

AUDIT AND PERFORMANCE COMMITTEE OVERSIGHT REPORT 30 JUNE 2023

Compiled by : **Audit and Performance Committee Chairperson**
Council : **28 July 2023**

1. PURPOSE (S)

- 1.1 The purpose of this submission is to submit and present the End Term Audit and Performance Committee Report as of 30 June 2023 for Council to note and adopt the recommendations made and the report.
- 1.2 The Audit and Performance Committee (“APC”) 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 period from 01 April 2023 to 30 June 2023.
- 1.3 The legal responsibilities of the Audit 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.

2. DISCUSSION

2.1 Audit and Performance Committee Members and attendance at meetings

The Audit and Performance Committee comprises of (three) 3 independent, external members:

Mr RM Mbanjwa (Chairperson),
Mr G Simelane, and
Mr M Khuzwayo.

The Audit and Performance Committee Chairperson has been invited and has attended two Ndwedwe Local Municipality MPAC Meetings, and one Council meeting during Quarter 4.

The Audit and Performance Committee is required to meet at least 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 is listed below:

Name	Ordinary Meeting	Special Meeting	Other Meeting
Mr RM Mbanjwa	1	1	N/A
Mr G Simelane	1	1	N/A
Mr M Khuzwayo	1	1	N/A

The Audit and Performance Committee held two (2) meetings in total during this quarter, as listed below:

- ❖ Normal APC – Q3 Reporting, 24 May 2023
- ❖ Special APC – 2022/23 APC and IA Charter Approval, 21 June 2023

The following are standing invitees to the Audit Committee Meetings.

- ❖ Representatives from Office of the Auditor-General (AGSA);
- ❖ Representatives from KZN Provincial Treasury and COGTA;
- ❖ The Honourable Speaker;
- ❖ The Honourable Mayor;
- ❖ Municipal Public Accounts Committee Chairperson (MPACC);
- ❖ Risk Management Committee Chairperson (RMCC);
- ❖ Finance Portfolio Chairperson (FPC);
- ❖ Internal Audit Section;
- ❖ The Municipal Manager (MM);
- ❖ The Chief Financial Officer (CFO);
- ❖ Heads of Departments; and
- ❖ PMS Manager

2.2 **Audit and Performance Committee responsibility**

The Audit 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 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:

2.3.1 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 Committee relies on the work performed by the Internal Audit Unit which is an external structure within Ndwedwe Local Municipality.

At each quarterly meeting the Audit and Performance Committee assesses performance against the Annual Internal Audit Plan and reviews the plan to ensure that critical risks relating to the administration and operations of Ndwedwe Local Municipality are identified and addressed.

For Quarter 4, the internal audit unit finalised the following key audits:

- Human Resource and Payroll Management Review
- Governance and Compliance Review
- Cyber Security Review
- Revenue and Debt Management Review
- Review Management Review
- Risk Management Q3 Review
- Supply Chain and Expenditure Management Review

It was pleasing to note that there were no high-risk findings raised by the internal auditors in the Governance and Compliance Review.

There were numerous critical findings raised by the internal auditors during the review of the Human Resource and Payroll Management function. These findings included:

- No evidence that job descriptions were prepared and approved;
- Inaccurate annual leave balances;
- Leave applications not supported by leave application forms;
- Screening of employees not conducted; and
- Information not furnished for audit (employee files).

Further to this, there were numerous critical findings raised by the internal auditors during the Cybersecurity Review. These findings included:

- No evidence of latest antivirus installed and exception report was not provided for audit purposes;
- Some hosts were running services which allow clear text over unencrypted channel;
- Private IP disclosure; and
- Cookie without secure flag.

During the review of Revenue and Debt Management, the internal auditors also raised some high-risk findings. These findings included:

- No evidence of the Credit Control and Debt Collection By-law;
- Lack of periodic review for the Tariff policy;
- Indigent Register not obtained for the review;
- Inadequacies noted within the Indigent policy;

- Debt management processes not implemented;
- The Municipality billed its own property;
- Discrepancies noted with the Clearance Certificate process; and
- Amount billed for rental properties does not agree to the amount on lease agreement.

During the Supply Chain and Expenditure Management review, the internal auditors only had two high-risk findings. These findings were:

- No evidence of verification of supplier's tax matters; and
- Inaccurate evaluation of bids.

The APC did note that none of these two findings result in UIFWE.

All the high-risk findings raised by the internal auditors require urgent corrective action as they point to risks in the internal control environment of the Municipality. The APC would like to urge Council to ensure that management takes urgent and effective corrective action on these matters.

From the review of the Performance Management System for Quarter 3, the following high-risk findings were noted:

- The Adjusted SDBIP was uploaded on the Municipal website later than 14 days;
- Inaccurate reasons provided for underperformance;
- Inaccurate reporting of achievements; and
- Late submission of performance agreement.

It is important that Council reiterates to the Executive the importance of accurate reporting of achievements and accurate record keeping of the relevant supporting documents. Further to that, information requested by the internal auditors should always be provided timeously, so as to facilitate the efficient completion of internal audit assignments.

