**Final management report**

**Mkhambathini Local Municipality**

**30 June 2022**

**Communicated to the accounting officer on: 18 November 2022**

**Management report**

**Mkhambathini Local Municipality**

**30 June 2022**

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**Management report to the accounting officer on the audit of the Mkhambathini Local Municipality for the year ended 30 June 2022**

**INTRODUCTION**

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.
2. The 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 2022. These findings were communicated to management and this report details management’s response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:

* express an opinion on the financial statements
* express an opinion in the management report on the usefulness and reliability of the reported performance information for selected development priorities, 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.

1. Our engagement letter and the addendum to the engagement letter sets out our responsibilities and those of the accounting officer in detail.
2. 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.
3. 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.
4. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipients. 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.
5. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes, with the focus on the following:

* Status of the audit outcomes
* Status of the level of assurance provided by key role players
* Status of the drivers of internal controls
* Status of risk areas
* Root causes to be addressed

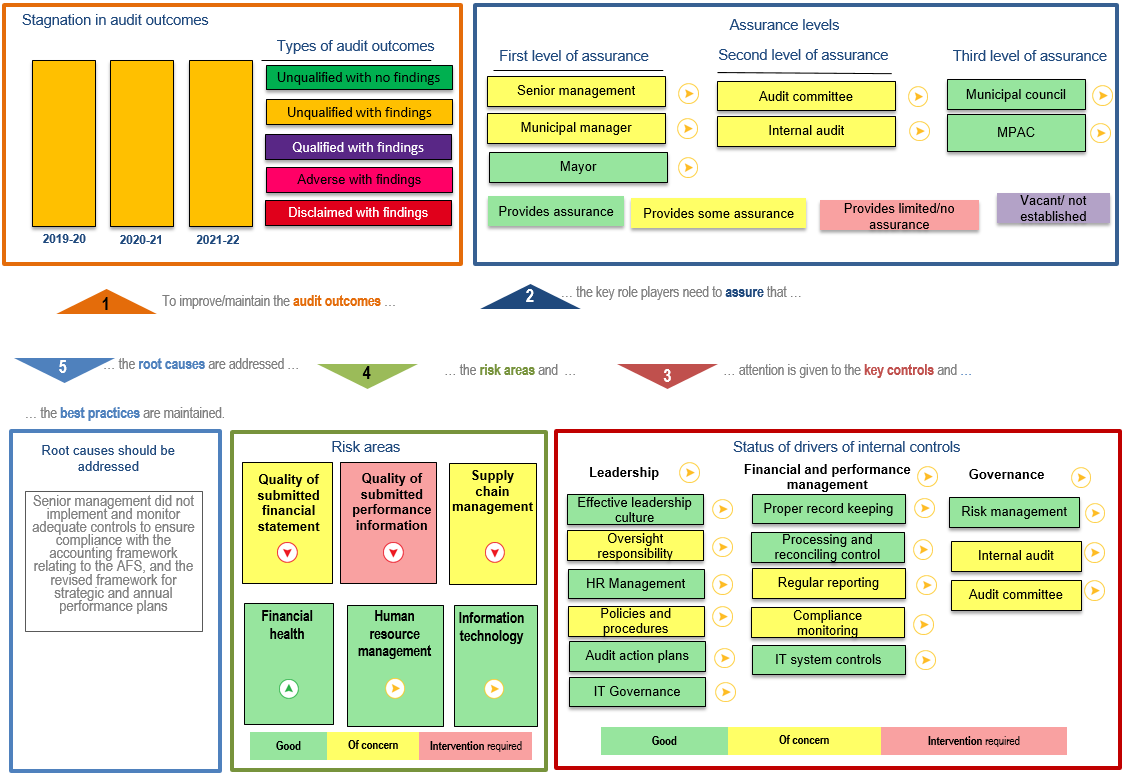
Movement from the previous year is depicted as follows:

/ Improved



/ Unchanged / slight improvement / slight regression

/ Regressed



**OVERALL MESSAGE**

1. Management has managed to sustain their unqualified with findings opinion year on year however material misstatements were not pro-actively identified by the different levels of assurance providers. Furthermore, there is a significant regression in the quality of the annual performance report from the previous year which can be improved by implementing regularly reviews and monitoring including developing clear policies and procedures to allow the consistent collation of performance information on a quarterly basis. Robust monitoring of supply chain management controls and compliance with key legislation must be implemented which will support a sound control environment towards achieving clean administration in future.

**SECTION 1: Interactions with stakeholders responsible for oversight and governance**

1. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

| **Key stakeholder** | **Purpose of interaction** | **Number of interactions** |
| --- | --- | --- |
| Municipal council | Tabling of final audit outcome | 1 |
| Municipal public accounts committee | Tabling of final audit outcome | 1 |
| Mayor | Sharing of final audit outcome | 1 |
| Municipal manager | Engagement letter & audit strategy presentation, draft management report discussion, final audit report presentation | 3 |
| Audit committee | Engagement letter & audit strategy presentation, AFS & APR review, sharing of audit outcome | 2 |

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

**SECTION 2: Matters relating to the auditor’s report**

## Audit of the financial statements

1. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality’s system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).

| **Material misstatement** | | | **Impact**  **R**  current year | **Impact**  **R**  previous year |
| --- | --- | --- | --- | --- |
| **Financial statement item** | **Finding** | **Occurred in prior year** |
| **Material misstatements corrected** | | | | |
| **Non-current assets** |  |  |  |  |
| Property, plant and equipment | Assets completed in the prior year have been recognised in the current year impacting WIP & depreciation | No | 5,57 million |  |
| Property, plant and equipment | Discrepancies in depreciation and amortisation, impairment and comparative disclosures | No | Qualitative | 4,04 million |
| **Current assets** |  |  |  |  |
| Receivables | Consumer debtors allowance for impairment and related AFS disclosure discrepancies | Yes | 8,30 million | 5,3 million |
| **Expenditure** |  |  |  |  |
| General expenses | Misclassification of infrastructure and planning expenses, with a resultant understatement of PPE, WIP & depreciation. | Yes | 5,57 million |  |
| **Disclosure** |  |  |  |  |
| Cash flow statement | Differences identified in the recalculation of the CFS. | Yes | Qualitative | Qualitative |
| Statement of comparison of budget and actual amounts | Incomplete disclosure for capital expenditure, statement of financial position and CFS including reasons for material variances. | No | Unquantifiable |  |

## Matters to be brought to the attention of users

### Emphasis of matter paragraph

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

#### Material impairments – consumer debtors

1. As disclosed in note 12 to the financial statements, consumer debtors were impaired by a total of R31,36 million (2020-21: R20,77 million) as a result of the annual review of the recoverability of the debt.

### Other matter paragraph

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

#### Unaudited disclosure notes

1. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## Audit of the annual performance report

1. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance 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

1. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected key performance area presented in the municipality’s annual performance report for the year ended 30 June 2022:

| **Key performance area** | **Pages in annual performance report** | **Opinion** | **Movement** |
| --- | --- | --- | --- |
| Key performance area – Basic service delivery | x – x | Qualified |  |

1. 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.*
2. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key performance area – Basic service delivery

#### Qualified opinion

1. In our opinion, except of the effects and possible effects of the matters described in the basis for qualified opinion section of our report, the reported performance information for the basic service delivery key performance area 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.

Basis for qualified opinion

**Provide households with access to basic level of solid waste removal**.

1. There was no clear and logical link on how the performance measure of *number of reports on households with access to basic level of solid waste removal* and the planned target of *4 reports* will contribute to achieving the planned outcomes or will measure the actual service delivery of the planned output to which it relates. The performance measure and target measured the number of reports prepared instead of the actual delivery of the solid waste removal service.

**Various indicators**

1. The source information and method of calculation for measuring the planned indicators were not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of our work and we were unable to audit the reliability of the achievement of the following performance indicators reported against their targets in the annual performance report:

|  |  |  |  |
| --- | --- | --- | --- |
| **Key performance indicator** | **Performance measure** | **Target** | **Reported performance** |
| Construction of Jilafohlo Access Road 4,5km | Percentage of the total project progress per quarter (accumulative) | 100% | 78% |
| Construction of Makhokhoba Access Road 0.44 km | Percentage of the total project progress per quarter (accumulative) | 100% | 62% |

**Various indicators**

1. The source information and method of calculation for achieving the following planned indicators were not clearly defined:

|  |  |  |
| --- | --- | --- |
| **Key performance indicator** | **Performance measure** | **Target** |
| Maintenance Ophokweni Access Road 1,1km | Percentage of the total project progress per quarter (accumulative) | 100% |
| Rehabilitation of Manzamnyama Road 1,2 km | Percentage of the total project progress per quarter (accumulative) | 100% |
| Maintenance of Hholongo Access Road 1km | Percentage of the total project progress per quarter (accumulative) | 100% |
| Construction of Meyiwa Access Road 1 km | Percentage of the total project progress per quarter (accumulative) | 100% |
| Maintenance of Gcide Road 1,2 km | Percentage of the total project progress per quarter (accumulative) | 100% |
| Maintenance of Muzingezwi Access Road 1,3 km | Percentage of the total project progress per quarter (accumulative) | 100% |

### Other matters

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

#### Achievement of planned targets

1. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraphs 22 to 24 of this report.

#### Adjustment of material misstatements

1. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery key performance area. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the paragraph above.

### Responsibilities of the accounting officer for the reported performance information

1. 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 officerdetermines 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

1. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected key performance area 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.
2. 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 munici.pality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
3. 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

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

### Annual financial statements, performance reports and annual reports

1. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### Strategic planning and performance management

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

### Expenditure management

1. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9,69 million as disclosed in note 41 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by exceeding the approved budget of non-cash items.

## Other information

1. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee’s report. The other information does not include the financial statements, the auditor’s report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor’s report.
2. 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 thereon.
3. 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 development priorities presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
4. The following paragraphs will be included in the auditor’s report to highlight to the users whether any inconsistencies in the other information exist:
5. I did not receive the other information prior to the date of this auditor’s report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor’s report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal controls

1. The significant deficiencies in internal control that led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 8, 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

#### Oversight responsibility

1. The accounting officer did not implement sufficient monitoring controls to ensure credible and reliable financial and performance reporting including related compliance with key legislation.

#### Policies and procedures

1. The municipality did not develop and implement proper performance planning and management practices to guide the measurement of performance indicators and targets which would allow for the collection, collation, verification and reporting of portfolio of evidence for reported performance.
2. The accounting officer and CFO did not develop and implement clear policies and procedures and related records management with respect to the administration and awarding from the approved panel of service providers on a rotational basis, in order to support and confirm compliance with the relevant key legislation .

#### Action plans to address internal control deficiencies

1. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner as repeat audit findings that occurred in the prior year were still identified in the current year.

### Financial and performance management

#### Proper record keeping

1. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification and reporting of actual performance information.

#### Daily and monthly processing and reconciling of transactions

1. The capital commitments register was not updated on a monthly basis with the payments made against the respective commitment balances.

#### Regular, accurate and complete financial and performance reports

1. As indicated in section 2, the financial statements contained numerous misstatements that were not corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.
2. As indicated in section 2, the annual performance report contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the performance information requirements and the lack of clear policies and procedures.

#### Compliance monitoring

1. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

### Governance

#### Risk management activities and risk strategy

1. The municipality did not exercise adequate oversight over their risk management processes to ensure financial, performance and compliance risks were properly monitored so that it did not materialise in the current year.

#### Internal audit

1. The internal audit did not perform an adequate review the annual financial statements and annual performance report to pro-actively identify numerous material misstatements that were identified during the audit which was subsequently allowed to be corrected by management.

#### Audit committee

1. The audit committee did meet and review the quarterly and annual performance report however this review could be improved as it did not prevent or detect the significant matters identified by the audit team specificially in the area of performance reporting.

### Summary

1. The matters above, as they relate to the basis for the findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor’s report as follows:
2. Senior management did not respond in a timely manner to address the risk of credible and reliable financial and performance reporting including compliance with key legislation relating to expenditure management and strategic planning and performance management.

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

## Assessment of assurance providers

1. 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.
2. 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.
3. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2) 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 some assurance

* Senior management did not perform adequate reviews over the compilation of the annual financial statements which resulted in material misstatements being identified during the audit. Similarly, adequate reviews of the compilation of the annual performance report were also found to be inadequate, resulting in significant audit findings being raised impacting on the usefulness and reliability of the annual performance report.

#### Accounting officer: provides some assurance

* The accounting officer should implement measures to improve the oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

#### Mayor: provides assurance

* The executive authority was found to have a positive impact on the controls of the auditee based on interactions with the executive, commitment given and honoured and the impact of actions/initiatives by the executive.

### Second level of assurance

#### Internal audit unit: provides some assurance

* Legislation in South Africa requires the establishment of, and provides for the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality’s governance, risk management and internal control processes.
* 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.
* The internal audit unit have an important role to play in the timely assessment of the effectiveness of internal controls over SCM processes to ensure compliance with municipal supply chain management legislation, including the validation of the quality of the financial statements prior to submission for auditing by AGSA and communicating the weakness identified to management and those charged with governance. Whilst the AFS and APR were reviewed by internal audit, certain errors, some of which are material, were not detected and corrected, prior to the submission to AGSA.

#### Audit committee: provides some assurance

* The audit committee must be an independent advisory body to the council, 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 should improve their high level review of the AFS, preferably utilising the NT GRAP disclosure checklist as certain errors could have being pro-actively detected and corrected prior to the submission of the AFS to AGSA. Similarly, the audit committee should ensure that the revised framework for strategic plans and annual performance plans is applied and adhered to for the preparation of the annual performance report.

### Third level of assurance

#### Municipal council: provides assurance

* The municipal council has discharged it’s responsibility of overseeing service delivery and administration of the municipality however council did not investigate prior years’ irregular, fruitless and wasteful expenditure or provide oversight to ensure that investigations are performed.

#### Municipal public account committee (MPAC): provides assurance

* The MPAC has provided assurance by exercising oversight over financial matters, predetermined objectives and compliance monitoring.

