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REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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 with actual appointments in September 2014. From November 2016 the Committee started a member rotation process to rotate its members on a regular basis to ensure continuity when all the members come to an end in September 2017. During November 2016 Mr. P Strauss replaced Mr a Kok on the Committee.

1.2. As at 30 June 2017 the committee consisted of the following members:

- a) Mr. C Pieterse (Chairperson)
- b) Ms M Weits
- c) Mr. E Lakey
- d) Mr. P Strauss
- 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	Meeting dates				
		29/10/16	9/9/16	25/11/16	24/3/17	28/6/17
29 August 2016 9 September 2016 25 November 2016 24 March 2017 28 June 2017	Mr C Pieterse (Chairperson)	√	√	√	√	√
	Mrs M Weits	√	√	√	-	√
	Mr E Lakey	-	√	√	√	√
	Mr A Kok (until October 2016)	√	√	N/A	N/A	N/A
	Mr P Strauss (from November 2017)	N/A	N/A	√	√	√

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) Internal audit reports issued during the financial year, including reports on the SDBIP;
- 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 2016/17;
- d) The importance of the involvement and review of senior management in the monthly completion of the SDBIP;

- e) Quarterly SDBIP reports;
- f) Auditor General findings action plan for 2016/17 and the monitoring thereof;
- g) Risk analysis results of a risk assessment exercise for 2016/17;
- h) Progress made with the implementation of the risk action plan;
- i) Compliance with Laws and Regulations;
- j) Control measures implemented by the CFO on budgetary and financial management;
- k) Enhanced communication with Municipal Manager and Council; and
- l) 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 2017. 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 2015/16 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 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 2016/17 and the progress made with the execution of the plan during the year; and
- e) Coordination with the external auditors.

3.4. The committee also reviewed the draft budget for 2017/18 and submitted its inputs for consideration.



3.5. The committee reviewed the performance management system and issued two reports thereon to the Council in this regard.

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

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

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

AREAS OF SATISFACTION

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

- 4.1. The financial statements for 2016/17 in general and is satisfied with the improvements made since the previous audit by the Auditor General.
- 4.2. The achievement of a clean audit report from the Auditor General for the 2016/17 financial year;
- 4.3. Support given by the Mayor, Council and the Municipal Manager as well as the level of communication between the parties;
- 4.4. The continued satisfactory functioning of the committee and its support structure;
- 4.5. Apart from the issue raised under item 5.5 below the Committee does not have any major accounting and auditing concerns;
- 4.6. The effectiveness of the Internal Audit function and the value added by them;
- 4.7. Efforts made to reduce the municipality's level of water losses;
- 4.8. The low percentage of electricity losses for the year;
- 4.9. The process and results of the performance evaluations of the Senior Managers and the Municipal Manager;
- 4.10. The high level of the municipality's compliance with legal and regulatory provisions; and
- 4.11. The progress made with the clearing of the Auditor-General findings for the previous financial year.



AREAS OF CONCERN

The committee do have concerns on the following issues:

- 5.1. The continuous decrease in cash reserves and the possible effect on future service delivery;
- 5.2. The continued lack of involvement and supervision by senior management in the performance management processes and the assessment of performance on a regular basis;
- 5.3. 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.
- 5.4 That the evacuation plans for the municipality that has not yet been formally approved and implemented.
- 5.5 Issues raised by the Auditor General especially around proper record keeping at revenue, traffic services and supply chain management.
- 5.6 The external quality assessment of the Internal Audit function as per the IIA standard 1312 has not been done.
- 5.7 Implementation of the new financial system, including mSCOA as well as the support from the service provider.
- 5.8 Top risks of the municipality needs to be reviewed.

6. 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:

- Cash management at the main office building.
- Compliance to Laws and Regulations.
- Management of grants to the municipality in terms of the Division of Revenue Act for 2015/16 grants.
- Management of the housing waiting list.
- Annual review of policies.
- Integrated land use register.
- Effectiveness of the staff appraisal process.

- Irregular, fruitless and wasteful expenditure.
- Implementation of the new Municipal Standard Charts of Account (mSCOA).
- Quarterly audits on the progress made with the achievement of the municipality's predetermined objectives for the year.
- Expenditure on repairs and maintenance.
- Motor vehicle accident investigation process.

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



C Pieterse
Chairman (2016/17 financial year)
Signed 28 November 2017