

2021/2022 ANNUAL REPORT OF THE AUDIT COMMITTEE TO COUNCIL

2021/2022 Annual Report of the Audit Committee

We are pleased to present our report for the George Municipality for the 2021/2022 financial year.

1. RESPONSIBILITY

Section 166 of the Municipal Finance Management Act No. 56 of 2003 (MFMA) requires every Municipality to establish and maintain an Audit Committee, as an independent appraisal function. Experience has shown that a properly constituted Audit Committee can make an effective and valuable contribution to the process by which an organization is directed and controlled. The George Municipality's Audit Committee is well established and functioning as required.

The Audit Committee also fulfils the functions of a performance management Audit Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, and is well established and functioning as required.

The Audit Committee is an independent advisory body to Council, the Accounting Officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation; and any other issues.

The role of the Audit Committee is to promote accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

The Audit Committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with applicable legislation.

Both the internal and external auditors had unrestricted access to the Audit Committee during the year under review.

2. TERMS OF REFERENCE

The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates in accordance with a written charter that incorporates the specific requirements of section 166 of the MFMA. These terms of reference may from time to time be amended as required, subject to the approval of Council.

3. COMPOSITION OF THE AUDIT COMMITTEE

In terms of the approved Audit Committee Charter, the Audit Committee comprises five (5) independent members with appropriate experience and skills, which are not in the employ of the municipality. The members are appointed for a period of three (3) years. Their contract may be extended for an additional three (3) years based on performance. Council strives for transformation, diversity and inclusiveness when appointing Audit Committee Members. The members of the Audit Committee as at 30 June 2022 were:

Table: Audit Committee members at 30 June 2022

Audit Committee members	Changes during 2021/2022	Date
E le Roux (ELR) - Chairperson	Appointed Chairperson	14 July 2020
B Gulwa (BG)	Appointment	1 April 2021
Dr A Potgieter (AP)	Contract ended	30 April 2021
M Roman (MR)	Appointment	1 May 2021
K Olivier (KO)	Appointment	24 August 2021

Audit Committee members	Changes during 2021/2022	Date
G Mellett (GM)	Appointment	26 August 2021
PH de Swart (PdS)	Resignation	23 August 2021
C Lamprecht (CL)	Resignation	25 August 2021

The skills and qualifications of Audit Committee members are mapped and recorded by means of a skills matrix and are aligned with the recommendations and identified skills priorities of King IV, the Public Sector Audit Committee Forum and MFMA Circular 65. Council considers and ensures the members of the Audit Committee collectively have sufficient qualifications, skills and experience to fulfil the Audit Committee's duties. Refer to the skills matrix of members below:

Table: Audit Committee members skills matrix at 30 June 2022

	E LE ROUX	B GULWA	M ROMAN	K OLIVIER	G MELLETT
Portfolio of Skills required for Independent Membership The members of the Audit Committee must collectively have sufficient qualifications, skills and experience to fulfil their duties, including an understanding of the following:					
Financial Reporting	Extensive	None	None	Extensive	Extensive
Human Resource Management	Some	Some	Extensive	Extensive	Extensive
ICT	None	None	None	Some	None
Legal (Corporative Law)	Some	Extensive	Extensive	Some	Extensive
Private and public sector experience;	Extensive	Some	Some	Extensive	Extensive
An understanding of service delivery priorities;	Extensive	Some	Some	Extensive	Extensive
Good governance and/or financial management experience;	Extensive	Some	Some	Extensive	Extensive
An understanding of the role of Council and Councillors;	Extensive	Some	Some	Extensive	Extensive
An understanding of the operations of the municipality;	Some	Some	Some	Extensive	Extensive
Familiarity with risk management practices;	Extensive	Some	Extensive	Extensive	Extensive
An understanding of internal controls;	Extensive	Some	Some	Extensive	Extensive
An understanding of major accounting practices and public sector reporting requirements;	Extensive	Some	Some	Extensive	Extensive
An understanding of public sector reforms;	Extensive	Some	Some	Extensive	Extensive
Familiarity with legislation applicable to municipalities;	Extensive	Some	Extensive	Extensive	Extensive
An understanding of the roles and responsibilities of internal and external auditors;	Extensive	Some	Some	Extensive	Extensive
An understanding of the treatment of allegations and investigations;	Some	Some	Extensive	Extensive	Extensive

