



ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE

FINANCIAL YEAR

2020-21

CHAIRMAN'S ANNUAL REPORT: AUDIT & RISK COMMITTEE 2020-21 FINAL

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CHAIRMAN'S ANNUAL REPORT: AUDIT & RISK COMMITTEE 2020-21 FINAL

1. INTRODUCTION

The Annual Report of Audit and Risk Committee has been prepared in line with provisions of Municipal Finance Management Act, section 121 and circular 63. This report provide a record of the activities of PSJ Local Municipality Audit and Risk Committee for the financial year 2020-21.

2. LEGISLATIVE REQUIREMENTS

The Municipality has in house Audit and Risk Committee, established in terms of the section 166 of the MFMA. which provides that each municipality and each municipal entity must have an audit committee, subject to subsection (6).

(2) An audit committee is an independent advisory body which must—

(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—

(i) internal financial control and internal audits;

(ii) risk management;

(iii) accounting policies;

(iv) the adequacy, reliability and accuracy of financial reporting and information;

(v) performance management;

(vi) effective governance;

(vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

(viii) performance evaluation; and

(ix) any other issues referred to it by the municipality or municipal entity;

(b) review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, 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 or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and

(e) perform such other functions as may be prescribed.

(3) In performing its functions, an audit committee—

(a) has access to the financial records and other relevant information of the municipality or municipal entity; and

(b) must liaise with—

- (i) the internal audit unit of the municipality; and
- (ii) the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.
- (4) An audit committee must—
- (a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and
- (b) meet as often as is required to perform its functions, but at least four times a year.
- (5) The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality. One of the members who is not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

3. FUNCTIONALITY OF AUDIT AND RISK COMMITTEE

The Audit and Risk Committee consists of the members listed hereunder and meets at least four times per year as per its approved Charter. During the year under review the mandatory quarterly meetings and one special meeting were held.

Member	Qualifications	Date of Appointment	Number of meetings attended
Mr.L.Galada (Chairperson: Audit and Risk Committee Member)	BTech: IA & ND: IA	01 June 2019	4/4
Mr S. Nelani (Audit and Risk Committee Member)	MBA,BCom Law, BTech: IA & ND: IA	01 October 2019	3/4
Adv.S.Gugwini-Peter (Audit and Risk Committee Member)	Baccalaureus Legum	01 June 2019	4/4
Mr.M.Mzini (Audit and Risk Committee Member)	ND Internal Auditing BA Ed Degree	01 June 2019	4/4

4. AUDIT AND RISK COMMITTEE RESPONSIBILITIES

A summary of the Audit and Risk Committee's responsibilities in terms of the foregoing Act and its Charter is that it is responsible for, amongst other things, the following:

4.1 AUDITORS AND EXTERNAL AUDIT PROCESS

Discuss and review with external auditors, *inter alia*,

- ❖ the nature and scope of the audit function;
- ❖ agreeing to the timing and nature of reports from the external auditors;
- ❖ considering any problems identified in the municipality as a going concern;
- ❖ review the Auditor-General's management letter and management response; and

- ❖ meeting the Auditor-General at least annually to ensure that there are no unresolved issues of concern.

4.2 ANNUAL FINANCIAL STATEMENTS

- ❖ review and discuss the unaudited annual financial statements with the Accounting Officer prior to presentation of the foregoing financial statements for audit together with recommendations, if any, regarding amendments to the said statements;
- ❖ review and discuss with the Auditor-General and the Accounting Officer, the audited annual financial statements to be included in the Annual Report;
- ❖ review significant adjustments resulting from the audit;
- ❖ review effectiveness of the internal audit;
- ❖ review risk areas of the operations to be covered in the scope of the internal and external audits; and
- ❖ review the adequacy, reliability and accuracy of the financial information provided to management and other users of such information.
- ❖ reviewed the accounting policies and practices;
- ❖ 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)

4.3 INTERNAL CONTROL AND INTERNAL AUDIT

The monitoring and supervising of the effective function of the internal audit including;

- ❖ evaluating performance, independence and effectiveness of internal audit and external service providers through internal audit;
- ❖ review the effectiveness of the internal controls and to consider the most appropriate system for the effective operation of its business;
- ❖ initiating investigations within its scope e.g. employee fraud, misconduct or conflict of interest.

