



AUDITOR-GENERAL  
SOUTH AFRICA

# MANAGEMENT REPORT

Greater Tzaneen Municipality

2022-23

Date: 30 November 2023

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# INTRODUCTION

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

# SECTION 1: AUDIT OUTCOMES AND MATERIAL IRREGULARITIES

## OVERALL AUDIT OUTCOMES

6. The overall audit outcome of the municipality is unqualified with findings. This is the same as the previous year's audit outcome.

### Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
<b>Financial statements</b>	▶	■	■	■
<b>Annual performance report</b>				
• Basic service delivery	▲	■	■	■
• Local Economic Development	▲	■	■	■
<b>Compliance with legislation</b>				
• Procurement and contract management	▶	■	■	■
• Annual financial statements, performance reports and annual reports	▶	■	■	■
• Expenditure management	▶	■	■	■
• Revenue management	▶	■	■	■
• Asset management	▼	■	■	■
• Consequence management	▶	■	■	■
• Strategic planning and performance	▶	■	■	■
• Conditional grants	▶	■	■	■
• HR management	▶	■	■	■

■ Unqualified / No material findings	■ Qualified	■ Adverse	■ Disclaimed	■ Material findings	■ Not audited
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▲ Improvement	▼ Regression	▶ Unchanged
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7. The financial statements submitted for audit had several material misstatements that were subsequently corrected. The main reason for the errors in the submitted financial statements and schedules is inadequacies in the review process of the primary and secondary information. Financial disciplines must be strengthened, with adequate review and monitoring of controls implemented; as well as attending to internal control deficiencies in a timely manner.

8. There was a significant improvement in the reporting of performance information as no material misstatements or material control deficiencies were noted, minimal adjustments were processed in the annual performance report submitted for audit.
9. The municipality continues to have numerous findings on non-compliance with laws and regulations in relation to various criteria scoped in for the audit, especially on procurement and contract management. In order to achieve clean administration, compliance with laws and regulations applicable to the municipality, should receive the necessary attention. The lack of skills in the SCM division must be addressed by providing additional training where necessary as continuous transgressions in SCM process can lead to the incurrence of irregular expenditure.
10. The municipality developed an action plan to address the external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. Only 60% of the findings affecting the financial statements raised in the 2021-22 audit year were resolved, 40% still remains as in progress.
11. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.
12. Annexure E lists matters that will affect future financial statements, annual performance reports and compliance with legislation.

## CONTROLLED ENTITIES

13. The overall audit outcome of the entity controlled by the municipality and the audit results per outcome area follow.

### Entities: Audit outcomes and audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
<b>Greater Tzaneen Economic Development Agency:</b> unqualified with findings, the same as the previous year's audit outcome				
<b>Financial statements</b>				
<b>Annual performance report</b>				
• Local economic development				
<b>Compliance with legislation</b>				

14. The audit outcome for the financial statement remained unchanged as no material misstatements were noted in the current year.

Management adequately implemented controls to detect and prevent all material findings on financial statements and compliance matters. As a result, there were no material errors in the entity's financial statements.

15. In the current year, one objective was selected for the audit of performance information and material findings were identified and reported, resulting in a regression the audit of performance information.
16. Compliance improved as there were no reportable material non-compliance matters noted in the current year.

17. The municipal council extended the term of the board of the municipal entity late, as such from 1 July 2022 to 31 October 2022, the municipal entity was operating without a legal governance structure as the term of the board expired, whilst the board continued to operate without authority.

## MATERIAL IRREGULARITIES

18. Since we began implementing the material irregularity process, we have identified five material irregularities at the municipality.

### Status of material irregularities

Year of notification	Total	Resolved	Appropriate actions	Following up actions taken	AGSA further actions	Notification response not yet due	Assessing response
2021-22	4	1	3	1	0	0	0

19. Four material irregularities relating to the 2021-22 financial year were issued. One material irregularity relating to overpayment to Eskom was resolved as management took appropriate action by lodging a dispute with Eskom and also held numerous engagements with the power utility. After provision of the detailed readings and confirming that the potential overpayment caused by the lack of metering system at Gravelote (F5), the material irregularity was resolved based on the following:
- Confirmation that the billing was actually for Gravelote (F5) and Eskom provided detailed readings
  - The remaining amount in the dispute between Eskom and the municipality is below R1 million.
  - The municipality took corrective action by installing a meter reader at Gravelote (F5).
20. Management is taking appropriate action on three material irregularities as follows:
- Interest to Eskom – the municipality is paying Eskom on time and has reduced the interest from R5 413 503 to R1 063 528.
  - Payment for damages and project delays – the accounting officer is currently investigating the matter.
  - Duplicate payment to consultants – the accounting officer is currently investigating the matter.
21. The auditor's report will detail all material irregularities except for the one for which notifications were recently issued and the one resolved. **Annexure F** lists the material irregularities that will be included in the auditor's report.

# SECTION 2: SIGNIFICANT MATTERS

## FINANCIAL STATEMENTS

### Audit results

22. The financial statements were submitted to us for auditing on 31 August 2023.
23. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with the Municipal Finance Management Act 56 of 2003 (MFMA). The non-compliance will be reported as a material finding in the auditor's report.

#### Material misstatements corrected:

Accounting standard / legislation	Nature	Value R	Description	Prior-year misstatements	
				2021-22	2020-21
<b>Property, plant and equipment</b>					
GRAP 17	Property, plant and equipment	1 234 695	Difference between council resolution and amount in the annual financial statements (AFS) for assets disposals/write-off		
GRAP 17	Property, plant and equipment	292 200	Impairment assessment of delayed projects not performed		
GRAP 17	Property, plant and equipment	328 656	Differences between closing carrying value in the fixed assets and recalculated closing carrying value		
GRAP 17	Property, plant and equipment	399 056	Differences when comparing the amount of change in estimates as per the fixed asset register to the change in estimates amount as per the AFS		
GRAP 17 and VAT Act	Property, plant and equipment	193 439	VAT input was claimed on acquisition of motor vehicles (a VAT denied input)		
<b>Receivables</b>					
GRAP 104	Provision of Impairment – Property rates	25 144 566	No alignment with debt impairment policy and incorrect payment rate		
GRAP 104	Provision of Impairment – Electricity	(4 323 283)	No alignment with debt impairment policy and incorrect payment rate		
GRAP 104	Provision of Impairment – Waste	2 534 360	No alignment with debt impairment policy and incorrect payment rate		

Accounting standard / legislation	Nature	Value R	Description	Prior-year misstatements	
				2021-22	2020-21
GRAP 104	Municipal debtors -Write off	7 710 170	Bad debts written off without a council resolution		
GRAP 104	Mopani debt – Write off	3 575 402	Write-off of Mopani debt without council resolution		
GRAP 104	Other debtors	15 206 286	Impairment of long standing non-collectable debtors		
<b>Value added tax</b>					
GRAP 108 VAT fact sheet	VAT	CY: R1 847 946 PY: R1 553 720	Separation between VAT statutory receivables and VAT accruals		
<b>Revenue from exchange transactions</b>					
GRAP 9	Interest Revenue	555 715	Interest accrued in prior year recognised in the current year		
GRAP 9	Agency Services	248 221	VAT on agency fees was erroneously allocated as revenue resulting in revenue being overstated and VAT output understated		
GRAP 9	Other income	727 816	Incorrect classification of other income, credit control admin fees incorrectly recorded as motor vehicles and driver's licences		
<b>Expenditure</b>					
GRAP 1	Bulk purchases	428 724	Expenditure recorded in the incorrect financial year		
GRAP 1	Bulk purchases	314 654	Deposit incorrectly recorded as expenditure		
<b>Fruitless and Wasteful Expenditure</b>					
MFMA	Legal fees	9 569 355	Delay in settlement of cases and long court processes – R9569 355 was paid for legal fees for three cases while the settlement amount was R400 000 for all three cases.		
MFMA	Legal fees	1 723 021	Payment for stands not transferred resulted in material irregularity		
MFMA	Incorrect write off of fruitless and wasteful expenditure	4 797 062	Fruitless and wasteful expenditure that resulted in a material irregularity was incorrectly written off whilst the material irregularity is still under investigation		



