

30 April 2024

# 2023/24 3rd Quarter Performance Management (SDBIP) Review **Final Internal Audit Report**



**Swellendam Municipality  
Internal Audit Services**

Audit Ref. 2023/24 – 014

**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 the pleasure of 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 are 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 Mr. A Petersen.

#### **INDEPENDENCE**

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 the 3<sup>rd</sup> quarter (1 January 2024 – 31 March 2024) Performance Management Review of the Municipality.

Yours sincerely,



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**Mr. F. Coetzee**  
**CHIEF AUDIT EXECUTIVE**  
**Date: 30 April 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 quarterly audits on the Performance Management processes of the municipality.

### **1.2 BACKGROUND INFORMATION**

Internal Audit subsequently reviewed the 2023/24 Performance Management processes, with specific emphasis on the Service Delivery and Budget Implementation Plan (SDBIP) for the 3rd quarter (1 January 2024 – 31 March 2024).

Section 45 of the Municipal Systems Act, 2000 (MSA) requires that the results of performance measurements, be audited as part of the Municipality's Internal Auditing processes. In terms of Regulation 14 (1) of the Municipal Planning and Performance Management Regulations, 2001, of the Systems Act, it is the Municipality's responsibility to develop and implement mechanisms, systems, and processes for auditing the results of the performance measurements, as part of its internal audit processes.

In addition, the Municipal Finance and Management Act No 56 of 2003, Section 165(2) (b) (v) requires that the Internal Audit Unit of a Municipality, report to the Audit and Performance Audit Committee (APAC) matters relating to Performance Management.

#### **The Performance Management System at Swellendam Municipality**

National and Provincial governments have placed considerable focus on this area by issuing legislation to guide local governments in the implementation and monitoring of performance management systems. Accordingly, performance management is an important process in the operations of the Swellendam Municipality as it is one of the strategic measures to monitor performance and the achievement of service delivery initiatives.

The Performance Management Unit is situated in the Office of the Municipal Manager. The unit is primarily guided by the Municipal Systems Act; the Performance Management Regulations as well as the Council-approved Performance Management Framework. All operational and compliance procedures for Performance Management have been implemented and no significant concerns were identified by Internal Audit except for the vacant position of the Performance Officer.

#### **Overview of the Performance Management**

The 2023/24 SDBIP consists of forty-nine (49) KPIs of which only twenty-three (23) had targets. Therefore, only twenty-three (23) KPI's could be tested. Internal Audit reviewed the reliability and validity of the abovementioned Performance Information.

### 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 Performance Management processes are adequate, appropriate, and operating effectively and efficiently.

Our scope will include:

- The review of the actuals reported on the Top layer SDBIP for the period 1 January 2024 – 31 March 2024 and the Municipal System Act (MSA) legislation regarding the performance management processes.

Our approach will include:

- Testing the Reliability; Validity and Accuracy of Performance Information;
- Test Completeness of Portfolio of Evidence (POE) files; and
- Discussion of the highlighted findings with management.

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 to control the operations and processes of Swellendam Municipality in a manner that provides the Council reasonable assurance that those risks are being managed and objectives should be met. Implementing internal controls is a function of management and is an integral part of the overall process of managing operations.

| Internal Control                                                                                                                                                                                                                                                                                                                                                                                                                             | Fraud & Error                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Internal Control can be defined as a process effected by management to provide reasonable assurance relating to:</p> <ul style="list-style-type: none"><li>- Operational Controls</li><li>- Internal Financial Controls</li><li>- Compliance Controls</li></ul> <p>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.</p> | <p>Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud would be detected because of the inherent limitations of an audit.</p> <p>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.</p> |

### 1.6 INTERNAL AUDIT OPINION

From the independent review conducted and evidence obtained, Internal Audit is of the opinion that the Swellendam Municipality's Performance Management (PM) function is a well-established, structured, and functioning system that functions in accordance with the legislative requirements and as intended, according to Internal Audit's (IA) assessment based on the evidence gathered during the review.

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

**Governance** – The Performance Management Policy Framework (PMPF) together with the Municipal Finance Management Act (MFMA), Municipal Systems Act (MSA), and the other relevant policies and procedures are instituted and followed to ensure good governance within the Performance Management Processes.

**Risk Management** – This office is also of the opinion that risk relating to Performance Management is adequately reviewed, considered, and discussed during risk management processes.

**Control Processes** – With regards to audit procedures that were performed, Internal Audit is of the opinion that the controls in place are adequate to provide reasonable assurance that the risks are managed effectively. However, ongoing monitoring should be done for underperformance KPIs to ensure that these KPIs are met.

## 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 is needed. Management made progress in control environment                                                                                                                                                                        |

In order to assist management with the 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.