## Status of implementing commitments and key recommendations

1. 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.** | **Auditee commitment** | **Made by** | **Date** | **Origin of commitment** | **Status** |
| --- | --- | --- | --- | --- | --- |
| 1 | Irregular, fruitless and wasteful expenditure identified has been forwarded to MPAC for investigation and onward recommendation to Council. | CFO/MM | 30/11/2017 | Prior year management report | Implemented |

1. Included below are the key audit recommendations necessary to improve the audit outcomes in future. Engagements have taken place to obtain commitments to ensure processes are in place to improve the audit outcomes.

| **No.** | **Key audit recommendations** | **Auditee commitment** |
| --- | --- | --- |
| 1 | A proper review of the annual performance plan should be performed to confirm that the indicator targets clearly define the required level of performance and the method to determine reported achievements. | Management note the findings by the auditors and the recommendation by the auditors will be implemented. |
| 2 | Management should improve their review of the compilation of the annual budget to support the accuracy and completion thereof to prevent the re-occurrence of unauthorised expenditure. | The investigation for unauthorised expenditure incurred by the municipality is in progress which will include any such expenditure that may be identified by the Auditor General. Investigation to be conducted by Council committee to ensure that proper steps for write-off or recovery is followed by the municipality. |
| 3 | The accounting officer and CFO should develop and implement adequate controls together with respective records management in order to support and confirm compliance with the relevant key legislation with respect to the administration of panels. | Management will amend the SCM policy to include the criteria to be followed to select the contractors from the panel of service providers. |
| 4 | Management should investigate all of the cases listed were service providers were in the service of the state, and institute the necessary consequence management processes against the relevant suppliers. If any of these items recur in the next financial year, they will result in irregular expenditure. | Management will ensure that no transactions will be entered into with service providers identified as being inservice of the state. |

* One (1) audit recommendation accepted by management in the previous year on matters included in the auditor’s report and other important matters was implemented, or alternative action was taken to resolve the finding.
* Details on the status of implementing the previous year’s recommendations are provided in section 9, which summarises the detailed audit findings.

**SECTION 4: Specific focus areas**

## Financial viability

1. Our audit included a high-level overview of the municipality’s financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management’s own financial assessment.

| **FINANCIAL VIABILITY ASSESSMENT** | | | |
| --- | --- | --- | --- |
|  | | **As at 30 June 2022** | **As at 30 June 2021** |
| **Expenditure management** | | | |
| 1.1 | Creditor-payment period | **12 Days** | **15 Days** |
| **Revenue management** | | | |
| 2.1 | Debt-collection period (after impairment) | **24 Days** | **191 Days** |
| 2.2 | Debt-impairment provision as a percentage of accounts receivable | **95.1%** | **66.8%** |
| * Amount of debt-impairment provision * Amount of accounts receivable | **R31,23 m**  **R32,97 m** | **R20,77 m**  **R31,10 m** |
| **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 | **R1,57 m** | **R8,98 m** |
| 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 | **R27,47 m** | **R58 m** |
| 3.3 | A net liability position was realised (total liabilities exceeded total assets) | **No** | **No** |
| * Amount of the net asset / (liability) position | **R243,73 m** | **R242,16 m** |
| **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) | **R53,24 m** | **R50,41 m** |
| 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 | **R48,47 m** | **R24,32 m** |
| 4.3 | Creditors as a percentage of cash and cash equivalents | **4.3%** | **5.3%** |
| * Amount of creditors (accounts payable) * Amount of cash and cash equivalents / (bank overdraft) at year-end | **R2,27 m**  **R53,24 m** | **R2,68 m**  **R50,41 m** |
| 4.4 | Current liabilities as a percentage of next year’s budgeted resources | **34.6%** | **10.4%** |
| * Amount of current liabilities * Amount of next year’s budgeted income | **R32,39 m**  **R93,64 m** | **R8,35 m**  **R80,64 m** |
| **Overall assessment** | | | |
| Overall, the financial viability is assessed as: | | **Good** | **Good** |

### Financial indicators that can impact on service delivery:

1. In addition to the assessment of financial viability, our audit included a high-level overview of the municipality’s financial indicators that can impact on service delivery as at year-end. This assessment provides useful information for accountability and decision-making purposes and complements the financial viability assessment by providing an overview of potential service delivery implications of financial transactions. It will also highlight to management those issues that may require corrective action in order to avoid service delivery failures.

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial indicators that can impact on service delivery** | | | |
| 1.1 | % spending on repairs and maintenance | **15.6%** | **14.9%** |
| * Total expenditure on repairs and maintenance for the year * Total Property, plant and equipment at year end | **R33,08 m**  **R212,10 m** | **R26,53 m**  **R178,05 m** |
| 1.2 | Total capital expenditure as a % of total expenditure | **30.8%** | **40.4%** |
| * Amount of capital expenditure for the year * Amount of total expenditure for the year | **R59.72 m**  **R194,22 m** | **R79.58 m**  **R196.91 m** |

### High-level comments

1. The overall financial health of the municipality is sound however management should consider improving their revenue collection strategies to improve the collection rate of debtors, which will further improve the cashflow and decrease the reliance on government grants in the future.
2. The percentage spending on repairs and maintenance is above the minimum benchmark of 8% for both the prior and current financial years, which is a positive indication of managements commitment to maintain the assets of the municipality. Simarly, total capital expenditure as a percentage of total expenditure is above the minimum benchmark of 10%, which indicates that management are making significant investment in the municipal infrastructure.

## Procurement and contract management

1. 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

1. R6 157 343.27 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 100% of this irregular expenditure was identified during the audit process and not detected by the municipality’s monitoring processes. The root cause of the lack of effective prevention and detection is that inadequate measures are in place to prevent and detect incidents of non-compliance with MSCMR, by means of monitoring and use of compliance checklists.

### Awards to persons in the service of the state

1. 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.

| 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 and/or councillors of the municipality | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Awards to persons in the service of other state institutions | 2 awards R169 789 | 0 | 2 | 0 | 2 |  |  |

### Procurement and contract management processes

1. The table below is a summary of findings identified on procurement and contract management processes:

|  | **Total** | | **Quotations** | | **Competitive bids** | | **Contract management** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Number | Value *R* | Number | Value *R* | Number | Value *R* | Number | Value *R* |
| **Awards selected for testing** | *65* | *95 065 607* | *34* | *3 716 696* | *19* | *57 614 257* | *12* | *33 734 654* |
| **Expenditure incurred on selected awards – current year** |  | *82 628 054* |  | *3 716 696* |  | *47 242 498* |  | *31 668 860* |
| **Limitations – awards selected but could not be tested** | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| **Awards where non-compliance was identified** | *18* | *60 113 674* | *2* | *315 600* | *13* | *45 907 080* | *3* | *13 890 994* |
| **Irregular expenditure identified** | *1* | *6 157 343* | *0* | *0* | *1* | *6 157 343* | *0* | *0* |
| **Instances of irregular expenditure where goods/services were not received** | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |

#### Construction contracts

* One (1) construction contract to the value of R11 972 891 (Current year expenditure R6 157 343) was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.

### Internal control deficiencies

1. Management did not perform regular monitoring of the MSCMR processes to confirm compliance with applicable laws and regulations.

## Fraud and consequence management

1. 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.
2. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/ non-compliance due to fraud.

* Submission of false declarations of interest by officials/service providers
* Indicators of fraud or bid rigging in SCM processes

1. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality’s management of consequences. The significant findings are provided below:

### Sanctions/recommendations not implemented for completed investigations

1. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that, on completion of an investigation, the investigation report be tabled to the council.

### Failure to deal properly with allegations reported in the previous year

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

#### Transgressions reported to management for investigation

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

|  | Findings raised in the previous year | | | Findings reported in current year | |
| --- | --- | --- | --- | --- | --- |
| Finding | Number of instances | Number of instances investigated | Number of instances resolved from those investigated | Number of instances | Value  (R) |
| **A: Improper conduct in SCM by suppliers** |  |  |  |  |  |
| Supplier submitted false declaration of interest | 2 | 0 | 0 | 4 | 1 237 298 |
| **B: Improper conduct in SCM by officials/ role players** |  |  |  |  |  |
| Officials failed to disclose their own interest or that of close family members, partners or associates | 1 | 0 | 0 | 2 | 1 067 509 |

1. Irregular, fruitless and wasteful expenditure disclosed in note 41 and 42 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular, fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.
2. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. We have not identified any matter which requires escalaltion in this regard.

## Grants Management

1. 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 (MIG)

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

| **Finding** | **Municipal Infrastructure Grant** |
| --- | --- |
| The grant was not spent according to the applicable grant framework |  |
| The municipality did not evaluate its performance on programmes funded by the grant |  |
| Funds received from DoRA grants transferred to other entities in contravention of section 16(3) of DoRA |  |

1. Key projects funded by the Municipal Infrastructure Grant were identified, tested and reported on, over the project life cycle of the selected key projects. We tested the timelines, budget spending, compliance with procurement processes, appropriate recording of the transactions in the financial statements and that the quality of the goods and services delivered agreed with the initial requirements.
2. The audit findings raised on each project are reported in the table below.

| **Summary of key findings per selected project** | | | |
| --- | --- | --- | --- |
| **Key project name** | ***Jilafohlo Access Road*** | ***Banqobile Sport Field*** | ***Mgwaphuma Road*** |
| Brief description of key project | Construction of 4.5km of road for Jilafohlo Access Road divided into four different sections | Construction of Banqobile Sports Field | Construction of the Mgwaphuma Access Road |
| Project commenced as planned | Yes | Yes | Yes |
| Project completed within defined duration (applicable if completed) | No | No | Yes |
| Status of completion | As at March 2022 - project was put on hold as cement supplier could not deliver to steep areas. Project not to be completed as per engineers recommendation. Revised project date December 2022. | Project to be completed by 25 November 2022 as per revised compeltion date due to KZN floods. | Project completed on 9 September 2022. |
| Total project budget | R9 170 106 | R11 972 890 | R9 539 480 |
| Actual amount spent from initiation to date (end of financial year) | R8 159 973 | R6 056 979 | R9 539 480 |
| **Audit findings** | | | |
| Overspending or underspending on total project budget | No | No | No |
| Findings identified on the procurement of goods and services for the project | No | No | No |
| Findings identified on the appointment and contract management of implementing agents for the project | No | No | No |
| Findings identified on procurement and contract management by the implementing agent for the project | No | No | No |
| Findings on the overall project management | No | No | No |
| Findings identified on consequence management in relation to the project | No | No | No |
| Findings identified on fraud in relation to the project | No | No | No |
| Findings identified on the quality of goods and services delivered on the project | No | No | No |
| Findings on commissioning of the completed project | No | No | No |
| Findings identified on accounting for the project (annual financial statements) | No | No | No |
| Spending not aligned to stage of completion | No | No | No |
| Budget spent but project milestones not achieved | No | No | No |
| Findings identified on grant spending in relation to the project | No | No | No |
| Findings identified on fruitless and wasteful expenditure incurred on the project | No | No | No |
| Findings identified on irregular expenditure incurred on the project | No | No | No |

## Use of consultants

1. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.
2. The total expenditure on consultants was R2 081 967.

**SECTION 5:** **Using the work of internal auditors**

1. 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 the following internal audit reports for risk identification purposes:

* Performance management system
* Revenue and debtors system review
* Asset management system
* Supply chain management

**SECTION 6: Emerging risks**

## Accounting, performance management/reporting and compliance matters

### New pronouncements

**Standards of Generally Recognised Accounting Practice (GRAP)**

1. 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 *Financial instruments* (revised) | To be determined |
| IGRAP 7 on *The limit on a defined benefit asset, minimum funding requirements and their interaction* (revised) | To be determined |
| IGRAP 21 on *The effect of past decisions on materiality* | To be determined |
| Guideline on *Accounting for landfill sites* | To be determined |

### Accounting – Schedule 5B Integrated National Electrification Programme grant

1. During the 2021/22 audit cycle we duly reconsidered the application of the requirements of GRAP 109 in respect accounting by principal and agent as it relates to INEP 5B Dora grants accounting treatment by the municipality as per our communication of finding. Given the fact that the change in our interpretation of the applicable accounting standard was made without a prior reasonable warning to the municipality, the finding for this audit cycle will not have an impact on the audit report, however if the same finding is identified in the next audit cycle, it could possibly have an impact on the audit report. The reason this is being reported as an emerging risk for this audit cycle is to provide a prior warning to the municipality so as to enable the municipality to align itself with the change of interpretation and to account for the INEP 5B Dora grants appropriately in its annual financial statements for the next audit cycle. We are mindful of the fact that this matter has been escalated to the Office of the Accountant General within the National Treasury for a view and or guidance. We will consider the outcome of the escalation when dealing with this matter going forward.

### Housing arrangement

1. During the 2021/2022 audit cycle we duly reconsidered the application of the requirements of GRAP in respect the accounting treatment for housing arrangements between the Department of Human Settlements, the municipality and third parties as per our communication of finding. Given the fact that the change in our interpretation of the applicable accounting standards based on reviews of the agreements between the parties was made without a prior reasonable warning to the municipality, the finding for this audit cycle will not have an impact on the audit report, however if the same finding is identified in the next audit cycle, it could possibly have an impact on the audit report. The reason this is being reported as an emerging risk for this audit cycle is to provide a prior warning to the municipality so as to enable the municipality to align itself with the appropriate accounting treatment in its annual financial statements for the next audit cycle. We will engage with the relevant stakeholders regarding the correct accounting treatment for the housing grants received by municipalities.

## Subsequent events

1. There were no significant findings identified from the audit of subsequent events, and which could be identified from our scrutiny of the following:

* Media reports
* Political initiatives
* Changes in oversight
* Transfer of functions

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

1. The planned and reported performance information of selected development priorities was audited against the following additional criteria as developed from the performance management reporting framework:

* Presentation and disclosure – overall presentation
  + Overall presentation of the performance information in the annual performance report is comparable and understandable.
* Relevance – completeness of relevant indicators
  + Completeness of relevant indicators in terms of the auditee’s mandate, including whether:
    - relevant core functions are prioritised in the period under review
    - relevant performance indicators are included for the core functions prioritised in the period under review.

1. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected development priority in this report. However, they may have an impact on the audit opinion in future.
2. No material findings were identified in respect of the additional criteria.

**SECTION 7: Ratings of detailed audit findings**

1. 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.

**SECTION 8: Conclusion**

1. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration.

