

AUDIT COMMITTEE REPORT

For the year ended 30 June 2025 for Ba-Phalaborwa Local Municipality

The Audit Committee presents its report for the financial year ended 30 June 2025, in accordance with section 166(2) of the Municipal Finance Management Act (MFMA), Act 56 of 2003, Treasury Regulations, and the principles of King IV on Corporate Governance.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee (AC) was established in terms of section 166 of the Municipal Finance Management Act (MFMA). Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (MFMA), as amended, requires a municipality to establish an independent audit committee which must advise the municipal council, political office-bearers, accounting officer and management on matters relating to internal financial controls and internal audits, risk management, and accounting policies; as well as provide advice on the adequacy, reliability and accuracy of financial reporting and information within the municipality. In addition, the committee advises on performance management, risk management, effective governance, compliance with the MFMA, the annual Division of Revenue Act, and any other applicable legislation and performance evaluation.

The Audit Committee was able to meet twelve (13) times during the financial year under review as per the approved terms of reference. The meetings included the 9 special and 4 normal Audit Committee meetings. The Chief Audit Executive is a permanent invitee to the Audit Committee and has unrestricted access to bring any matter within the scope and responsibility of the Internal Audit Activity to the attention of the committee.

Below is the summary of tenure, qualifications, and meeting attendances of the members:

NAME OF THE MEMBER	QUALIFICATIONS	NUMBER OF MEETINGS ATTENDED	TENURE PERIOD
Mpjane JN CA (SA) RA (Chairperson)	Chartered Accountant registered with SAICA Registered Auditor Baccalaureus Computanionis Honours Bachelor of Commerce in Accounting	11 (85%)	04 September 2024 to 31 August 2027
Ramutsheli MP (Member)	Masters Degree in Internal Auditing B.Tech in Internal Auditing National Diploma in Internal Auditing Certified Internal Auditor Certified Ethics Officer Institute of Internal Auditing Ethics Institute of South Africa	12 (92%)	05 March 2024 to 28 February 2027
Masemola KG (Member)	B.Tech Internal Audit National Diploma Internal Audit Certified Information Systems Auditor (CISA) Certified Information Security Management (CISM)	12 (92%)	05 March 2024 to 28 February 2027

	SAP Certified Associate Accredited Trainer – CISA & CISM ISACA IIA		
Ndlovu HH (Member)	Magister Technologiae in Engineering: Civil Master of Science in Building Baccalaureus Technologiae in Engineering: Civil (Urban Engineering) Registered Certificate as Professional Engineering Technologist	10 (77%)	04 October 2024 – 30 September 2027
Modipane TC	Chartered Accountant registered with SAICA B.com in Accounting B. Com Honors in Accounting Higher Diploma in Auditing	2 (15%)	Contract expired on 31 August 2024
Adv Nevondwe LT	Master of Laws (LLM) in Human Rights Law Bachelor of Laws (LLB) Member of the Legal Practice Council (LPC) Member of the Institute of Directors of South Africa (IODSA)	2 (15%)	Contract expired on 31 August 2024
Simelane SP	B. Com Accounting B. Com accounting Honours Chartered Accountant registered with SAICA	2 (15%)	Contract expired on 31 August 2024

Four committee meetings and nine special committee meetings were held during the year. The nine special meetings were for the purposes of:

- 2022/2023 Draft Annual Financial Statements (before submission to the AGSA)
- 2022/2023 Annual Performance Report & Risk Management Reports
- 2022/2023 Audit Strategy and Engagement Letter
- 2022/2023 Audit Report
- In-Committee meeting for AGSA to report to the audit Committee on critical audit findings.
- 2022/2023 Mid-Year Budget and Performance Report
- 2024/2025 Budget and IDP
- Review of Budget & Treasury Department
- 2024/2025 Internal Audit Plan approval

The Audit Committee meeting agendas are comprehensive and require diligent preparation by the committee members, and all members participate in the meetings with the highest levels of professionalism, commitment, integrity, and objectivity. The AC meetings were attended by:

- Municipal Manager
- All Senior Managers and Managers.
- Other officials (as and when required).
- Chief Audit Executive, and relevant staff.
- Limpopo Provincial Treasury & National Treasury Representative.
- Limpopo SALGA Representative
- CoGHSTA Representative; and
- AGSA Representative.

