Justin Coerecius

Subject: FW: CAE Input: Workshop - Budget-Related Policies meeting 08 May 2025

From: Sharon Green <Sharon.Green@capewinelands.gov.za>
Sent: Monday, 12 May 2025 09:22
To: Fiona Du Raan-Groenewald <fiona@capewinelands.gov.za>; Martin Lesch <martinlesch@capewinelands.gov.za>
Cc: Wilhelm Markus <wilhelmmarkus1@gmail.com>
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Good Morning Fiona / Martin

I trust this message finds you well.

In accordance with the MFMA, the Internal Audit Charter, and the International Standards for the Professional Practice of Internal Auditing, the Chief Audit Executive (CAE) is required to provide independent and objective assurance and consulting services aimed at adding value and enhancing the municipality's operations. This includes offering advisory input, in the capacity of a trusted advisor, on the governance, risk management, and internal control implications of policies and any proposed amendments.

As I, unfortunately, did not have prior access to the presentation before the meeting, please find below my input for consideration:

GENERAL QUESTIONS FOR ALL POLICIES

1. Stakeholder Engagement
Have these policy amendments been adequately workshopped with affected directorates and stakeholders?
Reason: Promotes transparency, accountability, and buy-in.

2. Implementation Readiness
Are internal control mechanisms (SOPs, delegations, ICT systems) ready to support the changes?
Reason: Ensures smooth transition, avoids control failures.

3. Audit Trail and Reporting
Will the amendments impact any current internal audit controls, AG compliance findings, or performance audits?
Reason: Important for risk management and assurance planning.

POLICIES

TARIFF POLICY – Proposed Additions: Interest on Overdue Accounts

1. Ensure Policy Alignment with the MFMA and MSA

Has legal verification been conducted to confirm that the proposed interest provisions (e.g., 1% above prime, calculation from posting date) align fully with the MFMA, MSA, and applicable National Treasury regulations?

Reason:

- *Governance:* Sound governance requires policy consistency with legislation. Deviations or misalignments may lead to irregularities or audit findings.
- *Risk:* Legal non-compliance could result in reputational damage and financial exposure to litigation or adverse audit outcomes.
- *Control:* This input ensures that internal controls over revenue management operate within a legally approved framework.

2. Interest Rate Benchmarking and Reasonableness

What benchmarking or financial modelling was performed to justify setting the interest rate at "1% higher than the prime rate"? Is this considered equitable and in line with practices in comparable municipalities?

Reason:

- *Governance:* Responsible decision-making includes benchmarking and reasonableness testing.
- *Risk:* Excessively punitive or arbitrary rates may lead to public backlash, affordability concerns, and non-payment.
- *Control:* Ensures the policy supports realistic revenue collection and does not inadvertently increase bad debts.

3. Impact Assessment and System Readiness

Has a readiness assessment been done to ensure that billing systems, interest calculation modules, and staff are equipped to implement and monitor the proposed changes accurately and consistently?

Reason:

- *Governance:* Policies must be practically implementable.
- *Risk:* Manual processes or unprepared systems may introduce calculation errors or disputes.
- *Control:* Automated controls must be built into systems for consistency, audit trails, and accountability.

4. Stakeholder Communication Plan

Has a communication plan been developed to inform businesses and residents of the amended tariff policy, particularly regarding overdue account interest for specific services?

Reason:

- *Governance:* Public participation and awareness are key components of democratic governance.
- *Risk:* Sudden enforcement without communication could lead to public dissatisfaction and reputational risk.
- *Control:* Proactive communication prevents disputes and ensures informed compliance.

While I acknowledge the need to enforce timely payment and cost recovery, I would recommend that the policy explicitly defines the approval process, communication methods, and system controls for the implementation of interest on overdue accounts.

CREDIT CONTROL AND DEBT COLLECTION POLICY – Interest Charges on Overdue Accounts

Credit Control and Debt Collection Policy – New Section 9.1

How does the new interest charging mechanism align with the municipality's socio-economic objectives?

Reason:

- *Governance:* Ensures alignment between financial recovery and socio-economic objectives.
- *Risk:* Risk of non-payment or increased resistance in low-income areas.
- *Control:* Requires safeguards and exceptions handling mechanisms.

CASH MANAGEMENT AND INVESTMENT Policy – Amendment to Section 6.5

Have cybersecurity risks been considered now that investment documentation is stored electronically?

Reason:

- *Governance:* Policies must reflect current risk environment.
- *Risk:* Increased cyber threat exposure.
- *Control:* Need for encryption, restricted access, regular backups.

Is there an updated Standard Operating Procedure or ICT policy that guides secure storage and retrieval of digital investment records?

Reason:

- *Governance:* Internal policies must align.

- *Risk:* Inconsistent practices may lead to data loss or fraud.
- *Control:* Reinforces audit trail and record retention.

VIREMENT POLICY

Virement Policy – Amendment to Section 1.13

Has the revised vote structure been aligned with the current IDP, departmental strategic objectives, and performance indicators?

Reason:

- *Governance:* Ensures coherence between planning and budgeting.
- *Risk:* Misalignment may lead to ineffective resource allocation.
- *Control:* Enhances performance tracking and reporting.

Additionally, it was stated that the "Subsistence and Travel Policy" (refer to slide 43) forms part of the budget-related policies for which no amendments were made. However, please note that Internal Audit submitted a report to the Municipal Manager on 21 February 2025 highlighting weaknesses, improvement areas, and recommendations related to the Travel Claims Policy. This report was subsequently referred by the Municipal Manager to Ms. Julie for further action.

I trust the above input will be of value and will be duly considered in the process.

Kind Regards

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