Yours sincerely

Thamarin Mudely

Senior Manager: KwaZulu-Natal

30 November 2022

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**Distribution:**

Audit committee ; Head of internal audit unit; Executive authority

**SECTION 9: Summary of detailed audit findings**

| **Para. no.** | **Finding** | **Classification** | | | | | **Rating** | | | **Number of times reported in previous three years** | **Status of implementation of previous year(s) recommendation** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Misstatements in fin/ancial 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** |
| **Cash flow statement** | | | | | | | | | | | |
| 5 | Differences identified in the recalculation of the cash flow statement |  |  |  |  |  |  |  |  | 1 | In progress |
| **Commitments** | | | | | | | | | | | |
| 6 | Discrepancies in commitments |  |  |  |  |  |  |  |  |  | In progress |
| **Disclosure** | | | | | | | | | | | |
| 7 | Incomplete disclosure - Statement of comparison of budget and actual amounts |  |  |  |  |  |  |  |  |  | In progress |
| 8 | Non-disclosure of principal-agent arrangement |  |  |  |  |  |  |  |  |  | In progress |
| **Expenditure management** | | | | | | | | | | | |
| 3 | Unauthorised expenditure not prevented |  |  |  |  |  |  |  |  | 1 | In progress |
| **Intangible assets** | | | | | | | | | | | |
| 9 | Intangible asset accounting policy does not align to the requirements of GRAP 31 |  |  |  |  |  |  |  |  |  | In progress |
| **Predetermined objectives** | | | | | | | | | | | |
| 1 | Performance targets are not relevant as it does not measure the actual service delivery of the key performance indicator |  |  |  |  |  |  |  |  |  | In progress |
| 2 | Performance measures and targets are not well defined and specific |  |  |  |  |  |  |  |  |  | In progress |
| 10 | Reported achievement not supported by appropriate evidence |  |  |  |  |  |  |  |  |  | In progress |
| 11 | Reported achievement does not agree with evidence provided |  |  |  |  |  |  |  |  |  | In progress |
| 12 | Performance measures and targets not relevant |  |  |  |  |  |  |  |  |  | In progress |
| **Procurement and contract management** | | | | | | | | | | | |
| 13 | Winning contractors grading not suitable for the value of the contract |  |  |  |  |  |  |  |  |  | In progress |
| 14 | Awards made to suppliers in service of auditee – Financial interest not included in annual declaration |  |  |  |  |  |  |  |  | 3 | In progress |
| 15 | Irregularities in the use of the panels |  |  |  |  |  |  |  |  |  | In progress |
| 16 | Awards made to suppliers in the service of the state |  |  |  |  |  |  |  |  | 1 | In progress |
| 17 | VIP protection provided without evidence of threat and risk analysis conducted |  |  |  |  |  |  |  |  |  | In progress |
| 18 | Possible cover quoting identified |  |  |  |  |  |  |  |  |  | In progress |
|  | Contract management |  |  |  |  |  |  |  |  |  | In progress |
| **Property, plant and equipment** | | | | | | | | | | | |
| 19 | Misclassification of repairs and maintenance |  |  |  |  |  |  |  |  | 1 | In progress |
| 20 | Misclassification of infrastructure and planning expenses |  |  |  |  |  |  |  |  |  | In progress |
| 21 | Assets completed in the prior year have been recognized in the current year |  |  |  |  |  |  |  |  |  | In progress |
| **Receivables** | | | | | | | | | | | |
| 22 | Consumer debtors allowance for impairment and related AFS disclosure discrepancies |  |  |  |  |  |  |  |  | 1 | In progress |
| **Revenue** | | | | | | | | | | | |
| 4 | Integrated National Electrification Programme municipal grant not correctly accounted for in current and prior years |  |  |  |  |  |  |  |  |  | In progress |
| 23 | Understatement of revenue |  |  |  |  |  |  |  |  |  | In progress |

**Detailed audit findings**

## Annexure A: Matters affecting the auditor’s report

### Revenue

### Predetermined objectives

**1. Performance targets are not relevant as it does not measure the actual service delivery of the key performance indicator**

**Audit finding**

In terms of paragraph 3.3 of the *Framework for the Managing of Programme Performance Information* (FMPPI), “Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

**Relevant:** the required performance is linked to the achievement of a goal.”

There was no clear and logical link on how the performance measure and target will measure the actual service delivery and the planned output to which it relates. The performance measure and target measured the number of reports prepared instead of the actual service delivery of the following key performance indicators:

|  |  |  |  |
| --- | --- | --- | --- |
| Key Performance Indicator | Performance Measure | Annual Target | Reported Achievements |
| Provide households with access to basic level of solid waste removal | Report on households with access to basic level of solid waste removal | 4 | 4 |

As a result, the annual targets relating to the above key performance indicators reported in the Annual Performance Report are not relevant.

**Internal control deficiency**

The technical services head together with the performance management manager did not review the performance targets adequately to ensure that the targets are relevant.

**Recommendation**

The technical services head together with the performance management manager should perform a proper review of the annual performance plan to confirm that the indicator relevant targets relate logically and directly to an aspect of the municipality’s mandate, and the realisation of strategic goals and objectives.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management notes the findings by the auditors  The issue of waste management (access to basic level of solid waste removal) is part of the mandate of the municipality and the only challenges that has been identified on the target was the incorrect target from number of household to number of reports which was incorrectly changed from previous year’s SDBIP.  The management agree with the challenge on the KPI’s being not measurable but disagree with the finding on the mandate matter. | Mr S Mngwengwe  Municipal Manager | 31 October 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Chief Financial Officer to correct the APR since the POE’s are available to support the targets. | Mr TE Gambu | 11 November 2022 |

**Auditor’s conclusion**

Management comments are noted however the performance measure and related target of the KPI assessed to be material which is to provide households with access to basic level of solid waste removal is not relevant as it does not measure the actual service delivery rendered. Material findings on the usefulness and reliability of this indicator will be included in the audit report accordingly and a material non-compliance with the municipal planning and performance regulations. The improvement in approving policies and procedures that supports the measurement and consistent collation of information to support the reported achievements will be followed up in the 2022-23 year. Management is further urged to revisit all indicators during the upcoming mid term performance assessment to ensure that the KPI measures the actual service delivery of mandated functions.

**2. Performance measures and targets are not well defined and specific**

**Audit finding**

In terms of paragraph 3.3 of the *Framework for the Managing of Programme Performance Information* (FMPPI), “Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

**Specific**: the nature and the required level of performance can be clearly identified.

**Well-defined:** the indicator needs to have a clear, unambiguous definition so that data will be

collected consistently, and be easy to understand and use.”

1. As per discussion with the technical services department, we were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of calculation or any related systems and processes that were established to enable consistent measurement and reliable reporting of the actual achievement for the following indicators. This was due to a lack of documented policies and procedures being developed and approved for each respective performance measure and target.

| No | Key Performance Indicator | Performance Measure | Planned Target | Reported Performance |
| --- | --- | --- | --- | --- |
| 1 | Construction of Jilafohlo Access Road 4,5km | Percentage of the total project progress per quarter (accumulative) | 100% | 78% |
| 2 | Construction of Makhokhoba Access Road 0.44 km | Percentage of the total project progress per quarter (accumulative) | 100% | 62% |

As a result thereof, we were unable to test whether these indicators was well-defined and verifiable by alternative means. As a result, we was unable to audit the reliability of the achievements of the indicator reported against their respective targets in the annual performance report.

1. The source information and method of calculation for achieving the following planned indicators was not clearly defined:

| Key Performance Indicator | Performance Measure | Planned Target | Reported Performance |
| --- | --- | --- | --- |
| Maintenance Ophokweni Access Road 1,1km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |
| Rehabilitation of Manzamnyama Road 1,2 km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |
| Maintenance of Hholongo Access Road 1km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |
| Construction of Meyiwa Access Road 1 km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |
| Maintenance of Gcide Road 1,2 km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |
| Maintenance of Muzingezwi Access Road 1,3 km | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |

**Internal control deficiency**

The technical services head together with the performance management manager did not perform an adequate review of the performance measures and related targets to ensure that they are specific and well defined.

**Recommendation**

A proper review of the annual performance plan should be performed to confirm that the indicator and targets clearly define the required level of performance and the method to determine reported achievements is adequately defined.

Management should compile and approve policies and procedures which will guide the selection of criteria which meets the SMART principles relating to the definition of performance measures and targets.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the findings by the auditors and the recommendation by the auditors will be implemented. | Mr. S Mngwengwe  Municipal Manager | 10/11/2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

Material findings on the usefulness and reliability of these indicators will be included in the audit report accordingly and a material non-compliance with the municipal planning and performance regulations. The improvement in approving policies and procedures that supports the measurement and consistent collation of information to support the reported achievements will be followed up in the 2022-23 year.

### Expenditure management

**3. Unauthorised expenditure not prevented**

**Audit finding**

In terms of section 62(1)(d) of the MFMA, “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.”

Per inspection of note 40, *Unauthorised expenditure*, it is evident that the municipality incurred unauthorised expenditure relating to non-cash items totalling R2 241 868 (2021: R4 701 195), which is indicative of the municipality not taking adequate reasonable corrective measures to prevent the re-occurrence of unauthorised expenditure from non- cash items on a yearly basis.

This results in a material non- compliance with section 62(1)(d) of the MFMA.

**Internal control deficiency**

Management did not perform an adequate review of the compilation of the annual budget to confirm the accuracy and completeness thereof in order to prevent the re-occurrence of unauthorised expenditure.

**Recommendation**

Management should improve their review of the compilation of the annual budget to support the accuracy and completion thereof to prevent the re-occurrence of unauthorised expenditure.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| Management notes the finding from Auditor General, however the following must be noted.   1. With regards to GRAP 25 transactions (Actuarial Losses R 1 875 000), the municipality was unable to determine in advance whether the calculation is going to give a gain or a loss, neither does it know how much it is going to be in monetary value which makes it difficult to budget for such transactions. The provision of the non-cash items has proven to be a challenge since the provided amount always differ when the final figure is calculated. 2. The Loss on Disposal of Assets and Liabilities R 366 868 is also a non-cash item which is difficult to budget for during the preparation of the annual budget because –  * It is not always certain that the municipality will have the Loss on disposal of Assets and Liabilities in that financial year as it is determined by the year end transection. * It is impractical to determine whether during the disposal the municipality is going to make the gain or loss. * During the budget stage it is not known how much the disposal is going to amount to, which then makes it difficult to budget for something that is not certain in terms of monetary value.   The investigation for Unauthorised expenditure incurred by the municipality is in progress which will include any such expenditure that may be identified by the Auditor General. | Mr S Mngwengwe  Municipal Manager | 28/10/2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Investigation to be conducted by Council committee to ensure that proper steps for write-off or recovery is followed by the municipality. | Mr TE Gambu  CFO | 28 Oct 2022 |

**Auditor’s conclusion**

The improvement year on year in management’s budgeting processes will be followed up.This however results in a material non compliance with section 62(1)(d) of the MFMA and will be reported in the audit report.

## Annexure B: Other important matters

**4. Integrated National Electrification Programme municipal grant not correctly accounted for in current and prior years**

**Audit finding**

**Compliance context**

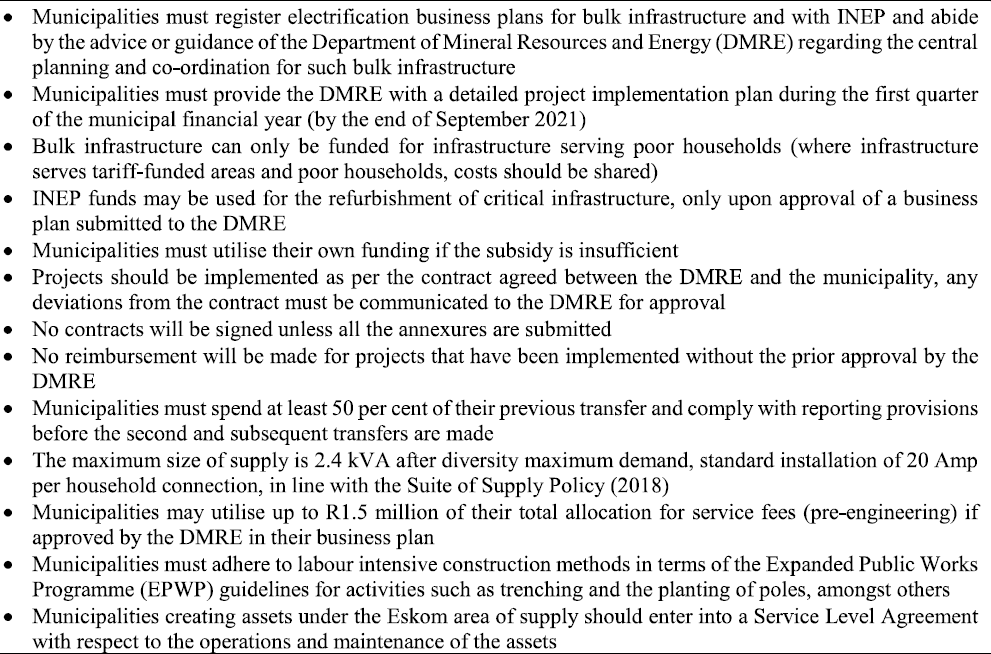
The municipality was allocated R18,11 million for the 2021-22 financial year for the integrated national electrification programme municipal grant (INEPM). This allocation was made in terms of schedule 5, Part B of the annual Division of Revenue Act, 2021 (Act No.9 of 2021), “the Act”.

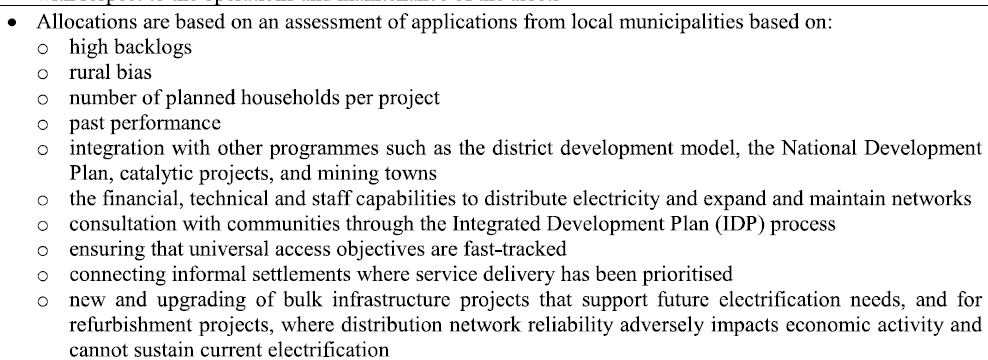
Page 192 of the Act framework further includes the conditions of the INEPM schedule 5, Part B grant, which are denoted hereunder for clarity purposes;

**Grant purpose**

*To implement the INEP by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including informal settlements, farm dwellers, new and existing dwellings) and the installation of relevant bulk infrastructure in Eskom licensed areas.*

**Allocation conditions and criteria**





**Analysis of compliance requirements**

1. From the above, *viz* (grant purpose, allocation conditions and criteria), it is clear that schedule 5, Part B (Municipal) grants are allocated in the Act from the DMRE to municipalities based on requests from municipalities who are at the coalface of delivering basic services. Strategic planning, annual planning, community needs, budgeting, monitoring, basic service delivery and reporting on how this grant satisfies local community needs and development priorities at municipal level are therefore logically an integral part of the reporting and accountability process of municipalities. Service delivery reporting is also mutually linked to financial reporting and accounting and are inextricably interrelated.
2. The purpose of the grant is to subsidise municipal infrastructure and address backlogs based on business plans that are submitted to DMRE for approval.
3. Municipalities creating assets under an ESKOM area of supply should enter into a service level agreement for the operations and maintenance of the assets.
4. Agreements entered into with ESKOM cannot be contrary to the requirements of the DORA and its accompanying framework which clearly sets are conditions for the INEPM.