Accounting standard / legislation	Nature	Value R	Description	Prior-year misstatements	
				2021-22	2020-21
MFMA	Delays	973 296	Delays in completion of projects resulting in fruitless and wasteful expenditure on paving of Maseanoke to Pharare		
<b>Irregular expenditure</b>					
MFMA	Irregular expenditure	36 100 996	Bids advertised for less than the minimum required days (SCMU 28/2020) No criteria for allocation of work to panel members		
MFMA	Software fees	673 432	License fees paid without any service level agreement		
MFMA	Irregular expenditure	198 100	Non-compliance with SCM regulations – local content		
MFMA	Irregular expenditure	1 383 032	Non-compliance with SCM regulations – deviations on purchase mayoral and speaker vehicles A delay of 10 months cannot be justified as an emergency		
<b>Commitments</b>					
MFMA	Commitments	16 861 202	Differences between AFS and the commitment schedule		
MFMA	Commitments	(1 188 833)	Overstatement of commitments		
MFMA	Commitments	2 011 488	Payment was omitted from the commitment schedule, resulting in the overstatement of commitments		
MFMA	Commitments	3 608 085	Omission of existing contracts		
<b>Contingent Assets</b>					
GRAP 19	Contingent assets	1 840 875	Contingent assets were recorded in the schedule submitted for audit review but were not recorded in the AFS		
<b>Related party disclosures</b>					
GRAP 20	Related parties	2 704 003	Differences between AFS and supporting schedules Duplication of information		
<b>Prior period error</b>					
GRAP 3	Prior period error – Incorrect description	14 035 999	Prior period error states that the amount was not accounted for whereas the amount was incorrectly accounted for and had to be removed from the AFS as its relates to water revenue		

Accounting standard / legislation	Nature	Value R	Description	Prior-year misstatements	
				2021-22	2020-21
<b>Accounting policies</b>					
GRAP 1	Accounting policies  And overall presentation of AFS	0	Incorrect accounting policies used  Contingent liabilities and taxes, policy referred to income tax, custom duty and estate duty  Incorrect wording, councillors referred to full time employees, going concern responsibility attributed to the director and not municipal manager		
<b>Statement of comparison between budget and actual amounts</b>					
GRAP 24	Narrations in the AFS	0	Narrations included in the AFS were incorrect and not aligned to the financial movements between budget and actual figures		

	Uncorrected		Corrected		No prior-year misstatement
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24. Material misstatements were noted in the submitted annual financial statements, due to the inadequate review of the financial statements against the relevant supporting schedules and related documents. Some of the findings are repetitive in nature.

25. **Impact:**

- Submission of financial statements that contain misstatements impacts negatively on the audit process, affect timing of the audit and results in audit fee adjustments as the adjustments must be funded by the municipality.
- Equally, material adjustments indicate that the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

## Internal control and recommendations

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

**Significant internal control deficiencies – financial records and financial statements**

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Inadequate review of AFS in general	√	√
Supporting schedules not aligned to the AFS	√	√
Approved policies not correctly applied	√	√
Write off of bad debts not approved by council	√	√
Completeness of irregular expenditure	√	√
Completeness of fruitless and wasteful expenditure	√	√
Incorrect application of GRAP standards	√	√
Incorrect accounting policies	√	√

27. We made recommendations to improve the financial records and the financial statements preparation process to the accounting officer. Some of these recommendations were also made in prior years.

28. A summary of the key recommendations and the responses received follows.

**Key recommendations and responses – financial records and financial statements**

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b> Management should adequately review the AFS and the supporting schedules.</p> <p><b>Response:</b> Management will ensure that there is adequate review of AFS before submission</p>	2019-20	In progress
<p><b>Recommendation:</b> Irregular expenditure disclosed should be properly verified for completeness.</p> <p><b>Response:</b> Management will ensure that there is adequate review of AFS before submission and disclosures will be confirmed against supporting documents</p>	2019-20	In progress
<p>AFS should be adequately reviewed for accuracy and correctness and correct accounting policies must be used and applied</p> <p><b>Response:</b> Management will ensure that there is adequate review of AFS before submission and correct application of accounting policies</p>	2019-20	In progress

29. The municipality developed an action plan to address the external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. Only 60% of the findings affecting the financial statements raised in the 2021-22 audit year were resolved, 40% remains in progress.

## Information to be included in auditor's report

30. We may communicate in the auditor's report matters relating to the audit, the auditor's responsibilities and the auditor's report that are important for users of the financial statements to know about. The following matter will be included as 'other matters' in the auditor's report:

### Unaudited supplementary schedules

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

## FINANCIAL MANAGEMENT AND PERFORMANCE

### Going concern

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

### Budget management

34. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify any findings to highlight in this area of financial management.
35. The unauthorised expenditure incurred constitutes non-compliance with the MFMA. The non-compliance identified will be reported as a material finding in the auditor's report.
36. The irregular expenditure incurred constitutes non-compliance with SCM regulation and MFMA. The non-compliance will be reported as a material finding in the auditor's report.
37. The unauthorised expenditure incurred was disclosed in the financial statements in the prescribed manner.
38. We also tested compliance with the legislative requirements for the preparation and approval of the budget for the next financial year. We did not identify findings on these budget processes.

### Financial assessment and compliance

39. Our audit included a high-level assessment of the financial position and key financial ratios of the municipality based on its financial results to assess its going concern (as detailed earlier), and also to highlight to management those issues that may require corrective action to maintain financial stability. The financial ratios used for assessment include those that the National Treasury also apply when assessing whether a municipality is in financial distress. The assessment is intended to complement, rather than substitute, management's own financial assessment.
40. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.
41. We concluded based on the assessment that the financial health of the municipality has improved but remains concerning, which is an improvement from the previous financial year.

42. Next, we summarise the key matters identified through the assessment that require attention to improve the financial health.

**Financial assessment – key matters**

Revenue management
The debt collection period is greater than 90 days, which indicates that the municipality's debtors do not settle their debts timeously. Timeous debt collection will assist the municipality to improve its cash flow.
The municipality has regressed on the distribution loss management, and the loss falls outside the acceptable range as per MFMA Circular No.71 at 13.74% Distribution loss increased from R30 132 964 in the prior year to R68 080 234 in the current year.
Expenditure management
Creditors' payment period improved but is still above 30 days at 53 days. This will result in service providers charging interest on late payments.
Cash management
Cash coverage stands at 1.5 months
Current liabilities at year end exceed available cash and cash equivalent by 94%, which is an indication that the available cash will not cover current liabilities .

**Financial management – non-compliance**

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
<b>Procurement and contract management</b>			
Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the waste management services and managed printing services.	Yes	√	√
Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). This non-compliance was identified in the procurement processes for vehicles and accommodation for strategic sessions.	Yes	√	√
Some of the tenders achieved the minimum qualifying score for functionality legislative requirement were not evaluated further in accordance with 2017 preferential procurement regulation 5(7). This non-compliance was identified in the panel of service providers for electrification projects and rehabilitation of roads projects	Yes	N/A	N/A
Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(1)(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year	Yes	√	√

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).			
<b>Expenditure management</b>			
Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.	Yes	√	√
Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.	Yes	√	N/A
Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13 329 202, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Fruitless and wasteful expenditure was incurred due to late payment of a service provider, payment of legal fees that far exceed the settlement amounts and payment for stands that were never registered.	Yes	√	√
Reasonable steps were not taken to prevent irregular expenditure amounting to R114 605 224 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Irregular expenditure was incurred as the municipality did not follow proper tender processes on the appointment of service providers as bids were not advertised for the required number of days, no criteria for allocation of work to panel members and deviating from SCM processes where there were no emergencies.	Yes	√	√
Reasonable steps were not taken to prevent unauthorised expenditure amounting to R19 894 903, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Unauthorised expenditure was incurred due to operating expenditure exceeding the approved budget.	Yes	√	√
<b>Asset management</b>			
Capital assets were disposed of without the municipal council having, in a meeting open to the public decided on whether the assets were still needed to provide the minimum level of basic municipal service as required by section 14(2)(a) of the MFMA.	No	N/A	N/A
<b>Annual financial statements, performance and annual report</b>			
The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.  Material misstatements of current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.	Yes	√	√

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
<b>Consequence management</b>			
Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.	Yes	√	√
Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.	Yes	√	√
Fruitless and wasteful expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.  Council wrote off fruitless expenditure that relates to a material irregularity under investigation.	Yes	N/A	N/A

## Losses

43. It is crucial for the municipality to implement the necessary disciplines to ensure that value is derived from money spent and that assets and resources are safeguarded. We identified findings to highlight in this area of financial management. The findings on material non-compliance with legislation will be reported in the auditor's report.

