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ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

The Audit Committee has pleasure in submitting to Council 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 a formal term of reference, which is reviewed on an annual basis. The Committee fulfils its responsibilities in terms of its Charter as well as section 166 of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA). The Committee has an independent role with accountability to both the Council and the stakeholders. It does not assume the functions of management, which remain the responsibility of the Mayor, Municipal Manager, the 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 composition consists of four independent external members with appropriate qualifications and experience that was duly appointed by Council. On 30 June 2022 there was one vacant position. This position has since been advertised in the 2022/23 financial year and is expected to be filled at the end of January 2023. There will, therefore, be no break in continuity.

2.2 On 30 June 2022 the Committee consisted of the following members:

- a) Mr. P Strauss (Chairperson)
- b) Mr. N Vumazonke
- c) Mrs. L Stevens
- 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 five meetings during the 2021/22 financial year. The dates of the meetings and attendance by the members are indicated in the table below:

Date of meeting	Mr. P Strauss	Mr. N Vumazonke	Mrs. L Stevens	Reason for meeting
23 July 2021	√	√	√	Quarterly Committee meeting
30 August 2021	√	√	√	Consideration of draft 2020/21 annual financial statements
8 October 2021	√	√	√	Quarterly Committee meeting
21 January 2022	√	√	√	Quarterly Committee meeting
25 April 2022	√	√	√	Quarterly Committee meeting

Due to the Covid pandemic and related preventative measures put in place, the meetings were all held virtually.

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:

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

- a) Quarterly reports on the functions and recommendations of the Committee to Council;
- b) Annual performance self-assessment of the Audit Committee as well as the review of the Committees functions against its Charter;
- c) Annual review of the Audit Committee Charter;

- d) Action plan to address the Auditor-General findings for 2020/21 including the implementation, monitoring and progress thereof;
- e) Effectiveness of internal controls and governance measures implemented to address control risks;
- f) Alignment of senior management performance agreements with the Integrated Development Plan, budget, and Service Delivery Budget Implementation Plan;
- g) Performance evaluation process of the Directors and Municipal Manager;
- h) Risk management framework and analysis of the results of a risk assessment for 2021/22;
- i) Development of a strategic and operational risk management plans;
- j) Review and monitoring of the fraud prevention strategy and plan;
- k) Development of a municipal combined assurance model for 2021/22 based on the risk assessment outcomes;
- l) Progress made with the implementation of internal audit recommendations to address the deficiencies identified during internal audits;
- m) Compliance with Laws and Regulations;
- n) Internal financial controls including in-year-monitoring and reporting;
- o) Functioning of the municipality's Information and Communication Technology function;
- p) Functioning of mSCOA;
- q) Adequacy, reliability, and accuracy of financial and non-financial information provided by management;
- r) Review of the external auditor's audit cost; and
- s) Supply Chain Management functions including the control over deviations.

5.2 The Committee also reviewed the following matters:

- a) Year-end draft financial statements as of 30 June 2021 for adequacy, reliability, and accuracy. In the course of its review the Committee took appropriate steps to ensure that the financial statements are prepared in accordance with generally recognised accounting practice (GRAP) prescribed in terms of section 91(1)(b) of the MFMA.
- b) The external audit report by the Auditor-General for 2020/21 on the annual financial statements as well as compliance to Laws and Regulations and achievement of predetermined objectives 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), including fraud and emerging risks as well as risks identified by the executive, with emphasis on the Covid-19 risks and the effect it had on the municipality's cash flow. The Committee is also represented on the FARMCO by the Committee Chairperson as a permanent invitee.
- d) Audit strategy of the Auditor-General for their audit of the 2020/21 financial year.

5.3 The committee further reviewed the functions of the Internal Audit activity, including the following items:

- a) Internal audit reports issued during the financial year;
- b) Internal audit risk-based audit plan for 2021/22 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 completion of the internal audit plan for 2021/22;
- d) Independence and objectivity of the Internal Audit activity in execution of its duties;
- e) Annual assessment of the Internal Audit function;
- f) Annual review of the Internal Audit Charter;
- g) Progress made with the external quality assessment review corrective actions emanating from the plan; and
- h) Coordination with the external auditors to eliminate duplication as far as possible.

