



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Management report

Winnie Madikizela-Mandela Local Municipality

30 June 2021

Communicated to the accounting officer on: 19 November 2021





Management report

Winnie Madikizela-Mandela Local Municipality

30 June 2021

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Management report to the accounting officer on the audit of the Winnie Madikizela-Mandela Local Municipality for the year ended 30 June 2021

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer. The report 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 2021
2. These findings were communicated to management. The report details management's response to these findings and 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 financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objectives, 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 25 of 2004 (PAA).
 - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.









4. 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.
5. 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.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s). It 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

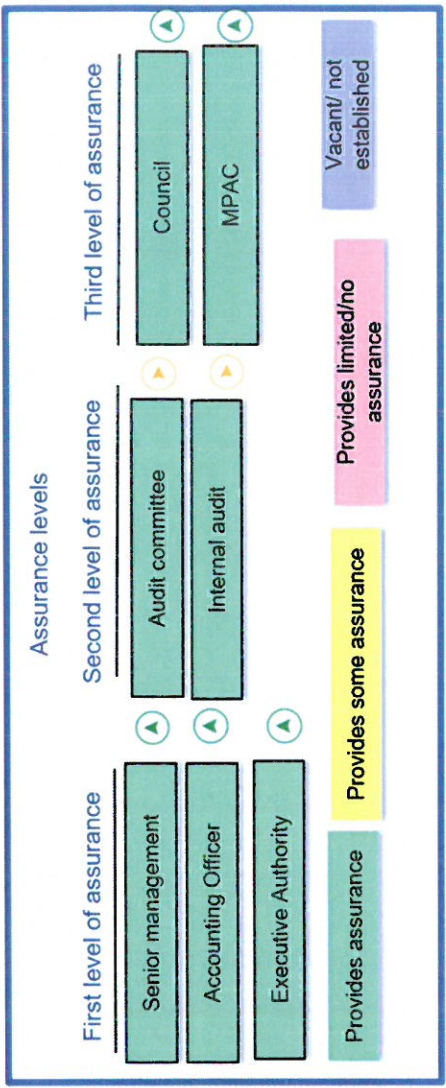
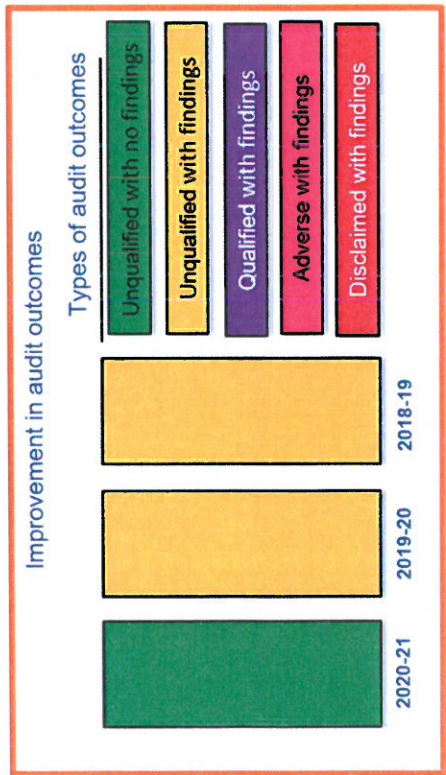
in a manner that contravenes any laws in the Republic of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.

7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to sustain 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 / Best practices that should be maintained]

Movement from the previous year is depicted as follows:

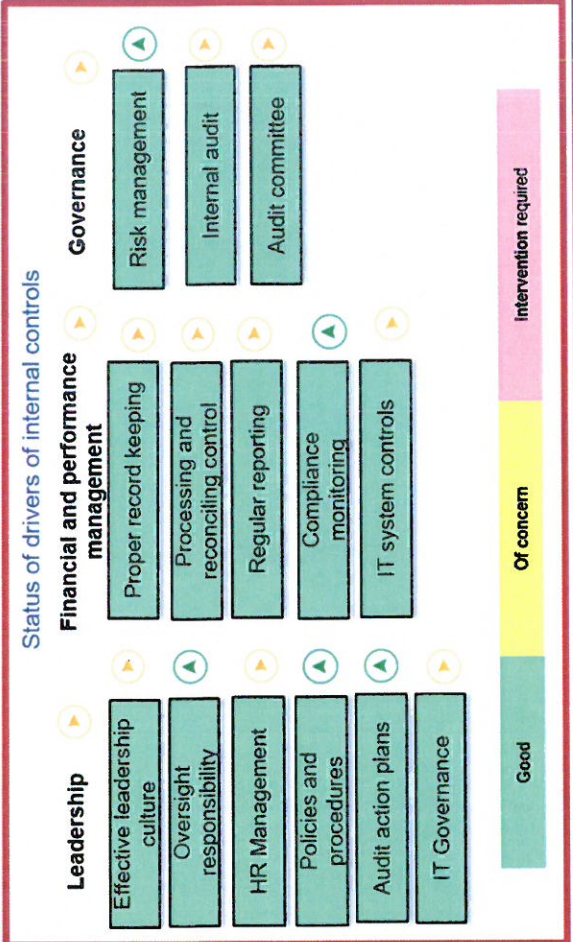
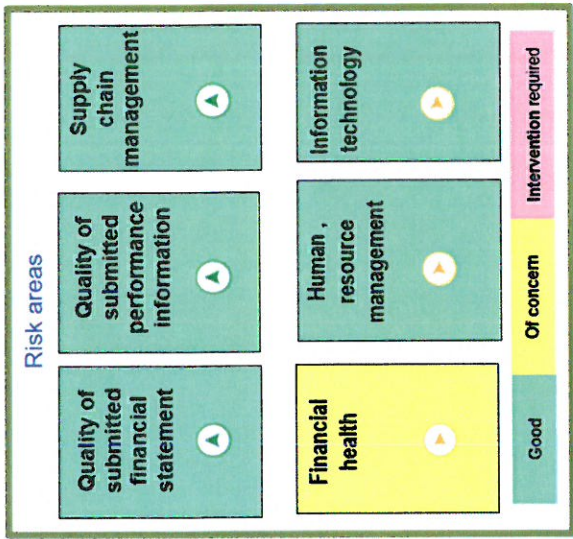
-  /  Improved
-    /  Unchanged / slight improvement / slight regression
-  /  Regressed