### Disclosures on losses

Nature	Description	Rand value		
		2022-23	2021-22	2020-21
Fruitless and wasteful expenditure	Fruitless expenditure from legal fees and interest paid	13 329 202	15 558 964	6 1667 78
Distribution loss	Distribution loss for the year, exceeds the NERSA tolerable range of 5-12% in the current year.	68 080 234	30 132 964	47 416 347
Debt impairment	Debt impairment due to non-payment of accounts by debtors	133 215 681	176 252 493	2 587 061

**Findings on losses**

Finding	Material non-compliance	Prior years reported	
		20xx-xx	20xx-xx
Municipality incurred fruitless and wasteful expenditure on interest payments and legal fees	Yes	√	√
The distribution loss disclosed in the AFS indicates a substantial electricity loss for the year under review. In the current financial year, electricity amounting to R68 080 234 was lost through distribution loss.	No	√	√
The municipality incurred excessive losses on debt impairment and the debt impairment was incorrectly calculated	No	√	√

**Distribution loss:**

- 44. In the prior year the distribution loss was brought under a tolerable range of 5-12%, however in the current year, the distribution loss has more than doubled from R 30 132 964 to R68 080 234. Over a period of five years the municipality incurred a distribution loss of R352 287 669. This is a significant, and the lost electricity could have improved municipal revenue and reduced the extent of interest that is paid annually which is fruitless and wasteful in nature.
- 45. The accounting officer did not ensure that proper controls were in place to manage and curb the distribution losses during the year.
- 46. **Impact:** Material electricity distribution losses result in loss of municipal revenue.

**Fruitless and wasteful expenditure**

- 47. The fruitless and wasteful expenditure incurred constitutes non-compliance with the MFMA. The non-compliance will be reported as a material finding in the auditor's report.
- 48. The accounting officer did not monitor the overdue accounts to ensure that payments are made timeously to prevent fruitless and wasteful expenditure as a result of the interest charged on overdue accounts
- 49. The accounting officer did not monitor the proper management of legal fees as such, fruitless expenditure was noted from the legal fees paid.
- 50. **Impact:** Fruitless expenditure results in financial losses which contribute to the incurrence of material irregularities

**Provision for debt impairment**

- 51. The municipality incurred excessive losses on debt impairment and the debt impairment was incorrectly calculated.
- 52. High debt impairment also highlights the weakness in debt collection as the municipality's contract with the debt collector expired and the internal debt collection process still requires capacitation.



53. **Impact:** loss of revenue due to high debt provision and possible write off of debtors

## Grant management

54. The municipality received grants totalling R634 115 073 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act 5 of 2022 (DoRA) and the use of the equitable share, finance management grant, municipal infrastructure grant, integrated national electrification programme grant (INEP), expanded public works programme grant, municipal disaster response grant, energy efficiency and demand side management grant and local government sector education and training authority grant.

55. Roll over request for INEP grant amounting to R1 467 000 was not approved.

56. **Impact:** Grants lost result in a financial loss and have a negative impact on service delivery.

57. We audited a selection of key projects funded by the grants. Our findings are included in the section on key projects.

## Internal control and recommendations

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

### Significant internal control deficiencies – financial management

Internal control deficiency	Prior years reported	
	2021-22	2020-21
The accounting officer did not exercise his oversight responsibility regarding financial and compliance monitoring to avoid loss of grants.	N/A	N/A

59. We made recommendations to improve financial management processes to the accounting officer. A summary of the key recommendations follows.

### Key recommendations and responses – financial management

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b> Grants should be used in the year of allocation and funds not used should be rolled over to the next financial year through a roll-over approval process and used upon receipt to avoid forfeiture.</p> <p><b>Response:</b> Management partially agrees with the finding, as an application for rollover was submitted to the National Treasury but was not approved.</p> <p>Apply for pre-engineering grant funding a year before construction, the designs will be completed a year before the project can be implemented. In that case, this will reduce the risk of delays due to additional scopes being identified during preliminary designs. Management will further ensure that grant funding allocated is fully spent within the financial year</p>	2022/23	In progress

## Information to be included in auditor's report

60. We can include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to important disclosures in the financial statements. The following matters that relate to the financial performance of the municipality and will be emphasised:

### Restatement of corresponding figures

61. As disclosed in note 61 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023

### Litigations and claims

62. With reference to note 40 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

### Material impairments – Receivables from exchange and non-exchange transactions

63. As disclosed in note 59 to the financial statements, a material loss of R133 215 681 was incurred as a result of impairment of receivables from exchange and non-exchange transactions.

### Material losses - Electricity

64. As disclosed in note 50 to the financial statements, material electricity losses of R68 080 234 (2021-22: R30 132 964) was incurred, which represents 13.7% (2021-2022: 6.11%) of total electricity purchased. Losses amounted was due to copper losses in the conductor and actual readings billed instead of estimates.

## PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

### Overall performance planning and management

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

### Audit of annual performance report

67. The SDBIP and annual performance report were submitted to us for auditing on 14 August 2023 and 31 August 2023, respectively.
68. As detailed in the engagement letter, we undertook a reasonable assurance engagement on specific development priorities selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion as included in **section 1**.
69. We selected the following development priorities for auditing:
- KPA 02: Basic service delivery
  - KPA 03: Local economic development

70. We evaluated the reported performance information for the selected development priorities against the criteria developed from the performance management and reporting framework. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and objectives.

71. We performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined and verifiable to ensure that they are easy to understand and consistently applied, and that we can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance, as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the measures included that are taken to improve performance.

72. We also performed procedures to test whether:

- the overall presentation of the performance information in the annual performance report is comparable and understandable.
- the indicators used for planning and reporting are complete by considering the core functions of the municipality as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

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

## Audit results – KPA 02 –Basic service delivery and KPA 03- Local economic development

73. We did not identify findings on the completeness of indicators.

74. We did not identify material findings on the overall presentation of performance information in the annual performance report.

75. We did not identify material misstatements in the reported performance information in the annual performance report submitted for auditing.

## Information to be included in auditor's report

76. We may communicate in the auditor's report matters about the audit, the auditor's responsibilities and the auditor's report that are important for users of the annual performance report to know about.

## Internal control and recommendations

77. We identified significant internal control deficiency, which caused the weaknesses in the performance planning, management and reporting processes as reported.

### Significant internal control deficiencies – performance planning, management and reporting

Internal control deficiency	Prior years reported	
	2021-22	2020-21
<p>Poor planning: number of cubic meters of waste disposed at the landfilled side</p> <p>The accounting officer did not adequately review the SDBIP before approval and publishing to ensure that planned targets are appropriate.</p>	N/A	N/A

78. We made recommendations to improve the performance planning, management and reporting process to the position in senior management. A summary of the key recommendation and the response received follows.

### Key recommendations and responses – performance planning, management and reporting

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b></p> <p>The accounting officer should adequately review the SDBIP to ensure that planned targets are appropriate, realistic and have a clear reference to the base line.</p> <p><b>Response:</b></p> <p>The management agrees with the finding that the baseline ought to have been set as a new target. Conversion from tonnage to cm3 as required by SAWIS.</p> <p>Cause : Adjustment of the target using the baseline with the correct conversion from tonnage to cm3.</p> <p>Management action: Management oversight on setting the target</p>	2022-23	In progress

## ACHIEVEMENT OF PLANNED TARGETS

79. As disclosed in the annual performance report, not all of the planned targets were achieved for the development priorities we selected for auditing.
80. We will draw the attention of oversight to the non-achievement of key service delivery indicators by including the table that follows in the 'other matters' section in the auditor's report, with reference to the pages in the annual performance report where the measures for improvement are included.

**Service delivery indicators not achieved – KPA 02- Basic Service Delivery**

Key service delivery indicators not achieved	Planned target	Reported achievement
Number of KM of Moseanoka to Cell C Pharare streets upgraded from gravel to paving.	8.8 Km	7.8 Km
Number of Km of Risiba, Mnisi Shando to driving school internal street upgraded from gravel to paving.	6.1 Km	5.1 Km
% of Electrification of Mokgwathi (120 units)	100%	97.21%
% Electrification of Ramotshinyadi (132 Units)	100%	96%
Number of households electrified in current financial year	1721	1554

81. The non-achievement of the planned targets are for the following reasons respectively:

- The project was delayed due to underground water that was not picked up during planning and design.
- Contractor is behind schedule due to the existing pipe that need to be fixed, this as a result is affecting the progress of the municipality.
- Eskom approved outage to be energized for 27 June 2023.
- Eskom approved outage to be energized for 19 to 20 July 2023.

## OTHER INFORMATION IN ANNUAL REPORT

82. We did not audit the information in the annual report except for the financial statements and the development priorities in the annual performance report selected for auditing.

83. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited or the knowledge we obtained during the audit, or otherwise appears to be materially misstated.

