



KAAP AGULHAS MUNISIPALITEIT  
CAPE AGULHAS MUNICIPALITY  
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## **CAPE AGULHAS MUNICIPALITY**

### **REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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

#### **1. COMPOSITION OF THE AUDIT COMMITTEE**

1.1. The committee was duly re-appointed by the Council through Council Resolution 220/2014 dated 28 August 2014.

1.2. As at 30 June 2016 the committee consisted of the following members:

- a) Mr. C Pieterse (Chairperson)
- b) Ms M Weits
- c) Mr. E Lakey
- d) Mr. A Kok
- e) One vacant position

1.3. The committee was also 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.

#### **2. FREQUENCY OF MEETINGS OF THE AUDIT COMMITTEE**

The Committee held five meetings during the 2015/16 financial year. The dates of the meetings and attendance by the members are indicated in the table below:

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Meeting dates	Member	Number of meetings attended
6 July 2015	Mr C Pieterse (Chairperson)	5
11 September 2015	Mrs M Weits	5
11 December 2015	Mr E Lakey	4
5 February 2016	Mr A Kok	5
24 June 2016		

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

### 3. FUNCTIONS OF THE AUDIT COMMITTEE

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

- 3.1. Evaluating and advising the Council, political office-bearers, accounting officer and management on the following items:
- a) Capacity constraints within the internal audit function;
  - b) Internal audit reports issued during the financial year, including reports on the SDBIP;
  - c) 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.
  - d) Progress made with the implementation of the internal audit plan for 2015/16 plan;
  - e) The importance of the involvement and review of senior management in the monthly completion of the SDBIP;
  - f) Quarterly SDBIP reports;
  - g) Auditor-General findings action plan for 2014/15 and the monitoring thereof;
  - h) Risk analysis results of a risk assessment exercise for 2014/15;
  - i) Progress made with the implementation of the risk action plan;
  - j) Compliance with Laws and Regulations;
  - k) Control measures implemented by the CFO on budgetary and financial management;
  - l) Enhanced communication with Municipal Manager and Council; and
  - m) Supply Chain Management issues insofar as it relates to internal audit observations and the Auditor-Generals' management report.

- 3.2. The Committee also reviewed the following matters:
- a) Year-end draft financial statements as at 30 June 2016. 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 Municipal Finance Management Act.
  - b) The external audit report by the Auditor-General for 2014/15 on the annual financial statements as well as the compliance to laws and regulations and performance management of that financial year, including the action plan to address these findings.
  - c) Reviewed the municipality's risk management function and its implementation. The committee dealt with this function through the minutes of and feedback from the municipality's Fraud and Risk Management Committee (FARMCO). This is a standing item on the Committee's agenda.
- 3.3. The committee further reviewed the functions of the internal auditor, including the following items:
- a) The activities of Internal Audit;
  - b) Independence 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 2015/16 and the progress made with the execution of the plan during the year; and
  - e) Coordination with the external auditors.
- 3.4. The Chairperson also attended the Western Cape Audit Committee Chairpersons Forum during the year.
- 3.5. The committee also reviewed the draft budget for 2015/16 and submitted its inputs for consideration.
- 3.6. The committee reviewed the performance management system and issued two reports thereon to the Council in this regard.
- 3.7. No additional functions were performed by the committee during the year.

#### 4. **EVALUATION OF THE FUNCTIONS OF THE COMMITTEE**

The committee also did a self-evaluation of its responsibility's and functions and was also favourably reviewed by the municipality's Municipal Public Accounts Oversight Committee. The MPAC evaluation was also submitted to the Auditor-General for use during their audit on the Committee's functions for the year.



## 5. AREAS OF SATISFACTION

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

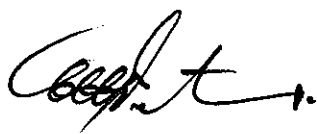
- 5.1. The financial statements for 2015/16 in general and is satisfied with the improvements made since the previous audit by the Auditor-General.
- 5.2. The achievement of a clean audit report from the Auditor-General for the 2015/16 financial year;
- 5.3. Support given by the Mayor, Council and the Municipal Manager as well the level of communication between the parties;
- 5.4. The continued satisfactory functioning of the committee and its support structure;
- 5.5. Apart from the issue raised under item 6.5 below the Committee does not have any major accounting and auditing concerns;
- 5.6. The effectiveness of the Internal Audit function and the value added by them;
- 5.7. Efforts made to reduce the municipality's level of water losses;
- 5.8. The low percentage of electricity losses for the year;
- 5.9. The process and results of the performance evaluations of the Senior Managers and the Municipal Manager;
- 5.10. The reduction in unauthorised expenditure year-on-year;
- 5.11. The high level of the municipality's compliance with legal and regulatory provisions;
- 5.12. Filling of the vacant internal auditor's post from 1 January 2016 as well as the quality of the appointment; and
- 5.13. The progress made with the clearing of the Auditor-General findings for the previous financial year.



## 6. AREAS OF CONCERNS

The committee do have concerns on the following issues:

- 6.1. The continued low expenditure on repairs and maintenance and the possible future impact on the aging infrastructure;
- 6.2. The continuous decrease in cash reserves and the possible effect on future service delivery;
- 6.3. The lack of involvement and supervision by senior management in the performance management processes, although there was an improvement in the latter part of the year;
- 6.4. The level of internal control in the municipality based on the findings of the Internal Audit function. The Auditor-general findings for the 2015/16 financial year also indicated that the main reasons for their finding were mostly internal control deficiencies and non-compliance with legislation. Although none of the findings were material this could lead to audit report matters if the internal controls are not strengthened; and
- 6.5. Emerging 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.



**C Pieterse**  
Chairman  
30 November 2016