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AUDITOR-GENERAL
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Auditing to build public confidence

Final management report

Greater Tzaneen Municipality

30 June 2021

Communicated to the accounting officer on: 11 December 2021





Management report

Greater Tzaneen Municipality

30 June 2021

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Management report to the accounting officer on the audit of the greater Tzaneen Municipality for the year ended 30 June 2021

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer. The report does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2021
2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2021. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected development objectives, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act 25 of 2004 (PAA).









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

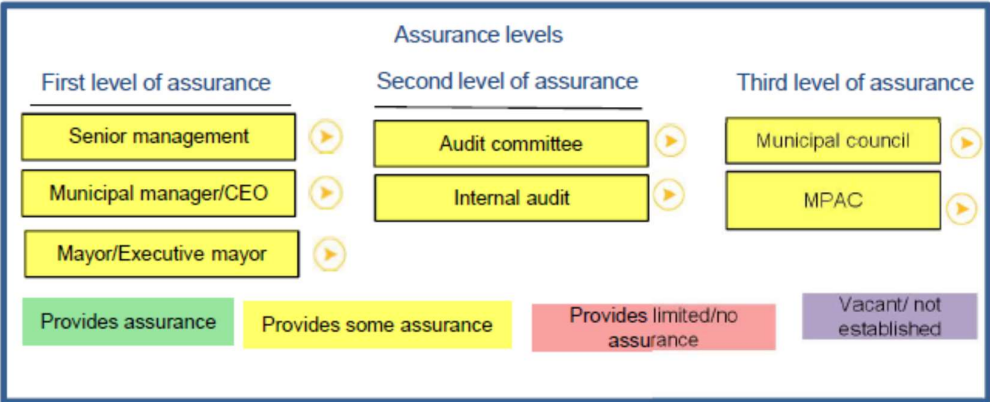
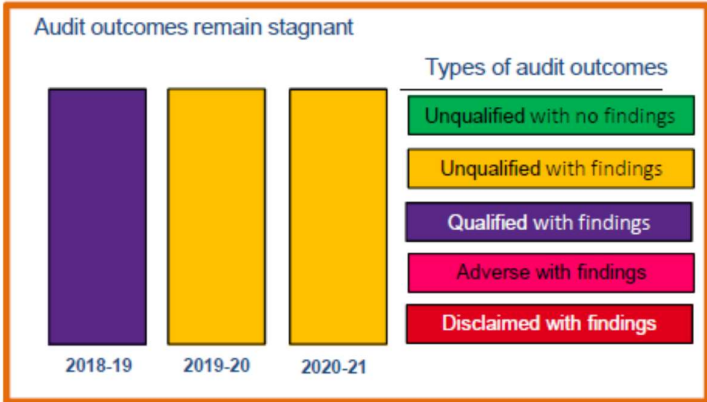
4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information, as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s). It may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.

7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes, with the focus on the following:

- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- [Root causes to be addressed / Best practices that should be maintained]

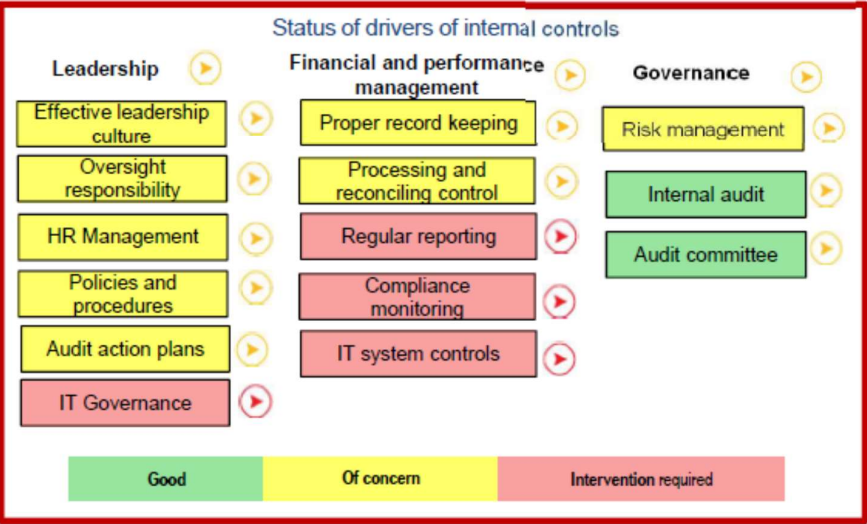
Movement from the previous year is depicted as follows:

