

REPORT OF THE AUDIT COMMITTEE

TO THE MAYOR, EXECUTIVE COMMITTEE AND COUNCIL OF BA-PHALABORWA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2024

The Audit Committee is pleased to present the report for the financial year ended 30 June 2024.

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 twelve (12) times during the financial year under review as per the approved terms of reference. The meetings included the 8 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 August 2024 and the current Audit Committee was appointed as reflected on the table below.

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	12 (100%)	August 2021 to 31 August 2024	**
Mr. Simelane SP (Member)	Bachelor of Commerce in Accounting/ Honours Bachelor of Commerce in Accounting / Chartered Accountant registered with SAICA	12 (100%)	August 2021 to August 2024	**
Adv. Nevondwe LT (Member)	Master of Laws (LLM) in Human Rights Law / Bachelor of Laws (LLB) / Certificate of Advocate	11 (92%)	August 2021 to August	**

			2024	
Ramutsheli MP (Member)	Masters Degree in Internal Auditing B.Tech in Internal Auditing National Diploma in Internal Auditing Certified Internal Auditor Certified Ethics Officer Institute of Internal Auditing Ethics Institute of South Africa	4 (33%)	*	05 March 2024 to 28 February 2027
Masemola KG (Member)	B.Tech Internal Audit National Diploma Internal Audit Certified Information Systems Auditor (CISA) Certified Information Security Management (CISM) SAP Certified Associate Accredited Trainer – CISA & CISM ISACA IIA	4 (33%)	*	05 March 2024 to 28 February 2027
Mpjane JN CA (SA) RA (Chairperson)	Bachelor of Commerce in Accounting/ Honours Bachelor of Commerce in Accounting / Chartered Accountant registered with SAICA Baccalaureus Computanionis Registered Auditor	0 (0%)	*	04 September 2024 – 31 August 2027
Ndlovu HH (Member)	Magister Technologie in Engineering: Civil Master of Science in Building Baccalaureus Technologiae in Engineering: Civil (Urban Engineering) Registered Certificate as Professional Engineering Technologist	0 (0%)	*	04 October 2024 – 30 September 2027

* The members were not yet appointed in the 2023/2024 Financial Year.

**Members contracts ended on the 31 August 2024

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

- 2022/2023 Draft Annual Financial Statements (before submission to the AGSA)
- 2022/2023 Annual Performance Report & Risk Management Reports
- 2022/2023 Audit Strategy and Engagement Letter
- 2022/2023 Audit Report
- 2022/2023 Mid-Year Budget and Performance Report
- 2024/2025 Budget and IDP
- Review of Budget & Treasury Department
- 2024/2025 Internal Audit Plan approval

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 & National Treasury Representative;
- Limpopo SALGA
- 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 results from 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 the prior year. Management did not fully resolve the findings raised by Internal Audit. However, management resolved all the Auditor General findings in the year under review. We recommended that management develop and implement an action plan to address all the findings raised by the Auditor General and Internal Audit to strengthen the efficiency and effectiveness of the systems of internal controls over financial reporting.

REVIEW AND EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

The draft AFS were presented by management, and the AC was able to provide inputs on the set that was presented. However, at the time of review the set that was presented by management was materially incomplete as the following components were due to be finalised:

- Receivables,
- Consumer debtors,
- Revenue,
- Payables,
- Licensing and Permits,
- Cash and bank,
- Unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) - awaiting Council to consider MPAC report on the 29th August 2024,
- Debt impairment,
- Segment reporting,
- Budget variance reporting/explanations, and
- Disclosures
- 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 a follow-up audit on internal audit findings issued previously to management. The implementation is at 93% implemented, 7% is not implemented. We are of the view that management is committed to resolving the 7% not yet implemented. 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 coordinate activities of council governance structures. We recommend that 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 municipality appointed accredited external quality assessors to conduct an external quality assurance review of the Internal Audit activity. The outcome of the assessment has an overall rating of Generally Conforms which simply mean the Internal Audit Activity of Ba-Phalaborwa Municipality generally conforms with the Institute of Internal Auditors (IIA) Attributes Standards, Performance Standards and Code of Ethics. The outcome of the assessment came with recommendations that will improve the value of the services provided by the Internal Audit activity and improve the implementation of the initiatives already under way and advance the Internal Audit activity toward its vision. Internal Audit developed and presented the action plan to address the External Quality Review findings which was at 91% implementation by year-end. The Audit Committee will continue to monitor the remaining 9% of the action plan on a quarterly basis until is fully implemented.

The Audit Committee is aware of the changes in the Internal Audit Standards which are effective from the 09th January 2024. The Chief Audit Executive presented the Internal Audit Charter for 2024/2025 which aligned to the New Global Internal Audit Standards (GIAS). The Audit Committee also approved a plan presented by the Chief Audit Executive on how the Internal Audit Function will comply with the Global Internal Audit Standards (GIAS) by the due date. The Audit Committee is confident that the Internal Audit Function will meet the deadline.

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 coordination 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 the preparation and reporting on pre-determined objectives of the Municipality are improving. However, there must be improvements in the submission of the Annual Performance Report and performance information to the Audit Committee and Internal Audit for adequate review. It was recommended that means of verification be attached to all the targets as evidence of achievement of targets.

QUALITY OF IN-YEAR REPORTING

Management was able to table all quarterly financial reports and performance reports for the financial year 2023/24. However, management failed to prepare quarterly financial statements as advised by the Committee. This limited the review by 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 of the implementation of the financial system.

ICT GOVERNANCE

The Audit Committee reviewed reports from the 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 ICT Steering Committee is chaired by a qualified Chairperson who assists in capacitating the unit and improves the 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 no unresolved issues remain. The committee concurs with and accepts the Auditor-General of South Africa's report on the annual financial statements and is of the opinion that the audited annual financial statements should be accepted and read together with the report. 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 the Municipal Council, management, and the staff for their continued commitment to improving the 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.



Mr JN Mpjane CA(SA) RA
Audit Committee Chairperson
Ba-Phalaborwa Municipality