	E LE ROUX	B GULWA	M ROMAN	K OLIVIER	G MELLETT
An understanding of the performance management system;	Extensive	Some	Extensive	Extensive	Extensive
Sustainability issues;	Some	Some	None	Some	Extensive
Information technology governance as it relates to integrated reporting;	None	None	None	Some	None
Integrated reporting.	Extensive	Some	None	Extensive	Extensive
Audit Committee experience/knowledge	Some	None	None	Some	Extensive
Chairperson of Audit Committee	Some	None	None	None	Some
Highest Qualification	CA(SA)	LLB Law	LLB Law	SAIBA: BAP(SA) ICBA: CFA(SA) CIMA BCOM Hons Minimum Competency	MBA (UK) CA (SA)

4. ACTIVITIES

The Audit Committee met nine (9) times during the financial year ended 30 June 2022:

Table: Audit Committee meeting attendance 2021/2022

Meeting date	Ordinary / Special	Attendance of members				
		ELR	BG	MR	KO	GM
24 August 2021	Ad-hoc Meeting	✓	✓	✓	✓	✓
27 August 2021	Special Meeting	✓	✓	✓	✓	✓
28 September 2021	Ordinary Meeting	✓	✓	✓	✓	Apology
14 December 2021	Ordinary Meeting	✓	✓	✓	✓	✓
18 February 2022	Special Meeting	✓	Apology	✓	✓	✓
9 March 2022	Ordinary Meeting	✓	✓	Apology	✓	✓
20 May 2022 continued on 24 May 2022	Special Meeting	✓	✓	Apology	✓	✓
17 June 2022	Special Meeting (Mr G Huddy co-opted)	✓	✓	✓	✓	✓
28 June 2022	Ordinary Meeting	✓	✓	✓	✓	✓

The Audit Committee carried out their statutory responsibilities in terms of Section 166(2) of the MFMA and in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, as well as their responsibilities detailed in the Audit Committee Charter. They *inter alia*:

- Advised Council, political office bearers, the Accounting Officer and management staff of the municipality, on matters relating to:
 - Internal financial control and internal audits;
 - Risk management;
 - Accounting policies;
 - The adequacy, reliability and accuracy of financial reporting and information;
 - Performance management;
 - Effective governance;
 - Compliance with the MFMA, the annual Division of Revenue Act (DoRA) and any other applicable legislation;
 - Performance evaluation; and
 - Any other issues referred to it by the Municipality.
- Reviewed the annual financial statements and provided Council with an authoritative and credible view of the financial position of the Municipality, its efficiency and effectiveness and its

overall level of compliance with the MFMA, the annual DoRA and any other applicable legislation.

- Responded to council on any issues raised by the Auditor General in the audit report.
- Reviewed, considered and responded to the Final Management Report of the Auditor General, the Report of the Auditor General on the annual financial statements; the findings of the Auditor General on predetermined objectives and compliance with certain laws and regulations, and the Auditor General's detailed management letter.
- Reviewed and considered the Annual Report and recommended that all inputs from stakeholders, including the Auditor-General, Provincial Treasury, the public and the Municipal Public Accounts Committee (MPAC) must be addressed before the final Annual Report is submitted to Council for approval.
- Carried out such investigations into the financial affairs of the municipality when requested by Council.
- Performed such other functions as prescribed.
- Reviewed the Audit Committee Charter and proposed recommended amendments.
- Reviewed and approved the three-year rolling Internal Audit and Annual Internal Audit Plans including the definition of audit units, audit universe, and prioritisation of audit coverage considering the outputs of the risk assessments performed.
- Reviewed all internal audit reports issued.
- Reviewed the reporting by internal audit on performance management and performance information.
- Issued reports and recommendations to Council on performance management and performance information.
- Responded to Council on any issues raised by the Auditor General in the audit report.
- Performed assessments on the effectiveness of the committee for review and comment by the Municipal Manager and for presentation to Council.
- Deliberated on the implementation of municipal Standard Chart of Accounts (mSCOA) related reporting.
- Held ad hoc meetings with officials to address specific areas of concern.
- In addition to the above listed activities, performed its responsibilities in terms of Performance Management (as stipulated in Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulation, 2001); Internal Audit; the Control Environment; Risk Management; External Audit; Compliance with laws, regulations and ethics; Fraud Management and Investigations, Information Technology and related Governance; and Combined Assurance.
- Considered other matters as deemed appropriate.