Best practices should be maintained

Regular review and monitoring of the audit action plan.

Stability in key management



OVERALL MESSAGE

8. The overall audit outcome of the municipality has improved in the current year as the accounting officer and management regularly monitored and reviewed the audit intervention plan based on internal and external audit recommendations.
9. There are proper controls over record keeping and information is reconciled and easily retrievable both for financial and performance information.
10. The control environment with respect to monitoring and reporting of predetermined objectives were sustained from the prior period to the current year. The monitoring unit now works effectively and in an integrated manner with all departments.
11. Management has addressed the issues giving rise to the no findings on compliance with relevant laws resulting in the improvement of audit outcome to unqualified without any other findings.
12. Financial Health is concerning and the municipality may experience some cashflow risks in the future, hence this needs to be addressed.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

13. 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(s) of Winnie Madikizela-Mandela Local Municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Tabling of annual report	1
Municipal manager	Audit steering committee meetings, Presentation of audit strategy, Presentation of management report, Presentation of audit report.	3
Audit committee	Presentation of audit strategy, Management and audit report	3

14. At these interactions, we shared the audit progress and areas of concerns that may impact on the audit opinion that requires attention by management. 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.
15. All stakeholders made commitments to implement initiatives that can maintain/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 financial statements

16. We identified a material misstatement in the financial statements during the audit. This misstatement was a simple error and not as a result of a breakdown in financial controls. As a result this material misstatement do not constitute non-compliance with section 122(1) of the Municipal Finance Management Act (MFMA). Management corrected the material misstatement resulting in the financial statements receiving an unqualified audit opinion.

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
Material misstatement corrected				
Expenditure				
Note 37: Bulk Purchases – electricity losses	The lossess was incorrectly calculated and disclosed in the note to the financials, resulting in a misstatement amounting to R9 668 848	No	9 668 848	-

Matters to be brought to the attention of users

Emphasis of matter paragraphs

17. 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:

Irregular Expenditure

18. As disclosed in note 52 to the financial statements, irregular expenditure to the amount of R1,6 million (2020: R5,7 million) was incurred, due to non-compliance with SCM regulations.

Restatement of corresponding figures

19. As disclosed in note 57 and 58 to the financial statements, the corresponding figures for 30 June 2020 have been restated as a result of errors and reclassifications of accounts in the financial statements of the municipality for the year ended, 30 June 2021.

Material impairments

20. As disclosed in note 11 and 14 to the financial statements, impairments of R12,1 million (2020: R9,1 million) relating to statutory receivables and R17,3 million (2020: R15,1 million) relating to receivables from exchange transactions were incurred as a result of irrecoverable debtors.

Other matter paragraphs

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

Unaudited supplementary schedules

22. The supplementary information set out on pages ...to ... does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion on them

Audit of the annual performance report

23. 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

24. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2021 :

Development priority	Pages in annual performance report	Opinion	Movement from prior year
KPA 1: Basic service delivery- Engineering services	x – x	Unqualified	●➤

25. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*.
26. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPI 1: Basic Service delivery-engineering services

Opinion

27. In our opinion, the reported performance information for Basic service delivery – Engineering services is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Other matter

28. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

29. Refer to the annual performance report on pages xxx to xxx for information on the achievement of planned targets for the year. This information should be considered in the context of the unqualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph 26 of this report.

Responsibilities of the accounting officer for the reported performance information

30. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework 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

31. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. 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.
32. Our procedures address the usefulness and reliability of 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 examine whether the actions taken by the municipality enabled service delivery. Our procedures also 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 information. Accordingly, our opinion does not extend to these matters.
33. 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

34. We did not identify any instances of material non-compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Other information

35. 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 financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
36. 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 on it.
37. 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 financial statements and the selected programme presented in the annual performance report, or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we performed, I conclude there is a material misstatement in this other information, we are required to report that fact.

Internal controls

38. There were no significant deficiencies in internal control, our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 7, are 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

39. Leadership has set a tone for a culture of honesty, ethical business practices and good governance protecting and enhancing the best interests of the municipality. A formal code of conduct that addressed appropriate ethical and moral behaviour has been established.
40. Leadership ensured that effective consequence management is implemented by holding officials accountable for transgressions by investigating and taking appropriate actions when transgressions have been identified.

Oversight responsibility

41. The municipality did have sufficient monitoring of controls to ensure the proper implementation of the action plan in order to prevent a re-occurrence of non-compliance with laws and regulations.

Human resource management

42. Leadership has implemented adequate measures to ensure that effective human resources practices are operating at the acceptable level.

