



CAPE AGULHAS MUNICIPALITY

REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

In the past year the Cape Agulhas Municipality (municipality) had a combined Audit and Performance Audit Committee. Due to the unique nature of each Committee's mandate it was decided, during the year under review, to separate the Committee into two separate Committees, each with its own terms of reference. For 2017/18 there will, therefore, be two separate Committee reports, one for the Audit Committee and one for the Performance Audit Committee.

The Audit Committee has pleasure in submitting its report, as required by section 166 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1. AUDIT COMMITTEE AUTHORITY AND RESPONSIBILITIES

The Audit Committee (Committee) is governed by formal terms of reference, which have been approved by the Cape Agulhas Municipal Council (Council) and which are regularly reviewed. It fulfils its responsibilities in terms of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and its terms of reference. The Committee has an independent role with accountability to both the management and the stakeholders. It does not assume the functions of management, which remain the responsibility of the Mayor, Municipal Manager, the executive directors and other members of management. The committee acts in an advisory and oversight capacity and makes objective and independent recommendations to Council on internal control, risk management and governance processes in order to assist the municipality in achieving its objective; it does not relieve management of its responsibilities.

2. COMPOSITION OF THE COMMITTEE

2.1 The Committee consists of four members from the private sector with appropriate qualifications and experience that was duly appointed by Council. During the year under review the Committee continued with its process of rotation of its members to ensure continuity as and when the previous member's terms expired.

2.2 As at 30 June 2018 the Committee consisted of the following members:

- a) Mr. P Strauss (Chairperson)
- b) Mrs. B Salo
- c) Mr. R Mitchell
- d) Vacant

3. REMUNERATION OF THE COMMITTEE MEMBERS

The Committee is remunerated in terms of the National Treasury guide on the "Remuneration of non-official Members: Commissions, Committees of Inquiry and Audit Committees" issued on an annual basis.

4. FREQUENCY OF MEETINGS OF THE COMMITTEE

The Committee held four meetings during the 2017/18 financial year. The dates of the meetings and attendance by the members are indicated in the table below:

Meeting dates	Member	Meeting attendance			
		28/8/17	21/9/17	24/11/17	23/3/18
28 August 2017 21 September 2017 24 November 2017 23 March 2018	Mr C Pieterse - Chairperson (1/7/2017 – 30/9/2017)	√	√	-	-
	Mrs M Weits - Member (1/7/2017 – 31/8/2017)	√	-	-	-
	Mr E Lakey (1/7/2017 – 31/8/2017)	√	-	-	-
	Mr P Strauss – Member (1/7/2017 – 30/9/2017) Chairperson – 1/10/2017 to 30 June 2018	√	√	√	√
	Mrs. B Salo – Member (1/8/2017 – 30 June 2018)	√	√	√	√
	Mr. R Mitchell	-	√	√	√

The committee is satisfied that it has fulfilled its obligations in this regard.

5. FUNCTIONS OF THE COMMITTEE

The committee has discharged its functions in terms of section 166 of the Act as follows:

- 2.1. "Evaluation of and advising the Council, political office-bearers, accounting officer and management on the following items:

- a) *Internal audit reports issued during the financial year*
- b) *Internal audit risk based audit plan, including the risk areas of the municipality's operations covered in the scope of both the internal and external audit plan and strategy respectively.*
- c) *Progress made with the implementation of the internal audit plan for 2017/18;*
- d) *Auditor-General findings action plan for 2016/17 including the implementation and monitoring thereof;*
- e) *Municipal governance processes.*
- f) *Performance evaluation process of the staff as well as the Directors and Municipal Manager;*
- g) *Risk management and analysis of the results of a risk assessment exercise for 2018/19;*
- h) *Accounting policies;*
- i) *Progress made with the implementation of the risk action plans;*
- j) *Compliance with Laws and Regulations;*
- k) *Internal financial controls including financial reporting and information;*
- l) *Implementation of mSCOA and the new financial accounting system;*
- m) *Enhanced communication with Municipal Manager and Council; and*
- n) *Supply Chain Management functions"*

