

REPORT OF THE AUDIT COMMITTEE

TO THE MAYOR, EXECUTIVE COMMITTEE AND COUNCIL OF BA-PHALABORWA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2021

The Audit Committee is pleased to present our report for the financial year ended 30 June 2022.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee (AC) was established in terms of section 166 of the Municipal Finance Management Act (MFMA). Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (MFMA), as amended, requires a municipality to establish an independent audit committee which must advise the municipal council, political office-bearers, accounting officer and management on matters relating to internal financial controls and internal audits, risk management, and accounting policies; as well as provide advice on the adequacy, reliability and accuracy of financial reporting and information within the municipality. In addition, the committee advises on performance management, risk management, effective governance, compliance with the MFMA, the annual Division of Revenue Act, and any other applicable legislation and performance evaluation.

The Audit Committee was able to meet fifteen (15) times during the financial year under review as per the approved terms of reference. The meetings included the 11 special and 4 normal Audit Committee meetings. The Chief Audit Executive is the permanent invitee to the Audit Committee and has unrestricted access to bring any matter within the scope and responsibility of the Internal Audit Activity to the attention of the committee.

The previous audit committee contract ended on the 31 July 2021 and the current Audit Committee was appointed in August 2021 for 3 years. The members of the audit committee were all independent from the Municipality. The Audit Committee was appointed in August 2021 for a period of three years.

Below is the summary of tenure, qualifications, and meeting attendances of the members:

| NAME OF THE MEMBER | QUALIFICATIONS | NUMBER OF MEETINGS ATTENDED | TENURE PERIOD (1) | TENURE PERIOD (2) |
|--|---|-----------------------------|-----------------------------|-----------------------------|
| Mr. Modipane TC CA(SA) (Chairperson) | Bachelor of Commerce in Accounting / Honours Bachelor of Commerce (CTA) / Higher Diploma in Auditing / Chartered Accountant registered with SAICA - CA(SA) / Certificate in Business Development Systems / SAICA GRAP Certificate | 14 (100%) | August 2021 to July 2024 | |
| Mr. Ngobeni SAB*/** (Member) | Master of Commerce in Taxation / Master in Business Administration / Honours Bachelor of Accounting Science / Bachelor of Commerce | 14 (93%) | July 2018 to July 2021 | August 2021 to July 2024 |

| | | | | |
|---|---|-------------|--------------------------|--------------------------|
| | Accounting / Higher Diploma in Computer Auditing / Registered Government Auditor South African Tax Professional | | | |
| Mr. Simelane SP (Member) | Bachelor of Commerce in Accounting/ Honours Bachelor of Commerce in Accounting / Chartered Accountant registered with SAICA | 12 (86%) | August 2021 to July 2024 | |
| Adv. Nevondwe LT (Member) | Masters of Laws (LLM) in Human Rights Law / Bachelor of Laws (LLB) / Certificate of Advocate | 14 (93%) | July 2018 to July 2021 | August 2021 to July 2024 |
| Mr. Ravhudzulo KP (Previous Chairperson)* | Honours Bachelor of Accounting Science / Postgraduate Diploma in Accounting / Bachelor of Commerce in Accounting (CUM-LAUDE) / Registered Auditor / Chartered Accountant registered with SAICA – CA(SA) | 1 (100%) | July 2015 to July 2018 | July 2018 to July 2021 |
| Ms. Mangoma APC (Previous Member)* | Honours Bachelor of Commerce in Auditing / Bachelor of Accounting Science / Master of Philosophy in Accounting Science (in progress) | 1 (100%) | July 2015 to July 2018 | July 2018 to July 2021 |

* During the year Mr KP Ravhudzulo and Ms APC Mangoma second term ended (contract ended 31 July 2021), Mr SAB Ngobeni and Adv. LT Nevondwe were reappointed for the second term.

