

Audit and Performance Committee Report for the period ending 30 June 2022

1. Background

Mkhambathini Local Municipality's Council appointed the Audit and Performance Committee ("the Committee") as prescribed by Section (166) of the Municipal Finance Management Act 56 of 2003. The Committee serves the purpose of being an independent advisory body to Council, the Political Office Bearers and the Accounting Officer thereby assisting Council in its oversight role.

2. Membership of the Audit and Performance Committee

The Committee consists of independent members as required by the Municipal Finance Management Act 56 of 2003(MFMA) and during the financial year the term of the committee expired and the Municipality would to thank the outgoing members for they contribution. The new committee members, that were appointed for a new three year term, are:

- Mr S Shabalala : Chairperson
- Mr D Mncwabe : Member
- Ms A.P Ngubo : Member

In of the committee's approved Terms of Reference and the MFMA, the committee is required to meet at least four times a year, which translates to one meeting per quarter. Member's attendance in those meetings is as follows:

MEMBER NAME	MEETINGS ATTENDED	Term Date
Mr S Shabalala	3	2021-2024
Mr D Mncwabe	4	2021-2024
Ms A.P Ngubo	3	2021-2024

Apologies were received from members where they were unable to attend the meeting.

3. Audit and Performance Committee Responsibility

We report that we have performed our responsibilities for the 2020/21 financial year in terms of the Municipal Finance Management Act No 56 of 2006, Section 166. We further report that we conducted our affairs in compliance with the Committee's Terms of Reference.

4. The Effectiveness of Internal Control

The MFMA requires that the municipality's system of internal controls be designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital were effectively managed. In line with the Act and the King IV reports on Corporate Governance requirements, Internal Audit reports provide Committee and Management with assurance that the system of internal controls of the Municipality were effective or not.

The Committee reviewed various reports from the Internal Audit and these highlighted, in certain instances, the ineffectiveness of internal controls in addressing risks identified within the Municipality especially in Performance Management Section. This matter is discussed in detail below under point 7.

We followed up on management's action plan to address the Auditor-General's report for the 2019/20 financial year. We also monitored the implementation of both the Internal auditor's and Auditor-General's action plans to implement their recommendations by management to ensure that management took steps to address internal control weaknesses identified. We can report that management accepted the recommendations proposed, most of them have been implemented, and others are in progress.

5. Internal Audit

The Committee is satisfied that the Internal Audit Activity work was conducted in accordance with the approved Internal Audit Plan. Quarterly reports from Internal Audit were reviewed and findings were discussed and agreed upon with management. Management committed themselves to continuously support the Internal Audit Activity in order for the Municipality to improve the effectiveness of internal controls and realise its value.

6. Financial reporting and financial management

Financial Reporting

We reviewed the Annual Financial Statements (AFS) for period ending 30 June 2021 together with Internal Audit and recommendations on these AFS were discussed with management. Management confirmed that all the issues identified were taken into account before submission of the AFS to the Auditor-General.

Financial management

We are happy to report that the municipality at the end of previous financial year was in a good financial standing, meaning, we had adequate funds to settle our outstanding debt and unspent grant funds were cashed backed. Our concern in this regard was the increase in the Debtors book compared to the previous financial year. What further exacerbates our concern in this area is the impact of COVID-19 pandemic on our debtors' ability to settle their account. We therefore recommend that management assesses each debtor's ability to settle their account and where necessary impair the amount owed by debtor to show only the amount that the municipality is likely to receive from the debtor concerned.

Council should also continue to remind the community to settle their accounts with the municipality to enable the municipality to continue providing the services to them.

7. Performance Management System (PMS)

During the financial year, we monitored performance reporting of the municipality and we highlighted a number of issues that had to be addressed by management. Some improvements were noted in this area at the end of the financial year. We recommend that management should ensure that:

- Portfolio of evidence (POE) files are submitted for audit purposes;
- Strides are made to ensure that targets are achieved; and
- Corrective measures for performance improvement are implemented where targets are not met.

Recommendations to attend to these issues were discussed and agreed upon with management.

8. External Audit

The Office of the Auditor-General (OA-G) is currently reviewing the 2019/20 Annual Financial Statements. The municipality maintained the unqualified audit opinion from the previous financial year of the Annual Financial Statements. We

recommend that the municipality work close with the OA-G staff to address the issues raised by the OA-G to improve the audit opinions.

9. Risk Management and Compliance

The Municipality's Internal Audit Unit plays as an advisory role in Risk management and compliance. We have recommended to management to discuss issues of risk during the Management committee meetings. We also recommend that workshops for all staff be conducted to make all employees aware of the importance of risk management.

10. Corporate governance

As the committee, we appreciate the efforts by Management in improving internal controls. Management should continue working closely with internal audit and the audit team to improve controls. We also recommend that Council continue to play their oversight role to ensure that our recommendations are implemented.

11. Conclusion

The Committee appreciates the support from staff, management and Council on the functioning of the committee and we wish the municipality well in improving its internal controls to achieve its service delivery objectives and clean administration.



Mr S Shabalala - For the Audit and Performance Committee