The Audit and Performance Committee is pleased with the progress that the Municipality was able to make in addressing the findings reported by the Auditor General in the prior year (2021/22). The most significant finding arising from the Auditor-General's 2021/22 audit is the following:

- The investigation of all cases of unauthorised, irregular, fruitless and wasteful expenditure identified in previous years.

It is important that the Municipality makes significant progress in the resolution of this finding during the 2022/23 financial period, as it is a repeat finding for the 2021/22 financial period. The APC noted the progress being made by MPAC in assisting Council with this task, and will continue to support MPAC when required.

The Internal Audit Unit also presented the following policy documents for the review and recommendation by the APC:

- Audit and Performance Committee Charter 2023/24; and
- Internal Audit Charter 2023/24.

As at the end of Quarter 4, the spending of the internal audit unit was still within the budgeted amount for the year.

2.3.2 Reviewed Risk Management matters

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 Audit and Performance Committee is charged with a duty to advise Council, Management and Employees on matters relating to risk management.

The Audit and Performance Committee has confirmed, through various engagements with management, 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 Risk Management Committee, through its Chairperson, submitted the following reports to the Audit and Performance Committee for noting:

- Risk Management Activities Report Q3 (FYE 2022/23).

The report showed the following overall achievement for the implementation of Action Plans:

- All Top risks identified: 71.43%.

This percentage was mainly due to two departments, being Economic Development with 42.86% and Office of the Municipal Manager with 57.14%.

The Audit and Performance Committee is pleased with the consistent reporting on the departmental risk registers within the Municipality. This report evidenced that risks at the Municipality are being identified, assessed, and mitigated – in line with best practice.

The internal audit function is responsible for assisting the Audit and Performance Committee with obtaining assurance as to the effectiveness of the mitigating controls.

2.4 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. For the Quarter under consideration, there were no reports in relation

to financial statements. It is not the practise of the Municipality to prepare interim financial statements.

2.5 The adequacy, reliability and accuracy of financial reporting and information

2.5.1 *In year financial reporting*

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 meeting for review by the Audit and Performance Committee. The S52 and S71 Reports for Quarter 3 of FYE 2022/23 were presented to the Committee.

The Third-Quarter Budget and Performance Assessment revealed that the Municipality was in a stable financial position. Revenue exceeded the budgeted amount by R50,1m while expenditure was below the budget by R2,7m as at 31 March 2023. This translates to an operating surplus of R52,9m. The main reasons for this positive variance were noted to be the following:

- ❖ Over-recognition of Property rates by R3,7m; and
- ❖ Grants to the value of R47,6m being received earlier than initially anticipated.

The Finance Department also presented its Annual Financial Statement Preparation Plan for the upcoming AGSA annual external audit. It is pleasing to note that the department does have a plan in place, and the APC will provide the necessary oversight with respect to the implementation of this Plan. The APC urges all parties within the Municipality to play their role in terms of the effective implementation of the Plan, so as to ensure a smooth and successful external audit.

2.5.2 *Performance Management*

The Audit and Performance Committee also serves as the Performance Audit Committee for Ndwedwe Local Municipality. 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 reasonably satisfied with the Municipality's progress and performance in this regard. The performance assessment report for Quarter 3 of the 2023 financial year, showed that out of 85 targets, the Municipality was able to achieve 77 targets while 8 targets were reported as not achieved. This means the Ndwedwe Local Municipality overall performance was standing at a very good 91%. The Community Services department had the lowest score – at 73%.

The root causes of the 8 targets not met were mainly relating to the timing of the occurrence or completion of projects or events. The department seems to have miscalculated in numerous instances when setting the targets. More emphasis should be placed on ensuring that the SMART criteria is adhered to when setting targets at the beginning of the financial year.

2.5.3 *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.

2.5.4 *Compliance with Legislation and Ethics*

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

3. ATTACHMENTS

3.1 None

4. LEGAL IMPLICATION (S)

Compliance with Legislation and Ethics

The Municipal Finance Management Act and National Treasury Regulations.

5. FINANCIAL IMPLICATION (S)

None

6. CONCLUSION

The implementation and maintenance of proper systems of internal control, risk management, the prevention of fraud and error, 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 below and based on the reports submitted to us, our overall impression is that the Municipality is adhering to clean and effective governance.

7. RECOMMENDATION (S)

- 7.1 The adequacy, reliability and accuracy of financial reporting and information be noted by the Council;
- 7.2 That, through the Council's leadership and oversight, the MPAC is supported to make substantial progress in investigating previous cases of Unauthorised, Irregular, Fruitless and Wasteful Expenditure;
- 7.3 That, through the Council's leadership and direction, the Management ensures that Internal Audit continues to conduct the internal audit reviews;
- 7.4 That the Council continue to hold Management accountable for the strict monitoring of controls over performance management, financial management and reporting; and
- 7.5 That the Council must continue to exercise good governance through compliance with laws and regulations, and excellent service delivery.

On behalf of the Audit and Performance Committee



Mr RM Mbanjwa
APC Chairperson
25 July 2023