

CAPE AGULHAS MUNICIPALITY

REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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. For 2018/19 there are 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 31 January 2019. The Committee 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 Council 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 vacant position on the Committee was filled from 25 August 2018 with the appointment of Mrs L Stevens). However, one of the members (Mrs. B Salo) resigned on 8 April 2019 (the vacancy left by her resignation was filled from 1 August 2019 with the appointment of Mr. D Miller).

2.2 As at 30 June 2019 the Committee consisted of the following members:

- a) Mr. P Strauss (Chairperson)
- b) Mrs. L Stevens
- 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 six meetings during the 2018/19 financial year. The dates of the meetings and attendance by the members are indicated in the table below:

Meeting dates	Member	Meeting attendance					
		2/7/18	27/8/18	23/9/18	26/11/18	14/1/19	18/4/19
2 July 2018	Mr. P Strauss - Chairperson	√	√	√	√	√	√
27 August 2018	Mr. R Mitchell - member	√	√	√	√	√	√
23 September 2018	Mrs. B Salo – member (1/7/18 to 8/4/19)	√	√	√	-	√	N/A
26 November 2018							
14 January 2019	Mrs. L Stevens – member (25/8/18 to 30/6/18)	N/A	-	√	√	√	√
18 April 2019							

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 2017/18 including the implementation and monitoring 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 en 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) Development of a fraud prevention strategy and plan;
- k) Development of a municipal combined assurance framework and model based on the risk assessment outcomes;
- l) Progress made with the implementation of the risk management action plans;
- m) Accounting policies;
- n) Progress made with the implementation of internal audit recommendations to address the internal audit deficiencies identified during internal audits;
- o) Compliance with Laws and Regulations;
- p) Internal financial controls including In-year-monitoring and reporting;
- q) Functioning of the municipality's Information and Communication Technology function;
- r) Implementation of mSCOA and the new financial accounting system;
- s) Enhanced communication with Municipal Manager and Council;
- t) Review of the external auditor's audit cost; and
- u) Supply Chain Management functions.

5.2 The Committee also reviewed the following matters:

- a) Year-end draft financial statements as at 30 June 2019 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 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 2017/18 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.

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

- a) Internal audit reports issued during the financial year;
- b) Internal audit risk-based audit plan for 2018/19, 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 2018/19;
- d) Independence and objectivity of the Internal Audit function in execution of its duties;
- e) Capacity of the Internal Audit function to fulfil its responsibilities;
- f) Annual assessment of the Internal Audit function;
- g) Annual review of the Internal Audit Charter; 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 2018/19 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 Apart from the issue raised under item 8 below the Committee does not have any major accounting and auditing concerns;
- 7.6 The effectiveness of the Internal Audit function and the value added by them;
- 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 increase in the municipality's capital replacement reserve fund;
- 7.11 That the evacuation plans for the various municipal buildings that has been finalised;
- 7.12 The high 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 function is auditing the top-layer performance portfolio of evidence on a quarterly basis as well as the Directors portfolio of evidence before their bi-annually 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 That the municipality has taken ownership of the Risk Management function since the resignation of the shared services Chief Risk Officer;
- 7.18 The development of an anti-corruption and fraud prevention flowchart indicating the roles and responsibility of the various role-players;
- 7.19 Development of an ICT Disaster Recovery Plan; and
- 7.20 That the Cape Agulhas Municipality obtained the 9th position in the governance awards for the best run municipalities in the country.

8. AREAS OF CONCERN

The committee expresses its concerns on the following issues:

- 8.1 Continued risks of the implementation of the new municipal Standard Charts of Accounts (mSCOA) as well as the support from National Treasury
- 8.2 The Committee is still concerned with the implementation of the new financial system;
- 8.3 The effect the vacant position at internal audit had on the effectiveness of the internal audit function;
- 8.4 The Internal Audit external assessment that is still in progress;
- 8.5 The vacancy of the Risk Management Shared Service Chief Risk Officer and the effect it has on the municipal risk management process as it is not fully geared at the moment to run risk management to its full extent; and
- 8.6 Continued risks regarding the Implementation of the new financial system.


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:

- Municipality's Combined assurance framework and model.
- Compliance with Laws and Regulations for 2018/19.
- Application, review and approval process of deviations below R30 000.
- Control over the DORA grant expenditure for 2018/19.
- Governance audit: Municipal Code of Ethics and Values.
- Irregular, unauthorised and fruitless and wasteful expenditure for the year.
- Control over journals.
- Results of municipal performance measures.
- Risk management process of the municipality.

- Follow-up audit on the insurance of assets.
- Follow-up audit on the Supply Chain Management tender evaluation process.
- Follow-up audit on the staff appraisal process.

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



P Stjauss

Chairperson

3 December 2019