Management of vacancies

43. An increase from 11% (2019/20) to 20% (2020/21) has been noted on the overall vacancy rate of the municipality.

Policies and procedures

44. The municipality does have documented policies and procedures to guide the operations of the municipality, the policies and procedures were adequately implemented.

Action plans to address internal control deficiencies

45. The municipality developed a plan to address external audit findings, and the adherence to the plan was adequately monitored resulting in the an improvement in audit findings relating to the non-compliance on laws and regulations.

Information technology governance framework

46. The municipality has a IT governance framework in place to ensure that IT structures, policies and processes support the municipality's strategies and objectives, and that controls have been adequately designed, implemented and are operating effectively.

Financial and performance management

Proper record keeping

47. Management adhered to the agreed upon terms relating to the request and submission of information for the audit of the financial statements. Where information could not be submitted within the initially agreed upon timeframe, an alternative submission date was negotiated and agreed upon.
48. The municipality did have a proper record management system to maintain information that supported the reported performance in the annual performance report and financial statements. This included information that related to the collection, collation, verification, storing and submission of information.

Regular, accurate and complete financial and performance reports

49. The financial statements contained a material misstatement that was corrected. This was not due to a control breakdown or staff not fully understanding the requirements of the financial reporting framework as the adjustment was a calculation error in nature.

Information technology systems

50. Adequate processes were in place to ensure that users' access and privileges on financial systems are periodically reviewed to confirm that such access and privileges were still commensurate with their job responsibilities.
51. Efficient processes were in place for an independent review of activities of the person responsible for granting user access to the network and application systems.

Governance

Risk management activities and risk strategy

52. A risk assessment was conducted by the municipality, and this assessment did assist in identifying and mitigating all risks.

Summary

53. No significant weaknesses in internal controls will be reported in the audit report as there are no material findings relating to the financial statements, predetermined objectives and compliance with laws and regulations.

Other reports

54. We draw attention to the following engagements conducted by various parties, which had, or could have, an impact on the matters reported in the municipalities 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. The summarised other reports will be included in the auditor's report as follows:

Investigation

55. The The Directorate for Priority Crime Investigation (HAWKS) was conducting an investigation regarding possible procurement irregularities at the municipality covering the 2018 financial year when the award was made. This investigation was still in progress at the date of this auditor's report.

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

Assessment of assurance providers

56. 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.
57. 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.
58. 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 assurance

- Senior management implemented controls over daily and monthly processing, reconciling of transactions and controls over financial and performance reporting.

Accounting officer: provides assurance

- The accounting officer carried out her duties of establishing and guiding the strategic direction of the municipality, risk management and leading to the achievement of planned targets during the year. Oversight responsibilities over financial, and overall internal controls at the department was exercised and the accounting officer did ensure that adequate processes and reviews of performance information were implemented.
- Policies were in place, which are communicated to department's employees, these policies were reviewed and updated on time by council.
- The accounting officer ensured the development and implementation of the audit action plan to address internal control deficiencies and these were monitored throughout the year to reduce both internal and external findings.

Mayor: provides assurance

- The mayor of the municipality is responsible for ensuring that continued guidance over fiscal and financial affairs is provided to the MM and senior management to ensure the municipality performs its statutory and constitutional functions and the mayor complied with the required legislation. There was oversight regarding compliance with laws and regulations

Second level of assurance

Internal audit unit: provides assurance

- 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 governance, risk management and internal control processes.
- 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.
- Internal audit have discharged their responsibilities effectively by providing the audit committee with quality internal audit reports and providing support to the risk committee.

Audit committee: provides assurance

- The audit committee must be an independent advisory body to the 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 any other issues.
- 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.
- The audit committee has performed their oversight and governance responsibilities in respect of the entity, with the audit committee meeting on a regular basis and interacting with both the executive and administrative functions of the entity. However, management did not always implement the recommendations made by the audit committee which resulted in a material audit finding on non-compliance to legislation.

Third level of assurance

Municipal council: provides assurance

- The municipal council is responsible for monitoring of performance, policy implementation, outputs and outcomes on a continuous basis, making recommendations to address deficiencies and legislatively defined responsibilities in terms of annual reports, strategic plans and budgets. Council has fulfilled these responsibilities.

Municipal public account committee (MPAC): provides assurance

- During the previous financial year, MPAC has made follow up and recommendations regarding the prior year findings, findings on compliance with relevant laws and regulations were addressed.

Status of implementing commitments and recommendations

59. 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	Leadership involvement in Operation Clean Audit Initiatives	Council Committees	Monthly	Municipal Manager	Complete
2	Consequences of poor performance	Council for the Accounting Officer, MM for Senior Managers and Management for Service Providers	On-going	Municipal Manager	Complete
3	Strengthening MPAC to fulfil their mandate	Municipal Manager	On-going	Municipal Manager	Complete
4	Compliance with laws and regulations	Municipal Manager and Senior Managers	On-going	Municipal Manager	Complete

- 4 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.
- 3 recommendations are still being implemented
- Details on the status of implementing the previous year's/years' recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

Financial viability

60. Our audit included a high-level overview of the [type of auditee]'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 2021	As at 30 June 2020
Expenditure management			
1.1	Creditor-payment period	33 Days	29 Days
Revenue management			
2.1	Debt-collection period (after impairment)	369 Days	258 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	34,3%	44,1%
	• Amount of debt-impairment provision	R42 367	R42 315
	• Amount of accounts receivable	R123 391	R95 911
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R157 443	R66 400
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R294 752	R313 422

