

The Honourable Speaker
uThukela District Municipality
33 Forbes Street
Ladysmith
3370

REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE TO THE COUNCIL OF UTHUKELA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2023.

1. Legislative requirements

The purpose of this report is to communicate to the council of uThukela District Municipality the audit and performance audit committee's progress to date in carrying out its oversight responsibilities in terms of section 166 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003, as amended) (MFMA), read with circular 65 published by the National Treasury for the year ended 30 June 2023.

The MFMA requires every municipality to establish an independent audit committee, which must advise the municipal council, political office bearers, accounting officer and management staff of the municipality as well as the accounting officer and the management staff of the municipal entity, on matters relating to internal financial controls and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, effective governance, compliance with the MFMA, the annual Division of Revenue Act (DoRA) and any other applicable legislation, and any other issues referred to it by the municipality.

The audit and performance audit committee is governed by the terms of reference contained in the audit and performance audit committee charter which are regularly reviewed and approved by the council. The committee is pleased to present its report for the financial year ended 30 June 2023.

2. Audit and performance audit committee members and attendance

The audit and performance audit committee was established in accordance with section 166 of the MFMA read with MFMA Circular 65 issued by the National Treasury. The audit and performance committee charter dictates that the committee comprise of a minimum of three members, who must not be in the employ of the municipality or municipal entity.

The audit and performance audit committee comprises of five members, including the chairperson, Ms. N Mba CA (SA).

In terms of section 166(4)(b) of the MFMA, the audit committee must meet at least four times a year. During the financial year ended 30 June 2023, the audit and performance audit committee met on six occasions.

The table below shows the attendance of these meetings:

Name	Date of appointment	Number of meetings scheduled	Number of meetings attended
Ms. N Mba CA (SA) (Chairperson)	01 June 2022	6	6
Mr. Z Mzimela CA (SA)	01 June 2022	6	6
Ms. N Zondo	01 June 2022	6	5
Mrs. S Khanyile	01 June 2022	6	6
Mr. S Majola (re-appointed – 01 June 2022)	01 October 2020	6	5

Apologies were received from members for meetings where they were unable to attend.

The members of the audit and performance audit committee held meetings with the municipal manager as the accounting officer, senior management of the municipality, the internal audit function, and the external auditors, collectively and individually, on matters related to governance, internal control, and risk in the municipality, throughout the reporting period.

The following are standing invitees to the audit and performance audit committee meetings.

- Representative from Office of the Auditor-General of South Africa (AGSA).
- Representatives from Provincial Treasury and COGTA.
- The Administrator.
- The Internal Audit Manager.
- The Municipal Manager (MM).
- The Chief Financial Officer (CFO).
- The Chief Executive Officer of uThukela Economic Development Agency.
- Heads of Departments.
- The Acting PMS Manager.
- The Risk Officer.

The committee also held meetings with the council to report on governance processes, internal control, risk management, performance and financial information and other relevant matters concerning the municipality.

3. Audit committee's responsibility

Although the audit and performance audit committee has complied with its responsibilities arising from section 166 of the MFMA read with MFMA Circular 65, and reports that it operated in terms of the audit committee charter read in conjunction with the internal audit charter, there were several challenges that were experienced by the committee. These challenges were firstly raised with the Accounting Officer and the Chief Financial Officer in the meeting held on 29 November 2022 with recommendations on how to address them.

Further escalations were presented to council and KwaZulu-Natal (KZN) Provincial Treasury on 31 January 2023 and 22 February 2023 respectively.

Furthermore, a meeting with KZN MEC for Finance was held on 18 July 2023. Pursuant to our escalation and meeting with KZN MEC for Finance, the KZN MEC for Finance engaged the KZN MEC for Co-operative Governance and Traditional Affairs (COGTA) and convened an intervention meeting on 28 July 2023.

