A Diffenaar

2023/2024

Audit & Performance Audit Committee Annual (including Quarter 4) Performance Report

1. Introduction

Section 166 of the Municipal Finance Management Act No. 56 of 2003, requires every Municipality to establish and maintain an Audit Committee. The independent Audit Committee must advise the Municipal Council, the political office-bearers, the Accounting Officer, and the management staff of the municipality relating to matters stipulated under the Municipal Finance Management Act section 166.

The Audit and Performance Audit Committee (APAC) of the Swellendam Municipality (hereafter referred to as *the Committee*) is well established and functioning as required. All the members of the Audit Committee are also members of the Performance Audit Committee. The committee met 5 times during the 2023/2024 financial year.

2. APAC Members and Attendance:

Members	Capacity	Dates of Meetings attended
Mr. A Dippenaar	Chairperson	31 August 2023 15 September 2023 (Special Meeting) 11 December 2023 16 April 2024 26 June 2024
Mr. R Rhoda	Member	31 August 2023 15 September 2023 (Special Meeting) 16 April 2024 26 June 2024
Adv. N Hendricks	Member	31 August 2023 15 September 2023 (Special Meeting) 11 December 2023
Mr. P Silbernagl	Member	15 September 2023 (Special Meeting) 16 April 2024 26 June 2024
Mr. Prof. N. Olivier	Member	16 April 2024 26 June 2024

The abovementioned meetings were well attended by the Accounting Officer and the other Executive Management team members. Furthermore, Adv. Hendricks' tenure concluded on 31 January 2024, and Mr. Silbernagl was subsequently reappointed to the Audit and Performance Audit Committee. Additionally, two new members, Professor Olivier and Ms. Talmakkies, were appointed on 01 March 2024, and 01 July 2024, respectively.

3. Executive Summary

Based on the reports submitted and reviewed by the Audit and Performance Audit Committee, the following observations were made in accordance with the requirements of Section 166 of the Municipal Finance Management Act No. 56 of 2003:

1st Line of Assurance	2nd Line of Assurance	3rd Line of Assurance
Governance	Performance Management	External Audit
Internal Control	Compliance Management	Internal Audit
Finance/ Financial Information	Risk Management	

ICT Services	

Legend

	Provides Assurance
	Provides Limited/ Some Assurance
	Provides No Assurance

(a) Governance

In terms of the Governance processes and structures adopted by the Municipality, it is imperative to note that the municipality is currently undergoing organisational restructuring. However, the municipality is challenged with capacity, staffing, and funding constraints.

As part of the approved 2023/24 Internal Audit Three-Year Rolling Strategic Plan for the period from 1 July 2023 to 30 June 2026, the Internal Audit function conducted a Governance review encompassing the entire municipal environment. The Audit and Performance Audit Committee is pleased to report that most governance structures within the Municipality are established and functional.

(b) Internal Controls

Internal control is the system of measures and directives designed to provide cost-effective assurance that assets are safeguarded, liabilities and working capital are efficiently managed, and the municipality fulfills its mandate in compliance with all relevant statutory and governance duties and requirements.

The Audit and Performance Audit Committee has diligently assessed the Internal Audit engagement reports submitted by the Internal Audit function. Based on these reports, the Audit and Performance Audit Committee acknowledges the presence of substantial internal controls while also noting specific control deficiencies. As part of its oversight responsibility, the Audit and Performance Audit Committee will closely monitor the progress made by Management in enhancing the internal control framework within the municipality.

(c) Finance/ Financial Information

During the quarterly Audit and Performance Audit Committee meetings, the following Financial In-Year reports were submitted for advice and input:

- Section 71
- Section 52 and
- Supply Chain Management Quarterly Implementation Report
- Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFW)

The Chief Financial Officer reported on matters concerning fraud, unauthorised, irregular, fruitless, and wasteful expenditure. Additionally, the Chief Financial Officer presented the 2022/2023 Auditor General South Africa (AGSA) Audit and Management reports to the Audit and Performance Audit Committee. Moreover, the Accounting Officer presented the 2022/2023 Annual Report and conveyed it to the Audit and Performance Audit Committee for review and comment.