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



Root causes should be addressed

- Inadequate review of supporting schedule/ records to the financial statements as incorrect supporting schedules were submitted and had to be re-submitted
- Inadequate review of the financial statements and performance information as evidenced by the significant adjustments processed.
- Inadequate oversight over that action plan to avoid recurrence.
- Inadequate monitoring of compliance as compliance issues that lead to irregular expenditure are recurring



OVERALL MESSAGE

8. Although the audit opinion was unqualified, it was subject to processing significant adjustments and material corrections to the annual financial statements
9. The review of annual financial statements to eliminate misstatements and ensure proper performance information reporting was inadequate
10. Supporting schedules and supporting information was not properly reviewed and had to be materially corrected
11. There was no improvement in IT environment as evidenced by the number of repeat findings raised
12. There was inadequate review of the annual performance report and material misstatements that could not be corrected was once again reported on.
13. Improvements in audit outcomes were reliant mostly on material adjustments of financial statements
14. Compliance monitoring remains a challenge as evidenced by non-compliance matters raised.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Key stakeholder	Purpose of interaction	Number of interactions
Municipal public accounts committee	Fraud discussion and prior year audit outcomes	2
Mayor	Fraud discussions and understanding the municipality	1
Acting Municipal Manager and directors	Fraud discussions, audit progress, other matters	12
Audit committee	Fraud discussions, present the engagement letter and the audit strategy	2

16. At these interactions, we shared/highlighted the following key matters affecting audit outcomes and the auditee:
 - Present the audit strategy and engagement letter
 - Knowledge of fraud and understanding of the municipality

- Audit findings
 - Audit progress
 - Submission of requested information and submission of responses
 - Feedback on prior year outcomes
17. All stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers

SECTION 2: Matters relating to the auditor's report

Audit of the financial statements

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

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
Material misstatements corrected				
Non-current assets				
Property, plant and equipment	Incorrect classification of PPE	No	1 040 588	0
Property, plant and equipment	Asset additions recorded in an incorrect financial year	Yes	0	1 547 876
Current assets				
Receivables : from exchange transactions	Incorrect impairment provision and completeness of traffic fines	No	47 988 793	
Receivables from exchange transaction	Incorrect impairment provision	No	8 670 849	
Current liabilities				
Payable from exchange transactions	Understatement of payables and understatement payments received in advance	No	13 357 170	0

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
VAT Payable	Misstatement of VAT payables	No	669 525	0
Unspent conditional grants(Payable)	Misstatement of unspent conditional grants	No	1 547 856	0
Revenue				
Agency services	Misstatement of Agency services	No	3 982 182	0
Interest revenue	Misstatement of interest	No	242 552	0
Other income	Misstatement of impairment provision	No	27 525 370	0
Unspent conditional grants(Revenue)	Misstatement of unspent conditional grants	No	1 547 856	0
Fines, penalties and forfeits	Misstatement of traffic fines	No	2 053 450	0
Expenditure				
Inventory consumed	Incorrect classification of repairs and maintenance as inventory consumed	Yes	34 736 924	24 046 360
Debt impairment	Incorrect impairment provision	No	16 430 945	0
General expenses	Misstatement of general expenses	No	2 532 338	0
Employee cost	Incorrect classification of standby allowance	No	988 042	
Disclosure				
Commitments	Understatement of commitments	No	28 970 986	0

