



AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

Winnie Madikizela-Mandela Local
Municipality

2022-23

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INTRODUCTION

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 30 June 2023, as well as the insights and significant matters that require the attention of the Accounting officer. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.
2. 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 has been signed.
3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure D**, we provide a summary of detailed findings communicated to management.
4. The management report is structured as follows:
 - In **section 1**, we share the overall audit outcomes and the status of material irregularities.
 - In **section 2**, we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include:
 - significant deficiencies in internal control that caused the findings we report: significant internal control deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.
 - key recommendations and the responses received from management on implementing the recommendations.
 - In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem, as well as key recommendations and responses from management.
 - In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment, as well as recommendations for the accounting officer to address the root causes.
 - We end the report with a **conclusion**.
5. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a Municipality that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

SECTION 1: AUDIT OUTCOMES AND MATERIAL IRREGULARITIES

OVERALL AUDIT OUTCOMES

6. The overall audit outcome of the municipality is unqualified without findings (a clean audit). This is the same as from the previous year's audit outcome.

Audit results per outcome area

| Outcome area | Movement | 2022-23 | 2021-22 | 2020-21 |
|--|----------|---------|---------|---------|
| Financial statements | | | | |
| Annual performance report | | | | |
| <ul style="list-style-type: none"> KPA 1: Basic Service Delivery | | | | |
| Compliance with legislation | | | | |
| <ul style="list-style-type: none"> Annual financial statements, performance reports and annual reports, | | | | |
| <ul style="list-style-type: none"> Procurement and contract management, | | | | |
| <ul style="list-style-type: none"> Expenditure management | | | | |
| <ul style="list-style-type: none"> Consequence management, | | | | |
| <ul style="list-style-type: none"> Strategic planning and performance management, | | | | |
| <ul style="list-style-type: none"> Revenue management, | | | | |
| <ul style="list-style-type: none"> Asset management, | | | | |
| <ul style="list-style-type: none"> Human resource management | | | | |

| | | | | | | | | | | | |
|--|------------------------------------|--|-----------|--|---------|--|------------|--|-------------------|--|-------------|
| | Unqualified / No material findings | | Qualified | | Adverse | | Disclaimed | | Material findings | | Not audited |
|--|------------------------------------|--|-----------|--|---------|--|------------|--|-------------------|--|-------------|

| | | | | | |
|--|-------------|--|------------|--|-----------|
| | Improvement | | Regression | | Unchanged |
|--|-------------|--|------------|--|-----------|

7. We commend the municipality on achieving and sustaining their clean audit outcome.
8. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.
9. Annexure E lists matters that will affect future financial statements, annual performance reports and compliance with legislation.

SECTION 2: SIGNIFICANT MATTERS

FINANCIAL STATEMENTS

Audit results

10. The financial statements were submitted to us for auditing on 31 August 2023.
11. We did not identify material misstatements in the financial statements submitted for auditing.

Material misstatements corrected

| Accounting standard / legislation | Nature | Value | Description | Prior-year misstatements | |
|-----------------------------------|---------------|--------------|---|--------------------------|---------|
| | | | | 2021-22 | 2020-21 |
| Segment Reporting Disclosure | | | | | |
| GRAP 18 | Overstatement | R468 005 076 | Incorrect inclusion of current assets on segment reporting | | |
| GRAP 18 | Overstatement | R880 669 554 | Incorrect inclusion of Non-current assets on segment reporting | | |
| GRAP 18 | Overstatement | R81 357 414 | Incorrect inclusion of current liabilities on segment reporting | | |
| GRAP 18 | Overstatement | R11 484 800 | Incorrect inclusion of Non-current liabilities on segment reporting | | |

| | | | | | |
|--|-------------|--|-----------|--|----------------------------|
| | Uncorrected | | Corrected | | No prior-year misstatement |
|--|-------------|--|-----------|--|----------------------------|

Internal control and recommendations

12. We identified significant internal control deficiencies in financial recordkeeping and the financial statement preparation and related business processes, which caused the misstatements or could cause misstatements in future.