The Chairperson of the Audit and Performance Audit Committee also attended meetings with the Auditor-General South Africa, alongside Internal Audit and the Executive Municipal Management Team. During these meetings, the audit progress and the findings identified during the execution process were discussed.

(d) Information and Communication Technology (ICT)

Information and Communication Technology is a rapidly advancing discipline within the public sector, and management should allocate sufficient resources to the effective functioning of the ICT environment.

The municipality has been without an Information and Communication Technology Manager for the entire 2023/24 financial year. Although the position was advertised and the recruitment process initiated, the successful applicant ultimately declined the offer, necessitating a restart of the recruitment and selection process to identify a suitable candidate for this vacancy. Meanwhile, the municipality has outsourced all Information and Communication Technology functions and responsibilities to an external supplier.

(e) Performance Management and Compliance Requirements

In terms of Section 14(4) (a) of the Regulations the Audit and Performance Audit Committee has the responsibility to:

- Review the quarterly reports produced and submitted by the Internal Audit process;
- Review the municipality's performance management system and make recommendations in this regard to the Municipal Council; and
- At least twice during each financial year submit a performance audit report to the council of the municipality.

The municipality has been without a Performance and Compliance Officer since July 2024 due to the resignation of the previous incumbent. A new Performance and Compliance Officer was appointed on 05 February 2024 and will be solely responsible for overseeing performance and compliance. With the appointment of the Performance and Compliance Officer, the municipality now operates in a more stabilised performance and compliance environment, in accordance with the Municipal Finance Management Act and the reporting of performance management information.

As part of the approved 2023/24 annual operational plan, the Internal Audit function conducted a Compliance review, communicating all identified discrepancies to the Audit and Performance Audit Committee during quarterly meetings.

(f) Risk Management

The Audit and Performance Audit Committee has assessed the risk management processes implemented by management during the financial year and is satisfied with the progress achieved in integrating risk management throughout the municipality. At its meeting, Internal Audit furnished the Audit and Performance Audit Committee with a comprehensive update on the municipality's risk management activities. In addition, the Audit and Performance Audit Committee undertook a thorough review of the following documents pertaining to risk management:

- Strategic and Operational Risk Register
- Quarterly Fraud and Risk Management Committee Chairpersons Report
- Fraud and Risk Management Committee Meeting Minutes
- Combined Assurance Plan
- Risk Management Strategic documentation

The Internal Audit function previously held primary responsibility for risk management. However, following a recommendation from the Audit and Performance Audit Committee, the risk management function has been transferred to the Performance and Compliance Officer, overseen ultimately by the Accounting Officer. This transition took effect on 01 July 2024, with Internal Audit assuming an independent oversight role in the risk management process.

(g) External Audit (Auditor-General of South Africa)

The Management Report for the 2022/23 financial year was submitted to the Audit and Performance Audit Committee for review and input. During the 4th quarter Audit and Performance Audit Committee meeting, the Operational Corrective Action Report (OPCAR) was presented and comprehensively discussed.

(h) Internal Audit

The Swellendam Municipality has an in-house Internal Audit function. The structure of the function makes provision for the following posts, namely: Chief Audit Executive (1 post: Vacant), Senior Internal Auditor (1 post: Filled), Internal Auditor (1 Post: Filled) and Internal Audit Intern (1 post: Contract Terminated 30 June 2024). Currently, the structure has one vacant position, that of Chief Audit Executive, and the Internal Audit Intern position will also be vacant as of 01 July 2024.