## INFRASTRUCTURE PROJECTS

84. We selected key infrastructure projects for assessment over their project life cycle. We tested whether the projects are planned, implemented, managed and commissioned efficiently, effectively and economically.

85. We identified significant findings on the key projects.

### Paving of Maseanoka to Cell C Pharare internal streets -ward 25

86. The contractor was appointment on 9 November 2020 for the upgrading of selected local streets from earth/gravel to concrete block paved at Maseanoka to Cell C Pharare. The scope of work included upgrading 8.75 kilometer of streets from earth/gravel to concrete block paved including associated storm water controls. The above scope of work is to be executed into two - a scope A and B. The project duration was for a period of 14 months and the contract amount was R 54 096 237. The site was handed over on 15 February 2021 with a planned completion date of 3 May 2022. The project

completion date was then revised to 23 June 2023 with a proposed completion date of 14 December 2023 pending approval.

### Findings on key projects

Finding	Prior years reported	
	2022-23	2021-22
Project delays	N/A	N/A
Material on site – culverts	N/A	N/A

### Project delays

87. The project was delayed by more than 17 months from the original planned completion date up to the day of our site visit on 26 October 2023. The original planned completion date for the project was 3 May 2022 which was later revised to 23 June 2023. The consultant recommended and the municipality approved the extension of time claims totalling 123 days accumulatively, that should have been time barred. The contractor did not apply for extension of time within 28 days after the circumstance or event occurred. The contractor only submitted the application for extension time number 1 on 11 May 2022. Therefore, an amount of R1 087 369 (R 8 840 p/d x 123 days) should not have been paid as cost implications to this extension of time.

In addition, during the site visit we noted that street number 2 has not yet been completed and was not affected by the relocation of Eskom poles as indicated in the extension of time no.4. There was no indication of any action taken against the contractor for failure to complete street 2 as per the revised completion date of 23 June 2023. As a result, the municipality did not impose penalties amounting to R3 381 032 to the contractor.

88. **Impact:** The project is delayed by more than 17 months with time-related cost amounting to R1 632 208 (R1 087 369+ R544 569) thereby denying the community the services they need. The municipality incurred a financial loss amounting to R1 087 369 for payments towards extension of time that should have been time barred. Furthermore, the municipality failed to impose penalties of amounting to R3 381 032.

89. Delays were incurred as a result of stoppage of works due to the depletion of the budget due to over commitment of the budget and work stoppages by the community on street 2, who demanded that the road to be moved. Lack of oversight led to the municipality to approve an extension of 123 days that should have been time barred. The municipality did not have infrastructure standard operating procedures for variation orders and extension of time and the process to hold responsible contractor, consultants or officials accountable for the additional costs/time.

### Material on site – culverts

90. The municipality paid R1 127 622 for work which could not be observed on site. Perusal of payment certificate number 14 shows that the contractor claimed R1 171 138 and R1 496 113 for scope A and scope B respectively, towards items: 2200 for installation of prefabricated culverts and was paid. During the site visit that was conducted on 26 October 2023, it was observed that the municipality paid more than what was installed on site by the R1 127 622.

91. **Impact:** The municipality incurred a possible financial loss amounting to R1 127 622 for installation of prefabricated culverts that could not be verified.

92. Lack of monitoring by the consultant and the municipality led to the municipality incurring expenditure for work that was not done. In addition, the municipality did not verify that the works claimed by the contractor were on site prior to processing the payment

## Internal control and recommendations

93. We identified significant internal control deficiencies, which caused the weaknesses in the management and delivery of projects as reported.

### Significant internal control deficiencies – project management and delivery

Internal control deficiency	Prior years reported	
	2021-22	2020-21
<p><b>Project delays</b></p> <p>1. Sufficient measures and controls were not in place to ensure that the project was completed within the planned completion date to avoid additional cost on the project.</p> <p>2. The municipal officials failed to apply the contract clauses on extension of time and approved days that should have been time barred.</p> <p>3. The municipality failed to implement contractual measures of imposing penalties to the contractor on delayed works.</p>	N/A	N/A
<p><b>Material on site – culverts</b></p> <p>The consultant and municipal project manager failed to monitor the project by allowing payments to be made to the contractor for works that could not be verified.</p>	N/A	N/A

94. We made recommendations to improve the project management and delivery process to the senior management.

### Key recommendations and responses – project management and delivery

Recommendation and management response	Year originally recommended	Status of implementation
<p>Project delays</p> <p><b>Recommendation:</b></p> <p>1. The municipality should ensure that adequate budget is available and ring-fenced. In addition, the project should be managed properly to ensure that projects are completed within the set time and cost.</p> <p>2. The municipality should update the fruitless and wasteful expenditure register and disclose the financial loss of R1 087 369 incurred for time related costs.</p> <p>3. The municipality should implement contractual obligations by imposing penalties to the contractor for failure complete street 2 on time.</p> <p><b>Response:</b> Management disagrees with the finding. Management indicated that the expenditure incurred cannot correctly be considered fruitless and wasteful expenditure when such expenditure emanated from situations of force majeure. The clause of fruitless and wasteful expenditure shall not be considered for submission.</p> <p>As alluded to earlier in this volume, it is not accurate to say that street 2 is not affected by the relocation of the Eskom pole.</p>	2022-23	Not started
<p>Material on site – culverts</p> <p><b>Recommendation:</b> The municipality should ensure that claims by the contractor are thoroughly reviewed for accuracy and correctness prior to making payment to the contractor. This will ensure items claimed for, are aligned to the work done on site.</p>	2022-23	Not started

Recommendation and management response	Year originally recommended	Status of implementation
<b>Response:</b> Management disagrees with the finding. Based on the provision of the contract condition clauses it would only be fair to allow due process to unfold and should any such discrepancies on the final certificates be noted then the municipality will exercise its right in terms of the contract provisions and submit a claim in terms of clause 10.		

## DELIVERY OF KEY MUNICIPAL SERVICES

95. The audit included an assessment on the delivery of water management/ solid waste management/ services to indigent households and infrastructure management.
96. We identified significant findings on the delivery of the municipal services.

### Water management on behalf of the district municipality

#### Findings on water services on behalf of the district

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
Municipality used own funds to procure bulk water purchases amounting to R 1 964 407 in contravention of the signed SLA	No	N/A	N/A
<b>Water tankers</b> Municipality spent R9 083 077 on water tankers. Municipality must consider procuring own tankers to reduce the excessive tankering costs. The tankering contracts expired and was extended on a month to month basis from May 2020.	No	N/A	N/A
<b>Water tankers</b> The expenditure policy and procedure manual does not outline the process of requisition, ordering, receipt of goods, receipt of invoice before payments are made to the service provider, the SCM policy also does not provide a detailed guideline on the logistics management process to be followed by the municipality. <ul style="list-style-type: none"> <li>The requisitions for water tanker services were issued to the service providers after the service was already rendered or in the process of being rendered .</li> <li>Additionally, the orders were issued closer to the invoice date or on the invoice date.</li> </ul>	No	N/A	N/A
A coordinating committee was not established during the period under review in line with the requirements of par 20 of the SLA as outlined above.	No	N/A	N/A



## Project management

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
<p><b>Project delays</b></p> <p>1. There were no sufficient measures and controls in place to ensure that the project was completed within planned completion and avoid additional cost on the project.</p> <p>2. The municipal officials failed to apply the contract clauses on extension of time and approved days that should have been time barred.</p> <p>3. The municipality failed to implement contractual measures of imposing penalties to the contractor on delayed works.</p>	No	N/A	N/A
<p><b>Material on site – culverts</b></p> <ul style="list-style-type: none"> <li>The consultant and municipal project manager failed to monitor the project by allowing payments to be made to the contractor for works that could not be verified.</li> </ul>	No	N/A	N/A
<p><b>Nkowankowa Cemetery Fence Phase 2</b></p> <p>Slow moving asset resulting in impairment of the costs incurred.</p> <p>The last activity was on 16 March 2022.</p>	No	N/A	N/A
<p><b>Lenyeyenye Cemetery Fence Phase 2</b></p> <p>Slow moving asset resulting in impairment of the costs incurred.</p> <p>The last activity was on 26 July 2021</p>	No	N/A	N/A
<p><b>Rehabilitation - Haenertsburg cemetery road</b></p> <p>The municipality paid consultants for the design and other consulting work on the rehabilitation of Haenertsburg cemetery road, the project was not implemented to date.</p> <p>Last payment 4 June 2020</p> <p>Management comments: The rehabilitation of Haenertsburg cemetery road budget for 2019-2020 was for designs only. The budget for implementation has been provided for in the 2023-2024 financial year and the contractor was appointed in June 2023</p>	No	N/A	N/A
<p><b>Construction of Tzaneen Extension 13</b></p> <p>The municipality paid consultants for the design and other consulting work on the construction of Tzaneen extension 13, the project was not implemented to date.</p> <p>Last payment 28 June 2019.</p> <p>Management comments: Construction of Tzaneen extension 13 is catered for under 2025-2026 financial year in the current IDP. The budget expenditure already incurred was for 2018-2019 financial year and it was meant for designs only</p>	No	N/A	N/A