Significant internal control deficiencies – financial records and financial statements

| Internal control deficiency | Prior years reported | |
|--|----------------------|---------|
| | 2021-22 | 2020-21 |
| Daily and monthly processing and reconciling of transactions <ol style="list-style-type: none"> Controls over daily and monthly processing and reconciling of transactions were not implemented as segment reports were not regularly provide for management to review. The relapse of this financial discipline during the financial year has resulted in key reconciliations and processing <i>only</i> being performed after the financial year-end. | No | No |

13. We made recommendations to improve the financial records and the financial statements preparation process to the in senior management. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – financial records and financial statements

| Recommendation and management response | Year originally recommended | Status of implementation |
|--|-----------------------------|--------------------------|
| Recommendation: Develop and monitor the implementation of action plans to address internal control deficiencies identified and strengthen the review process. | 2022-23 | In progress |

Information to be included in auditor's report

14. We expect that the auditing standards will require us in future to provide information in the auditor's report on matters that were of the most significance in the audit of the financial statements.
15. We may communicate in the auditor's report matters relating to the audit, the auditor's responsibilities and the auditor's report that are important for users of the financial statements to know about. The following matter will be included as 'other matters' in the auditor's report:
- In terms of section 125(2) (e) of the MFMA, the municipality 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.
 - Supplementary information set out in pages .. to .. does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.
16. We will include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to the following matter which we deem to be fundamental to their understanding of the financial statements:
- In note 13 to the financial statements, the municipality reported a material impairment of R18,0 million (2022: R17,9 million) as a result of irrecoverable debtors.

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

17. Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the municipality's ability to continue as a going concern.
18. We did not identify any events or conditions that cast significant doubt on the municipality's ability to continue as a going concern.

Budget management

19. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify findings to highlight in this area of financial management.
20. There has been no concern regarding the overall spending on the budget of the municipality. However, it has been noted that some projects have a spending which is more than the budget for the project as per the annual performance report. This has also been noted on the procurement process testing. This is brought to management's attention as it might result to spending which is more than the budgeted amount in the future.
21. We also tested compliance with the legislative requirements for the preparation and approval of the budget for the next (new) financial year. We did not identify findings on these budget processes.

Financial assessment and compliance

22. Our audit included a high-level assessment of the financial position and key financial ratios of the municipality based on its financial results to assess its going concern (as detailed earlier), and also to highlight to management those issues that may require corrective action to maintain financial stability. The financial ratios used for assessment include those that the National Treasury also apply when assessing whether a municipality is in financial distress. The assessment is intended to complement, rather than substitute, management's own financial assessment.
23. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.
24. We concluded based on the assessment that the financial health of the municipality is concerning, which is the same as the previous year.
25. Next, we summarise the key matters identified through the assessment that require attention to maintain the good financial health.

Financial assessment – key matters

| Revenue management |
|--|
| <p>Revenue Management ensures the identification, Collection, recording and safeguarding of all revenue for which the municipality is responsible.</p> <p>During the assessment of the municipality's financial health position the following was found:</p> <ul style="list-style-type: none">Although there has been an improvement on the debt collection period from the prior year. The municipality is experiencing challenges in the collection of outstanding amounts due from debtors, which exposes it to cash flow risk and liquidity problems. |
| Expenditure management |
| <ul style="list-style-type: none">Creditor payment period is 59.7 days which is more than 30 days. This indicates that the auditee may not be adequately managing its working capital or that effective controls are not in place to ensure prompt payments. |

26. We did not identify non-compliance with legislation and other local government requirements on financial management.

Losses

27. It is crucial for the municipality to implement the necessary disciplines to ensure that value is derived from money spent and that assets and resources are safeguarded. We did not identify findings to highlight in this area of financial management.

Grant management

28. The municipality received grants totalling R 119 465 000 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the utilisation of the Expanded Public Works Programme Grant, Financial Management Grant, Municipal Infrastructure Grant, Integrated National Electrification Programme and Disaster Recovery Grant.
29. We did not identify findings to highlight in this area of financial management.

Internal control and recommendations

30. We identified significant internal control deficiencies, which caused the weaknesses in financial management and performance as reported.

Significant internal control deficiencies – financial management

| Internal control deficiency | Prior years reported | |
|-----------------------------|----------------------|---------|
| | 2021-22 | 2020-21 |
| Budget spending concerns | No | No |
| Poor debt collections | Yes | Yes |

31. We made recommendations to improve financial management processes to the positions in senior management. A summary of the key recommendations follows.

Key recommendations and responses – financial management

| Recommendation and management response | Year originally recommended | Status of implementation |
|--|-----------------------------|--------------------------|
| Recommendation: Management should implement action plans to monitor budget spending. | 2022-23 | Not started |
| Recommendation: Poor collection- Stringent controls be implemented in collection of debt. | 2022-23 | Not started |

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

32. We tested whether the municipality's performance planning and management processes, integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) complied with the key requirements from legislation.
33. We did not identify findings.