In terms of the approved 2023/24 Internal Audit Three-Year Rolling Strategic Plan for the period from 1 July 2023 to 30 June 2026 and the annual operational plan, the following audit engagements were conducted and submitted to the Audit and Performance Audit Committee during the quarterly meetings:

Assurance Engagements:

- 2022/2023 Annual Stock Count Review
- 2022/2023 Compliance review
- 2022/2023 Annual Performance Management (SDBIP) Review
- 2022/2023 Annual Financial Statements (AFS) High-Level Review
- Internal Audit Follow-Up Review (for every quarter)
- 2023/24 1st Quarter SDBIP Performance Review
- Governance Review
- 2023/24 2nd Quarter SDBIP Performance Review
- 2023/2024 Ageing and Inadequate Roads and Stormwater Review
- SCM Compliance and Procurement Review
- Risk Management Review
- 2023/24 3rd Quarter SDBIP Performance Review
- Land Invasions & Erection of Illegal Structures Review
- Internal Quality Assurance Review

Other Engagements:

- Ongoing Risk Management Support
- Ongoing Management Support (if and when needed)
- Asset Verification (on behalf of the Auditor-General South Africa)

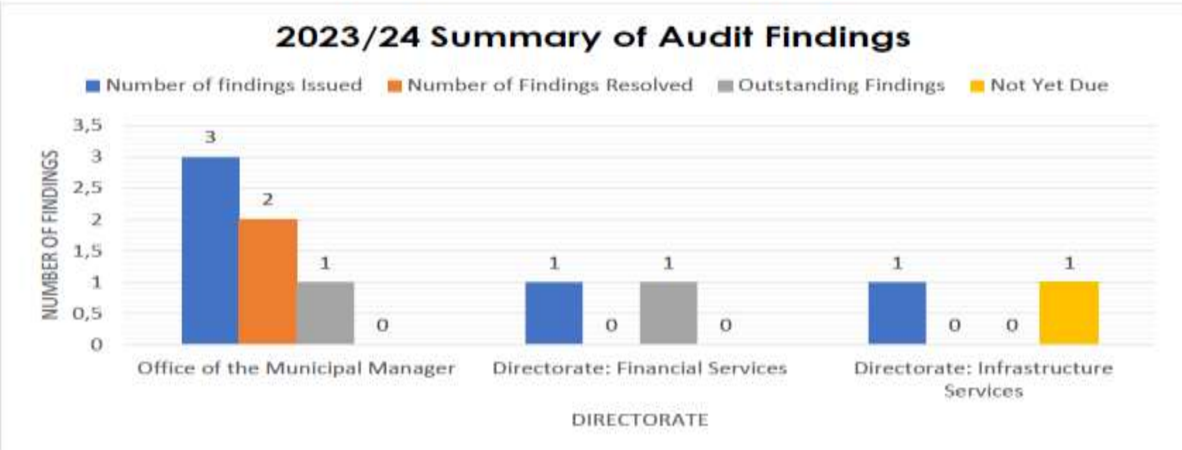
Ad Hoc Activities:

- Investigation of Electrical Metering: Properties on Abelia Street and Sneeuvlokkies Street in Swellendam
- Investigation of Duplicate Order Collection at SSK
- Investigation of Requisition Books and Goods Receive Notes for Completeness and Accuracy purposes

Follow-Up Audit Engagements:

Internal Audit conducts quarterly follow-up audit engagements and presents comprehensive follow-up reports to the Audit and Performance Audit Committee.

<u>2023/24 Financial Year</u>



From the graph above, it is clear that three audit reports were issued with findings within the directorates of:

- Office of the Municipal Manager: Compliance Review
- Office of the Municipal Manager: Governance Review
- Directorate: Infrastructure Services: Ageing and Inadequate Roads and Stormwater Review

***This excludes the quarterly performance management reports for the 2023/24 financial year as well as the risk management annual review*

In the 2023/24 financial year, a total of 5 findings were issued in 2023/2024 of which 40% has been resolved. Of the 60% that is still outstanding, 20% is not due yet. The Audit and Performance Audit Committee monitors and reviews the implementation status of corrective actions quarterly.