## HUMAN RESOURCE MANAGEMENT

97. We audited compliance with legislation on human resource management and assessed the processes in place to ensure adequate and sufficiently skilled resources are in place. The key focus areas include overtime, standby allowances, appointments, and termination.
98. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

### Findings on human resource management

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
<p>Overtime management in general</p> <ul style="list-style-type: none"> <li>Overtime amounted to R28 915 438, this was an increase of R4 584 421 when compared to prior year amount of R24 331 017</li> <li>Ten employees earned overtime totalling R6 801 915 in one financial year.</li> <li>Overtime not pre-approved approved.</li> <li>Overtime in excess of basic salaries.</li> <li>Overtime paid to employee who are outside the overtime remunerative scale.</li> <li>Excessive hours of overtime being worked which is non-compliance with the overtime policy.</li> <li>Standby employees are paid standby allowances without the approval of the line manager or the municipal manager</li> </ul>	Yes	Yes	Yes

99. We made recommendations to improve the human resource management to the accounting officer. Some of these recommendations were also made in prior years.

### Key recommendations and responses – municipal services

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Overtime not pre-approved approved</b></p> <p><b>Recommendation</b></p> <p>The accounting officer should:</p> <p>Ensure that controls are implemented to ensure compliance with all relevant legislation and standards and develop a compliance checklist for assessing compliance with all applicable legislation and standards.</p> <p>Pre-approval for all overtime to be worked must be granted before employees commence with the over time.</p> <p><b>Response:</b></p> <p>Management partially agrees with the finding.</p> <p>This is overtime worked for essential services and/or emergency work.</p>	2019/20	In progress

Recommendation and management response	Year originally recommended	Status of implementation
<p>The overtime worked is approved through a memo qualifying officials to execute essential services/ emergency work which could not be pre-determined.</p> <p>Also for overtime worked by the Mayor's driver, due to political role some trips cannot be predetermined and are confidential; hence a letter attached in this regard stating officials is Mayor's driver (Essential Services).</p> <p>Management will ensure that only emergency work will be paid without pre-approval; and overtime worked for essential services without pre-approval will not be paid and be deferred back to User departments.</p>		
<p><b>Overtime in excess of basic salaries</b></p> <p><b>Overtime paid to employee who are outside the overtime remunerative scale</b></p> <p><b>Recommendation</b></p> <p>The accounting officer should ensure:</p> <p>That controls are implemented to ensure compliance with all relevant legislation and standards and develop a compliance checklist for assessing compliance with all applicable legislation and standards.</p> <p>Employees who earn above the threshold of R224 080-48 should only be compensated with time off in compliance with the overtime guiding tools as approved and gazetted salary threshold determinations.</p> <p><b>Response</b></p> <p>Management does not agree with the finding.</p> <p>Part 7.3.3. &amp; 7.3.7 of the overtime policy states that:</p> <p>7.3.3. An employee not fully protected by BCEA whose earnings are above the Earnings Threshold shall be remunerated at a rate of 1,5 times his/her normal salary for each hour worked outside normal working hours including Saturdays and double the employee's wage/salary for each hour worked on a holiday or Sunday depending on measures implemented by management to control overtime expenditure.</p> <p>All employees listed above are covered within the policy.</p> <p>Operational requirements, the nature of the job done dictates that such overtime be worked as this is not a once-off event.</p> <p>Managing overtime hours to acceptable levels and continuous engagement with labour of the gazette</p>	2019/20	In progress
<p><b>Standby allowance</b></p> <p><b>Recommendation:</b> Employees that are on standby should be approved by the municipal manager or the line manager</p> <p><b>Response:</b> Management does not agree with the findings. The stand-by allowance pre-approval forms were developed during the prior year audit period 2021-22 and implemented immediately following the audit conclusion with effect from November 2022.</p>	2019/20	Implemented

## USE OF CONSULTANTS

100. The municipality spent R7 107 493 on consultants to support the current year financial and performance management and reporting processes, a reduction from the R10 202 633 in the previous year.
101. The reduction occurred because the municipality was without asset consultants for four months and tax consultants for two months. This was due to the expiration of contracts with these service providers, and there was no immediate reappointment. It is crucial to highlight that the municipality did not actually cut down on spending for consultants.
102. Our audit included an assessment of the effective use of consultants and compliance with local government requirements for the appointment and management of consultants.
103. We identified findings on the use of consultants.

### Findings on use of consultants

Finding	Prior years reported	
	2022-23	2021-21
No consultancy reduction plan in place to reduce the reliance on consultants, to reduce permanent/ full time use of consultants	√	√
Gap analysis is conducted prior to appointment of consultants.	√	√

104. **Impact:** This results in non-compliance with municipal cost containment regulations and a possible material irregularity.
105. Cause of the above is over-reliance on the consultants.
106. We made recommendations to improve the use of consultants to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

### Key recommendations and responses – use of consultants

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b> The accounting officer should ensure that a consultancy reduction plan is in place to reduce the reliance on consultants and that consultants are not used for permanent/ full time needs.</p> <p><b>Response:</b> Management will develop and implement the consultancy reduction plan in line with the Cost Containment Regulations of 2019, reg 5(1) and Cost Containment Policy, par 4.5.6. However, this will be a gradual process until full transfer of skills is achieved.</p>	2022-23	Not started
<p><b>Recommendation:</b> The accounting officer should ensure that gap analysis is conducted prior to appointment of consultants.</p> <p><b>Response:</b> Management will ensure that Gap Analysis is developed in line with the Cost Containment Policy par 4.1. This process cannot be applied retrospectively as consultants have already been appointed, management will ensure post-development of the Gap analysis, that this will be applied prospectively on new appointments.</p>	2022-23	Not started

## INFORMATION SECURITY MANAGEMENT

107. Our audit included an assessment of the effectiveness of information technology (IT) security controls that should prevent unauthorised access to key information systems and safeguard the municipality against business interruptions.

108. We identified significant control deficiencies in the IT security controls.

### Significant internal control deficiencies – information security management

Internal control deficiency	Prior years reported	
	2021-22	2020-21
The municipality did not establish an ICT steering committee to govern and be accountable for the municipal ICT governance.	N/A	N/A

109. **Impact: No ICT steering committee in place:**

- Non-compliance with the ICT steering committee's terms of reference.
- The fact that the municipality does not have an ICT steering committee is a matter of concern that would need to be addressed.

110. Next, we summarise our key recommendations to senior management and their responses.

### Key recommendations and responses – information security management

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b> The accounting officer should establish an ICT steering committee so that they can effectively govern and be accountable for the municipal ICT governance. The composition of the committee must be in line with the approved terms of reference.</p> <p><b>Response:</b> Management will ensure a rapid turnaround time on the appointment of an external ICT steering committee chairperson upon the policy amendment</p>	2022-2023	In progress

111. Our audit included an assessment of the effectiveness of information technology (IT) security controls that should prevent unauthorised access to key information systems and safeguard the municipality against business interruptions.

112. We identified significant control deficiencies in the IT security controls.

## INFORMATION TECHNOLOGY – ACCESS TO PROMIS

113. The project relates to access to ProMIS financial system. The objective of the access is for viewing accounts on the previous financial system. The budgeted cost for the 2022-2023 financial year amounted to R673 742. Equally so, the spending to date is R673 742 for the 2022-2023 financial year.

114. We identified significant findings on the project.

**Findings on IT project**

Finding	Prior years reported	
	2021-22	2020-21
The municipality does not have a service level agreement (SLA) that regulates the payment of the annual licence fee for use of the ProMIS financial system.	N/A	N/A

115. **Impact:** No SLA in place

116. The transaction is irregular as there is no SLA to regulate the service.

117. Next, we summarise our key recommendations to senior management and their responses.

**Key recommendations and responses**

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Recommendation:</b> The accounting officer should ensure that all services provided to the municipality are regulated by a valid SLA.</p> <p><b>Response:</b> Management will assess the necessity to renew the license and utilization of the financial system going forward. The municipality is only paying for a view-only license to avoid litigations and address queries for a period of 7 years.</p>	2022-2023	Not started

## PROCUREMENT AND CONTRACT MANAGEMENT

118. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, agreed-upon pricing is adhered to and specified quality standards are complied with.

119. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

120. Next, we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in **annexure B**.

**Findings on procurement and contract management**

Area	Findings		
	2022-23	2021-22	2020-21
Audit limitations			
Deviations			

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

	Material non-compliance with legislation		Findings		No findings
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121. **Impact:**

122. The above results in the incurrence of irregular expenditure and potential material irregularities.
123. Challenges noted in the supply chain processes of the municipality are repetitive and the municipality has not adequately implemented control and compliance measures in order to curb the high extent of irregularities.

## IRREGULAR EXPENDITURE

124. Non-compliance with legislation resulted in irregular expenditure of R114 605 224. The irregular expenditure incurred constitutes non-compliance with preferential procurement regulation 2017. The non-compliance will be reported as a material finding in the auditor's report.
125. The irregular expenditure incurred was disclosed in the financial statements.
126. The irregular expenditure of the municipality has increased as compared to prior year. The irregular expenditure is as a result of continuous non-compliance with SCM regulations.

## CONSEQUENCE MANAGEMENT

127. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the municipality's management of consequences.
128. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

### Findings on consequence management

Finding	Material non-compliance	Value/instances	Prior years reported	
			2020-21	2021-22
<b>Irregular and fruitless and wasteful expenditure</b>				
Some of the irregular expenditure incurred by the municipality were not investigated to determine if any	Yes	R 72 439 366	√	√

Finding	Material non-compliance	Value/instances	Prior years reported	
			2020-21	2021-22
person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.				
Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.	Yes	R21 741936	√	√
Some of the fruitless and wasteful expenditure were certified by council certified as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.  Council wrote off fruitless expenditure that relates to a material irregularity under investigation .	Yes	R4 797 062	N/A	N/A

129. Investigations are not conducted timely by the authorised body.

130. Council incorrectly wrote off fruitless and wasteful expenditure that relates to a material irregularity under investigation.

131. We made recommendations to improve the consequence management process to the accounting officer. A summary of the key recommendations and the responses received follows.

#### Key recommendations and responses – consequence management

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Investigations into irregular as well as fruitless and wasteful expenditure</b></p> <p><b>Recommendation:</b> The accounting officer should ensure there is speedy investigations and resolutions of the fruitless and wasteful and irregular expenditure, this will enforce a culture of accountability and ensure that municipal funds are spent prudently.</p> <p><b>Response:</b> Management will ensure that the outstanding cases of UIFW are dealt with as a matter of urgency to ensure all UIFW resulting from previous periods are properly investigated</p>	2020-21	In progress
<p><b>Fruitless expenditure relating to MI written-off</b></p> <p><b>Recommendation:</b></p> <p>Accounting officer should:</p> <ul style="list-style-type: none"> <li>Properly investigate the cause of the fruitless and wasteful expenditure and material irregularity in order to recover the loss and address the material irregularity that was raised.</li> <li>Disclose the correct amount of fruitless and wasteful expenditure in the AFS.</li> </ul> <p><b>Response:</b> No management response</p>	2022-23	In progress



## FRAUD RISK

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

# SECTION 3: CONTROL ENVIRONMENT

## OVERALL CONTROL ENVIRONMENT

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

### **Significant internal control deficiencies – overall control environment**

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Management did not implement adequate internal controls to ensure the preparation of accurate financial statements as numerous material misstatements were identified that required material adjustments.	√	√
The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not timeously monitor adherence to the plan.	√	√
The municipality did not adequately review and monitor compliance with applicable procurement legislation and the MFMA.	√	√
There was no adequate monitoring and implementation of policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA.	√	√
Inadequate supply chain management processes resulted in increased irregular expenditure.	√	√
Expenditure management was inadequate resulting in increased fruitless expenditure, especially legal fees which contributed to material irregularities.	√	√
Control measures for the management of overtime are inadequate as evidenced by the excessive overtime claimed.	√	√
Provision of incorrect information that had to be retracted and replaced which contributed to increased audit time	N/A	N/A
Write off of bad debts without a council resolution and incorrectly writing off fruitless expenditure that caused material irregularities	N/A	N/A
Donation of municipal land to a developer without a council resolution	N/A	N/A

136. In **annexure C** we provide a more detailed view of the overall state of internal control.

## ACCOUNTABILITY ECOSYSTEM

137. The accountability ecosystem is the collection of roleplayers that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality. These roleplayers include the officials, senior management and accounting officer, supported by the internal audit unit and the audit committee.

138. We observed strengths and weaknesses in the contributions to the ecosystem by leadership, management and the governance structures of the municipality. We share our observations with the intention to contribute to strengthening the overall control environment, performance and accountability.

## Accounting officer and senior management

139. Regular interactions between the audit team and the accounting officer took place to evaluate the progress of the audit and implementation of action plans. The accounting officer provided inadequate oversight over the implementation of internal policies and the alignment of those policies to legislation which resulted in cases of non-compliance with policies and procedures being identified.
140. Senior management was available to attend audit steering committee meetings and were involved in the audit process and submitted information on time. However, senior management did not ensure continuous implementation of the action plan to address internal control deficiencies or misstatements from prior financial year.
141. Senior management provided some assurance as they did not always implement controls to detect and prevent all material findings on financial statements and compliance matters. As a result, the municipality's financial statements still contained material misstatements and non-compliance.

## Audit committee

142. 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.
143. 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.
144. The audit committee reviewed the municipality's quarterly reports and internal audit reports and assessed compliance with applicable legislation, but did not adequately review the annual financial statements prior to their submission for audit, as a result material misstatements were identified in the annual financial statements

## Internal audit unit

145. 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.
146. The internal audit unit of a municipality prepared a risk-based audit plan and internal audit programme for each financial year. It advised 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 also performed such other duties as may be assigned by the accounting officer.
147. The internal audit unit had an effective methodology and adhered to standards on internal auditing, internal audit work was undertaken with due professional care.

148. Internal audit had an approved internal audit plan and executed its work in line with the plan. Internal audit reported findings to management for action and implementation, however there were material errors noted in the annual financial statements and annual performance reports that were reviewed by internal audit and there were material internal control deficiencies noted by the external auditors.
149. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We have used the following internal audit work for risk identification:
- Revenue Management
  - Asset Management
  - Contract Management
  - Expenditure Management
  - Supply Chain Management
  - Overtime Management 280
  - IDP, Budget and SDBIP process,
  - Infrastructure Maintenance
  - Human Resources Management 360
  - Waste Management
  - Traffic Fines Management,
  - DORA Compliance
  - Annual Performance Audit 2022/2023

## Municipal council

150. Municipal council made some interventions and took resolutions to address prior years' audit report findings. However, controls for the prevention of unauthorised, irregular and fruitless and wasteful expenditure were not implemented.
151. Council incorrectly wrote off fruitless expenditure that resulted in a material irregularity and was subject to investigation by the accounting officer.

## Municipal Public Accounts Committee (MPAC)

152. The committee investigated and submitted a report to council, recommending the write-off of some irregular and fruitless and wasteful expenditure incurred in the prior years.
153. The committee did not investigate all the unauthorised, irregular and fruitless and wasteful expenditure incurred in the prior years
154. The committee incorrectly recommended the write-off of fruitless and wasteful expenditure that resulted in a material irregularity and was subject to investigation by the accounting officer

## GOVERNANCE AND COORDINATING MINISTRIES

155. Our audit included an assessment of councillors' and premier's roles and responsibilities, in the municipality, using the relevant acts and regulations relating to municipal council and how the council responds to work done by the AGSA. We have also assessed the role of coordinating ministries, namely Provincial Treasury (PT) and Cooperative Governance, Human Settlement, and Traditional Affairs (CoGHSTA) in providing the support to the municipality.

156. The objective of this assessment is to ensure that there is clear and defined mandate of each coordinating ministry and effective collaboration between them to effect improvement in provincial and local government; and to ensure that there is effective accountability ecosystem where all role players understand their roles and how they complement one another.
157. We did not identify any findings.

## SECTION 4: OVERALL RECOMMENDATIONS

158. We provided recommendations to senior management to rectify the weaknesses identified in financial management and compliance with legislation. Our recommendation for the accounting officer is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.

159. In our view, the main root causes that need attention are as follows:

- Inadequate review of financial statements
- Significant non-compliance with the requirements SCM laws and regulations
- Audit action plan not fully implemented
- Inadequate monitoring of overtime
- Continuous monitoring of projects
- Proper management of legal fees

160. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success.

