



CHRIS HANI DISTRICT MUNICIPALITY

Management Report

For the year ended 30 June 2019



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence



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AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE CHRIS HANI DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 June 2019

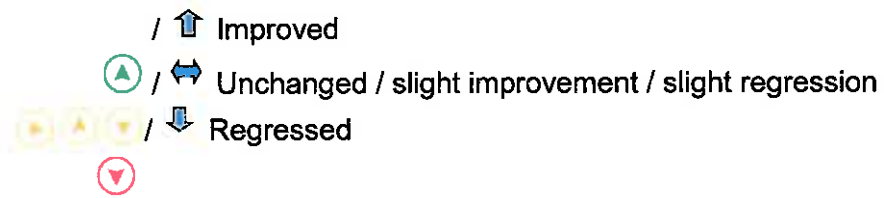
INTRODUCTION

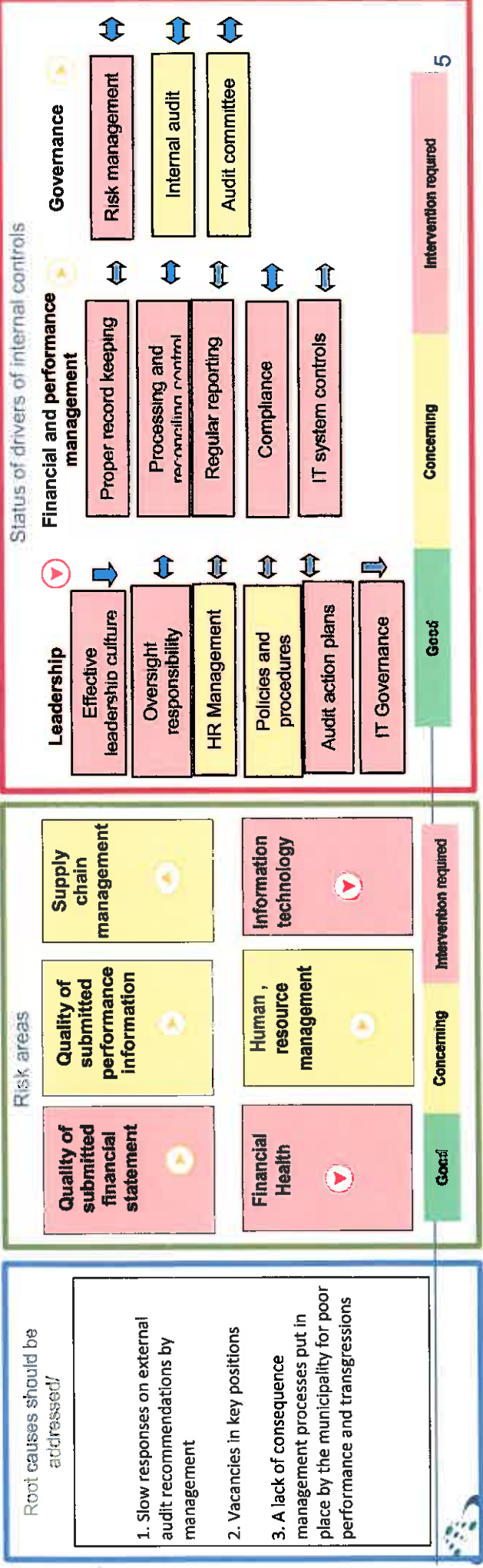
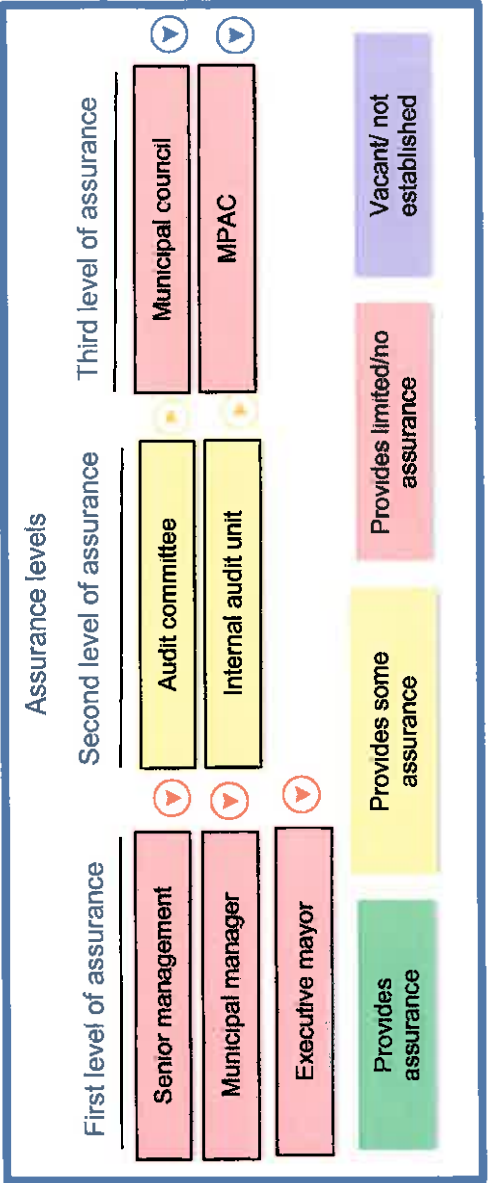
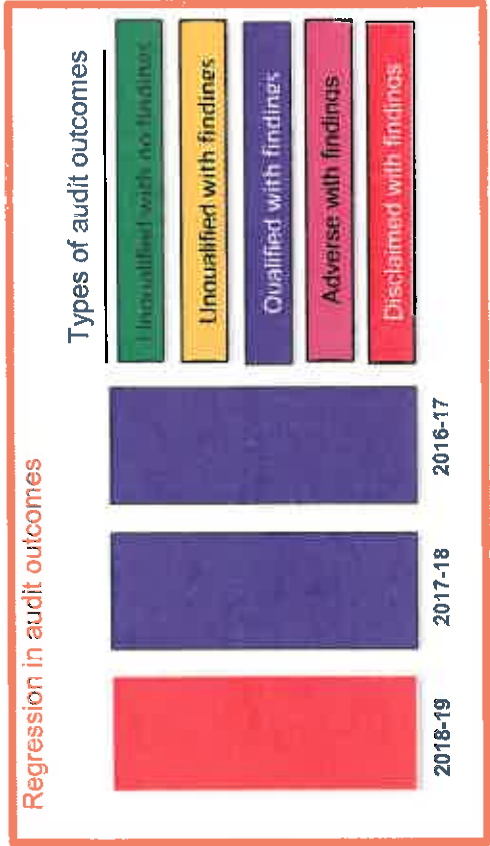
1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2019.
2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the consolidated and separate financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected key performance areas, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).
4. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
5. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
6. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
7. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.
8. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
 - Status of the audit outcomes
 - Status of the level of assurance provided by key role players
 - Status of the drivers of internal controls



- Status of risk areas
- Root causes to be addressed

Movement from the previous year is depicted as follows:¹





OVERALL MESSAGE

9. The financial statement audit outcomes of the municipality regressed to a disclaimer of opinion, whilst performance reporting and compliance with laws and regulations remained the same. In particular transgressions with supply chain management regulations remain a challenge as the municipality continues to incur irregular and fruitless and wasteful expenditure.
10. The instability in administrative leadership hampered an improvement in the control environment within the municipality.
11. Basic disciplines as well as regular reviews of financial and performance information were not in place. There has been lack of regular processing, reconciliations and reviews of transactions incurred during the year.
12. The municipality developed an audit action plan to address external audit findings, but the plan was not adequate as it was not addressing the root causes of the findings, and management did not monitor the implementation of the plan in a timely manner and this resulted in recurring findings in revenue from exchange transactions and receivables from exchange transactions, irregular expenditure and water distribution losses.
13. Council has not investigated irregular, fruitless and wasteful expenditure as required by section 32 of the Municipal Finance Management Act (MFMA) so as to hold those responsible accountable and recover the irregular, fruitless and wasteful expenditure.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

14. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Executive mayor	Introduction of business executive to the mayor, update on audit status and PAA amendments. Presentation of draft audit report.	2
Municipal manager	Presentation of engagement letter, audit strategy and update on audit status through audit steering committee meetings.	6
Audit committee	Presentation of audit strategy, update on audit status and presentation of material misstatements. Presentation of draft audit report.	3
Provincial Treasury	Update on audit status and presentation of material misstatements. Presentation of draft audit report.	2

15. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee:
 - Implementation of new methodology in computing materiality after the end of the 3 year phase in period
 - Impact of prior year uncorrected misstatements on current year audit opinion



- The assessment of the municipality's audit action plan
- Addressing the prior year root causes
- Supply chain management and irregular expenditure
- Following up on previous commitments made
- Financial statement items requiring attention

16. Some stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

17. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).
18. The misstatements that were not corrected form the basis for the disclaimer of opinion on the consolidated financial statements.