4. Audit and Performance Audit Committee conducted an assessment on the Internal Audit function of Swellendam Municipality

On an annual basis, the Audit and Performance Audit Committee must evaluate and assess the effectiveness of the Internal Audit function of Swellendam Municipality. The Internal Audit function was evaluated and assessed by the Audit and Performance Audit Committee on 03 July 2024. Questions were asked using a response rating **(4: Excellent; 3: Good; 2: Fair and 1: Poor)**. A total of 25 questions were asked by which each Audit and Performance Audit Committee member had to respond with an appropriate rating. The questions were structured as follows:

- Question(s) 1 – 7: Charter, Structure and Positioning
- Question(s) 8 – 10: Audit Staff
- Question(s) 11 – 13: Relationship with Management
- Question(s) 14 – 17: Relationship with the Audit and Performance Audit Committee
- Question(s) 18 – 21: Performance and Audit Plan
- Question 22: Management of the Internal Audit Activity
- Question(s) 23 – 25: Other Support Functions

The Audit and Performance Audit Committee provides oversight to the Internal Audit function during the assessment. In addition, regularly assessing the Internal Audit function aids to ensure that issues raised are addressed and/or mitigated by appropriate leadership, thereby increasing the value added by the Internal Audit function to the Swellendam Municipality. The following comments and/or concerns were raised during the evaluation by the Audit and Performance Audit Committee members:

- The internal audit function is significantly understaffed
- No in-house Chief Audit Executive/vacancy of Chief Audit Executive
- In light of insufficient staff provision, any consultancy and/or other audit work requested by management must be curtailed
- Additional funding for the Internal Audit function (including also for interns) must be obtained
- Secretariat functions for Audit and Performance Audit Committee meetings should be provided by Management (not to be done by the Internal Audit function)
- Membership fees of the Internal Audit professional body should be paid in full by the Municipality and not by employee
- All fees for enrolling for required Internal Auditing qualifications should be paid in full by the Municipality

Despite the internal challenges encountered by the Internal Audit function, the Audit and Performance Audit Committee is satisfied with its overall performance.

5. Quarterly Reporting to Council

The Audit and Performance Audit Committee provides quarterly reports to the Municipal Council regarding matters specified in Section 166 (2) of the Municipal Finance Management Act. These reports include detailed minutes of each quarterly Audit and Performance Audit Committee Meeting held together with a report from the Audit and Performance Audit Committee Chairperson.

Additionally, the quarterly reports and Audit and Performance Audit Committee Meeting minutes are presented to the Municipal Public Accounts Committee (MPAC) for review and discussion.

6. Concerns & Recommendations

The Audit and Performance Audit Committee has expressed concerns regarding the capacity constraints encountered by the Internal Audit function both staffing and funding. The Audit and Performance Audit Committee recommended that the administration prioritise filling the vacant Internal Audit positions, particularly the Chief Audit Executive post as this is a fundamental position for the function to remain sustainable and add value to the municipality. In terms of compliance requirements, the Audit and Performance Audit Committee advocates for the implementation of these recommendations to ensure full compliance by the Municipality.

Furthermore, the Audit and Performance Audit Committee has raised concerns about the effectiveness of the risk management function. The Audit and Performance Audit Committee has recommended that the Municipality allocate sufficient resources to enhance the risk management framework, ensuring comprehensive oversight of risks across the municipal landscape and implementing appropriate controls to mitigate both inherent and emerging risks.

7. Conclusion

Overall and subjected to the issues raised in the report, the Audit and Performance Audit Committee is pleased with the continuous progress made by the Swellendam Municipality and its Internal Audit function in enhancing the overall governance, risk management, and control environment.

On behalf of the Audit and Performance Audit Committee.

Mr. A. Dippenaar
Audit and Performance Audit Committee Chairperson
Date: 4 July 2024