AUDIT COMMITTEE RESPONSIBILITY

The audit committee confirms that it has complied with its responsibilities arising from section 166 of Municipal Finance Management Act, 2003, (Act 56 of 2003), section 79 of Municipal Structures Act 117, 1998 (Act 117 of 1998) and paragraph 14 (2)(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 and the King IV Report on the Best Practices on Corporate Governance for South Africa. The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, and regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL

Based on reports from the Auditor-General of South Africa, Internal Audit, and management, the overall control environment remained stagnant. The systems of internal controls applied by the Municipality over financial and risk management have not improved. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls of the Municipality have been fairly designed; however, they are not fully efficient and effective. This results from failure to identify control weaknesses and non-implementation of recommended improvements to the controls and processes.

Significant deficiencies persist in the following areas:

- Financial statement preparation and review
- Performance information controls
- ICT governance
- Human resource management
- Action plans are not consistently monitored or implemented

From the Audit Report of the Auditor-General of South Africa on the annual financial statements of the municipality, the Municipality received a qualified audit opinion for the year under review, which is the same opinion as the prior year. Management did not fully resolve the findings raised by Internal Audit. However, management resolved all the Auditor General's findings in the year under review. We recommended that management develop and implement an action plan to address all the findings raised by the Auditor General and Internal Audit to strengthen the efficiency and effectiveness of the systems of internal controls over financial reporting.

REVIEW AND EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

The draft AFS were presented by management, and the AC was able to provide inputs on the set that was presented. However, at the time of review, the set that was presented by management was materially incomplete as the following components were due to be finalised due to the billing systems related issues:

- Receivables,
- Consumer debtors,
- Revenue,
- Payables,
- The Audit Committee reviewed the audited annual financial statements to be included in the annual report.
- The Audit Committee reviewed the Municipality compliance with legal and regulatory provisions.
- The Audit Committee reviewed the Auditor General's management report and audit report.
- The Audit Committee reviewed significant adjustments resulting from the audit.

INTERNAL AUDIT

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Municipality and its audits. Internal audit performed the audit of internal controls of the Municipality. The Audit Committee noted some improvement in the effectiveness of the internal controls during the financial year. This is a positive reflection on the quality of work produced by Internal Audit and on management's commitment to quality and good governance. The Committee has noted that there is a need to improve monitoring, oversight and implementation by Management in managing internal controls.

RESOLVING INTERNAL CONTROL FINDINGS

Internal Audit conducted a follow-up audit on internal audit findings issued previously to management. The implementation is at 47% implemented, 44% in-progress and 9 not implemented. The AC has raised concerns on the decline on resolving Internal Audit findings. The Accounting Officer has assured the Audit Committee of a strategy she has put in place to ensure improvement. The Audit Committee will closely monitor the implementation of the internal audit findings. Management should implement recommendations as outlined and agreed to in the audit reports and Internal Audit Action Plan.

INTERNAL AUDIT EFFECTIVENESS

The Internal Audit activities are carried out by an in-house department operating in terms of an Internal Audit Charter and an annually approved audit plan. There has been no compromise of the independence or objectivity of the function during the year under review.

The Chief Audit Executive (CAE) reports functionally to the Audit Committee and administratively to the Municipal Manager with unfettered access to the Mayor. We are concerned about the excessive use of Internal Audit resources to coordinate activities of council governance structures. We recommend that the Accounting Officer to delegate this responsibility to a capable support staff or official in the municipality. This will ensure that the independence of the Internal Audit function is maintained and will also free up the internal audit resource solely for internal audit function. The Committee is satisfied with the independence and technical competence of Internal Audit, but notes that management implementation of recommendations remains slow.

The municipality appointed accredited external quality assessors to conduct an external quality assurance review of the Internal Audit activity in the previous financial year. The outcome of the assessment has an overall rating of Generally Conforms, which simply means the Internal Audit Activity of Ba-Phalaborwa Municipality generally conforms with the Institute of Internal Auditors (IIA) Attributes Standards, Performance Standards, and Code of Ethics. The outcome of the assessment came with recommendations that will improve the value of the services provided by the Internal Audit activity, improve the implementation of the initiatives already underway, and advance the Internal Audit activity toward its vision. Internal Audit developed and presented the action plan to address the External Quality Review findings, which was at 100% implementation by year-end.