AUDIT OF ANNUAL PERFORMANCE REPORT

34. The SDBIP and annual performance report were submitted to us for auditing on 30 March 2023 and 31 August 2023, respectively.
35. As detailed in the engagement letter, we undertook a limited assurance engagement on specific key performance area selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion as included in section 1.
36. We selected the following key performance area for auditing:
- KPA 1- Basic Service Delivery
37. The key performance area has a significant impact to the community and the public as it is their main area of interest and focus on municipality's needs and services. This area will result to the society to have sustainable and reliable access to the basic service delivery which will eventually affect their lives and well beings.
38. We evaluated the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and objectives.
39. We performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - the indicators are well defined and verifiable to ensure that they are easy to understand and consistently applied, and that we can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance, as well as how performance will be evaluated
 - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
 - the reported performance information is presented in the annual performance report in the prescribed manner
 - there is adequate supporting evidence for the achievements reported and for the measures included that are taken to improve performance.
40. We also performed procedures to test whether:
- the overall presentation of the performance information in the annual performance report is comparable and understandable
 - the indicators used for planning and reporting are complete by considering the core functions of the municipality as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

We will not report material findings on these matters in the current year's auditor's report, but such findings will be included from **2023-24**.

Audit results – KPA 1- Basic Service Delivery

41. We did not identify findings on the completeness of indicators.
42. We did not identify material findings on the overall presentation of performance information in the annual performance report.
43. We did not identify material misstatements in the reported performance information in the annual performance report submitted for auditing.

Internal control and recommendations

44. We did not identify significant internal control deficiencies in the performance planning, management and reporting processes. Where we identified possible improvements, we reported these to management.

ACHIEVEMENT OF PLANNED TARGETS

45. As disclosed in the annual performance report, not all of the planned targets were achieved for the key performance area we selected for auditing.
46. We will draw the attention of oversight to the non-achievement of key service delivery indicators by including the table that follows in the 'other matters' section in the auditor's report, with reference to the pages in the annual performance report where the measures for improvement are included Service delivery indicators not achieved – KPA 1: Basic Service Delivery

Service delivery indicators not achieved – KPA 1: Basic Service Delivery

| Targets achieved: 81% Budget spent: 77% | | |
|---|---|--|
| Key service delivery indicators not achieved | Planned target | Reported achievement |
| Number of Kms constructed from Sidanga gravel access road with Bridge and concrete slab constructed | Constructed 4.5km of Sidanga gravel access road with Bridge and 1km of concrete slab constructed by June 2023 | Constructed 4.5km of Sidanga gravel access road with 1km concrete slab only bridge that is still under construction. Sidanga Access Road: Additional work done on site includes the following: •Extra earthworks on the bridges as well as additional steel and earthworks on steep areas •Additional length of 800m concrete slab |
| Number of Kms rehabilitated from umhlambi AR | Rehabilitated 5km of Umhlambi SSS langalethu- Dotye access road by June 2023. | Rehabilitated 0km of Umhlambi SSS langalethu- Dotye access road, However 5Km access road is still under construction. |
| Number of Kms rehabilitated from ntamonde AR | Rehabilitated 8km of Ntamonde gravel access road by June 2023. | Rehabilitated 0km of Ntamonde gravel access road. However 8km access road is still under construction. |
| Number of rehabilitated Kms from mgodini AR | Rehabilitated 6km of Mgodini access road by June 2023. | Rehabilitated 0Km of Mgodini gravel access road, However 6Km access road is under construction. |
| Number of Kms rehabilitates from mgomazi AR | Rehabilitated 2.5km of Mgomazi access road by June 2023 | Rehabilitated 0km of Mgomazi access road, However 2,5Km access road is still under construction, concrete slab in progress. |
| Number of Kms rehabilitated from luphondweni AR | Rehabilitated 2.5km of Luphondweni access road by June 2023. | 0km of Luphondweni access road rehabilitated, However 2,5Km access road is still under construction, only concrete slab left. |