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
Fruitless expenditure	Understatement of fruitless expenditure	No	1 953 292	0
Irregular expenditure	Irregular appointment of service providers	No	2 532 337	0
Contingent liabilities	Completeness of contingent liability	Yes	1 781 500	281 500
Contingent assets	Open cases from prior year not recorded in the financial statements as contingent assets – only new cases were recorded	No	4 350 325	0
Agency services	Note was named alien clearing operational	No	0	0
Agency services	Difference between the amount disclosed and the amount in the narration	No	1 269 484	0
Interest revenue	Difference between the amount disclosed and the amount in the narration	No	836 867	0
Property, plant and equipment	Non-disclosure slow moving projects – GRAP 17	Yes	37 792 558	28 185 288
Donations received	Donations received were duplicated on note 26 and note 60	No	0	0
Accounting policies	Municipality included policy on bequeathed assets and there are no assets that have been bequeathed	No	0	0
Remuneration of councillors	Note 29 and note 30 contained same information relating to remuneration of councillors	No	0	0
Segment reporting	Segment reporting required by GRAP 18 not included in the financial statements	No	0	0

Emphasis of matter paragraphs

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

Restatement of corresponding figures

20. As disclosed in note 62 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021

Litigations and claims

21. 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 the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Material losses – electricity

22. As disclosed in note 51 to the financial statements, material electricity losses of R47 416 347 (2020: R83 092 648) were incurred, which represents 11.34% (2020: 20.91%) of total electricity purchased. Electrical losses were due to metering inaccuracies, system operations, theft and vandalism.

Material impairments – trade debtors

23. As disclosed in note 60 to the financial statements, material loss of R2 587 061 was incurred as a result of impairment of trade debtors

Other matter paragraphs

I draw attention to the matters below. My opinion is not modified in respect of these matters.


24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Audit of the annual performance report

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

Introduction and scope

26. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected objective presented in the Greater Tzaneen Municipality's annual performance report for the year ended 30 June 2021

Development objectives	Pages in annual performance report	Opinion	Movement
KPA 02: Basic Service Delivery	x – x	Qualified	

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

KPA 02: Basic Service Delivery

Qualified opinion

29. In our opinion, the reported performance information for KPA 02: Basic service delivery is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Basis for qualified opinion

Reported indicator and/or target were not consistent or complete when compared with planned indicator and/or target

Number of kilometres of municipal gravel roads graded

30. The reported indicator: Number of kilometres of municipal gravel roads and target of 6592 did not agree with the planned indicator: Number of kilometres of municipal gravel roads graded and target of 4498 as per the approved integrated development plan/ service delivery agreement.

% of electrification at Mavele (240 Units)

31. The reported indicator: % of electrification at Mavele (240 Units) and target of 100% did not agree with the planned indicator: % of electrification at Mavele (phase 4) and target of 100% as per the approved integrated development plan/ service delivery agreement.

Performance indicator was not well-defined and/or targets were not specific, and/or measurable.

Number of kilometres of municipal gravel roads graded

32. The planned target of 4498 for this indicator was not specific in clearly identifying the nature and required level of performance and/or measurability

Other matters

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

Achievement of planned targets

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

Adjustment of material misstatements

35. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of development objective: Basic Service Delivery. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

Responsibilities of the accounting officer for the reported performance information

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

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

37. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected development objectives presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or

error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

38. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the municipality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
39. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

Audit of compliance with legislation

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

Annual financial statements, performance and annual report

41. 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, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

42. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management

43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R6 166 778, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Fruitless expenditure was incurred due to late payment of a service provider, late submission of tax returns, damages to capital project and fuel and admin expenditure on damaged and written off vehicles.
44. Reasonable steps were not taken to prevent irregular expenditure amounting to R29 565 272 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 and also appointed service providers who did not submit MBD declarations

45. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R15 083 719, 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 unfunded accrued liability and periodic costs of post-employment medical aid subsidy and long service awards

Consequence management

46. 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
47. 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

Procurement and contract management

48. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.
49. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). (Contractor on a panel was allocated work without any competitive process, as such the appointment/allocation was a deviation that did not follow the deviation process)
50. The preference point system was not applied on some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000).
51. 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 MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).
52. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No 5 of 2000).

Other information

53. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report



and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.

54. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.
55. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal controls

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

Leadership

Effective leadership culture

57. Consequence management was not effective, as the council did not investigate instances of irregular, fruitless, and wasteful expenditure to determine whether any person was liable for the expenditure.

Oversight responsibility

58. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of planning, implementation and reporting.
59. As the accounting officer did not adequately review the annual performance report before submitting it for auditing, the following matters were not identified and corrected:
 - Numerous usefulness and reliability misstatements relating to the reported performance achievements for the selected Key Performance Areas.
60. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a key performance area level and for purposes of taking corrective action.

