

# **PRINS ALBERT MUNICIPALITY**

## **Report of the Audit Committee for the year ended 30 June 2019**

### **Recommended to be included in Annual Report 2018/2019**

The Audit Committee is a committee of the Council and in addition to having specific statutory responsibilities to the ratepayers and consumers in terms of the Municipal Finance Management Act, 2003(No56) (MFMA), the committee assist the Council.

#### **1. Terms of Reference**

Audit Committee Section 166(2) of the MFMA states that an audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to –

- internal financial control;
- risk management;
- performance Management; and
- effective Governance.

The Audit Committee has adopted formal terms of reference (charter) that has been approved by Council and has executed its duties during the past financial year in accordance with these terms of reference.

#### *a) Functions of the Audit Committee*

The Audit Committee has the following main functions as prescribed in section 166 (2) (a-e) of the Municipal Finance Management Act, 2003 and the Local Government Municipal and Performance Management Regulation:

- To advise the Council on all matters related to compliance and effective governance.
- To review the annual financial statements to provide Council with an authoritative and credible view of the financial position of the municipality, its efficiency and its overall level of compliance with the MFMA, the annual Division of Revenue Act (DoRA) and other applicable legislation.
- Respond to the council on any issues raised by the Auditor-General in the audit report.
- To review the quarterly reports submitted to it by internal audit.
- To evaluate audit reports pertaining to financial, administrative and technical systems.

- The compilation of reports to Council, at least twice during a financial year.
- To review the performance management system and make recommendations in this regard to Council.
- To identify major risks to which Council is exposed and determine the extent to which risks have been minimised.
- To review the annual report of the municipality.
- Review the plans of the Internal Audit function and in so doing; ensure that the plan addresses the high-risk areas and ensure that adequate resources are available.
- Provide support to the Internal Audit function.
- Ensure that no restrictions or limitations are placed on Internal Audit.
- Evaluate the activities of the Internal Audit function in terms of their role as prescribed by legislation.
- In addition to above the Audit Committee also performs the function of a performance audit committee. Functions of the Performance Audit Committee regulating the process in terms of Section 14(4) (a) of the Regulations the performance audit committee has the responsibility to –
  - i) review the quarterly reports produced and submitted by the internal audit process;
  - ii) review the municipality’s performance management system and make recommendations in this regard to the council of the municipality; and
  - iii) at least twice during each financial year submit a performance audit report to the council of the municipality.

**2. Members of the Audit and Performance Audit Committee**

The Committee consists of three independent non-executive members duly appointed in terms of section 166(4) of the MFMA Act

Members of the Committee for the period 1 July 2018 – 30 June 2019 included:

NAME	POSITION	PERIOD
A Dippenaar	Chairperson	1 July 2018 – 30 June 2019
D Vermeulen	Member	1 July 2018 – 30 June 2019
N van Wyk	Member	1 July 2018 – 30 June 2019

The Municipal Manager, the Chief Financial Officer, Managers from departments and representatives from the internal auditors attend the committee meetings. The Committee also values the involvement by the Executive Mayor. This also served to improve communication between the Committee and Council.

The external and internal auditors have unrestricted access to the Committee

### 3. Meetings

The Audit Committee held four meetings during this period. Details of the Committee members attendance at meetings is set out in the table below.

<b>MEMBER</b>	<b>29 August 2018</b>	<b>14 December 2018</b>	<b>26 February 2019</b>	<b>27 June 2019</b>
A Dippenaar	Present	Present	Present	Present
D Vermeulen	Present	Present	Present	Present
N van Wyk	Present	Present	Present	Present

### 4. Statutory Duties

The Audit Committee did receive all the monthly financial and performance reports for the period of this Report, The Audit Committee duly applied its mind as to the reliability and accuracy of reports presented to the Committee as required by section 166(2)(a)(4) of the MFMA

The audit committee has discharged its functions as follows:

#### 1.1 .Reviewed the year-end financial statements as at 30 June 2019.

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 prescribed in terms of Section 91(1) (b) of the Public Finance Management Act

Considered;

- when appropriate, made recommendations on internal financial Controls and internal audit;
- the adequacy, reliability and accuracy of financial reporting and information;
- performance, risk and IT management;

Dealt with;

- the auditing or content of annual financial statements;
- Internal financial controls;

- Risk based Internal Audit Plan approved.