**Mr SAB Ngobeni resigned as a member of the Audit Committee in July 2022.

Four committee meetings and eleven special committee meetings were held during the year. The eleven special meetings were for the purposes of:

- Unaudited Draft Annual Financial Statements (before submission to the AGSA)
- AGSA 2020/21 Audit Strategy
- AGSA 2020/21 Audit Report
- AGSA 2020/21 Audit Action
- Mid-Year Budget and Performance Report
- Unaudited Draft Annual Performance Report
- 2021/22 Budget Adjustment
- Draft Annual Report
- 2022/23 Internal Audit Plan
- 2022/23 Draft Budget

The Audit Committee meeting agendas are comprehensive and require diligent preparation by the committee members, and all members participate in the meetings with the highest levels of professionalism, commitment, integrity and objectivity. The AC meetings are attended by:

- Municipal Manager
- All Senior Managers;
- Other officials (as and when required);

- Chief Audit Executive, Manager Internal Audit and relevant staff;
- Limpopo Provincial Treasury;
- CoGHSTA; and
- AGSA.

AUDIT COMMITTEE RESPONSIBILITY

The audit committee confirms that it has complied with its responsibilities arising from section 166 of Municipal Finance Management Act, 2003, (Act 56 of 2003), section 79 of Municipal Structures Act 117, 1998 (Act 117 of 1998) and paragraph 14 (2)(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 and the King IV Report on the Best Practices on Corporate Governance for South Africa. The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, and regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL

The systems of internal controls applied by the Municipality over financial and risk management have slightly improved. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls of the Municipality have been fairly designed, however they are not fully efficient and effective. This is as a result of failure to identify control weaknesses and non-implementation of recommended enhancements to the controls and processes.

From the Audit Report of the Auditor-General South Africa on the annual financial statements of the municipality, the Municipality received a qualified audit opinion for the year under review which is the same opinion as compared to prior year. Management did not fully resolve findings raised by Internal Audit and Auditor General in the year under review. We recommended that management should develop and implement an action plan to address all the findings raised by the Auditor General and Internal Audit in order to strengthen the efficiency and effectiveness of the systems of internal controls over financial reporting.

We draw attention to the following areas flowing from the committee's observations and internal audit findings reported during the year:

- (a) lack of segregation of duties;
- (b) vacant strategic management positions;
- (c) the continuing resource and capacity constraints resulting in skills and performance limitations;
- (d) lack of supporting evidence as a result of poor records management processes;
- (e) lack of sufficient management review and supervisory checks; and
- (f) delayed performance management and monitoring processes.

The areas highlighted above require the necessary management attention, as the first line of defence in combined assurance, it is critical to emphasise that these are serious enough to negatively impact the audit opinion.

REVIEW AND EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

- Management submitted draft Annual Financial Statements to the Audit Committee which were incomplete at the time of review. This limited the oversight responsibility of the Audit Committee

on the Annual Financial Statement before submission to the Auditor General.

- The Audit Committee reviewed the audited annual financial statements to be included in the annual report.
- The Audit Committee reviewed the Municipality compliance with legal and regulatory provisions.
- The Audit Committee reviewed the Auditor General's management report and audit report.
- The Audit Committee reviewed significant adjustments resulting from the audit.

INTERNAL AUDIT

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Municipality and its audits. Internal audit performed the audit of internal controls of the Municipality. The Audit Committee noted some improvement in the effectiveness of the internal controls during the financial year. This is a positive reflection on the quality of work produced by Internal Audit and on management's commitment to quality and good governance. The Committee has noted that there is a need to improve monitoring, oversight and implementation by Management in managing internal controls.

RESOLVING INTERNAL CONTROL FINDINGS

Internal Audit conducted follow-up audit on internal audit findings issued previously to management. The implementation is at 70% implemented, 30% is not implemented. We are of the view that there is a need for more efforts from management to resolve the 30% not yet implemented. That management should implement recommendations as outlined and agreed to in the audit reports and Internal Audit Action Plan.