Targets achieved: 81%

Budget spent: 77%

| Key service delivery indicators not achieved | Planned target | Reported achievement |
|--|---|---|
| Number of building infrastructure constructed and completed | 1 Civic Centre constructed and Completed by June 2023 | 0 Civic centre constructed and completed, however 1 Civic Centre is under construction |
| Municipal buildings periodically repaired and maintained by June 2023 | Municipal buildings periodically repaired and maintained by June 2023 | Municipal buildings repairs and maintenance still in progress |
| Number of households connected and energized in Lower Etheridge | Connected 90 households in Lower Etheridge by June 2023 | 0 households connected and energized, However Project is at 70% construction. |
| Number of households connected and energized in Msarhweni | Connected and energized 110 households in Msarhweni by June 2023 | 0 households Connected and Energized, However Project is at 70% construction |
| Number of households connected and energized in Nomlacu | Connected and energized 67 households in Nomlacu by June 2023 | 67 Households Connected and awaiting Eskom to energise 67 households, MV & LV excavation, planting and stringing for 67 Households at 100%. |
| Number of LV lines and poles replaced | 2 KM of Low Voltage lines upgraded by June 2023 | 0Km of LV lines upgraded, however Contractor has been appointed and project hand over done. |
| Number of grass cutting machines and accessories purchased and number of maintained garden power tools | Purchased 5 grass cutting machines with accessories, Fuel tanker and trailer by June 2022 | Purchased 4 grass cutting machines and maintained 30 garden power tools |
| Firearms cleaning kit, alcohol breatherisers and tyre measuring tools purchased | N/A | Request for quotation was done by SCM twice and reported that bidders were non responsive. |
| % of maintenances done for robots, CCTV cameras and calibration of machine | Maintained robots and CCTV cameras twice a year and calibrated machine once a year by June 2022 | The project was advertised for the fourth time and we are waiting for the seating of adjudication committee. |
| Number of employees supplied protective clothing | Supplied protective clothing to 48 employees by June 2022 | Protective clothing for 48 employees was purchased and issued |
| Requisition traffic management system and pay parking meter | N/A | No requisition for Pay Parking meter and traffic management system, only reports and quotations were acquired. |

47. The non-achievement is due to various reasons which included the late appointment service providers, delays in identification of suitable project site, technical challenges regarding Eskom feeder lines, non-responsive of bidders, no budget allocation for the project.

OTHER INFORMATION IN ANNUAL REPORT

48. We did not audit the information in the annual report except for the financial statements and the key performance area in the annual performance report selected for auditing.
49. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited or the knowledge we obtained during the audit, or otherwise appears to be materially misstated.
50. The annual report was not received in time for us to perform this procedure. We will report this in the auditor's report and indicate that any material misstatements identified when we receive it that are not corrected might result in us retracting the auditor's report and reissuing an amended report.

HUMAN RESOURCE MANAGEMENT

- 51. We audited compliance with legislation on human resource management and assessed the processes in place to ensure adequate and sufficiently skilled resources are in place.
- 52. We did not identify findings.

COMPLIANCE THEMES

- 53. We did not identify findings.

GOVERNANCE AND COORDINATING MINISTRIES

- 54. Our audit included an assessment of councillor's and premier's roles and responsibilities, in the municipality, using the relevant acts and regulations relating to municipal council and how the council responds to work done by the AGSA. We have also assessed the role of coordinating ministries such as treasury and COGTA in providing the support to the municipality.
- 55. The objective of this assessment is to ensure that there is clear and defined mandate of each coordinating department and effective collaboration between them to effect improvement in provincial and local government; and to ensure that there is effective accountability ecosystem where all role players understand their roles and how they complement each other.
- 56. We did not identify findings.

INFORMATION SECURITY MANAGEMENT

- 57. Our audit included an assessment of the effectiveness of information technology (IT) security controls that should prevent unauthorised access to key information systems and safeguard the municipality's against business interruptions.
- 58. We did not identify significant deficiencies in the IT security controls.

PROCUREMENT AND CONTRACT MANAGEMENT

- 59. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, agreed-upon pricing is adhered to and specified quality standards are complied with.
- 60. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We did not identify findings. The findings on material non-compliance with legislation will be reported in the auditor's report.
- 61. Next, we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in annexure B.

Findings on procurement and contract management

| Area | Findings | | |
|---|----------|---------|---------|
| | 2022-23 | 2021-22 | 2020-21 |
| Audit limitations | | | |
| Deviations | | | |
| Conflict of interest | | | |
| Non-compliance: competitive bidding process | | | |
| Non-compliance: quotation process | | | |
| Contract management | | | |

| | | | | | |
|--|--|--|----------|--|-------------|
| | Material non-compliance with legislation | | Findings | | No findings |
|--|--|--|----------|--|-------------|

62. **Impact:** There has been an overall improvement on the procurement and contract management of the municipality.

