



## **ANNUAL REPORT OF THE AUDIT COMMITTEE**

**2019-2020 FINANCIAL YEAR**

## **Final Audit Committee Report – June 2020**

### **ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE PERIOD 01 JULY 2019 TO 30 JUNE 2020**

#### **FELICITATION**

It is with deep sadness that we note the passing on of our Audit Committee Chairperson, Mr Comfort Ngidi during August 2020. Mr Ngidi served as chairperson of the Audit Committee for a period of three years. With his vast expertise and knowledge he has made an invaluable contribution to the municipality, and was influential in the municipality achieving its strategic objectives.

May his soul rest in peace.

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#### **INTRODUCTION**

The Audit Committee of the Municipality has pleasure in submitting this Annual Audit Committee report. This report is submitted in terms of the provisions of sections 121(3) (j), 166(2) (b) and 166(2) (c) of the Municipal Finance Management Act of 2003 ("the MFMA") and covers the financial period from 1 July 2019 to 30 June 2020.

The report records the outcome of the work done by the Audit Committee. The committee from time to time made recommendations as preventative or corrective measures to the weaknesses identified by Internal Audit Unit in the municipality based on reports and information supplied to the Audit Committee.

#### **AUDIT COMMITTEE MEMBERS**

The Audit Committee consists of the members as listed hereunder and meets as a minimum four times a year as per the approved Audit Committee Charter. The composition of the committee is a minimum of three members as per section 166 (4) (a) of the MFMA.

|          |   |          |
|----------|---|----------|
| C Ngidi  | - | Chairman |
| P Mawila | - | Member   |
| TV Tembe | - | Member   |
| C Nciki  | - | Member   |
| S Majola | - | Member   |

#### **NUMBER OF AUDIT COMMITTEE MEETINGS HELD**

**There were five (5) meetings held during this period on the following dates:**

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- 31 July 2019
- 24 August 2019
- 23 October 2019
- 29 January 2020
- 26 June 2020

Minutes of all Audit Committee meetings are submitted by the Internal Audit Section to Municipal Public Accounts Committee, Executive Committee and Council.

### ATTENDANCE OF MEETINGS

| COMMITTEE MEMBER | MEETING POTENTIAL | MEETINGS ATTENDED |
|------------------|-------------------|-------------------|
| Mr C Ngidi       | 5                 | 4                 |
| Mr P Mawila      | 5                 | 4                 |
| Mr TV Tembe      | 5                 | 5                 |
| Mr C Nciki       | 5                 | 5                 |
| Mr S Majola      | 5                 | 4                 |

### AUDIT COMMITTEE RESPONSIBILITIES

The Audit Committee has complied with its responsibilities arising from section 166 of the MFMA and clause 14(2) (a) of the Municipal Planning and Performance Management Regulations of 2001. The Audit Committees' work was guided and regulated by an Audit Committee Charter, which was reviewed, and approved by Council, on the **27 June 2019** and discharged all its responsibility as contained therein.

### LEGISLATIVE MANDATE

The MFMA No 56 of 2003 section 166 requires from the Audit Committee amongst other matters:-

*To advise the Municipal Council, Political office bearers, the Accounting Officer and management staff on matters relating to:-*

- a. Performance management and evaluation,*
- b. Internal financial control and internal audits.*
- c. Risk Management.*
- d. Accounting policies.*
- e. The adequacy, reliability and accuracy of financial reporting and information.*
- f. Effective governance*
- g. Compliance with MFMA, DORA and any other applicable legislation.*

## **COVID 19 PANDEMIC**

South Africa and the world are faced with one of the worst disasters ever, the Covid-19 Pandemic. There are many people who are infected and have also passed away from this virus. At this stage is uncertain, and one cannot predict for how long the virus will last, or how long will it take scientists to develop a successful vaccination. It is not business as normal, and we are all facing very challenging times.

