

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 30 JUNE 2003

REPORT OF THE AUDIT COMMITTEE TO THE EXECUTIVE MAYORAL COMMITTEE AND COUNCIL FOR THE CITY OF CAPE TOWN.

We present our report for the financial year ended 30 June 2003.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee, consisting of independent, outside members listed below, meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises. During the past year five meetings were held.

Name of Member	Number of Meetings attended
Mr AC Coombe (Chairperson)	5
Ms J Khaole	5
Mr Z Manjra	5
Mr V van der Linde	4

AUDIT COMMITTEE RESPONSIBILITY

The Committee reports that it has complied as far as possible with its responsibilities arising from section 3 of its Council approved terms of reference. A control self assessment process was followed to determine the committee's performance, following which improvements to the Committee's operations will be implemented in the next year.

The Committee has proactively adopted a reporting framework in terms of the Municipal Finance Management Act, No 56 of 2003, notwithstanding that it was not enacted by the financial year-end.

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The Audit Committee regards the disclaimer of opinion by the Auditor-General of the Annual Financial Statements (for the second consecutive year) as extremely serious. The Committee has:

- Reviewed the audited annual financial statements;
- Reviewed management responses to the management letters of the Auditor-General;
- Commented on the inappropriate use of the appropriation account to record year -end adjustments in respect of the current financial year;
- Noted certain changes in accounting policies; and
- Expressed concern about the inconsistent application of the accrual accounting basis.

EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL

The deficiencies and shortcomings reported in the reports of Internal Audit (received quarterly) and the Auditor-General as well as matters brought to the attention of the Accounting Officer, by way of informal queries and management letters, clearly indicates that the internal checking and control measures did not function adequately in various respects during the year under review.

The Committee has urged the City to take corrective action to ensure that internal checking and control measures are continuously monitored so as to improve the internal control environment.

RELEVANT LEGISLATION

The Committee's terms of reference include responsibility for monitoring certain legislation such as the Local Government Systems Act, the

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Local Government Transition Amendment Act, Performance Regulations and the City's adoption of the King II Report on Corporate Governance. The Municipal Finance Management Act principles, although followed, are still to be incorporated in the Committee's terms of reference.

The Committee concentrated primarily on financial legislation.

- The amalgamation of seven different administrations into a single one;
- General weakness in the application of internal control systems and procedures, and
- The generally weak financial position of the City during the past financial year.

AUDITOR-GENERAL'S REPORT

As already mentioned, the disclaimer by the Auditor-General of the City's Annual Financial Statements is of grave concern, especially where two matters are repeated for the second consecutive year, namely missing documentation and an unsatisfactory bank reconciliation.

The Committee notes the endeavours of management to address these matters and has requested quarterly report-backs to ensure resolution and continuous improvement.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements for the year ended 30 June 2003 and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General.

The Committee acknowledges the challenges posed by the merger of the seven previous administrations during 2002, with their differing cultures, policies, procedures and conditions of service. The Committee fully supports the City on its journey for improved service delivery, and its "One City" vision.

MANAGEMENT REPORTING

The Committee has concluded that the content and quality of monthly management reports presented to senior management lack sufficient detail to enable users to assess adequately the current financial position of the City and therefore to make informed decisions on necessary actions.

The Committee emphasizes the need for the introduction of variance reports, progress reports, dashboards and other features of management reporting.

Chairperson of the Audit Committee

30 March 2004

CONCLUSION

The Committee is of the opinion that the underlying causes for the current state of the City's financial affairs are:

- The slow pace of transformation and reorganization;
- The introduction and implementation of new and comprehensive ERP Systems;
- Consequences of historical political instability;