



REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2020

1. Audit Committee Members and Attendance

In terms of the Municipal Finance Management Act, 56 of 2003 (MFMA) and the PSJ Local Municipality's Audit Committee Charter, the Audit and Risk Committee must consist of at least three members, all of whom must be external independent members. None of the members may be councillors.

The Audit Committee consists of the members listed hereunder and meets at least four times per year as per its approved terms of reference as contained in the charter. During the year under review the Committee convened five meetings:

Member	Date of Appointment	Meetings Attended
Mr. L. Galada (Chairperson)	01 June 2019	5
Mr. S. Nelani	01 June 2019	5
Mr. M. Mzini	01 June 2019	4
Adv. S. Gugwini-Peter	01 October 2019	3

2 Audit Committee's Responsibilities

The audit committee's responsibilities are outlined in Section 166(2) of the Municipal Finance Management Act. The audit committee has adopted appropriate formal Terms of Reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

The audit committee's responsibilities in terms of the foregoing Act and its Charter is that it is responsible for the following:

- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to:
 - Internal financial controls and internal audits

- Risk management
 - Accounting policies
 - Adequacy, reliability and accuracy of financial reporting and information
 - Performance management
 - Effective governance
 - Compliance with MFMA, the Annual Division of revenue Act and other applicable legislation
 - Performance evaluation
 - any other issues referred to it by the municipality
- (b) review the annual financial statements to provide the council of the municipality 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 Division of Revenue Act and any other applicable legislation
- (c) respond to the council on any issues raised by the Auditor-General in the audit report
- (d) carry out such investigations into the financial affairs of the municipality as the council of the municipality may request
- (e) perform such other functions as may be prescribed

The audit committee is satisfied that, it has complied with its responsibilities and has discharged them properly and efficiently except for the period of total lockdown in terms of the Disaster Management Regulations issued in response to the breakout of Covid-19.

3 The Effectiveness of Internal Controls

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. 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 are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of the internal auditors, the Audit Report on the Annual Financial Statements and the management report of the Auditor-General South Africa the system of internal control was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal control and/or deviations were reported by the internal auditors and the Auditor-General South Africa. In certain

instances, the matters reported previously have not been fully and satisfactorily addressed.

The implementation of risk management was not adequate during the year under review as there was no capacity in the municipality to facilitate its implementation.

4 The quality in year management and Monthly/Quarterly Report submitted in terms of the MFMA

The audit committee has received and reviewed quarterly reports, in the form of MFMA, section 52(d) reports, mid-year report and quarterly performance reports. The performance report was considered with assurance provided by the internal audit unit.

The Audit Committee was satisfied with the content and quality of quarterly reports prepared and issued by the accounting officer and management during the year under review.

The management has undertaken to prepare interim financial statements that comply with Standards of Generally Recognised Accounting Practice (GRAP), which could assist in performing reconciliations timeously as well as in eliminating year-end adjustments.

5 Internal Audit Function

The accounting officer is obliged, in terms of section 165 of the MFMA, to ensure that the entity has a system of internal audit under the control and direction of the audit committee. The internal audit service is currently provided by O.R Tambo District Municipality as a shared service.

During the year under review, an audit plan was prepared, based on the annual risk assessment, and approved by the audit committee. The internal audit was able to complete 13 of the 24 planned projects in the year under review.

All reports and assignments are followed up by Internal Audit and the Audit Committee to ensure that management actions have been implemented. This action was necessary to ensure that management does not temporise Audit Committee and Council.

The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review.

6 Evaluation of Financial Statements

The Audit Committee has:

- reviewed and discussed with the Auditor-General and the Accounting Officer the unaudited annual financial statements to be included in the Annual Report;
- reviewed the Auditor-General's management letter and management responses;
- reviewed the accounting policies and practices;
- reviewed significant adjustments resulting from the audit;
- evaluated the audited annual financial statements to be included in the Annual Report and, based on the information provided to the Audit Committee, considered that the said statements comply in all material respects with the requirements of the MFMA and Treasury Regulations as well as South African Statements of Generally Accepted Accounting Practice (GAAP) and certain statements of Generally Recognised Accounting Practice (GRAP).

7 External audit

The external audit function, performed by the Auditor General South Africa is independent of the entity. The audit committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and cooperation of the external audit team despite the challenging environment caused by Covid-19.

The audit committee confirms that it has been actively involved throughout the audit process and has been thoroughly appraised of the issues giving rise to the audit opinion.

The Audit Committee concurs and accepts the Auditor-General's qualified opinion on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General South Africa.

The audit committee also concurs with the material findings on the reported performance information and compliance with legislation.

Management has given assurance that effective corrective action will be implemented in respect of all internal control weaknesses, and the audit committee will monitor these going forward. A management audit action plan has been developed to this effect, the period for its implementation is short as a result of the late finalisation of the audit report

8 Appreciation

I would like to thank my colleagues for making themselves available to serve on this committee and for the significant contributions that they have made.

As an audit committee, we rely to a great extent on the PSJ Local Municipality's management, OR Tambo internal audit unit for their support and assistance and, in particular, for the role they continue to play in improving the accounting and internal auditing systems and controls at the municipality. We are indebted to them for their cooperation and assistance.

We are also grateful to the Auditor-General and all other invitees to our meetings, including the external service providers, all of whom provided invaluable information to the Committee.

A handwritten signature in black ink, appearing to read 'L. Galada', is written over a horizontal line.

Mr. L. Galada

Chairperson: PSJ Local Municipality: Audit and Risk Committee

26 April 2021