Specific recommendations were made to Council for consideration. These recommendations, inter alia, are included in the Annual Report and are detailed below.

Audit Committee recommendations during 2021/2022

Audit Committee recommendations during 2021/2022

Critical vacancies

- That Council acknowledge the concerns regarding the high vacancy rates within directorates.
- That the directorates should identify the critical vacant posts and that these should be budgeted for and filled.

Municipal infrastructure maintenance

- That Council acknowledge the critical concerns regarding the maintenance of municipal infrastructure.
- That the maintenance plans should be updated to clearly indicate where the urgent maintenance is required.
- That Council should ensure that there is sufficient budget allocated to municipal infrastructure maintenance, during the budgeting process, to ensure compliance with relevant regulations and legislation.

Revenue management - fines

Audit Committee recommendations during 2021/2022

- Management to report to the Audit Committee regarding the process of issuing and collecting fines, the challenges faced, and the remedial action plans with responsibilities and relevant timeframes.

Credit control and recovery of debtors

- Management to report to the Audit Committee regarding the remedial actions taken to address concerns relating to the ageing of and increasing debtors' balances.

Water losses

- Management to report to the Audit Committee regarding the reasons for water leakages and related challenges faced, and the remedial action plans with responsibilities and relevant timeframes.

Auditor General action plans

- Management to report to the Audit Committee regarding the monthly implementation status of the Auditor General Audit Action Plans.

ICT security and business continuity

- Management to implement adequate controls to reduce the risk of ICT security breaches and to ensure business continuity.

ICT resources

- Council notes the Audit Committee's Special Report relating to Information and Communication Technology.
- Council approves the implementation of a co-sourced Information and Communication Technology function.

5. INTERNAL CONTROL SYSTEMS

Internal control is the system of controls and directives that are designed to provide cost effective assurance that assets are safeguarded, that liabilities and working capital are efficiently managed and that the municipality fulfills its mandate, in compliance with all relevant statutory and governance duties and requirements.

The committee has reviewed the Internal Audit Reports; the Auditor General's Audit Report; the Annual Financial Statements (AFS); and the Annual Performance Report (APR) of the municipality. Based on these reports the committee believes that the significant internal controls are in place, however certain control deficiencies have been identified. The committee will monitor the progress made by Management towards the improvement of their internal control environment.

6. RISK MANAGEMENT/ COMBINED ASSURANCE

The committee has reviewed the risk management processes implemented by management during the financial year and is satisfied with the progress made with the implementation of risk management within the municipality. The committee also receives a standing invitation to the Risk Management Committee meetings.

The responsibility for coordinating combined assurance resorts within the Chief Risk Officer. The Combined Assurance Framework was reviewed and approved by Council. The committee also received update on the status of Combined Assurance implementation on a quarterly basis.

Based on the discussions and assurances obtained, the committee notes the progress towards full implementation of the Risk Management processes of the municipality. The committee further believes that the high-risk areas of the organization are covered in the scope of internal and external audits.

7. PERFORMANCE MANAGEMENT

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.*

The Committee is satisfied that the George 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 committee has also reviewed the 2021/22 Mid-Year Performance Assessment Report and the 2021/22 Annual Performance Report of the municipality, as well as the quarterly SDBIP Performance Reports submitted to it by the Internal Audit Office. Based on the discussions and assurances obtained, the committee notes the progress towards full implementation of the Performance Management System of the municipality.

8. ACCOUNTING/ FINANCIAL INFORMATION

The committee believes that the Chief Financial Officer (CFO) possess the appropriate qualifications and experience to perform his responsibilities effectively. The CFO is more than capable to lead the financial department of the municipality, as required by the MFMA.

The committee evaluated the AFS of the George Municipality for the period 1 July 2021 to 30 June 2022, using various financial ratios and the High-Level Internal Audit Review, the APAC is in a position to give an authoritative and credible view of the financial position of the municipality, its effectiveness and efficiency, and its overall level of compliance with relevant legislation.

The committee's view is that in general the financial position of the municipality is relatively positive and that the municipality has also complied with the required audit procedures and applicable legislation.