IRREGULAR EXPENDITURE

63. Non-compliance with legislation resulted in irregular expenditure of R1 842 061. The irregular expenditure incurred constitutes non-compliance with MFMA Section 99(2)(h).
64. The irregular expenditure incurred was disclosed in the financial statements.

CONSEQUENCE MANAGEMENT

65. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the municipality's management of consequences.
66. We did not identify findings.
67. We did not identify significant internal control deficiencies in the consequence management processes. Where we identified possible improvements, we reported these to management.

FRAUD RISK

68. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage.
69. We are required to evaluate whether the information obtained during our audit indicates whether there are any fraud risk factors present at the municipality and consider its impact on the audit. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud (e.g. inadequate controls to prevent or detect fraud). We did not identify fraud risk factors.

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

70. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for which the accounting officer and senior management are responsible.
71. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant internal control deficiencies – overall control environment

| Internal control deficiency | Prior years reported | |
|--|----------------------|---------|
| | 2022-21 | 2021-20 |
| Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with laws and regulations. Although the reviews of the financial statements and annual performance report were done by management, internal audit and the audit committee. Material misstatements in the financial statements were identified indicating that the review processes need to be strengthened. | No | No |

72. The control environment of the municipality around annual financial statements has regressed and this is a concern
73. In **annexure C** we provide a more detailed view of the overall state of internal control.

ACCOUNTABILITY ECOSYSTEM

74. The accountability ecosystem is the collection of role players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality. These role players include the officials, senior management and accounting officer, supported by the internal audit unit and the audit committee.
75. We observed strengths and weaknesses in the contributions to the ecosystem by leadership, management and the governance structures of the municipality. We share our observations with the intention to contribute to strengthening the overall control environment, performance and accountability.

Accounting Officer and senior management

76. The accounting officer carried out his 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.
77. Even though the accounting officer provided oversight over the affairs of the municipality, material findings on the financial statements which were subsequently adjusted, highlight that the oversight by the management has to be improved.

Audit committee

78. 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 applicable laws and regulations.
79. The audit committee was functional throughout the financial year. The audit committee recommendations are based on the work of internal audit and management.

Internal audit unit

80. The internal audit function was adequately resourced relative to the size of the municipality and the nature of its operation has its positions filled.
81. The internal audit unit had a plan and performed all of its audits on the plan, presented its findings and reports to management and the audit committee. It also provided these reports to the external auditors for risk assessment.

RECOMMENDATIONS AND RESPONSES

82. We made recommendations to improve the overall control environment to the senior management. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – control environment

| Recommendation and management response | Year originally recommended | Status of implementation |
|---|-----------------------------|--------------------------|
| Recommendation: Financial and performance management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Response: Management committed to address the internal control deficiencies | 2021-22 | In progress |
| Recommendation: Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Response: Management committed to address the internal control deficiencies | 2021-22 | In progress |

83. Management has to develop an audit intervention plan that is monitored efficiently with the assistance of the internal audit intervention by means of review of the internal controls during the year.

SECTION 4: OVERALL RECOMMENDATIONS

84. We provided recommendations to senior management to rectify the weaknesses identified in financial management compliance with legislation. Our recommendation for the party responsible is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.
85. In our view, the main root causes that need attention are as follows:
- Lack of adequate review of supporting registers and schedules to the financial statements prior to submission for audit.
86. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success.
87. The following are our three main recommendations to address the identified root causes. We have shared some of these before and ask for urgent action to ensure their implementation.

Overall recommendations

| | Recommendation | Year originally recommended | Status of implementation |
|----|---|-----------------------------|--------------------------|
| 1. | Develop action plan focusing on the addressing the root causes that led to material findings. | 2022-23 | In progress |
| 2. | Management should ensure that they develop and maintain internal controls and perform adequate reviews on the underlying schedules used to support the annual financial statements. | 2022-23 | In progress |
| 3. | Implement controls over daily and monthly processing and reconciling of transactions. | 2022-23 | In progress |

CONCLUSION

88. Our staff remain committed to assist 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 sincerely



Caryn Boettger

Senior Manager

30 November 2023

Enquiries: Asandiswa Nzama

Phone: (043) 709 7200

Email: AsandiswaV@agsa.co.za

ANNEXURE A: FINANCIAL ASSESSMENT

We included a summary of the financial assessment we did as part of the audit in the section on financial performance. This annexure includes the detailed ratios and information used for the assessment.

