29 February 2024

2023/24 Ageing and Inadequate Roads and Stormwater Review

Final Internal Audit Report

Swellendam Municipality
Internal Audit Services

Audit Ref. 2023/24 – 012

F. Coetzee
CHIEF AUDIT EXECUTIVE
(OVERBERG DISTRICT MUNICIPALITY)

This Engagement Conforms with the International Standards for the Professional Practice of Internal Auditing.

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Ms. A Vorster
Municipal Manager
Swellendam Municipality

Dear Ms. Vorster

We have pleasure in submitting our final audit report, presenting internal audit findings and recommendations; contributing to the maturity of the control framework to increase business efficiency and effectiveness.

The results of the audit, which is presented to management is aimed at providing assurance that risk treatments covered in the audit, are adequate and effective to contribute to the management of the risks impacting management's objectives.

Please take note that this report has been prepared solely for the management of Swellendam Municipality. We do not accept any responsibility to any third party to whom the contents may be disclosed or who at their own accord may decide to rely on it as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the inputs and assistance from Management and would be pleased to provide you with any further assistance and requests that you have. Please do not hesitate to contact the Internal Audit Activity.

INDEPENDANCE

The Internal Audit Activity of the Swellendam Municipality certifies that, we are in all respects independent, and seen as being independent, with regard to the auditing of *Ageing and Inadequate Roads and Stormwater* Review of the Municipality.

Yours sincerely,

Mr. F. Coetzee
CHIEF AUDIT EXECUTIVE
Date: 29 February 2024

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

In accordance with the approved 2023/24 Risk-Based Internal Audit Three-year Strategy Plan Internal Audit is required to perform an audit engagement on the Ageing and Inadequate Roads and Stormwater processes of the municipality.

1.2 BACKGROUND INFORMATION

Internal Audit reviewed the roads and stormwater infrastructure services processes, with specific emphasis on the governance and control processes for the period 1 July 2023 – 31 January 2024.

The responsibility of the roads and stormwater infrastructure services forms part of the Directorate: Infrastructure Services and are mainly responsible to manage the provision and maintenance of the services to enhance service delivery on roads and stormwater to the community.

Many municipalities and regions face challenges related to ageing infrastructure, leading to issues such as deteriorating roads, inadequate stormwater management, and potential risks to public safety. In addition, the municipality may face challenges which are:

- Meeting compliance requirements
- Outdated design specifications, ageing and changing traffic patterns leading to deterioration of roads.
- Funding constraint

The objective and functions of the Roads and Stormwater Infrastructure Services include:

- Manage the construction, repairing and maintenance of roads and streets, road paving, kerbing, sidewalks, storm water and lead water irrigation maintenance.
- Manage the lead water irrigation system
- Manage the provisioning and maintaining of civil engineering services

1.3 PURPOSE, SCOPE AND APPROACH

The purpose of this review was to evaluate the adequacy and effectiveness of existing controls and provide reasonable assurance that the internal controls governing the Road and Stormwater Infrastructure Services processes are adequate, appropriate, and operating effectively and efficiently.

Our scope will include:
The review will cover the period 1July 2023 – 31 January 2024 and be based on the objectives outlined below.

Our approach will include:

- Review of compliance with policies, procedures, plans, laws, regulations and best practices.
- Review of the roads and stormwater control environment
- Accomplishment of objectives/ goals and efficiency of operations.
- Credibility of maintenance plans (if any).
- Allocation of grant funding for maintenance and repairs
- Review the maintenance plan(s) adopted by the municipality for roads and stormwater
- Review the master plan(s) adopted by the municipality for roads and stormwater
- Review the adopted of the EPWP program especially placing focus on roads and stormwater
- Review the Pavement Management System (PRAMS) adopted by the municipality

Engagement procedures and sampling will be performed in terms of the approved Internal Audit approach and methodology.