Despite all the aforementioned interventions, except for, the Performance Management Reporting, little to no improvements were noted. Below are some of the key challenges that were reported to council and escalated to KZN Provincial Treasury and COGTA:

- Irregular sitting of the audit and performance audit committee meetings which resulted in quarter 1 and 2 items being considered on the 9th and 10th of March 2023, respectively and quarter 3 and 4 items being considered on the 7th of July 2023 and 19th of October 2023 respectively, due to postponement and cancellation of planned meetings.
- Persistent poor quality of finance reports submitted to the audit and performance audit committee including s71 reports.
- Administrator not submitting nor presenting the Financial Recovery Plan to the current audit committee.
- Lack of attendance of audit committee meetings by the administrator.
- Non-implementation of audit and performance audit committee recommendations in the 2021-2022 Annual Financial Statements and Annual Performance Report resulting in poor audit outcomes.
- The Chief Financial Officer misleading the committee on certain issues.
- Lack of dedicated secretariat for the audit and performance audit committee resulting in poor and late submission of minutes. Full complement of all audit and performance audit committee minutes for the 2022-2023 financial year were only submitted to the meeting held on the 13th of December 2023, almost six (6) months after the end of the financial year.

The above-mentioned key issues undermine the effectiveness and efficiency of the audit and performance audit committee and the internal audit unit in discharging its roles and responsibilities as outlined in sections 165 and 166 of the MFMA.

4. Internal Audit Function and Effectiveness of internal control

For the purposes of executing its statutory duties as contained in section 166(2)(a) of the MFMA as well as its mandate as set out in the audit and performance audit committee charter, the committee relies on the work performed by the Internal Audit Unit and the External Auditors, Auditor General of South Africa.

The accounting officer is obliged, in terms of section 165 of the MFMA, to ensure that the municipality has a system of internal audit under the control and direction of the audit committee.

The risk based internal audit plan for the financial year ended 30 June 2023 was presented by Internal Audit and approved by the audit and performance audit committee. The committee at each meeting, assesses performance against the plan and reviews the plan to assess whether critical risks relating to the administration and operations of Uthukela District Municipality are identified and addressed.

Although there were various challenges which included amongst others, capacity constraints, non-submission of documents by management for audit purposes, late and/or non- submission of management responses and supporting documentation, encountered with the implementation of the annual audit plan for the 2022-2023 financial year, the Internal Audit Unit was, however, able to perform all planned projects. The Supply Management Audit was finalized without management comments, whereas Contract Management Audit was finalized with a limitation of scope audit finding.

The reports for all audits completed were tabled at the audit and performance audit committee meetings held during the reporting period. The audit conclusions, relating to these audits, were assessed as mostly High-Risk Exposure. The findings related to lack of, or inadequate controls in the following areas:

- IT Governance Audit.
- Grants Management.
- Quarterly Performance Management.
- Enterprise Risk Management.
- Intermediate, Annual and Consolidated Financial Statements Review.
- Annual Performance Report.
- Supply Chain Management.
- Human Resource Management – Recruitment and Retention.
- Disaster Management.
- Records Management.
- Asset Management.
- Water Service Authority.
- Appointment of VAT recovery service provider.

The audit and performance audit committee would like to commend the Performance Management Unit for addressing all the Internal Audit and audit and performance audit committee's recommendations on identified internal control deficiencies resulting in credible performance reporting.

The 2022-2023 AGSA audit outcomes revealed that the following internal control drivers requires urgent intervention by those charged with governance:

- Oversight responsibility over financial and compliance management including internal controls.
- Holding Senior Management accountable for implementation of Audit Action Plans.
- Proper record keeping.
- Regular financial reporting and
- Compliance monitoring.

Additionally, the following internal control drivers were of concern and required attention from those charged with governance:

- Ineffective implementation of policies and procedures resulting in non-compliance with MFMA.
- IT Governance.
- Processing and reconciling controls.
- IT systems controls and
- Risk Management.

It is important to note that the maintenance of an effective system of internal control and risk management, remains the responsibility of management. Leadership, both political and administration, is urged to hold

those charged with a duty of responsibility to account when it comes to non-compliance with internal processes and non-implementation of recommendations made.

The audit and performance audit committee is concerned with management's lack of efforts to strengthen financial and compliance internal controls within the municipality. In most instances, matters reported by external auditors, internal audit function, and recommendations by the audit and performance audit committee in prior years have not been fully and satisfactorily addressed.

Although the accounting officer gave assurance that effective corrective action will be implemented in respect of all internal control weaknesses, only control weaknesses relating to performance management were addressed.