Financial health assessment

| | | Current year (2022/23) | Previous year (2021/22) |
|--------------------------------------|--|-----------------------------|-----------------------------|
| Expenditure management | | | |
| 1.1 | Creditor-payment period | 59.7 Days | 59.6 Days |
| 1.2 | Deficit was realised for the year (total expenditure exceeded total revenue) | No | No |
| | Amount of surplus / (deficit) for the year | R170 781 601 | R63 604 797 |
| Revenue management | | | |
| 2.1 | Debt-collection period (after impairment) | 336.3 Days | 422.5 Days |
| | <ul style="list-style-type: none"> Amount of debtor's impairment provision Amount of accounts receivable | R22 877 751 R109 327 681 | R22 717 080 R102 278 975 |
| 2.2 | Debt-impairment provision as a percentage of accounts receivable | 20.9% | 22.2% |
| | <ul style="list-style-type: none"> Amount of debt-impairment provision Amount of accounts receivable (before impairment) | R22 877 751 R109 327 681 | R22 717 080 R102 278 975 |
| 2.3 | Percentage distribution losses – electricity | 8.4% | 4% |
| | <ul style="list-style-type: none"> Amount of units generated / purchased Amount of units sold to consumers | R42 241 255 R38 688 852 | R40 211 160 R38 609 839 |
| 2.4 | Percentage distribution losses – water | N/A | N/A |
| | <ul style="list-style-type: none"> Amount of units generated / purchased Amount of units sold to consumers | N/A | N/A |
| Asset maintenance and renewal | | | |
| 3.1 | Percentage spending on repairs and maintenance | 2.1% | 2.4% |
| | <ul style="list-style-type: none"> Amount of expenditure on repairs and maintenance Amount of property, plant and equipment (carrying value) | R17 266 016 R837 613 343 | R18 570 496 R767 897 324 |
| 3.2 | Total capital expenditure as percentage of total expenditure | 42.8% | 35.7% |
| | Amount of capital expenditure | R150 459 901 | R166 748 668 |

| | | Current year (2022/23) | Previous year (2021/22) |
|---------------------------------------|---|---------------------------|----------------------------|
| | • Amount of total expenditure (operating + capital) | R497 359 006 | R527 929 832 |
| 3.3 | Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure | 100% | 100% |
| | • Amount of asset renewal / rehabilitation expenditure | R150 459 901 | R166 748 668 |
| 3.4 | Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment | 360.3% | 316.6% |
| | • Amount of depreciation and impairment | R41 761 779 | R52 674 182 |
| Asset and liability management | | | |
| 4.1 | Total debt / borrowings vs total revenue for the year | 14.64% | 17.52% |
| | • Amount of debt / borrowings | R81 357 414 | R82 063 936 |
| | • Amount of revenue for the year | R555 853 690 | R468 337 043 |
| 4.2 | Current liabilities as a percentage of next year's budgeted resources | 12.10% | 12.54% |
| | • Amount of current liabilities | R81 357 414 | R82 063 936 |
| | • Total budgeted income for the next year, excluding employee costs and remuneration of councillors | R672 146 000 | R654 583 000 |
| 4.3 | Net current liability position was realised (total current liabilities exceeded total current assets) | No | No |
| | • Amount of net current asset / (liability) position | R386 647 662 | R298 906 785 |
| 4.4 | Net non-current liability position was realised (total non-current liabilities exceeded total non-current assets) | No | No |
| | • Amount of net non-current asset / (liability) position | R870 230 264 | R358 486 775 |
| 4.5 | Net liability position was realised (total liabilities exceeded total assets) | No | No |
| | • Amount of net asset / (liability) position | R1 256 877 926 | R1 086 095 992 |
| 4.6 | Liquid assets as a percentage of total current liabilities (acid test percentage) | 567.7% | 448.9% |
| | • Amount of liquid assets | R461 900 901 | R368 402 242 |
| 4.7 | Current ratio | 5.75 | 4.64 |
| | | R468 005 076 | R380 970 721 |

| | | Current year (2022/23) | Previous year (2021/22) |
|--|--|---|---|
| | <ul style="list-style-type: none"> Amount of current assets | | |
| 094.8 | Total debt to total assets ratio | 0.07 | 0.09 |
| | <ul style="list-style-type: none"> Amount of debts Amount of assets | R92 842 214 R1 349 720 140 | R104 547 882 R1 190 643 874 |
| Cash management | | | |
| 4.9 | Year-end bank balance was in overdraft | No | No |
| | <ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) | R360 015 400 | R277 108 823 |
| 4.10 | Cash plus investments less applications | R1 642 992 615 | R1 410 830 023 |
| | <ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) Amount of total investments (short and long term) Less: amount of cash applications/ commitments | R360 015 400 R1 349 720 140 R66 742 925 | R277 108 823 R1 190 643 874 R56 922 674 |
| 4.11 | Cash coverage | 3.9 | 3.1 |
| | <ul style="list-style-type: none"> Amount of monthly expenditure | R198 433 337 | R199 004 332 |
| <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> | | | |

ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

1. We included a summary of our findings and their impact in the section on procurement and contract management. This annexure provides the detailed findings.