**Arrangement entered into with ESKOM**

1. The AGSA was provided with an arrangement that was entered into with ESKOM for the schedule 5, Part B grant, dated 23 July 2021 and signed on 30 November 2021. The agreement was to enable the municipality to electrify 746 households in the ESKOM area of supply and covered by a budget allocation of R18,11 million.
2. All electrification whether undertaken by the municipality or consultant appointed by municipality are required to comply with standards and specifications set by ESKOM, and materials used on construction must also be ESKOM approved.
3. All risks will be the responsibility of the municipality until the project is handed over to ESKOM.
4. Upon completion, the municipality is required to provide ESKOM with a project close out report and a detailed cost breakdown of the newly created asset. This is to enable ESKOM to register the newly created asset.

**Analysis of arrangement entered into with ESKOM**

1. The purpose of the arrangement was to benefit the municipality in enabling it to electrify 100 households on the basis of its business plan and local area need. All risks, regardless of whether the municipality or a consultant (contractor) is appointed by the municipality are carried by the municipality based on ESKOM standards.
2. ESKOM entered into a binding arrangement as a contract in the form of a memorandum of agreement was concluded with the municipality. Palpably, there are no contracts concluded with consultants as the municipality appoints such to undertaken activities for it’s (the municipality’s) own benefit. Accordingly, the municipality may have its own agreement with consultants to undertake construction in ESKOM areas of supply.
3. There is no provision in the agreement for the hand-over of assets to ESKOM, but rather evident is handing over of the project thereto to enable ESKOM to register the asset for operations and maintenance purposes. Unless there are separate arrangements which specifically indicate that ownership and control of assets pass to ESKOM, these have not been provided to the AGSA for consideration and evaluation.

**Accounting considerations (GRAP 109)**

1. **Is there a binding arrangement?** Yes there is a binding arrangement in the form of a memorandum of agreement concluded with ESKOM. **This criteria is therefore met.**
2. **Level of assessment:** The level of assessment is based on whether one entity directs another entity in relation to specific transactions with third parties within a particular arrangement, rather than considering whether one entity directs or has power over another entity generally. (GRAP 109.13). Under GRAP 109.13 the assessment is performed at transaction level and not at arrangement level (GRAP 109. BC 13). ESKOM does not direct whether the municipality should appoint a consultant or conduct the activity on its own. There is therefore no direction over the activities of the municipality in its interactions with consultants. **This criteria is therefore not met.**
3. **Third parties:** The existence of third parties is critical in assessing whether an arrangement between entities is principal-agent arrangement (GRAP 109.BC7). The definition of a principal-agent arrangement refers to an entity acting on behalf of another entity in relation to transactions with third parties. For a principal-agent arrangement to exist transactions must be undertaken between the principal and third parties. In the absence of transactions with third parties, the arrangement is not a principal-agent arrangement. (GRAP 109.09). Conversely, not all arrangements with more than two parties are principal-agent arrangements. This common misconception must be avoided. If there are no transactions between the principal and third parties or if the “agent” acts in its own capacity and for its own benefit in the transactions with third parties, the arrangement is not a principal-agent arrangement. **The criteria is not met as there is no third party**. The municipality is acting in its own capacity and is appointing consultants and the electrification of assets is being done for its own benefit. The contracts concluded with consultants are a mere customer/supplier relationship in the ordinary course of business and does not give rise to a principal-agent arrangement.

As the agreement signed with Eskom in this regard does not meet the requirements of GRAP 109 in terms of a principal agent arrangement, the grant received should be accounted for in accordance with GRAP 23 revenue from non-exchange transactions and the respective electrification assets should be recorded as PPE or WIP in the AFS of the municipality. The impact on the restatement of the previous year’s comparatives in terms of GRAP 3 should be considered also.

The revenue from non-exchange transaction and the PPPE/WIP is understated by an amount of R18,11 million.

**Internal control deficiency**

Senior management did not perform an adequate review of the INEP GRANT agreement to confirm that revenue and PPE are accounted for in accordance with the requirements of GRAP.

**Recommendation**

Senior management should effect the necessary adjustments to the AFS to confirm the accurate and complete disclosure of the INEP Grant received including the impact on the comparative figures in accordance with GRAP.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the finding from the Auditors, the INEP grant for R18,11m was not part of the revenue from non-exchange transaction because this expenditure for this grant did not affect the municipality mandate. The municipality did not recognise the revenue on this grant since the grant has been introduced to the municipality.  On the WIP electrification projects assets does not form part of our FAR, the municipality has entered an arrangement with ESKOM for construction of MV powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to ESKOM upon completion.  Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with ESKOM. The arrangement would improve the lives of the local communities. | Mr. S Mngwengwe  Municipal Manager | 15 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

Given the fact that the change in our interpretation of the applicable accounting standard was made without a prior reasonable warning to the Municipality, the finding/s for this audit cycle will not have an impact on the audit report, however if the same finding/s are identified in the next audit cycle, they could possibly have an impact on the audit report. The reason this is being reported as an emerging risk for this audit cycle is to provide a prior warning to the Municipality so as to enable the Municipality to align itself with the change of interpretation and to account for the INEP 5B DORA grants appropriately in its annual financial statements for the next audit cycle. We are mindful of the fact that this matter has been escalated to the Office of the Accountant General within the National Treasury for a view and or guidance. We will consider the outcome of the escalation when dealing with this matter going forward.

### Cash flow statement

**5. Differences identified in the recalculation of the cash flow statement**

**Audit finding**

In terms of section 122 of the MFMA:

"(1)(a) Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

(3) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1)(b) of the Public Finance Management Act.”

In terms of paragraph .02 of GRAP 2, Cash flow statements, "An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.”

In terms of paragraph .11 of GRAP 2, Cash flow statements, "The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.”

Our recalculation of the cash flow statement has identified the following differences which we are unable to reconcile and which we regard as errors. The differences were identified in the cash flow statement and note 32:

a. Differences identified in the cash flow statement:

|  |  |  |
| --- | --- | --- |
| **Line item** | **Difference identified** |  |
| Sale of goods | R75 965.39 | Overstated |
| Compensation of employees | R11 0879.00 | Understated |
| Suppliers (for trading goods/services) | R433 445.00 | Overstated |
| Proceeds from disposal | R61 345.60 | Overstated |
| **Total cash and cash equivalents of the year** | **R185 257.00** | Understated |

b. Differences identified in note 32:

|  |  |  |
| --- | --- | --- |
| **Line item** | **Differences identified** |  |
| Non-cash item proceeds of sale of PPE included in other income | R408 970 | Overstated profits |
| Movement in trade and other receivables | R3 380 216 | Overstatement |
| Movement in government grants received | R444 066 |  |
| Movement in VAT receivables | R4 479 855 | Understated |
| **Net cash flow from operating activities** | **R246 603** | Understated |

As a result thereof, the net cash flow from operating activities is misstated which could impact the audit report accordingly.

**Internal control deficiency**

The CFO did not perform an adequate review of the cash flow statement to confirm that the figures disclosed are accurate and complete and supported by credible and reliable information, prior to submission for audit purposes.

**Recommendation**

The CFO should improve the review of the cash flow statement to confirm the figures disclosed are accurate and complete and supported by credible and reliable information, prior to submission for audit purposes.

The necessary adjustments should be made to the cash flow statement and resubmitted for audit purposes.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the findings from the auditors. The CFO will discuss the cash flow statement calculations with the auditors and necessary adjustment will be made to the AFS. | Mr S Mngwengwe  Municipal Manager | 09 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| CFO to investigate and amend the AFS | Mr TE Gambu  CFO | 11 November 2022 |

**Auditor’s conclusion**

The amended cash flow statemement was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

### Commitments

**6. Discrepancies in commitments**

**Audit finding**

In terms of section 62(1) of the MFMA, “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(a) that the resources of the municipality are used effectively, efficiently and economically;

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.”

In terms of section 122 of the MFMA:

"(1)(a) Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

(3) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1)(b) of the Public Finance Management Act.”

In terms of paragraph .86 of GRAP 17, *Property, plant and equipment*, “The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements the amount of contractual commitments for the acquisition of property, plant and equipment.”

During the audit of commitments, the following discrepancies were noted:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier** | **Commitment Recorded** | **Recalculated Commitment** | **Variance** | **Comment** |
| MASAKHANE-MINING ENGINEERING CC | R5 815 547.26 | R8 374 737.71 | R2 559 190.45 | Variation order has not been considered in commitment |
| Nongafa Trading Enterprise | R376 849.20 | R412 849.23 | R36 000.03 | Error due to invoice capturing error |
| YIMPIE PROJECTS | R425 506.23 | R0 | R425 506.23 | Supplier contract was terminated during the year, therefore commitment is nil. |

As a result, commitments have been misstated by R3 020 696.71.

**Internal control deficiency**

Management did not perform adequate reviews and checks to ensure commitments were accurately calculated.

**Recommendation**

The disclosure note must be amended to account for the misstatement.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| Management notes the finding from Auditor General but does not agree with part of the finding, discussion is as follows:  **Masakhane mining engineering** was awarded a contract for an amount of R11 972 890.53 for the upgrade of Banqobile sport field, as at year end 30 June 2022 only R 6 157 343.27 had been spent from the contract value. The management will recalculate the commitment amount as at year end for this project and the AFS will be amended.  **Nongafa Trading Enterprise expenditure** calculation we had committed an error in capturing one of the invoices the amount of R36 000.03 will be amended to note 33  **Yimi Projects** The amount reflected as commitment in the rehabilitation of Shepstone Street for Yimpie project is correctly capture and disclosed as commitment because this amount is for retention which by regulation the municipality is supposed to withheld for all projects even though the contract was terminated but part of it was used to appoint another contractor who completed the project. | Mr. S Mngwengwe  Municipal Manger | 09 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| The management will amend the AFS | Mr. TE Gambu  CFO | 15 November 2022 |

**Auditor’s conclusion**

The amended commitment disclosure was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

### Disclosure

**7. Incomplete disclosure - Statement of comparison of budget and actual amounts**

**Audit finding**

In terms of paragraph .12 of GRAP 24, *Presentation of budget in financial statements*, “Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

(a) the approved and final budget amounts;

(b) the actual amounts on a comparable basis; and

(c) by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.”

In terms of paragraph .22 of GRAP 24, *Presentation of budget in financial statements*, “Where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the primary financial statements required by Standards of GRAP. In some cases, budgets prepared on the accrual basis may be presented in the form of only certain of the primary financial statements that comprise the full set of financial statements as specified by Standards of GRAP – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the primary financial statements that are also adopted for presentation of the budget. Determining the extent of comparison involves professional judgement. That judgement is applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph .25 and the *Framework for the Preparation and Presentation of Financial Statements.*”

Contrary to GRAP 24, the municipality did not include the following comparison disclosure in their statement of comparison of budget and actual amounts and corresponding reasons for their material variances:

a. Capital expenditure

b. Statement of financial position

c. Cash flow statement

**Internal control deficiency**

The CFO, internal audit and audit committee did not perform adequate review of the statement of comparison of budget and actual amounts disclosure note, to confirm that it agrees to the accurate and reliable information, prior to submission for audit purposes.

**Recommendation**

The CFO, internal audit and audit committee should improve the review of the statement of comparison of budget and actual amounts disclosure note, to confirm that it agrees to the accurate and reliable information, prior to submission for audit purposes.

All reasons for material differences between the budget and actual should be disclosed and supported with valid and sufficient supporting documentation.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The municipality note the finding from the auditors, the management did include the Capital expenditure, Statement of financial position and cash flow was included on the calculation .The income statement was disclosed on the Annual Financial Statement since the municipality has been reported the income statement only for past years with no findings raised by auditors and put the working on the working paper file with include the all statement as per Grap 24. Find the attached document Budget statement .Since the information for Budget Statement was provided to the Auditor prior audit ,the management will also consider the recommendation from the auditors | Mr. S Mngwengwe  Municipal Manager | 11 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| The management will amend the AFS | Mr. TE Gambu | 18 November 2022 |

**Auditor’s conclusion**

The amended statement of comparison of budget and actual amounts was received and validated by the audit team. has been validated. This however results in a material non-compliance with section 122 of the MFMA.

**8. Non-disclosure of principal-agent arrangement**

**Audit finding**

In terms of section 62(1) of the MFMA, “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(a) that the resources of the municipality are used effectively, efficiently and economically;

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.”

In terms of paragraphs .63 to .66 of GRAP 109, *Accounting by Principals and Agents*:

“.63 An entity that is the agent in a principal-agent arrangement shall disclose the following in the notes to the financial statements:

(a) a description of any resources (including the carrying value and description of any assets recognised) that are held on behalf of a principal, but recognised in the agent’s own financial statements. Such disclosure shall include:

* 1. (i) the remittance of any resources during the period, as well as the expected timing of remittance of any remaining resources to the principal; and
  2. (ii) risks that are transferred from the principal to the agent (if any), including risks flowing to the entity as a result of its custodianship over the resources held on behalf of a principal;

1. (b) the aggregate amount of revenue that the entity recognises as compensation for the transactions carried out on behalf of the principal; and
2. (c) a description of any liabilities incurred on behalf of a principal that have been recognised by the entity, as well as any corresponding rights of reimbursement that have been recognised as assets.

.64 An agent shall disclose information in the notes to the financial statements about the revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangement. An agent shall disclose:

1. (a) The category of revenue received or to be received, as well as the category of expenses paid or accrued on behalf of the principal.
2. (b) The amount of revenue received or to be received, as well as the amount of expenses paid or accrued on behalf of the principal during the reporting period per category of revenue or expense.

