**NDWEDWE LOCAL MUNICIPALITY**

**ANNUAL REPORT OF THE AUDIT AND PERFORMANCE COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2024**

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| **Compiled by** | **:** | **Audit and Performance Committee** |
| **Council** | **:** | **28 March 2025** |

## ANNUAL REPORT OF THE AUDIT AND PERFORMANCE COMMITTEE TO THE COUNCIL OF NDWEDWE LOCAL MUNICIPALITY

## FOR THE PERIOD ENDED 30 JUNE 2024

*The Audit and Performance Committee has the pleasure in submitting this report to the Council of Ndwedwe Local Municipality. This report is submitted in terms of the provision of sections 121 (3) (j), 166(2) (b) and 166(2) (c) of the Municipal Finance Management Act of 2003 ("the MFMA")* and covers the financial year from 01 July 2023 to 30 June 2024.

The legal responsibilities of the Audit and Performance Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) read in conjunction with the National Treasury's MFMA Circular 65.

### <u>Audit and Performance Committee Members and attendance at meetings</u>

The Audit and Performance Committee comprises of five (5) independent, external members:
Mr RM Mbanjwa (Chairperson),
Mr G Simelane,
Mr M Khuzwayo,
Ms S Mhlongo, and
Prof TI Nzimakwe.

Audit and Performance Committee members were appointed for the period 27 August 2021 to 26 July 2024, and therefore, this has been the third financial year of this committee's term of office. However, Prof TI Nzimakwe and Ms S Mhlongo were appointed during the current financial year.

The committee is required to meet at least four (4) times per annum, as per the Audit and Performance Committee Charter and the MFMA. However, additional meetings may be called as the need arises. Members' attendance at the meetings for the 2023/24 financial year is listed below:

| Name | Ordinary Meeting | Special Meeting |
|---|---|---|
| Mr RM Mbanjwa | 4 | 4 |
| Mr G Simelane | 4 | 4 |
| Mr M Khuzwayo | 4 | 4 |
| Ms S Mhlongo | 3 | 3 |
| Prof TI Nzimakwe | 3 | 3 |

**<u>The following are standing invitees to the Audit and Performance Committee Meetings:</u>**

Representatives from Office of the Auditor-General (AGSA)
Representatives from KZN Provincial Treasury and COGTA

The Honourable Mayor

MPAC Chairperson
RMC Chairperson

Internal Audit Section

The Municipal Manager (MM)

The Chief Financial Officer (CFO)
Heads of Departments

PMS Manager
Legal Manager
Risk Manager

**<u>Audit and Performance Committee responsibility</u>**

*The Audit and Performance Committee has been set up in accordance with the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and operates within the provisions of the Audit and Performance Committee Charter, which was approved by the Council of the Ndwedwe Local Municipality.*

*Section 121(4)(g) of the Municipal Finance Management Act, No. 56 of 2003 also requires that the annual report must include any recommendations of the Municipality's Audit Committee.*

**In the conduct of its duties, the Audit and Performance Committee has performed the following statutory duties:**

***1. Reviewed internal financial control and internal audits***

*For the purposes of executing its statutory duties as contained in section 166(2)(a) of the MFMA as well as its mandate as set out in the Audit Charter, the Audit and Performance Committee relies on the work performed by the Internal Audit Unit which is mainly outsourced at Ndwedwe Local Municipality.*

The Audit and Performance Committee ("APC") reviewed and approved the risk-based Internal Audit Plan for the financial year ending 30 June 2024, as presented by the Internal Audit unit. The Audit and Performance Committee, at each meeting, assesses performance against the plan and reviews the plan to ensure that critical risks relating to the administration and operations of Ndwedwe Local Municipality are identified and addressed.

The Internal audit function has had various positive factors that assisted in improving the execution of the annual audit plan when compared to the previous financial year. These factors included:

- ❖ The timely approval of a risk-based Internal Audit Work Plan;
- ❖ The timely approval of the Municipality's Risk Register;

- ❖ Improvements by management in the submission of information required for review; and
- ❖ Commencement of the skill transfer between the external service provider and the in-house team.

As a result of the above, the Annual Audit Plan for 2023/24 was almost fully implemented, save for the budget cuts that necessitated the postponement of some of the projects scheduled for the last quarter of the financial year. This is a concern as the Municipality had fully implemented the audit plans of previous years and has therefore regressed in this regard.

The committee is pleased with the progress made by the Municipality in addressing the findings reported by the Auditor General in the 2021/22 financial year as all those findings were adequately resolved in time for the external (AGSA) annual audit. The material findings raised by the Auditor-General of South Africa during the 2022/23 annual audit were tracked during the year and the internal audit unit provided regular progress reports to the Audit and Performance Committee. These findings were:

- ❖ Material misstatements identified in the financial statements submitted for audit.
- ❖ Quotations accepted from bidders whose tax matters had not been declared to be in order with SARS; and
- ❖ New cases of unauthorised expenditure identified to the value of R15.9 million.

## *2. Risk Management*

The MFMA requires the accounting officer of the municipality to take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management and internal control. Accordingly, the committee is charged with a duty to advise Council, management and employees on matters relating to risk management.

The APC has confirmed through various engagements with management, and reports submitted to the APC, that the municipality currently does have a defined operational system and process for managing risk and the capacity to oversee risk management internally. Consequently, the risks that affect the municipality may be detected and addressed timeously to minimise exposure. The Municipality had an independent external Risk Management Committee Chairperson throughout the 2023/24 financial year.