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2021	As at 30 June 2020
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R1 028 958	R999 028
Cash management			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R258 161	R173 644
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R209 606	R136 790
4.3	Creditors as a percentage of cash and cash equivalents	8,7 %	7,6 %
	• Amount of creditors (accounts payable)	R22 506	R13 250
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R258 161	R173 644
4.4	Current liabilities as a percentage of next year's budgeted resources **	15.1 %	19,3%
	• Amount of current liabilities	R22 506	R 58 261
	• Amount of next year's budgeted income **	R463 321	R301 908
Overall assessment			
Overall, the financial viability is assessed as:		Yellow (of concern)	Yellow (of concern)

High-level comments

61. Though the creditor payment period has regressed from 29 to 33 days.
62. Revenue management - The debtor-collection period increased from 258 days to 358 days in the current year. The prior year collection period has changed due to reclassifications made to the corresponding figures. The municipality is experiencing challenges in the collection of outstanding amounts due from debtors, which exposes it to cash flow risk and liquidity problems. This could lead to going concern/ financial viability difficulties.
63. On overall the municipality has made a surplus, it is in the net current asset position, it is also in the net total assets and has generated positive cash flow from operations. These are good however the time it takes for debtors to pay as well as the high impairment on debtors is concerning. The financial viability of the municipality as a whole is therefore concerning. This



will therefore affect the service delivery should the municipality not be able to convert those debtors on time to cash.

Procurement and contract management

64. 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

65. R1 590 000 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection are inadequate review and monitoring of compliance with applicable laws and regulations. All goods and services relating to the irregular expenditure were received.

Awards to persons in the service of the state

66. 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.

67. The findings were as follows :

Nature of finding	Number and value of awards made	Number and positions of officials/councillors 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 did not declare interest	Official/ councillor was involved in awarding the contract/ accepting the quotation
Awards made to officials of the municipality	5 R364 120	4 General Workers	4	0	4	4	No
Awards to persons in the service of other state institutions	6 .R2 795 000	6	5	0	5		

Procurement processes

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

	Total		Quotations		Contracts	
	Number	Value R'000	Number	Value R'000	Number	Value R'000
Awards selected for testing	45	R60 122	26	R3 079	19	R57 043
Expenditure incurred on selected awards – current year		R45 202		R3 079		R42 123
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards where non-compliance was identified	0	0	0	0	0	0
Irregular expenditure identified	0	0	0	0	0	0
Instances of irregular expenditure where goods/services were not received	0	0	0	0	0	0

Covid-related procurement and transactions

69. There were no findings identified in covid related expenditure in the current year.

Internal control deficiencies

70. There were no significant internal control deficiencies identified in the current year.

Fraud and consequence management

71. 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 for issuing 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.¹
72. 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. No significant findings were identified.

Conditional grants

73. 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

74. The following compliance findings were raised on the utilisation of selected grants:

- No findings were identified in the current year

SECTION 5: Using the work of internal auditors

75. The auditing standards allow external auditors the option to use the work of internal audit for external audit purposes and for direct assistance. We have used internal audit for only risk identification purposes:

- Internal Audit Report on Supply Chain Management Processes
- Internal Audit Report on Revenue Management
- Internal Audit Report on Expenditure Management

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on Employee benefits (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	To be determined
Guideline on <i>Accounting for landfill sites</i>	To be determined

Withdrawal of MFMA Ministerial Exemption Notice No. 429 of 30 March 2020 (MFMA Exemption)

With effect from 30 June 2021 the Minister of Finance has withdrawn the MFMA Ministerial Exemption Notice No. 429 of 30 March 2020. As from 1 July 2021 all municipalities and municipal entities will be required to adhere to all the requirements of the MFMA going forward and ensure that all internal controls are fully effective. The implication of this is that the Auditor-General may again audit adherence with all relevant MFMA legislative requirements i.e. including those which were subject to the MFMA exemption during the 2020-21 period.

Availability Charges - Exchange vs Non-Exchange

The naming of the different charges by municipalities, have inconsistencies in terms of the charges that are actually levied. It was noted that some municipalities charge "availability charges" and some don't. We also noted that some municipalities charge a "basic charge" that is linked to consumption, while in others this charge is not linked to any form of consumption.

Where the charge is linked to any performance by the municipality, it would be exchange revenue. Where the municipality is not performing, but still levying the charge, this would be non-exchange revenue.

The NT will update their GRAP Accounting Guidance documents to include guidance on this matter to ensure that the same guidance is available to all auditees on this matter. Once this guidance is issued to the auditees, the guidance must be applied consistently across municipalities.

Subsequent events

- No subsequent events were identified.

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

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

SECTION 7: Entities controlled by the municipality

77. 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.

No entities identified are controlled by the municipality.

SECTION 8: Ratings of detailed audit findings

78. 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

79. 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 remain 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.



Rama Purushothaman
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1 December 2021

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Audit committee
Head of internal audit unit
Chief Financial Officer

SECTION 10: Summary of detailed audit findings

		Classification						Rating				
Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation	
Cash Flow Statements												
	CoAF no: 7- Prior period correction of error Cashflow	✓						✓			Addressed	
Employee costs												
	CoAF 2: Appointment Process				✓				✓		Addressed	
Bulk purchases												
	CoAF 1: Distribution Losses disclosed not accurate	✓						✓			Addressed	
Movable assets												
	CoAF 8 :Change in estimate disclosure requirements	✓						✓			Not addressed	

		Classification						Rating				
Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation	
Procurement and Contract Management												
	CoAF 3: Procurement and Contract Management: Interests							✓			Not addressed	
Receivables												
	CoAF 9: Differences in the ageing of receivables from exchange transaction	✓						✓			Addressed	
	CoAF 10: Statutory receivables understated	✓						✓			Addressed	

Detailed audit findings

Annexure A: Matters affecting the auditor's report

No Matters affecting the Audit Report

Annexure B: Other important matters

Cash Flow Statement

1. ISS.10-CoAF no: 7- Prior period correction of error cashflow

Audit finding

In terms of GRAP 1, the annual financial statements are to present fairly the underlying financial information. As it currently stands, based on the nature of the prior period errors that were made, the adjustments disclosed in note 58 do not reconcile back to the prior year statement of cashflow restated amounts.