### *1.2 . Review of Financial and related Reports*

Reviewed the reports required to be compiled in terms of the MFMA in respect of the financial year under review, as well as the Adjustment Budget.

### *1.3 . Review of Annual and Performance Report*

Review the Draft Annual Report 2018/2019.

Review Draft Annual Performance Report 2018/2019.

### *1.4 . Performance Management Processes.*

The Audit Committee has pleasure in reporting on the performance management, as required by section 14 of the Municipal Planning and Performance Management Act of 2001.

The Committee is satisfied that the Prins Albert municipality did utilize mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, including assessments of the functionality of the performance management system whether the system complied with the requirements of the MSA, and include assessments of the extent to which the performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators.

The internal auditors did audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the Committee.

The PMS system seems to comply with functionality and in general the information obtained via the system can be seen as reliable and relevant. However, information is still not always available or complete, and the monitoring thereof under question in some cases.

The Audit Committee requested Internal Audit to report back on all actions undertaken by Management to correct shortcomings and also to report on the actions taken to correct any aspect raised by the Auditor-General in the 2017/2018 Management Report, as well as for the 2018/2019 financial period. It remains extremely important by the Audit Committee that repeat findings must not occur and that the action plan based on the findings of the AG, be dealt with as a standing item.

The Audit Committee understand the challenge of limited capacity but do want again to urge management to make a serious attempt to address the cascading down of the PMS to all employees even in a limited way.

The Performance Evaluation of the Municipal Manager and senior managers reporting to the Municipal Manager was attended by the Chairperson. The Audit Committee is satisfied with the quality of the process. The Municipal Manager must however ensure that evaluations are performed on the Key Performance Indicators as set in the signed Performance Agreements to ensure consistency with the top layer SDBIP.

### *1.5 Oversight of risk management*

The committee has received assurance that the process and procedures followed by the internal auditors are adequate to ensure that financial risks are identified and monitored.

Satisfied itself that the following areas have been appropriately addressed:

- Financial reporting;
- Internal financial controls and
- Fraud risks as it relates to financial reporting and Supply Chain Management.

### *1.6 Internal financial controls*

The Committee has:

- reviewed the effectiveness of the municipality's system of internal financial controls, including receiving assurance from management, internal and external audit;
- reviewed the effectiveness of internal controls relating to the SCM system specifically, as it is one of the key fraud risk areas;
- reviewed the municipality's compliance with applicable laws and regulations, including compliance with the SCM regulations and
- reviewed significant issues raised by the internal audit process.

Based on the processes and assurances obtained, the Committee believes that internal financial controls are in place and generally effective.

### *1.7 Annual financial statements and report as on 30 June 2019*

The financial statements are prepared in accordance with the South African Standards of Generally Recognized Accounting Practice and in the manner required by the Local Government: Municipal Finance Management Act of South Africa (Act 56 of 2003) and the Division of Revenue Act of South Africa, 2011(Act 6 of 2011)

### *1.8 External Audit*

Based on processes followed and assurances received, nothing has come to the attention of the Committee with regards to the external auditors 'independence.

1.9. *Internal Audit Internal Audit Activity: Function sourced out for the period under review*

The Committee has:

- reviewed and recommended the internal audit terms of reference(Charter) for approval;
- evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the Municipality to enable it to discharge its functions;
- approve the internal audit risk based plan; and
- encourage cooperation between external and internal audit.

The head of the internal audit function reported functionally to the Committee and had unrestricted access to all members of the Committee.

1.10. *Finance Function*

Based on the processes and assurances obtained, the Committee believes the accounting practices are sufficiently effective.

## 5. Conclusion

The Audit Committee is pleased with the continued process of thriving toward a high level of performance.

The Committee values the sound relation with Council and Staff and without compromising on independence, feels that a good relationship is imperative for the smooth functioning of the Committee. The Committee cherishes its role as a watchdog, but also respects the role of Council and Staff to make decisions without interference from the Audit Committee.

The Council and Management takes a keen interest in the activities of the Committee in order to identify potential problems at an early stage and in such a manner that they can be addressed in time in order to achieve a clean Audit Report and good governance.

On behalf of the Audit Committee



ABJ DIPPENAAR (4 November 2019)