



**TSWELOPELE**

LOCAL MUNICIPALITY

A MUNICIPALITY IN PROGRESS

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**AUDIT, PERFORMANCE AND RISK  
COMMITTEE ANNUAL REPORT  
2021-2022**



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## **ANNUAL REPORT OF THE AUDIT, PERFORMANCE AND RISK COMMITTEE OF TSWELOPELE LOCAL MUNICIPALITY FOR THE YEAR 2021/2022**

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We are pleased to present our report for the financial year ended 30 June 2022.

### **1. PURPOSE**

The Audit, Performance and Risk Committee presents its report for the financial year ended 30 June 2022. We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of Section 166 of the Municipal Finance Management Act (MFMA). We would further like to report that we have conducted our affairs in compliance with the Committee charter.

### **2. BACKGROUND**

The mandate of the Audit Committee is legislated in terms of section 166 of the Municipal Finance Management Act, 2003 (MFMA) which requires the Audit, Performance and Risk Committee to advise the Accounting Officer and Council on matters relating to:

1. Internal financial controls;
2. Internal controls;
3. Risk management;
4. Reliability and accuracy of financial reporting and information;
5. Accounting policies;
6. Performance management and evaluation;
7. Effective governance;
8. Compliance with the MFMA;
9. The Annual Division of Revenue Act (DORA) and any other applicable legislation and / or policies and any other issues referred to it by the municipality.

The Audit, Performance and Risk Committee is also required to fulfil the functions of a Performance Management Committee constituted in terms of Regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

The Municipal Finance Management Act requires the Audit, Performance and Risk Committee to review the annual financial statements, respond to Council on matters raised by the Auditor General and carry out investigations into the financial affairs of the Municipality.

### 3. AUDIT, PERFORMANCE AND RISK COMMITTEE MEMBERS AND ATTENDANCE

The Audit, Performance and Risk Committee consisted of four (4) members at the beginning of the financial year. The Audit, Performance and Risk Committee had a Council approved schedule of meetings for the 2021-2022 financial year.

All Audit, Performance and Risk Committee members are not employed by the Municipality and during the year for which this report refers, five (5) meetings were held and attendance of members is indicated hereunder:

| MEMBER               | PERIOD OF MEMBERSHIP  | NUMBER OF MEETINGS HELD | NUMBER OF MEETINGS ATTENDED |
|----------------------|---|-------------------------|-----------------------------|
| <b>Ms. DS Nage</b>   | <ul style="list-style-type: none"> <li>Appointed in February 2017</li> <li>Appointed Chairperson August 2017</li> <li>Initial contract comes to an end on 30 June 2020</li> <li>Term extended by Council for two years [Ending 30 June 2023]</li> </ul> | 5                       | 4                           |
| <b>Mrs. M Mototo</b> | <ul style="list-style-type: none"> <li>Appointed in 7 July 2020</li> <li>Contract comes to an end on 30 June 2021</li> </ul>  | 5                       | 5                           |

|                          |  |   |   |
|--------------------------|--|---|---|
|                          | <ul style="list-style-type: none"> <li>• Term extended by Council for two years [Ending 30 June 2023]</li> </ul>   |   |   |
| <b>Mr. I Mpatlanyane</b> | <ul style="list-style-type: none"> <li>• Appointed in February 2017</li> <li>• Contract comes to an end on 30 June 2020</li> <li>• Term extended by Council for two years [Ending 30 June 2023]</li> </ul> | 5 | 5 |
| <b>Mr. O Thenga</b>      | <ul style="list-style-type: none"> <li>• Appointed in July 2017</li> <li>• Contract comes to an end on 30 June 2020</li> <li>• Term extended by Council for two years [Ending 30 June 2023]</li> </ul>     | 5 | 4 |

**Number of meetings held per quarter:**

| QUARTER  | DATE             |
|--|------------------|
| 1 <sup>st</sup> Quarter Meeting and Review of AFS and APR              | 30 August 2021   |
| Attend to first quarter activities meeting and AGSA Draft audit report | 30 November 2021 |
| Attend to second quarter activities meeting                            | 24 February 2022 |
| Attend to third quarter activities meeting                             | 03 June 2022     |
| Approval of strategic documents meeting                                | 30 June 2022     |

1. The Audit, Performance and Risk Committee Charter for 2022/2023 was reviewed and approved by the Audit, Performance and Risk Committee on the 30<sup>th</sup> June 2022.
2. The Internal Audit Charter was reviewed for the 2022/2023 financial year and it was approved on the 30<sup>th</sup> June 2022.

3. The Internal Audit Methodology was reviewed for the 2022/2023 financial year and it was approved on the 30th June 2022.
4. The Three-year rolling Risk based Plan for the 2022/2023 financial year and it was approved on the 30th June 2022.
5. The Internal Audit Annual Plan for the 2022/2023 financial year and it was approved on the 30th June 2022.
6. The Quality Assurance and Improvement Program for the 2022/2023 financial year and it was approved on the 30th June 2022.

#### **4. INTERNAL AUDIT**

We are satisfied that the internal audit unit is operating effectively and that it has addressed most risks relevant to the municipality in its assurance audits. However, as a result of capacity issues faced by the Internal Audit Unit, made of only 2 Staff Members and the vacancy of the Senior Internal Auditor which is temporarily filled by one internal auditor who has also been moved temporarily to Strategic Manager position from 01 June 2021 but still executing internal audit activities, the unit was unable to cover reasonably all high-risk areas as planned.

We however acknowledge that the municipality has secured the internal audit review services from Provincial treasury and commenced with recruitment processes for the Manager Internal Audit and Risk Management in the 2022/23 financial year. The assurance provided by unit will continue to be impacted if all positions in the Internal Audit Structure are not permanently filled.

We have met with the Internal Audit unit during the year to ensure that the functions are executed effectively and objectively. We are satisfied with the content and quality of quarterly reports prepared and issued by the unit during the year under review and the support received from management.

The Audit, Performance and Risk Committee is satisfied that the Internal Audit plan represents a clear alignment with the key risks, has adequate information systems coverage, and a good balance across the different categories of audits, i.e. risk-based,

mandatory, performance, and follow-up audits. All control, compliance and performance weaknesses revealed have been raised with management.

#### **4.1 Internal Audit Plan**

The following internal audit work was completed during the year under review:

1. Quarterly Performance Information audits;
2. Review of the Annual financial statements;
3. Expenditure Management;
4. IT Management;
5. Institutional governance and public participation;
6. Inventory Management
7. Revenue Management;
8. Supply Chain Management audit;
9. Asset Management audit;
10. Grants and Subsidies;
11. Review of risk management; and
12. Quarterly follow-up audits.

An action plan on all findings raised by Internal Audit in 2021/22 financial year was developed and followed up every quarter. There was little improvement in the implementation of external and internal audit action plans. Throughout the financial year, this has been stressed-out in audit committee and Council meetings.

The AGSA finalized the audit of 2021/2022 financial year in November 2022 and the final audit report was shared with the municipality in November 2022. The municipality thereafter developed the audit action plan to address all the findings raised by AGSA.

#### **4.2 Internal Audit Unit**

The Internal audit unit structure was reviewed and adopted May 2022 and the new approved structure of the internal audit unit will consist of Manager Internal Audit, Internal auditor and the Intern. Currently the internal auditor position is permanently

filled and recruitment processes for the manager internal audit and risk and intern positions have commenced.

Management has assured the committee that these positions will be filled before the end of December 2022, meanwhile the municipality will be assisted by provincial treasury to review the work of internal audit.

## **5. THE ADEQUACY AND EFFECTIVENESS OF GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL**

The internal audit unit has provided the Audit, Performance and Risk Committee with reports for the evaluation of the adequacy and effectiveness of governance, risk management and internal control processes within the Municipality.

The committee has indicated to the management the need to put more effort in ensuring effective Governance, Risk Management and Internal Control Processes. More efforts should be maintained to enhance the internal control environment of the Municipality.

It should be noted that the audit committee is concerned with the regression of the effective of internal control systems in the municipality and this has be rated as matter of concern as well in the AGSA's report.

### **5.1 Governance**

Governance comprises of a set of processes, practices, policies, laws and regulations affecting the way an institution is directed, administered or controlled. Governance also includes the relationships among the many stakeholders involved and the goals for which the institution is governed.

All significant governance structures and processes that provide strategic direction in the Tswelopele Local Municipality have been assessed by the Internal Audit Unit through its disbursement and delivery of their Internal Audit Plan. The Governance structures referred to include the Council, the Audit, Performance and Risk Committee,



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Municipal Public Accounts Committee, Management, Risk Management Unit, the Internal Audit Unit and the Municipal Directorates including their Staff.

The committee takes note that MPAC had a gigantic workload of previous financial years but would like to reiterate the sentiments and comments which have already been made to management that MPAC meetings schedule should always be adhered to and management should also be available and provide necessary support to the committee in order to fulfil its oversight role and conduct investigation of Irregular, Unauthorised, Fruitless and Wasteful expenditure. This has been the major concern for the Auditor General as well.

## **5.2 Risk Management**

The position of the Risk and Compliance Officer has been vacant since the 1<sup>st</sup> September 2019, management temporarily appointed the risk officer in July 2020.

The Strategic and Operational Risk Register for 2021/2022 was reviewed by the Audit, Performance and Risk Committee. The Internal audit unit performed a review on the risk management processes and the results of the review will be separately discussed with management and the audit committee.

## **5.3 Fraud and Anti-Corruption Strategy**

The Municipality has implemented a Fraud and Anti-Corruption Strategy as part of the overall governance strategy in prior years, however for the reporting period this was implemented in the later periods of the financial year due to the vacancy. The effectiveness of the Fraud and Anti-Corruption Strategy was not monitored as required and this was also stressed out in every Audit, Performance and Risk Committee Meetings.

Management is responsible for the prevention of incidents and occurrences of fraud and corruption, and does this through the design, implementation and monitoring of a sound system of internal controls.

The risk assessment and awareness on fraud and corruption was not conducted and monitored for the year under review. The committee advised the management that education and awareness of potential incidents of fraud and corruption should be conducted on a regular basis.

#### **5.4 Internal Controls**

The Audit, Performance and Risk Committee commends the management for the internal controls that were mostly adequate in most areas but some were ineffective in ensuring that the municipality meet its constitutional mandate during the 2021/22 financial year. The committee has advised management and Council to address the deficiencies identified by Internal Audit on the assurance audits.

The committee is concerned about the number of increasing repeat findings that are not addressed by management. The committee advises once again that the management should implement all the recommendations given by Internal Audit and those raised by the Audit General in the management report.

### **6. THE QUALITY OF MANAGEMENT AND MONTHLY/QUARTERLY REPORTS SUBMITTED IN TERMS OF THE ACT**

The quality of in-year management quarterly reports submitted in terms of the MFMA and the Division of Revenue Act were reasonable. The reports were as follows:

1. Quarterly Financial Reports; and
2. Quarterly Performance Management reports.

The committee advises the management to compile monthly reports and present them in management meetings in order to identify any deficiencies that can hamper the achievement of objectives timely.

### **7. EVALUATION OF FINANCIAL STATEMENTS**

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The Audit, Performance and Risk Committee has:

1. Reviewed and discussed the audited Annual Financial Statements to be included in the Annual Report with the Accounting Officer;
2. Reviewed the Audit Report of the Auditor-General SA (AGSA);
3. Reviewed the AGSA Management Report and Management's response thereto;
4. Noted and reviewed the AGSA's assessment of the usefulness and reliability of performance information examined;
5. Reviewed the Municipality's compliance with legal and regulatory provisions; and
6. Reviewed significant adjustments resulting from the audit.

The Audit, Performance and Risk Committee concurs with and accepts the AGSA's conclusions on the Annual Financial Statements and other legal and regulatory matters, and is of the view that the audited Annual Financial Statements be accepted and read together with the report of the AGSA.

The management has been advised that they need to prioritise internal control deficiencies, performance management, supply chain management and compliance issues related to the municipality in order to improve the audit opinion. The review of consultants' work should be an ongoing or continuous processes and contract management should be improved.

## **8. PERFORMANCE MANAGEMENT**

The AGSA's review of performance against predetermined objectives has indicated that not all the supporting information supplied by the Municipality was useful and reliable. The municipality received an unqualified audit opinion on the overall audit and had significant findings on the performance which indicates that closer attention needs to be paid to this area of reporting.

The committee welcomes the permanent appointment of the Strategic Manager position and recommends that all the findings raised by AGSA should be followed up by management urgently. Also, going-forward the municipality should ensure that performance processes are duly formalised and monthly monitoring of performance information is conducted to detect poor performance and information flaws.

## **9. APPRECIATION**

The Audit, Performance and Risk Committee greatly acknowledges the dedication and work performed by the Municipal Manager, Management and Officials of the Municipality and accepts the audit opinion received while addressing human capacity challenges.

The Audit, Performance and Risk Committee also wishes to express its appreciation to Management, the AGSA and the Internal Audit Unit for the co-operation and information they have provided to enable us to discharge our responsibilities.

The Audit, Performance and Risk Committee also welcomes the progress made by the municipality in working towards the compilation of annual financial statements internally.

## **10. RECOMMENDATIONS**

That Management prioritise the AGSA's findings, monitor compliance and performance on a monthly basis. Management should also develop control matrix that that will assist the municipality in enhancing the internal control environment as well as improving the current audit opinion.

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Duly Signed on behalf of the Audit, Performance and Risk Committee:



**DS Nage** 06 January 2022

**AUDIT, PERFORMANCE AND RISK COMMITTEE CHAIRPERSON**