In terms of note 58, the following three errors are present:

- The amount in relation to purchase of PPE is currently R611 938, when it should be -R611 938. For as it stands the restated amount in relation to purchase of PPE is understated when compared to the prior year statement of cashflow
- The amount in relation to cash received from the sale of goods, contains an adjustment that was made for interest charged on a statutory receivables balance. As interest income is different in nature from the sale of goods and services the adjustment made should be split between interest and the sale of goods and services.
- The adjusted amount for the sale of goods and services per note 58, does not reconcile to the restated amount per the prior years statement of cashflow. This indicates an understatement per Note 58.

The financial statements were note inspected prior to be compiled to ensure that all amounts per the note disclosures agree to the amounts per the annual financial statements

As it currently stands, the financial information disclosed in the face of the prior years statement of cashflow does not reconcile to the amount disclosed per note 58. This results in inconsistent information being disclosed creating confusion among the users of the financial statements.

Internal control deficiency

Leadership: Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should ensure that the financials are properly reviewed in order to ensure the correctness between the cash flow statement and the notes thereof.

Management's response

Management agrees with the finding. The amount of correction of error should be negative R611 938 instead of the positive R611 938 currently disclosed thus the restated amount should be R86 803 765 instead of R85 579 889 currently disclosed in the restated column. The correction of error



amounting to negative R144 129 currently disclosed under sale of goods and services relates to correction that was made to sale of goods and services (-463 409) and interest income (319 272). The Sale of good amount disclosed is the total movement on Receipts. The corrections of the above will be done accordingly.

Name: Zingiswa Mehlo

Position: Manager Budgeting and Reporting

Date: 10 November 2021

Auditor's conclusion

Management has provided AGSA with the updated financials. We have audited it terms of the abovementioned finding and no subsequent error was identified. However as management controls did not prevent this from occurring, it will be reported on in the management report.

Distribution Losses

2. ISS.4-CoAF 1: Distribution Losses disclosed not accurate

Audit finding

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

Nature

During the audit of electricity losses, the following issue was noted:

Distribution losses in Rand for the period 2020/21	As per the AFS	Audited amount	Differences
Electricity profit/(loss):	(9 415 513)	253 335	(9 668 848)

Cause

The distribution losses schedule had not been adequately casted and recalculated.

Impact

Electricity losses have been overstated by R9 668 848.

Internal control deficiency

Financial and Performance Management: Implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management to ensure adequate review of schedules that support the financial statement through cast and recalculation

Management's response

Management agrees with the finding; however, the casting was due to a formula error that was mostly an isolated oversight incident on the part of those performing reviews. Management does, however, have a process flow with regards to calculation of distribution losses, these include a provision for segregation of duties from the Electricity demand officer, reviews by manager electricity and reviews by manager revenue and expenditure, reconciling of purchases with the GL and Eskom invoices. These are controls that are currently in place, however the management will further strengthen internal controls by introducing quarterly calculations to limit these kinds of errors. The recalculation has been re-casted after the discussions with the auditors and are now correctly reflected as per the table below.

Auditor's conclusion

Management has provided AGSA with the updated financials. We have audited it terms of the abovementioned finding and no subsequent error was identified. However as management controls did not prevent this from occurring, it will be reported on in the management report.

Movable assets

3. ISS.12-CoAF 8 :Change in estimate disclosure requirements

Audit finding

In terms of standard 3 paragraph 41 and 42 of the Generally Recognised Accounting Practice an entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

During the audit it was noted that the municipality has not made the disclosure on the change in future periods as per the requirements of GRAP 3, we have determined that it is rather practical for the Municipality to disclose the expected future periods effect on the change in estimate as they

have sufficient data and information to determine the expected future depreciation and PPE carrying amount which should have been disclosed in the AFS.

Management has not done a sufficient assessment of how practical it is to determine the effect of the change in estimate on future amounts.

This has resulted in the disclosure requirements under GRAP 3 not being fully met by the Municipality.

Internal control deficiency

Financial and Performance Management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

For management to fully disclose the expected future period effect on the change in estimate using the data and information at their disposal.

Management's response

Management disagrees with the Finding.

As stated in the audit finding above, par 41 and 42 of GRAP 3 is providing an exception in disclosure of future impact of change in estimate if it is impractical to do so.

As per our approved Movable Assets Methodology, amongst others, the change in estimate is because of assets whose condition was poor but had a remaining useful life with more than one year. It is not practical to estimate the future depreciation impact on these assets as some additional assets might also have a poor condition and/or the already reassessed assets might be repaired, resulting to their condition to change from Poor to Fair or Good which will also trigger a reassessment of the same assets.

Also, assets whose useful lives are lesser than a year as at year end but were still in a good condition were reassessed and remaining useful lives extended. There is an inherent risk that these assets might be damaged in the following year resulting to change in condition to Poor. These assets will, therefore, be reassessed again to reduce their useful lives to lesser than a year when their condition changes to Poor.

