

CHIEF ALBERT LUTHULI INTERNATIONAL CONVENTION CENTRE

**REPORT OF THE AUDIT AND RISK COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

The Audit and Risk Committee (herein called "*the Committee*") reports that it has complied with its responsibilities arising from section 166(2) (b) of the Municipal Finance Management Act no 56 of 2003 (MFMA). The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as contained in its charter, and carried out its functions in compliance with the terms of reference as approved by Council.

The contract of the three previous members of the Audit and Risk committee expired 31<sup>st</sup> December 2008; and seven (7) new members who were appointed in January 2009 and are listed hereunder. The independent members of the Committee all have the required qualifications, skills and knowledge, including legal, business management, risk management, accounting and financial management. One member resigned subsequent to year-end.

**1. Committee Membership and Attendance of meetings**

The Committee should have a minimum of six (6) meetings during a financial year as per its approved terms of reference. There were seven (7) meetings held during the current financial year, which included special meetings.

<b>Names of Members</b>		<b>Number of Meetings attended</b>
Total number of Meetings during the financial year		7
Advocate Vusi Khuzwayo (Chairperson)	Contract expired 31/12/08	4
Sbusiso Luthuli CA (SA)	Contract expired 31/12/08	4
Ms Fathima Ussuph	Re-appointed 30/01/09	4
Rohit Desai CA (SA)	Appointed 30/01/09	3
Peter Christianson CA (SA)	Appointed 30/01/09	3
Bongiwe Sithole	Appointed 30/01/09	2
Sipho Nzuzza	Appointed 30/01/09	3
Lihle Ndlovu	Appointed 30/01/09	3
Nhlanhla Gasa	Appointed 30/01/09 Resigned 11/2009	3

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### **2. Audit and Risk Committee Responsibilities on Audit Matters**

The Audit and Risk Committee fiduciary duties cover the eThekweni Municipality; the municipal owned entities - the Chief Albert Luthuli International Convention Centre (ICC) and the Durban Theme Park (Pty) Ltd, trading as uShaka Marine World.

The Committee advises the Board, Accounting Officer and Council on matters relating to internal financial control and internal audits, risk management, accounting policies, adequacy, reliability and accuracy of financial reporting and information, performance management and evaluation, effective governance, compliance with the Municipal Finance Management Act (MFMA), the Annual Division of Revenue Act, and any other applicable legislation or other issues referred to it by the municipality.

Various recommendations, as per Section 121 (3)(j) of the Municipal Finance Management Act No. 56 of 2003 have been made during the financial year, including those which have been recorded in the minutes of the Audit and Risk Committee. The following functions were carried out by the Audit and Risk Committee, as prescribed by the Municipal Finance Management Act, in its meetings for the year ended 30<sup>th</sup> June 2009.

#### **2.1 Evaluation of Financial Statements**

The Audit and Risk Committee has reviewed:

- and discussed with the Auditor-General and the Accounting Officer, both the un-audited and audited annual financial statements to be included in the annual report for the year ending 30 June 2009;
- the Auditor-General's management report on the regularity audit and the review of performance information of the Chief Albert Luthuli ICC; and management's responses thereto;
- accounting policies and procedures;
- material or significant adjustments resulting from the audit;
- major variances from prior year;
- the Auditor-General's draft audit report on the annual financial statements for the year ending and significant findings;
- the going concern principle.

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### **2.2 Evaluation of the effectiveness of Internal Audit and internal control systems**

#### **Internal Audit Unit**

The Municipality's Internal Audit Unit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective, in line with the provisions of the MFMA, and the requirements per King III Report on Corporate Governance. This is achieved by means of continuous risk assessments, as well as the identification of corrective actions and suggested enhancements to the controls and processes in respect of key risk areas identified. The Internal Audit function uses a risk based audit approach to ensure that audit effort is focused on key risks that could impact on the achievement of strategic objectives.

#### **Internal control Systems**

The system of internal control is designed to provide cost effective assurance that assets are safeguarded, liabilities and working capital are efficiently managed, and there is compliance with applicable legislation. The system of internal control was not entirely effective for the year under review, as compliance with prescribed policies and procedures was lacking in certain instances. A number of recurring areas of weakness raised during the year are related to financial management procedures; non-compliance with the supply chain management (SCM) regulations to the Municipal Finance Management Act, and supply chain management policies and procedures. Management is required to implement appropriate systems of internal controls to address the identified weaknesses and possible irregularities.

Significant control weaknesses have been reported by the Auditor-General under emphasis of matter and in the management letter. The Committee has requested management to ensure that detailed action plans are put in place to address the reported weaknesses. The effect of these instances has been included in the annual financial statements and the report of the Accounting Officer.

#### **Fraud and Irregular activities**

The Investigations Units and the Internal Audit Unit both conduct reviews into possible or alleged irregular and/or fraudulent activities, and report to the Accounting Officer and the Committee. Management is required to take appropriate action once reported matters are investigated.

### **2.3 Performance Management and Information**

The Committee reviewed the quarterly organizational scorecards and the quarterly internal audit reports on performance and performance information of the ICC. The results of the audit of the municipality's performance management system were also reviewed by the Committee. Based on the review of the quarterly performance reports together with the performance management system certain areas of non-compliance requiring improvement were noted. These matters are included in the municipality's Internal Audit and Performance management report on the organizational performance scorecard. The Committee has however noted that systems and procedures in place require enhancement, to monitor both organisational and individual performance.

### **2.4 Enterprise Risk Management**

The Municipality is in the process of implementing an enterprise risk management system, a requirement in terms of the MFMA. This is in line with risk management best practices. Matters of risk management and the risk profile of the municipality are dealt with by the Committee in a separate report on Enterprise Risk Management. The Committee reviewed the Risk Management Policy and Framework, for approval by Council.

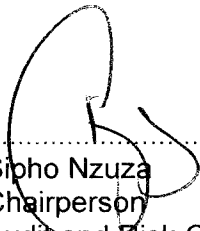
Strategic risk assessments, using a standardized risk assessment methodology, were held and the top key risks identified, measured and prioritized. As a result, the ICC has identified top strategic risks at organization and department levels. The Chief Executive Officer of the ICC and the Accounting Officer (eThekweni Municipality) will ensure that risk mitigation strategies are in place and implemented in respect of the top strategic risks. The management of the various departments are also the risk owners, and they are responsible for the continuous identification and mitigation of risks. The municipality's risk management function has acquired risk management software to support the implementation of risk management systems, and maintain the risk registers and risk profile.

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### 3 Report of the Auditor-General

The Committee has reviewed the issue of the going concern of the Chief Albert Luthuli International Convention Centre (ICC) and its continued operational losses. The Accounting Officer has on the advice of the Committee obtained a resolution of Council's commitment to ensuring the future financial viability of the International Convention Centre and more specifically to meet any funding shortfalls that may compromise its ability to continue trading as a "going concern".

The Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, that in all material respects, they comply with the relevant provisions of the MFMA and the South African Statements of Generally Recognised Accounting Practice. The Committee is therefore of the opinion that the audited annual financial statements be accepted and be read together with the report of the Auditor-General.



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Siphoniso Nzuza  
Chairperson  
Audit and Risk Committee

Date:     December 2009