4.4 ETHICS

- ❖ Reviewing the effectiveness of mechanisms for the identification and reporting of: any material violations of ethical conduct of councillors and municipal staff;
- ❖ compliance with laws and regulations; and
- ❖ environmental and social issues.

4.5 COMPLIANCE

- ❖ carrying out investigations into financial affairs as Council may request;
- ❖ reviewing the effectiveness of mechanisms for the identification and reporting of:
 - compliance with laws and regulations; and
 - the findings of regulatory bodies or audit observations.

4.6 RISK MANAGEMENT

- ❖ Reviewing risk management practises: identification, risk assessment, risk mitigation strategies and monitoring mechanism.
- ❖ Ongoing monitoring risk response plans
- ❖ Comment on development of Risk Based Internal Audit Plans

4.7 PERFORMANCE MANAGEMENT

- ❖ Reviewing of organisational performance management reports
- ❖ Assess the extent of achievement of SDBIP targets

- ❖ Alignment of SDBIP with actual reported performance information
- ❖ Review Internal Audit Reports on performance information

4.8 INFORMATION, COMMUNICATION AND TECHNOLOGY- ICT

- ❖ Review if ICT governance process
- ❖ Review Internal Audit Report – General Controls
- ❖ Review of ICT infrastructure – policies and procedures

5. INTERNAL AUDIT FUNCTION

During the year under review, an audit plan was prepared based on the Annual Risk Assessment. The following is a list of projects undertaken by Internal Audit, arising from the risk assessment:

Date of meeting	Major item discussed
20 August 2020	1. Tabling of Draft Annual Performance Management Report 2019-20
	2. Update on Annual report 2019/2020
	3. Budget and Treasury Report
	4. Internal Audit Reports
	5. Audit and Risk Committee Assessment
19 October 2020	1. Update on External Audit Process
	2. Accounting Officer update Report
	3. 2020/21 Q1 Performance Report
	4. 2020/21 Q1 SCM Report
	5. 2020-21 Q1 Financial Report
	6. Risk Management Report
	7. Internal Audit Report: <ul style="list-style-type: none"> - Q 1 Performance Management Report - Internal Audit Plan 2020-21 - SDBIP Review Report 2020-21
	8. Litigation Report
	9. Status update report
25 January 2021	1. External Audit Update
	2. Accounting Officer's update report
	3. Q2 Performance Management Report 2020-21
	4. Mid-Year Budget and Performance Assessment report (s72)
	5. Risk Management Report
	6. Litigation Report
	7. Internal Audit Reports <ul style="list-style-type: none"> - Internal Audit Plan 202-21 - Internal Audit Review Reports- Compliance
22 April 2021	1. External Audit Update
	2. Accounting Officer's update Report
	3. Q3 performance Management Report 2020-21

	4. Risk Management Report
	5. Update on Draft IDP
	6. BTO reports (s52d)
	7. Litigation report
	8. Internal Audit Reports: - Progress on internal audit plan - Compliance report- MFMA
	9. OHS Report
	10. IA review on Stock count final
	11. IA review on the revised SDBIP 2020-2021
	12. IA review on Q3 Performance Management report 2020-2021
	13. Tracking Tool

6. 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 VI 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

7. 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 and Risk Committee, we rely to a great extent on Internal Audit 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 Municipality. We are indebted to them for their cooperation and assistance.

We are also grateful to the Accounting Officer, the Auditor-General, and all other invitees to our meetings, including our counterparts departments, COGTA and Provincial Treasury Department, all of whom provided invaluable information to the Committee.



Mr S. NELANI
Chairperson: PSJ Local Municipality Audit and Risk Committee
19 March 2022