Human resource management

61. The municipality did not have systems in place to ensure that overtime paid to employees comply with the overtime policy as approved by council



62. The municipality did not have systems in place to ensure that acting allowance paid to employees comply with the acting allowance policy as approved by council

Policies and procedures

63. The internal policies and procedures of the municipality did not adequately address the processes pertaining to the planning, managing and reporting of performance information at an overall performance management level.
64. Policies of the municipality were not reviewed annually and some policies are not effective or applied

Action plans to address internal control deficiencies

65. The municipality developed an action plan to address external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner as there was a recurrence of similar matters as reported in the previous financial year which required adjustments.

Information technology governance framework

66. Formal processes relating to return on investments and benefits realisation was not been documented due to lack of knowledge and skills.
67. The requirement to monitor the service provider's performance on SLA between the municipality and Sebata for Inzalo EMS system was not catered for in the SLA as a result the monitoring of the service provider was not performed regularly, this was due to non-compliance to the ICT Service Provider Management Framework.
68. The Assets management framework was inadequately designed as there was no requirement for removing/deleting sensitive data or/and data destruction protocol on IT equipment prior disposing the assets, this was due to management oversight during the development of the framework.

Financial and performance management

Proper record keeping

69. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information
70. Supporting schedules submitted to support financial statements did not agree with the reported amounts, requiring resubmission of information which required re-audit

Daily and monthly processing and reconciling of transactions

71. Management did not implement the following daily and monthly controls designed for the municipality's business processes:
- Payments to creditors were not made within 30 days resulting in fruitless and wasteful expenditure
 - Proper calculation of debt impairment was incorrectly performed and required significant adjustments
 - Correct supporting schedules that agreed with the financial statements.
 - Proper classification of transactions in the financial statements
 - Proper recording of traffic revenue
 - Proper management of fleet cards to ensure that fuel cards are used only by vehicles that are operational.

Regular, accurate and complete financial and performance reports

72. As indicated in section 2.1, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.
73. As indicated in section 2.3, the annual performance report contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the performance information requirements.

Compliance monitoring

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

Information technology systems

75. There was a slight improvement at the municipality as controls were now designed and formalised by the municipal council, but there were still challenges with implementation of the formalised processes, and the following key weaknesses noted below:
- The financial systems implemented by the municipality had insufficient audit trail functionality to log the system administrators' activities on systems, as a result the user access management controls such as password reset, profile amendment, user creations were not tested and this was due to system limitations.
 - Furthermore the reviews of user access rights and administrators activities on financial systems were inadequately implemented as the reviews were not performed as per the approved user access management policy, this was due to lack of segregation of duties.

- There were contradictions between the policies and procedures such as disaster recovery plan, change management, firewall, security policy that were developed and approved by the municipal council and the actual processes that followed by the municipality, this contradictions were due to oversight from management when developing the policies and procedure or the policies were not reviewed and updated to reflect the changes in the municipality environment
- The Inzalo system was implemented during the 2020/21 financial year, however the project documentation such project management framework and policy, project stakeholder plan, project communication plan, data conversion and migration plan were inadequately designed as they were either missing key controls or not documented, management did not see the importance of having the project management framework as the municipality took guidance from the MSCOA circulars and MFMA which did not make reference to the project management framework
- The initial timelines as outlined on the project plan were found to be unreasonable and unattainable, as a result the timelines were reviewed throughout the duration of the project, this was due to the ongoing changes of chart of account and the required changes to the system to accommodate the said changes in the chart of account.
- Municipality did not comply with mSCOA Circular 1 and this non-compliance was due to the ongoing changes of chart of account and the required changes to the system to accommodate the said changes in the chart of account.

Governance

Risk management activities and risk strategy

76. The municipality conducted a risk assessment, as required by the MFMA. However, the following control deficiencies were identified
- Inadequate review of the financial statements resulting in material misstatements that required corrections
 - Inadequate review of the annual performance report resulting in material misstatements
 - Late payment of suppliers which resulted in the incurrence of fruitless expenditure
 - Improper fleet management resulting in fruitless expenditure
 - Appointment of service providers who did not submit the relevant MBD 4 declarations

Internal audit

77. The internal audit unit performs reviews on internal controls and provides recommendations, however the internal controls are not implemented by management as evidenced by the number of non-compliance findings issued.

Audit committee

78. The audit committee was effective and performed the oversight function effectively as required. Recommendations for corrective action were not properly implemented by management and as a result financial statements contained material misstatements which required material adjustments

Summary

79. The matters above, as they relate to the basis for the unqualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
80. 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.
81. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report.
82. The municipality did not adequately review and monitor compliance with applicable procurement legislation and the MFMA
83. There was inadequate review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected timeously.
84. 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.
85. The municipality did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.
86. Supply chain management processes were inadequate resulting in irregular expenditure.

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

Assessment of assurance providers

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

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

First level of assurance

Senior management: **provides some assurance**

- Although senior management engaged with the audit team several times to identify and resolve matters which affect audit outcomes, there was inadequate monitoring of key control implementation which resulted in the non-compliance findings and material misstatements in the annual financial statements that required adjustments and corrections after the audit process and material misstatements in the annual performance report.

Accounting officer: **provides some assurance**

- 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 non-compliance with policies and procedures being identified

Mayor: **provides some assurance**

- The interactions with the mayor provided some assurance on addressing audit matters raised and ensure improvement of audit outcomes

Second level of assurance

Internal audit unit: **provides some assurance**

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The

internal audit unit must also perform such other duties as may be assigned by the accounting officer.

- The internal audit unit had an effective methodology and adhered to standards on internal auditing, internal audit work was undertaken with due professional care.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- Audit committee reviewed annual financial statements, compliance with legislation and performance information and performed as mandated, however the resolutions of the audit committee were not implemented immediately and effectively and this contributed towards the non-compliance issues identified and reported on and the material misstatements noted.

Third level of assurance

Municipal council: provides some assurance

- Municipal council made some interventions to address prior years' audit report findings. However, controls for the prevention of unauthorised, irregular, fruitless, and wasteful expenditure were not implemented.
- Council also appointed the financial misconduct board to investigate and address matters relating to irregular and fruitless expenditure

Municipal public account committee (MPAC): provides some assurance

- The committee investigated the fruitless and irregular expenditure, however the investigations were not completed to warrant condonement or write off of irregular and fruitless expenditure

Status of implementing commitments and recommendations

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

No.	Commitment	Made by	Date	Origin of commitment	Status
1	The Accounting Officer will ensure that the service provider completes and submits the relevant MBD 4 documents to confirm declaration of interest.	Accounting officer	30/06/2021	Audit Report	In progress
2	The Accounting Officer will improve the control environment for the prevention and detection of non-compliance with laws and regulations to ensure that the SCM prescripts are fully complied with during the procurement process.	Accounting officer	30/06/2021	Audit Report	In progress
3	The Accounting Officer will monitor the overdue accounts and ensure that payments are made timeously to prevent fruitless and wasteful expenditure because of the interest charged on overdue accounts.	Accounting officer	30/06/2022	Audit Report	In progress
4	The Accounting Officer will monitor the developed action plan to ensure that all reported matters are adequately and timeously addressed, this exercise will ensure that repetition of audit findings is curbed and this will lead to improved audit outcomes.	Accounting officer	14/12/2020	Management Report	In Progress
5	Management will ensure that all contracts of the municipality are recorded in the contract register and the contract register is complete to ensure that all municipal contracts can be accounted for.	Accounting officer	31/05/2021	Management Report	In progress
6	Management will effectively monitor the disputes between the municipality and Eskom to ensure that differences are resolved within a reasonable time to avoiding overpayment of invoices and overstatement of expenditure in the financial statements	Accounting officer	2021/06/30	Management Report	In Progress