## **OVERVIEW OF AUDIT COMMITTEE ACTIVITIES**

### **1. PERFORMANCE MANAGEMENT AND EVALUATION**

- 1.1. Quarterly Performance Reports for the 2019-2020 financial year were submitted to our Audit Committee meetings.
- 1.2. The performance information was reviewed by Internal Audit and reports were submitted to the committee. There were some areas of concern raised by Internal Audit and the Audit Committee.
- 1.3. These issues were dealt with during the amendment of the Service Delivery Budget Implementation Plan which was conducted during the Adjustment Budget Process.
- 1.4. A special Audit Committee Meeting was held on the 22/10/2020, to discuss the Draft Annual Report and the Annual Performance Report.
- 1.5. There were findings raised by COGTA, Internal Audit and the Audit Committee.
- 1.6. It was recommended that all issues raised be investigated and the report be updated and corrected prior to submission to the Auditor General.

### **2. INTERNAL AUDIT FUNCTION**

- 2.1. In terms of Section 165 (1) of the MFMA each municipality is required to have an Internal Audit Section. The Internal Audit Charter was adopted by the Committee on the **29 July 2019**, regulates the work of the Internal Audit Section.
- 2.2. The municipality has a fully sourced Internal Audit Section who have performed their tasks in terms of their approved Internal Audit Charter and Internal Audit Plan for the 2019/2020 financial year.
- 2.3. The Internal Audit Section presented its three year rolling plan for 2019/2020, 2020/2021, and 2021/2022 and this was reviewed and approved by the Audit Committee after ensuring

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that all major risks were covered by this Strategic Internal Audit Plan. This plan also included the operational plan of the Internal Audit Section.

- 2.4. During this period, the Internal Audit Quarterly Reports were presented to the Audit Committee and discussed with management in the Audit Committee meetings. The following audits were conducted during the year under review:
- Audit on Supply Chain Management
  - Audit on Asset Management
  - Audit on Debtors and Revenue Management
  - Audit on Cash, Bank and the Bank Reconciliation
  - Audit Stores and Inventory Management
  - Review Interim Financial Statements 2019-2020
  - Review Annual Financial Statements 2018-2019
  - Audit Grant Management
  - Review of Information and Communication General Controls for 2019-2020
  - Audit Adjustments Budget 2019-2020
  - Audit Budget 2020-2021
  - Audit Electricity Meter Reading Function
  - Audit Connections/Disconnections
  - Audit Building Control & Illegal Structures
  - Audit Waste Management/Landfill Site
  - Audit Real Estate & Housing
  - Audit Performance Management
  - Audit Electricity Losses 2019-2020
  - Audit Human Resource Management
  - Investigation of Unauthorised & Irregular Expenditure 2019-2020
- 2.5. As per the internal audit reports presented, the committee discussed the Internal Audit findings on the weaknesses of the system of internal control with management. Issues were deliberated upon and recommendations were made by the committee to improve and resolve these issues.

### **3. SYSTEMS OF INTERNAL CONTROL**

- 3.1. The system of internal controls are designed to provide reasonable assurance that the assets are safeguarded and the liabilities and working capital are working effectively and efficiently managed.
- 3.2. Reports of the Internal Audit Section highlighted some systems of internal control deficiencies.
- 3.3. The Audit Committee made recommendations to management to address deficiencies highlighted and the committee will continue monitoring the implementation of these recommendations.

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### **4. FINANCIAL MANAGEMENT AND REPORTING**

- 4.1. The committee noted the finance reports which were presented at the Audit Committee meeting:
  - Report on Monthly Budget Statements which contained the Creditors Age Analysis, Debtors Age Analysis, Bank Reconciliation, Grant reconciliation and Cash-flow Statements
  - Supply Change Management Quarterly Report.
  - Revenue Enhancement Strategy.
  - Annual Financial Statements and Audit Readiness Plan for the 2019-2020 financial year.
- 4.2. We were pleased to note the compilation and submission of the Interim Financial Statements. Internal Audit Section had reviewed the Interim Financial Statements.
- 4.3. We noted that the Covid-19 Pandemic has had a very negative effect on the municipal revenue collection. Management need to urgently review the Revenue Enhancement Strategy in line with current activities.
- 4.4. We commend the municipality on not using consultants for the third consecutive year on most components of Asset Management. This was a step in the right direction. Furthermore, we noted no Auditor General findings on Asset Management during the prior year audit process.
- 4.5. We noted that some grant expenditure was also low because projects were at a standstill during the lockdown. The municipality has however applied for rollover of funds in respect of projects that could not be implemented due to the Covid-19 Pandemic and are awaiting responses from National Treasury.
- 4.6. It is appreciated that the municipality deals with consequence management. The Finance department report Unauthorised, Irregular and Fruitless and Wasteful Expenditure on a monthly basis to council. Management has confirmed that all this Expenditure was investigated and the investigation reports were submitted to council.
- 4.7. The committee welcomed the Annual Financial Statement and Audit Readiness Plan for 2019-2020. However, the deadline for submission of the Annual Financial Statements subsequently was extended to the 31/10/2020, as per National Treasury Circular.
- 4.8. A special Audit Committee Meeting was held on 22/10/2020, to discuss the Annual Financial Statements as at 30 June 2019.
- 4.9. There were findings raised by Internal Audit and the Audit Committee.
- 4.10. It was recommended that all issues raised be investigated and the Annual Financial Statements be updated and corrected prior to submission to the Auditor General.



