

2022/2023 ANNUAL REPORT OF THE AUDIT COMMITTEE TO COUNCIL



2022/2023 Annual Report of the Audit Committee

We are pleased to present our report for the George Municipality for the 2022/2023 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 will comprise five (5) independent members with appropriate experience and skills, which are not in the employ of the municipality. The Audit Committee currently comprises four (4) independent members, the vacant position will be filled during the 2023/2024 financial year. 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 2023 were:

Table: Audit Committee members at 30 June 2023

Audit Committee members	Changes during 2022/2023	Date
E le Roux (ELR) - Chairperson	Appointed Chairperson	14 July 2020
B Gulwa (BG)	Appointment	1 April 2021
M Roman (MR)	Passed Away	N/A
K Olivier (KO)	Appointment	24 August 2021
G Mellett (GM)	Appointment	26 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 2023

	E LE ROUX	B GULWA	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	Extensive	Extensive
Human Resource Management	Some	Some	Extensive	Extensive
ICT	None	None	Some	None
Legal (Corporative Law)	Some	Extensive	Some	Extensive
Private and public sector experience;	Extensive	Some	Extensive	Extensive
An understanding of service delivery priorities;	Extensive	Some	Extensive	Extensive
Good governance and/or financial management experience;	Extensive	Some	Extensive	Extensive
An understanding of the role of Council and Councillors;	Extensive	Some	Extensive	Extensive
An understanding of the operations of the municipality;	Some	Some	Extensive	Extensive
Familiarity with risk management practices;	Extensive	Some	Extensive	Extensive
An understanding of internal controls;	Extensive	Some	Extensive	Extensive
An understanding of major accounting practices and public sector reporting requirements;	Extensive	Some	Extensive	Extensive
An understanding of public sector reforms;	Extensive	Some	Extensive	Extensive
Familiarity with legislation applicable to municipalities;	Extensive	Some	Extensive	Extensive
An understanding of the roles and responsibilities of internal and external auditors;	Extensive	Some	Extensive	Extensive
An understanding of the treatment of allegations and investigations;	Some	Some	Extensive	Extensive
An understanding of the performance management system;	Extensive	Some	Extensive	Extensive
Sustainability issues;	Some	Some	Some	Extensive
Information technology governance as it relates to integrated reporting;	None	None	Some	None
Integrated reporting.	Extensive	Some	Extensive	Extensive
Audit Committee experience/knowledge	Some	None	Some	Extensive
Chairperson of Audit Committee	Some	None	None	Some
Highest Qualification	CA(SA)	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 2023:

Table: Audit Committee meeting attendance 2022/2023

Meeting date	Ordinary / Special	Attendance of members				
		ELR	BG	MR	KO	GM
26 August 2022	Special Meeting	✓	Apology	Apology	✓	✓
23 September 2022	Ordinary Meeting	✓	✓	✓	✓	✓
13 October 2022	Special Meeting	✓	✓	✓	✓	Apology
28 November 2022	Ordinary Meeting	✓	✓	Apology	✓	✓
12 December 2022	Special Meeting	✓	Apology	✓	✓	Apology
17 February 2023	Ordinary Meeting	✓	✓	-	✓	✓
24 March 2023	Special Meeting	✓	✓	-	✓	✓
21 April 2023	Special Meeting	✓	✓	-	✓	✓
26 June 2023	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.
- Carried out such investigations into the financial affairs of the municipality when requested by Council.
- Performed such other functions as prescribed.
- 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.
- Reviewed the Audit Committee Charter and proposed recommended amendments.
- Reviewed and approved the three-year rolling Internal Audit and Annual Internal Audit Plans.
- 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.
- Held Special Audit Committee 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.

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 Audit Committee considered, reviewed, and discussed various reports including inter alia, financial reports, compliance reports and Internal Audit reports. Based on these reports the Committee concluded overall that the key internal controls and key internal financial controls are in place and that there has been an improvement in the overall internal control environment.

Management committed to implement recommended controls, per agreed upon timeframes, for any areas where gaps were identified. The Audit Committee will continue to monitor the progress of implementation.

6. RISK MANAGEMENT/ COMBINED ASSURANCE

The committee was informed on the new approach to the development of the Risk Management Processes. The committee will monitor the progress made with the implementation of risk management within the municipality.

The outputs of the revised risk approach will be reviewed by the committee in the 2023/2024 financial year.

The committee was also informed about the combined project on the implementation of combined assurance. The committee is satisfied with the current assurance provided on the top risks of the municipality.

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 Audit Committee focused significant attention on performance management. The Audit Committee reviewed the municipality's performance management system focusing on economy,

efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.

Improvements in performance management were noted and management are recommended to continue improving the controls over performance management systems. The Audit Committee noted management's commitment to accountability and consequence management, which should improve overall performance and the quality of performance reporting.

The committee however wishes to express concern with regards to the repeat findings as identified by the Auditor General.

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 2022 to 30 June 2023, the committee 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 2022/23 Draft Annual Financial Statements, Draft Annual Performance Report, Auditor General Audit Report and Auditor General Management Report:

- 25 August 2023 (Special Audit Committee meeting)
- 04 December 2023 (Special Audit Committee meeting)

George municipality has maintained its Unqualified audit opinion with no findings (Clean Audit) for the 2022/2023 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 2022/2023 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, Manager: Internal Audit, Senior Internal Auditor and an Internal Auditor 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 were filled during the 2022/2023 financial year.

The Chief Audit Executive, Mr Jean-Pierre Rossouw was the recipient of the coveted National Award for Internal Auditor of the Year for 2023 in South Africa, along with the Excellence in Internal Audit (Public Sector) Award. The committee is happy with the caliber of talent the municipality has managed to attract.

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 2022/2023 financial year the following main Internal Audit reports were issued:

- Document Management (Integrity of the back-scanning project)
- Contract Management
- Performance Management 1st Quarter Review of 2022/2023
- Performance Management 2nd Quarter Review of 2022/2023
- Performance Management 3rd Quarter Review of 2022/2023
- Human Resources: Appointments
- Civil Engineering Services: Proclaimed Roads 2022/2023 Financial Year
- POPIA Compliance Review
- Investment Management
- Property Leases and Encroachments (Income: Leases)
- Staffing Regulations
- Traffic Services (Including legal procedures, fines and summonses)
- Tariff Verification
- Annual Stock Count FY23

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 Western Cape Provincial Treasury initiated a pilot with the George Municipality Internal Audit function to adopt and implement an Agile Auditing approach.

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 wishes to express concern with regards to the repeat findings as identified by the Auditor General. The committee further wants to acknowledge the progress made by management in the appointment of a service provider to address the matter.

The committee will continue to 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.

No material concerns were brought to the Committee's attention relating to non-compliance with legislation, regulations, or other governance issues.

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
11 December 2023