The Audit and Performance Committee is satisfied that the Municipality does have an existing Risk Management Committee - with the Enterprise Risk Management Charter and Annual Implementation Plan of 2023/24, that were submitted to the APC for input and noting.
The Audit and Performance Committee was equally pleased to be given a report on the departmental risk registers within the Municipality, on a quarterly basis. This report evidenced that risks at the Municipality are being identified, assessed and mitigated – in line with the risk management standards.

The Annual Risk Assessment for the 2023/24 financial year was done by the Municipality with inputs from KZN Provincial Treasury and was incorporated in the Internal Audit Work Plan 2023/24.

The Risk Management Implementation Plan Review Report was presented quarterly by the Risk Management Committee (RMC) through its Chairperson at the Audit and Performance Committee meetings. It is pleasing to note that this report includes actions on Strategic, Operational, and Fraud risks. The Municipality maintains risk registers for all departments, and progress on these registers feeds into the quarterly review reports. With respect to fraud risk, it is important to mention that the Municipality enjoys the shared service of a fraud hotline, through the Ilembe District Municipality. The RMC appraised the APC quarterly on the functioning of the fraud hotline.

The Audit and Performance Committee is satisfied that relevant risks have been identified and assessed, and mitigating controls have also been identified for these risks. The internal audit function is responsible for assisting the Audit and Performance Committee with obtaining assurance as to the effectiveness of the mitigating controls.

### *3. Review of financial statements and Accounting Policies.*

The Audit and Performance Committee has the obligation to review the Municipality's Annual financial statements and provide the Council with an authoritative and credible view of the Municipality's financial position, performance and cashflow position. To do this, the Audit and Performance Committee relies on the work conducted by the Internal Auditors. The APC reviewed the draft 2023/24 financial statements before the 31 August submission deadline and raised numerous findings. These findings were addressed to the satisfaction of the APC before the financial statements were submitted to the Office of the Auditor-General. The APC reviewed the external audit scope as presented by the Office of the Auditor-General. The audit outcome from the AGSA for 30 June 2024 was presented to the APC. The Audit and Performance Committee reviewed the AGSA's audit report and the management report for the audit of the annual financial statements, performance information and compliance. The following observations were made by the APC:

- Management performed well, by assisting the Municipality to maintain the audit outcome of Unqualified opinion with findings;
- There were no material findings on the Usefulness and Reliability of the reported performance information; and
- Five material non-compliance findings were raised by the AG, which represents a regression from the previous year's (2022/23) four findings.

The audit outcome does represent a step in the wrong direction as the Municipality has seen a slight increase in the number of material compliance findings. The APC is hopeful that all stakeholders within the Municipality will work tirelessly to effectively implement the Audit Action Plan, so as to resolve all the material compliance findings during the 2024/25 financial year. In particular, it will be important that proper internal controls and a specialised action plan is implemented to prevent a repeat of any of these findings.

### *4. The adequacy, reliability and accuracy of financial reporting and information*

The Audit and Performance Committee is also required to advise Council on the adequacy, reliability and accuracy of financial reporting and information in accordance with S166 of the MFMA. Management submits S71 Reports at each quarterly meeting for review by the Audit and Performance Committee.

The S52 and S71 Report for all the quarters of the financial year were reviewed and interrogated by the APC. The year-end reports showed that the Municipality was in a stable financial position. Further to that, revenue for the year exceeded the budgeted amount while expenditure had a saving as at 30 June 2024. Management did struggle to provide some of the other legislative reports, such as Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) Registers, timeously at the quarterly APC meetings during the current financial period.

### *5. Performance Management*

The Audit and Performance Committee also serves as the Performance Audit Committee for Ndwedwe Local Municipality, as evident in the title of the Committee. The legal responsibilities of the Audit and Performance Committee in this regard are set out in terms of the Local Government: Municipal Planning and Performance Management Regulations 2001.

The Audit and Performance Committee is satisfied with municipality's performance for the year under review. In the performance assessment report for the financial year ended 30 June 2024, the Municipality achieved 131 out of the 147 targets. This means the Ndwedwe Local Municipality's overall performance was standing at an excellent, 89%. However, this represents a decrease from the previous year's 94% achievement of targets.

The Audit and Performance Committee is satisfied that Management is more than capable of improving on this high standard for the next financial year.

### *6. Effective Governance*

The Audit and Performance Committee fulfils an oversight role regarding the Municipality's reporting process, including the system of internal financial control. It is responsible for ensuring that the Municipality's internal audit function is independent and has the necessary resources, standing and authority within the Municipality to enable it to discharge its duties.
Furthermore, the Audit and Performance Committee oversees cooperation between the internal and external auditors and serves as a link between the Council and these functions.

The internal and external auditors have unlimited direct access to the Audit and Performance Committee. The Audit and Performance Committee is satisfied with the level of governance within the Municipality.

### *7. Compliance with Legislation and Ethics*

The Audit and Performance Committee is satisfied with the level of compliance with policies and procedures, to the Municipal Finance Management Act and National Treasury Regulations.

Nothing has come to the attention of the Audit and Performance Committee with regard to any matter impacting on the independence of the external auditors.

### *8. Conclusion*

The implementation and maintenance of proper systems of internal controls, risk management, the prevention of fraud and errors, safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are the responsibility of Council. The role of the Audit and Performance Committee is to monitor the efficiency of the procedures and mechanism which Council has put in place to ensure that its policies and procedures are adhered to.

We can report that, considering the exceptions noted, recommendations made above and based on the reports submitted to us, our overall impression is that the Municipality has slightly regressed in its performance and the administration should take strong steps to improve the Municipality’s audit outcome for the next financial year.

On behalf of the Audit and Performance Committee (APC)

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Mr RM Mbanjwa CA(SA), RA

APC Chairperson