.65 Where an agent recognises receivables or payables in accordance with paragraph .57, it shall provide a reconciliation of the carrying amount of the receivable or the payable at the beginning and end of the period showing:

1. (a) For receivables:
2. (i) The amount of revenue that the principal is entitled to.
3. (ii) The value of any write-offs, settlements or waivers of amounts that reduce the amount that the principal is entitled to.
4. (iii) The amount of cash received on behalf of the principal.
5. (b) For payables:
6. (i) The amount of any expenses incurred on behalf of the principal.
7. (ii) The amount of cash paid on behalf of the principal.

.66 An entity provides the disclosures in paragraphs .64 and .65 when this information is useful to users in assessing the accountability of the agent in relation to the transactions undertaken with third parties in a principal-agent arrangement.”

During the audit of revenue it is noted that the municipality receives commission totaling R2 242 303 as disclosed in note 18 of the annual financial statements, as a result of the principal-agent arrangement it has for services carried out on behalf of the KZN Department of Transport.

Insufficient disclosure of this arrangement has been made in the notes which should include amongst others the following:

* A description of the arrangement, including the transactions undertaken by the municipality;
* Significant terms and conditions of the arrangement and whether any changes occurred during the reporting period;
* An explanation of the purpose of the principal-agent relationship and any significant risks (including risk mitigation strategies) and benefits associated with the arrangement.

**Internal control deficiency**

Management and those charged with governance did not perform an adequate review of the financial statements to ensure that reported information is accurate and complete and free from errors.

**Recommendation**

Management should investigate the matter above and make the necessary amendments to the financial statements.

The accounting officer should ensure that the financial statements are subjected to various layers of review, and that sufficient time is provided for the review and correction processes to take place.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the finding from auditors, the of R2 242 303 as disclosed in note 18 of the annual financial statements, the management will add the note under the note and explain, the principal-agent arrangement it has for services carried out on behalf of the KZN Department of Transport. The investigation has been conducted and the AFS will be amended. | Mr. S Mngwengwe  Municipal Manager | 04 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| To amend note 18 and give more explanation on the note | Mr. TE Gambu  Chief Financial Officer | 11 November 2022 |

**Auditor’s conclusion**

Management has updated the AFS disclosure which was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

### Intangible assets

**9. Intangible asset accounting policy does not align to the requirements of GRAP 31**

**Audit finding**

In terms of paragraph .27 of GRAP 31, *Intangible assets*, “An intangible asset shall be measured initially at cost in accordance with paragraphs .28 to .39. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.”

In terms of paragraph .71 of GRAP 31, Intangible assets, “An entity shall choose either the cost model in paragraph .73 or the revaluation model in paragraph .74 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.”

During the review of the intangible assets accounting policy, it was noted that the following requirements as per GRAP 31 has not been accounted for within the policy:

1. The initial measurement of intangible assets;
2. The model for subsequent measurement utilized by the municipality.

As a result, the intangible asset policy does not align to the requirements of GRAP 31, resulting in an internal control deficiency.

**Internal control deficiency**

The asset management unit did not perform an adequate review of the intangible asset policy to ensure all requirements as per GRAP 31, has been accounted for in the accounting policy.

**Recommendation**

The intangible asset accounting policy should be updated to include the initial measurement of intangible assets and the model for subsequent measurement.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management notes the finding, we will do the necessary amendments as to include the above mentioned in the asset management policy. | Mr. S Mngwengwe  Municipal Manager | 9 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Amend the Assets Management Policy | Mr. TE Gambu  Chief Financial Officer | 28 February 2023 |

**Auditor’s conclusion**

A follow up will be performed in next financial year to confirm amendments have been effected.

### Predetermined objectives

**10. Reported achievement not supported by appropriate evidence**

**Audit finding**

In terms of section 46(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000), “A municipality must prepare for each financial year a performance report reflecting a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year.”

Paragraph 3.2 (a) of National Treasury’s Framework for managing programme performance information (FMPPI) requires that the indicator be:

(a) Reliable: the indicator should be accurate enough for its intended use and respond to changes in the level of performance.

(c) Verifiable: it must be possible to validate the processes and systems that produce the indicator.”

The reported achievement for the following indicators did not agree to the portfolio of evidence provided, and therefore were not supported by appropriate audit evidence:

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **Achievement as per Supporting Documentation** | **Achievement as per the APR** | **Variance** |
| Establishment of ward-based central waste sorting and disposal areas managed through EPWP and CWP Programmes to reduce the level of waste sent to the landfill site. | 454.85 Tons | 533.61 Tons | 78.76 Tons |

As a result, the reported achievement of the above key performance indicators are not accurate.

**Internal control deficiency**

The community services manager did not perform an adequate review of the portfolio of evidence to support the reported achievement to confirm the accuracy and completeness thereof prior to submission for audit purposes.

**Recommendation**

The community services manager should improve the review of the portfolio of evidence to support the reported achievement to confirm the accuracy and completeness thereof prior to submission for audit purposes.

The necessary adjustments should be made to the annual performance report.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the finding by auditors.  In terms of waste central sorting, the evidence has been corrected to support the target which include the evidence from Msunduzi Municipality as we utilise their Landfill site. The information will be presented to auditors. | Mr. S Mngwengwe  Municipal Manager | 10/11/2022 |
| **Action to address finding** |
| Supporting evidence regarding tons of waste disposed in Q1 will be submitted to auditors. |
| The management will review the Construction of Jilafohla achievement and the annual performance report will be adjusted | **Responsible official** | **Due date** |
|  | Goodman Mkhize | 15/11/2022 |
|  | Goodman Mkhize | 15/11/2022 |

**Auditor’s conclusion**

The revised annual performance report was reviewed and adjustments made were accepted. This however results in a material adjustment being made to the annual performance report and an other matter paragraph will be included in the audit report accordingly.

**11. Reported achievement does not agree with evidence provided**

**Audit finding**

In terms of section 46(1) of the Municipal Systems Act, 2000 (Act No. 32 of 2000), “A municipality must prepare for each financial year a performance report reflecting-

(a) the performance of the municipality and of each external service provider during that financial year;

(*b*) a comparison of the performances referred to in paragraph (*a*) with targets set for and performances in the previous financial year.”

During the audit of predetermined objectives and assets (work in progress), it was noted that the following asset has yet to be completed. This was further corroborated from a physical verification of the project where the project was found to be incomplete/in-progress. This is contradictory to the reported achievement as per the annual performance report:

|  |  |  |  |
| --- | --- | --- | --- |
| Key Performance Indicator | Performance Measure | Annual Target | Reported Achievements |
| Construction of Kwenzokuhle Hall | Percentage of the total project progress per quarter (accumulative) | 100% | 100% |

As a result, the reported achievement of the above key performance indicator does not agree with evidence and is misstated.

**Internal control deficiency**

The performance management manager did not perform an adequate review to ensure the annual performance report corresponds to the portfolio of evidence and annual financial statements.

**Recommendation**

The annual performance report should be amended to reflect the non-achievement of the performance indicator, including the measures taken to improve performance.

Going forward, the performance manager must perform an adequate review of the annual performance report to ensure it corresponds to the portfolio of evidence and annual financial statements.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The finding is acknowledged and the reported figures and status on the APR will be adjusted accordingly, in line with the attached evidence (project report). | Mr S Mngwengwe  Municipal Manager | 9 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Adjustment on the APR | PMS Officer | 11 November 2022 |

**Auditor’s conclusion**

The revised annual performance report was reviewed and adjustments made were accepted. This however results in a material adjustment being made to the annual performance report and an other matter paragraph will be included in the audit report accordingly.

**12. Performance measures and targets not relevant**

**Audit finding**

In terms of paragraph 3.3 of the *Framework for the Managing of Programme Performance Information* (FMPPI), “Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

**Relevant:** the required performance is linked to the achievement of a goal.”

The following annual performance measures and related targets included in the approved annual performance plan were considered not to **directly relate** to the municipality’s mandate as the expected level of performance measured the number of reports prepared and not the actual service rendered/delivered in line with the strategic objectives of the municipality:

| Key Performance Indicator | Performance Measure | Annual Target | Reported Achievements |
| --- | --- | --- | --- |
| Provide social relief support to indigent families within all wards | Number of reports social relief packs issued to indigent households monthly | 4 | 4 |
| Report on the number and percentage of households earning less than R1100 a month with access to free basic services | Number of reports on households earning less than R1100 a month with access to free basic services | 4 | 4 |
| Plant Hire at All Wards | Number of progress reports on Plant Hire | 1 | 1 |
| Monitor Small town rehabilitation | Number of progress reports on Shepstone Road | 4 | 4 |
| Monitor Small town rehabilitation | Number of progress reports on Thomas Road | 4 | 4 |

As a result, the annual targets relating to the above performance indicators reported in the annual performance report are not relevant.

**Internal control deficiency**

The technical services head together with the performance management manager did not review the performance targets adequately to ensure that the targets are relevant.

**Recommendation**

The technical services head together with the performance management manager should perform a proper review of the annual performance plan to confirm that the performance measures and respective targets relate logically and directly to an aspect of the municipality’s mandate, and the realization of strategic goals and objectives.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The finding is acknowledged; however, the social relief programme and Free basic electricity are part of the municipality’s indigent programme of which the policy stipulates that for poor households, the municipality is able to assist with basic groceries when there is a death in the family as well as free basic electricity for qualifying households. Hence the inclusion of the social relief KPIs. | Mr S Mngwengwe  Municipal Manager | 9 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Review/ rewording of the KPI. | Miss Nonhlanhla Mkhize  Director Community Services | 30 June 2023 |

**Auditor’s conclusion**

Management comments are noted. The improvement in setting of relevant targets that measure the actual delivery of the service provided will be followed up in the 2022-23 year.

### Procurement and contract management

**13. Winning contractors grading not suitable for the value of the contract**

**Audit finding**

In terms of regulation 17 of the Construction Industry Development Regulations, 2004, a contractor registered in a contractor grading designation indicated in the table below from the CIDB regulations, is considered to be capable of undertaking a contract in the range of tender values indicated in that table in the class of the construction works to which the category of registration of that contractor relates. Revised tender value ranges came into effect on 7 October 2019 (values in brackets).

Grading Tender value ≤

1. 200 000 (500 000)

2. 650 000 (1 000 000)

3. 2 000 000 (3 000 000)

4. 4 000 000 (6 000 000)

5. 6 500 000 (10 000 000)

6. 13 000 000 (20 000 000)

7. 40 000 000 (60 000 000)

8. 130 000 000 (200 000 000)

9. No limit (N/A)

The undermentioned winning supplier was awarded to a bid not in accordance with the approved CIDB level in the bid specification:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier** | **CIDB grade** | **Required grade as per bid document** | **Bid** | **Value of contract** |
| Masakhane-mining engineering cc | 5GB PE | 5CE, 5GB or higher | MKH0010/2021/2022 | R11 972 890.53 |

Consequently, this results in non-compliance with the CIDB regulations and will thus result in irregular expenditure. Payments totalling R6 157 343,27 were made during the current financial year and should be disclosed in the irregular expenditure note 42, and any future payments made to the supplier should also be disclosed accordingly.

**Internal control deficiency**

Inadequate processes and procedures are in place to ensure compliance with CIDB regulations.

**Recommendation**

Management should implement processes and procedures to ensure that the CIDB regulations are adhered to.

The annual financial statements should be adjusted to include the irregular expenditure in note 42.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the finding by auditors. In terms of the threshold for the CIDB is not clear on the bids between R11 million to R12,9 million therefore the municipality did not see an issue of appointing Grade 5 CE PE contractor since for Grade 6 CE PE the minimum contractor must for the tender value starting from R13 million. The conclusion from the management was to consider any Company from Grade 5CE within the understanding of minimum threshold for Grade 6CE being R13million. | Mr. S Mngwengwe  Municipal Manager | 02 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not Applicable |  |  |

**Auditor’s conclusion**

Management comments are noted however in terms of the CIDB regulations which was applicable from 2019, the maximum tender value amount that can be awarded to a grade 5 registered supplier cannot exceed R10 million. The amounts paid was disclosed as irregular expenditure in the revised afs received. This matter will be followed up in the 2022-23 year.

**14. Awards made to suppliers whose associates are in service of auditee – Financial interest not included in annual declaration**

**Audit finding**

In accordance with the sections 7(1) and (2) of schedule 1, Code of conduct for councillors/ directors of the MSA, when elected or appointed, a councillor/ director must within 60 days declare in writing to the municipal manager the financial interests held by that councillor/ director. Any change in the nature or detail of the financial interests of a councillor/ director must be declared in writing to the municipal manager

The following councillors who were identified through CAATS to have an interest in suppliers that conducted business with the municipality during the year did not include such interests in their annual declaration which is indicative of fraud:

| **Name of person** | **Position** | **Name of associate** | **Relationship to person in service of the auditee** | **Supplier name** | **Description of award** | **Period of award** | **Total rand-value of award** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Nhlanhla Zondo | Councillor | Mandlakhe Bhengu | Business partner | Smartech Trading and Projects (PTY) LTD | Re-Gravelling of Holongo Access Road Ward 01 | 2021-22 | R759 259 |
| Nkosinathi Dlamini | Business partner | Nomzekeliso Development(PTY)(LTD) | Culvert crossing for Ophokweni no.8 | 2021-22 | R112 250 |
| MW Maphumulo | Councillor | Thobani Zondo | Business partner | The Great SK Project | Renovation of Mampinga crèche | 2021-22 | R196 000 |

These councillors were found to be business partners with the directors of the above companies that conducted business with the municipality in the following companies:

|  |  |
| --- | --- |
| **Councillor** | **Shared company** |
| Nhlanhla Zondo | Imvula'emnotho enterprise |
| Nhlanhla Zondo | Imvula'emnotho enterprise |
| Mr MW Maphumulo | Zabalaza fresh vegetables primary co-operative limited |

It should be noted that the financial interest not declared between The Great SK project and Mr MV Maphumulo was communicated in prior year.

**Recommendation**

Management should investigate all of these cases listed above and institute the necessary consequence management processes against the relevant officials, after investigation.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The municipality note the finding by the auditors. The municipality is facing a challenge in relation to the matter raised because the two Councillors (Former Cllr Zondo and Cllr Maphumulo) have indicated that they were involved with the co-operatives established in the area however they have resigned and they do not understand how come they still appear because they no longer part of them. This information was then verified by the municipality and with that in mind it is therefore difficult how the expenditure will be regarded as irregular when the two people are no longer part of the institution we have referred to. | Mr. S Mngwengwe  Municipal Manager | 09 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not Applicable |  |  |

**Auditor’s conclusion**

Management is urged to regularly workshop the requirement for annual declarations for all officials throughout the year so that changes to financial interests declarationed previously are updated regularly to avoid instances of this nature in future.