161. The following are our recommendations to address the identified root causes. We have shared some of these before and ask for urgent action to ensure their implementation.

### Overall recommendations

	Recommendation	Year originally recommended	Status of implementation
1.	Adequate review of financial statements	20219-20	In progress
2.	Improve compliance with the requirements SCM laws and regulations	20219-20	In progress
3.	Fully implement and monitor the action plan	20219-20	In progress
4.	Adequately monitor the implementation of overtime	20219-20	In progress
5.	Continuously monitor projects to avoid project delays and prevent unwanted expenditure	20219-20	In progress
6.	Properly manage legal fees to ensure that value for money is derived from the legal services	20219-20	In progress

# CONCLUSION

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

Yours sincerely,



Malesela Tjale

Senior Manager

30 November 2023

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# ANNEXURE A: FINANCIAL ASSESSMENT

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

		Current year	Previous year
<b>Expenditure management</b>			
1.1	Creditor-payment period	53 Days	85 Days
1.2	Deficit was realised for the year	No	No
	Amount of surplus for the year	R115 191 096	R669 152 080
<b>Revenue management</b>			
2.1	Debt-collection period (after impairment)	145 Days	159 Days
	• Amount of debtor's impairment provision	R304 253 055	R373 065 756
	• Amount of accounts receivable	R628 761 958	R601 531 678
2.2	Debt-impairment provision as a percentage of accounts receivable	32.6%	50.3%
	• Amount of debt-impairment provision	R304 253 055	R373 065 756
	• Amount of accounts receivable (before impairment)	R933 015 013	R837 667 367
2.3	Percentage distribution losses – electricity	13.7%	6.11%
	• Amount of units generated / purchased	R326 404 795	R366 333 127
	• Amount of units sold to consumers	R281 558 405	R343 940 422
<b>Asset maintenance and renewal</b>			
3.1	Percentage spending on repairs and maintenance	2.4%	1.91%
	• Amount of expenditure on repairs and maintenance	R39 135 309	R30 411 332
	• Amount of property, plant and equipment (carrying value)	R1 646 452 553	R1 594 026 765
3.2	Total capital expenditure as percentage of total expenditure	10.7%	11.9%
	• Amount of capital expenditure	R175 771 700	R169 904 763
	• Amount of total expenditure (operating + capital)	R1 461 293 718	R1 427 722 795
3.3	Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure	7.1%	0%
	• Amount of asset renewal / rehabilitation expenditure	R12 537 458	R0
3.4	Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment	11.2%	0%



		Current year	Previous year
	<ul style="list-style-type: none"> <li>Amount of depreciation and impairment</li> </ul>	R1 12 004 646	R1 12 289 759
<b>Asset and liability management</b>			
4.1	Total debt / borrowings vs total revenue for the year	35.2%	40%
	<ul style="list-style-type: none"> <li>Amount of debt / borrowings</li> <li>Amount of revenue for the year</li> </ul>	R55 6013 024 R1 578 397 657	R593 844 832 R1 497 002 234
4.2	Current liabilities as a percentage of next year's budgeted resources	29%	28.6%
	<ul style="list-style-type: none"> <li>Amount of current liabilities</li> <li>Total budgeted income for the next year, excluding employee costs and remuneration of councillors</li> </ul>	R345 705 261 R1 192 429 490	R366 330 305 R1 281 937 227
4.3	Net current liability position was realised)	No	No
	<ul style="list-style-type: none"> <li>Amount of net current asset position</li> </ul>	R607 061 872	R543 708 001
4.4	Net non-current liability position was realised	No	No
	<ul style="list-style-type: none"> <li>Amount of net non-current asset position</li> </ul>	R2 243 965 643	R2 192 128 418
4.5	Net liability position was realised	No	No
	<ul style="list-style-type: none"> <li>Amount of net asset / (liability) position</li> </ul>	R2 851 027 515	R2 735 836 419
4.6	Liquid assets as a percentage of total current liabilities (acid test percentage)	267.4%	246.4%
	<ul style="list-style-type: none"> <li>Amount of liquid assets</li> </ul>	R28 226 155	R20 482 215
4.7	Current ratio	2.76	2.52
	<ul style="list-style-type: none"> <li>Amount of current assets</li> </ul>	R952 767 133	R909 043 259
4.8	Total debt to total assets ratio	0.16	0.18
	<ul style="list-style-type: none"> <li>Amount of debts</li> <li>Amount of assets</li> </ul>	R556 013 04 R3 407 040 539	R593 844 832 R3 329 681 251
<b>Cash management</b>			
4.9	Year-end bank balance was in overdraft	No	No
	<ul style="list-style-type: none"> <li>Amount of year-end bank balance</li> </ul>	R177 311 460	R147 461 260
4.10	Cash plus investments less applications	R220 812 902	R187 406 412
	<ul style="list-style-type: none"> <li>Amount of year-end bank balance (cash and cash equivalents)</li> <li>Amount of total investments (short and long term)</li> </ul>	R177 311 460 R43 501 442	R147 461 260 R39 945 152

		Current year	Previous year
	• Less: amount of cash applications/ commitments	(R0)	(R0)
4.11	Cash coverage	1.5 Months	1.6months
	• Amount of monthly expenditure	R 121 774 477	R 118 870 000
<p><i>*These amounts have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</i></p>			

# ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

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

## Deviations

2. Supply chain management legislation and policy prescribe the processes that apply when procuring specific goods and services as well as their threshold values, including competitive bidding, obtaining quotations or participating in transversal contracts. It also defines the requirements for deviating from the prescribed processes. We identified deviations where the stipulated requirements for such deviations were not complied with.

### Findings on deviations from prescribed procurement processes

Contract/quotation	Value and date of award	Finding	Material non-compliance
Contract : Procurement of vehicles	<b>Value:</b> R1 483 083 <b>Date:</b> March 2023	<p>The municipality did not follow competitive process when purchasing the vehicles for mayor and speaker. Deviation does not meet the definition of emergency since the municipality had enough time to follow the normal procurement process as per Municipal Supply Chain Management Regulations 36 (1)</p> <p>10 months delay cannot be justified as emergency</p>	Yes

3. **Impact:** Irregular expenditure

## Competitive bidding and quotation processes

4. Supply chain management legislation and policy prescribe the manner in which bidding and quotation processes should be performed to enable fair, competitive and equitable procurement. We identified non-compliance with the requirements for the competitive bidding process.

### Findings on competitive bidding process

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
Some of the invitations for competitive bidding were not advertised for a required minimum period of day.	R36 100 996	24	Yes	√	√
No clear criteria for the allocation of work to panel members					

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
Local content requirements were not complied with when awarding quotations	198 100	1	Yes	√	√

5. **Impact:** Incurrence of irregular expenditure

6. Where there is no clear criteria on the work allocation, the process is subject to abuse as certain service providers may receive work repeatedly, also others may be unjustly favoured and receive contracts of high values while others receive contracts of lower values without any justification.

## Contract management

7. Supply chain management legislation and policy prescribe the manner in which contracts should be managed to ensure that payments are only made for goods and services that have been received and that have been delivered at the right quality. We identified non-compliance with these requirements.

### Findings on contract management

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
The project has been delayed by over 17 months from the original planned completion date to the day of site visit – Paving of Maseanoka to Cell C Pharare internal streets	R54 096 239	1	No	√	√
Material on site could not be observed (Culverts paid for not installed or constructed ) – Paving of Maseanoka to Cell C Pharare internal streets	R54 096 239	1	No	√	√
Incorrect contract amount for ARMS consultants Contract amount per bid document : R4 464 600 Contract amount per SLA : R414 240	R4 464 600	1	No	N/A	N/A
Contracts with contract periods that does not agree to the appointment letters  Majority of the long term contracts have a duration of 3 month as per the SLA	Various	5	No	N/A	N/A

8. **Impact:** Inadequate contract management may lead contractual disputes in the future

## Conflict of interest

9. We assessed the interests of officials and councillors and other persons in service of the state in the suppliers to the municipality. The supply chain management regulations prohibit awards to suppliers where there could be conflict of interest. We identified such interests.

### Interests identified

Type of interest	Value of awards made	Instances	Prior years reported	
			2021-22	2020-21
Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions	R589 641.28	2	√	√

10. We also assessed the interests of close family members of officials and councillors in the suppliers to the municipality. Procurement legislation does not prohibit awards to such suppliers, but we performed testing to ensure that conflicts of interest did not result in contracts being unfairly awarded or in unfavourable price quotations being accepted, and to share the information with management as potential risks. Employees and councillors disclosed the interest.