Internal control and recommendations




2. We did not identify significant internal control deficiencies in the procurement and contract management processes. Where we identified possible improvements, we reported these to management.
3. We made recommendations to improve the procurement and contract management process to the Manager: Supply Chain Management. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – procurement and contract management

| Recommendation and management response | Year originally recommended | Status of implementation |
|--|-----------------------------|--------------------------|
| Recommendation: Management should ensure that budget restrictions are adhered to by ensuring that tendered prices received and awarded do not exceed the Project Estimated Cost Response: Management noted the finding. | 2022-23 | Not started |

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL






















4. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management**, and **governance** that should enable credible financial statements and performance reports and compliance with legislation.
5. The assessments are rated as follows:


















































| | |
|---|--|
|  | The required preventative or detective controls were in place. |
|  | Progress was made in implementing preventative or detective controls, but improvement is still required or actions taken were not 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. |






















6. Movement from the previous year is shown as follows:

| | | | | | |
|---|-------------|---|------------|---|-----------|
|  | Improvement |  | Regression |  | Unchanged |
|---|-------------|---|------------|---|-----------|

Internal control assessment

| | Financial statements | | Performance reporting | | Compliance with legislation | |
|---|---|---|---|---|---|---|
| | Current | Previous | Current | Previous | Current | Previous |
| Leadership |  | |  | |  | |
| Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the 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 |  |  |  |  |  |  |

| | Financial statements | | Performance reporting | | Compliance with legislation | |
|--|---|---|--|---|---|---|
| | Current | Previous | Current | Previous | Current | Previous |
| 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 |  | |  | |  | |
| 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 of 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 relating to user access management, programme change control and service continuity |  |  |  |  |  |  |

| | Financial statements | | Performance reporting | | Compliance with legislation | |
|---|---|---|--|---|---|---|
| | Current | Previous | Current | Previous | Current | Previous |
| Governance |  | |  | |  | |
| Implement appropriate risk management activities to ensure that regular risk assessments, including considering information technology risks and fraud 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 |  |  |  |  |  |  |

ANNEXURE D: SUMMARY OF DETAILED AUDIT FINDINGS

1. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.
2. The findings are rated as follows:

| | |
|--|---|
| | Matters that will be reported in the auditor's report and should be addressed urgently |
| | Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future; also includes matters that significantly affected auditee performance |
| | Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance, but were communicated to assist with improving processes and mitigating risks |

Summary of audit findings

| Finding | Rating | Classification | | | | Number of times reported in previous two years |
|--|----------|----------------|-------------|------------|------------------|--|
| | | Financial | Performance | Compliance | Internal control | |
| Planning | | | | | | |
| COAF 01 of 2023 - Internal Audit function-Non-compliance MFMA section 62 | Material | | | ✓ | | Nil |
| COAF 02 OF 2023 - Review of Annual Financial Statements | Material | ✓ | | | | Nil |
| General IT controls | | | | | | |
| COAF 10 OF 2023 - IT Controls - Policies not reviewed | Material | | | | ✓ | Nil |
| Immovable assets | | | | | | |

| Finding | Rating | Classification | | | | | Number of times reported in previous two years |
|---|----------|----------------|-------------|------------|------------------|----------|--|
| | | Financial | Performance | Compliance | Internal control | Delivery | |
| Work in Progress: 5MVA & 8 MVA BACKBONE LINE - Inaccurate Cost per Completion Certificate | [Colour] | ✓ | | | | | Nil |
| COAF 04 OF 202 - Work-in-progress; Omission of prior period error adjustment to WIP | [Colour] | ✓ | | | | | Nil |
| COAF 04 OF 202 - Land-Fill Site: Omission of prior period error adjustment to PPE | [Colour] | ✓ | | | | | Nil |
| COAF 11 OF 2023 - WIP Register: Asset not capitalised on to the WIP Register | [Colour] | ✓ | | | | | Nil |
| Work in Progress: Xholobeni, Mgunungdlovu - Inaccurate Cost per Completion Certificate | [Colour] | ✓ | | | | | Nil |
| COAF 11 OF 2023 - Work-In-Progress Differences between WIP register and AFS | [Colour] | ✓ | | | | | Nil |
| Work in Progress: Differences per payment schedule and cost per completion certificates | [Colour] | ✓ | | | | | Nil |
| COAF 11 OF 2023 - Differences between WIP transfers and FAR transfers | [Colour] | ✓ | | | | | Nil |
| COAF 12 OF 2023 - Differences between Fixed Assets Register and Annual Financial Statement | [Colour] | ✓ | | | | | Nil |
| COAF 16 OF 2023 - Immovable assets - WIP – INEP Grant related expenditure treatment matters | [Colour] | ✓ | | | | | Nil |
| Investment property | | | | | | | |
| COAF 17 of 2023- Investment Property Valuation issue | [Colour] | ✓ | | | | | Nil |
| Provisions | | | | | | | |