7	Management will ensure that all payments are made within 30 days of receipt of invoice in line with section 65(2)(e) of the MFMA	Accounting officer	30/06/2021	Management Report	In progress
8	Management will ensure that distribution losses are managed and curbed to avoid excessive losses.	Accounting officer	2021/06/30	Management Report	In progress
9	Management will 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 and Pre-approval for all overtime to be worked must be granted before employees commence with the over time to ensure compliance with the overtime policy	Accounting officer	01/05/2021	Management Report	In Progress
10	Management will ensure that all person acting in higher positions are duly appointed and appointment letters are submitted when requested for audit inspection	Accounting officer	22/03/2021	Management Report	In progress
11	The accountant will ensure that they collect all funds due timeously and banked daily and large sums of money received must be deposited into the bank account on the same day that payment is received.	Accounting officer	26/03/2021	Management Report	In progress
12	Management will ensure that the new application for indigent should be verified and approved by the ward councillor and make sure that the information on the application and supporting documents have been verified to be true and conforming to the registration criteria.	Accounting officer	29/03/2021	Management Report	In progress

13	Regular reviews of the manual SDBIP with the system and the quarterly reports	Accounting officer	30/06/2021	Management Report	In progress
14	Review and reconciliation of the quarterly and annual performance report with evidence. Performance report to be continuously reviewed by management and internal audit for accuracy and completeness of the reported information	Accounting officer	31/08/2021	Management Report	In progress

- Management accepted 54 (44 finance and 14 ISA) audit recommendations in the previous year on matters included in the auditor’s report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- Management implemented 24 recommendations and 30 recommendations are still being implemented.
- Details on the status of implementing the previous year’s recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

Financial viability

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

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2021	As at 30 June 2020
Expenditure management			
1.1	Creditor-payment period	97 Days	97 Days
Revenue management			

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2021	As at 30 June 2020
2.1	Debt-collection period (after impairment)	312 Days	239 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	24.3%	30.3%
	<ul style="list-style-type: none"> • Amount of debt-impairment provision • Amount of accounts receivable 	R 201 303 624 R 828 634 375	R 219 131 124 R 723 918 726
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	<ul style="list-style-type: none"> • Amount of the surplus / (deficit) for the year 	R 229 135 156	R 212 342 959
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	<ul style="list-style-type: none"> • Amount of the net current assets / (liability) position 	R 555 558 187	R 340 416 880
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	<ul style="list-style-type: none"> • Amount of the net asset / (liability) position 	R 2 069 143 961	R 1 840 425 345
Cash management			
4.1	The year-end bank balance was in overdraft	No	No
	<ul style="list-style-type: none"> • Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) 	R 104 790 238	R 70 215 767
4.2	Net cash flows for the year from operating activities were negative	No	No
	<ul style="list-style-type: none"> • Amount of net cash in / (out)flows for the year from operating activities 	R 289 405 481	R 194 417 504
4.3	Creditors as a percentage of cash and cash equivalents	168%	238%
	<ul style="list-style-type: none"> • Amount of creditors (accounts payable) • Amount of cash and cash equivalents / (bank overdraft) at year-end 	R 176 021 101 R 104 790 238	R 165 134 142 R 70 215 767
	<ul style="list-style-type: none"> • Amount of current liabilities • Amount of next year's budgeted income ** 	R 350 344 064 R 1 478 075 365	R 336 188 518 R1 643 317 134
Overall assessment			
Overall, the financial viability is assessed as:		Yellow (of concern)	Yellow (of concern)

High-level comments

92. The financial health of the municipality has improved although there are still indicators that are of concern for the following reasons:

- The debt collection period is greater than 90 days indicating that the municipality's debtors do not settle debts timeously to improve the cash flow of the municipality.
- Current liabilities at year end exceed available cash and cash equivalent by 168%
- Creditors payment period has not changed from prior year to current year at 97 days
- Cash on hand has increased from prior year but creditors payment period is still high

Procurement and contract management

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

Irregular expenditure

94. R29 565 272 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 100% of this irregular expenditure was identified during the audit process and not detected by the Municipality's monitoring processes. The root cause of the lack of effective prevention and detection is inadequate monitoring of compliance requirements.

Awards to persons in the service of the state

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

96. The findings were as follows:

Nature of finding	Number and value of awards made	Number and positions of officials/councillors identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor or did not declare interest	Official/councillor was involved in awarding the contract/accepting the quotation
Awards to persons in the service of other state institutions	95 942	1	1	1	1		

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

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

The findings were as follows:

- Close family members of three officials and councillors had an interest in awards made to the value of R412 532. None of these officials and councillors were involved in the procurement process for the award.
- Two of the awards to close family members, amounting to R 88 532 were not disclosed in the financial statements.