1.4 AUDIT TEAM

Audit Team	Name	Position
Internal Audit Unit of Swellendam Municipality	Mr. Flippie Coetzee	Chief Audit Executive *(ODM-Review purpose only)*
	Mr. Ashwin Petersen	Senior Internal Auditor
	Mr. Herschelle Swart	Internal Auditor
	Ms. Mariska Vermeulen	Internal Audit: Intern

1.5 MANAGEMENT'S RESPONSIBILITY IN TERMS OF INTERNAL CONTROL

Management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations and processes of Swellendam Municipality in a manner that provides the Council reasonable assurance that those risks are being managed and objectives being met. Implementing internal controls is a function of management and is an integral part of the overall proçess of managing operations.

Internal Control	Fraud & Error
Internal Control can be defined as a process effected by management to provide reasonable assurance relating to: - Operational Controls - Internal Financial Controls - Compliance Controls The general purpose of an audit is to provide information about the adequacy and effectiveness of the system of internal control, risk management and governance.	Audit procedures alone, even when carried out with due professional care, does not guarantee that fraud would be detected because of the inherent limitations of an audit. Management's attention is also drawn to the fact that inherent limitations exist in the reliance on internal controls and procedures as errors and lapses in control result from staff carelessness, misunderstanding of instructions, collusion between individuals and management override.

1.6 INTERNAL AUDIT OPINION

Based on the findings of the independent review and information obtained, Internal Audit is of the opinion that the Municipality's road and stormwater infrastructure services are operating effectively. However, Internal Audit noted during the independent review that the position of the Director Infrastructure Services is still vacant and no formal policy pertaining to roads and stormwater has been developed.

Internal Audit is required to express an opinion on the adequacy and effectiveness on the governance, risk management and control processes of the roads and stormwater processes.

Governance – The standard operating procedures of roads and stormwater are being followed in order to ensure good governance. Internal Audit is also of the opinion that the standard operating procedures was last reviewed respectively in 2017 and 2018 and no formal policies are in place.

Risk Management – Internal Audit is of the opinion that the that risk relating to ageing and inadequate roads and stormwater is adequately reviewed, considered and discussed during risk management processes. The vacancy of the Director: Infrastructure Services is a critical position to the municipality as it serves as a strategic force for strategic planning, regulatory compliance, accountability and also its ability to meet the needs of the community it serves. However, the vacant position of the Director: Infrastructure Services was documented in the governance review conducted.

Control Processes – With regards to audit procedures that were performed, Internal Audit is of the opinion that the controls in place are functioning effectively.

1.7 REPORTING FRAMEWORK

The findings identified have been broadly categorized into:

Rating	Suggested Management Action
Critical	Significant control weaknesses requiring immediate management action
Significant	Control weaknesses that are regarded as serious and require management action within a short period of time
Housekeeping	These control weaknesses do not represent a significant risk to the control environment and can normally be corrected at a minimal cost. The correction of these control weaknesses will have the effect of an improved control environment
Positive	No action needed. Management made progress in control environment

In order to assist management with allocation of resources to address the weaknesses and improve internal control, we have assigned subjective ratings to each of our recommendations. These ratings are for guidance purposes only and management must evaluate them in the light of their own experience and risk appetite.

Individual ratings do not necessarily take into account the effect compensating controls or control weaknesses in other areas. Therefore, individual ratings should not be considered in isolation and their effect on other objectives and area also be considered.

1.8 Objectives and Summary of Results

Summary of Results	Rating of Finding
1. **Recording of complaints pertaining to roads and stormwater** *The municipality has implemented a streamlined process for logging and addressing complaints regarding roads and stormwater issues.*	Positive
2. **Inadequate review of the Standard Operating Procedures** *See detailed finding below.*	Housekeeping

2. DETAILED AUDIT FINDINGS

2.1. Inadequate review of Standard Operating Procedures

Housekeeping

Criteria

The municipality's governance and risk management are contingent on the regular review of key strategic documents. In addition, the foundation of effective governance and risk management control process in the municipality relies on the regular review and update of crucial strategic documentation. Documented Standard Operating Procedures are a guide and good training tool for newly appointed employees, enforce consistency when performing tasks, and add significant value to the business continuity. In addition, to save time figuring out processes, written SOP`s provides guidance and thus reduce the likelihood of mistakes and improve employee efficiency.