**15. Irregularities in the use of the panels**

**Audit finding**

Section 217(1) of the Constitution requires that when an organ of state in the national, provincial or local sphere of government or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

Paragraph 2(1) of the municipality’s approved SCM policy requires that “All officials and other role players in the supply chain management system of the municipality must implement this Policy in a way that –

(a) gives effect to –

(i) section 217 of the Constitution; and

(ii) Part 1 of Chapter 11 and other applicable provisions of the Act;

(b) is fair, equitable, transparent, competitive and cost effective;

(c) complies with –

(i) the Regulations; and

(ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act.”

1. Council approved the following **awarding panel conditions** on **29 August 2017** which included the following stipulations when making awards from an established panel:

On awards of panels the following should be adhered to:-

* Panel award should be to a maximum of two (2) service providers per project/contract;
* After award service providers will **quote on a rotational basis**;
* **Price negotiation:** before awarding contracts the SCM department and evaluation committee will conduct a market research and negotiate standardized prices with service provider for cost effectiveness where applicable;
* On request of quotations, service providers are requested to decline in writing should they wish to decline;
* If and should the service provider decline 3 consecutive times, the third time will result in disqualification;
* Description on quotations should be the same as per specification submitted;
* Cession agreements will be allowed for R30 000 and above transactions and will be allowed for only three times per contract/project and financial year.

2. The municipality established the following panels through competitive bidding process in the last two years:

| **Bid number** | **Description of panel** | **No. of service providers awarded to the panel** |
| --- | --- | --- |
| MKH02/2020/21 | Panel of Construction of Civil Engineering infrastructure projects | 144 |
| MKH013/2021/22 | Panel of Hygiene service | 7 |
| MKH02020/12 | Panel of contractors for surfacing of access roads | 17 |
| MKH0020/2021/22 | Panel of supply and delivery of uniform. | 6 |
| MKH02019/11 | Panel of event management service | 18 |
| MKH007/2020/21 | Panel of service provider for VIP protection services | 5 |

3. The following discrepancies were noted with regards to the procurement for the establishment of the respective panels and the subsequent awards from the approved panel:

**Procurement for the establishment of the respective panels**

(a) The competitive bidding documents did not include the approved criteria that will be used to select a contractor from the panel when the need arises in order to promote **transparency** of the procurement process.

**Subsequent awards from the approved panel**

(b) The compliance with the approved awarding panel condition that service providers will **quote on a rotational basis** was reviewed for the following sample of awards and highlighted the material discrepancies listed below the table:

| **Date of award** | **Bid no.** | **Supplier name** | **Description** | **Amount** | **Name of panel** |
| --- | --- | --- | --- | --- | --- |
| 27 October 2021 | MKH0022/2021/22 | Thumamina Group | Construction of Mahlabathini Access Road | R3 418 055 | Panel of contractors for Civil Engineering Projects |
| 27 September 2021 | MKH0014/2021/22 | Siwa Consulting engineering | Upgrading of Ophokweni access road | R5 582 880,84 | Panel of contractors for Civil Engineering Projects |
| 09 August 2021 | MKH0011/2021/22 | Yimpie projects | Completion of rehabilitation of Shepstone street | R7 580 592,89 | Panel of contractors for Civil Engineering Projects |
| 09 August 2021 | MKH012/201/22 | Bumbelihle Holdings | Rehabilitation of Thomas Gee Street | R4 673 729,50 | Panel of contractors for Civil Engineering Projects |
| 08 July 2021 | MKH009/20201/21 | Sukumasakhe 968 Enterprise | Construction of Upgrading of portions of existing jilafohla access road | R9 170 106,44 | Panel of contractors for Civil Engineering Projects |
| 24 June 2019 (payment – 20/12/2021) | MKH2019/11 | Sizakancane Trading Enterprise | Coordination of disability year end function | R165 020 | Panel of event management service |
| 26 July 2021 | MKH0010/2020/21 | Masakhane mining engineering | upgrading Banqobile Sports field | R11 972 890,53 | Panel of contractors for Civil Engineering Projects |
| 08 September 2021 | MKH008/2021/22 | Tongaat Asphalt | Rehabilitation of Manzamnyama road in ward 02 | R8 657 027,50 | Panel of contractors for surfacing of access roads |
| 13 May 2022 | MK0024/2021/22 | Tentamount trading 68 | Shepstone Street Rehabilitation | R693 404 | Panel of contractors for Civil Engineering Projects |
| 13 August 2021 | MKH007/2020/21 | Calving and Family Group | VIP security | R2 740 680 | Panel of service providers for VIP |
| 27 September 2021 | MKH0013/2021/22 | Smartech trading and projects | Re-Gravelling of Holong Access Road in ward 01 | R759 258,50 | Panel of contractors for Civil Engineering Projects |

The process/procedures followed by management to award suppliers from the established panel on a rotational basis was not in writing, however discussions held with SCM officials confirmed that the municipality applied the following process in terms of complying with the **rotational basis** in terms of the approved panel conditions:

1. **Panel of contractors for Civil Engineering projects and panel of contractors for surfacing of access road**

Quotations are requested by the accounting officer from 4 suppliers on the panel on a rotational basis. Quotations are received and the supplier with the lowest price that is within the minimum and maximum budgeted amount set for the project is awarded the bid.

1. **Panel of event management services and panel of service providers for VIP protection**

The municipality does not request quotations from different suppliers on the panel when a need arises however requests a quote from one supplier on a rotational basis and allocates the award to that supplier.

(c) As the municipality does not maintain individual panel databases to manage and administer the awards from all of the panels, to confirm compliance with the approved awarding panel conditions, we were unable to confirm if the awards from the panel were made on a rotational basis in a transparent, fair and equitable manner including promoting ongoing competition amongst the suppliers on the panel, as required by section 217 of the Constitution.

(d) Notwithstanding the material discrepancy and limitation identified in (c) above, the different selection methods to award suppliers on a rotational basis was not in writing or approved by Council. In addition, the selection method confirmed by the municipality for the rotational awarding suppliers from the **Panel of event management services and panel of service providers for VIP protection** does not promote competition and cost effectiveness in accordance with section 217 of the Constitution and in terms of section 2(1) of the PPPFA, which stipulates that that a contract must be awarded to the tenderer that scores the highest points unless there are objective criteria, in addition to the BBBEE related criteria, that justify the award to another tenderer. The following serves as examples of the varying rates that the suppliers tendered when accepted onto these two panels:

|  |  |
| --- | --- |
| **Panel for event management services** | |
| **Supplier name** | **% Fee based award** |
| Yellow media and risk cc | 18% |
| Proactive concepts | 15% |
| Unique communication | 10% |
| Sizakancane Lifestyle occassions | 11,50% |
| Newlistic projects management | 35% |
| Athimthende Development Services | 0% |
| Khabahle Kreations | 20% |

|  |  |
| --- | --- |
| **Panel for VIP Protection services** | |
| **Supplier name** | **Monthly rate based for 3 armed bodyguard(day and night)** |
| Calvin and Family group security services | R60 000 |
| Aros Protection services | R173 100 |
| Amaphephethe Protection | R89 514 |

(e) Notwithstanding the material discrepancies identified in paragraphs (c) and (d) above, it was further identified that the following awards from the established **Panel of Construction of Civil Engineering infrastructure projects** with 144 approved service providers were indicative of not being performed on a rotational basis by management as the request for quotations and respective awards were identified to be restricted to a concentrated number of suppliers on this panel and in some instances quotations were still requested from suppliers who had being awarded in the previous month. The analysis of the awards from the panel during the period is included as per table below:

| **Project description** | **Details of quotations received and respective award from the panel** | | | |
| --- | --- | --- | --- | --- |
| Construction of Upgrading of portions of existing jilafohla access road | Sukumasakhe 968 Enterprise-  Award amount -R9 170 106,44  **Award date -08 July 2021** | Isu Engineering Quoted amount- R17 235 741,20 | Mpilisi Construction CC  Quoted amount - R11 728 000,96 | Boboshe Trading Enterprise  Quoted amount- no response |
| Rehabilitation of Thomas Gee Street | Bumbelihle Holdings -  **Award date – 09 August 2021**  **Award amount- R4 673 729,50** | Ndikela trading and projects  Quoted amount – R5 489 888,76 | Mshana Civils CC –  Quoted amounts- R6 929 906,76 | Siwa Consulting Engineerig  Quoted amount  R 7 933 273,32 |
| Completion of rehabilitation of Shepstone street | Yimpie projects  **Award date – 09 August 2021**  **Award amount- R7 580 592,89** | Deezlo Trading cc  Quoted amount – R6 687 809,53 | Mela okuhle Trading Enterprise – Qouted amount- R5 970 450,05 | Thumamina Group  Quoted amount – R7 578 460,15 |
| Upgrading of Ophokweni access road | Siwa Consulting engineering-  **Award date – 27 September 2021**  **Award amount- R5 582 880,84** | Xoli M –  Quoted amount- R5 634 816 | Ndikela Trading and projects JV Inkokheli Business  Quoted amount – R7 176 531 |  |
| Construction of Mahlabathini Access Road | Thumanina Group  **Award amount R3 418 055**  **Awarded date 27 October 2021** | Siwa Consulting Engineering and projects managers  Quoted amount  R3 865 739  **(Awarded a contract on 27 Sept 2021)** | Yimpie projects cc  Quoted amount R3 897 756  **(Awarded a contract on 9 August 2021)** | Sukumasakhe 968 Trading Enterprise  Quoted amount R4 522 969  **(Awarded a contract on 8 July 2021)** |

(f) The following service providers were also found to be awarded from the panels for more than one project in less than 6 months which is also indicative of the rotational basis not being applied correctly to promote competition and fairness and equitable awards from the panel:

| **Supplier name** | **Panel award details** | | **Panel name** |
| --- | --- | --- | --- |
| Masakhane Mining Engineering | Upgrade of Banqobile Sport field in ward 5 | Renovation of Mboyi community hall ward 03 | panel of contractors for Civil Engineering Projects |
| 26 July 2021 | 27 September 2021 |
| R11 972 891 | R798 303 |
| Khanyisa Civils & General maintenance CC | Construction of Mgwaphuna road in ward 04 | Re-gravelling of Gcide access road in ward 05 | panel of contractors for Civil Engineering Projects |
| 28 April 2022 | 27 September 2022 |
| R9 539 480 | R942 137,50 |

Consequently, the awards made from the above mentioned panels is not considered fair, equitable, transparent, competitive and cost-effective in accordance with section 217 of Constitution.

**Internal control deficiency**

The accounting officer and CFO did not implement adequate controls and respective records management with regards to the administration of panels in order to support and confirm compliance with the relevant key legislation.

**Recommendation**

The accounting officer and CFO should develop and implement adequate controls together with respective records management in order to support and confirm compliance with the relevant key legislation with respect to the administration of panels.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the finding by the auditors. The management agrees with the fact that competitive bidding documents did not include the approved criteria that will be used to select a contractor from the panel when the need arises in order to promote transparency of the procurement process.  The municipality confirms that the rotation of service providers were implemented but note the fact that it was not performed up to satisfaction owing to unavailability of the criteria that will be used to select a contractor. The criteria if it was there, it was also indicate whether a contractor can be invited while they have a running contract and how long a person can be invited in between the processes.  The six months issue raised by auditors is not based on any documentation or legislation which makes it difficult for the municipality to agree with the auditors conclusion to say all the expenditure should be disclosed as irregular. First appointments can be a rotation then if we don’t rotate on the second appointment then the finding can be on the second not all in this case even when the service providers were invited while they were previously appointed they were not appointed. Therefore the municipality support the development of the criteria on the selection of contractors to ensure transparency. | Mr. S Mngwengwe  Municipal Manager | 09 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| The management will amend the SCM policy to include the criteria to be followed to select the contractors from the panel of service providers. | Mr. TE Gambu  CFO | 30 November 2022 |

**Auditor’s conclusion**

Management is urged to strengthen the controls surrounding the administration and transparent rotation of the suppliers to confirm compliance with section 217 of the Consititution. The improvement in controls and the the subsequent awards made from these panels will be revisited and followed up in the 2022-23 year.

**16. Awards made to suppliers in the service of the state**

**Audit finding**

Awards to persons in service of other state institutions are prohibited in terms of section 112(1)(j) of the MFMA and SCM Reg 44.

In terms of regulation 13(c) of the Municipal Supply Chain Management Regulations, 2005 (GNR.868 dated 30 May 2005) (MSCMR), "A supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid has indicated-

(i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;

(ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or

(iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in a subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months."

The following suppliers were found to have falsely declared on their MBD4 forms as members of their companies were identified to be employed by the state:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier name** | **Director of Supplier in service of state** | **State Institution where employed** | **Position in state** | **Total Rand Value of Award R** |
| Bheshwabe | Thabile Meyiwa | KZN: Education | SNR ADMINISTRATOR LEVEL 2 | R4 769 |
| Sizakancane Trading Enterprise 141 cc | Nonkululeko Zizile Mabizela | Transnet Limited | TEACHER | R165 020 |

This is indicative of fraud.

**Recommendation**

Management should investigate all of these cases listed above and institute the necessary consequence management processes against the relevant suppliers. If any of these items recur in the next financial year, they will result in irregular expenditure.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management notes the findings by the auditors. Unfortunately the municipality does not have access to CAAT system and the introduction of CSD by the National Government according to our knowledge it was to address many issues and this matter of transacting with people in the service of the state was one of the issues and the CSD report do indicate whether a person is in the service of the state or not. The municipality uses the MDB 4 for declaration of interest and the CSD report to determine whether the issue of in service of the state is properly disclosed or not.  For future transaction, the municipality will ensure that no transaction with the above mentioned service providers starting from 01 November 2022. | Mr. S Mngwengwe  Municipal Manager | 01 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

The outcome of management’s investigation and relevant consequence management processes implemented will be followed up in the 2022-23 audit year.

**17. VIP protection provided without evidence of threat and risk analysis** **conducted**

**Audit finding**

In terms of paragraph 14(1)(g), *Tools of trade*, of the Department of Co-Operative Governance and Traditional Affairs’ *Determination of upper limits of the salaries, allowances and benefits of different members of municipal councils* issued in Government Gazette number 46470 dated 2 June 2022, “A municipal council may extend the following tools of trade to a councillor:

(g) Personal security.

Executives Mayors, Mayors and Speakers are entitled to two bodyguards. Deviation from the norm must only be based on the recommendations of the South African Police Service.

All councillors, subject to a threat and risk analysis conducted by the South African Police Service.”

No evidence could be provided that a threat and risk analysis was conducted by the South African Police Service in order to justify/support the need for the additional VIP protection provided to the following officials.

|  |  |  |  |
| --- | --- | --- | --- |
| Supplier name | Payment No. | Amount | Official VIP protection was provided for |
| Aros protection services | EFT 12901 | R108 000 | Speaker – Additional 2 body guards provided |
| Aros Protection services | EFT 12903 | R119 600 | Cllr Shandu |
| Aros Protection services | EFT 12530 | R108 000 | Speaker - Additional 2 body guards provided |
| Aros Protection services | EFT 12529 | R119 600 | Cllr Shandu |
| Aros Protection services | EFT 12977 | R119 600 | Cllr Shandu |
| Aros Protection services | EFT 12978 | R108 000 | Cllr Shandu |
| Calvin and Family Group | EFT 13249 | R92 000 | Speaker - Additional 2 body guards provided |
| Calvin and Family Group | EFT 13152 | R92 000 | Speaker - Additional 2 body guards provided |
| Calvin and Family Group | EFT 13153 | R92 000 | Speaker - Additional 2 body guards provided |
| Calvin and Family Group | EFT 13289 | R92 000 | Speaker - Additional 2 body guards provided |

This results in a non-compliance with the Remuneration of Public Office-bearers Act, 1998 (Act No. 20 of 1998).

**Internal control deficiency**

The SCM manager and CFO did not perform an adequate review of the procurement of VIP protection to confirm that the required supporting information is attached prior to the approval of the award.

**Recommendation**

The SCM manager and CFO should improve their review of the procurement of VIP protection to confirm that the required supporting information is attached prior to the approval of the award.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management notes the finding by the auditors in relation to the implementation of the security services for councillors without threat analysis. The matter for security services is a life threatening matter and the municipality have done all in its power to obtain the threat analysis and the municipality had no choice but to implement the security services for Cllr Shandu and Speaker of the Council, Cllr Gwala. The matter was reported to Council and council did apply for the threat analysis and interviews were conducted with the two councillors.  The non-submission of the threat analysis was also communicated to COGTA and the municipality requested the Department of COGTA in the province to intervene but still there was nothing. Therefore the municipality could not really wait for the threat analysis due to the nature of the two cases and in both cases there were attack and there are people who lost their lives.  The matter was never communicated to the office of the Municipal Manager asking for the details since the matter of security of council members is solely done at the office of the Municipal Manager due to its complicity. | Mr. S Mngwengwe  Municipal Manager | 03 Nov. 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
|  |  |  |

**Auditor’s conclusion**

Based on management's response no information was provided that the cases were reported to COGTA or the SAPS.The improvement in the SCM document management system in compliance with the prescripts will be followed in the next year.

**18. Possible cover quoting identified**

**Audit finding**

In terms of Mkhambathini supply chain policy 38,

The municipal manager must–

(a) take all reasonable steps to prevent abuse of the supply chain management system;

(b) Investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this Policy, and when justified

(i) Take appropriate steps against such official or other role player; or

* 1. (ii) Report any alleged criminal conduct to the South African Police Service;
  2. (c) Check the National Treasury’s database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;

Cover quoting is sometimes also referred to as “shadow quoting”. it refers to the manipulation of the “three quote system” by a supplier, sometimes acting in collusion with a municipality official involved in procurement, whereby multiple quotations are submitted by the same bidder or by related bidder as if there were independent quotes.

The following quotations received in response to the same bid was found to be indicative of cover quoting as the hand writing is identical and appears to be written by the same individual. Furthermore the layout of the quotations submitted are the same.

| **Number** | **Quote no** | **Service providers/ quotes received** | **Amounts quoted** | **Owner details** |
| --- | --- | --- | --- | --- |
| 1 | FWPQ014/2021/22 | The Great SK Project | R196 000 | Director details - Name: Thoboni Zondo postal address: Road p26 Maqongqo Estingeni Area |
| 2 | FWPQ014/2021/22 | Great Skhulile Tilling | R199 250 | Director details - Name: Simo Mhlongo postal address: House no.135 Maqongqo Estingeni Area |
| 3 | FWPQ014/2021/22 | Amagcibide trading(pty)(ltd) | R197 950 | Director details - Name: Thandokuhle Zakwe postal address; Willowton industrial, Pietermaritzburg |

This is indicative of fraud or bid rigging and should be investigated by management.

**Internal control deficiency**

The current SCM process checklist is not updated to include indicators of cover quoting.

**Recommendation**

The accounting officer should investigate the above case. Where justified by the results of the investigation, the accounting officer should take appropriate actions against role players involved in the awarding of these awards as required by legislation.

The CFO should update the current SCM process checklist to include indicators of cover quoting.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The Management note and disagree with finding from the Auditors.  The municipality is in the rural area most of out services provider did not have capacity and knowledge to fill tender document, they might depend on the local Small Development Business Program to assist them tender documents and we are not saying in this transaction that was the case.  The municipality does not have a mechanism to prove the same hand writing since some people may claim to have a same handwriting and should the municipality uses it judgement without proof it may also create challenges for the municipality. The municipality cannot conclude by just looking at the handwriting that the document was written by one person. | Mr. S Mngwengwe  Municipal Manager | 01 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

Management comments are noted however the CFO should update the current SCM process checklist to include indicators of cover quoting.

### Property, plant and equipment

**19. Misclassification of repairs and maintenance**

**Audit finding**

In terms of paragraph .21 of GRAP 17, *Property, plant and equipment*, “The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.”

a. From our sample of expenditure items selected for testing, it was established that all of the undermentioned items had been classified as *General expenses-Repairs and maintenance (Unspecified assets)* under note 29, however, when inspecting the supporting documentation and the details contained in the payment voucher, it was established that these items did not all relate to periodic maintenance but are reconstruction of significant components of these assets in terms of GRAP 17:

| **EFT voucher** | **Supplier name** | **Date** | **Reference**  **(Invoice)** | **Description** | **Amount paid (incl. VAT)** |
| --- | --- | --- | --- | --- | --- |
| 12482 | Thumamina Group | 07/07/2021 | 04 | Contract MKH 02020/22 (R6 692 770)  Construction of D1000 gravel road in ward 5  Memo indicates extensive damage to road caused by heavy rains. Scope of work includes a mass earthwork to repair severe erosion (cut and fill embankment), road surface to be ripped and re-compacted with soil, concrete V-drains to be installed, stone pitching to be installed, eroded embankments to be protected by reno-mattresses and gambions to retain stability. | 203 842.00 |
| 12547 | Tongaat Asphalts CC | 08/12/2021 | 5511 | Contract MKH008/2021/22 (R8 657 027.50)  Rehabilitation/resurfacing of P26 Amanzamnyana road project in ward 2  BOQ indicates excavation for the exposing and searching for material, contractors site establishment costs, office and laboratory accommodation, costs related to traffic control, clearing and grubbing, daywork and hire of construction equipment, repairing and replacing drains, roadbed preparation and compaction, milling of existing tar, construction of pavement layers, construction of kerbing, road signs | 2 945 150.00 |
| 12606 | Tongaat Asphalts CC | 15/09/2021 | 5515 | Contract MKH008/2021/22 (R8 657 027.50)  Rehabilitation/resurfacing of P26 Amanzamnyana road project in ward 2  BOQ indicates similar items as per above eft voucher 12547. Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 2 086 502.50 |
| 12679 | Khanyisa Civils and General Maintenance CC | 14/10/2021 | 001 | Contract MKH008/2021/22 (R1 808 674)  Rehabilitation of gravel roads in ward 5  Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 1 519 012.00 |
| 12681 | Manong Construction and Projects | 14/10/2021 | 563 | Contract MKH008/2021/22 (R1 445 550)  Hire of plant and equipment in ward 4 (as per BOQ and invoice)(Site location- - Dukes farm)  Per inspection of SLA, paragraph 3(e) includes blading and shaping of the unpaved roads to allow free surface run-off, open side drains and miter drains as required, and any other construction related work including site levelling and clearing etc. | 1 445 550.00 |
| 12649 | Lethokuhle Investments CC | 29/09/2021 | LIMM01 | Contract MKH008/2021/22 (R2 406 145)  Supply of construction plant for 21 days for maintenance of unpaved roads within Mkhambathini jurisdiction. BOQ includes plant and site establishment and de-establishment, plant hire items. Per inspection of SLA, paragraph 3(e) includes blading and shaping of the unpaved roads to allow free surface run-off, open side drains and miter drains as required, and any other construction related work including site levelling and clearing etc. | 1 177 715.00 |
| 12528 | Khanyisa Civils and General Maintenance CC | 23/07/2021 | 001 | Contract MKH0202/02  Hire of plant and equipment (No SLA attached to payment voucher to determine scope of work or contract value) | 980 306.00 |
| 12646 | Lukhona Projects and Development (Pty) Ltd | 17/09/2021 | 120 | Contract MKH02020/04 (R1 153 028.20)  Plant hire for maintenance of unpaved roads within Mkhambathini jurisdiction. Per inspection of SLA, paragraph 3(e) includes blading and shaping of the unpaved roads to allow free surface run-off, open side drains and miter drains as required, and any other construction related work including site levelling and clearing etc. | 574 694.80 |
| 12647 | Sukumasakhe968 | 17/09/2021 | MKH002/008/2021/2022 | Contract MKH008/2021/22 (R1 314 593.75)  Rehabilitation of gravel roads in ward 7  Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 644 970.60 |
| 12594 | Sukumasakhe968 | 02/09/2021 | PLNT H 01 | Contract MKH008/2021/22 (R1 314 593.75)  Rehabilitation of gravel roads in ward 7  Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 608 912.35 |
| 12680 | Ndikela Trading and Projects JV Mdima | 14/10/2021 | 3 | Contract 008/2021/22 (R1 284 808.75)  Rehabilitation of gravel roads in ward 6  Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 509 105.00 |
| 12602 | Ndikela Trading and Projects JV Mdima | 09/09/2021 | 2 | Contract 008/2021/22 (R1 284 808.75)  Rehabilitation of gravel roads in ward 6  Per inspection of SLA, paragraph 4(1) includes items such as resurface and fix base layers of road where it shows failing, install concrete kerbing, fix drainage system on the road with poor drainage. | 433 837.50 |
| 12682 | Lethokuhle Investments CC | 14/10/2021 | LIMM02 | Contract MKH008/2021/22 (R2 406 145)  Hire of plant for maintenance of unpaved roads within Mkhambathini jurisdiction. Supply of construction plant for 6 days. Per inspection of SLA, paragraph 3(e) includes blading and shaping of the unpaved roads to allow free surface run-off, open side drains and miter drains as required, and any other construction related work including site levelling and clearing etc. | 304 290.00 |
| 12683 | Lukhona Projects and Development (Pty) Ltd | 14/10/2021 | 170 | Contract MKH02020/04 (R1 153 028.20)  Plant hire for maintenance of unpaved roads within Mkhambathini jurisdiction. Per inspection of SLA, paragraph 3(e) includes blading and shaping of the unpaved roads to allow free surface run-off, open side drains and miter drains as required, and any other construction related work including site levelling and clearing etc. | 979 775.40 |
| 13154 | Nomzekeliso Development (Pty) Ltd | 11/03/2022 | NOMZE-010 | (R112 250)  Culvert crossing for Ophokweni No. 8 | 112 250.00 |
| 12545 | Khanyisa Civils and General Maintenance CC | 23/07/2021 | 002 | Contract MKH0202/02  Hire of plant and equipment (No SLA attached to payment voucher to determine scope of work or contract value) | 1 007 078.00 |

The findings above arise from a sample of expenditure tested, and consequently management should revisit the entire population in order to detect any further items of misclassification. The identified misclassifications result in a projected overstatement amounting to R29,36 million of expenditure with a resultant understatement of property, plant and equipment/WIP. The resultant impact on depreciation also needs to be considered.

**Internal control deficiency**

Inadequate internal controls are in place to ensure that expenditure is correctly classified, capitalised and disclosed in the annual financial statements.

**Recommendation**

The CFO should revisit the entire population of expenditure in order to detect items of misclassification and to amend the annual financial statements accordingly.

The accounting officer should implement measures and internal controls which will ensure the complete and accurate classification and disclosure of expenditure.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| **Contract MKH 02020/22 (Construction of D1000 gravel road in ward 5)**  The management note the finding by auditors however the municipality would like to inform the auditors that the road (D1000) belong to Department of Transport and it was only attended by the municipality after there was an accident and it was proven that the Department does not have a plan for the road and to assist the community a consent letter was receive from the Department for the municipality to assist. One of the objects of local government is to ensure the provision of services to communities in a sustainable manner and assisting the department due to the challenges and to prevent strikes (Rapid Response) the municipality implemented the project. Therefore the expenditure was not capitalised because the asset belong to the department. | Mr S Mngwengwe  Municipal Manager | 09 Nov. 22 |
| **Contract MKH008/2021/22 (Rehabilitation/resurfacing of P26 Amanzamnyama road project in ward 2)**  The management note the finding by auditors however the municipality would like to inform the auditors that the road (P26) belong to Department of Transport and it was only attended by the municipality after there were numerous requests from the community which was also communicated to the department and it was proven that the Department does not have a plan for the road and to assist the community a consent letter was receive from the Department for the municipality to assist. One of the objects of local government is to ensure the provision of services to communities in a sustainable manner and assisting the department due to the challenges and to prevent strikes (Rapid Response) the municipality implemented the project. Therefore the expenditure was not capitalised because the asset belong to the department. | Mr S Mngwengwe  Municipal Manager | 09 Nov. 22 |
| **Contract MKH008/2021/22 (PLANT HIRE)**  Plant hire for maintenance of unpaved roads within Mkhambathini jurisdiction was implemented and the maintenance was for various roads. The program did not have a bill of quantity but the agreement was for the service provider to borrow the municipality a Plant hence the supporting documents for the payments made was the time sheets which proves that the plant was on site and hours they worked. The municipality therefore disagree with the finding from the auditors. | Mr S Mngwengwe  Municipal Manager | 09 Nov. 22 |
| **Culvert crossing for Ophokweni No. 8**  The project was done to assist the community with the drainage on the Department of Transport road therefore the municipality couldn’t capitalise the expenditure because it was done on behalf of Transport. This was a preventative measure after the heavy rains which proved that the household life were in danger. | Mr S Mngwengwe  Municipal Manager | 09 Nov. 22 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

Management comments are noted however the municipality should pursue to recover the amounts spent on provincial roads from the respective provincial department With regards to the use of plant hire to perform various repairs and maintenance on roads, management is urged to review the scope and nature of work performed in order to clearly differeniate between costs incurred of a capital nature and that of regular maintenance. . This matter will be followed up during the 2022-23 year.