Procurement processes

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

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	40	432 384 080	14	2 769 781	26	429 578 272
Expenditure incurred on selected awards – current year		141 809 921		2 769 781		139 040 140
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards where non-compliance was identified	15	55 863 789	13	1 767 495	2	54 096 294
Irregular expenditure identified	15	55 863 789	13	1 188 680	2	1 343 656
Instances of irregular expenditure where goods/services were not received	0	0	0	0	0	0

Procurement processes – general

- Two awards to the value of R155 237 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- One contracts to the value of R622 720 were procured without inviting competitive bids, and the deviations were not approved.
- Eight quotations to the value of R1 081 799 were awarded to bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state.
- Three quotations to the value of R525 988 were awarded without applying the preference points system.
- One contract was awarded to a bidder who had not submitted a declaration as to whether they were employed by the state or connected to any person employed by the state.

Internal control deficiencies

99. The municipality did not have sufficient monitoring controls to ensure the adherence to the internal policies and procedures for procurement and supply chain management.
100. The accounting officer did not review and monitor compliance with applicable laws and regulations to ensure that service providers submits the MBD 4 declarations.

Fraud and consequence management

101. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and for issuing an auditor’s report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
102. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality’s management of consequences. The significant findings are provided below:

Ongoing investigations

103. A total of two investigations into allegations relating to financial misconduct were ongoing at year-end. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations at year-end	2
<ul style="list-style-type: none"> Number of fraud-related investigations 	2
Number of investigations exceeding 3 months	2

Failure to deal properly with allegations reported in the previous year

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

Irregular/ fruitless and wasteful expenditure

Finding	Value R
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	80 597 040
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	12 679 691

105. Unauthorised expenditure disclosed in note 44 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised expenditure and losses incurred must be recovered from the person liable.

106. Irregular expenditure disclosed in note 45 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure and losses incurred must be recovered from the person liable.

107. Fruitless and wasteful expenditure disclosed in note 46 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

Conditional grants

108. For the financial year under review, the audit included an assessment of the effectiveness of the municipality’s use of the following conditional grants received:

- Municipal Infrastructure Grant

109. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants for the projects. The audit findings raised on each project are reported in the table below.

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	
Name of grant	MIG	MIG	
Project/initiative funded by the grant	<i>Paving Nelson Ramodike High School Access Road</i>	<i>Matapa to Leseka Access Road to School</i>	
Audit findings			
Planned completion target for the selected project were not achieved			
Project stage of completion was not assessed			
Project stage of completion assessed by the municipality is incorrect			
Findings on the procurement of goods and services for the project			
Misstatements in the accounting for the expenditure relating to the project			
Payments were made for goods/services not received			
Misstatements in the accounting of funds used through implementing agents			
Process for appointing implementing agents did not comply with legislation			
Implementing agents failed to comply with SCM prescripts when spending the funds			

Other value-adding work

The following two (2) infrastructure roads projects were selected:

- Nelson Ramodike High School Access Road
- Upgrading of Matapa to Leseka Access Road

The objective of the audit covered the following:



- Planning,
- Project implementation,
- Project management, and
- Commissioning (where applicable).

110. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected development objectives in this report. However, they may have an impact on the audit opinion in future.

111. Summary of observations of key messages resulting from other value-adding activities:

Nelson Ramodike High School Access Road

112. The project within the revised timelines and was late by 21 calendar days. There was no evidence that the municipality imposed penalties on the contractor for late completion. As a result, the municipality failed to recover penalties amounting to R115 500.

113. The municipality approved 101 days with cost implications for national lockdown and inclement weather. The cost covered items for engineer’s supervision and specialized services which were not supposed to be claimed as no construction works were carried out.

114. The municipality incurred fruitless and wasteful expenditure in relation to extension of time number 1 amounting to R297 500.

115. The controls in managing the extension of time with cost implications was not consistent with the application by the contractor, recommendation by the consultants and approval by the municipality.