Condition

While conducting the review Internal Audit noted that various written standard operating procedures were outdated and were not regular reviewed. See table below for more detail on the outdated SOP`s.

Name of document	Last review date
Pipe burst	6 December 2018
Pothole Repair	6 December 2018
Stormwater Blockage	24 November 2017

Root Cause

- Change in administration
- Lack of oversight and inadequate monitoring
- Limited resources

Impact/Effect

- Failure to regularly review and update standard operating procedure documents increases the likelihood of gaps in assurance coverage, inadequate preparedness for disruptions, and ineffective consequence management.
- Outdated standard operating procedures may create confusion among employees leading to inconsistent processes and procedures being followed.

No	Audit Recommendation	Management Agreed Action	Responsibility and Status
1	It is recommended that the Standard Operating Procedures (SOP's) be reviewed in order to be aligned with the current organisational processes. In addition, management should consider implementing a management review process where all standard operating procedures and/or strategic documents are being reviewed on a regular basis.	*The relevant SOP's will be amended/reviewed on a as and when needed basis, since the methodology and method statement stays constant.*	**Responsible Person:** Manager: Roads and Stormwater/ Senior Manager: Civil Engineering Services **Due Date:** 30 June 2024

Closing Comments: Chief Audit Executive

Management's Response is noted and accepted. Corrective action will be followed up.

3. RE-ASSESSMENT OF KEY RISK

Risk	Pre-audit Inherent Risk Rating	Risk Treatment / Current control processes	Post Audit Inherent Risk Rating	Executive Summary Findings	Post Audit Residual Risk Rating
Ageing Roads and Stormwater infrastructure	(70) High	• Use of EPWP programme • Pavement Management System (RRAMS) detailing roads requiring urgent maintenance.	(70) High	Based on the review conducted, internal audit is of the opinion the that control for Roads and Stormwater pertaining to the SOP's is not aligned with the current organisational processes due to the fact that it was last reviewed respectively in 2017 and 2018.	(52.5) High
Failure to meet the strategic objectives of the municipality and execution of budget commitments.	**(49) Medium**	• Budget control (monthly vs budget reports) • Procurement Plan approved with budget SCM SOP's	**(49) Medium**		**(36.75) Medium**

Risk Appetite Statement:

The post audit risk rating of the risk is above the risk appetite of **40** as per the risk appetite statement in the 2023/24 Risk Management Policy and additional measures are needed to address the issues raised. Management is responsible for implementing controls to manage risks.

4. DISTRIBUTION LIST

This report has been prepared for the sole and exclusive use of Swellendam Municipality. Therefore, it may not be made available to anyone other than authorised persons within the municipality, or relied upon by any third party. No part of this work may be reproduced or transmitted in any form by any means, electronic or mechanical, including photocopying and recording, or by information storage or retrieval system except as permitted, in writing by Swellendam Municipality.

No	Key Strategic Official(s)	Name	To Take Action	Secure Action	For Information & oversight
1.	Audit and Performance Committee	Audit and Performance Committee Members			✓
2.	Auditor-General of South Africa (ASGA)	Auditor-General of South Africa (ASGA)			✓
3.	Accounting Officer	Ms. A Vorster		✓	✓
4.	Director: Financial Services	Ms. E Wasserman			✓
5.	Director: Community Services	Mr. K Stuurman			✓
6.	Director: Infrastructure Services	VACANT			
7.	Performance and Compliance Officer	Mr. Z. Wiese			✓

5. ACCEPTANCE OF INTERNAL AUDIT REPORT

We agree to the audit findings and recommendations made and hereby accept the abovementioned report.

Mr. B. Burger
Manager: Roads and Stormwater

Comments: None.

Mr. W. Treurnicht
Senior Manager Civil Engineering / Acting Director Infrastructure Services

Comments:

Ms. A. Vorster
Municipal Manager

Comments: