



This report serves to apprise the Council of Senqu Municipality of the Audit Committee's consideration of Q4 Reports of the 23/24 financial year

23/24 Q4 Audit Committee report to the Council

31 July 2024

Fungai Mushohwe – AC Chairperson

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1. Audit Committee Report to the Council for the Council Meeting of Wednesday July 2024 31
Report Covers the Quarter Four Reports (April 2024 – June 2024)

2. Introduction and Purpose of the audit committee

The Audit Committee operates as a sub- committee of the Council and performs the responsibilities assigned to it by the MFMA section 165 and 166, and the corporate governance responsibilities delegated to it under its Charter by the Council.

- The purpose of the audit committee is to provide a structured, systematic oversight of the organisation’s governance, risk management, and internal control practices. The committee assists the Council and management by providing advice and guidance on the adequacy of the organisation’s initiatives for:
 - Values and ethics.
 - Governance structure.
 - Risk management.
 - Internal control framework.
 - Oversight of the internal audit activity, external auditors, and other providers of assurance.
 - Financial statements and public accountability reporting.
 - In broad terms, the audit committee reviews each of the items noted above and provides Council with independent advice and guidance regarding the adequacy and effectiveness of management’s practices and potential improvements to those practices.

3. Reporting to Council

In terms of Paragraph 7 of the Audit Committee Charter, the chairperson of the audit committee will report on a quarterly basis, or more frequently if required, to the municipal council on the operations of the internal audit unit and the audit committee. The report should include:

- A summary of the work performed by the internal audit and the audit committee against the annual work plan.
- Effectiveness of internal controls and additional measures that must be implemented to address identified risks.
- A summary of key issues dealt with, such as significant internal and external audit findings, recommendations, and updated status thereof.

- Progress with any investigations and their outcomes.
- The audit committee's views on the effectiveness of the CAE and the arrangements for internal audit.
- The audit committee's views on the effectiveness of the CFO and the finance function.
- The arrangements in place for combined assurance and the committee's views on its effectiveness
- Details of meetings and the number of meetings attended by each member.
- Other matters requested of the internal audit and audit committee.

4. Quarter 4 Reports Considered by the Committee

4.1. Internal Audit reports

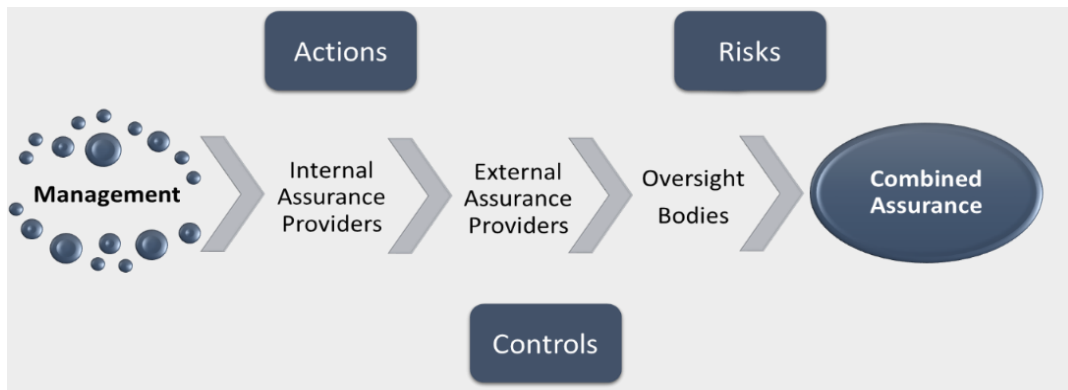
The committee considered the completed audits conducted by the internal audit for Q4 of the 23/24 financial year. The following audits were conducted by Internal Audit and the key issues identified:

4.1.1. Combined Assurance framework:

- Internal audit, with the support of management, prepared a combined assurance framework which was presented to the committee for a recommendation to Council
- The committee noted the following:

Combined Assurance is designed to assist management in achieving its objectives and to optimize assurance coverage from management, internal assurance providers, external assurance providers as well as oversight bodies on the risks facing the Municipality. It gives the assurance that the reports relating to financial, performance and risk related matters are indeed reliable and that it had been provided in a sustainable, effective and efficient manner. The Framework seeks to assist the Municipality in ensuring Good Governance principles are applied throughout the Municipality, thereby establishing an efficient and productive administration that prioritises service delivery.

In the case of Senqu Local Municipality, the framework adopts 5 levels of defence as explained in the figure below:



Level 1: Management - will provide assurance on all areas within their span of control. Management is responsible for maintaining a proper functioning of the control environment within their area of responsibility, holding officials accountable for their specific risk management responsibilities.

Level 2: This includes, amongst others, the risk management section, legal and performance management sections. These assurance providers normally have limited independence in relation to the activity on which assurance is required and exercise their duties in a consultative manner.

The second line of defence provides *corroborative assurance* (corroborates the assurance given by the first line of defence above, i.e. Management), that management is indeed sufficiently in control of the regulatory, statutory, financial, environmental, ethical and quality requirements, as well as the associated risks, critical to the on-going success of the Municipality.

Level 3: The third line of defence includes internal assurance providers and internal advisory structures who have greater independence, such as the Internal Audit unit and the Governance Unit. The third line of defence further corroborates the assurance and provides independent and objective assurance of the overall adequacy and effectiveness of risk management, governance, and internal control within the Municipality as established by the first and second lines of defence.

Level 4: The following oversight bodies, inter alia, have been identified to have Municipality-wide responsibility with regards to combined assurance as part of the fourth line of defence:

- Council;
- Council Portfolio Committees;
- Municipal Public Accounts Committee;
- Audit Committee; and,

Council, including its sub-committees, is accountable to the public and thus takes an interest in combined assurance to the extent necessary to obtain comfort that properly established and functioning systems of combined assurance and risk management are in place to protect the Municipality against significant risks.

Level 5: The oversight bodies and bodies who advise the Municipality include, but are not limited to:

- The External Auditors
- Provincial COGTA
- National Treasury
- SALGA

These are completely independent external oversight bodies/ assurance providers and bodies who advise the Municipality. These oversight bodies ultimately provide assurance to the inhabitants of the Municipality relating to activities and governance issues of the Municipality.

Recommendation: The Committee recommends the combined assurance framework approval by the Council.

4.1.2. Health and Safety Audit:

- The committee noted the following issues as areas that need improvement:
 - ✚ Non submission of Returns on Earnings to Department of Labour.
 - ✚ Inappropriate solid waste management practices.
 - ✚ No medical examination conducted in the 2023/2024 financial year.
 - ✚ No health and safety training conducted in the 2023/2024 financial year.
 - ✚ Health and safety policy is not prominently displayed.
 - ✚ No emergency evacuation plan and drills conducted.
 - ✚ Biometric gate at the back in the Lady Grey Head Office is not locked.

Conclusion: Management agreed to address these findings

4.1.3. Audit Action Plan:

- The committee noted the following issues as areas that need improvement:
 - ✚ The web enabled system was not updated
 - ✚ The root cause of the finding was not correctly captured
 - ✚ Non implementation of AG findings within the specified timeframe

Conclusion: Management agreed to address these findings

4.1.4. Risk and Compliance:

- ✚ The committee noted the risk and compliance reports presented. It was noted that there were some few instances where the Municipality did not take action in compliance with the MFMA legislation.
- ✚ The committee recommended Management to have a session of risk assessment with political leadership to ensure that they are appraised of risks identified and further ensure that political risks are incorporated in the risk assessment.
- ✚ A recommendation was also given for consequence management in cases of non-compliance.

4.1.5. Performance:

- ✚ The committee noted the Q4 performance report of the Municipality. They were a number of areas where the Municipality did not meet its set targets resulting in underperformance. For example, out of the 4 targets set for LED, only 1 was fully achieved.
- ✚ The committee recommended the Accounting Officer to monitor closely areas of underperformance and do a thorough root cause analysis with the intention of improving in the future.

4.1.6. Legal:

- ✚ The committee noted the Q4 legal report and encouraged management to expedite the conclusion of legal cases considering the current panel of lawyers' contracts have come to an end.

4.1.7. Finance:

- ✚ The committee noted the Q4 finance reports as presented by the CFO. The committee noted with gratitude that the Municipality is in a sound financial position with huge amounts in reserves and that in Q4, the Municipality managed to collect 101% of its billings. Of concern is still a huge debtors' book, albeit emanating from

the previous years and recommends more active steps to recover these monies especially from other governmental institutions.

5. Conclusion:

I would like to sincerely thank the Council for this opportunity to present this report. Special thanks to the Accounting Officer and the management for their consistent support towards the Audit Committee. The committee looks forward to review the Annual Financial Statements that are to be submitted to the Auditor General in the coming month.

A handwritten signature in black ink, appearing to read "A. Shchwe".

31 July 2024

Signature

Date