Material misstatement				Impact R current year	Impact R previous year
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)			
Material misstatements not corrected ²					
Non-current assets					
Property, plant and equipment	COAF 19 : Property Plant and Equipment: Assets register balances different from an nual financial statements balances (ISS.68)	No		41 113 668	0
	COAF20 Property Plant and Equipment: Non submission of information to support Other Changes Movements (ISS.69)	No		7 691 554	0
	(COAF38) Land incorrectly classified as buildings.(ISS.133)	No		26 313 061	0
	(COAF 38) Ownership of buildings could not be confirmed (ISS.134)	No		18 634 698	0
	(COAF 85) Differences in depreciation recalculation for movable assets (ISS.148&ISS.146)	No		15 854 543	0
	COAF 85: Opening balance - Movable assets: Incorrect Carrying values (ISS.147)	No		12 254 664	0

Financial statement item	Material misstatement			Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)			
	COAF 85: Incorrect items capitalised to the cost of the asset (ISS.149)	No		112 799	0
	COAF 85: PPE: Movable assets - additions: Incorrect calculation of Carrying Value (ISS.150)	No		148 107	0
	(COAF 38) Movable assets selected from Municipal premises could not be traced back to Municipality fixed asset register (ISS.138)	No		15 987 577	0
	(COAF 38) Land and Buildings: Assets owned by Municipality per EC dees register could not be traced back to the asset register (ISS.137)	No		79 984 249	0
	(COAF 29) Some assets recorded in the fixed asset register, could not be traced to the GIS (ISS.104)	No		25 466 237	0
	(COAF 90) Property Plant and Equipment: Work in Progress: Projects per the Contract Register do not appear in the Work in Progress register (ISS.185)	No		146 830 618	0
	(COAF 106) Property Plant and Equipment: Infrastructure: Infrastructure assets overstated as impairment assessment was not done for all assets (ISS.215)	No		362 276 897	0
	COAF106: Property, Plant and Equipment: Infrastructure Assets : Fully depreciated assets not re-assessed for useful life (ISS.239)	No		85 632 128	0
	COAF 106: Assets: Infrastructure: Non High value items: Depreciation is inaccurately calculated (ISS.241)	No		8 018 550	0

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
	COAF 106: PPE : Infrastructure : High Value items : Depreciation has been inaccurately calculated on assets:(ISS.250)	No	23 624 171	0
	(COAF 115) Property Plant and Equipment: (All Assets) :Presentation and Disclosure issues raised (ISS.257)	No	258 372 080	0
	COAF 31: PPE: General Findings on the asset register: CAATS1 - duplicate asset no (ISS.88)	No	3 130 015	0
	COAF 31PPE: General Findings on the asset register: CAATS 2 - Assets without barcodes/serial no (ISS.89)	No	17 120 676	0
	COAF 31: PPE CAATS - Opening Balances - Negative balance in the cost and /or accumulated depreciation (ISS.91)	No	670 602	0
	COAF 31 PPE:CAATS: Opening Balances - Duplicate assets (ISS.92)	No	2 670 134	0
	COAF 31: PPE CAATS - Opening Balance - - Increases: Cost and Accumulated depreciation in PY closing balances which increased in CY opening balances (ISS.95)	No	322 174	0
	COAF 31: PPE CAATS - Opening Balances_Cost and Accumulated depreciation in PY closing balances which decreased in CY opening balances (ISS.96)	No	10 769 041	0
	COAF 58 :PPE-Opening Movable assets: Existence (ISS.154)	No	153 091	0

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
Current assets	COAF 94 : PPE - Movable assets: Disposal: Incorrect disposal amount (ISS.170)	No	103 048	
	Inventory (COAF33 & 83) Internal audit identified material control deficiencies for the count conducted in May 2019. Further to this internal audit as well as external auditors were not invited to the year-end count to confirm if the control deficiencies were addressed. Because of the identified control deficiencies, we could not confirm the value of stock on hand as at 30 June 2019. The balance could not be confirmed by alternative means (ISS.72 & ISS.208).	No	11 790 363	0
VAT receivables	(COAF 81) The amount recorded in the financial statements does not agree to the statement of account received from SARS.(ISS.200) Limitation on the VAT amount due to limitation on revenue from exchange transactions, receivables from exchange transactions and payables from exchange transactions.	No	168 541 674	0
Receivable from exchange	(COAF 84)During the prior year audit, sufficient appropriate audit evidence was not available to	Yes	238 157 552	148 572 940

Financial statement item	Material misstatement		Occurred in prior year (Insert Yes/No)	Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditor not correcting the misstatement when applicable.)				
transactions, Allowance for Impairment and Interest-debtors	support receivables and revenue from exchange transactions. This was due to the poor status of the accounting records for revenue and receivables. This then resulted in a limitation of scope for the closing balance for receivables from exchange transactions as at 30 June 2018 of R113 459 936 and the prior year misstatement was not corrected. In the current year, material misstatements were identified in revenue from exchange transactions, which resulted in the closing balance of receivables in the current year being materially misstated(ISS.199)				
	(COAF 84) Interest on debtors could not be audited, as the balance of receivables that the interest is based on is materially misstated (ISS.199)	Yes	38 495 455	11 355 471	
	(COAF 84) Due to limitation on receivables there is a limitation on the allowance for impairment (ISS.199)	Yes	1 421 501 524	1 222 102 221	
	(COAF 84) Due to limitation on receivables there is a limitation on the impairment expense recorded in the statement of financial performance (ISS.199)	Yes	173 390 698	267 391 721	
Current liabilities					

Financial statement item	Material misstatement			Impact	
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R current year	Impact R previous year	
Payable from exchange transactions	(COAF 69) Disagreement It was noted that retention amounts per payment certificate were different from what was recorded in the municipalities records. (ISS.166)	No	932 783	0	
	COAF: 67- Accrued leave pay limitation of scope (ISS.184)	No	627 942	0	
	COAF 45 : Execution-Trade Payables: Existence (Journals incorrectly included in the accrual listing) and Valuation (ISS.87)	No	33 797 400	0	
	COAF 52: Execution Retentions: Accuracy (Retention amounts incorrectly calculated in payment certificates) (ISS.129)	No	690 719	0	
	(COAF 110) Payables Journals-non submission of information (Scope Limitation) (ISS.246)	No	12 703 511	0	
Unspent conditional grants	COAF 108: Payments received in advance Scope Limitation (ISS.236)	No	6 192 028	0	
	(COAF36) The municipality could not provide evidence that the unspent conditional grants (provincial and national funds) disclosed in the financial statements was received, and is still payable.(ISS.141)	Yes	42 936 412	49 136 412	

Financial statement item	Material misstatement		Occurred in prior year (Insert Yes/No)	Impact R current year	Impact R previous year
	Finding	(Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)			
Revenue from exchange transactions		(COAF 61) Not all customers were billed in the current year.(ISS.177)	Yes	26 181 501	254 878 913
		COAF 61 ISS.174: Execution: Revenue exchange transactions: Debtors with overdue account not charged interest (ISS.174)	Yes	38 495 455	
		COAF 61: Execution:Revenue exchange transactions: Interest charged does not agree to re-calculated interest (ISS.175)	Yes	30 776 647	
		(COAF49)Differences were identified when recalculating the estimated billing used for customers.	Yes	27 991 549	
		(COAF 49) Some customers were charged fixed estimated units for consumption; we are unable to recalculate the estimate as we cannot determine the basis for management calculations.	Yes	40 757 276	
		(COAF65) Revenue was charged using incorrect tariffs (ISS.132)	Yes		
Disclosure			No	26 823 343	0
		(COAF 80) Irregular expenditure – Irregular expenditure disclosed in the AFS does not agree to supporting documentation(ISS.185)	Yes	7 435 499	90 955 438
		(COAF 80) Irregular expenditure: Limitation on current year irregular expenditure (ISS.190)			

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditor not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
	COAF 80 - Irregular expenditure: Irregular expenditure was not included on the irregular expenditure schedule (ISS.192)	No	895 082	0
	(COAF103) Execution SCM: Second highest point scorer unfairly disqualified (ISS.195)	No	516 088	0
Water distribution losses	(COAF 77) Sufficient appropriate audit evidence was not submitted by the municipality to support the disclosure on the financial statements, this then resulted in a material scope limitation The balance from the previous period decreased substantially, with no evidence provided by the municipality.	Yes	8 408 804 110 850 941	119 259 745
Prior year Misstatements	(COAF 59) PPE: Restatements - Limitation of Scope No sufficient appropriate evidence to support the restatements (ISS.167)	Yes	0	371 264 285
Cash flow statement	(COAF 113) Differences identified in the Cash flows from operating activities (ISS.248)	Yes	5 866 173	33 889 120

Material misstatement ¹				
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R current year	Impact R previous year
Cash flow statement	(COAF 113) Differences identified in the Net increase/(decrease) in cash and cash equivalents (ISS.249) Unexplained differences when casting the cash flow	Yes	75 305 389	154 713 797
Cash flow statement	(COAF 113) Differences identified in the Cash and cash equivalents at the beginning of the year (ISS.249) Unexplained differences when casting the cash flow	Yes	13 422 606	33 854 007
Material misstatements corrected				
Non-current liabilities				
Employee benefit obligation	(COAF 48) Execution: Employee benefit obligation Amount recognised in AFS does not agree to amount per GL and TB ISS.157	No	3 265 302	
	(COAF 60) Execution Employee benefit obligation, opening balance of defined medical benefit obligation does not agree to expert's report (ISS.172)	No	15 650 270	

Financial statement item	Material misstatement			Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)			
	(COAF60) The non-current liability portion disclosed in the AFS does not agree with the non-current portion per the expert's reports (ISS173)	No		471 445	
	(COAF 62) Provision for performance bonus was recognised in the financial statements without an assessment of performance being done (ISS.176)	No		992 953.61	
Current liabilities					
Payable from exchange transactions	(COAF 68) We were unable to confirm if the Municipality has an obligation for transactions recorded as payables at year-end, as according to the supporting documentation submitted the transactions were cancelled (ISS.161) (COAF 71) Execution-Trade Payables: Workman's compensation fund liability raised at an amount that does not agree to Letter from department of Labour (ISS.104)	No		29 586 454	0
		No		81 475 457	0
Unspent conditional grants	(COAF36) Unspent conditional grants and receipts, recalculated amount does not agree with amount disclosed in the AFS(ISS.140)	No		13 035 730	0

Financial statement item	Material misstatement			Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)			
Revenue Revenue from non-exchange	(COAF 27) Revenue from non exchange transactions were understated for equitable share as management recognised the amount actually received instead of the amount allocated as per the allocation letter (ISS.74)	No		18 213 000	0
	(COAF27) The LG SETA grant was not recognised in the financial statement. (ISS.75)	No		669 190	0
Expenditure	COAF 41 Disagreement Instances were noted where general expenditure was recorded inclusive of VAT(ISS.64).	No		1 396 808	0
	COAF 14 Disagreement Instances were noted where VAT was incorrectly charged on fuel and oil (ISS.71)	No		298 970	0

Financial statement item	Material misstatement			Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)			
	COAF 41 Disagreement Instances were noted where expenditure from contracted services was recorded inclusive of VAT (ISS.76)	No	831 050	0	
	COAF 41 Disagreement Instances were identified where expenditure was recognised as repairs and maintenance instead of being capitalised. (ISS.84)	No	106 989 924	0	
Disclosure					
Irregular expenditure	(COAF 34) Execution SCM: Deviation not inline with SCM regulations (ISS. 100)	No	713 196	0	
	(COAF 47) Execution SCM: Discrepancies with evaluation of bids (ISS.49)	No	7 609 860	0	
	(COAF 44) ISS. 65 Execution SCM: Declaration submitted after the award (iss.65)	No	1 865 797	0	
	(COAF 44) Execution SCM: Declaration of interest not submitted for audit (ISS. 152)	No	624 030	0	
	CoAF 51 Procurement and Contract management - Quotations not procured per SCM regulations (ISS.143)	Yes	8 656 412	7 495 789	

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
	(COAF 80) Irregular expenditure: Irregular expenditure was not included on the irregular expenditure schedule (ISS.188)		4 234 544	
Commitments	(COAF 88) Disagreement (Overstatement) Instances were identified where commitments were recognised for project not yet contracted for but only authorised by the accounting officer	Yes	568 391 299	118 641 000
	COAF 98) Disagreement (Understatement) Instances were identified where commitments that should have been included in the disclosure were not included.	Yes	741 649 669	
	(COAF 88) Disagreement (Overstatement) Differences were noted when re-calculating note 35 commitments.	Yes	262 400 445	
	(COAF 92) Disagreement (Understatement) The amount of commitment disclosed in the disclosure note did not agree to the auditors recalculated amount.	Yes	6 886 221	
	(COAF 95) Disagreement (Understatement)	Yes	15 976 669	

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)		
	The amount of commitment disclosed in the disclosure note did not agree to the auditors recalculated amount.			

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

19. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

20. As disclosed in note 45 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 have been restated because of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Unauthorised expenditure

21. As disclosed in note 48 to the consolidated and separate financial statements, the municipality has accumulated unauthorised expenditure amounting to R616 million relating to prior years. Council has not investigated the unauthorised expenditure.

Fruitless and wasteful expenditure

22. As disclosed in note 49 to the consolidated and separate financial statements, the municipality has accumulated fruitless and wasteful expenditure amounting to R4 million from prior years, while R10,9 million (2017-18: R0,4 million) was incurred in the current year. This resulted in a closing balance of R14,9 million during the current year. Council did not investigate the fruitless and wasteful expenditure.

Underspending of the budget

23. As disclosed in the statement of comparison of budget and actual amounts, the municipality materially underspent the budget by R127 million.

Other matter paragraphs

24. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes


25. In terms of section 125(2)(e) of the MFMA, the entity is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

AUDIT OF THE ANNUAL PERFORMANCE REPORT

26. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

27. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected key performance area (KPA) presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance area	Pages in annual performance report	Opinion	Movement ³
KPA 2: Basic service delivery and infrastructure development	xxx- xxx	Qualified opinion	

28. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: Assurance engagements other than audits or reviews of historical financial information.

29. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPA2: Basic service delivery and infrastructure development

Qualified opinion

30. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the reported performance information for KPA 2: Basic service delivery and infrastructure development is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Basis for qualified opinion

Various indicators

31. The following reported achievements were not consistent with the planned and reported indicators and targets.

Indicator code	Planned and reported Indicator	Planned and reported target	Reported performance achievement
SDI 1	Number of households served with quality basic water	1632 Households served RDP Standards by 30 June 2019	<p>Target not achieved</p> <p>83 Households served with RDP Standard (Lunda Village Reticulation (ward 1 Engcobo completed)</p> <p>1) Noluthando Iuvakala phase 2 (Ward 5 Emalahleni) – 522 households in construction</p> <p>2) Jiphuths Makiki phase 2 (ward 6 Emalahleni) 371 households in construction</p> <p>3) Lokishini Water Supply (ward 13 Engcobo) 228 households in construction</p> <p>4) Upper Lufutha Interim Water Supply (ward 8 Sakhisizwe) 194 was completed in previous year</p> <p>5) Emqonci (ward 2 Engcobo) 144 households in construction</p> <p>6) Lunda Village Reticulation (Ward 1 Engcobo) completed with 83 households served with RDP Standard.</p>

Number of consumer and bulk implementation programmes implemented

32. I was unable to obtain sufficient appropriate audit evidence for target: 1 consumer and bulk implementation programmes implemented by 30 June 2019 that clearly defined the predetermined nature and required level of performance and method of calculation. This was due to a lack of proper systems and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

33. The reported achievement of 0 consumer and bulk implementation programmes implemented for target number of consumer and bulk implementation programmes implemented is not reliable as the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Number of process audit conducted in all 18 WWTW

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target: 1 Process audited conducted in all 18 WWTW. This was due to limitations placed on the scope of my work and lack of availability of sufficient and appropriate supporting evidence for the reported achievement. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 1 Process audited conducted in all 18 WWTW as reported in the annual performance report.

Various indicators

35. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Number of food premises monitored in line with food cosmetics and disinfectant act 54 of 1972 as Amended	669 food premises monitored in line with Food, Cosmetics and Disinfectants Act 54 of 1972 as Amended	777 food premises monitored in line with Food, Cosmetics and Disinfectants Act 54 of 1972 as Amended
Number of drinking water sample points monitored in accordance with SANS 241	2220 Drinking water samples monitored in accordance with SANS 241	1703 Drinking water samples monitored in accordance with SANS 241

Other matter

36. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

37. Refer to the annual performance report on page 84 to 100 for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 29 to 34 of this report.

Responsibilities of the accounting officer for the reported performance information

38. The accounting officer is responsible for the preparation of the performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

39. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected key performance areas presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
40. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
41. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

42. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements, performance reports and annual reports

43. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current liabilities; current liabilities; revenue; expenditure and disclosure items identified by the auditors in the submitted consolidated and separate financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer paragraph. Most of the disclosed irregular expenditure was caused by non-compliance with the supply chain management (SCM) regulations.
45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R10,9 million, as disclosed in note 49 to the consolidated and separate financial statement, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by interest and penalty on late payments.

Revenue management

46. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
47. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

Asset management

48. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
49. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
50. Capital assets were disposed of without the municipal council having decided in a meeting open to the public whether the assets were still needed to provide the minimum level of basic municipal services, as required by section 14(2)(a) of the MFMA.

Conditional grants

51. Performance in respect of programmes funded by the municipal infrastructure grant (MIG) and the water services infrastructure grant (WSIG) was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.



Strategic planning and performance management

52. The performance management system and related controls were not maintained as it did not describe how the performance planning, monitoring, measurement and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

53. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was reported in the prior year.
54. Bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2).
55. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
56. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was reported in the prior year. This non-compliance was identified in the procurement processes for the majority of the ongoing contracts, including project number 29/2010/MD(TS) – Elimination Rural Sanitation Backlog in CHDM: Region 2 Intsika Yethu, which is a key project.
57. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was reported in the prior year.

Human resource management

58. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act

Consequence management

59. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
60. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
61. Disciplinary proceedings were not instituted by the council where the report of independent investigators confirmed the financial misconduct by a senior manager, as required by 5(6) of the disciplinary regulations for senior managers and 6(8) of the municipal regulations on financial misconduct procedures and criminal proceedings.

OTHER INFORMATION

64. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in the auditor's report.
65. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
66. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected key performance indicator presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
67. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROLS

68. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 7, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

69. Leadership did not adequately exercise their effective leadership over financial reporting, reporting on pre-determined objectives, compliance and related internal controls. This was the result of not adequately monitoring the functioning of internal controls, in year reporting and progress with the implementation of the audit action plan. As a result, material misstatements on the financial statements and annual performance report were only identified during the audit process and non-compliance with legislation was not prevented.
70. Leadership has not started investigations of instances of unauthorised, irregular and fruitless and wasteful expenditure and transgressions by officials for the current and prior periods.
71. There was a slow response by leadership in implementing prior year recommendations made by external auditors. This has resulted in repeat qualification on revenue from exchange transactions, receivables from exchange transactions, irregular expenditure, water distribution losses and an overall regression in the financial statement audit outcome.

Oversight responsibility

72. Management was not always available throughout the audit and audit queries were not always addressed timeously. The municipality is year-end driven and the review of monthly financial reports were not adequate as material differences in underlying records were identified in numerous line items of the financial statements during the audit process and resulted in a disclaimer of audit opinion. These differences should have been identified and corrected before the start of the audit process.
73. Material findings relating to non-compliance and predetermined objectives were identified through the audit process thereby indicating that there is still insufficient oversight in these areas by leadership and those charged with governance. The municipality did not have sufficient monitoring controls to ensure adherence to the requirements of the FMPPI and this resulted in the material findings included in section 2.3 of this report.

Human resource management

74. An assessment of human resource management has identified the following deficiencies:

Management of vacancies

- The overall vacancy rate at year end decreased from 16% in the previous year to 7% in the current year.
- The senior management vacancy rate at year end increased from 14% in the prior to 29% in the current year.
- The municipal manager post is still vacant. Further, the director: technical services resigned, and the post was vacant as at 30 June 2019.
- The chief financial officer was on suspension for alleged financial misconduct.

Performance management

- The evaluation committee to perform the evaluations on the performance of senior management was not completed as required by regulation 27(4)(e) of the Municipal Performance regulations published in Government gazette No. 29089 dated 1 August 2006.
- No performance management system in place for employees other than senior managers.
- The municipality did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.

Policies and procedures

75. Despite management having documented policies and procedures to guide the operations, financial reporting and performance of the municipality, some of these policies were in draft and those approved in previous years were not reviewed in the current year thus there were numerous instances of non-compliance with legislation.
76. Material misstatements identified during the audit of the non-current assets, current assets, revenue, expenditure, and disclosures on commitments, water distribution losses and irregular expenditure and predetermined objectives are also indicative of a deficient control environment.

This is due to inadequate monitoring, oversight and review processes to ensure that these policies and procedures are being fully implemented.

77. The municipality did not have standard operating procedures in place to assist in ensuring the validity, accuracy, completeness and consistency of performance information reporting, with respect to service delivery, these were only developed after the issue was raised by external auditors. As a result some of the operating procedures are inadequate as material misstatements were still identified through the audit process.

Action plans to address internal control deficiencies

78. An audit action plan was developed to address external audit findings, and the adherence to the plan was not effectively monitored by the appropriate level of management, which resulted in that the root causes of the findings not being adequately addressed to prevent the same audit findings on financial, non-compliance with laws and regulations and predetermined objectives. Management did not develop an action plan to address findings raised by the internal audit unit.

Information technology governance framework

79. Intervention is required within the IT environment as the municipality had draft IT Governance framework and IT strategic plan. A skills gap analysis was not performed for IT staff. There was no process in place to monitor return on investment and benefit realisation for IT spending on infrastructure and software. The Service Level Agreements (SLA) were not adequately documented and some SLAs had expired. Further the performance management of SLA was not performed.

Financial and performance management

Proper record keeping

80. The audit file submitted with the financial statements was inadequate as most of the information supporting the financial statements such as, creditors age analysis, leave accrual listing, receivables from non exchange transactions listing and VAT 201 had to be requested subsequent to the submission of financial statements as it was not submitted with the financial statements. Further more amounts recorded in the financial statements for some line items did not agree to the supporting schedules.
81. The system of record management that provided for the maintenance of information that supported the reported performance contained in the annual performance report is still inadequate as material findings on the reliability of performance information were still identified during the audit. These deficiencies include a lack of information that relates to the collection, collation, verification, storing and reporting of actual performance information. This was due to the municipality submitting inadequate standard operating procedures in place to ensure that all documentation is properly maintained for performance management.
82. As indicated in the engagement letter, we agreed that all information requested for audit purposes would be submitted within three working days of the request. The municipality did not submit all the requested information within the agreed upon timeframe during the audit and in some instances only submitted the information after a communication of audit finding was issued on the non-submission of information.

Daily and monthly processing and reconciling of transactions

83. Weekly and monthly reconciliations were not adequately prepared for all financial statement line items, during the year including the following:

- Fixed asset register was not reconciled to the general ledger
- Payroll was not reconciled to the general ledger
- Revenue billing reports not reconciled to the general ledger
- Cash and cash equivalents main bank account not reconciled to general ledger

This was evidenced by the differences which were identified during the audit between these reports and the financial statements.

Regular, accurate and complete financial and performance reports

84. Management did not ensure that the financial statements are sufficiently supported by reliable and credible information as financial statements supporting schedules and reconciliations were not readily available for the audit and were not submitted with the financial statements. These resulted in material misstatements identified in the submitted financial statements.

85. The municipality does not have an effective system in place to collate and report on predetermined objectives. Management did not adequately review and analyse reported performance information against supporting evidence. This resulted in material misstatements in the annual performance report.

86. There is a reliance on the audit process to attempt to correct the accounting records and financial statements of the municipality.

Compliance monitoring

87. The municipality's compliance monitoring process has not been effective in the implementation and monitoring of controls to ensure compliance with its laws and regulations. This contributed to the repeat non-compliance findings in the current year.

Information technology systems

Security Management

88. Intervention is required around security management controls as management had A draft security management policy. The municipality was operating with an outdated antivirus and exception reports were not monitored. Assurance cannot be provided that machines were updated with latest patches and exception reports were not monitored as evidence was not provided. The municipality has a firewall in place however IT management had not ensured that security threats are managed, monitored and reviewed within a timely manner.

User Access Management

89. Intervention is required around design and implementation of user access controls as IT management had an approved user account management policy but gaps were identified in the policy. User access controls weren't in place to ensure that only valid and authorised users were allowed access to the application systems. There were no formal processes followed to

ensure that new users created and users requiring password resets on the systems were duly authorised. There was no process followed to review user access rights and administrator activities.

Program Change Management

90. Intervention is required for program change management controls as management had not ensured there were adequately designed and implemented controls as the program change management policy and procedures in draft format. Assurance could not be provided that there are formal processes followed for any changes made on the system such as completed form indicating the change requestor, deployment of changes, signoff for testing changes and committee approval.

Information Technology Service Continuity

91. Intervention is required with regards to IT service management controls, as DR Plan and backup policy was still in draft. Assurance could not be provided that backups performed were successful, verified for any errors as evidence provided was not sufficient as the backup evidence provided did not indicate whether the backups were successful or if there were errors, the size of the backup and where the backup is stored. Backup restorations were also not performed and backups were not taken to offsite storage.

Governance

Risk management activities and risk strategy

92. The fraud prevention plan was approved in 2008 and was last updated and reviewed in May 2015. The risk register was prepared by management and the mitigating factors were not implemented resulting in material non compliance reported in the current year.

Internal audit

93. The internal audit plan for the year under review was approved by the audit committee on 03 August 2018 which is not before the start of the year. Internal audit planned ten reports for the financial year under review and submitted all ten reports to the audit committee. Therefore, the reporting performed by internal audit is timeous. However, recommendations by internal audit were not timeously implemented by management to address or reduce findings identified through the external audit process.
94. The internal audit unit reviewed all four quarters on performance information. The reviews on the quarterly performance reports did not have a positive impact on the external audit as material findings were identified which resulted in a qualified opinion expressed in this management report on usefulness and reliability of the key performance areas selected for auditing.

Audit committee

95. The audit committee was operational during the year. The financial statements were reviewed prior to being submitted to the external auditors.
96. The performance audit committee and the audit committee meetings are now separated to ensure that the financial and performance matters are dealt with separately. During the year under review the audit committee reviewed the quarterly performance reports for all four quarters, however, it was not adequately reviewed and recommendations made to council were not implemented which resulted to significant deficiencies identified by the external auditors on performance information.

97. The effectiveness of the audit committee can only be attained by holding internal audit accountable to prepare and submit timeously the required reports, assessments and plans and by holding management accountable to implement the recommendations made by the audit committee and internal audit.

Summary

98. The matters above, as they relate to the basis for the disclaimer of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditors report as follows:

- Oversight by leadership and those charged with governance was ineffective in the current year, with a slow response to address the key issues raised during the prior year audit. Although an audit action plan was in place, this was not adequately implemented or monitored, resulting in numerous repeat audit findings that could have been avoided.
- Leadership did not ensure that adequate resources were in place to enable efficient and effective operations. This is evidenced by the vacancies in key management positions.
- There is an inadequate control environment at the municipality with ineffective daily and monthly processing and reconciliation of transactions. Misstatements were found in the submitted consolidated and separate financial statements for items that were not identified by the municipality's system of internal control. The lack of a properly functioning control environment resulted in these deficiencies in the record management system and underlying records. Furthermore, compliance with legislation is not monitored adequately, resulting in compliance findings in the current year.

OTHER REPORTS

99. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
100. At the time of this report, an external service provider was conducting an investigation into allegations of misconduct on the part of a municipal management official. The investigation was initiated during 2019 and is still in progress.

SECTION 3: Assurance providers and status of implementation of commitments and recommendations

ASSESSMENT OF ASSURANCE PROVIDERS

101. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.



102. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
103. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides limited assurance

104. Findings in relation to record management, quality of supporting documentation and non-compliance with laws and regulations on financial transactions and performance information still indicate a need for further improvement in monitoring internal controls. Material misstatements on non-current assets, current assets and disclosures on irregular expenditure and water distribution losses were identified during the audit which resulted in a disclaimer of opinion. Reconciliation and reviews were not performed by management and that resulted to the findings raised.
105. In addition, irregular expenditure and fruitless and wasteful expenditure is still being incurred by the municipality and senior management should ensure that proper systems are put in place to prevent and detect irregular expenditure and fruitless and wasteful expenditure. Furthermore, management should institute consequence management in order to prevent such non-compliance.

Accounting officer: provides limited assurance

106. The Municipal Manager attended the audit steering committee meetings and displayed commitment throughout the audit process through regular interactions with senior management and municipal staff. His intervention when there were serious delays in the submission of information to auditors resulted in improvement in submission of information however this was very late during the audit process. The internal control deficiencies identified in relation to governance, risk management activities and the performance management system indicate that improvement is required for all administrative responsibilities. In addition, lack of implementing consequence management for poor performance contributed to the regression in the audit outcome in the current year.

Mayor: provides limited assurance

107. The Mayor provided general political guidance over fiscal and financial affairs of the municipality throughout the financial year and monitored to the extent provided in the MFMA, but the delay in the appointment of CFO indicated the lack of oversight over the filling of the key positions as the responsibilities of the CFO were not exercised fully.
108. In addition, the Mayor provided general political guidance over the budget and integrated development plan (IDP) processes and ensured that all reasonable steps are taken to ensure that the municipality performed its constitutional and statutory functions within the limits of the municipality's approved budget.

109. However the Mayor did not ensure that irregular, fruitless and wasteful expenditure was investigated. Furthermore the Mayor did not ensure stability in management as there was a vacancy for Municipal Manager throughout the year.

Second level of assurance

Internal audit unit: provides some assurance

110. Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
111. The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer
112. Although internal audit reports, were submitted to audit committee and management as planned as planned, these reports did not have an effect on the outcome of the audit and internal audit recommendations were not implemented. These reports were utilised by the external auditors to identify risks. In addition, management responses to internal audit findings are inadequate which reduces the ability of internal audit to provide assurance.

Audit committee: provides some assurance

113. The audit committee must be an independent advisory body to the council, accounting authority and accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and other issues.
114. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
115. An increase in oversight responsibilities is required to address deficiencies around the functioning of internal audit, risk management activities, the material misstatements, predetermined objectives and compliance with laws and regulations as detailed in this report. In addition, the annual financial statements that were reviewed by the audit committee still include material misstatements on non-current assets, current assets, revenue, disclosures on commitments and irregular expenditure which resulted in an in a disclaimer of audit opinion. Due to the fact that management are not responding adequately to internal audit findings, this also has an impact on the assurance that the audit committee provides.

Third level of assurance

Municipal council: provides limited assurance

116. The municipal council was politically stable and matters around financial and non-financial matters were discussed during council meetings. Council ensured that the governance



structures like MPAC and the audit committee exists throughout the financial year and fully understands the role and responsibilities of these committees. In addition, Council maintained an accountable government and ensured that services are rendered to the communities. Council did not always follow up to ensure that management and MPAC are held accountable and also did not ensure that the vacant key management posts are filled to ensure that financial statements are free from material misstatements. Furthermore council did not ensure that unauthorised, irregular, fruitless and wasteful expenditure from the prior years was investigated and dealt with by council.

Municipal public account committee (MPAC): provides limited assurance

117. There were cases of irregular expenditure, fruitless and wasteful and unauthorised expenditure that were identified in the prior year and the current year that were never investigated by MPAC in order to recover the financial loss incurred.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

118. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Origin of commitment	Status
1	Prepare Audit Action plan for all 2017/18 audit findings	Acting Municipal Manager Manager: S Sinyanya	30 January 2019	2017/18 Audit report	Partially met
2	Submit financial statements, annual performance report and other information to be included in annual report from for audit	Acting Municipal Manager	31 August 2019	Audit strategy meeting	Met
3	Submit 2017/2018 prior year adjustments for /audit	Acting Municipal Manager	31 April 2019	Audit Strategy meeting	Not Met
4	Submit consolidated financial statements and annual performance report	Acting Municipal Manager	30 September 2019	Audit strategy meeting	Met

119. 15 audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding as indicated in note 45 of the annual financial statements (2018/19)
120. 23 recommendations are still being implemented and 21 have not been addressed, or very limited progress has been made.
121. Details on the status of implementing the previous year(s) recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

122. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and



perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT		
	AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
OVERALL ASSESSMENT		
	((Unfavourable – Intervention required))	(Concerning)
<p>* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</p> <p>** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councillors".</p>		

High-level comments

123. We have expressed a disclaimer of audit opinion on the financial statements. Consequently, the information in the financial statements is not sufficiently reliable to enable us to perform meaningful analyses of individual financial viability indicators. Our assessment of the Municipality's financial viability is therefore limited to an 'unfavourable' overall assessment, indicating that intervention is required.

PROCUREMENT AND CONTRACT MANAGEMENT

124. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

125. R87 million (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure amounting to R7.7 million was also identified in the current year during the audit process and not detected by the municipality's monitoring processes. The root causes of the lack of effective prevention and detection are accountability and proper records management. Where irregular expenditure was incurred, there was supporting documentation that all goods and services were however received.



Awards to persons in the service of the state

126. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

127. The findings were as follows:

Finding	Number and value of awards made	Number and positions of official/councillor identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor or did not declare interest	Official/councillor was involved in awarding the contract/quotation
Awards to persons in the service of other state institutions	13 6 934 302	13	13	5	8		

Awards to close family members of persons in the service of the state

128. Awards to providers owned/managed by close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM regulation 45. The audit included the identification of awards to close family members. Further testing was performed to determine whether the financial statement disclosure was made and the legislated requirements with regard to declarations of interest were adhered to.

129. No awards were made to providers owned/managed by close family members of persons in the service of the state.

Procurement processes

130. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	60	307 352 268	38	2 108 973	22	305 243 294
Expenditure incurred on		45 529 966		1 507 266		44 022 700

selected awards – current year						
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	18	141 477 993	5	638 035	13	140 839 958
Irregular expenditure identified	13	6 372 597	5	594 035	8	5 778 562
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

Procurement processes – general

- 3 awards with a value of R552 545 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- 2 contracts with a value of R713 196 were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
- Invitations for competitive bids for the procurement of 1 contract with a value of R11 954 636.46 were not advertised for the required minimum number of days.
- 1 contract and 2 quotations to the values of R516 088 and R85 490 respectively were awarded based on criteria that differ from the original specifications.

Local content and production (designated sectors)

- Specifications for 1 award with a total value of R1 474 894 did not stipulate the minimum threshold for local production and content.

Contract management

- The performance of 15 contractors or providers was not monitored monthly. The total value of related contracts was R316 081 271
- The contract performance and monitoring measures and methods applied in monitoring 15 contracts with a total value of R316 081 271 were insufficient to ensure effective contract management.

Internal control deficiencies

131. The majority of the findings identified relate to lack of review and monitoring of compliance with applicable laws and regulations. As a results most of the finding were due to misinterpretation of relevant laws and regulations relating to Procurement and contract management.



FRAUD AND CONSEQUENCE MANAGEMENT

132. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
133. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient controls are in place to prevent material misstatement and non-compliance due to fraud.
- The CFO was suspended due to alleged financial misconduct.
134. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

Measures to manage consequences

135. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
- The municipality did not adopt systems (policies) to investigate allegations of misconduct; and disciplinary procedures.
 - There was no code of conduct that addresses ethical behaviour by councillors.

Ongoing investigations

136. There are currently no investigations at the municipality

Sanctions/recommendations not implemented for completed investigations

137. There are currently no sanctions and or recommendations not implemented for completed investigations.

Failure to properly deal with allegations reported in the prior year

138. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised, irregular and fruitless and wasteful expenditure

Finding	Value: R
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	616 684 082

Finding	Value R
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if any person was liable for the expenditure	1 382 073 473
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	3 854 654

Allegations of financial misconduct, fraud and improper conduct in SCM

Finding	Number of instances
Allegations against senior manager (municipalities only)	
Confirmed cases of financial misconduct that constituted a crime committed by senior managers were not reported to the SAPS	1

Transgressions reported to management for investigation

139. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
140. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest	10	0	0	5	304 698
B: Improper conduct in SCM by officials / role players					
Payments made to suppliers who failed to deliver	0	0	0	1	1 153 110
Official failed to disclose their own interest or that of close family members, partners or associates	1	0	0	0	0
Other improper conduct in SCM by officials or SCM role players	0	0	0	2	100 000

141. Unauthorised, irregular and fruitless and wasteful expenditure disclosed in notes 39, 40 and 41 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.
142. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. The following matter has been escalated to the council for them to ensure that appropriate steps are taken to address the non-compliance:
143. Investigations into the allegations against the CFO were concluded in May 2019 and it was found that she was responsible for the gross financial misconduct. No further disciplinary process had been followed by management. The CFO is still on suspension with full pay.

USE OF CONSULTANTS

144. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals. To optimise the value of this partnership, we identified areas that need attention to get the best value for money.
145. The total expenditure on consultants was R2 481 688
146. A summary of the significant findings from the audit is as follows:

Planning and appointment process

- Consultants were appointed without a proper needs assessment.
- The terms of references used when appointing consultants were inadequate as they did not clearly define the task's directive, objectives, goals, scope of the assignment, time frames linked to various tasks, frequency of monitoring actions or required experience and qualifications.

Internal capacity

- Consultants were appointed even though the skills necessary to perform the project, duty or study were available within the municipality.
- Consultants were appointed to perform work of a continuous nature for which a suitable vacant position exists in the establishment and no attempts were made to fill the position..

Performance management and monitoring

- We could not confirm whether the work of consultants was monitored by staff who were sufficiently skilled and experienced to ensure effective contract management as there was no monitoring of the consultants.
- Measures to monitor contract performance and delivery were not defined and/or implemented.

- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.
- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities. Some of the misstatements were subsequently corrected.

Internal control deficiencies

- Management must efficiently utilise permanent employees to eliminate the reliance on consultants. There is no consultancy reduction plan in place at the municipality.
- Management should also have a policy that deals with appointment, management and monitoring of consultants.

PUBLIC PARTICIPATION

- As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation. No findings were identified

CONDITIONAL GRANTS

147. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:
- Municipal infrastructure grant
 - Regional bulk infrastructure grant
 - Water services infrastructure grant
148. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants on the projects. The audit findings raised on each project are reported in the table below.

Key projects funded by the grant				
Summary of selected key project and result of testing	Details	Details	Details	Details
Name of grant	<i>Municipal Infrastructure Grant</i>	<i>Municipal Infrastructure Grant</i>	<i>Regional Bulk Infrastructure Grant</i>	<i>Water Services Infrastructure Grant</i>
Project/initiative funded by the grant	<i>Upgrading of Cala waste water treatment works</i>	<i>Cluster 2 Nkolonga & Sikhwanqeni</i>	<i>Tsomo river abstraction and water treatment works construction</i>	<i>Jiputha Makhikhi water supply scheme</i>
Audit findings				
Planned completion target for the selected project were not achieved	Finding = Yes	Finding = Yes	Finding = Yes	Finding = Yes
Project stage of completion was not assessed	Finding = Yes	Finding = No	Finding = No	Finding = NO
Project stage of completion assessed by the municipality is incorrect	Finding = Yes	Finding = No	Finding = No	Finding = NO
Findings on the procurement of goods and services for the project	Finding = Yes	Finding = No	Finding = Yes	Finding = Yes
Misstatements on the accounting for the expenditure relating to the project	Finding = No	Finding = No	Finding = No	Finding = No
Payments were made for goods/services not received	Finding = No	Finding = No	Finding = No	Finding = No

WATER AND SANITATION SERVICES

149. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure, including, routine maintenance and new infrastructure
- Water quality



- Reporting on water losses
- Waste water management
- Key water and sanitation infrastructure projects

150. A summary of the significant findings from the audit are as follows:

Planning and reporting on the provision of water services

- The targets for the provision of water services were not achieved.

Planning and budgeting for routine maintenance of water infrastructure

- A policy on routine maintenance of water infrastructure was not developed.

Reporting on water losses

- Sufficient appropriate audit evidence could not be submitted to determine if water losses were correctly calculated and agree to supporting documentation.

Water services

Planning and reporting on the provision of water services

- The table below summarises whether key performance indicators for the provision of water services were achieved, measurable, relevant and whether the reported achievements were reliable

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of Water reticulation projects completed	0 Water reticulation projects completed	Yes	Yes
Number of Bulk water supply projects completed	1 Bulk water supply project completed (Gugwini reservoir)	Yes	Yes
Number of water treatment works completed	0 Water treatment works	Yes	Yes
Number of Water Schemes refurbished	1 Water schemes refurbished at (Mabhentseni)(Ward 9 Intsika Yethu)	Yes	Yes
Number of bulk water replacement programmes implemented	0 Consumer and bulk water replacement programmes implemented	Yes	No

Planning and budgeting for routine maintenance of new water infrastructure

- A policy on routine maintenance of water infrastructure was not developed.



Reporting on water losses

- Sufficient appropriate audit evidence could not be submitted to determine if water losses were correctly calculated and agree to supporting documentation .

Planning and reporting on the provision of sanitation services

- The table below summarises whether key performance indicators for the provision of sanitation services were achieved, measurable, relevant and whether the reported achievements were reliable

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of waste water treatment works completed	0 Waste water treatment works	Yes	Yes
Number of waste water projects completed	0 Waste water projects completed	Yes	Yes

Planning and budgeting for routine maintenance of new sanitation infrastructure

- A policy on routine maintenance of sanitation infrastructure was not .

Key water and sanitation infrastructure projects

151. The audit also included an understanding of planning, project management and commissioning of key water and sanitation infrastructure projects undertaken by the municipality. This included testing the timelines, spending against budget, compliance with procurement processes, appropriate recording of transactions in the financial statements and the quality of the goods and services delivered.

152. The table below summarises the audit findings on the selected key projects.

Project name	Water Supply Backlog Cluster 2: Nkolonga and Sikhanyeni Water Supply scheme.	Water Supply Backlog Cluster 2: RS1 Jiphutha Makiki Water supply scheme	Water Supply Backlog for Cluster 9 - Tsomo River Abstraction and construction of the Water Treatment works.	Cala Bulk Sanitation Services: Upgrading of the Cala Waste Water treatment work including bulk pumpstation and Rising Mains, Phase 1
Brief description of key project	Construction of the Reservoir tank, Water reticulation network pipelines (including the	Construction of the Reservoir tank, water reticulation network pipelines (including the pressure valves and gravity mains	Construction of the Water treatment works, including the construction of Pump stations and Reservoir tanks with their	Upgrading of the CALA Waste water treatment works and construction (upgrade) of bulk

Project name	Water Supply Backlog Cluster 2: Nkolonga and Sikhanyweni Water Supply scheme.	Water Supply Backlog Cluster 2: RS1 Jiphutha Makiki Water supply scheme	Water Supply Backlog for Cluster 9 - Tsomo River Abstraction and construction of the Water Treatment works.	Cala Bulk Sanitation Services: Upgrading of the Cala Waste Water treatment work including bulk pumpstation and Rising Mains, Phase 1
	pressure valves and gravity mains supplying the two villages)	supplying the two villages)	reticulation networks.	pumpstation and their reticulation networks.
Source of funding	MIG	WSIG	RBIG	MIG
Project commenced as planned	The project commenced on 18 November 2015	The project commenced on 01 March 2017	The project commenced on 21 December 2017	The project commenced on 21 December 2017
Project completed within defined duration (applicable if completed)	The project was practically completed on 18 June 2019	N/A – project is still in progress	N/A – project is still in progress	N/A – project is still in progress
Status of completion (applicable if WIP)	N/A – project is practically completed	80% completion	75% completion	Could not determine as contract was terminated
Available budget for the year	R 27 000 000.00	R 8 682 130	R 75 000 000	N/A – project was not under implementation plan.
Actual amount spent in current year	R 1 843 768	R 8 981 554	R 44 753 203	R 1 041 429
Total project budget (multi-year) – original / revised	R 27 425 746	R 19 322 203	R 195 896 967	R 82 297 516
Actual amount spent from inception to date	R 27 724 355	R 19 499 521	R 166 423 971	R 53 545 058
Audit findings				
Significant overspending or underspending on budget available for the year	Finding = No	Finding = No	Finding = No	Finding = Yes
Significant overspending or underspending on total	Finding = No	Finding = Yes	Finding = No	Finding = Yes

Project name	Water Supply Backlog Cluster 2: Nkolonga and Sikhanqwini Water Supply scheme.	Water Supply Backlog Cluster 2: RS1 Jiphutha Makiki Water supply scheme	Water Supply Backlog for Cluster 9 - Tsomo River Abstraction and construction of the Water Treatment works.	Cala Bulk Sanitation Services: Upgrading of the Cala Waste Water treatment work including bulk pumpstation and Rising Mains, Phase 1
project budget (multi-year)				
Findings on the procurement of goods and services for the project	Finding = No	Finding = No	Finding = No	Finding = No
Overall quality of the project management was poor or not acceptable	Finding = No	Finding = No	Finding = No	Finding = No
Findings on consequence management	Finding = No	Finding = No	Finding = No	Finding = No
Findings on fraud	Finding = No	Finding = No	Finding = No	Finding = No
Prior year findings not addressed (if applicable)	Finding = No	Finding = No	Finding = No	Finding = No
Goods and services delivered on project of poor or sub-standard quality	Finding = No	Finding = No	Finding = No	Finding = Yes
Findings on commissioning of the completed project	Finding = No	Finding = No	Finding = No	Finding = No
Findings on accounting for the project (annual financial statements)	Finding = No	Finding = Yes	Finding = No	Finding = Yes
Spending not aligned to stage of completion	Finding = No	Finding = No	Finding = No	Finding = No
Budget spent but project milestones not achieved	Finding = No	Finding = Yes	Finding = Yes	Finding = Yes
Findings on grant spending	Finding = No	Finding = No	Finding = No	Finding = Yes
Findings on fruitless and wasteful expenditure in relation to the project	Finding = No	Finding = No	Finding = No	Finding = No
Findings on irregular expenditure incurred on the project	Finding = No	Finding = Yes	Finding = Yes	Finding = No

Project name	Water Supply Backlog Cluster 2: Nkolonga and Sikhanyweni Water Supply scheme.	Water Supply Backlog Cluster 2: RS1 Jiphutha Makiki Water supply scheme	Water Supply Backlog for Cluster 9 - Tsomo River Abstraction and construction of the Water Treatment works.	Cala Bulk Sanitation Services: Upgrading of the Cala Waste Water treatment work including bulk pumpstation and Rising Mains, Phase 1
Infrastructure / facility not utilised for intended purpose	Findings = No	Findings = No	Findings = No	Findings = No
Infrastructure / facility not utilised at all or under utilised	Findings = No	Findings = No	Findings = No	Findings = Yes

153. The planned upgrades of the water treatment works in Cala has been drastically delayed. The contractor was appointed on 01 March 2017. The contract duration was 36 months (3 years), however the project was not timeously completed due to slow progress made by the contractor. The expected completion date was 18 November 2018 however the project was not completed to date and the contract was terminated on 14 June 2018.
154. The eradication of the Water backlogs in Cluster 2 for Jiphutha and Makhikhi villages were not completed timeously as well. The contractor was appointed on 30 October 2016 and the project actually commenced on 01 March 2017. The contract expected completion date after it was revised was on the 30 November 2018. This milestone was never met for completion of the project due to the supplier progress being slow.
155. The planned construction works for the Tsomo Water treatment works and its River Abstraction villages were not completed timeously as well. The contractor was appointed on 30 October 2016 and the project actually commenced on 21 December 2017. The revised expected completion date was 29 June 2019. The contract expected completion date was not met for the project as well.
156. The following quality concerns were identified upon verification of the Cala Water Treatment works.
- Significant structural damages concern due to the site being abandoned after termination of the contractor's contract.
 - Significant upgrades still not conducted to date as per the expected specification of the contract to date.
157. There were irregular expenditure during the current year raised for Jiphutha Makhikhi and Tsomo River Abstraction and treatment work construction amounting to R9 450 033 and R44 753 203 respectively due to the open-ended supplier contracts. Management has not disclosed such Irregular expenditure during the year.
- Planning and budgeting of the projects
 - Execution of the projects, including procurement and contract management, actual spending, project and consequence management

- Quality of infrastructure
- Commissioning of completed projects and accounting
- Money used for its intended purposes with reference to the budget utilisation, stage of completion and achievement of the project milestones. Taking into consideration the reasons for and impact of delays and quality and contract breaches on the overall quality and progress of the projects.

SECTION 5: Using the work of internal auditors

158. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. We have used the following internal audit reports for risk identification and not to amend the nature, timing and extent of audit procedures:

- Stores Management
- Operations & Maintenance
- SMME
- FireService and Management
- Expenditure Management
- Contract Management
- Revenue Management

159. Performance Management System

- Risk Management
- Loss Control



SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated: GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	1 April 2020
GRAP 35 - <i>Consolidated financial statements</i>	1 April 2020
GRAP 36 - <i>Investments in associates and joint ventures</i>	1 April 2020
GRAP 37 - <i>Joint arrangements</i>	1 April 2020
GRAP 38 - <i>Disclosure of interests in other entities</i>	1 April 2020
GRAP 104 - <i>Financial instruments</i> (Revised April 2019)	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 1 <i>Applying the probability test on initial recognition revenue</i> (amendments)	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	1 April 2019
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019
IGRAP 20 <i>Accounting for adjustments to revenue</i>	1 April 2020
Guideline <i>Accounting for arrangements undertaken in terms of the national housing programme</i>	1 April 2019
Guideline <i>Accounting for landfill sites</i>	To be determined
Guideline <i>The application of materiality to financial statements</i>	Voluntary*
* The Guideline on <i>The application of materiality to financial statements</i> was issued in April 2019. The Guideline is available for immediate consideration, to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the Guideline is voluntary, application is encouraged.	

Audit findings on the annual performance report that may have an impact on the audit opinion in future

160. The planned and reported performance information of selected KPA 2: Basic service delivery and infrastructure development was audited against the following additional criteria as developed from the Performance Management Reporting Framework:

Presentation and disclosure – Overall presentation:

- No material findings were identified in respect of the additional criteria.

Relevance – Completeness of relevant indicators:

- One finding was identified on indicator SDI 19.4: Number of fire incidents reports complied and submitted refer to paragraph 7 above for details

SECTION 7: Entities controlled by the municipality

161. In terms of the MFMA, the municipality has certain oversight responsibilities regarding municipal entities over which it has control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Chris Hani Development Agency	No material findings	Material finding	Material finding						

	Improved		Unchanged		Regressed
Good		Concerning		Intervention required	

SECTION 8: Ratings of detailed audit findings

162. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- **Matters to be included in the auditor's report:** these matters should be addressed as a matter of urgency.
- **Other important matters:** these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- **Administrative matters:** these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: Conclusion

117. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully



Tracey De Wet
Deputy Business Executive: ECBU

17 December 2019

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Distribution:
Audit committee
Head of internal audit unit
Executive authority



Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - MFMA
 - Municipal Systems Act, 2000 (MSA)
 - Regulations for planning and performance management, 2001, issued in terms of the MSA.
 - Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury (NT). This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
- Circulars and guidance issued by the NT regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria		References to PMRF per institution	
		Municipalities	Municipal Entities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.			
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA	
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.			
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPP		
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPP		

Criteria		References to FMRF per institution	
		Municipalities	Municipal entities
3.	A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPJ	
4.	A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPJ	
5.	A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPJ	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.			
1.	The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPJ	
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.			
1.	Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
2.	Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
3.	Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.			
1.	Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
2.	Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	Chapter 5 of the FMPPJ	Chapter 5 of the FMPPJ
3.	All actual performance that should have been recorded is included in the reported performance information.		

Annexure E: Auditor-general's responsibility for the audit of the reported performance information

163. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected key performance area.
164. We are independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

165. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

REPORTED PERFORMANCE INFORMATION

166. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:
- identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected key performance area in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected key performance area.
 - evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report, its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant.
 - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.




COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

167. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
168. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.



Annexure F: Assessment of internal controls
















Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance			N/A	N/A	N/A	N/A
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			N/A	N/A	N/A	N/A
Governance						
Overall movement from previous assessment						
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively	☹	☹	☹	☹	☹	☹
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation	☹	☹	☹	☹	☹	☹