It is therefore not practical to estimate the impact on the future depreciation of these reassessed assets.

Name: Siphosethu Mbusi
Position: Manager Assets and Stores
Date: 12 November 2021

Auditor's conclusion



Auditor disagrees with the management response.

As provided by GRAP 3 paragraph 41 and 42, If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact, however we believe that the future periods estimation of the effect in depreciation and the PPE carrying amount can be fairly determined.

We agree in that the condition of these moveable assets might change from the next period to worse or some of the assets might be repaired resulting in a change of useful life and a change in estimate in the future. However, the current inputs and data that we have used to determine the change in depreciation and in carrying amounts for the current period can be used to determine the future periods impact on depreciation as the information is readily available to make the estimation and therefore making it practical for us to make the future periods estimation.

This is based on determining a reasonable estimation which is expected to change in the future periods based on the nature of the moveable assets, however, as we were able to make a reasonable estimation of the useful lives of the assets based on their current conditions, we should be able to make an estimation of the future periods impact on depreciation, even though it might change due to the change in the condition of the asset past the current period.

We have calculated the estimated future change in depreciation using the change in estimate schedule and the moveable fixed register and it has resulted in a R 655 199.25 estimated future change. The misstatement will be included in the schedule of misstatements.

Management has subsequently adjusted and the finding has been resolved.

Procurement and Contract Management

4. ISS.5-CoAF 3:Procurement and Contract Management: Interests

Audit finding

Regulation 44 of the Municipal Supply Chain Management Regulations states that, The supply chain management policy of a municipality or municipal entity must, irrespective of the procurement process followed, state that the municipality or municipal entity may not make any award to a person who is in the service of the state; if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or who is an advisor or consultant contracted with the municipality or municipal entity.

During the audit the following interest were identified:

1. The municipality had traded with suppliers of whom employees of the municipality are listed as directors

Name of person	Position	Supplier name	Expenditure
Miss F YALO	G02 - General Assistant	INZALABANTU PRIMARY CO-OPERATIVE LIMITED	10 600,00
Miss FA JAYIYA	G02 - General Assistant	FEMOTLATSI CONSTRUCTION	32 700,00
Miss P BUSUKU	W01 - Ward Clerk	PHUMIES DEVINE TRADING (PTY) LTD	11 900,00
Mr S SIGCAWU	G02 - General Assistant	MFMT TRADING	464 120,00
			519 320,00

2. The municipality had traded with suppliers of whom the directors employees of other state institutions

Name of person	State institution where employed	Supplier name	Expenditure
JM MASEMULA	MP: EDUCATION	INZALABANTU PRIMARY CO-OPERATIVE LIMITED	10 600,00
SN MFAZWE	EC: TRANSPORT	MAT TRADING ENTERPRISE (PTY)LTD	252 739,50
S MGCINWA	EC: EDUCATION	AYOLE TRADING (PTY)LTD	103 950,00
S NAZO	EC: EDUCATION	MACEDLWANA	9 500,00
N SINQADU	EC: EDUCATION	TRUTH SUREME	4 290,00
			381 079,50

This is due to the municipality not adequately checking its own human resources management system to ensure no employees are part of any appointed suppliers. And there is now adequate checks with the DPSA website to identify any employees of state institutions.

This has resulted in an irregular expenditure of R519 320.00 relating to the amounts paid to suppliers whose directors are in the service of the municipality.

Internal control deficiency

Financial and Performance Management: Review and monitor compliance with applicable laws and regulations.

Recommendation

Management must ensure that appointed suppliers do not have directors that are in the service of the municipality. And must further ensure that there are adequate checks on to ensure that no directors are in the employ of other state institutions.

Management's response

1. Management agrees with the findings; management relied on the declarations submitted and the DPSA verification tool as well as the CSD report as a verification tool. The municipality has updated all the affected service providers and provided the information to National Treasury for possible blocking so that they are unable to do business with any state organ including the municipality. Information such as their updated Respective Central Supplier Database forms, and proof showing that the service providers have been put on hold on the Municipal data base system.
2. Management agrees with the findings; all directors were temporarily employed as Educator Assists during COVID 19 period. The initiative was meant for unemployed youth to assist schools ensuring that COVID protocols are adhered to by students and schools which was as a provision for Government schools. Herewith is the attached report gathered from Department of Education and this was only 3 Months contract.

Name of person	Position	Supplier name	Expenditure	Responses
Miss F YALO	G02 - General Assistant	INZALABANTU PRIMARY CO-OPERATIVE LIMITED	10 600,00	Management agrees with the finding; However, it has been noted that the director of the company disclosed an incorrect information on MBD 4 as municipal pre-requirement for every Bidder before awarded a quotation. The bidder will be reported to the accounting officer for possible prosecution as the accounting officer would deem necessary. The company has been put on hold to block it from doing business with the municipality.