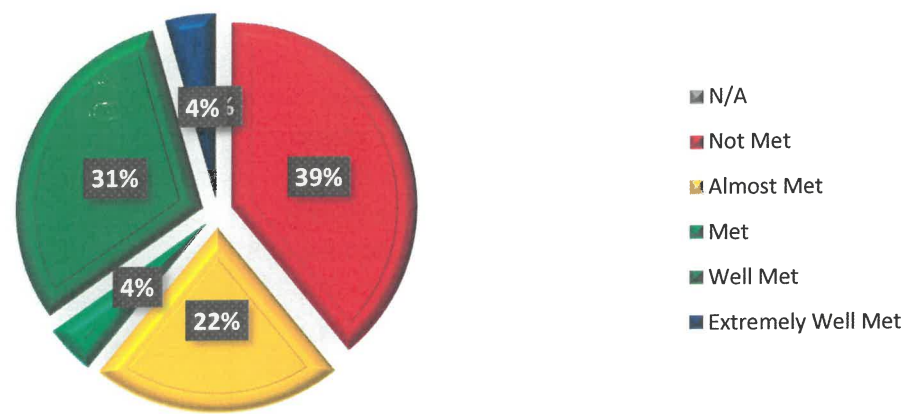
Individual ratings do not necessarily take into account the effect of compensating controls or control weaknesses in other areas. Therefore, individual ratings should not be considered in isolation and their effect on other objectives and areas also be considered.

1.8 SUMMARY OF RESULTS

| Summary of Results                                                                                                                                                          | Rating of Finding |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>1. <u>Inadequate corrective measure provided for underperformed Key Performance Indicator</u></b><br>KPI for TL 42 was not met and no corrective measures were provided. | Housekeeping      |

Overall actual performance of indicators for the period 01 January 2024 – 31 March 2024

Third Quarter Actual Performance



A negative combined result of the 23 applicable KPIs for the Quarter 3 period as in the category of "met", "well met" and "extremely well met" was 9 out of 23 KPI's which is 39,1%. In the category of "almost met" and "not met" were 14 out of 23 KPIs with 60,9% underperformance.

## 2. ROOM FOR IMPROVEMENT

| Matter Raised                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Recommendation                                                                                                                                                                                                                                                                                                                                                              | Management Comments                                                                        | Responsible Official & Due Date                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| <p><b>2.1 Inadequate corrective measure provided for underperformed Key Performance Indicator</b></p> <p>In terms of Section 13(2) of the Municipal Planning and Performance Management Regulations, 2001, the Mechanisms, systems, and processes for monitoring in terms of sub-regulation (1) must (c) provide for corrective measures where underperformance has been identified.</p> <p>Internal Audit noted that the KPI for TL 42 was not met and no corrective measures were provided to ensure that the KPI would be met.</p> | <p>It is recommended that for underperformed key performance indicator(s), corrective measures must be provided for the respective KPIs. In addition, the Performance and Compliance Officer should review the corrective measure(s) for underperformed KPIs and address and/or communicate any unclear/ no corrective measures provided with the respective KPI owner.</p> | <p>It was corrected before submission to the Council. Proof of evidence was submitted.</p> | <p>Performance Management Officer</p> <p><b>Due Date:</b><br/>ASAP</p> |

## 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 |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------|---------------------------------|
| Credibility and Alignment of IDP, Budget, PMS, and SDBIP, and its associated processes (including quarterly reporting). | (18) Low                       | <ul style="list-style-type: none"> <li>Planning cycle and process plan.</li> <li>Internal Monitoring</li> <li>Public participation</li> <li>PMS system in place</li> <li>Compliance module</li> <li>Alignment to District, Provincial, and National structures.</li> </ul> | (8) Low                         | During the review, internal audit noted that no corrective measures were provided for TL 42. | Low                             |



| Risk                                                            | Pre-audit<br>Inherent Risk<br>Rating | Risk Treatment / Current<br>Control Processes                                                                                                                                                                                                                                                                                                                               | Post Audit<br>Inherent Risk<br>Rating | Executive Summary<br>Findings | Post Audit<br>Residual Risk<br>Rating |
|-----------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
| Implementation of Individual performance management system.     | 16 (Low)                             | <ul style="list-style-type: none"> <li>Quarterly monitoring of performance</li> <li>Implemented system at the 3 highest post levels</li> <li>Until Post level T12</li> <li>Signed performance agreements for senior managers and plans in place for managers reporting to SM</li> <li>Electronic system implemented</li> <li>Bi-annual assessment of performance</li> </ul> | 16 (Low)                              |                               |                                       |
| Lack of timely update of all systems (User Departments) system. | (35) Low                             | <ul style="list-style-type: none"> <li>SOPs / System descriptions</li> <li>Implemented system for Top Management Signed performance agreements for senior managers.</li> <li>Electronic system implemented.</li> <li>Quarterly monitoring of performance. Bi-annual assessment of performance.</li> </ul>                                                                   | (35) Low                              |                               |                                       |

#### Risk Appetite Statement:

The post-audit risk rating of the risk is below the risk appetite of 40 as per the risk appetite statement in the 2023/24 Risk Management Policy and no additional measures are needed to address the issue.

#### 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 organization 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.



**Ms. A Vorster**  
**Municipal Manager**

Comments: Please note that PMS to lowest level has still not been cascaded.



**Mr. Z. Wiese**  
**Performance and Compliance Officer**

Comments:

- (i) Performance Agreement session was held with all departments. Progress is and will be reported to the MM on an ongoing basis.
- (ii) A control deficiency was also communicated to internal audit regarding the job description of the Performance and Compliance Officer.