control activities to be implemented by Provincial Treasury to achieve this.
3. **MFMA Normative Financial Compliance / MGRO Processes (Assurance Assignment)** - areas for improvement were recommended and management actions were agreed by the department.
4. **COSO Internal Control Questionnaire (Consulting Engagement)** – assisted Provincial Treasury to identify shortcomings in the internal control environment against the COSO components and principles through an internal control questionnaire, and measures required to further strengthen the system of governance, risk management and internal control within PT.
5. **Provincial Government Accounting (Assurance Assignment) -** minor areas for improvement were recommended and management actions were agreed by the department.

Based on the follow up audits performed by Internal Audit, the implementation rate of management action plans remain a concern. The Audit Committee continues to exercise oversight over the implementation of the action plans, in order to hold senior and line management and staff accountable for non-implementation. | The agreed actions are monitored for implementation by the Audit Committee. The Department’s Internal Control Unit reports on the implementation status at every Audit Committee meeting. |
| **Risks influencing the Department** * Uncertainty in terms of the funding and the total cost to pursue piloting the IFMS.
* Inadequate security measures to protect personal information.
* Lack of financial management capacity and systems within CFO offices in municipalities.
* Lack of integration and reliance on outside systems and manual system.
* Regression in SCM performance.
* Uncertain fiscal outlook (budget allocation). Transversal risk of the state of the fiscus going forward, and associated risk of downgrades by ratings agencies.
* Disparity between National and Provincial Treasury Instructions, and the lack of national treasury responsiveness.

*(From top 5 departmental risks Q1 & Q2 and AC emerging risk discussion)* |  |

**Department of Local Government: Vote No: 14**

**AUDIT COMMITTEE: Governance & Administration Cluster**

|  | **Action taken** |
| --- | --- |
| **Internal Audit assignments completed during Quarters 1 and 2**1. **DPSA Directive on Delegations (Assurance Assignment)** - areas for improvement were recommended and management actions were agreed by the department.
2. **COSO Consulting Engagement (Part 1): Internal Control Questionnaire** – assisted the department to identify shortcomings in the internal control environment against the COSO components and principles through an internal control questionnaire, and measures required to further strengthen the system of governance, risk management and internal control within DLG.
3. **COSO Consulting Engagement (Part 2): Fire Brigade Services** – assisted the department to development process maps for the Veld and Forest Fires and Informal Settlements Fire Reduction business processes, with a specific focus on control measures and gaps in the process. Management action plans were agreed by the department for the gaps identified.
 | The agreed actions are monitored for implementation by the Audit Committee. The Department’s Internal Control Unit reports on the implementation status at every Audit Committee meeting. |
|  **Risks influencing the Department** * Lack of compliance with legal requirement (Disaster Management Act as well as policies).
* Support initiatives not having anticipated impact on municipal maturity.
* National Departments Regional Offices, Provincial Government and Municipalities not having a credible risk profile to inform risk reduction (prevention and mitigation), preparedness and response plan.
* Limited participation of stakeholders in the Thusong Programme.
* Ability of the Department to continue operations in the event of a significant disruption or disaster.
* Incomplete or inaccurate reporting on ward committee functionality.
* Municipalities may not sufficiently implement disaster risk reduction measures (through the IDP) and as required by legislation.
* Lack of ability to implement emergency procurement measures.
* Traditional Leaders Bill, in terms of financial implications for the department.
* Water infrastructure risk, that needs to be articulated and included in the register.

*(From top 5 departmental risks Q1 & Q2 and AC emerging risk discussion)* |  |

Yours sincerely

**Kerry R. Larkin**

**Chairman: G&A Cluster Audit Committee**

12 April 2018