Vacancies undermine the effective functioning of the system of internal control, and it is imperative that management reviews its recruitment procedures and processes to ensure that vacancies are filled expeditiously with appropriately qualified, skilled, and experienced personnel.

The internal audit unit remains under capacitated with four (4) Internal Auditors, one (1) Internal Audit Clerk and two (2) Audit Interns vacancies that could not be filled due to lack of funding. The non-filling of these vacancies undermines the effectiveness and efficiency of the internal audit unit in addressing all the key risks faced by the municipality in their audit plan.

The municipality has adopted aggressive anti-corruption measures to curb the frequency and magnitude of fraud and corruption. The audit and performance audit committee welcomes the efforts made by management to address fraud and corruption, however, is not completely satisfied with measures implemented for the prevention of fraud and these concerns have been raised with management.

The audit and performance audit committee has therefore requested that a detailed fraud prevention plan and progress reports on the action plans for addressing the fraud risks be tabled at each quarterly meeting of the audit and performance audit committee.

Due to the strategic importance of, and investment in, the modernization of information and communication technology (ICT) in the municipality, the audit and performance audit committee has monitored the risk register and progress reports on the respective action plans during the year under review. The audit and performance audit committee appreciates the efforts made by management on the ICT Governance processes, however, remains concerned that not all ICT risks are being addressed or mitigated.

5. The quality of monthly and quarterly reports submitted in terms of the MFMA and DORA

The audit and performance audit committee appreciates the improvement made by management in submission of all reports requested by the committee. The committee is, however, not satisfied with the content and quality of monthly and quarterly reports prepared and issued during the year under review in compliance with the statutory framework. The in-year monitoring reports submitted to the audit and performance audit committee were not consistent with the requirements of MFMA Budget and Reporting Regulations.

The committee has engaged with management and provided guidelines and templates to be used to remedy the shortcomings, especially those relating to s71 reports, however, no major improvement has been noted. The committee has further recommended that the chief financial officer and finance team should seek training from Provincial and/or National Treasury to ensure that in year monitoring reports comply with the MFMA Budget and Reporting Regulations.

In addition, the audit and performance audit committee recommended that the municipality should prepare Interim Financial Statements that comply with Standards of Generally Recognized Accounting Practice (GRAP), which could assist in performing reconciliations timeously as well as in eliminating year-end adjustments.

The audit and performance audit committee welcomes the efforts made by management to prepare the Interim Financial Statements; however, reconciliations were not up to date, and the prior period audit qualification matters were not addressed at the time of submission to the internal audit unit and audit and performance audit committee for review.

Although, the audit and performance audit committee and internal audit unit provided recommendations to management to improve on the quality of the financial statements, most of the recommendations were not addressed by management, resulting in poor quality annual financial statements.

Moreover, the audit and performance audit committee reviewed and commented on the municipality and agency's' annual financial statements and report on performance information and their timely submission to the external auditors by 31 August. The committee is pleased to report that the Performance Management Unit with the assistance of COGTA Performance Management Specialist addressed all the findings and recommendations by the internal audit unit and the audit and performance audit committee.

The committee is however, concerned that most of the review notes raised by both the internal audit unit and audit and performance audit committee on the annual financial statements were not entirely addressed by management.

Over and above the aforesaid the committee reviewed the reports issued to National Treasury and the Transferring Officer in terms of the Division of Revenue Act and is comfortable that the Municipality has recognized revenue to the extent that conditions have been met. However, the committee is concerned that some of the unspent conditional grants are not cash backed which indicates that the conditional grant funding was utilized for operating expenditure, which is contrary to the requirements of DORA.

6. Risk management function

The MFMA requires the accounting officer of the municipality to take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management and internal control.

The audit and performance audit committee commends the municipality for having a system of managing risk, as required in terms of section 62 of the MFMA. This function involves an annual assessment of

municipal risk, and periodic risk reviews carried out by the risk officer, management, and relevant personnel at the municipality.

The 2022-2023 risk management reports were submitted to the committee, these reports indicated that there were still challenges with risk governance, enterprise risk architecture and the implementation of risk management framework and strategy.

Further to the aforementioned, the risk management was subjected to a review by internal audit, and the outcomes reflected that the risk management processes were not yet fully effective and required urgent management intervention.