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### **5. RISK MANAGEMENT**

- 5.1. During the year under review the Risk Management Section presented the Risk Management Policies and Registers for the 2019-2020 financial year to the committee.
- 5.2. At every Audit Committee Meeting the Quarterly Risk Management Report and the Risk Management Committee Meeting Minutes were presented to the committee.
- 5.3. As was recommended in the prior financial year, a municipal compliance register was compiled for the 2019-2020 financial year and submitted on a quarterly basis to the committee.
- 5.4. A Covid-19 Risk Based Recovery Strategy and Covid-19 Risk Register was also developed and submitted for review and approval to the committee. This will be closely monitored during the 2020/2021 financial year.
- 5.5. The Audit Committee would like to commend the Risk Management Section on the presentation of all these reports.

### **6. INFORMATION AND COMMUNICATION TECHNOLOGY**

- 6.1. Much progress and effort was made by management to resolve all prior year Auditor General Information and Communication Technology issues.
- 6.2. On a regular basis reports were submitted to the committee for review.
- 6.3. The committee would like to commend the section on keeping up with the fourth industrial revolution.
- 6.4. The Audit Committee will continue monitoring Information and Communication Technology issues to ensure that there is adequate strategy and progress made to manage all Information and Communication Technology changes.

### **7. ELECTRICITY LOSSES**

- 7.1. During the year under review the mid-term and annual electricity loss report was presented to the committee.
- 7.2. Based on the report that was submitted to the committee on the 25/09/2020, the electricity losses for the 2019-2020 decreased in terms of kilowatt hours by 2 236 964 units in comparison to the prior year. However, the rand value increased by R2 294 725 due to the annual electricity tariff increase.
- 7.3. The Audit Committee will continue to monitor the electricity losses report during the 2020-2021 financial year.

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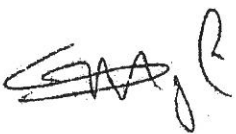
- 7.4. It is recommended that an action plan be implemented by the Electrical Services Section to further decrease the electricity losses during the 2020/2021 financial year. This will be monitored by the committee.

### **8. REPORT OF THE AUDITOR GENERAL 2018-2019**

- 8.1. The Auditor General Audit and Management Report 2018-2019 was presented to the committee.
- 8.2. The committee was pleased with the improved Audit Outcome from Qualified to Unqualified Audit Opinion.
- 8.3. An audit response plan was developed and presented by management on how management is going to address the Auditor General findings for 2018-2019.
- 8.4. It was reported by management that Covid-19 and the lockdown has had a negative effect on the progress on projects which were at a standstill. Furthermore, the revenue collection of the municipality has decreased and this will increase the Debtors Book. Therefore, there is a great possibility that the Queries dealing with the slow progress on projects and on the Bad Debts will not be fully resolved by financial year-end.
- 8.5. The committee noted the report, and encouraged management to develop revised plans and strategies to deal with the consequences of Covid-19.

### **9. CONCLUSION**

- 9.1. The Committee wishes to express its sincere gratitude to the Council and all those involved in the improvement of systems at the Municipality and to the Municipal Manager and Senior Management for their support during the year.



**CHAIRPERSON**  
**ALFRED DUMA LOCAL MUNICIPALITY AUDIT COMMITTEE**

29/10/2020