Miss FA JAYIYA	G02 - General Assistant	FEMOTLATSI CONSTRUCTION	32 700,00	Management agrees with the finding; However, it has been noted that the director of the company disclosed an incorrect information on MBD 4 as municipal pre-requirement for every Bidder before awarded a quotation. The bidder will be reported to the accounting officer for possible prosecution as the accounting officer would deem necessary. The company has been put on hold to block it from doing business with the municipality
Miss P BUSUKU	W01 - Ward Clerk	PHUMIES DEVINE TRADING (PTY) LTD	11 900,00	Management agrees with the finding; However, it has been noted that the director of the company disclosed an incorrect information on MBD 4 as municipal pre-requirement for every Bidder before awarded a quotation. The bidder will be reported to the accounting officer for possible prosecution as the accounting officer would deem necessary. The company has been put on hold to block it from doing business with the municipality.
Mr S SIGCAWU	G02 - General Assistant	MFMT TRADING	464 120,00	Management agrees with the finding; However, it has been noted that the director of the company disclosed an incorrect information on MBD 4

				as municipal pre-requirement for every Bidder before awarded a quotation. The bidder will be reported to the accounting officer for possible prosecution as the accounting officer would deem necessary. The company has been put on hold to block it from doing business with the municipality.
			519 320,00	

Name of person	State institution where employed	Supplier name	Expenditure	Responses
JM MASEMULA	MP: EDUCATION	INZALABANTU PRIMARY CO- OPERATIVE LIMITED	10 600,00	Management disagree with the finding; the identified director does not appear under director's Information, on their Central Supplier Data Base report which will be provided as a supporting document.
SN MFAZWE	EC: TRANSPORT	MAT TRADING ENTERPRISE (PTY)LTD	252 739,50	Management agrees with the finding; the company has since been identified even by our internal auditors and has also been blocked so that the municipality does not do business with the company. SCM officials involved in the procurement who did not use the DPSA verification tool provided will be making a written submission to the accounting officer on the reasons leading to

				the facility not being utilised.
S MGCINWA	EC: EDUCATION	AYOLE TRADING (PTY)LTD	103 950,00	Management agrees with the finding, Ms.S. Mgcinwa was temporarily employed on as an Educator assistant during COVID 19 period. The initiative was meant for unemployed youth to assist schools ensuring that COVID protocols are adhered to by students and schools which was as a provision for Government schools. Herewith is the attached report gathered from Department of Education and this was only 3 Months contract.
S NAZO	EC: EDUCATION	MACEDLWANA	9 500,00	Management agrees with the finding, Ms S. Nazo was temporarily employed on as an Educator assistant during COVID 19 period. The initiative was meant for unemployed youth to assist schools ensuring that COVID protocols are adhered to by students and schools which was as a provision for Government schools. Herewith is the attached report gathered from Department of Education and this was only 3 Months contract.

N SINGADU	EC: EDUCATION	TRUTH SUREME	4 290,00	Management agrees with the finding, Mr N. Singadu was temporarily employed on as an Educator assistant during COVID 19 period. The initiative was meant for unemployed youth to assist schools ensuring that COVID protocols are adhered to by students and schools which was as a provision for Government schools. Herewith is the attached report gathered from Department of Education and this was only 3 Months contract.
			381 079,50	

Auditor's conclusion

Management has noted the finding. Per assessment of management response, it has been noted that the finding has been accepted. Therefore, the finding remains and will be reported on in the management report.

Receivables

5. ISS.3-CoAF 9: Differences in the ageing of receivables from exchange transaction

Audit finding

GRAP 01, paragraph .17 states that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

During the audit, the following differences in the ageing was noted:

During the audit, the following differences in the ageing was noted:

AUDITORS RECALCULATIONS				NOT TAKEN INTO ACCOUNT		MANAGEMENT RECALCULATIONS	
Ageing	Recalculations(*)	AFS - Note 14	Difference	Debtors with Credit Bal (DCB)	Excl. DCB	Revised	Difference
Current (0-30 days)	2 911 065	2 835 122	75 943	-503 168	3 414 233	3 414 233	0
31 - 60 days	543 977	1 151 302	- 607 325	-74 261	618 239	618 239	0
61-90 days	1 170 493	957 443	213 050	-72 774	1 243 267	1 243 267	0
91 -120 days	907 083	1 025 314	- 118 231	-100 530	1 007 613	1 007 613	0
121 - 365 days	7 230 841	6 726 450	504 391	-528 354	7 759 195	7 765 439	6 244
> 365 days	6 001 750	7 818 388	- 1 816 638	-434 028	6 435 778	6 465 228	29 450
Total	20 478 325	20 514 019	- 35 694	-1 713 116	20 478 325	20 514 019	35 694

(*): We have obtained the age analysis reports, and verified the balances per the report against management calculation of the ageing per the financials, resulting in the above-mentioned unexplained differences.

Management did not ensure accuracy of the calculation for the ageing of receivables from exchange transactions.

The ageing of the receivables from exchange transactions has not been disclosed accurately.

Internal control deficiency

Financial and performance management: Controls over daily and monthly processing and reconciling of transactions were not implemented.

Recommendation

Management should ensure accurate review of schedules accompanying disclosures in the AFS.

Management's response

Management agrees with the factual difference of R35 694 on the auditor's calculations. However, a recalculation has indicated that the auditor's recalculation included debtors with credit balances amounting to -R 1 713 116. Management has performed a recalculation indicating debtors with

credit balances for each category to come with the revised figures as indicated on the table above which will then be effected on the note affected. This recalculation has not changed the total reported but has revised the individual categories with four categories agreeing with the auditor's calculations and two with a difference of R6 244 and R29 450 respectively. We have investigated the difference and can conclude that it is caused by the manual split of the interest and its impairment that does not have an ageing which we therefore adjust at the end of financial year. We will engage MUNSOFT (system vendor) on a program that can assist going forward with the split and the ageing thereof.

Auditor's conclusion

Auditors accept the changes that will be made to the AFS as per the Revenue and Expenditure Manager. This will be audited on receipt of the adjusted AFS. The factual difference of R35 994 is trivial and no further audit work is deemed necessary.