The Municipality complies with and conforms to the Global Internal Audit Standards (GIAS), which became effective as of January 9, 2025. The Annual Periodic Assessment was conducted by the Internal Audit Activity on the Global Internal Audit Standards and results reported to the Audit Committee with areas of improvements highlighted. The Audit Committee will continue monitoring the action plan on the areas of improvement as reported by Internal Audit.

COMBINED ASSURANCE

The responsibility for coordinating combined assurance rests with Internal Audit and the Combined Assurance Forum. The Combined assurance framework and terms of reference was reviewed by the Audit Committee and approved by Council in the year under review. Reports from the Combined Assurance Forum was tabled by the Chief Audit Executive throughout all normal Audit Committee meetings. The Audit Committee is satisfied with the effectiveness of the Combined Assurance Forum. Management must strive to ensure effective implementation of Combined Assurance Forum recommendations to ensure improved control environment.

RISK MANAGEMENT

The Audit Committee is satisfied that risk management is continually improving within the Municipality. However, management needs to ensure that there is improved coordination between risk management and strategic planning functions so that resources can be allocated optimally to address the top risks of the Municipality. The Committee recommends stronger monitoring of high and critical risks, with clear accountability for mitigation.

PERFORMANCE INFORMATION

The Audit Committee is satisfied that the preparation and reporting on performance information of the Municipality are improving. However, there must be improvements in the submission of the Annual Performance Report and performance information to the Audit Committee and Internal Audit for adequate review.

The Audit Committee considered the audit results on performance information and noted that:

- Material misstatements in performance information were identified but corrected during the audit
- Weaknesses persist in the verification of reported achievement as well as the management of indigent household data
- Planned targets for Basic Service Delivery were not fully achieved

The Committee emphasises the importance of credible, evidence-based performance reporting aligned to the IDP and SDBIP

QUALITY OF IN-YEAR REPORTING

Management was able to table all quarterly financial reports and performance reports for the financial year 2024/25. However, management failed to prepare adequate interim financial statements as advised by the Committee. This limited the review by the Audit Committee as the components that led to the qualification in 2023/24 were not corrected in the interim financial statements prepared. The Audit Committee continues to advise management to prepare quarterly or even interim financial statements in the coming financial year to allow adequate review by all relevant stakeholders. The Audit Committee also advised Internal Audit to do a detailed review of the implementation of the financial system.

ICT GOVERNANCE

The Audit Committee reviewed reports from the ICT Steering Committee in the year under review. Internal Audit and Auditor General findings relating to ICT were not fully implemented, and this is due to poor ICT Infrastructure, lack of capacity in the IT department, and financial constraints. The ICT Steering Committee is chaired by a qualified Chairperson who assists in capacitating the unit and improving the controls thereof.

COMPLIANCE WITH LAWS AND REGULATIONS

The Audit Committee reviewed reports on compliance and noted continued material non-compliance, including late or inadequate investigations into irregular, fruitless, and wasteful expenditure; weak consequence management; non-compliance in budget management and expenditure management. The Committee remains concerned about the lack of effective consequence management, which undermines accountability.

MATERIAL LOSSES

The Audit Committee notes with concern the continued increase in electricity distribution losses, which reached 32.2%, far exceeding acceptable norms. Management is urged to prioritise interventions to address infrastructure challenges, meter tampering, and system inefficiencies.

AUDITOR-GENERAL OF SOUTH AFRICA

The Audit Committee, in consultation with management, agreed to the terms of the engagement and approved the Audit Strategy. The audit fee for the external audit has been considered and approved, taking into consideration such factors as the timing of the audit, the extent of the work required, and the scope.

The audit committee has met with the Auditor-General of South Africa to ensure that no unresolved issues remain. The committee concurs with and accepts the Auditor-General of South Africa's report on the annual financial statements and believes that the audited annual financial statements should be accepted and read together with the report. The auditors remained independent throughout the financial year.

REPORTING

The Audit Committee tabled all its quarterly reports to the Municipality Council, reporting on matters attended to during the relevant quarter.

APPRECIATION

The Audit Committee wishes to thank the Municipal Council, management, and the staff for their continued commitment to improving the effective control environment and good governance of Municipality. Our appreciation is also extended to the team from the Auditor-General South Africa for the independent value that they continue to add to the Municipality.



Mr JN Mpjane CA(SA) RA
Audit Committee Chairperson
Ba-Phalaborwa Municipality