9. AUDITOR-GENERAL

The Audit Committee subsequently met on the following dates to fulfil its obligation to review the 2021/22 Draft Annual Financial Statements, Draft Annual Performance Report, Auditor General Audit Report and Auditor General Management Report:

- 26 August 2022 (Special Audit Committee meeting)
- 12 December 2022 (Special Audit Committee meeting)

George municipality has maintained its Unqualified audit opinion with no findings (Clean Audit) for the 2021/2022 financial year. The committee wishes to congratulate the George Municipal Council and Administration on achieving a "Clean Audit" Opinion from the Office of the Auditor General for the 2021/2022 Financial Year. This is truly a remarkable achievement for the municipality, and it confirms the accuracy and transparency with which finances of the municipality have been handled and reported. This is due to effective leadership and the positive commitment of senior management and officials. The Committee is also satisfied with the independence and objectivity of the Auditor-General.

10. INTERNAL AUDIT

The George Municipality has a co-sourced internal audit function, employing a Chief Audit Executive with the support of an external service provider rendering internal audit services to the municipality. The committee is pleased to note that vacant positions in the Internal Audit department will be filled during the 2022/2023 financial year.

A number of audits have been completed during the year under review and these reports have been presented to the committee for discussion. The committee will monitor the progress on the implementation of the deficiencies identified by Internal Audit.

Relating to and during the 2021/2022 financial year the following main Internal Audit reports were issued:

- Annual Cash Count FY21
- Annual Stock Count FY21
- EMV Smart Card Inventory Count FY21
- Confirmation of leave balances (terminations / discharged employees)
- Supply Chain Management (SCM) Deviations & COVID19
- Disciplinary, Grievance and Dispute Process
- Division of Revenue Act (DoRA) Review
- Proclaimed Roads FY22
- Information and Communications Technology (ICT) Risk Review
- EPWP Review
- Fleet Management
- Annual Financial Statement Review FY21
- Annual Performance Report Review FY21
- Performance Management Systems: Performance Evaluations Q4 FY21
- Performance Management Systems Q4 FY21
- Performance Management System Q1 FY22
- Performance Management Systems Q2 FY22
- Performance Management Systems Q3 FY22
- Performance Management Systems Q4 FY22
- Performance Management Systems: Review of draft SDBIP FY23
- EMV Smart Card Inventory Count FY22
- Annual Cash Count FY22
- Annual Stock Count FY22

Formal reports containing recommendations to address control weaknesses are submitted to Council, and the Audit Committee regularly follows up with Internal Audit and Management on the state of corrective action implemented. The implementation status of recommendations is considered good. Furthermore, the Audit Committee also provides comments on various internal and external reports.

It is also noteworthy to mention that the Internal Audit function was externally assessed by an independent service provider and managed to achieved a "Generally Conforms (GC)" Independent Quality Assurance Rating (GC is the top rating and means the independent assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects).

The committee also expresses their appreciation to the Internal Audit Office for the work done and is satisfied with the current operation of the activity. The committee believes that the Internal Audit function has been effective in carrying out its function in the municipality. The committee is also satisfied with the organizational independence of the Internal Audit Activity.

11. INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

ICT is a rapidly advancing discipline within the public sector, and management should allocate sufficient resources to the effective functioning of the ICT environment. The committee is concerned with the status of ICT and submitted a special report to Council on ICT.

Various control deficiencies were also identified by the Auditor-General. The committee will monitor the progress made by Management towards the improvement of the ICT governance and risk environment.

12. COMPLIANCE WITH KEY LEGISLATION

The Internal Audit function conducted various Compliance Reviews, on compliance with the MFMA; MSA and DORA. These reports were tabled and discussed by the committee. The committee is pleased that no material non-compliance with legislation have been found, however the committee will monitor the progress made by Management towards resolving the non-compliance issues raised by Internal

Audit.

13. QUARTERLY REPORTING TO COUNCIL

The committee submits quarterly reports to the Municipal Council on the matters referred to in Section 166 (2) of the Municipal Finance Management Act.

14. CONCLUDING STATEMENT BY THE AUDIT COMMITTEE

The committee is pleased with the continuous progress made by the George Municipality in improving the overall governance, internal control, and risk management environment.

Considering the above, the committee recommends that the Audited Financial Statements, together with the Audit Report of the Auditor General be accepted by the Council of the George Municipality.

On behalf of the Audit Committee



Mr E le Roux
Audit Committee Chairperson
19 December 2022