**20. Misclassification of infrastructure and planning expenses**

**Audit finding**

In terms of paragraph .07 of GRAP 17, Property, plant and equipment, “The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

1. (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
2. (b) the cost or fair value of the item can be measured reliably.”

In terms of paragraph .12 of GRAP 17, *Property, plant and equipment*, “Some assets are commonly described as “infrastructure assets”. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(a) they are part of a system or network;

(b) they are specialised in nature and do not have alternative uses;

(c) they are immovable; and

(d) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.”

In terms of paragraph .21 of GRAP 17, *Property, plant and equipment*, “The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.”

a. From our sample of expenditure items selected for testing, it was established that the undermentioned items had been classified as *General expenses-Infrastructure and planning* under note 29, however, when inspecting the supporting documenting and the details contained in the payment voucher, it was established that these items are capital in nature and have not been recognised as infrastructure assets under property, plant and equipment:

| **EFT voucher** | **Supplier name** | **Date** | **Reference**  **(Invoice)** | **Description** | **Amount paid (incl. VAT)** |
| --- | --- | --- | --- | --- | --- |
| 13023 | ZLM Project Engineering | 26/01/2022 | MK25JAN | 282 connections – Njobokazi project phase 3  Transformers, poles, pre-paid split meters, ready-boards, fox conductor, airdac cable etc. | 1 185 880.00 |
| 12507 | ZLM Project Engineering | 22/07/2021 | MK02APRL | 229 connections – Njobokazi project phase 3  Transformers, medium voltage surge arrestors, sectionalisors and links, conductors, MV structures, poles and cross arms, LV structures, fuse switch units etc. | 1 296 533.52 |
| 12597 | ZLM Project Engineering | 03/09/2021 | MK05SEPT | 229 connections – Njobokazi project phase 3  Transformers, medium voltage surge arrestors, sectionalisors and links, conductors, MV structures, poles and cross arms, LV structures, fuse switch units etc. | 1 290 471.32 |
| 12965 | Asande Projects | 15/12/2021 | APC 1647 | Ngangezwe Electrification Project  MV transformers, LV overhead, house connections etc. | 335 626.04 |
| 12687 | Asande Projects | 14/10/2021 | APC 1646 | Ngangezwe Electrification Project  MV transformers, LV overhead, house connections etc. | 654 827.53 |
| 12570 | Asande Projects | 27/08/2021 | APC 1638 | Ngangezwe Electrification Project  MV transformers, LV overhead, house connections etc. | 333 459.75 |
| 12949 | Izingodla Engineering | 15/12/2021 | 1604 | Ward 6 additional 50 connections  Support for overhead reticulation, LV overhead distribution system, house connections | 89 886.25 |

The findings above arise from a sample of expenditure tested, and consequently management should revisit the entire population in order to detect any further items of misclassification. The identified misclassifications result in a projected overstatement amounting to R5,57 million of expenditure with a resultant understatement of property, plant and equipment/WIP. The resultant impact on depreciation also needs to be considered.

**Internal control deficiency**

Inadequate internal controls are in place to ensure that expenditure is correctly classified, capitalised and disclosed in the annual financial statements.

**Recommendation**

The CFO should revisit the entire population of expenditure in order to detect items of misclassification and to amend the annual financial statements accordingly.

The accounting officer should implement measures and internal controls which will ensure the complete and accurate classification and disclosure of expenditure.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The management note the findings from auditors. The management disagree with the finding because the municipality does not have an electricity license therefore all projects once they are completed the infrastructure is then transferred to Eskom. Before the project commences the municipality enter into a Memorandum of Agreement with Eskom and the designs are then approved by Eskom since they are expected to take over the infrastructure on completion therefore we cannot then capitalise the electricity infrastructure while Eskom is also capitalising them. | Mr. S Mngwengwe  Municipal Manager | 09 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

**Auditor’s conclusion**

In terms of the agreement that is signed between ESKOM and the municipality with regards to the construction of these assets, all risks will be the responsibility of the municipality until the project is handed over to Eskom and upon completion, the municipality is required to provide eskom with a close out report and a detailed cost breakdown of the newly created asset. This is to enable Eskom to register the newly created asset. Prior to handover to Eskom, the municipality has controls of these this assets and should be recorded as WIP and derognised and until it handed over formally to Eskom and therefore relinquishes the control and the risk associated with these assets. The amended AFS disclosure was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

**21. Assets completed in the prior year have been recognized in the current year**

**Audit finding**

In terms of paragraph .07 of GRAP 17, Property, plant and equipment, “The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.”

In terms of paragraph .68 of GRAP 17, *Property, plant and equipment*, “Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.”

During the audit of transfer out assets, the following assets were identified as completed in the 2020/21 financial year yet were transferred out in the current financial year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Project** | **Amount** | **Date of completion** | **Date of transfer out** |
| Nonzila Access Road | R2 983 035.93 | 17 June 2021 | 17 December 2021 |
| Ntweka Access Road | R2 540 343 | 30 June 2021 | 30 December 2021 |

The above results in prior year comparative Work in Progress (2020/21) being misstated and an understatement of current years depreciation.

**Internal control deficiency**

The asset management unit did not perform an adequate review to ensure all completed work in progress had been transferred out and recognized in the correct property, plant and equipment class.

**Recommendation**

The prior year comparative must be restated and the current year depreciation expenditure adjusted to account for the understatement.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The Management note the finding for Auditors; however we do not agree with the finding based on the following discussion:   1. For the above-mentioned projects, the municipality had to wait for the defects liability period to end which started on the 17 June 2021, thus the completion date for this project is 17 December 2021. 2. The projects consultant had specifically advised that’s the municipality should wait for the defects liability to lapse. 3. Furthermore, completion certificates for these projects were received after 30 June 2022 financial year. | Mr S Mngwengwe  Municipal Manager | 9 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
|  |  |  |

**Auditor’s conclusion**

Management comments are noted. However, the GRAP standard requires the asset to be capitalised and depreciated when the asset is available for use which based on the nature of the asset and the review of related supporting documentation, the asset was available for use to the community at date of completion (practical completion). Management has updated the AFS disclosure which was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

### Receivables

**22. Consumer debtors allowance for impairment and related AFS disclosure discrepancies**

**Audit finding**

In terms of paragraphs .61 to .63 of GRAP 104, *Financial Instruments*:

“.61 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.”

“.62 An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.“

“.63 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occur.ing after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in surplus or deficit.”

1. Debtors which had balances outstanding in excess of 150 days and above and no evidence of payment in the current year were not impaired fully. The two tables below reflect the summary and examples of some of these accounts:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Aging of balance** | | |  |  |
| **No of accounts** | **180 day** | **150 days** | **120 days** | **Total Balance at year end** | **Total balance of impairment for these accounts** |
| 275 | 7 699 292 | 255 405 | 257 315 | 9 272 136 | 945 711 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Customer** | **180 Days** | **150 Days** | **120 Days** | **90 Days** | **60 Days** | **30 Days** | **Current** | **Balance** | **Impairment** |
| 5922600751 (HILLCREST DEV PARTNERSHIP[LOVEMORE BROTHERS]) | 551 793 | 32 738 | 32 738 | 32 738 | 32 738 | 32 738 | 32 738 | 748 218 | 76 318 |
| 5922600854 (ELF-EEN-ELF TRUST-TRUSTEES) | 520 965 |  |  |  |  |  | 4 325 | 525 289 | 53 580 |
| 5922600847 (FIRST PACIFIC INV PTY LTD) | 462 283 | 3 745 | 3 745 | 3 745 | 3 745 | 3 745 | 3 745 | 484 754 | 49 445 |
| 5922600451 (MASIBUYELE EMAKHAYA COMMUNITY TRUST) | 347 869 | 12 088 | 12 088 | 12 088 | 12 088 | 12 088 | 12 088 | 420 397 | 42 880 |
| 5922600772 (LEONOR LIQUOR STORE CC) | 280 649 | 25 960 | 25 960 | 25 960 | 25 960 | 25 960 | 25 960 | 436 407 | 44 514 |
| 5922601805 (ALLMUSS PROPERTIES (PTY) LTD) | 265 595 | 12 004 | 12 004 | 12 004 | 12 004 | 12 004 | 12 004 | 337 617 | 34 437 |
| 5922600580 (IAN HAMPSON FAMILY TRUST) | 230 631 | 3 295 | 3 295 | 3 295 | 3 295 | 3 295 | 3 295 | 250 400 | 25 541 |

Consequently, the allowance for impairment for the current year is understated by R9,27 million with a resultant understatement of contribution to allowance expense by the same amount.

1. The consumer debtors (rates, refuse and other debtors) **aged** balances for the current and comparative years as disclosed per note 12 was incorrectly disclosed as the net balances after allowance for impairment instead of the gross balances outstanding at year end.

**Internal control deficiency**

The CFO, internal audit and audit committee did not perform an adequate review of the impairment calculation to confirm that is it accurate and complete and supported by credible and reliable supporting information in compliance with the GRAP standards, prior to submission for audit.

**Recommendation**

The CFO, internal audit and audit committee should improve the review of the impairment calculation and consumer debtors disclosure to confirm that is it accurate and complete and supported by credible and reliable supporting information in compliance with the GRAP standards, prior to submission for audit.

The CFO should revisit the allowance for impairment for the current and prior years to ensure it is accurate and in line with GRAP standards and requirements.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The Management note and the finding from the Auditors and the management disagrees with the finding.   1. The methodology that was used by the municipality state that all outstanding debts from debtors who have not paid the municipality in the past 5 years, their debt has been 100% impaired. All debtors that were not impaired 100 % because the municipality did receive the payments for in the past 5 years. The reasoning of considering the five years was also taking into account the COVID issues for the past few years. The please refer to the attached payment transection report for accounts that was selected. 2. The finding on the Note 12 disclosure is noted, the municipality will investigate and correct the note to reflect correct information as per GRAP standards and audit recommendation. | Mr. S Mngwengwe  Municipal Manager | 03 November 2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| To investigate Note 12 disclosure and correct the AFS where necessary. | Mr. TE Gambu  Chief Financial Officer | 03 November 2022 |

**Auditor’s conclusion**

The methodology utilised by management is acceptable however the GRAP standard requires that an assessment should be performed **first** of individually significant financial assets. This was not performed in accordance with the GRAP standard as evidenced by the examples provided which is reflecting objective indicators of impairment which results in an material misstatement of the impairement provision in the absence of further objective information proving the collectability of this long outsanding debt. Management has subsequently revisited their provision and provided the adjustment to the audit team which was verified and accepted. Management has updated the AFS disclosure which was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

### Revenue

**23. Understatement of revenue**

**Audit finding**

In terms of section 64(2)(e) of the MFMA, “The accounting officer must for purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue.”

Per inspection of note 23, *Government grants and subsidies*, it was established that the note was incomplete as it did not include amounts which had been disclosed as conditions met and transferred to revenue disclosed in note 15 for the following:

|  |  |
| --- | --- |
| **Grant name** | **Amount (R)** |
| Housing | 1 224 635 |
| **Total understatement** | **1 224 635** |

Consequently, *Government grants and subsidies* disclosed on the *Statement of Financial Performance* are understated by R1 224 635.

**Internal control deficiency**

Management did not perform an adequate review of the annual financial statements to ensure that amounts disclosed on the *Statement of Financial Performance* agree to the disclosure notes.

**Recommendation**

Management should investigate the matter above and make the necessary amendments to the financial statements.

Management should improve their review of the annual financial statements prior to submitting them to the AGSA for auditing.

**Management response**

|  |  |  |
| --- | --- | --- |
| **Response** | **Name** | **Date** |
| The Management note the finding from the Auditors however the municipality does not agree with the finding. In terms of the implementation of the RDP housing the municipality plays a co-ordination role and the grant is not transferred to the municipality but the claim is approved by the department and municipal official then the service provider claim from the municipality and the municipality claim from the department.  According to the Municipality’s interpretation the transaction concern does not meet the recognition criteria of revenue considering the requirement of Section 64(2)(e) of the MFMA and the treatment of grant received from INEP for the electrification of household is applied. | Mr S Mngwengwe  Municipal Manager | 28/10/2022 |
| **Action to address finding** | **Responsible official** | **Due date** |
| Not applicable |  |  |

#### Auditor’s conclusion

Management has updated the AFS disclosure which was validated and accepted by the audit team. This however results in a material non-compliance with section 122 of the MFMA.

## Annexure C: Administrative matters

### No communication of audit findings were classified to be administrative in nature.

**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 |
| 1. Changes to indicators are approved | Section 25(2) of the MSA | Section 54(1)( c) of the MFMA |
| 1. 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 |
| 1. Changes to targets are approved | Section 25(2) of the MSA | Section 54(1)( c) of the MFMA |
| 1. Reported achievements are consistent with the planned and reported indicator and target | Section 121(3)(f) of the MFMA | Section 121(4)(d) of the MFMA |
| ***Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound*** | | |
| 1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use. | FMPPI chapter 3.2 | |
| 1. 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 | |
| 1. A target is specific when the nature and required level of performance of the target are clearly identifiable. | FMPPI chapter 3.3 | |
| 1. A target is measurable when the required performance can be measured. | FMPPI chapter 3.3 | |
| 1. 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*** | | |
| 1. 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*** | | |
| 1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report | Section 46 of the MSA | Section 46 of the MSA |
| 1. Measures taken to improve performance are disclosed in the annual performance report | Section 46 of the MSA | Section 46 of the MSA |
| 1. Measures taken to improve performance are corroborated with audit evidence | Section 46 of the MSA | Section 46 of the MSA |
| ***Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete*** | | |
| 1. Reported performance occurred and pertains to the reporting entity. | Section 45 of the MSA  FMPPI chapter 5 | Section 45 of the MSA  FMPPI chapter 5 |
| 1. Amounts, numbers and other data relating to reported performance are recorded and reported correctly. |
| 1. 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 development priorities.
2. We are independent of the municipality 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

1. 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

1. 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 controls. relevant to the management and reporting of performance information per selected development priority in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
* evaluate the documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected development priorities
* evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report, its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant
* evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete

### Communication with those charged with governance

1. 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.
2. 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 and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

|  |  |
| --- | --- |
|  | The required preventative or detective controls were in place. |
|  | Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable. |
|  | Internal controls were 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 |  |  | **n/a** | **n/a** | **n/a** | **n/a** |
| **Governance** | | | | | | |
| **Overall movement from previous assessment** |  | |  | |  | |
| * Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud 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 |  |  |  |  |  |  |