



ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE PERIOD 01 JULY 2022 TO 30 JUNE 2023

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1. BACKGROUND TO THE AUDIT COMMITTEE REPORT

The Audit Committee of Abaqulusi Municipality has pleasure in submitting this annual 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 2022 to 30 June 2023.

2. AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Committee consist of the members listed on the table below and meet at least four (4) times a year as prescribed by the approved Audit Committee Charter.

Audit Committee Members	Number of meeting attended
Mr NE Khumalo (Chairperson)	4
Mr UBS Botshiwe	4
Ms PS Ndaba*	2
Ms S Dumun **	2
Ms SB Dlungwane**	1

*resigned on the 25th of November 2022.

** Appointed on the 1st of January 2023.

Overview of Activities

The Committee held four (4) meetings during the financial year on the following dates:

- 29 August 2022;
- 26 October 2022;
- 03 March 2023; and
- 26 June 2023.

3. AUDIT COMMITTEE RESPONSIBILITIES

The 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 Committee’s work was guided and regulated by an Audit Committee Charter.

4. INTERNAL AUDIT FUNCTION

In terms of S62 (c) (ii) and S165 (1) of the MFMA each municipality is required to have an Internal Audit unit and S165 (3) allows the municipality to co-source the internal audit function if the municipality requires assistance to develop its internal capacity. The Committee is satisfied that the municipality has an approved structure of Internal Audit Function and recommended that the Internal Audit Function should be adequately capacitated and resourced to ensure that it addresses the risks pertinent to the municipality and audits. The Internal Audit Charter as adopted by the Committee regulates the work of the Internal Audit Activities.

The Internal Audit coverage plan and Internal Audit methodology were approved by the Committee. During this financial year internal audit reports were presented at the Committee meetings. Internal audit findings were deliberated in the meetings of the Committee and recommendations were recorded.

5. EFFECTIVENES OF SYSTEM OF INTERNAL CONTROL

The system of internal controls is designed to provide reasonable assurance that the assets are safeguarded and the liabilities and working capital are effectively and efficiently managed and they remain the responsibility of management.

The Internal Audit reports in areas audited during the financial year indicated that there were numerous weaknesses in the system of internal controls and these were deliberated during the Committee meetings. Furthermore, the Committee noted with concern the findings reported in the prior year AGSA Management letter were not resolved and requested municipality to implement recommendations in order to improve the internal control environment of the municipality. Leadership structures within the municipality need to ensure that there is accountability that is intertwined with authority at all levels, thereby minimising risks of maladministration, fraud and corruption.

6. RISK MANAGEMENT

The municipality has a Risk Management Committee that review and update risk registers. The risk registers were deliberated during the Committee meetings. The Internal Audit

Manager was responsible for the coordination of municipal risk management processes , this did not compromise the independency and objectivity of the Internal Audit Function.

7. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

The Committee reviewed the Annual Financial Statements for the year ending 30 June 2023. The Committee noted some errors and requested that the Chief Financial Officer to rectify these errors before submitting financial statements to Auditor-General South Africa (AGSA). These financial statements were approved and submitted to the AGSA as required by the MFMA.

In order to improve financial reporting process, the municipality should develop an action plan which will guide the activities during the preparation of Annual Financial Statements including preparation of interim financial statements with adequate working papers.

8. COMPETENCY OF THE FINANCE DEPARTMENT

The Committee noted with concern the inadequate resources and competency gaps within Finance Department. Management committed to address identified skills gap in order to strengthen the skills and competency of the Finance Department.

9. PERFORMANCE MANAGEMENT

Performance Management System and Performance Information was reviewed by the Internal Audit Function. The Committee noted weaknesses and findings reported by internal auditors and the strides that were implemented by management. The Committee recommended that the process owners should submit performance information timely, so as to ensure corrective actions are taken timeously.

Furthermore, the Committee recommended that the Internal Audit Unit should review the Organisational Scorecard, Service Delivery & Budget Implementation Plan (SDBIP) before the approval by the Mayor to ensure alignment with Integrated Development Plan (IDP) and compliance with SMART principles.

10. MONTHLY FINANCIAL MANAGEMENT REPORTS

Monthly management reports (S71 Reports) were deliberated in the Committee. These included debtors and creditors age analyses, bank, income and expenditure reports and budget and variance reports. Several pertinent matters were raised with management who in turn furnished answers. In many instances' suggestions, recommendations, and/or requests from the Committee were implemented by management. Recommended controls need to be improved upon especially covering the completeness of revenue recovery of debts, timeous payments of creditors, SCM process, Assets register and in general the daily, monthly and quarterly reconciliations of all records and books of accounts.

11. COMPLIANCE WITH LAWS AND REGULATIONS

The Committee reviewed the effectiveness of the system for monitoring compliance with laws and regulations and recommended the development of compliance monitoring checklist. The recommended checklist should be presented in the Committee meetings to report on compliance to laws and regulations.

12. EXTERNAL AUDIT BY AUDITOR-GENERAL SOUTH AFRICA (AGSA)

The Committee reviewed the external audit scope of work to ensure that critical areas within the Municipality are being addressed. In addition, the committee reviewed the audit report including issues arising from the external audit process. The Committee was satisfied that the municipality received an unqualified audit opinion. The Committee noted with concern findings reported in AGSA management letter, management assured the Committee that AGSA findings will be resolved during the 2023-2024 financial year and the progress in resolving findings will be reported during the Committee meetings.

13. INVESTIGATION, FRAUD AND CORRUPTION

The Committee was given assurance by management that the internal controls environment was improved to prevent and detect fraudulent activities. The Committee reviewed the Fraud Risk Register during the year and recommended additional controls that should be implemented by management to mitigate identified fraud risks.

14. CONCLUSION

The Committee wishes to express its sincere gratitude to the Council and all stakeholders for their support during the financial year.

Chairperson: Audit Committee

Mr NE Khumalo