INTERNAL AUDIT EFFECTIVENESS

The Internal Audit activities are carried out by an in-house department operating in terms of an Internal Audit Charter and an annually approved audit plan. There has been no compromise of the independence or objectivity of the function during the year under review.

The Chief Audit Executive (CAE) reports functionally to the committee and administratively to the Municipal Manager with unfettered access to the Mayor. We are concerned about the excessive use of Internal Audit resources to co-ordinate activities of council governance structures. We recommend to the Accounting Officer to delegate this responsibility to a capable support staff or official in the municipality. This will ensure that independence of the Internal Audit function is maintained and will also free up the internal audit resource solely for internal audit function.

The external quality assessment of Internal Audit was planned to take place in the 2021/22 financial year. However, due to supply chain challenges the appointment of the service provider could not take place as planned. This assessment exercise will provide some assurance on whether Internal Audit processes and procedures "Generally Conforms" to the Institute of Internal Auditors (IIA) Core Principles for the Professional Practice of Internal Auditing, Standards and Code of Ethics, and that it conforms to its internal audit activity policies, procedures, practices and applicable legislative and regulatory requirements. The Audit Committee will monitor progress on the appointment of the service provider who will conduct the external assessment and report the outcome of the assessment with its recommendations to Council.

COMBINED ASSURANCE

The responsibility for coordinating combined assurance rests with Internal Audit and the Combined Assurance Forum. Combined assurance framework improvements and advancements are under way. The implementation and integration of combined assurance remains work in progress and the Audit Committee regularly reviews developments in this area as part of its annual work plan.

RISK MANAGEMENT

The Audit Committee is satisfied that risk management is continually improving within the Municipality. However, management needs to ensure that there is improved co-ordination between risk management and strategic planning functions, so that resources can be allocated in an optimal manner to address the top risks of the Municipality.

PRE-DETERMINED OBJECTIVES

The Audit Committee is satisfied that preparation and reporting on pre-determined objectives of the Municipality is improving, however there must be improvements in submission of the Annual Performance Report and performance information to the Audit Committee and Internal Audit for adequate review. It was recommended that continuous training should be provided to the Performance Management System Officers and senior management.

QUALITY OF IN-YEAR REPORTING

Management was able to table all quarterly financial reports and performance reports for the financial year 2021/22. However, management failed to prepare quarterly financial statements as advised by the Committee. This limited the review of the Audit Committee. The Audit Committee continues to advise management to prepare quarterly financial statements in the coming financial year to allow adequate review by all relevant stakeholders. The Audit Committee also advised Internal Audit to do a detailed review on the implementation of the financial system.

ICT GOVERNANCE

The Audit Committee reviewed reports from ICT Steering Committee in the year under review. Internal Audit and Auditor General findings relating to ICT were not fully implemented and this is due to poor ICT Infrastructure, lack of capacity in the IT department and financial constraints. The Audit Committee previously advised the Accounting Officer to appoint a qualified ICT Steering Committee Chairperson who will help capacitate the unit and improve controls thereof.

AUDITOR-GENERAL OF SOUTH AFRICA

The Audit Committee in consultation with management, agreed to the terms of the engagement and approved the Audit Strategy. The audit fee for the external audit has been considered and approved taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues. The committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa. The auditors remained independent throughout the financial year.

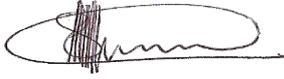
REPORTING

The Audit Committee tabled all its quarterly reports to the Municipality Council, reporting on matters attended to during the relevant quarter.

APPRECIATION

The Audit Committee wishes to thank Municipality Council, management and the staff for their continued commitment to improve effective control environment and good governance

of Municipality. Our appreciation is also extended to the team from the Auditor-General South Africa for the independent value that they continue to add to the Municipality.

A handwritten signature in black ink, appearing to read 'TC Modipane', written over a horizontal line.

Mr TC Modipane CA(SA)
Audit Committee Chairperson
Ba-Phalaborwa Municipality