

AM AHLATHI MUNICIPALITY: REPORT OF THE AUDIT COMMITTEE

for the financial year ended 30 June 2010

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2010.

Role of Audit Committee

The function of the Audit Committee (hereinafter referred to as the Committee) is primarily to assist the Amahlathi Municipality (hereinafter referred to as the Council) in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of financial reports and statements.

The Committee operates in terms of section 166 of the Municipal Finance Management Act (MFMA), Act No. 58 of 2008 and has endeavoured to comply with its responsibilities arising from those requirements.

The Committee has performed its duties according to its terms of reference in the form of an Audit Committee Charter which stipulates amongst other issues the primary purpose of the Committee, which is:

- To monitor the integrity of the Council's financial statements and announcements relating to its financial performance, reviewing significant reporting financial reporting judgements.
- To review the effectiveness of the Council's internal controls and risk management systems.
- To monitor the effectiveness of the internal audit function and review its material findings.

To oversee the relationship with the internal and external auditors, including agreeing the latter's audit fees and terms of engagement, monitoring their independence, objectivity and effectiveness.

The Committee has no executive function and its primary objective is to review and challenge rather than assume responsibility for any matters within its remit.

Composition of the Audit Committee and Attendance of Meetings

The Committee was constituted during January 2010 and held its first meeting on 17 February 2010 and initially comprised of three members. However, the chairperson of the Committee resigned during June 2010 and the Committee has since been operating with the remaining two members.

The Committee should meet at least four times a year as per its approved terms of reference. During the current year two meetings were held.

Name of Member	No. of meetings attended
M H Kwaza (chairperson) resigned June 2010	2
T Cumming (Acting chairperson effective from 29 June 2010)	2
RJ Hill	2

The committee meetings are also attended by the Municipal Manager, Chief Financial Officer, internal and external auditors.

In addition to the prescribed audit committee meetings, a special audit committee meeting was held on 29 June 2010.

Effectiveness of Internal Control

One internal audit assignments had been completed by end of June 2010. It was thus not possible to establish the effectiveness of internal control from internal audit reports. However, emanating from the Auditor-General's 2008/2009 report, it is evident that the system of internal control was not fully effective previously as compliance with prescribed policies and procedures was identified in a number of instances. Where remedial action has not already been effectively implemented, steps will be taken to address the weaknesses identified.

External audit

The Audit Committee has met with the Auditor-General South Africa to ensure that there are not unresolved issues.

Evaluation of Financial Statements

The Amahlathi Municipality was required to convert its basis of accounting from the IMFO Standard to Generally Recognised Accounting Practice (GRAP). The financial statements for 2009/2010 were compiled in accordance with the latter standard.

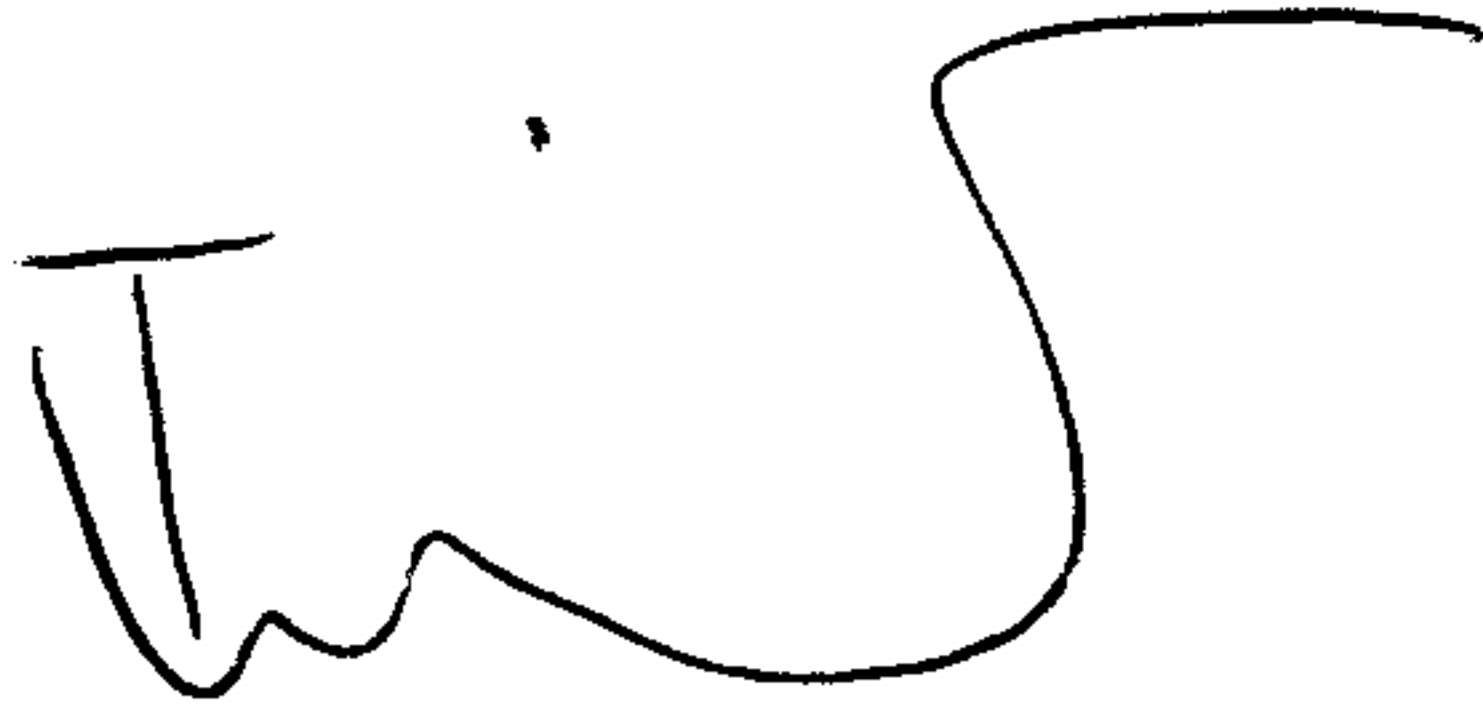
The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Municipal Manager;
- Reviewed the Auditor-General's management report and management's responses thereto;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

The financial statements, together with an audit file, were submitted to the Auditor-General by 31 August 2010.

Internal audit

Having only reviewed one internal audit assignment by year-end it was not possible to ascertain whether the internal audit function is operating effectively. Outside assistance was procured to assist the internal auditor in expediting the work of the internal audit unit. The Committee will monitor the process closely.

A handwritten signature in black ink, consisting of a stylized 'T' followed by a large, sweeping flourish that ends in a hook.

Audit Committee Member

Date: 30 November 2010