2.2. The Committee also reviewed the following matters:

- a) Year-end draft financial statements as at 30 June 2018. In the course of its review the committee took appropriate steps to ensure that the financial statements are prepared in accordance with generally recognized accounting practice (GRAP) prescribed in terms of section 91(1)(b) of the MFMA.
- b) The external audit report by the Auditor-General for 2016/17 on the annual financial statements as well as compliance to Laws and Regulations of that financial year.
- c) The committee dealt with the municipality's risk management processes through the minutes of and feedback from the municipality's Fraud and Risk Management Committee (FARMCO).

2.3. The committee further reviewed the functions of the Internal Audit function, including the following items:

- a) The activities of Internal Audit;
- b) Independence and objectivity of the Internal Audit function in execution of its duties;
- c) Capacity of the Internal Audit function to fulfill its responsibilities;
- d) Risk based audit plan for 2017/18 and the progress made with the execution of the plan during the year; and
- e) Coordination with the external auditors.

2.4. No additional functions were performed by the committee during the year.

6. EVALUATION OF THE FUNCTIONS OF THE COMMITTEE

The committee also evaluated its own activities in terms of its legislated mandate and its Terms of Reference and is satisfied that the Committee has fulfilled its function in this regard.

7. AREAS OF SATISFACTION

The committee would like to express its satisfaction on the following issues:

- 7.1 The financial statements for 2017/18 in general as well as the financial management controls in place;
- 7.2 Support given by the Mayor, Council and the Municipal Manager as well as the level of communication between the parties;
- 7.3 The continued satisfactory functioning of the Committee and its support structure;
- 7.4 Apart from the issue raised under item 5.5 above the Committee does not have any major accounting and auditing concerns;
- 7.5 The effectiveness of the Internal Audit function and the value added by them, excluding the external quality review. However, the Committee takes note of the progress made with the development of a district wide internal audit peer-review and assessment process;
- 7.6 Efforts made to reduce the municipality's level of water losses;
- 7.7 The continued low percentage of electricity losses for the year;
- 7.8 The process and results of the performance evaluations of the Senior Managers and the Municipal Manager;
- 7.9 The increase in the municipality's capital replacement reserve fund;
- 7.10 The high level of the municipality's compliance with legal and regulatory provisions; and
- 7.11 The progress made with the clearing of the Auditor-General findings for the previous financial year.

8. AREAS OF CONCERN

The committee expresses its concerns on the following issues:

- 8.1 The continued lack of involvement and supervision by senior management in the performance management processes;
- 8.2 Continued risks of the implementation of the new municipal Standard Charts of Accounts (mSCOA) insofar as it affects the municipality's increased expenditure to properly implement the system;
- 8.3 That the evacuation plans for the municipality that has not yet been formally approved and implemented in most buildings;
- 8.4 Continued risks regarding the Implementation of the new financial system;
- 8.5 Lack of capacity and succession planning in the Internal Audit Activity

9. REPORTS ISSUED BY INTERNAL AUDIT AND REVIEWED BY THE COMMITTEE

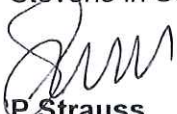
The following internal audit reports were submitted to and reviewed by the Committee for the period under review:

- Compliance with Laws and Regulations for 2017/18.
- Municipality's implementation and adherence to the National Treasury ICT Framework.
- Compliance with the ICT policies.
- Insurance of municipal assets.
- High level overview of the implementation of mSCOA.
- Results of municipal performance measures.
- Rental of municipal property.
- Risk management process of the municipality.
- Evaluation of the process of tender evaluations.
- Follow-up audit on cash management.
- Follow-up audit on the staff appraisal process.

The results of these reports were referred to the Municipal Manager for further action if required.

10. SUBSEQUENT EVENTS

The vacant position in the Audit Committee has been filled by the appointment of Me. Louise Stevens in September 2018.



P Strauss
Chairperson
26 November 2018