### Internal control and recommendations

11. We identified significant internal control deficiencies, which caused the weaknesses in the procurement and contract management processes as reported.

#### Significant internal control deficiencies – procurement and contract management

Internal control deficiency	Prior years reported	
	2021-22	2020-21
The Accounting officer did not ensure that bids are advertised for a minimum required number of days as stipulated in the SCM regulations.	[√]	[√]
The accounting officer did not exercise an oversight responsibility regarding the prevention of incurrence of irregular expenditure.	[√]	[√]
The accounting officer did not develop internal controls which will ensure competition within panels.	[√]	[√]
The municipality did not have sufficient monitoring controls to ensure that deviations approved meet the definition of urgency	[√]	[√]

12. We made recommendations to improve the procurement and contract management process to the Accounting officer. Some of these recommendations were also made in prior years.
13. A summary of the key recommendations and the responses received follows.

#### Key recommendations and responses – procurement and contract management

Recommendation and management response	Year originally recommended	Status of implementation
<b>Advertising of bids</b> <b>Recommendation:</b> The accounting officer must ensure that municipality complies with SCM regulation when inviting potential bidders.	2020/21	In progress

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Response:</b> Agree with the findings, management will ensure that all bids are advertised, whether for panel or single bids are advertised for the minimum days stipulated in the regulation, and on such a pool queried be advertised for minimum days within the pool to avoid irregularities.</p>		
<p><b>Preference point system not used to allocate work to suppliers on the panel</b></p> <ul style="list-style-type: none"> <li>• <b>Recommendation:</b> A proper criteria for work allocation must be established to ensure fair allocation of work</li> </ul> <p><b>Response:</b> Disagree with the findings.</p> <ul style="list-style-type: none"> <li>• The requirements stipulated in the advertisement where the contractors qualify along the requirements mentioned to be listed in the pool for specific commodities that arise as a need and the functionality applies on the commodities that is not having standard rates on it.</li> <li>• The allocation is done on the service providers that qualifies the need that arises on the request from sector department for the contractor who qualifies according to the tender document submitted based on the experience and other requirements might be needed to execute the service identified.</li> <li>• The allocation for electrification of household is based on the rates per connection that is standard rate for all contractors as agreed with DMRE.</li> <li>• The allocation on the tarred road is done on the bill of quantity that is estimated on the description of works when bidding and selection is done along the needs that occur that time by submission from sector departments based on experienced listed contractors on the panel.</li> <li>• Management also ensures that for the duration of the panel is done and, work is spread across the bidders on the panel.</li> </ul> <p>In the allocation management ensures that the rates which were agreed by the bidder on the bid submission are the same rates which are used to execute the identified scope of work.</p>	2022-23	In progress

Recommendation and management response	Year originally recommended	Status of implementation
<p><b>Deviations</b></p> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>• The accounting officer must disclose the expenditure incurred as irregular expenditure and also ensure that irregular expenditure is avoided in the future.</li> <li>• The accounting officer must ensure that municipality complies with SCM regulation when procuring goods and services.</li> </ul> <p><b>Response:</b> Management disagrees with the finding.</p> <ul style="list-style-type: none"> <li>• The process for procurement was done through the transversal contract and the follow-ups to the appointed service providers on the contract was done, ending up terminating them as they were struggling to deliver the fleet procured.</li> <li>• The deviation was done to procure through direct purchase based on the reasons stated in the memo that was signed off by the Municipal manager.</li> </ul>	2020/21	In progress

Recommendation and management response	Year originally recommended	Status of implementation
<ul style="list-style-type: none"> <li>The budget for the cars was budgeted for the financial year as for the difference of the R100 000,00 was disclosed as the irregular expenditure register as it exceeded their given threshold for Vehicles used for political office -bearers.</li> <li>Excessive cost incurred for hiring vehicles from AVIS. The cost incurred from July 2022 to February 2023 amounted to R595'512. If the municipality had continued hiring vehicles from Car Rental Services, the cost incurred would have been above R1million</li> </ul>		

# ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL




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

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

- Movement from the previous year is shown as follows:

	Improvement		Regression		Unchanged
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## Internal control assessment

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
<b>Leadership</b>						
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity						
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
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						



	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
<b>Financial and performance management</b>	▲		▲		▶	
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
Implement controls over daily and monthly processing and reconciling of transactions						
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
Review and monitor compliance with applicable legislation						
Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and service continuity						
<b>Governance</b>	▶		▲		▶	
Implement appropriate risk management activities to ensure that regular risk assessments, including considering information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

# ANNEXURE D: SUMMARY OF DETAILED AUDIT FINDINGS

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

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

**Summary of audit findings**

Finding	Rating	Classification				Number of times reported in previous two years	
		Financial	Performance	Compliance	Internal control		Delivery
<b>Will be included in the details management report</b>							
[Heading of finding]	[Colour]	[v]	[v]	[v]	[v]	[v]	[Number]



# ANNEXURE E: UPCOMING CHANGES

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

## Upcoming changes

Description	Audit outcome area	Effective date
GRAP 1 on Presentation of Financial Statements (revised)	Overall AFS	Not yet effective
GRAP 25 on Employee benefits (revised)	Employee benefits	Not yet effective
GRAP 104 on Financial instruments (revised) * *GRAP 104 (revised) was substantially changed. As a result, an entity may not use the revised version to formulate accounting policies alone. GRAP 104 (revised) must be adopted and applied in totality, partial adoption or application is not permitted.	Financial instruments	Not yet effective

# ANNEXURE F: MATERIAL IRREGULARITIES

This annexure lists the material irregularities (MIs) that will be included in the auditor's report.

Notified	Type	MI description	Status description	
			Actions taken	Actions planned / in progress
22 November 2022	Financial loss	<p>Payment of interest to Eskom</p> <p><b>Irregularity:</b> Non-compliance</p> <p><b>Impact:</b> Financial loss – R5 413 503</p>	<ul style="list-style-type: none"> <li>Municipality embarked on customer data cleansing exercise to ensure billing integrity</li> <li>Improved billing accuracy by investigating debtors by type and reclassify debtors that are incorrectly identified on the billing system</li> <li>Managing the revenue environment through regular reports and updates on the income received per area and service for the monitoring of revenue</li> <li>Extensive review of the budget to ensure that there are no unfunded budget items which affect the cash flow of the municipality</li> <li>Municipality is paying Eskom on time and has reduced the interest from R5 413 503 to R1 063 528 in the 2022-23 financial year and continues to work towards the elimination of the interest payments.</li> </ul>	<p>I will follow up on the implementation of the planned actions during my next audit.</p>

Notified	Type	MI description	Status description	
			Actions taken	Actions planned / in progress
24 March 2023	Financial loss	Payment to replace damaged parts of the road caused by delays <b>Irregularity:</b> Non-compliance <b>Impact:</b> Financial loss – R2 368 771.73	<ul style="list-style-type: none"> <li>The contractor was terminated and replaced with a new contractor who has managed to complete the project</li> <li>The PMU Manager was dismissed</li> <li>The municipality is now conducting a risk assessment process prior to awarding new bids</li> <li>The accounting officer referred the matter for further investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.</li> </ul>	Matter is currently under investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.
24 March 2023	Financial loss	Duplicate payments to consultants <b>Irregularity:</b> Non-compliance <b>Impact:</b> Financial loss – R2 222 291.7	<ul style="list-style-type: none"> <li>The contractor was terminated and replaced with a new contractor who has managed to complete the project</li> <li>The PMU Manager was dismissed</li> <li>The municipality is now conducting a risk assessment process prior to awarding new bids</li> <li>The accounting officer referred the matter for further investigation.</li> </ul>	Matter is currently under investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.
<b>Further AGSA actions</b>				
24 March 2023	Financial loss	Payment of interest to Eskom <b>Irregularity:</b> Non-compliance <b>Impact:</b> Financial loss – R5 413 503		<b>AGSA action:</b> Issued letter to the accounting officer confirming that the accounting officer is taking appropriate action
27 November 2023	Financial loss	Duplicate payments to consultants		<b>AGSA action:</b> Further action not yet determined

Notified	Type	MI description	Status description	
			Actions taken	Actions planned / in progress
		<p><b>Irregularity:</b> Non-compliance  <b>Impact:</b> Financial loss – R2 222 291.7</p>	Matter is currently under investigation	
27 November 2023	Financial loss	<p>Payment to replace damaged parts of the road caused by delays  <b>Irregularity:</b> Non-compliance  <b>Impact:</b> Financial loss – R2 368 771.73</p>	<p><b>AGSA action:</b> Further action not yet determined  Matter is currently under investigation</p>	