



CAPE AGULHAS MUNICIPALITY

REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

In the past years 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 2017-18 financial to separate the Committee into two separate Committees, each with its own terms of reference. There are, therefore, 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 reviewed and approved by the Cape Agulhas Municipal Council (Council) on 27 August 2020 per Council Resolution 141/2020. The Committee fulfils its responsibilities in terms of section 166 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 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 approved Committee composition consists of four independent external members with appropriate qualifications and experience that was duly appointed by Council. During the year under review there was one vacant position on the Committee due to the resignation of a member during 2018/19 due to other commitments. This position was filled from 1 August 2019 per Council Resolution 136/2019. Due to another resignation, there is currently another vacancy on the Committee. As a result of the Covid-19 lockdown and the effect it had on the municipality's cashflow, the Committee recommended to Council to keep the position vacant until such time as the situation improves. The position will be filled during the 2020/21 financial year.

2.2 As at 30 June 2020 the Committee consisted of the following members:

- a) Mr. P Strauss (Chairperson)
- b) Mr. R Mitchell
- c) Mr. D Miller
- 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 six meetings during the 2019/20 financial year. The dates of the meetings and attendance by the members are indicated in the table below:

Meeting dates	Member	Meeting attendance						
		19/7/19	20/7/20	26/8/19	16/10/19	12/12/19	7/2/20	17/4/20
19/7/2019 (quarterly)	Mr. P Strauss - Chairperson	√	√	√	√	√	√	√
20/7/2019 (Special)	Mr. R Mitchell -	√	√	√	√	√	√	√
26/8/2019 (financial statements)								
16/10/2019 (quarterly)	Ms. Louise Stevens (1/7/2019-15/3/2020)	√	√	√	√	√	√	N/A
12/12/2019 (Auditor-General)								
7/2/2020 (quarterly)								
17/4/2020 (quarterly)	Mr. D Miller (1/8/2019-30/6/2020)	N/A	N/A	√	√	√	-	√

Due to the Covid-19 lockdown, the meeting of 17 April 2020 was held virtually, and this practice has been continued as part of the Committees commitment to adherence to the Covid-19 regulations as well as cost containment.

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 report on the functions of the Committee to Council;
- b) Annual performance 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 2018/19 including the implementation, monitoring and progress thereof;
- e) Effectiveness of internal controls and governance measures that should be implemented to address additional control risks;
- f) Alignment of 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 2019/20;
- i) Development of a strategic and operational risk management plan;
- j) Review and monitoring of the fraud prevention strategy and plan;
- k) Development of a municipal combined assurance model for 2019/20 based on the risk assessment outcomes;
- l) Accounting policies and annual financial statements for 2019/20;
- m) Progress made with the implementation of internal audit recommendations to address the deficiencies identified during internal audits;
- n) Compliance with Laws and Regulations;
- o) Internal financial controls including In-year-monitoring and reporting;
- p) Functioning of the municipality's Information and Communication Technology function;
- q) Implementation of mSCOA and the relatively new financial accounting system;
- r) Enhanced communication with Municipal Manager and Council;
- s) Adequacy, reliability and accuracy of financial and non-financial information provided by management;
- t) Review of the external auditor's audit cost; and
- u) 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 at 30 June 2020 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 2018/19 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), including fraud and emerging risks as well as risks identified by the executive, with emphasis on the Covid-19 risks and the effect that the lockdown period had on the municipality's cash flow.

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 2019/20 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 and completion of the internal audit plan for 2019/20;
- d) Independence and objectivity of the Internal Audit activity in execution of its duties;
- e) Capacity of the Internal Audit function to fulfil its responsibilities with the filling of the vacant position from 1 October 2019;
- f) Annual assessment of the Internal Audit function;
- g) Annual review of the Internal Audit Charter;
- h) Results of the external quality assessment review on the functions of internal audit and the corrective action emanating from the plan; and
- i) 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 2019/20 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 2018/19 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 them;
- 7.6 That the Internal Audit Activity passed its external quality assessment review;
- 7.7 Efforts made to reduce the municipality's level of water losses;
- 7.8 The manner in which the municipality has dealt with the water shortages experienced during the December 2019 holiday period in Struisbaai and the subsequent elimination of the problem;
- 7.9 The continued low percentage of electricity losses for the year;
- 7.10 The process and results of the performance evaluations of the Senior Managers and the Municipal Manager;
- 7.11 Progress made with the implementation of mSCOA and the relatively new financial system;
- 7.12 The level of the municipality's compliance with legal and regulatory provisions;
- 7.13 The process in place where the risks are linked to the municipality's strategic plan;
- 7.14 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;
- 7.15 The progress made with the clearing of the Auditor-General findings for the previous financial year;
- 7.16 The continued satisfactory functioning and effectiveness of the municipality's Fraud and Risk Management Committee;
- 7.17 Adequacy, reliability and accuracy of financial and non-financial information provided by management;
- 7.18 Implementation of a mentoring and coaching programme; and
- 7.19 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.

8. AREAS OF CONCERN

The committee expresses its concerns on the following issues:

- 8.1 The effect that the continued Covid-19 pandemic is having on the municipality's cash flow situation;
- 8.2 Continued health risk for municipal employees and the effect it may have on service delivery;
- 8.3 The current vacancy of the Risk Management Shared Service Chief Risk Officer position resulting in a lack of regional coordination;
- 8.4 Increased cyber security risks;
- 8.5 Current process of issuing of occupation certificates as well as miscommunication between finance and building control regarding occupation certificates which could lead to loss of revenue; and

8.6 The Capital Replacement Reserve that has not increased from the previous financial year.

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:

- Governance audit – Fraud and corruption preventative measures.
- Internal control processes over the building plan processes.
- Municipality's compliance to Laws and Regulations.
- Departmental Portfolios of Evidence for all quarters of the year.
- Top-layer Predetermined Objectives Portfolio of Evidence for all quarters of the financial year.
- Management of the Essential Motor Vehicle Scheme.
- Follow-up audit on the Combined Assurance audit findings.
- Follow-up audit on municipal ethics and values audit findings.
- Follow-up audit on the leasing of municipal properties audit findings.
- Auditing of the control over journals.
- Consulting report on the municipality's adherence to the landfill site permit conditions.
- Audit of the property valuation process.
- Municipalities risk management process.
- Municipality's unauthorised and irregular expenditure.

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 and the commitment by management and staff in this regard.



P Strauss
Chairperson
24 March 2021