| Finding | Rating | Classification | | | | | Number of times reported in previous two years |
|--|----------|----------------|-------------|------------|------------------|----------|--|
| | | Financial | Performance | Compliance | Internal control | Delivery | |
| COAF 20 of 2023 - Provision- Environmental Rehabilitation | [Colour] | ✓ | | | | | Nil |
| COAF 20 of 2023 -Provision- Incorrect calculations | [Colour] | ✓ | | | | | Nil |
| Provision; Incorrect classification and disclosure | [Colour] | ✓ | | | | | Nil |
| Payables | | | | | | | |
| COAF 15 of 2023 - Payables from exchange transactions- Incorrect classification of accruals | [Colour] | ✓ | | | | | Nil |
| Employee costs | | | | | | | |
| COAF 08 OF 2023 - Employee related cost - Overtime classification | [Colour] | ✓ | | | | | Nil |
| Operating expenditure | | | | | | | |
| COAF 12 OF 2023 - Expenditure not paid with 30 days | [Colour] | | | ✓ | | | Nil |
| Revenue | | | | | | | |
| COAF 06 OF 2023: Rental of facilities and equipment : Leasehold fees – supporting schedules not adequately updated | [Colour] | ✓ | | | | | Nil |
| COAF 14 OF 2023 - Payables from exchange transactions- Difference between AFS and GL | [Colour] | ✓ | | | | | Nil |
| COAF 05 OF 2023 - Service charges - Recalculation Differences | [Colour] | ✓ | | | | | Nil |
| Disclosures | | | | | | | |
| COAF of 15 of 2023- Additional Disclosure | [Colour] | ✓ | | | | | Nil |
| Segment reporting- Incorrect amount | [Colour] | ✓ | | | | | Nil |
| Prior Period error note: Fruitless and Wasteful expenditure | [Colour] | ✓ | | | | | Nil |

ANNEXURE E: UPCOMING CHANGES

1. This Annexure lists upcoming changes and events that will potentially affect the preparation of financial statements and annual performance report and compliance with legislation.
2. The municipality should ensure that systems and controls are in place to implement upcoming changes in the [accounting standards / frameworks / pronouncements / circulars / legislation] that could have an impact on future audit outcomes.

Upcoming changes

| Description | Effective date |
|---|------------------|
| GRAP 1 on Presentation of Financial Statements (revised) | 1 Apr 2023 |
| GRAP 25 on Employee benefits (revised) | 1 Apr 2023 |
| GRAP 103 on Heritage assets (revised) | To be determined |
| GRAP 104 on Financial instruments (revised) * | 1 Apr 2025 |
| IGRAP 7 on The limit on a defined benefit asset, minimum funding requirements and their interaction (revised) | 1 Apr 2023 |
| IGRAP 21 on The effect of past decisions on materiality | 1 Apr 2023 |
| Guideline on Accounting for landfill sites | 1 Apr 2023 |

3. Information on events other than the changes already listed that could have an impact on the financial statements, annual performance report and compliance with legislation in future.
4. If not addressed, the following findings we reported to management could result in the financial statements being misstated when the changes become effective:



Findings on Accounting for Integrated National Electrification Programme (INEP)

| Finding | Area affected | Potential impact |
|--|----------------------|---|
| The municipality is unlicensed in the areas it is constructing an asset on behalf of Eskom, there is no service potential associated with the assets that will flow to the municipality. The municipality has been incurring construction costs in terms of GRAP 17 and not GRAP 11 as the asset is built for Eskom. | Financial Statements | Incorrect application of the applicable reporting standard, GRAP. |