Weaknesses identified related to the functioning and effectiveness of the risk committee, capacity constraints within the risk management office, implementation of risk action plans, and non-alignment of risk management to operating processes.

Failure by management to implement effective risk management strategies have an adverse effect on the achievement of strategic objectives of the municipality and results in poor service delivery and audit outcomes.

The audit and performance audit committee appreciates the appointment of an independent risk committee chairperson to oversee the risk management processes of the municipality. The committee will continue to observe and monitor the effectiveness of the municipality's risk management processes and report accordingly.

7. Evaluation of the finance function

The municipality has appointed the chief financial officer; however, the finance function could not deliver quality information on a timely basis. It was further noted that certain VAT processes that could be performed internally by the municipality were outsourced to a consultant. This appointment could result in fruitless and wasteful expenditure for the municipality that is already in severe cashflow constraints.

The audit and performance audit committee is not satisfied with the municipality's finance function during the year under review and therefore, recommends a review of the finance function to ensure that it performs at its optimal capacity.

8. Performance management

The audit and performance committee also serves as the performance audit committee for uThukela District Municipality. The legal responsibilities of the audit committee in this regard are set out in terms of the Local Government: Municipal Planning and Performance Management Regulations 2001.

The audit and performance audit committee has, in terms of the performance of the municipality performed the following functions:

- Reviewed and commented on compliance with statutory requirements and performance management best practices and standards.

- Reviewed and commented on the alignment of the integrated development plan, budget, service delivery and budget implementation plan and performance agreements.
- Reviewed and commented on the relevance of indicators to ensure that they are measurable and relate to services performed by the municipality and its entity.
- Reviewed compliance with in-year reporting requirements.
- Reviewed quarterly performance reports submitted by the internal audit function.
- Reviewed and commented on the municipality's performance management system (PMS) and made recommendations for its improvement.

In general, the following were common observations from the review of the 2022-2023 PMS information:

- **Validity** – in some instances no supporting documents or insufficient supporting documents were provided by the departments to support the reported targets.
- **Accuracy** – non-alignment of reported actual data to the supporting documentation provided by the departments.
- **Completeness** – Actual data reported was not complete, in that some information had been omitted.
- **Corrective measures** - Lack of corrective measures and inadequate corrective measures for some non-achieved targets.

The above matters have been discussed with management, and the accounting officer and were subsequently addressed by management with the assistance of COGTA Performance Specialist.

The audit and performance audit committee is therefore pleased with the quality, i.e. usefulness and reliability of the 2022-2023 annual performance report. The committee, therefore, commends the municipality for achieving quality reporting.

The municipality is however, urged to pay more attention on service delivery targets which were not achieved to ensure sustainable service delivery to the communities of uThukela District.

9. Fraud and irregular activities

The audit and performance audit committee considered the verbal report from the accounting officer on the three forensic investigations the municipality has conducted. The investigations were on fuel, oil and maintenance, overtime, and standby and contract management. These reports were not formally presented to the audit and performance audit committee, however, the accounting officer indicated that they were tabled at the council meeting.

The auditor general also reported instances of irregular, fruitless and wasteful expenditure and material irregularities that took place.

One significant area that requires improvement is for management to effectively implement appropriate recourse and mitigation actions based on the outcomes of investigations as required by sections 32, 171, 172 and 173 of the MFMA.

10. Evaluation of the annual financial statements

The audit and performance audit committee has reviewed the annual financial statements, which focused on the following:

- Significant financial reporting judgements and estimates contained in the Annual Financial Statements.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Compliance with accounting standards and legal requirements.
- Significant adjustments and/or unadjusted differences resulting from the audit.
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted.
- Reasons for major year-on-year fluctuations.
- Asset valuations.
- Calculation and levels of general and specific provisions.
- Write-offs and impairments.
- The basis for the going concern assumption, including any financial sustainability risks and issues.

The results of these reviews were shared with management. The audit and performance audit committee commends the municipality for submitting the annual financial statements within the legislated timeframes. The committee is, however, concerned that most of the material misstatements raised on the annual financial statements were not addressed by management before submission to the auditor general.

Management's indifferent attitude towards quality reliable financial reporting and service delivery is of great concern. This attitude is reflected in the poor audit outcomes from the Office of the Auditor General and poor service delivery in general. The municipality has again received a qualified audit opinion from the Auditor General which could have been avoided had attention been paid to the audit committee's recommendations.

Further to the above, the following key matters are being brought to the attention of Council:

- Management should resolve audit qualifications, address material audit findings, and adjust opening balances to ensure submission of quality, reliable and credible annual financial statements to the auditor general.
- Cash flow position – *remains CRITICAL* and this requires stringent Cash Flow and Expenditure Management Key Controls.
- Umngeni Water debt still a matter of concern.
- Revenue collection rate is very low, and this requires aggressive Revenue Enhancement, Credit Control and Debt Collection measures.
- 2023-24 Budget is not funded (as per communication from the Provincial Treasury). Spending should strictly be based on cash backed revenue generated to avoid further cash flow constraints, unauthorised expenditure, and fruitless and wasteful expenditure such as interest from late payment of creditors.
- The budget funding plan also appeared inadequate to address the financial issues faced by the municipality.

The above-mentioned issues pose financial viability risk to the municipality and sustainability of service delivery.

The accounting officer and council are therefore urged to implement consequence management which includes the development, implementation and monitoring of a Clean Administration Strategy and action plan to improve audit outcomes and service delivery within the municipality. Best practices on clean administration were shared with management and the executive committee at the strategic planning session held in May 2023.

It must be noted that the same issues and recommendations were provided in the 2021-2022 audit and performance audit committee report, and they were not implemented by management, despite the committee sharing best practice guidelines and availing themselves for a workshop with management.

11. Effective Governance

The audit and performance audit committee fulfils an oversight role regarding the municipality's reporting processes, including the system of internal financial control. It is responsible for ensuring that the municipality's internal audit function is independent and has the necessary resources, standing and authority within the municipality to enable it to discharge its duties.

Furthermore, the audit and performance audit committee oversee cooperation between the internal and external auditors and serves as a link between the council and these functions. The internal and external auditors have unlimited direct access to the audit and performance audit committee, primarily through its chairperson.

The municipality is currently under section 139 Intervention by COGTA. The Municipal Recovery Plan was not presented to the audit and performance audit committee despite numerous requests. The section 139 interventions invoked to assist the municipality are ineffective in strengthening municipal financial accountability as there is no notable improvement on the financial viability and health, service delivery and governance processes at the municipality.

The progress in addressing the Umngeni Water contract was noted and the committee requested that the matter below be followed up:

- Council to investigate the process followed in entering the contract with Umngeni Water with the objective of identifying if all business processes and legal requirements were followed.

The results of the follow up has not yet been presented to the audit and performance audit committee for evaluation and recommendations.

The committee is committed to assist the municipality and the administrator in improving systems within the municipality as part of the process, however, the non-attendance of the administrator at the audit and performance audit committee meetings and engagements to present the Recovery Plan including progress on implementation of the plan, remains a concern.

12. Compliance with Legislation and Ethics

The audit and performance audit committee has noted some instances of non-compliance with policies and procedures, the MFMA and the Municipal Budget and Reporting Regulations and DoRA amongst others.

The committee noted that there were instances where Unauthorised, Irregular and Fruitless and Wasteful expenditure were incurred in the 2022-2023 financial year, which indicated that SCM Regulations and policies were not always complied with.

The municipality does not have a clear system for managing compliance with applicable laws and regulations. This function is currently carried out by the risk officer; however, this does not seem effective as some of the reports were incomplete due to lack of sufficient information.

Consequence management must be implemented where there is non-adherence to policies and applicable legislation. These findings and recommendations were included in the 2021-2022 audit and performance audit committee report, with no notable improvements.

13. Uthukela Development Agency

The municipality established a municipal entity in line with the Municipal Systems Act, being the Uthukela Economic Development Agency. The Agency as a municipal entity is subject to the prescripts as provided in Chapter 10 of the MFMA and other relevant legal prescripts and is accountable to Uthukela District Municipality as its Executive Authority.

The governance of the agency is structured and resourced in line with the Memorandum of Understanding (MOU) entered with Uthukela, which came into effect from 01 July 2021.

The MFMA (S 166) also requires the entity to have an audit committee, which shall be appointed by the Council of the parent municipality. Whilst, uThukela audit and performance audit committee has, in the past, been including presentations by the agency as part of its agenda, there was no formal arrangement in respect of this.

Therefore, there could potentially be risk exposure in respect of matters that have not formed part of the oversight by the audit committee.

This matter together with other governance requirements will need to be urgently addressed by the council. These findings and recommendations were also included in the 2021-2022 audit and performance audit committee report, with no notable improvements.

The committee has continuously raised these issues with the accounting officer throughout the financial year and has ultimately resolved not to consider any reports relating to the agency in the 2023-2024 financial year until these issues are addressed by the parent municipality.

14. Auditor General's report

The audit and performance audit committee concurs with and accepts the conclusion and audit opinion of the Auditor General on the annual financial statements, compliance with legislation, and performance information.

The committee is of the view that the audited financial statements and annual performance report be accepted and read together with the report of the external auditors. The audit and performance audit committee confirms that it was apprised by the Auditor General of the issues giving rise to the audit opinion.

The committee is comfortable that if the clean administration strategy and action plan, which includes the implementation of effective and efficient controls is developed, implemented, and monitored by senior management and the relevant oversight structures, these matters should be adequately dealt with in future periods.

The external audit function, performed by the Auditor General of South Africa is independent of the municipality. The audit and performance audit committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and co-operation of the external audit team.

15. Recommendations of the audit committee

The roles and responsibilities of the audit and performance audit committee in the municipality are important in enhancing transparency and accountability regarding the financial and performance reporting and governance processes. This includes interacting with the external auditors throughout the audit process, ensuring that the internal audit function is functioning effectively, assessing the internal control environment, reviewing the annual financial statements and annual performance report (including areas of significant judgement and uncertainties in both), and advising the accounting officer or accounting authority on financial and other matters.

The implementation and maintenance of proper systems of internal controls, risk management, the prevention of fraud and errors, safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are the responsibility of council. The role of the audit and performance audit committee is to monitor the efficiency of the procedures and mechanism which council has put in place to ensure that its policies and procedures are adhered to.

We can report that, considering the exceptions noted, recommendations made below and based on the reports submitted to us, our overall impression is that council's attention is still required in most of the areas, especially with the municipality having received unfavourable audit opinions consecutively for several years.

The audit and performance audit committee, therefore, recommends the following:

15.1 Internal audit function and the effectiveness of internal controls:

- Management must review its recruitment procedures and processes to ensure that vacancies are filled expeditiously with appropriately qualified, skilled, and experienced personnel.
- Council to prioritise the filling of key vacancies in the internal audit department.
- Management must be held accountable for the delayed or non-submission of supporting documents and management responses to audit findings.
- The accounting officer must ensure that there is a dedicated secretariat to take and provide timeous, quality, reliable and credible minutes of the audit committee meetings.
- The accounting officer and council must implement consequence management on officials who disregard internal controls.
- Management must develop a clean administration strategy and action plans to address the breakdown in the control environment within the municipality.

15.2 The quality of monthly and quarterly reports submitted in terms of the MFMA and DoRA:

- The chief financial officer must ensure review and timeous submission of quality, reliable financial reports that comply with the MFMA Budget and Reporting Regulations and DoRA to the audit and performance audit committee.
- The chief financial officer and the finance function must implement the recommendations of the audit and performance audit committee.
- The accounting officer must implement consequence management on failure to adhere with the requirements of the MFMA Budget and Reporting Regulations and DoRA.
- Skills audit must be conducted within the finance department to identify potential knowledge and skills gaps or growth opportunities for the existing workforce.
- Training needs analysis must be performed within aim of upskilling or reassigning the existing workforce.

15.3 Risk Management Function:

- Management must prioritize the risk governance and enterprise-wide risk management processes as part of management tools that will assist in improving systems and governance at the municipality.
- Both political and administrative leadership must hold management accountable for non-implementation of risk response plans/internal controls to address major risks, non-implementation of the remedial actions to address internal audit and AGSA findings and non-implementation of audit committee recommendations.
- The accounting officer must address the capacity constraints within the Risk Management Unit by appointing a Risk Manager that will oversee the risk management function.
- Management must ensure proper functioning and effectiveness of the risk committee which meets on a quarterly basis.
- The culture of risk management should be embedded in the daily activities of the municipality to ensure effective enterprise-wide risk management.

15.4 *Evaluation of the Finance Function:*

- The accounting officer through corporate services department must perform a thorough review of the finance function to ensure that properly qualified, skilled, and experienced personnel are correctly placed within the finance department.
- The chief financial officer and relevant finance team must be trained on preparation credible financial reports including in year reports.
- The accounting officer together with the CFO must review and cancel, in consultation with the legal department, all consulting contracts that are a duplication of existing skills within the finance unit.
- The accounting officer must hold the CFO accountable for the optimal functioning of the finance department.

15.5 *Performance Management:*

- The Accounting Officer and council must hold senior management accountable for achieving key service delivery targets to improve the quality of lives of the people of uThukela District.
- General Manager Water, Sanitation and Technical Services must ensure that there is an approved Infrastructure Masterplan and Asset Management Plans that are aligned to the District Growth Plan and IDP of the municipality.
- General Manager Water, Sanitation and Technical Services must ensure that all water and sanitation projects in the IDP, Budget and SDBIP are aligned to the asset management plans.
- Management must ensure that actual performance outputs correlate with the actual financial results.

15.6 *Fraud and irregular activities:*

- The accounting officer, the Municipal Public Accounts Committee (MPAC) and council must ensure timeous finalization of all fraud and UIFW expenditure investigations and reports as part of consequence management.
- The accounting officer and council must ensure that the Disciplinary Board is established and functioning to enable consequence management at the municipality.
- The accounting officer and council effectively must implement appropriate recourse and mitigation actions based on the outcomes of investigations and material irregularities raised by the AGSA as required by sections 32, 171, 172 and 173 of the MFMA.

15.7 *Evaluation of financial statements:*

- Council is urged to implement consequence management which includes the development, implementation and monitoring of a Clean Administration Strategy and action plan to improve audit outcomes and service delivery within the municipality.
- The council and management must continue to exercise stricter budgetary controls through weekly Interim Finance Committee (IFC) meetings and implementation of Cash Flow Management key controls.
- The municipality must focus on data cleansing, credit control and debt collection at the municipality, to improve the collection of outstanding balances owed by debtors.
- Management and Council must strengthen the cost containment exercises to minimise expenditure.
- Council and management must enforce adherence to internal controls relating to financial management and monitoring, including performing monthly reviews.

15.8 Effective Governance:

- Council and management must exercise oversight over the timeous implementation of action plans to address audit findings (internal and external audit), including holding management accountable for unresolved findings.
- Council must investigate the process followed in entering the contract with Umngeni Water with the objective of identifying if all business processes and legal requirements were followed.
- Council must seek further intervention as the current s139 does not appear to be effective at the municipality.

15.9 Compliance with legislation and ethics:

- Management must exercise oversight over adherence to approved policies, processes, and controls. Non-adherence must be strictly dealt with by management and council oversight structures.
- Management must formulate and implement a system of monitoring compliance at the municipality, including allocating the required resources to this function.
- Council must address the incurrence of UIFW in line with S32 of the MFMA. This must include conducting investigations by a Council Committee and holding those that are liable to account.
- The accounting officer must ensure development of the Compliance Management Framework and Ethic Management Framework.

15.10 uThukela Development Agency:

- Council must regularise the governance structure of the agency, including compliance with the provisions of Chapter 10 of the MFMA.
- Council must finalize the appointment of the Audit Committee of the Agency as per s166 of the MFMA.

15.11 Auditor General's Report:

- An audit action plan that addresses the root cause of the 2022-2023 audit findings and audit risks on the 2023-2024 financial year must be developed, implemented, and monitored by management and council.
- The audit action plan must include as a minimum preventative, detective, and remedial action plans on the AGSA audit findings.
- Progress on the implementation of the AGSA audit action plan must be reported to oversight structures at least quarterly.

On behalf of the audit and performance audit committee:



Ms. Nosipho Mba CA (SA)

Audit and Performance Audit Committee Chairperson

05 January 2024.