5.4 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 2021/22 in general as well as the financial management controls in place;
- 7.2 The achievement of another clean audit report from the Auditor-General for the 2021/22 financial year;
- 7.3 Support given by the Mayor, Council and the Municipal Manager as well as the level of communication between the parties;
- 7.4 The continued satisfactory functioning of the Committee and its support structure;
- 7.5 The effectiveness of the Internal Audit Activity and the value added by it;
- 7.6 The progress made with the implementation of corrective measures on the findings of the internal audit function's external quality assessment review;
- 7.7 Efforts made to reduce the municipality's level of water losses;
- 7.8 The continued low percentage of electricity losses for the year;
- 7.9 The process and results of the performance evaluations of the Senior Managers and the Municipal Manager;
- 7.10 The level of the municipality's compliance with legal and regulatory provisions;
- 7.11 The process in place where the risks are linked to the municipality's strategic plan;
- 7.12 That the Internal Audit Activity is auditing the top-layer performance portfolio of evidence on a quarterly basis as well as the Directors portfolio of evidence before their bi-annual performance assessments;

- 7.13 The progress made with the clearing of the Auditor-General findings for the previous financial year;
- 7.14 Progress made with the implementation of the municipality's Business Continuation Plan;
- 7.15 Adequacy, reliability, and accuracy of financial and non-financial information provided by management;
- 7.16 Implementation of a mentoring and coaching programme for the Senior Internal Auditor;
- 7.17 The municipality's quick response to the Covid pandemic and the manner in which they adapted to the new normal to ensure that the administration and service delivery was not affected;
- 7.18 The efforts and commitments displayed by management and staff and keeping the municipal services and functions running;
- 7.19 The continued high debt recovery rate.

8. AREAS OF CONCERN

The committee expresses its concerns on the following issues:

- 8.1 Current vacancy of the Chief Risk Officer for the Municipality;
- 8.2 Slow rate of embedding risk management in some departments;
- 8.3 Increased cyber security risks;
- 8.4 Tough economic conditions that may affect the municipality's future debt recovery rate;
- 8.5 The functioning of the municipality's traffic department regarding the low recovery rate of traffic fines;
- 8.6 Possible financial implication of the VAT payable from provincial library grants should SARS make an adverse conclusion;
- 8.7 Insufficient provision for the rehabilitation of the landfill sites;
- 8.8 Effect of the continuous electricity loadshedding on service delivery infrastructure, revenue generation and cost increases; and
- 8.9 Slow implementation of the recommendations on the essential motor vehicle scheme.

9. AUDIT 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:

- i. Top-Layer Predetermined Objectives (PDO) full results for the 2020/21.
- ii. Audit of Top-layer 2020/21 PDO for Quarters 1 to 4.
- iii. Audit of the Director's Departmental 2020/21 PDO's for Quarter 1 to 4
- iv. Audit of the ICT Application Controls.
- v. Control over the Vote Journals for 2021/22.
- vi. Follow-up audit on the Municipal Fleet Management 2020/21.
- vii. Risk Management processes for 2021/22.
- viii. Division of Revenue Act (DoRA) allocations and controls 2021/22.

- ix. Follow-up audit: ICT General Controls.
- x. Audit of the municipality's compliance to Laws and Regulations.
- xi. Control over stock issued.
- xii. Credibility of billing data.
- xiii. Duplicate payments.
- xiv. Management of the essential motor vehicle scheme.
- xv. Functioning of the Masakhane/Indigent department.
- xvi. Implementation of the Protection Of Personal Information Act at the Infrastructure directorate.
- xvii. Control over the bookings at the municipal resorts.
- xviii. Review of the Combined Assurance Model coverage.

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

10. CONCLUSION

The Committee again wants to congratulate the Municipality on the audit outcome achieved for the 2020/21 financial year and the commitment by management and staff in this regard.



P Strauss

Chairperson

30 June 2022