6. Statutory receivables understated

Audit Finding

According to GRAP 108, an entity shall disclose the amount of any significant impairment losses separately from any revisions to those impairment losses recognised on statutory receivables in the period, either in the statement of financial performance or in the notes to the financial statements.

The municipality has disclosed statutory receivables relating to property rates of R739 696 as rates not subject to impairment. However, the amount has also been included in calculating rates subject to impairment per disclosure note 11.

Debtors Aging	AFS	Auditors Assessment	Difference
1 to 6 months	2 592 215,00	2 592 215,29	(0,29)
Over 6 months	44 515 297,00	43 775 816,27	739 480,73
			739 480,44

The municipality has also incorrectly disclosed fines of R44 391 as two months and three months past due. However per inspection of the age analysis, these amounts are more than three months past due.

Debtors Aging	AFS	Auditors Assessment	Difference
1 month past due	2 000,00	0	2 000,00
2 month past due	42 391,37	0	42 391,37

The cause of the above finding is due to the management not being able to review excel formulas to ensure the excel formulas are correct.

This will result in an overstatement of R783 872 the presentation of statutory receivables aging in note 11 of the annual financial statements.

Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Recommendation

It is recommended management should review excel formulas to ensure the correct formulas used are correct.

Management's response

Management agrees with the finding; the R739 481 relates to current receivables below a month which should not have been included in our calculation. Furthermore, control measures will be implemented in eliminating incorrect formulas used. However, this does not amount to an understatement on the receivables but only affects the ageing supporting information of the note.

Management agrees with the finding in the sense that the municipality keeps a manual ageing of the traffic fines through the register but the system does not age them. We are however, confident that the auditors would get to the same amounts using the same supporting information even though there is no formal age analysis. This will also be explored with the assistance of the system vendor to see if there is no way such an ageing can be created.

Name: Morlock S

Position: Manager Rev & Exp

Date: 18 November 2021

Auditor's conclusion

The auditors agree with management comment and only the finding on R44 391 remains.

Annexure C: Administrative matters

Employee costs

7. ISS.2-CoAF 2: Appointment Process

Audit finding

In terms of the MFMA legislation, all appointments of finance staff are meant to follow the competency guidelines as set out by the relevant piece of legislation. Currently, other than the accounting officers, MM and CFO no core competency assessment is done and only the qualifications assessment is performed.

Although the policies and procedures prescribed this, it has not been performed by management during the appointment process.

In terms of the control deficiency, this could result in staff being employed that are not suitable for the position they are applying for ie they may have the necessary qualifications but lack the broader and softer skills in order to be effective when working in the municipal financial system.

Internal control deficiency

Currently no assessment of the core competencies is being performed and only the qualifications are being assessed.

Recommendation

It is recommended that the core competencies as required by the MFMA are used as an assessment tool to assess the competence of the relevant new hires

Management's response

Management disagrees with the finding.

The recruitment of financial officials was done within the prescripts of MFMA (Sec 83 (1) which states that the accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels which is further reflected as per the requisition form, job description which accompanies every new position before it gets filled.

The financial officials recruited by the municipality meet the minimum requirements as prescribed by section 83 of MFMA. Section 107 as quoted does not apply to the municipality. All financial

officials go through a rigorous interview process and assessment of their curriculum vitae forms part of the selection processes that satisfies the prescripts of MFMA Section 83 and 119 to assess, the required skills, experience and capacity to fulfill responsibilities and related functions in their respective positions. This is also in compliance with our recruitment policy.

Name: Nobusi Mshweshwe
Position: Manager: HR
Date: 05 November 2021

Auditor's conclusion

Based on discussion with management, they have agreed with the auditors assessment and plan on implementing the ammended appointment process in the coming financial year.

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:
 - Municipal Finance Management Act 56 of 2003 (MFMA)
 - Municipal Systems Act 32 of 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. This framework is applicable to all spheres of government.
- Circulars and guidance issued by the National Treasury and the Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) 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: , Performance indicators and targets are consistent between planning and reporting documents.		
1. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. 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		
6. 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.	FMPPI chapter 3.2	
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.2	
8. A target is specific when the nature and required level of performance of the target are clearly identifiable.	FMPPI chapter 3.3	
9. A target is measurable when the required performance can be measured.	FMPPI chapter 3.3	
10. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.3	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives		
11. The performance indicator and target relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2	
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance		

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
12. 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
13. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
14. 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.		
15. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA FMPPJ chapter 5	Section 45 of the MSA FMPPJ chapter 5
16. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.		
17. 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

1. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected [objectives/ development priorities].
2. We are independent of the [type of auditee/ group] in accordance with the International Ethics Standards Board for Accountants' *International Code of ethics for professional accountants (including International Independence Standards)* (IESBA code), as well as the ethical requirements 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

3. 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

4. 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(s) relevant to the management and reporting of performance information per selected [development priority/ objective] 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 [type of auditee]'s internal control
 - evaluate the documentation maintained by the [type of auditee] that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected [objectives/ development priorities]
 - evaluate and test the usefulness of planned and reported performance information, [including presentation in the annual performance report (municipalities only)], its consistency with the approved performance planning documents of the [type of auditee] 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

5. 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.
6. 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 have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.




Annexure F: Assessment of internal controls










Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of 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/ insert name of 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 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						
• 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						
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						

Governance						
Overall movement from previous assessment	↑		↑		↑	
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> 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 	