Upgrading of Matapa to Leseka Access Road

116. The municipality failed to perform oversight over the consultant and reviewed the designs before approval and issuing for construction. As a result, the consultant failed to identify obstacles during surveying and design that affected the constructed road.

SECTION 5: Using the work of internal auditors

117. The auditing standards allow external auditors the option to use the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

- The following report were used for risk identification

Internal audit reports
HR Management Audit
Contract Management
Division of revenue act “DORA”
IDP, Budget and SDBIP
POPI Audit
Waste Management
Asset Management



Internal audit reports
Local economic development
Disaster management
Expenditure
OHS
Safety and security management
Traffic fines follow up
Provision of services at acquired land
Follow up fleet management
Supply Chain Management
Follow up for revenue management
MSCOA Audit

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

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

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

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

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

Subsequent events

119. The municipal manager resigned after financial year end

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

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

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

121. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected [development objectives in this report. However, they may have an impact on the audit opinion in future.


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


SECTION 7: Entities controlled by the municipality


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

Name of entity	Audit outcome			Significant deficiencies in internal control		
	Financial statement opinion	Findings on the	Findings on compliance	Leadership	Financial and performance management	Governance

		performance report		Assessment	Movement	Assessment	Movement	Assessment	Movement
Greater Tzaneen Development Agency	Unqualified	Unqualified	Qualified		➤		➤		➤

 Improved

 Unchanged

 Regressed

Good

Of concern

Intervention required

SECTION 8: Ratings of detailed audit findings

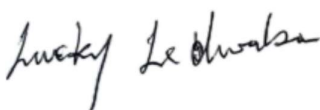
124. For the purposes of this report, the detailed audit findings included in annexures A to B have been classified as follows:

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

SECTION 9: Conclusion

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

Yours sincerely



Lucky Ledwaba

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13 December 2021

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Distribution:

Audit committee

Head of internal audit unit

SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Refer to annexures										[In progress / Not addressed]



Detailed audit findings

Annexure A: Matters affecting the auditor's report

Annexure B: Other important matters

Annexure C: Performance management and reporting framework

The performance management and reporting framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - Municipal Finance Management Act 56 of 2003 (MFMA)
 - Municipal Systems Act 32 of 2000 (MSA)
 - Regulations for planning and performance management, 2001, issued in terms of the MSA.
 - Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for Managing Programme Performance Information (FMPPi), issued by the National Treasury. This framework is applicable to all spheres of government.
- Circulars and guidance issued by the National Treasury and the Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

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

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Consistency: , Performance indicators and targets are consistent between planning and reporting documents.		
1. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound		
6. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2	
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.2	
8. A target is specific when the nature and required level of performance of the target are clearly identifiable.	FMPPI chapter 3.3	
9. A target is measurable when the required performance can be measured.	FMPPI chapter 3.3	
10. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.3	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives		
11. The performance indicator and target relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2	
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance		



Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
12. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
13. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
14. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
<i>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.</i>		
15. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
16. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.	FMPPI chapter 5	FMPPI chapter 5
17. All actual performance that should have been recorded is included in the reported performance information.		



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

1. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected development priorities.
2. We are independent of the Municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of ethics for professional accountants (including International Independence Standards)* (IESBA code), as well as the ethical requirements relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

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

Reported performance information

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




Communication with those charged with governance

5. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
6. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.




Annexure F: Assessment of internal controls










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

The internal controls were assessed as follows:


























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

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

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	☹️	☹️	☹️	☹️	☹️	☹️
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹️	☹️	☹️	☹️	☹️	☹️
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	☹️	☹️	☹️	☹️	☹️	☹️
• Develop and monitor the implementation of action plans to address internal control deficiencies	☹️	☹️	☹️	☹️	☹️	☹️
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	☹️	☹️	☹️	☹️		
Financial and performance management						
Overall movement from previous assessment	↔️		↔️		↔️	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	☹️	☹️	☹️	☹️	☹️	☹️
• Implement controls over daily and monthly processing and reconciling transactions	☹️	☹️	☹️	☹️	☹️	☹️
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	☹️	☹️	☹️	☹️	☹️	☹️

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
Governance						
Overall movement from previous assessment						
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation	