



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

uBuhlebezwe Local Municipality

30 June 2019

Communicated to the accounting officer on: 25 November 2019





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30 June 2019

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE UBULEBEZWE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2019

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and 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 2019.
2. These findings were communicated to management and the 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, 2004 (Act No. 25 of 2004) (PAA).

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









4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and 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, the AGSA is fully indemnified from liability that may arise from such contravention.

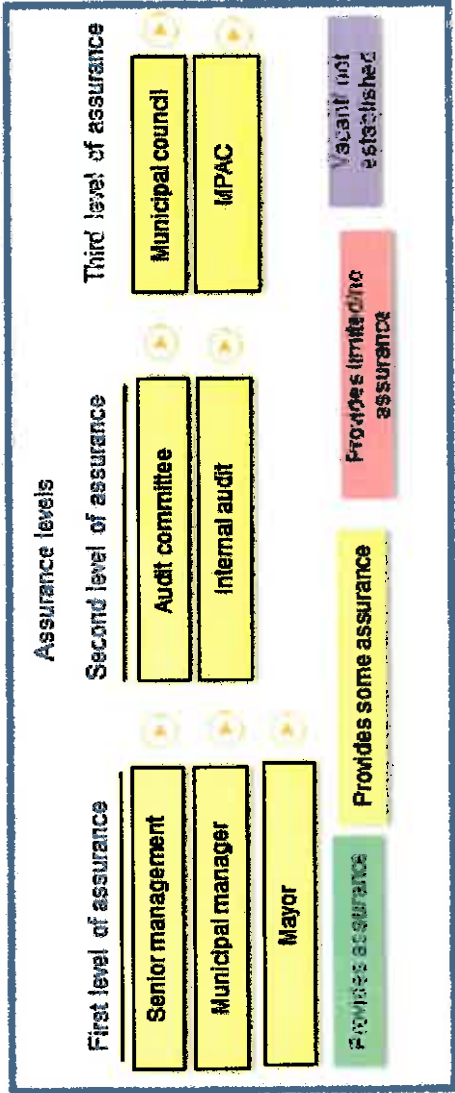
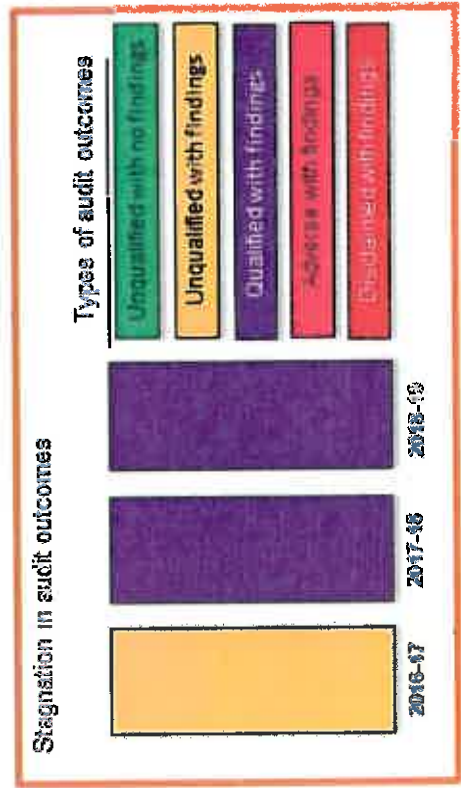


7. The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

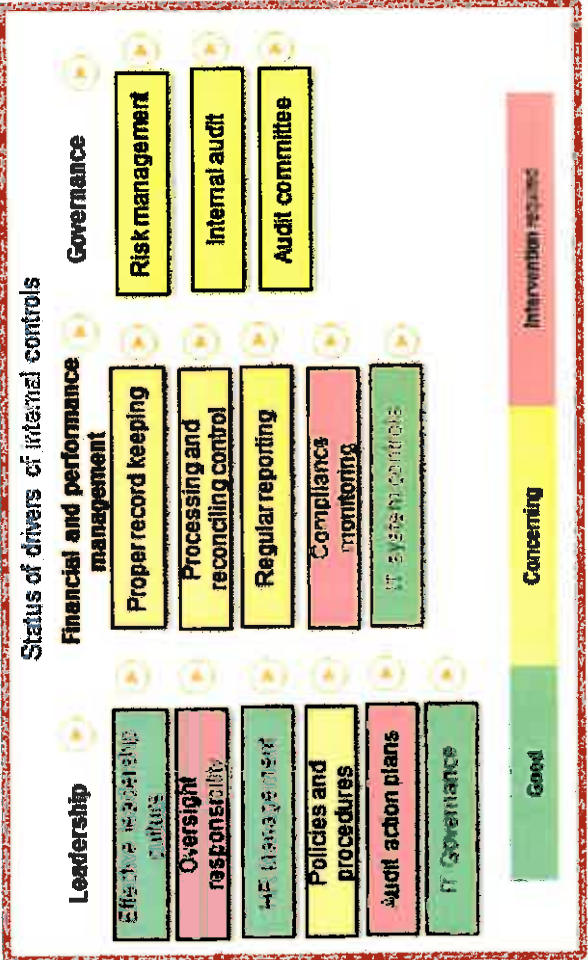
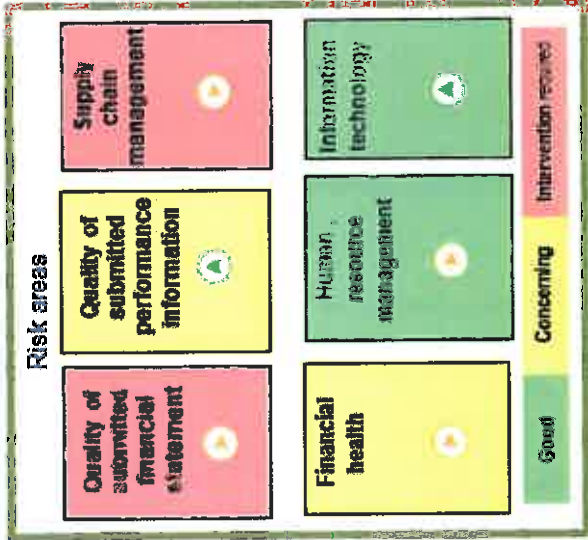
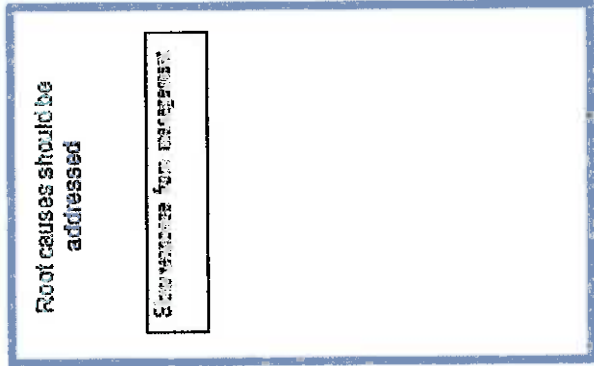
- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Root causes to be addressed

Movement from the previous year is depicted as follows:

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



the best practices are maintained.



SECTION 1: Interactions with stakeholders responsible for oversight and governance

8. 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 reviews of the Municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	1
Municipal public accounts committee	Reaffirm roles and responsibilities of the MPAC to influence effective development, implementation and monitoring of an action plan	1
Mayor	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	3
Municipal Manager	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	6
Audit committee	Reaffirm roles and responsibilities of the audit committee to influence effective development, implementation and monitoring of an action plan	2

9. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

- Create an understanding of audit outcomes
- Compliance with SCM regulations and the resultant irregular expenditure
- Reliability and usefulness of the performance information
- Significant risks relating to financial statements and performance information
- Discussion and progress made on management's commitments
- Audit engagement and planning including the audit strategy
- Fraud risks
- Emerging risks regarding new developments impacting the financial statements and compliance with key legislation

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

SECTION 2: Matters relating to the auditor's report**AUDIT OF THE FINANCIAL STATEMENTS**

11. 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, 2003 (Act No.56 of 2003)(MFMA).

12. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements:

Material misstatement				Impact	Impact
Financial statement item	Finding	Occurred in prior year (Insert Yes/No)	R current year	R previous year	
Material misstatements not corrected					
Payables from exchange transactions – Trade payables	Sufficient appropriate evidence could not be obtained to support a global accruals amount under payables from exchange transactions	No	1 414 396	-	
Property, plant and equipment	Inadequate useful life assessment performed by management resulting in 1789 assets reflected at nil book values	No	Impractical to determine	-	
Material misstatements corrected					
Inventory	Land in the name of the municipality as per deed search results not included in the financial records	Yes	-	7 644 000	
Receivables from exchange and non-exchange transactions; Debt impairment	There was no provision allocated to receivables from exchange transactions. Receivables was not discounted in terms of GRAP109.	Yes	4 140 583	3 927 521	
Capital commitments	Commitments was inaccurate when recalculated and compared to management's schedule supporting the disclosure in the AFS	No	2 317 432	-	

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding	Occurred in prior year (Insert Yes/No)		
Operational commitments	Commitments was inaccurate when recalculated and compared to management's schedule supporting the disclosure in the AFS	No	3 192 234	-
Cash flow from operating activities	Material corrections were required to the cash flow statement as it was not appropriately calculated and supported by evidence presented for audit	No	5 715 820	-
Cash flow from investing activities	Material corrections were required to the cash flow statement as it was not appropriately calculated and supported by evidence presented for audit	No	7 136 799	-
Cash flow from financing activities	Material corrections were required to the cash flow statement as it was not appropriately calculated and supported by evidence presented for audit	No	1 421 000	-

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Other matter paragraph

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

Unaudited disclosure notes


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

AUDIT OF THE ANNUAL PERFORMANCE REPORT

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

Introduction and scope

16. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2019 :

Development Priority	Pages in annual performance report	Opinion	Movement
<i>KPA 2: Basic service delivery and infrastructure development</i>	x – x	Unqualified	

17. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.

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

KPA2 – Basic service delivery and infrastructure development

Opinion

19. In my opinion, the reported performance information for basic service delivery and infrastructure development is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.



Other matters

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

Achievement of planned targets

21. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year and explanations provided for the under and over-achievement of a significant number of targets.

Adjustment of material misstatements

22. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

Responsibilities of the accounting officer for the reported performance information

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

24. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected development priority 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.
25. Our procedures address 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 extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
26. 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

27. 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

28. 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Asset management

29. Funds were invested in Ithala State-owned Company Limited, in contravention of municipal investment regulation 6.

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with municipal supply chain regulations.

Revenue management

32. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Consequence management

33. Irregular, fruitless and wasteful 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.

Procurement and contract management

34. Some of the quotations were accepted from bidders and some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
35. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

OTHER INFORMATION

36. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priority presented in the annual performance report that have been specifically reported in the auditor's report.



37. 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 thereon.
38. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
40. If based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

INTERNAL CONTROLS

41. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 7, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility

42. The accounting officer and CFO did not adequately monitor the AFS/APR preparation plan to ensure that credible and reliable financial statements and performance reports are produced in accordance with stipulated timelines.
43. As the accounting officer and CFO did not adequately review the financial statements and the annual performance report before submitting for auditing, the following matters were not identified and corrected:
 - Payables from exchange transactions
 - Property, plant and equipment
 - Unspent conditional grants and receipts

Policies and procedures

44. The municipality did not establish formal policies and procedures that govern the investigation, recovery and write off of irregular, unauthorised and fruitless and wasteful expenditure.
45. Policies relating to asset useful life assessments were not developed and implemented to confirm adherence with GRAP17 and GRAP21 standards.
46. The municipality's existing SCM policy deviated from SCM regulation 29 regarding the composition of its bid adjudication committee.



Action plans to address internal control deficiencies

47. Management did not monitor the achievement of the audit action plan as similar findings relating to receivables, asset management, revenue management, commitments, performance reporting and compliance with key legislation were still identified during the current audit.

Financial and performance management

Proper record keeping

48. Management did not implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support payables and unspent conditional grants.

Daily and monthly processing and reconciling of transactions

49. Asset, receivable sub ledger and payable sub ledger reconciliations were not performed on a monthly basis.
50. Commitments were not reconciled to contracts and payment certificates to confirm accuracy and completeness

Regular, accurate and complete financial and performance reports

51. As indicated in section 2.1, the financial statements contained numerous misstatements. This was mainly due to inadequate reviews against the requirements of the financial reporting framework and lack of proper records management.
52. As indicated in part C of section 2, the annual performance report contained material misstatements that were subsequently corrected. This was mainly due to lack of regular review of the reported performance by senior management against the submitted portfolio of evidence.

Compliance monitoring

53. Non-compliance with key legislation could have been prevented had compliance checklists been updated, properly reviewed and monitored by management.

Governance

Risk management activities and risk strategy

54. Management's risk identification and monitoring processes needs to be intensified as the risk of non-compliance with key legislation and inaccurate financial and performance reporting has materialised in the current year.

Internal audit and audit committee

55. Internal audit and audit committee's review of the annual financial statements and annual performance report can be improved as various misstatements and disclosure omissions were identified by audit in the areas of cash flow, PPE, receivables, related parties and the usefulness of the reported performance information.

Summary

56. The matters above, as they relate to the basis for the qualified opinion and findings on compliance with legislation, will be summarised in the auditor's report as follows:
57. Leadership did not ensure that effective measures were taken to address previous findings to support the achievement of credible reporting and compliance with legislative requirements.
58. Management did not implement a proper records management system in support of accruals under payables from exchange transactions.
59. Non-compliance with key legislation could have been prevented, had management updated and regularly monitored adherence to their compliance checklists.

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

ASSESSMENT OF ASSURANCE PROVIDERS

60. 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.
61. 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.
62. 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

- Management did not pro-actively respond to external audit recommendations as commitments to address previous year's findings were not honoured according to agreed upon timeframes which led to repeat findings being identified in the current year. The information on financial and performance information was not adequately reviewed by senior management prior to submission as evident by the material misstatements of the audit process. Additionally, document management needs improvement and compliance checklists need to be updated and monitored.



Accounting officer: provides some assurance

- The municipal manager did not provide adequate oversight over the preparation of financial statement, performance reporting and compliance with legislation which resulted in material misstatements in the financial statements, performance reports and non-compliance with legislation.

Mayor: provides some assurance

- The mayor, through regular oversight, supported the effective functioning of the respective governance structures to support credible and reliable financial and performance reporting including compliance with key legislation. However additional oversight is required in the area of consequence management for non-compliance with legislation and timely implementation of action plans.

Second level of assurance

Internal audit unit: provides some assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality'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.
- Internal audits review of the AFS, APR and performance planning documents should be intensified as numerous misstatements were detected during the audit process.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- Audit committees review of the AFS, APR and performance planning documents should be intensified as numerous misstatements were detected during the audit process. The committee did not exercise adequate oversight of the internal audit function, and the achievement of the audit action plan as prior period qualification relating to irregular expenditure was not adequately addressed in a timely manner.

Third level of assurance

Municipal council: **provides some assurance**

- Council continued to provide oversight through council committees to ensure compliance with key legislation and credible financial reporting. However additional oversight is required in the area of consequence management for non-compliance with key legislation and timely implementation of audit action plans.

Municipal public account committee (MPAC): **provides some assurance**

- The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider. The MPAC did not exercise adequate oversight of management's progress to address previous year's findings.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

63. 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	Rates differences between valuation roll and revenue recognised to be updated on the billing system	Mayor/Accounting Officer	30 November 2019	2017-18 Management report	Implemented
2	Revisit the entire population of quotations and contracts to identify similar instances of non-compliances identified during the audit process. To quantify and disclose all payments as irregular expenditure	Mayor/Accounting Officer	30 November 2019	2017-18 Management report and audit action plan	In Progress
3	Revisit entire population of general expenditure to confirm appropriate classification of expenditure in the financial statements	Mayor/Accounting Officer	30 November 2019	2017-18 Management report and audit action plan	Implemented
4	To perform adequate reconciliations of PPE, receivables, retentions and commitments thereby confirming accuracy and completeness of supporting disclosures in the AFS	Mayor/Accounting Officer	30 November 2019	2017-18 Management report and audit action plan	In Progress
5	Intensify reviews of performance planning documents to confirm indicators are well defined in terms of the FMPP	Mayor/Accounting Officer	30 November 2019	2017-18 Management report and audit action plan	In Progress
6	Compliance checklist to be developed by SCM unit to prevent repeat contraventions against key SCM legislation	Mayor/Accounting Officer	30 November 2019	2017-18 Management report and audit action plan	In progress

- Two audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- Four recommendations are still being implemented or very limited progress has been made.
- Details on the status of implementing the previous years recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

64. 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 2019	AS AT 30 JUNE 2018
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	166 Days	118 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	351 Days	186 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	57.8%	72.7%
	• Amount of debtors impairment provision	R27 022 545	R23 880 081
	• Amount of accounts receivable	R46 717 582	R32 861 856
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R41 820 676	R20 736 364
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R155 297 740	R130 911 149
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R289 059 244	R269 415 327

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R155 455 064	R102 277 331
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R64 982 132	R53 380 120
4.3	Creditors as a percentage of cash and cash equivalents	11.5%	11.2%
	• Amount of creditors (accounts payable)	R17 868 489	R11 495 147
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R155 455 064	R102 395 778
4.4	Current liabilities as a percentage of next year's budgeted resources **	25.1%	28.8%
	• Amount of current liabilities	R36 687 792	R28 593 169
	• Amount of next year's budgeted income **	R146 075 000	R99 184 000
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Yellow (Concerning)	Yellow (Concerning)
** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councillors".			

High-level comments

65. Revenue collection has remained a challenge as evident by the significant debt impairment and high debtors days. The slow injection of cash from consumers reiterates the municipality's dependency on government grants to fund and sustain its operations. The municipality should aim to improve debt collection through implementation of effective revenue enhancement strategies and adherence to its credit control and debt management policy.
66. The high creditor payment days should be monitored through effective cash and budget management practices to ensure suppliers are paid within 30 days. The resultant impact is that the municipality has received a material non-compliance with the MFMA.
67. Notwithstanding the above, the municipality net asset and cash flow position is sound with no real concerns of financial distress. It is in a position to effectively meet its short term obligations.

PROCUREMENT AND CONTRACT MANAGEMENT

68. 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

69. R30 686 850 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years, amounting to Nil, was also identified in the current year. 98% (Nil% of irregular expenditure relating to the previous year) of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root causes of the lack of effective prevention and detection are non-adherence to SCM regulations.

Awards to persons in the service of the state

70. 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. No findings were noted in this regard.

Procurement processes

71. 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	59	198 932 008	25	2 655 473	34	196 276 535
Expenditure incurred on selected awards – current year		68 886 523		2 145 011		66 741 512
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	23	93 022 499	5	672 189	18	92 350 310
Irregular expenditure identified	23	30 106 850	5	672 189	18	29 434 660
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

Procurement processes – general

- One quotations with a total value of R34 379 was accepted from prospective providers who were not registered on the list of accredited prospective providers or the National Treasury's central suppliers database and did not meet the listing requirements prescribed by the SCM policy.
- Five contracts and quotations to the value of R12 142 368 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.
- One contracts with a value of R34 379 were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
- 15 competitive bids with a value of R29 434 660 were adjudicated by adjudication committees that were not properly constituted.
- One quotations to the value of R199 485 were awarded based on criteria that differ from the original specifications.
- Two contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Internal control deficiencies

72. The SCM compliance checklists and policy was not adequately updated and monitored to confirm adherence to applicable laws and regulations for procurement.

FRAUD AND CONSEQUENCE MANAGEMENT

73. 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 to issue 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.
74. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/ non-compliance due to fraud.
- Indicators of cover quoting and bid rigging were identified during the audit of procurement and contract management.
75. 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:

Measures to manage consequences

76. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:



- The municipality did not adopt systems (policies) to investigate irregular and fruitless and wasteful expenditure to determine if any official is liable for such expenditure.

Failure to properly deal with allegations reported in the prior year

77. 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

Findings	Value R
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if any person was liable for the expenditure	R12 658 045
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	R110 787

Transgressions reported to management for investigation

78. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.

79. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest	5	0	5	0	0

80. Irregular and fruitless and wasteful expenditure disclosed in notes 43 and 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 irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

PUBLIC PARTICIPATION

81. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation. No findings were identified.

CONDITIONAL GRANTS

82. 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

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

Finding	Municipal Infrastructure Grant
The grant was not spent according to the applicable grant framework	No findings
The municipality did not evaluate its performance on programmes funded by the grant	No findings
Funds received from DoRA grants transferred to other entities were not in line with section 17(2) of DoRA	No findings

84. 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 on the projects. The audit findings raised on each project are reported in the table below and subsequent sections of the report.

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	Details
Name of grant	MIG	MIG	MIG
Project/initiative funded by the grant	Esivandeni Access Roads	Pass4 Phungula Sportfiels	Lower Valley View Access Road
Audit findings			
Planned completion target for the selected project were not achieved	No findings		
Project stage of completion was not assessed	No findings	No findings	No findings
Project stage of completion assessed by the municipality is incorrect	No findings	No findings	No findings
Findings on the procurement of goods and services for the project		No findings	No findings

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	Details
Name of grant	MIG	MIG	MIG
Project/initiative funded by the grant	<i>Esivandeni Access Roads</i>	<i>Pass4 Phungula Sportfiels</i>	<i>Lower Valley View Access Road</i>
Audit findings			
Misstatements on the accounting for the expenditure relating to the project	No findings	No findings	No findings
Payments were made for goods/services not received	No findings	No findings	No findings
Misstatements on the accounting of funds used through implementing agents	No findings	No findings	No findings
Process for appointing implementing agents did not comply with legislation	No findings	No findings	No findings
Implementing agents failed to comply with SCM prescripts when spending the funds	No findings	No findings	No findings

ROADS INFRASTRUCTURE

85. The audit included an assessment of the roads infrastructure service delivery objective. Procedures were performed in relation to the following:

- Performance planning and reporting on roads infrastructure
- Planning for renewal and routine roads maintenance projects
- Planning for new or refurbished roads infrastructure projects
- Follow-up on the previous year's findings
- Key roads infrastructure projects

86. A summary of the significant findings from the audit are as follows:

Planning and reporting on roads infrastructure

- The table below summarises whether key performance indicators for roads infrastructure were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Percentage of gravel roads constructed by 31-Mar-19 (Shelembe Road)	71% complete	Yes	Yes
Percentage of gravel roads constructed by 31-Mar-19 (Nxele Road)	100% complete	Yes	Yes
Percentage of gravel roads constructed by 30-Jun-19 (Esivandeni Road)	42% complete	Yes	Yes
Percentage of constructed roads completed by 30-Jun-19 (Low Valley View Road)	49% complete	Yes	Yes
Percentage of constructed roads completed by 30-Jun-19 (Fairview Roads)	57% complete	Yes	Yes
Percentage of constructed roads completed by 30-Sept-18 (Golf course Road)	89% complete	Yes	Yes
65 km of gravel roads maintained as per maintenance plan by 30-Jun-19	13.98 km maintained	Yes	Yes
Square meters of blacktop roads maintained (potholes) by 30-Jun-19	5 593.52 square metres maintained	Yes	Yes

Planning for new or refurbished roads infrastructure projects

- The supply chain policy did not support the implementation of the best practice requirements of the Standard for Infrastructure Procurement and Delivery Management (SIPDM) issued by National Treasury

Roads infrastructure projects

87. The audit also included an understanding of planning, project management and commissioning of key roads infrastructure projects undertaken at the municipality. This included testing the timelines, spending against budget, compliance with procurement processes, appropriate recording of transactions in the financial statements and the quality of the goods and services delivered.

88. The table below summarises the audit findings on the selected key projects:

Project name	<i>Esivandeni Access Roads</i>	<i>Lower Valley View Roads</i>
Planning and budgeting for the project		
Brief description of key project	Esivandeni Access Road	Lower Valley View Road
Source of funding	MIG	MIG
Project commenced as planned	Yes	Yes
Project completed within defined duration (applicable if completed)	No – project is in progress	No – project is in progress
Status of completion (applicable if WIP)	42% complete	49% complete
Available budget for the year	R6 593 322	R10 336 226
Actual amount spent in current year	R2 083 447	R6 233 038
Total project budget (multi-year) – original / revised	R6 593 322	R10 336 226
Actual amount spent from inception to date	R2 083 447	R6 233 038
Audit findings		
Significant overspending or underspending on budget available for the year	No	No
Significant overspending or underspending on total project budget (multi-year)	No	No
Findings on the procurement of goods and services for the project	Yes	No
Overall quality of the project management was poor or not acceptable	No	No
Findings on consequence management	No	No
Findings on fraud	None	None
Prior year findings not addressed (if applicable)	None	None
Goods and services delivered on project of poor or sub-standard quality	No	No

Project name	<i>Esivandeni Access Roads</i>	<i>Lower Valley View Roads</i>
Planning and budgeting for the project		
Findings on commissioning of the completed project	No – project ongoing	No – project ongoing
Findings on accounting for the project (annual financial statements)	None	None
Spending not aligned to stage of completion	No	No
Budget spent but project milestones not achieved	No	No
Findings on grant spending	None	None
Findings on fruitless and wasteful expenditure in relation to the project	None	None
Findings on irregular expenditure incurred on the project	Yes	None
Infrastructure / facility not utilised for intended purpose	None	None
Infrastructure / facility not utilised at all or under utilised	No	No

SECTION 5: Using the work of internal auditors

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

- We used the following internal audit reports for risk identification:

- Fleet management
- Supply chain management
- AG follow up
- Human resources management
- Project management unit
- Billing and collection
- IT: General controls
- Asset management
- Audit of performance information
- Compliance: Submission of S74 reports
- AFS review

SECTION 6: Emerging risks**Accounting, performance management/reporting and compliance matters****New pronouncements****Standards of GRAP**

The ASB has issued the following GRAP pronouncements, with effective dates as indicated: GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	1 April 2020
GRAP 35 - <i>Consolidated financial statements</i>	1 April 2020
GRAP 36 - <i>Investments in associates and joint ventures</i>	1 April 2020
GRAP 37 - <i>Joint arrangements</i>	1 April 2020
GRAP 38 - <i>Disclosure of interests in other entities</i>	1 April 2020
GRAP 104 - <i>Financial instruments</i> (Revised April 2019)	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 1 <i>Applying the probability test on initial recognition revenue</i> (amendments)	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	1 April 2019
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019
IGRAP 20 <i>Accounting for adjustments to revenue</i>	1 April 2020
Guideline <i>Accounting for arrangements undertaken in terms of the national housing programme</i>	1 April 2019
Guideline <i>Accounting for landfill sites</i>	To be determined
Guideline <i>The application of materiality to financial statements</i>	Voluntary*
* The Guideline on <i>The application of materiality to financial statements</i> was issued in April 2019. The Guideline is available for immediate consideration, to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the Guideline is voluntary, application is encouraged.	

Subsequent events

- No subsequent event to report

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

90. The planned and reported performance information of selected development priority 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 mandate of the auditee, including:
 - 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

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

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

SECTION 7: Ratings of detailed audit findings

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

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

SECTION 8: Conclusion

94. 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 remains 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 faithfully



Jabulani Nkosi
Senior Manager: KZN

30 November 2019

Enquiries: Ketan Ambaram
Telephone: 033 264 7400
Fax: 033 264 7596
Email: ketanp@agsa.co.za

Distribution:
Audit committee
Head of internal audit unit
Executive authority

SECTION 9: Summary of detailed audit findings

Page no.	Finding	Classification								Rating		Number of times reported in previous three years	Status of implementation of previous years 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				
35	Trade payables not agreeing to supporting schedules	✓			✓		✓				0	Not applicable	
36	Zero book value assets on the fixed asset register	✓			✓		✓				0	Not applicable	
39	Debtors with credit balance not agreeing to age analysis	✓			✓		✓				0	Not applicable	
40	Receivable balances not agreeing to age analysis	✓			✓		✓				1	In progress	
41	No provision for receivables from exchange transactions	✓			✓		✓				0	Not applicable	
43	Discounting not performed for receivables	✓			✓		✓				0	Not applicable	
44	Properties of the municipality not correlating to deeds office results	✓			✓		✓				0	Not applicable	
51	Inaccurate commitments disclosure	✓			✓		✓				2	In progress	
53	Cash flow statement discrepancies	✓			✓		✓				2	In progress	
58	Prior period qualification on irregular expenditure	✓		✓	✓		✓				1	In progress	
64	Bid adjudication committee not properly constituted	✓		✓	✓		✓				0	Not applicable	
66	Award to supplier that is not tax compliant	✓		✓	✓		✓				0	Not applicable	



Page no.	Finding	Classification							Rating			Number of times reported in previous three years	Status of implementation of previous years 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				
70	Unfair disqualification of bidders from awards	✓		✓	✓		✓				0	Not applicable	
73	Investment not permitted			✓	✓		✓				1	In progress	
75	Interest not levied on arrear consumer accounts			✓	✓		✓				0	Not applicable	
76	Prior period UIFW expenditure not investigated			✓	✓		✓				0	Not applicable	
78	Irregular expenditure not prevented			✓	✓		✓				0	Not applicable	
79	Suppliers not paid within 30 days			✓	✓		✓				1	In progress	
83	No movement in unspent conditional grants	✓			✓				✓		0	Not applicable	
84	Discrepancies identified on the fixed asset register	✓			✓				✓		2	In progress	
86	Computer software not amortised	✓			✓				✓		0	Not applicable	
88	Reduction in property rates revenue due to write off	✓			✓				✓		0	Not applicable	
90	Discrepancies on the statement of comparison of budget and actual amounts	✓			✓				✓		1	In progress	
94	Prior period qualification on property rates revenue	✓			✓				✓		1	In progress	
96	Annual financial statement discrepancies	✓			✓				✓		2	In progress	
100	Annual financial statement discrepancies	✓			✓				✓		1	In progress	
103	Inaccurate revenue agency fees recognised	✓			✓				✓		1	In progress	

Page no.	Finding	Classification								Rating	Number of times reported in previous three years	Status of implementation of previous years 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			
104	Prior period cash and cash equivalents written off	✓			✓			✓			1	In progress
106	LGSETA receipts not allocated	✓			✓			✓			0	Not applicable
107	Revenue – Fines, penalties and forfeits	✓			✓			✓			1	In progress
109	Expenses transactions incorrectly recorded inclusive of VAT	✓			✓			✓			0	Not applicable
110	Completeness of related party note disclosure	✓			✓		✓				0	Not applicable
112	Omission of disclosure relating to remuneration of councillors	✓			✓			✓			0	Not applicable
112	Completeness of unauthorised expenditure disclosed	✓			✓		✓				0	Not applicable
115	Indicators of cover quoting and bid rigging				✓			✓			0	Not applicable
118	Deviation disclosure discrepancies	✓			✓			✓			0	Not applicable
119	Deviation requirements not met			✓	✓			✓			1	In progress
122	Inadequate contract management			✓	✓			✓			1	In progress
123	Performance indicator not well defined and verifiable		✓		✓		✓				1	In progress
126	Performance indicators not well defined		✓		✓			✓			1	In progress
129	Reported performance information not reliable		✓		✓			✓			1	In progress
132	Deficiencies in investigation of 2016/17 irregular expenditure				✓			✓			0	Not applicable

Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Annual financial statements

1. Trade payables not agreeing to supporting schedules

Audit finding

In terms of section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Trade payables as disclosed in note 14 (Payables from exchange transactions) of the financial statements did not agree to the supporting schedules provided for audit and no evidence could be obtained to support the variance.

Description	Amount R
Trade payables balance as per note disclosure 14	17 868 489.00
Creditors age analysis	4 592 893.16
Accruals Listing	11 181 429.82
	15 774 322.98
Difference	R2 094 166.02

As we are unable to confirm the valuation and obligation of this amount through alternative means, this results in a projected limitation overstatement of trade payables in the financial statements of R2 094 166 and will result in a modification of the audit opinion.

Internal control deficiency

Financial management

The acting chief finance officer (CFO) did not perform an adequate review of the payables from exchange transaction disclosure against underlying records to confirm accuracy in the financial statements.

The acting CFO did not implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support trade payables in the financial statements.

The budget and reporting manager did not prepare a reconciliation between the financial statements and the payables sub ledger/accruals listing.



Recommendation

The acting CFO should improve the review of the payables from exchange transaction disclosure against underlying records to confirm accuracy in the financial statements.

The acting CFO should implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support trade payables in the financial statements.

The budget and reporting manager should prepare a reconciliation between the financial statements and the payables sub ledger on a monthly basis. All reconciling items should be promptly followed up and substantiated against supporting evidence. These reconciliations should be signed by the acting CFO as evidence of review.

The acting CFO should follow up on the variance and present the auditors with sufficient appropriate evidence to justify the payables balance in the financial statements.

Management response

Account	Prelim	Adj's	Rep
D0001/L43223/F0001/X049/R0115/001/201 Payables and Accruals - Opening Balance	30,347,573.72	-339,506.00	30,008,067.72
D0001/L53820/F0001/X049/R0115/001/201 Payables and Accruals - Deposits	-108,723,833.49	0.00	108,723,833.49
D0001/L53821/F0001/X049/R0115/001/201 Payables and Accruals - Withdrawals	73,443,858.63	0.00	73,443,858.63
D0001/L54016/F0001/X049/R0115/001/201 Default Transactions/Opening Balance/Non-funding T	-8,677,976.79	5,263,580.53	1,414,396.26
D0001/L54020/F0001/X049/R0115/001/201 Supplier Accruals Control	-11,182,185.55	0.00	11,182,185.55
Total Per GL	-22,792,563.48	4,924,074.53	-17,868,488.95
Amount Per AFS		-	17,868,488.95
Variance			-

Management notes the finding, the table above illustrates all the amounts mapped under payables and all other adjustments made before the finalisation of the AFS which agrees with the age analysis, a reconciliation will be provided to substantiate this and for validation purposes.

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 23 October 2019

Auditor's conclusion

A reconciliation of the difference has been presented for audit however an amount of R1 414 396 has remained substantiated and could not be validated through alternative means This results in a material limitation overstatement of payables from exchange balance and will lead to a modification of the audit opinion.

2. Zero book value assets on the fixed asset register

Audit finding

In terms of paragraph 56 and 57 of GRAP17 *Property, Plant and Equipment*, an entity shall assess at each reporting date whether there is an indication that the entity's expectations about the

residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly.

In assessing whether there is an indication that the expected useful life of an asset has changed, an entity considers the following indications:

- (a) The composition of the asset changed during the reporting period i.e. the significant components of the asset has changed.
- (b) The use of the asset has changed
- (c) The asset is approaching the end of its previously expected useful life.
- (d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
- (e) Environmental factors
- (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (g) The asset is assessed as being impaired in accordance with GRAP21 and GRAP26.

Management did not demonstrate having undertaken the above assessment to comply with the GRAP standard. This is evident by 1789 assets with a total cost price of R115 081 563 being fully depreciated and recognised at zero book values in the fixed asset register at year end:

Asset Class	Number of assets	Cost R
Buildings	2	297 600.00
Community	6	1 490 000.00
Furniture and Fixtures	1548	2 489 785.55
Infrastructure	25	103 456 814.95
IT Equipment	142	1 126 527.35
Motor Vehicles	20	4 134 525.50
Plant and Equipment	46	2 086 310.00
Total	1789	R115 081 563.35

The following serves as detailed examples of these assets:

Asset Class	Asset Number	Asset Description	Purchase Date	Cost R
Infrastructure	12296	COMMERCIAL STRROAD	6/30/1993	21 322 519.15
Infrastructure	12312	CENTENARY ROAD	6/30/1994	18 857 519.15
Infrastructure	12314	NORTHWAY	6/30/1994	10 962 519.15
Infrastructure	12317	CIRCLE DRIVEROAD	6/30/1994	10 622 519.15
Infrastructure	12274	MARRY STREETROAD	6/30/1994	10 207 519.15
Infrastructure	12278	BETTY FIRM STONEROAD	4/30/1994	5 780 909.09
Infrastructure	12271	RAILWAY STREETROAD	6/30/1994	5 735 000.00
Infrastructure	12281	GENERALANORTT DRIVEROAD	6/30/1994	5 340 000.00
Infrastructure	12300	LEWIS DRIVEROAD	6/30/1994	4 815 000.00
Infrastructure	12280	MAURICE LEWIS DRIVE	6/30/1994	3 300 000.00
Infrastructure	12283	GENERALANORTT DRIVEDRAINAGE	6/30/1994	1 600 000.00

Asset Class	Asset Number	Asset Description	Purchase Date	Cost R
Infrastructure	12394	MNTAMBANKUNZI ROAD	6/30/2008	1 418 048.78
Community	12398	BUS RANK TOILETS	6/30/1987	966 000.00
Infrastructure	12308	GREERS GROVE	6/30/1994	844 000.00
Motor Vehicles	11613	MERCEDES BENZ ACTROS 2 33 TIPPER	6/30/2006	821 745.86
Motor Vehicles	11589	CATERPILLAR BACKHOE LOADER	9/26/2012	592 000.00
Infrastructure	12276	MARRY STREETKERB LINES	6/30/1994	495 000.00
Infrastructure	12272	RAILWAY STREETKERB LINES	6/30/1994	460 000.00
Plant and Equipment	11621	CHRISTMAS LIGHTS	11/30/2013	444 084.22
Infrastructure	12301	LEWIS DRIVEKERB LINES	6/30/1994	380 000.00

Internal control deficiency

Leadership

The CFO did not develop formal procedures which details the methodology, guidance and responsibilities relating to asset useful life assessments to confirm compliance with the GRAP standards.

Recommendation

The CFO should develop and implement formal procedures which detail the methodology, guidance and responsibilities relating to asset useful life assessments to confirm compliance with the GRAP standards.

The CFO should ensure that the annual useful life assessment is performed, quantified and accounted for in terms of GRAP17 and GRAP3 *Accounting Policies, Changes in accounting estimates and Errors* standards. The exercise should be performed across the entire asset population and any adjustments made should be appropriately substantiated against supporting evidence for audit purposes i.e. computations, journals, basis and assumptions used in deriving revised estimates.

Management response

Management notes the finding.

Management took an initiative to conduct an assessment of all assets in question through our internal engineers and all amendments are based on their report in terms of the revision of the useful lives for Infrastructure and community assets assessment, a revised FAR and AFS with an appropriate disclosure will be submitted to the audit team for audit and verification

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 6 November 2019



Auditor's conclusion

Management's proposed corrections relating to the reassessment of useful lives was not adequate and appropriately supported in terms of the applicable GRAP standards. Therefore the finding remains and leads to a modification of the audit opinion.

A follow up in this regards will be performed in the 2019-20 financial period.

3. Debtors with credit balance not agreeing to age analysis

Audit finding

In terms of section 122(1) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

The debtors with credit balance amount as per note disclosure 14 (Payables from exchange transactions) does not agree to the credit balances as per the age analysis of the municipality and evidence to support the variance could not be obtained:

Receivables with credit balances as per age analysis R	Debtors with credit balances as per note disclosure 14 R	Difference R
R2 614 647	R1 318 985	R1 295 662

This results in a material misstatement of payable from exchange transactions in the financial statements and may result in a modification of the audit report.

Internal control deficiency

The acting CFO did not adequately review the payable from exchange transaction disclosure against the underlying age analysis to confirm accurate and complete disclosure of debtors with credit balances in the financial statements.

Recommendation

The acting CFO should improve the review of the payable from exchange transaction disclosure against the underlying age analysis to confirm accurate and complete disclosure of debtors with credit balances in the financial statements.

The acting CFO should investigate the variance and present the auditors with sufficient appropriate evidence to support any proposed corrections to the financial statements.

Management response

Management accepts the finding. The necessary adjustment will be made in the annual financial statements. The recommendations provided will be implemented by management.

Name: AP Mbatha
 Position: Acting CFO
 Date: 6 November 2019

Auditor's conclusion

A revised set of annual financial statements with updated disclosures and reconciliations surrounding receivables has been presented and validated to confirm the necessary corrections have been made by management. These material amendments to the financial statements are reported in terms of S122 of the MFMA.

Management is urged to intensify reviews of the receivables component against proper reconciliations and the GRAP standard to confirm that the disclosures in the financial statements is accurate and complete. A follow up in this regards will be performed in the 2019-20 financial period.

4. Receivable balances not agreeing to age analysis

Audit finding

In terms of section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The receivable balances as disclosed in the financial statements does not agree to the debtors' age analysis presented by management and no evidence could be obtained to support the validity and accuracy of the variance:

Category	AFS receivables balance R	Age analysis receivables balance (excluding debtors credit balances) R	Difference R
	R40 782 761	R37 424 199	R3 358 561
Rates	33 928 923		
Consumer debtors – refuse	5 714 984		
Consumer debtors – rental	1 138 854		

Consequently, this results in a material misstatement of the receivables balance in the financial statements of R3 358 561 and may result in a modification of the audit opinion.

Internal control deficiency

Financial management

The acting CFO did not adequately review the receivables disclosure against the underlying age analysis to confirm accurate and complete disclosure in the financial statements.



The acting CFO did not implement the performance of monthly debtor sub ledger reconciliations within the finance unit.

Recommendation

The acting CFO should improve the review of the receivables disclosure against the underlying age analysis to confirm accurate and complete disclosure in the financial statements.

A debtor sub ledger reconciliation between the general ledger and debtors schedule should be performed on a monthly basis. All reconciling items should be appropriately supported and monitored by the acting CFO. These reconciliations should be signed as evidence of review.

The acting CFO should follow up and present the auditors with a reconciliation of the difference that is appropriately supported by sufficient appropriate evidence.

Management response

Management disagrees with the finding. Age analysis and control accounts are reconciling, a reconciliation substantiate the receivables balance is available for audit and verification.

Name: AP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

A revised set of annual financial statements with updated disclosures and reconciliations surrounding receivables has been presented and validated to confirm the necessary corrections have been made by management. These material amendments to the financial statements are reported in terms of S122 of the MFMA.

Management is urged to intensify reviews of the receivables component against proper reconciliations and the GRAP standard to confirm that the disclosures in the financial statements is accurate and complete. A follow up in this regards will be performed in the 2019-20 financial period.

5. No provision for receivables from exchange transactions

Audit finding

In terms of section 122(1) of the MFMA every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Paragraphs 61 and 62 of GRAP104 *Financial Instruments* states that If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.



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

As per note disclosure 6 in the financial statements, there is no provision allocated to receivables from exchange transactions of R9 189 736 which includes long overdue amounts. Management have indicated that the provision for rates of R21 606 485 under note disclosure 5 (Trade receivable from non-exchange transactions) is inclusive of exchange transactions.

This disclosure is incorrect as receivable from non-exchange transactions is understated with a corresponding overstatement of receivable from exchange transactions in the financial statements.

Internal control deficiency

Financial Management

The acting CFO did not adequately review the receivables disclosure against the municipality's provision for doubtful debt computation to confirm proper apportionment between exchange and non-exchange transactions.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Recommendation

The acting CFO should improve the review of the receivables disclosure against the municipality's provision for doubtful debt computation to confirm proper apportionment between exchange and non-exchange transactions.

The internal audit and audit committee should improve the review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

The acting CFO should correctly apportion the provision between exchange and non-exchange transactions and present the auditors with the proposed adjustments to the disclosure in the financial statements. These adjustments should be appropriately supported by sufficient appropriate evidence.

Management response

Management notes the finding. The provision for receivables for exchange transactions has been incorrectly classified as part of provision for non-receivable transactions. The correction will be made and the AFS updated accordingly.



Name: AP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

A revised set of annual financial statements with updated disclosures, reconciliations and provision computations relating to receivables has been presented and validated to confirm the necessary corrections have been made by management. These material amendments to the financial statements are reported in terms of S122 of the MFMA.

Management is urged to intensify reviews of the receivables component against proper reconciliations and the GRAP standard to confirm that the disclosures in the financial statements is accurate and complete. A follow up in this regards will be performed in the 2019-20 financial period.

6. Discounting not performed for receivables

Audit finding

Paragraph 15 of GRAP9 Revenue from non-exchange transactions states that revenue shall be measured at the fair value of the consideration received or receivable. Paragraph 17 further states that, in most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash and cash equivalents received or receivable. However, when the inflow of cash and cash equivalent is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- (a) The prevailing rate for a similar instrument of an issuer with a similar credit rating
- (b) A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraph 34 and 35 of GRAP104 *Financial Instruments*

Contrary to these requirements, management have not considered and performed discounting of receivables to confirm appropriate measurement in the financial statements. This may result in a material misstatement and impact the audit opinion.

Internal control deficiency

The acting CFO did not monitor adherence to the GRAP104 standard to confirm appropriate discounting of receivables in the financial statements.

Recommendation

The acting CFO should improve the review of the financial statements against the GRAP104 standard to confirm accurate and appropriate measurement of receivables.



The acting CFO should perform the discounting calculation in terms of GRAP104 and present the auditors with the calculation and the proposed journals/disclosure to be processed on the financial statements.

Management response

Management accepts the finding. Discounting will be performed for receivables as per the finding. The recommendations provided will be implemented by management.

Name: AP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

A revised set of annual financial statements with updated disclosures, reconciliations and discounting computations relating to receivables has been presented and validated to confirm the necessary corrections have been made by management. These material amendments to the financial statements are reported in terms of S122 of the MFMA.

Management is urged to intensify reviews of the receivables component against proper reconciliations and the GRAP standard, to confirm that the disclosures in the financial statements is accurate and complete. A follow up in this regards will be performed in the 2019-20 financial period.

7. Properties of the municipality not correlating to deeds office results

Audit finding

In terms of section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No.53 of 2003) (MFMA), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

- (a) The following properties registered in the Deeds Office under the municipality's name could not be traced to the asset registers.

ERF_NO	TOWNSHIP	DOCUMENT NUMBER	REGISTRATION DATE	EXTENT
577	Stuartstown Ext 3	T21892/1988	20 Jan 1993	290 SQM
128	Stuartstown	T22659/2000	25 Jan 2000	278 SQM
14995	South Hills	T15218/2004	1 Apr 2004	185.2067 H
1534	Stuartstown	T73202/2002	19 Jan 2002	9103 SQM
1733	Stuartstown	T13309/2013	7 Jan 2013	2154 SQM
1734	Unregistered	T13309/2013		2072 SQM
1735	Unregistered	T13309/2013		2047 SQM
1736	Stuartstown	T13309/2013	7 Jan 2013	3896 SQM
1737	Unregistered	T13309/2013		7435 SQM
1738	Stuartstown	T13309/2013	7 Jan 2013	1.0392 SQM



ERF_NO	TOWNSHIP	DOCUMENT NUMBER	REGISTRATION DATE	EXTENT
2226	Ellerton	T12603/1988	25 May 1988	5,6300HA
279	Stuartstown Ext 2	T10733/1974	27 Jan 1974	800 DUM
3138	ET	T25926/2016		21.3565 H
488	Stuartstown Ext 3	T21892/1988	18 Jan 2002	476 SQM
5126	ET	T25926/2016	10 Feb 1983	18,4258HA
5221	LOT S 73	T58333/2002		48.5333 H
606	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
607	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
609	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
610	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
611	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
615	Stuartstown Ext 3	T21892/1988	18 Jan 2002	348 SQM
618	Stuartstown Ext 3	T21892/1988	18 Jan 2002	355 SQM
621	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM
624	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM
627	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM
628	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
629	Stuartstown Ext 3	T21892/1988	18 Jan 2002	432 SQM
650	Stuartstown Ext 3	T21892/1988	18 Jan 2002	322 SQM
663	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
669	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
670	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
674	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
676	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
678	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
680	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
681	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
684	Stuartstown Ext 3	T21892/1988	18 Jan 2002	336 SQM
729	Stuartstown Ext 3	T21892/1988	24 Jan 1988	135 SQM

This could impact the completeness of the assets disclosure in the annual financial statements.

- (b) The following properties as per the municipality's records could not be traced to the deed search results obtained for audit:

ERF_NO	TOWNSHIP	CATEGORY	REGISTRATION DATE	EXTENT
656	Land	Investment Property		
1651	Unregistered	Inventory		468,4984
1653	Municipality Ubuhlebezwe	Inventory	7 Jan 2013	504
1668	Stuartstown	Inventory	4 Jan 2016	635
1676	Unregistered	Inventory		529,081



ERF_NO	TOWNSHIP	CATEGORY	REGISTRATION DATE	EXTENT
1685	Stuartstown	Inventory	18 Jan 2014	565
1687	Stuartstown	Inventory	30 Jan 2014	469
1726	Unregistered	Inventory		505,7597
1728	Stuartstown	Inventory	9 Jan 2015	529

Internal control deficiency

The asset manager did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support rights and ownership of municipal property.

Recommendation

The acting CFO in consultation with the asset manager should follow up and present the auditors with explanations and evidence to support the inclusion or exclusion of these properties from its accounting records.

The asset manager should update the fixed asset register with deeds information for audit trail purposes.

Management response

ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	DOCUMENT NUMBER	REGISTRATION DATE	EXTENT
577	Phindiwenze Johannes Jali (owner) vacant land	Stuartstown Ext 3	T21892/1988	20 Jan 1993	290 SQM
128	Mgodi General Plan, (Owned by Regional and Land Affairs) owner	Stuartstown	T22659/2000	25 Jan 2000	278 SQM
14995	Mziki Agri Village (RDP houses)	South Hills	T15218/2004	1 Apr 2004	185.2067 H
1534	Ixopo state aided primary	Stuartstown	T73202/2002	19 Jan 2002	9103 SQM
1733	To be included in inventory	Stuartstown	T13309/2013	7 Jan 2013	2154 SQM
1734	To be included in inventory	Unregistered	T13309/2013		2072 SQM
1735	To be included in inventory	Unregistered	T13309/2013		2047 SQM
1736	To be included in inventory	Stuartstown	T13309/2013	7 Jan 2013	3896 SQM
1737	asset no. 12389 Morningview/Thubalethu roads	Unregistered	T13309/2013		7435 SQM
1738	asset no. 12389 Morningview/Thubalethu roads	Stuartstown	T13309/2013	7 Jan 2013	1.0392 SQM
2226	(PTN 28 Water Harry Gwala Treatment Works), (PTN 27 Harry	Ellerton	T12603/1988	25 May 1988	5,6300HA



ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	DOCUMENT NUMBER	REGISTRATION DATE	EXTENT
	Gwala Development Agency)				
279	Vacant Land	Stuartstown Ext 2	T10733/1974	27 Jan 1974	800 DUM
3138	All the Ogle Farm 3840,3138 and 5126 were all purchased however only Farm 3840 was registered the other were registered after the amount on the asset no. 12594 includes all Ogle farm portions, The amount on Farm 3840 to be apportioned for farm 3138 and 5126	ET	T25926/2016		21.3565 H
488	Vacant land	Stuartstown Ext 3	T21892/1988	18 Jan 2002	476 SQM
5126	All the Ogle Farm 3840,3138 and 5126 were all purchased however only Farm 3840 was registered the other were registered after the amount on the asset no. 12594 includes all Ogle farm portions, The amount on Farm 3840 to be apportioned for farm 3138 and 5126	ET	T25926/2016	10 Feb 1983	18,4258HA
5221	Asset no. 12334 Nxasane Road	LOT S 73	T58333/2002		48.5333 H
606	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
607	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
609	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
610	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
611	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
615	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	348 SQM
618	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	355 SQM
621	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM

ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	DOCUMENT NUMBER	REGISTRATION DATE	EXTENT
624	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM
627	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	306 SQM
628	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	349 SQM
629	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	432 SQM
650	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	322 SQM
663	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
669	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
670	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
674	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
676	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
678	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
680	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
681	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	290 SQM
684	To be included in inventory	Stuartstown Ext 3	T21892/1988	18 Jan 2002	336 SQM
729	Harry Gwala Sewer line	Stuartstown Ext 3	T21892/1988	24 Jan 1988	135 SQM

ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	CATEGORY	REGISTRATION DATE	EXTENT
656	To be corrected this was part of welfare house transferred by the municipality to community members	Land	Investment Property		
1651	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Unregistered	Inventory		468,4984



ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	CATEGORY	REGISTRATION DATE	EXTENT
1653	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Municipality Ubuhlebezwe	Inventory	7 Jan 2013	504
1668	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Stuartstown	Inventory	4 Jan 2016	635
1676	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Unregistered	Inventory		529,081
1685	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Stuartstown	Inventory	18 Jan 2014	565
1687	To be investigated as the municipality does not have proof of payment from the property	Stuartstown	Inventory	30 Jan 2014	469

ERF_NO	MANAGEMENT RESPONSE	TOWNSHIP	CATEGORY	REGISTRATION DATE	EXTENT
	developer handling the Morning view housing project				
1726	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Unregistered	Inventory		505,7597
1728	To be investigated as the municipality does not have proof of payment from the property developer handling the Morning view housing project	Stuartstown	Inventory	9 Jan 2015	529

Name: AS Ntobela

Position: Manager: Assets

Date: 15 November 2019

Auditor's conclusion

Finding (a)

A revised set of annual financial statements has been presented to confirm the inclusion of land controlled by the municipality in terms of IGRAP18, *Recognition and derecognition of land*.

The material amendments to the financial statements is reported in terms of S122 of the MFMA.

Finding (b)

As per the valuation roll of the municipality, these properties are not in the name of the municipality and is included in its records under inventory thereby influencing possible control. Management have communicated that these will be investigated in the ensuing financial period. A follow up in this regards will be performed accordingly during the 2019-20 financial period. The amount has been transferred to the summary of uncorrected misstatement schedule.

ERF	Description	Deed holder	Location	Amount as per municipality's records
1651	Stuartstown	Not Yet Registered	1651 of Stuartstown	40 877.19



ERF	Description	Deed holder	Location	Amount as per municipality's records
1668	Stuartstown	RAMRAJ RAMRAJ	1668 of Stuartstown	55 614.04
1676	Stuartstown	Not Yet Registered	1676 of Stuartstown	46 403.51
1685	Stuartstown	CHILIZA MADUNGATHINA RAPHAEL	1685 of Stuartstown	49 561.40
1687	Stuartstown	DLANI BONGEKILE GLADNESS	1687 of Stuartstown	41 140.35
1726	Stuartstown	Not Yet Registered	1726 of Stuartstown	46 403.51
1728	Stuartstown	NTSELEMANE BHEKABANTU COLUMBU	1728 of Stuartstown	50 614.04

R330 614.04**8. Inaccurate commitments disclosure****Audit finding**

In terms of section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

In terms of section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA), every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Paragraph 124(d) of GRAP 1 on Presentation of Financial Statements requires disclosure of unrecognised contractual commitments.

In terms of the guideline provided by Treasury for GRAP 19 (provisions, contingent liabilities and contingent assets), commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- 1) Contracts should be non-cancellable or only cancellable at significant cost (for example contracts for computer or building maintenance services); and
- 2) Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefits commitments are excluded.

Capital Commitments

- a) The following differences were noted when the capital commitment per management's schedule was recalculated using the contract values per letter of appointment and the expenditure to date:

Project name	Award value as per letter	Name of supplier	Expenditure to date as per auditee	Commitment amount as per auditee	Recalculated Expenditure to date by auditors	Recalculated commitment amount by auditors	Differences between the auditee's and auditors commitment amount
Golf Course Roads: Consultant	885 937.54	Golf Course Roads: Consultant	555 482.86	330 454.68	-	885 937.57	555 482.89
Shiyabanye Hall: Contractor	619 943.50	Kamanga Trading cc	610 399.10	9 544.40	532 182.53	87 760.97	78 216.57
Jeffrey Zungu Sportfield W2: Contractor	12 976 768.00	Msalela Transport CC	10 936 332.03	2 040 435.97	12 620 449.78	356 318.22	(1 684 117.75)
Mazabeko Hall W12: Contractor	3 166 023.03	Wahlumaa Trading Enterprise	2 202 953.73	963 069.30	2 429 564.75	736 458.28	(226 611.02)
Pass 4 Phungula Sportsfield W6: Contractor	4 471 033.26	Sipho-Glad Construction and General Trading cc	4 429 367.89	41 665.37	4 439 717.88	31 315.38	(10 349.99)
Revamping of Municipal Building: Contractor	24 738 258.41	Brainwave Projects 848 cc	2 780 928.29	21 957 329.71	3 595 653.39	21 142 605.02	(814 724.69)
Revamping of Municipal Building: Consultant	2 721 208.43	GIBB (PTY) LTD	3 173 127.96	(204 537.00)	1 034 059.80	1 034 059.80	1 238 596.79
Golf course Electrification: Contractor	10 729 900.53	Splenda Flexline JV	7 265 619.56	3 464 280.97	1 883 701.97	1 883 701.97	(1 580 579.00)
TOTAL							(R2 444 067.66)

Operational Commitments

- b) The following differences were noted when the operational commitment per management's schedule was recalculated using the monthly rate multiplied by the remaining period of contract:

Name of supplier	Contract value	Period remaining as per the auditee	Remaining period as per the contract	Commitment amount by auditee	Recalculated commitment amount by auditors	Differences
CELL C	3 902 880.00	36 months	36 months	2 927 160.00	3 054 960.00	127 800.00
SMART SECURE	11 669 662.26	34 months	35 months	11 021 347.69	13 930 118.48	2 908 770.79
TOTAL						R3 036 570.79

Consequently, the above results in material misstatements of capital and operational commitments in the financial statements and may lead to a modification of the audit opinion.

Internal control deficiency

The finance manager did not perform a reconciliation of the commitments schedule to the payment reports and contracts on a monthly basis to confirm its accuracy.



The acting CFO did not perform an adequate review of commitments to confirm that the underlying records supporting the disclosure and commitment schedule prepared by the finance manager is accurate and valid.

The accounting officer did not adequately monitor the achievement of the audit action plan and recommendations by external audit to confirm that prior year findings are addressed in a timely manner.

Recommendation

The finance manager should perform a reconciliation of the commitments schedule to the payment reports and contracts on a monthly basis to confirm its accuracy. These reconciliations should be signed and dated by the acting CFO as evidence of review.

The acting CFO in consultation with the finance manager should investigate these variances and make the necessary corrections to the commitments disclosure in the annual financial statements. The revised disclosure together with the updated commitments schedule should be presented to the auditors for validation purposes.

The accounting officer should improve the monitoring of the audit action plan and recommendations by external audit to confirm that matters are addressed in a timely manner.

Management response

Management notes the finding, detailed comments and explanation are provided on the amended commitment schedules filled for audit and verification.

Name: AS Ntobela
Position: Assets Manager
Date: 13 November 2019

Auditor's conclusion

A revised set of financial statements with updated commitments schedules have been presented and validated by audit to confirm that the necessary corrections have been made. These material amendments are reported in terms of S122 of the MFMA.

Management is urged to improve reviews of commitment schedules against underlying records to confirm the accuracy and completeness of the disclosure in the financial statements. A follow up in this regards will be performed in the 2019-20 financial period.

9. Cash flow statement discrepancies

Audit finding

Section 62(1)(b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

In terms of section 122(1) of the MFMA every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance

against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Paragraph 11 of GRAP2 states that the cash flow statement shall report cash flows during the period classified by operating, investing and financing activities

The following cash flow statement discrepancies were identified based on management's cash flow workings submitted for audit:

Cash flow statement descriptions	Amount 2019	Management workings and comment	Audit Comment
Cash flow from operating activities			
Receipts			
Taxation	20 859 530.00	Refer to tax tab	1. There is no taxation tab to support receipts from rate collections. Total receivable collections as per the designated general ledger accounts is R14 323 530.42
Sale of goods & services	7 446 222.00	Refer to goods tab	2. The goods tab details the amount per category as follows: Rental: R1 072 166 Refuse: R2 255 873 Fines: R51 898 Licensing and permit: R3 110 216 Commission received: R753 486 Other Income: R202 583 However, evidence in support of these amounts could not be obtained
Grants	140 065 301.00	Refer to grants tab	3. Total grant receipts as determined by audit is R151 403 000
Interest received	13 026 783.00	As per note	
	181 397 836.00		
Payments			

Cash flow statement descriptions	Amount 2019	Management workings and comment	Audit Comment
Employee costs	- 64 525 025.00	As per income statement	4. The amount does not agree to employee related costs in the financial statements of R62 083 872. A reconciliation of the difference has not been provided and no additional evidence to support these payments could be obtained.
Remuneration of Councillors	- 10 246 826.00	As per income statement	5. The amount does not agree to the remuneration of councillors in the statement of financial performance of R10 182 136. A reconciliation of the difference has not been provided and no additional evidence to support these payments could be obtained.
Cash paid to suppliers	- 36 000 800.00	Formula	6. No formula presented on spreadsheet and no additional workings or schedules to support the cash payments to suppliers
	- 2 395.00		
	- 110 775 046.00		
Net cash flows from operating activities	70 697 952.00	Refer to note 34 tab	
Cash flows from investing activities			
Purchase of PPE	- 16 160 265.00	As per note	7. This amount should exclude work in progress transfers and include work in progress additions. Refer to communication three for further details
Proceed from the sale of property	362 856.00	Actual proceeds received	8. Evidence to support these receipts have not been provided to audit
Purchase of Intangible Assets	- 1 722 830.00	As per note	
	-		
	- 17 520 239.00		

Cash flow statement descriptions	Amount 2019	Management workings and comment	Audit Comment
Net increase/(decrease) in cash and cash equivalents	53 177 713.00		
Cash and cash equivalents at the beginning of the year	102 277 331.00	As per note	
Cash and cash equivalents at the end of the year	155 455 044.00		
Bank balance	155 455 044.00		

Note 34 – Cash generated from operations

Descriptions as per Note 34	Amount	Management comment and workings	Audit Comment
Surplus	45 247 861.00	As per income statement	
Adjustments for:			
Depreciation and amortisation	19 380 364.00	As per income statement	
Transfer of assets	460 657.00	As per note	9. Note description is incorrect and should be loss on disposal of assets
Impairment Loss	3 184 560.00	As per income statement	
	-		
Bad debts written off	-	As per income statement	10. Bad debt written off as per note disclosure 31 is R1 091 534
Provisions	1 689 461.00	Movement in balance sheet	11. Provision for bad debt adjustment as per note disclosure 31 is R597 927
Movement in Employee Benefits	- 1 421 000.00	Movement in balance sheet	
Changes in working capital			
Inventories	788 348.00		
Receivables from exchange transactions	- 3 266 921.00	Movement in balance sheet	12. Movement as per statement of financial position is R8 995 013
Receivables from non-exchange transactions	- 11 099 149.00	Movement	13. Movement as per statement of financial position is R3 266 921
Payables from exchange transactions	14 633 802.00	Movement in balance sheet	14. Movement as per statement of financial position is R8 484 640
Prepayments	675 156.00	Movement in balance sheet	

Descriptions as per Note 34	Amount	Management comment and workings	Audit Comment
VAT	302 774.00	Movement in balance sheet	15. Movement as per statement of financial position is R697 226
Unspent conditional grants and receipts	122 039.00	Movement in balance sheet	
	70 697 952.00	Transferred to face of Cash Flow	

Consequently, the cash flow statement is materially misstated, and not fairly presented and supported against sufficient appropriate evidence.

Internal control deficiency

Financial management

The acting CFO did not adequately review the cash flow statement against the underlying records to confirm accuracy and compliance with the GRAP2 standard.

The acting CFO did not implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support the cash flow statement disclosure in the financial statements.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Recommendation

The acting CFO should improve the review of the cash flow statement against the underlying records to confirm accuracy and compliance with the GRAP2 standard.

The acting CFO should implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support the cash flow statement disclosure in the financial statements.

The internal audit and audit committee should improve the review of the financial statements prior to it being submitted for audit to confirm cash flow statement disclosures are accurate and made in accordance with GRAP standards.

The acting CFO should follow up and make the necessary corrections to the financial statements. All adjustments should be appropriately substantiated against sufficient appropriate evidence and presented to the auditors for validation.

Management response

Management notes the finding. The cash flow statement will be updated accordingly. The supporting workings for the cash flow statement will be provided for validation.



Name: EL Makhaye
 Position: Manager: Budget & Reporting
 Date: 23 October 2019

Auditor's conclusion

A revised set of financial statements with updated cash flow workings and supporting schedules has been provided and validated by audit. The amendments required to the cash flow statement were deemed pervasive therefore it is reported in terms of S122 of the MFMA.

Management is urged to improve its review of the cash flow statement against underlying records to confirm accuracy and completeness in the financial statements. Proper audit record keeping and audit trails should be kept in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support the cash flow statement disclosure in the financial statements. A follow up in this regards will be performed in the 2019-20 financial period.

Procurement and contract management

10. Prior period qualification on irregular expenditure

Audit finding

In terms of section 122(1) of the MFMA every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

The municipality obtained a qualification on irregular expenditure in the prior period:

"The municipality did not record all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to inadequate internal controls for the identification of irregular expenditure. Consequently, irregular expenditure disclosed in note 45 to the financial statements is understated by R1,46 million."

The following SCM related findings were raised in the prior period requiring management to revisit the population:

- Bids not advertised for the required minimum period – SCM regulation 22(1)(b)(i)
- PPPFA requirements not followed for evaluation of quotations – Section 2(1)(a) of the Preferential Procurement Policy Framework Act
- Three quotations not obtained and reasons not documented and approved – SCM regulation 17(a) and (c)
- Winning service providers did not meet the minimum threshold for local production and content – Preferential procurement regulations 5

However, management did not adequately demonstrate that the population was revisited to identify, quantify and disclose similar instances of non-compliances when proposing the audit corrections as additional contraventions were detected by audit.

In doing the follow up in the current year, management did not make any corrections to the comparatives on AFS submission date of 31 August 2019, which is indicative of not satisfactorily addressing the qualification raised in the prior period surrounding completeness of irregular expenditure recognised.



Management were afforded an additional opportunity to rectify the population and based on the exercise performed, two awards were identified as irregular expenditure due to contraventions in local content requirements:

Bid number	Description	Supplier	Award amount R
UBU-B/01/06/17	FENCING OF IXOPO TAXI AND BUS RANK	BUGEE TRADING AND PROJECTS	480 896.46
UBU-B/10/08/17	SUPPLY AND DELIVERY OF SD PROTECTIVE CLOTHING (REFUSE UNIT)	CLEAN SPOT SOLUTIONS	243 366.00
Total			R724 262.46

In assessing whether management correctly revisited the entire population, a sample was selected from the prior period and the following discrepancies have been identified with management's process and the documentation inspected:

- a) Similar instances of irregular expenditure were noted due to contraventions of SCM legislation identified in the prior period:

Bid number	Description	Supplier	Award amount R	Audit Comment
UBU-Q-02/02/18	ACCOMMODATION, CONFERENCING VENUE AND CONFERENCING FACILITIES	DESROCHES HOTEL	107 935.00	Three quotations were not obtained. The reasons were not recorded and approved by the CFO or an official designated by the CFO [SCM Reg 17(c)]
UBU-Q-03/02/18	ACCOMMODATION, CONFERENCING VENUE AND CONFERENCING FACILITIES	ST MICHAELS SANDS	51 290.00	Three quotations were not obtained. The reasons were not recorded and approved by the CFO or an official designated by the CFO [SCM Reg 17(c)]
UBU-Q-12/07/17	SUPPLY AND DELIVER OF BLANKETS AND SPONGES	EXCENTIA TRADING	46 000.00	Textile is a designated sector for local content however the invitation for quotation did not specify the minimum threshold for local content and production [PPR8(2)]

- b) The following discrepancies were identified with the documentation in support of compliance with legislation:

Three quotations not obtained

Bid number	Description	Supplier	Award amount R	Audit Comment
UBU-Q-05/10/17	TRAINING YOUTH ON CONSTRUCTION ROADWORKS	INCHANGA FET COLLEGE	177 996.00	Three quotations were not obtained. However the memo (20/11/2017) supporting the reasons is not an original document therefore no reliance is placed to confirm compliance with SCM Reg17(c)
UBU-Q-05/01/18	SUPPLY AND DELIVERY OF SD MACHINERY	BAYONGA TRADING	156 874.25	Three quotations were not obtained. However the memo (30/01/2018) supporting the reasons is not an original document therefore no reliance is placed to confirm compliance with SCM Reg17(c)
UBU-Q-05/08/17	SUPPLY AND INSTALATION OF PATCH MANAGEMENT SOFTWARE (RE-ADVERTISEMENT)	DATA CENTRIX (PTY) LTD	22 971.00	Three quotations were not obtained. However the memo (21/02/2018) supporting the reasons is not an original document therefore no reliance is placed to confirm compliance with SCM Reg17(c)
UBU-Q-01/02/18	SUPPLY AND DELIVERY OF MUNICIPAL NEWSLETTER	LUANDI MEDIA MARKETING CC	199 900.00	Three quotations were not obtained. However the memo (21/02/2018) supporting the reasons is not an original document therefore no reliance is placed to confirm compliance with SCM Reg17(c)
UBU-Q-04/06/18	SUPPLY, INSTALL AND CONFIGURE WIRELESS ACCESS POINTS	DATA CENTRIX (PTY) LTD	159 864.38	Three quotations were not obtained. However the memo (27/06/2018) supporting the reasons is not an original document therefore no reliance is placed to confirm compliance with SCM Reg17(c)

Notwithstanding the above, all memos in support of not obtaining three quotations were signed (per procuracionem) by the finance manager on behalf of the acting CFO at different time intervals.

Local content requirements

Bid number	Description	Supplier	Award amount	Audit Comment
UBU-Q-13/07/17	SUPPLY AND DELIVERY OF FENCING MATERIAL	TEKO AND SBABALWE SOLUTIONS	45 018.00	The request for quotation and the bidder's MBD6.2 (Declaration on local content) are copies therefore no reliance is placed on these documents for audit purposes. Notwithstanding this, there is no evidence on the BEC minutes to confirm that local content of respective bidders were considered before proceeding to preferential points evaluation.
UBU-Q-02/10/17	PROMOTIONAL MATERIAL FOR SALGA GAMES	INKOTHA AGENCIES	86 431.00	The request for quotation and the bidder's MBD6.2 (Declaration on local content) are copies therefore no reliance is placed on these documents for audit purposes. Notwithstanding this, there is no evidence on the BEC minutes to confirm that local content of respective bidders were considered before proceeding to preferential points evaluation. Briefing session minutes also does not have any discussions or deliberations on local content requirements for the award.

Bid number	Description	Supplier	Award amount	Audit Comment
UBU-Q-08/07/17	SUPPLY AND DELIVER FIRE DISASTER UNIFORM	BUGEE TRADING & PROJECTS	126 660.60	The request for quotation and the bidder's MBD6.2 (Declaration of local content) are copies therefore no reliance is placed on these documents for audit purposes. Notwithstanding this, there is no evidence on the BEC minutes to confirm that local content of respective bidders were considered before proceeding to preferential points evaluation. There is email correspondence in the bid documents where the municipality is requesting the MBD6.2 forms from the prospective bidders on 16 August 2017 which is after the closing date of 4 August 2017 and the sitting of the BEC on 11 August 2017.

Based on the above, it is evident that management did not adequately revisit the entire population to identify similar instances on non-compliances as detected in the prior period. Therefore, the proposed correction is not accepted and results in a repeat modification of the audit opinion on irregular expenditure.

Internal control deficiency

Leadership

The accounting officer did not adequately monitor the achievement of the audit action plan to confirm prior period findings relating to irregular expenditure are addressed in a timely manner.

Finance management

The SCM manager did not implement effective processes to address prior period external audit findings relating to irregular expenditure.

Recommendation

The accounting officer should improve oversight on the achievement of the audit action plan to confirm prior period findings relating to irregular expenditure are addressed in a timely manner.



The SCM manager should implement effective processes to address prior period external audit findings relating to irregular expenditure. This should be monitored and overseen by the acting CFO to confirm objectives of addressing prior period qualifications are met.

The accounting officer should investigate the above awards in terms of the MFMA and implement consequence management procedures against officials who are found negligent.

Management response

UBU-Q-02/02/18 – In this case, on the initial advert, the municipality received 2 quotations then it further requested 5 additional quotations. On the minutes, it was stated that 2 quotations were received, and a recommendation was approved by CFO to further request more quotations. Therefore, the municipality did not report as enough quotations were available.

UBU-Q-03/02/18 – In this case, on the initial advert, the municipality receive 1 quotation then it further requested 2 additional quotations. On the minutes, it was stated that 1 quotation was received, and a recommendation was approved by CFO to further request more quotations. Therefore, the municipality did not report as enough quotations were available.

UBU-Q-12/07/17 / UBU-Q-13/07/17 / UBU-Q-02/10/17 / UBU-Q-08/07/17 – In these cases, the municipality was focusing on local content for uniforms. However, the municipality has been engaging Provincial Treasury with regards to local contents as sometimes it requires guidance from them. These cases will be added to the irregular disclosure as some of these were requested through emails and after the closing date of the request. The municipality were of the view that, since service providers have declared, then it was okay to proceed with the process. It must also be noted that most of these findings happened in 2017, in that time the municipality were not trained by the Provincial Treasury in respect of local content.

UBU-Q-05/10/17 - In this case, the CFO approved the BEC minutes and the reasons were also written on the form attached to the order where the CFO authorised these reasons. The memo was an additional tool.

UBU-Q-05/01/18 – In this case, the CFO approved the BEC minutes and the reasons were also written on the form attached to the order where the CFO authorised these reasons. The memo was an additional tool.

UBU-Q-05/08/17 – In this case, the request for quotation was advertised twice, on both occasions, only one respond was received. On the first request, the BEC recommended that the request be re-advertised. On the second request, the BEC recommended for the award and the value was below R30 000.

UBU-Q-01/02/18 - In this case, the CFO approved the BEC minutes and the reasons were also written on the form attached to the order where the CFO authorised these reasons. The memo was an additional tool.

UBU-Q-04/06/18 - In this case, the CFO approved the BEC minutes and the reasons were also written on the form attached to the order where the CFO authorised these reasons. The memo was an additional tool.

Name: LF Ndlovu
 Position: SCM Manager
 Date: 13 November 2019

Auditor's conclusion

As per the finding and based on management's response, there were additional instances of irregular expenditure identified relating to local content which were not factored in management's proposed correction. This is indicative of management not adequately revisiting the population to identify similar instances of non-compliances. Hence the proposed correction is not accepted and will revert to the original misstatement raised. This materially impacts the completeness of the disclosure in the financial statements and results in a modification of the audit opinion on irregular expenditure comparatives.

11. Bid adjudication committee not properly constituted

Audit finding

In terms of Municipal Supply Chain Management Regulations 29(2), a bid adjudication committee must consist of at least four senior managers of the municipality which must include-

- (i) The chief finance officer or, if the chief finance officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;
- (ii) At least one senior supply chain management practitioner who is an official of the municipality
- (iii) A technical expert in the relevant field who is an official of the municipality, if the municipality has such an expert

Contrary to these minimum requirements, the municipality does not have a properly constituted bid adjudication committee as it only has three senior managers and is not represented by a senior supply chain management practitioner:

#	Designation of individuals represented on the committee
1	Acting Chief Finance Officer
2	Director: Infrastructure Planning and Development
3	Director: Social Development (Acting as Director: Corporate Services as well)

The fourth individual present at these committee meetings is a procurement clerk however the person is not deemed to be a senior SCM practitioner and is only present in the capacity of minute taker.

As per paragraph 29(2) of the municipality's SCM policy, the bid adjudication committee must consist of at least four senior managers of the municipality which must include-

- (a) Chief financial officer (Finance)
- (b) Director: Corporate Services
- (c) Director: Social Development
- (d) Director: Infrastructure Planning and Development



- (e) The quorum must be equal to 50% of the number of permanent (as opposed to co-opted) committee members, plus one member

The Director: Corporate services position was vacant during the financial period, however the policy deviates from the requirements of legislation which requires at least one senior supply chain management practitioner to be represented on the committee.

This results in a material non-compliance with SCM regulation 29. All payments in relation to awards that have been adjudicated by the committee whilst not properly constituted, results in irregular expenditure.

Internal control deficiency

Leadership

The accounting officer did not adequately review the requirements of the SCM regulations to confirm that a properly constituted bid adjudication committee is implemented during procurement processes.

The SCM manager did not adequately review the municipality's SCM policy to confirm alignment to key legislation.

Recommendation

The accounting officer should improve review of the SCM regulations to confirm that a properly constituted bid adjudication committee is implemented during procurement processes.

The SCM manager should update its SCM policy to confirm that it is aligned to the SCM regulations and be presented to council for approval.

An exemption should be sort from National Treasury regarding any departures from these minimum requirements.

The acting CFO should identify and quantify all payments relating to awards that were adjudicated by the committee during the period that it was not properly constituted and update the irregular expenditure disclosure. The revised annual financial statements with the updated irregular expenditure schedules should be presented to audit for validation purposes. The impact of prior periods should be considered during management's assessment and proposed corrections.

Management response

Management disagree with the finding. Bid adjudication is composed as per municipal Supply Chain Management policy which is serves as the guideline and is use for best practice. The CFO also serves as the SCM practitioner. And the Policy also stipulate that the Quorum is 50 %, meaning the quorum is met if there is two directors over and above the CFO. The SCM policy has been submitted to Provincial Treasury for review and they accepted the policy. The policy and regulations refer to SCM practitioner and not SCM official.

Name: MP Mbatha

Position: ACFO

Date: 21 November 2019



Auditor's conclusion

As per the finding, the policy of the municipality deviates and is in contravention of the requirements of legislation which requires a BAC to have at least four senior managers and must include a CFO, senior SCM practitioner and a technical expert. Currently the BAC of the municipality does not have four senior managers and there is no senior SCM practitioner representative. The CFO of the municipality cannot fulfil the role of both the CFO and the SCM practitioner. Hence, this results in material understatement of irregular expenditure of the financial statements and will lead to a modification of the audit opinion.

In addition, a material non-compliance paragraph with SCM regulation 29(2) is included in the audit report.

12. Award to supplier that is not tax compliant

Audit finding

In terms of section 112(1)(l)(iii) of the MFMA, the SCM policy of a municipality must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and must cover the barring of persons from participating in tendering or other bidding processes, including persons whose tax matters are not cleared by South African Revenue Service.

SCM regulation 13(b) states that a SCM policy must state that the municipality may not consider a written quotation or bid unless the provider who submitted the quotation or bid has authorised the municipality to obtain a tax clearance from SARS that the provider's tax matters are in order

MFMA Circular 90 was issued by National Treasury to give effect to the new tax clearance management system to be implemented by accounting officers at all municipalities and municipal entities.

In terms of the circular, bid conditions should request bidders to register on governments Central Supplier Database (CSD) and include in their quotations or bids, their Master Registration Number or tax compliance status pin to enable the municipality to verify the bidder's tax compliance status.

Utilise the master registration number or tax compliance status PIN to verify bidder's tax compliance status.

Print the tax compliance status screen view or letter with the result of the bidder's status at the date and time of verification to file with the bidder's documents for audit purposes. The CSD and tax compliance status PIN are the approved methods to be used to prove tax compliance as SARS no longer issues tax clearance certificates. Where a supplier does not submit a tax compliance status pin but provides a CSD number, the accounting officer should utilise the CSD number via its website (www.csd.gov.za) to access the supplier records and verify tax compliance status. A printed screen view at the time of verification should then be attached to the supplier's records for audit purposes.

Contrary to these requirements and as per CSD tax compliance history reports, awards were made to a supplier that was not tax compliant at the time of award:

Quote/ Bid number	Description	Awarded Bidder	Value of award R	Period of Non- tax compliance	Date award approved by CFO/MM	Purchase order/ Contract date
UBU-Q- 04/07/1 8	Pumbling Training	Inchanga Fet College	173 600	28 Jul 2018 - 04 Sep 2018	08-Aug-18	08-Aug-18
UBU-Q- 01/08/1 8	Youth Training In Supervision Of Construction Process	Inchanga Further Education And Training	184 800	28 Jul 2018 - 04 Sep 2018	28-Aug-18	03-Sep-18
Deviation n 2	Repairs To Gears For Grader Nix 7332	B&B Transport And Plant Hire	79 925	02 Jun 2018 - 02 Aug 2018	19-Jul-18	26-Jul-18
Deviation n 8	Borehole Repairs At Thusong Centre And Municipal Main Offices	Happy Growth Properties	34 379	Unable to determine prior to 27 May 2019 as the supplier was not registered on CSD. No Tax pin or evidence maintained of the use of the SARS efiling orTCS to validate tax compliance status prior to award	09-May-19	15-May-19
UBU- B/01/12/ 18 (Tender)	Provision of Security Services For Municipal Properties And Provision of VIP Protection For 36 Months	SMART SECURE	11 669 662	04 Jun 2018 - 24 Apr 2019	20-Mar-19	17-Apr-19

Consequently, this results in a material non-compliance with SCM regulation 43 and will be included in the audit report. All payments made for the above award should be regarded as irregular expenditure and disclosed in the financial statements.

Internal control deficiency

Leadership

The Bid evaluation committee did not adequately monitor adherence to its SCM policy requirements regarding supplier tax matters to confirm compliance prior to award.

Financial management

The SCM manager did not update the SCM checklist with the requirements of circular 90 to ensure the tax compliance status of suppliers are appropriately validated on the CSD prior to award.



Recommendation

The Bid evaluation committee should improve monitoring to its SCM policy requirements regarding supplier tax matters to confirm compliance prior to recommending of the award.

The SCM manager should update the SCM checklist with the requirements of circular 90 to ensure the tax compliance status of suppliers are validated on the CSD prior to award.

The accounting officer should investigate and implement consequence management procedures against respective officials that are found to be negligent.

The CFO should include the expenditure relating to this award as irregular expenditure in the financial statements.

The CFO should review the entire population of quotation and tender awards to determine errors of similar nature for which all payments must be quantified and disclosed, together with the above awards, as irregular expenditure.

Management response

The management note the findings. In the past before MFMA Circular 90, the BEC used to check the tax matters before making the recommendation. However, after the circular, the BEC no longer disqualify suppliers or check their tax matters, but the tax matters are now checked after the approval by BAC, MM or CFO in case of the quotations.

Then after the minutes approving the award, then the appointment letter or the order is prepared then authorised by the MM or CFO. Once these are signed, then tax matters are checked and if not in order, then service provider will be contacted to ensure that they are compliant. This in line with the circular as it refers to the finalisation of the award.

UBU-Q-04/07/18 – The order was printed on the 8/8/2018 but it was sent to the service provider on the 31/8/2018. The service provider was contacted prior to the order being sent (between the 8/8/2018 and 31/8/2018). Then during the follow up, the service provider advised the SCM that the tax matters have been resolved and they indeed their status changed **just after 2 days which is within the 7 days as required by the circular**. Copy of the email containing the date of sending the order to the supplier is attached as **annexure 2**. It must also be noted that this was the only supplier who met all the requirements.

UBU-Q-01/08/18- The order was printed on the 3/9/2018 but it was sent to the service provider on the 05th of September 2018 after verifying their tax compliant status. In this case the service provider was tax compliant. Copy of the email containing the date of sending the order to the supplier is attached as **annexure 3**.

Deviation 2 – The order was printed on the 26/7/2018 and it was sent to the service provider on the 27/7/2018. The service provider was contacted prior to the order being sent and they indeed corrected their details and their **status changed just after 4 days which is within the 7 days as required by the circular**. Copy of the email containing the date of sending the order to the supplier is attached as **annexure 4**.

Deviation 8 – The order was printed and sent to the service provider on the 15/5/2019. As this was a deviation due to urgency and impractical, the service provider was indeed awarded although they were not on CSD. According to the SCM regulations (Reg 17 1(b)), the municipality can request quotations from service providers who are not listed, provided they meet the listing requirement.

During the award, which is between the 9/5/2019 and 15/5/2019, the service provider was requested to complete the MBD forms (MBD 4,8 & 9) and was also advised to register on the CSD. The copies of MBD forms and CSD compliance report are attached as **annexure 5**

UBU-B/01/12/18- This was a tender, the approval of the recommended bidder was signed by MM on the 20/3/2019 and the appointment letter was signed on the 17 April 2019. The tax compliance status was checked by the Municipality on the 28/3/2019 and it was found to be non-compliant. The service provider was contacted and by the 2/4/2019 the service provider was compliant. The correspondence regarding the tax compliance were attached on the tender document and they are attached as **annexure 6**

Name: LF Ndlovu
Position: SCM Manager
Date: 6 November 2019

Auditor's conclusion

As per management's response, it is stated that since the introduction of MFMA Circular 90 the tax matters are only checked after the approval by the bid adjudication committee, municipal manager and CFO in the case of quotations. No tax verification checks are performed during the evaluation phase.

This is in contradiction with the circular which requires designated officials to verify the bidder's tax compliance status prior to the finalisation of the award of the bid or price quotation (i.e. approval by the BAC, MM or CFO). The date of the purchase order is irrelevant to the tax verification requirement.

The applicability of the seven-day requirement where bidders are afforded reasonable opportunity to rectify their tax affairs applies to recommended bidders only and needs to be identified at the evaluation phase by the BEC.

UBU-B/01/12/18 (Smart Secure)

As per the evidence subsequently presented for audit, the tax non-compliance was identified after the approval of the award on 20 March 2019, which is in contravention of tax verification requirements outlined under SCM regulation 43 and Circular 90.

As per paragraph 5(2) of the municipality's SCM policy, the power to make a final award above R2 million (Vat included) may not be sub-delegated by the municipal manager. A final award is defined in relation to bids or quotations submitted for contract, as the final decision on which bid or quote to accept. This is effectively the date the municipal manager approved the recommendations of the BAC to award Smart Secure (Pty) Ltd at R11 669 662.

As these bidders were non-tax compliant at the date of award, this results in irregular expenditure and materially impacts the completeness of the disclosure in the financial statements. Management has also not demonstrated having revisited the entire population as per the recommendation. A modification of opinion is expressed and a material non-compliance paragraph in terms of SCM regulation 43 will be included in the audit report.

13. Unfair disqualification of bidders from awards

Audit finding

In terms of section 112(1)(e) of the MFMA, the SCM policy of a municipality must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and must demonstrate open and transparent pre-qualification processes for tenders or other bids.

In terms of section 2(1)(f) of the Preferential Procurement Framework Policy Act, 2000 (Act No. 5 of 2000), the contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer

Preferential procurement regulation 11(1) and (2) states that a contract may be awarded to a tenderer that did not score the highest points only in accordance with section 2(1)(f) of the Act. If an organ of state intends to apply objective criteria in terms of section 2(1)(f) of the Act, the organ of state must stipulate the objective criteria in the tender document.

The following awards resulted in unfair disqualification of bidders thereby impacting the evaluation of preference points as the supplier scoring the highest points was not awarded:

Award 1 – Harry Gwala Marathon Promotional Material

Quote number	Description	Bidders	Amount quoted R	Reason for elimination	Requirement included in the RFQ	Date of BEC Minutes and evaluations	Date e-mail sent to suppliers to submit their samples	Evaluation
UBU-Q-08/02/19	Supply And Deliver Harry Gwala Marathon Promotional Material	Bargain Uniforms	123 625	Samples submitted are inferior quality	No	25-Feb-19	26-Feb-19	Notwithstanding that the original invitation for quotation document did not include a requirement to submit samples, the email submitted by management requesting samples from the prospective bidders is dated after the BEC meeting.
		Fana Manufacturing	160 080	Samples submitted are inferior quality	No			
		Thingo Projects	190 000	Did not submit their samples	No			
		Elmathent e Projects	199 485	Did not submit their samples	No			

Based on recalculation of preference points, Thingo Projects should have been awarded the quote instead of Inkotha Agencies.

Quote number	Description	Bidders	Amount quoted R	Price Points	BBBE Point s	Total	Ranking
UBU-Q-08/02/19	Supply And Deliver Harry Gwala	Bargain Uniforms	123 625	80	20	100	Should be rejected due



Quote number	Description	Bidders	Amount quoted R	Price Points	BBBE Point s	Total	Ranking
	Marathon Promotional Material						to cover quoting indicators identified
		Fana Manufacturing	160 080	56	20	76	Should be rejected due to cover quoting indicators identified
		Thingo Projects	190 000	37	20	57	1
		Inkotha Agencies (Winning Bidder)	199 485	31	-	31	2

Award 2 – Construction of Lower Fairview Road

Bid number	Description	Bidders	Amount quoted R	Amount quoted R	Audit Comment
UBU-B/02/07/18	Construction of Lower Fairview Roads	B&B Transport & Plant Hire	9 106 843.00	Winning bidder as per preference points system implemented by the BEC	Evidence to support the reason for disqualification of Mahlubi Construction was not included in the bid evaluation documents. However as per inspection of the completion certificate obtained from the Infrastructure department, the Ixopo bus rank project (UBU-B/03/06/15) was completed by Mahlubi Transport on 17 July 2017 therefore nullifying grounds for disqualification. In addition, the same service provider was considered and awarded a construction contract subsequent to this award in February 2019 (i.e. UBU B/01/11/18 Construction of Esivandeni Access Road - 5 809 095)
		Mahlubi Transport	8 155 016.00	Disqualified - Mahlubi Construction have been appointed by Ubuhebezwe municipality for Ixopo Bus rank and failed to complete the project	

Based on recalculation of preference points, Mahlubi Transport should have been awarded the tender instead of B&B Transport & Plant Hire.

Quote number	Description	Bidders	Amount quoted R	Price Points	BBBEE Points	Total	Ranking
UBU-B/02/07/18	Construction of Lower Fairview Roads	B&B Transport & Plant Hire	9 106 843	71	20	91	2
		Mahlubi Transport	8 155 016	80	20	100	1

Consequently, all payments made for the above awards should be regarded as irregular expenditure and disclosed in the financial statements.

Internal control deficiency

Leadership

The bid adjudication committee did not adequately review the BEC minutes against the underlying procurement documents to confirm that the correct supplier is awarded in terms of SCM requirements.

Recommendation

The bid adjudication committee should improve their review of the BEC minutes against the underlying procurement documents to confirm that the correct supplier is awarded in terms of SCM requirements.

The accounting officer should investigate and implement consequence management procedures against respective officials that are found to be negligent.

The CFO should include the expenditure relating to these awards as irregular expenditure in the financial statements.

Management response

Award 1 – The request from user department was brought to SCM late as it can be seen from the minutes that the BEC had evaluated the quotations on the same date as the closing date. Initially BEC recommended, the highest scoring supplier which was in this case Bargain Uniforms.

However, after communicating with the user department, they requested that before the order can be issued, they wanted to see the samples before the final award as these included tracksuits for the Mayors and the top leadership of the district. Then the email was sent to all the bidders on the following day. Then after the closing date of submitting the samples then BEC reconvened and the user department was invited where they chose their preferred samples. Then the minutes were amended and signed, however the members did not change the original dates of the initial meeting. The order was signed and sent to the service provider on the 28/2/2019 which is after the submission cut off as well as after the second meeting.

In addition to samples not being submitted, it should be further be noted that Thingo projects did not attach annexure C of MBD 6.2 which would have resulted in them being disqualified as the declaration would be incomplete.

Award 2. Mahlubi was appointed on 25/9/2015 and was supposed to complete on July 2016. The completion certificate was indeed issued on 17/7/2017 (which was a year later) but there was some incomplete work as stated on that certificate. During evaluation of the Construction of Lower Fairview roads, those items were still outstanding, and they were not resolved by both the Engineer and Contractor.

The emails from the Municipality and the Engineer are attached where these items were discussed including the withholding of the payment due to these matters being unresolved. The closeout report was only issued after September 2018 and it was only acknowledged by the Municipality on the 15/11/2018. Copies of email and completion certificate are attached as **annexure 7**.

As the closeout report was issued and the matter was resolved regarding the Ixopo Bus rank, Mahlubi was then eligible for tendering. The appointment made in February 2019, which is over 4 months after the closeout report, the municipality has no reasons for not appointing Mahlubi.

Name: LF Ndlovu

Position: SCM Manager

Date: 6 November 2019

Auditor's conclusion

Award 1 – Evidence to support management's response regarding the reconvening of the BEC after the submission of samples could not be obtained. Regardless of this, the award was evaluated against a criterion that was not stipulated in the original invitation for quotation document. This constitutes irregular expenditure and impacts the completeness of the disclosure in the financial statements.

Award 2 – Evidence to support management's response has been subsequently provided to confirm that Mahlubi Transport did not perform on the project. Despite knowing of the transgressions and challenges encountered, the municipality subsequently granted the same supplier another award in February 2019 (i.e. UBU B/01/11/18 Construction of Esivandeni Access Road - 5 809 095) thereby exposing the municipality to additional risks. The bid proposal should have been rejected in terms of SCM regulation 38(1)(d)(ii) and paragraph 38(1)(d), which states that the municipal manager must reject any bid from a bidder who during the last five years has failed to perform satisfactorily on a previous contract with the UBuhlebezwe Municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory. As a result, the payments for this award is deemed irregular.

As the above two awards constitutes irregular expenditure, it impacts the completeness of the disclosure in the financial statements. A modification of audit opinion is expressed in this regards.

Compliance

14. Investment not permitted

Audit finding

Section 7(3)(b) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) states that a municipality may not open a bank account with an institution not registered as a bank in terms of the Banks Act,1990 (Act No. 94 of 1990).

Contrary to this requirement, the municipality had an active investment with Ithala State-owned Company Limited during the financial period.



Section 1 of the Banks Act prescribes that to qualify as a bank an institution needs to be registered as a public company in terms of the Companies Act.

Section 1 of the Companies Act states that a public company is a profit company which is not a state-owned company.

Section 1 of the KwaZulu-Natal Ithala Development Finance Corporation Act defines the company to mean the Ithala State-owned Company Limited, a subsidiary of the Ithala Development Finance Corporation Limited, being a state-owned company incorporated in terms of the Companies Act.

Thus Ithala State-owned Company Limited cannot be a bank registered in terms of the Banks Act, as it is currently defined.

A similar finding was raised in the prior period on this investment in November 2019 however the account remained active and the investment was only withdrawn on 5 June 2019 at R35 203 602. As per the bank confirmation, a total interest of R2 660 901 accumulated during the 11 months in which the account was active in the financial period.

Consequently, this results in a material non-compliance and will be included in the audit report.

Internal control deficiency

Leadership

The CFO did not adequately update the audit action plan to confirm all prior period audit compliance findings are addressed in a timely manner.

Recommendation

The CFO should adequately update the audit action plan to confirm all prior period audit compliance findings are addressed in a timely manner to prevent repeat contraventions. This should be monitored and reviewed by the accounting officer on a quarterly basis.

The accounting officer should improve monitoring against the MFMA and its cash management policy to ensure municipal investments are only held with banks registered in terms of the Banks Act.

Management response

Management notes the finding. The investment was withdrawn after it matured so as to avoid the fruitless and wasteful expenditure that would have been incurred if the investment was withdrawn early as it was going to attract penalties.

The recommendations provided will be implemented going forward by management.

Name: MP Mbatha

Position: Acting Chief Finance Officer

Date: 6 November 2019

Auditor's conclusion

As the investment was not immediately withdrawn and remained active for 11 months during the financial period, this results in a material non-compliance with section 7(3)(b) of the MFMA and will be included in the audit report.

15. Interest not levied on arrear consumer accounts

Audit finding

In terms of section 62(2)(g) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), the accounting officer of a municipality is responsible for the management of the revenue of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework.

In terms of section 97 of the municipality's 2018/19 credit control and debt collection policy, it states that the policy must provide for interest on arrears (where appropriate) at 10% per annum.

As per the 2018/19 general rates and refuse tariff assessments approved by council on 24 May 2018 and published in provincial gazette no.1964 on 14 June 2018, all rates that remain unpaid at the end of July each year will be charged a collection charge of 10% on overdue amount.

Contrary to these requirements, no interest was levied on arrear consumer accounts at the municipality during the financial period.

Management presented audit with council resolution no CBT051/15 dated 28 May 2015 which reads as follows:

"That council approves not charging interest on overdue accounts in a quest to encourage payment and reduce debt for the two following financial years, 2015/16 and 2016/17 respectively, up to the end of the current valuation roll"

However, this exemption has lapsed and not applicable to the 2018/19 financial period.

Management indicated that the exemption was extended and enforced through the publishing of the 2019/20 general rates and refuse tariff in provincial gazette no. 2089 on 13 June 2019, which states that the municipality has opted not to charge interest and penalties on all rates that remain unpaid at the end of July each year in a quest to encourage payment and reduce debt for the two following financial years, 2018/19 and 2019/20 respectively, up to the current valuation roll. Copy of the resolution and proposed amendments are available from the Municipal Offices during office hours.

Notwithstanding that this document should only be effective on rates for the 2019/20 financial period given the timeframe at which it is approved and published, there is no specific council resolution to support any exemption from levying interest for the 2018/19 year.

Consequently, this is a material contravention with S62(2)(g) of the MFMA and will be included in the audit report.

Internal control deficiency**Leadership**

The CFO did not monitor adherence to its debt policy and the 2018/19 rates assessment to confirm that interest is levied on overdue consumer accounts.

Compliance with key legislation could have been prevented through implementation of a compliance checklist surrounding revenue management.

Recommendation

The CFO should improve monitoring of its debt policy and rates assessment document to confirm that interest is appropriately levied on overdue consumer accounts.

A compliance checklist relating to revenue management should be implemented by the CFO on an annual basis. This should be signed by the accounting officer as evidence of review.

Management response

Management notes the finding. The interest workings, processes and proposed adjustment to the annual financial statements will be presented to the audit team for verification and validation.

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 6 November 2019

Auditor's conclusion

Interest has not been levied to individual arrear consumer accounts during the financial period in terms of the municipality's 2018-19 debt management and credit control policy. This results in a material non-compliance with section 62(2)(g) and will be included in the audit report.

16. Prior period UIFW expenditure not investigated**Audit finding**

Section 32(2) of the MFMA states that a municipality must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless –

- (a) In the case of unauthorised expenditure is –
 - (i) Authorised in an adjustment budget; or
 - (ii) Certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
- (b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council.

As per note disclosures 43 to 44 in the financial statements, the municipality incurred fruitless and wasteful and irregular expenditure in the prior periods as follows:

Description	Amount R
Fruitless and wasteful expenditure – prior to 2017/18 financial period	107 931



Description	Amount R
Fruitless and wasteful expenditure – 2017/18 financial period	2 856
Irregular expenditure – 2017/18 financial period	12 076 724

No investigations into these amounts were performed by the municipality to establish recoverability.

This results in a material non-compliance with section 32(2) of the MFMA and will be included in the audit report.

Internal control deficiency

Leadership

The accounting officer did not establish formal policies and procedures that govern the investigation, recovery and write off of irregular and fruitless and wasteful expenditure of the municipality.

Recommendation

The accounting officer should establish policies and procedures that need to be implemented when irregular, unauthorised and fruitless and wasteful expenditure is identified by the entity. To confirm proper investigative processes, an investigation checklist should be implemented to ensure that the following criteria are met:

- The investigation is commissioned/approved at the appropriate level
- Terms of reference of the investigation are approved
- The scope of the investigation addresses the allegation
- The recommendations/findings were relevant to the allegation
- Investigations comply with the entity's policies regarding independence and qualification/position

The accounting officer should expedite the investigations into the irregular and fruitless and wasteful expenditure incurred in the prior period and implement consequence management processes against relevant officials in accordance with the MFMA.

Management response

Management notes the finding; however this was sent to MPAC for investigation and committee minutes will be sent to the audit team for audit and verification.

Name: MP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

The MPAC minutes dated 23 October 2019 that was submitted for audit is unconfirmed and unsigned therefore no reliance is placed in support of management's response.



Notwithstanding the above, the discussions surrounding the prior period irregular expenditure as per the minutes is not representative of an actual investigation performed as prescribed by section 32 of the MFMA:

A proper assessment at transaction level was not performed to establish and determine:

- root causes,
- officials responsible for the irregular expenditure
- Confirmation as to whether there are any indicators of negligence, deliberation or fraud
- Confirmation as to whether any losses was incurred
- Identification of breakdown in internal controls
- Recoverability of amounts
- Findings and recommendations

Consequently, sufficient appropriate evidence could not be obtained to confirm that prior period irregular, fruitless and wasteful expenditure has been investigated by the municipality. This results in a material non-compliance with section 32 of the MFMA and will be included in the audit report.

17. Irregular expenditure not prevented

Audit finding

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

Contrary to this requirement, effective and appropriate steps were not taken by the municipality to prevent irregular expenditure as disclosed in Note 44 of the annual financial statements.

The following repeat transgressions were noted when compared to the previous financial period:

#	Supplier	Incident description & Category of irregular expenditure	Audited Amount R (Excluding VAT)
1	Inkazimulo	Competitive process not followed for procurement of services with a value of more than R200 000	R504 347.83
2	Inkotha Agencies	PPPFA requirements not followed for evaluation of awards	R173 465.22
3	Mahlubi Transport	PPPFA requirements not followed for evaluation of awards	R5 809 095

This results in a material non-compliance and will be included in the audit report as such.

Internal control deficiency

Leadership

The accounting officer did not adequately monitor the audit action plan to confirm that effective measures were taken to address previous findings on compliance with key legislation relating to irregular expenditure.

Recommendation

The accounting officer should improve the monitoring of the audit action plan to confirm that effective measures are taken to address previous findings on compliance with key legislation relating to irregular expenditure.

Management response

The municipality will make note of the finding and will make adjustment to the checklist used during BEC and BAC. Reasons for disqualifying will be accompanied by evidence where possible. Irregular expenditure disclosure will be updated.

Name: LF Ndlovu

Position: SCM Mnager

Date: 13 November 2019

Auditor's conclusion

Based on additional evidence presented by management, the SCM findings identified during the audit process remains and constitutes irregular expenditure. A material non-compliance with section 2(1)(d) is included in the audit report.

18. Suppliers not paid within 30 days

Audit finding

In terms of section 65(2)(e) of the MFMA, the accounting officer must take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

Based on a randomly selected sample, the following expenditure voucher payments were not paid within 30 days of receiving the relevant invoice:

General Expenses					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
SAGE South Africa (Pty) Ltd	KIM002531	2018/07/17	2018/11/02	108	13 553,90
Bytes universal system	1102740	2018/09/18	2018/11/28	71	88 877,77

General Expenses					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Sparks & Ellis Uniforms (Pty) Ltd	C0011219	2019/05/28	2019/09/19	114	163 992,75
Southern Sun Elangeni & Maharani	258495	2019/05/02	2019/07/16	75	169 047,39
BYTES System Integration	1098351	2018/07/23	2018/11/23	123	464 949,29

Contracted Services					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Nkosingiphe Inkazimulo Trading & Projects (Pty) Ltd	20180101	2018/10/17	2018/12/07	51	504 347,83
Splenda Electrical	0876	2018/06/29	2018/09/14	77	2800.00
Amile Holdings (Pty) Ltd	0033	2019/06/24	2019/09/19	87	120 000,00
Telkom	176534	2019/03/01	2019/04/26	56	61 510,97
Lizola Trading Enterprise CC	40	2019/03/08	2019/04/26	49	15 000.00

Trade Payables					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Governance Management Consulting	INV-0014	2019/06/28	2019/09/19	83	700 000,00
eSizwe Group	IN034384-3	2019/06/27	2019/09/20	85	215 947,98



Trade Payables					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Smart Secure	100708	2019/06/30	2019/08/16	47	398 003,36
Conan Construction	C4597	2019/06/27	2019/08/01	35	51 290,00
Southern Sun Hotel (Pty) Ltd	258495	2019/06/05	2019/07/16	41	194 404,50

Work in progress – Additions						
Asset Description	Supplier Name	Payment Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Nkweletsheni Hall	Wahlumaa Trading Enterprise	20435	2019/01/14	2019/02/18	35	389 434.88
Amazabeko Hall	Makhaotse, Narasimulu & Associates	19352	2018/07/17	2018/09/06	51	21 450.00
Nkweletsheni Hall	Makhaotse, Narasimulu & Associates	19352	2018/07/17	2018/09/06	51	21 450.00
Golf Course Electrification	Splenda Flexine	19201	2018/07/16	2018/08/17	33	1 807 791.30
Shelembe Road	Dlamindlovu Consulting & Engineering	19744	2018/09/19	2018/11/02	44	83 545.49

This results in a material non-compliance with section 65(2)(e) of the MFMA and will be included in the audit report as such.

Internal control deficiency

Financial management

The CFO did not implement an invoice received register at the municipality to monitor long overdue invoices. In addition, invoices received by the Municipality are not stamped on date of receipt but rather when it is received by the finance unit for processing of payment

Recommendation

The CFO should implement the utilisation of an invoice received register to record receipt of all invoices. The document should be stamped on the day of receipt by the municipality and recorded on this register. The register should be monitored by the CFO on a regular basis to ensure that all overdue invoices are promptly followed up and paid.

Where invoices are not paid within 30 days of receipts thereof, the reasons for the delay should be documented on the payment voucher together with the relevant documentation to support reasons provided.

The accounting officer should implement consequence management processes to ensure that individuals are held accountable for invoices that are paid late without valid reasons.

Management response

Management notes the finding, however the municipality believes that they have complied with section 65 of the MFMA because all payments were made within the prescribed time when using the stamp which indicates the receipt of the invoice and we also introduced a culture of paying our suppliers twice a month to ensure that we comply with the Act.

Name: MP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

Invoices received by the municipality are not stamped on date of receipt but rather when it is received by the finance unit for processing of payment. Therefore no reliance is placed on this control in support of compliance with legislation.

Consequently, the finding results in a material non-compliance with section 65(2)(e) of the MFMA and will be included in the audit report as such. Management is urged to improve cash flow management to ensure payments to suppliers within legislated timeframes.

ANNEXURE B: OTHER IMPORTANT MATTERS

Annual financial statements

19. No movement in unspent conditional grants

Audit finding

In terms of paragraph 66(b) of the GRAP framework, a liability is defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

In terms of sections 22(1) and (2) of the Division of Revenue Act, 2018 (Act No.1 of 2018) (DORA), despite a provision to the contrary in the Public Finance Management Act or the Municipal Finance Management Act, any conditional allocation, or a portion thereof, that is not spent at the end of the 2018/19 financial year reverts to the National Revenue Fund, unless the roll-over of the allocation is approved in terms of subsection (2). The National Treasury may, at the request of a transferring officer, receiving officer or provincial treasury, approve a roll-over of a conditional allocation to the 2018/19 financial year if the unspent funds are committed to identifiable projects.

The following unspent grants had no significant movements for the last three years. Signed agreements with respective donors together with current correspondence approving the rollover of these conditional allocations could not be obtained to support the valuation and obligation of these amounts.

Conditional Grant	Unspent Liability 2019 – R	Unspent Liability 2018 – R	Unspent Liability 2017 – R
Mckenzie Farm	428 422.20	428 422.20	428 422.20
Small Town Rehabilitation	18 245.14	18 245.14	18 245.14
Sangcwaba Grant	565 387.40	565 387.40	565 387.40
Ixopo Sportsfield Maintenance	151 460.89	143 182.00	143 182.00
TOTAL	R1 163 515.63	R1 155 236.74	R1 155 236.74

This results in a material limitation overstatement of unspent conditional grants and receipts by R1 163 515.63 in the financial statements and may result in a modification to the audit opinion.

Internal control deficiency

Financial management

The acting chief finance officer (CFO) did not implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support the unspent conditional grant liability disclosure in the financial statements.

Recommendation

The acting CFO should follow up and provide sufficient appropriate audit evidence to support the valuation and obligation of these unspent conditional grant liability amounts. All roll-over of unspent conditional grant allocations should be supported by approvals from the respective donors/transfersors.



Management response

Management notes the finding. Management will liaise with the funding departments to provide what action will be taken with these grants.

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 23 October 2019

Auditor's conclusion

No evidence has been subsequently provided to support the valuation and obligation of these amounts. This results in a limitation misstatement of the unspent conditional grant liability as the balance could not be confirmed through alternative means. The amount has been transferred to the summary of uncorrected misstatement schedule. A follow up in this regards will be performed in the 2019-20 financial period.

20. Discrepancies identified on the fixed asset register**Audit finding**

In terms of section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Section 63(2)(a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality.

The following discrepancies were identified on the fixed asset register of the municipality:

1. Based on a selected sample, differences were identified when recalculating depreciation computations for the financial period:

Asset Description	Category	Carrying Amount R	Total Days Used	Client Calculation	Audit Calculation	Difference R
ERF 427	Community	455 501,66	90	15 440,73	60 733,55	-45 292,82
Hlokozi Sportsfield	Community	38 374,70	221	1 300,84	2 083,69	-782,85
Kwampondo Creche	Community	261 478,64	84	8 863,68	37 354,09	-28 490,41
Mahafana Creche	Community	656 740,56	263	22 262,39	29 965,35	-7 702,96

Asset Description	Category	Carrying Amount R	Total Days Used	Client Calculation	Audit Calculation	Difference R
Nodumehlezi Sportsfield	Community	160 292,48	299	5 433,64	6 433,14	-999,50
Total						-R83 268.54

This results in a projected misstatement of the depreciation expense and corresponding accumulated depreciation line items of R636 255 in the financial statements.

2. The following asset was duplicated on the fixed asset register:

Asset Description	Asset ID	Category	Amount R
Card printer with camera	UBU 9871	Furniture & Equipment	29 753.78
Card printer with camera	UBU 9871	IT Equipment	29 753.78

3. A total of 58 assets with a carrying value of R285 964.73 were incorrectly classified as furniture & fittings instead of IT Equipment. The following serves as examples:

Asset Description	Asset ID	Classification as per FAR	Amount R
HP PRINTER	11102	Furniture and Equipment	3 950,00
HP MONITOR	11449	Furniture and Equipment	4 017,54
HP LAPTOP	11121	Furniture and Equipment	5 832,46
MONITOR	7563	Furniture and Equipment	5 912,10
DELL LAPTOP	12941	Furniture and Equipment	7 342,40

Internal control deficiency

Financial Management

The acting Chief Finance Officer (CFO) did not adequately review and scrutinise the entries on the fixed asset register to confirm accurate recording of depreciation and classification of assets in support of disclosures in the financial statements.

Recommendation

The acting CFO should improve the review of the entries on the fixed asset register to confirm accurate recording of depreciation and classification of assets.

The acting CFO should follow up and make the necessary adjustment proposals to the annual financial statements. These corrections should be appropriately supported (i.e. Journals, updated fixed asset register, revised depreciation computations) and submitted to the auditors for validation purposes.

With regards to the depreciation discrepancies identified, management is required to revisit the entire asset population to determine errors of similar nature in making the necessary corrections.

Management response

Management accepts the findings. The FAR and financial system will be updated for the reclassification of the 58 items identified as IT equipment instead of Furniture & Fittings, the duplicated asset will be removed from the FAR and the FAR & financial system will be updated with the revised depreciation calculation for the assets as noted above.

The recommendations provided will be implemented.

Name: AP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditors conclusion

Finding 1

A revised set of financial statements with updated depreciation computations and FAR has been presented to validate the corrections made by management. Management is urged to improve the review of depreciation computations against its accounting policy to confirm accuracy and completeness in the financial statements. A follow up in this regards will be made in the 2019-20 financial year.

Finding 2

The duplication has not been corrected. The difference has been transferred to the summary of uncorrected misstatement schedule

Finding 3

A revised set of financial statements together with the supporting journal has been presented and validated to confirm that the necessary corrections have been made in the financial statements. Management is urged to improve reviews of asset acquisitions against the accounting policy of the municipality to confirm appropriate classification and amortisation in the financial statements. A follow up in this regards will be performed in the 2019-20 financial period.

21. Computer software not amortised

Audit finding

In terms of the municipality's accounting policy, computer software is amortised on a straight line basis over an average useful life of three years. Contrary to this requirement, the following software have not been amortised since acquisition at the municipality.

Asset Description	Useful Life as per FAR	Cost R
Samras Finance System	0	440 253
Ally Cad	0	39 987



Asset Description	Useful Life as per FAR	Cost R
Team Mate	0	100 780
ERP System (PMS)	0	300 000
Total		R881 020

Management have indicated that these assets were not considered for amortisation as it has an indefinite useful life. However, there is no documented accounting policy supporting management's assessment, which also describes the factors that played a significant role in determining that these assets have an indefinite useful life as required in terms of paragraph 123(a) of GRAP31 *Intangible assets*.

Some of the factors that should be considered and demonstrated in reaching its conclusion are as follows:

- The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team
- Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way
- Technical, technological, commercial or other types of obsolescence.
- The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset
- The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level
- The period of control over the asset and legal or similar units on the use of the asset
- Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

Notwithstanding the above, assets that have indefinite useful lives effectively means its use to the organization is not confined by age, legal or regulatory obligations, contracts or technological obsolescence. Examples of such intangible assets are generally goodwills, trademarks and copyrights. Paragraph 92 of GRAP31 states that given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short and not indefinite.

As a result, intangible assets in the financial statements is misstated in both the current and comparative figures.

Internal control deficiency

Financial management

The acting chief finance officer (CFO) did not perform an adequate review of the financial statements to confirm disclosures are accurate and made in accordance with its accounting policy and GRAP standards.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements to confirm disclosures are accurate and made in accordance with GRAP standards.

Recommendation

The acting CFO should make the necessary corrections to the financial statements to confirm accuracy and adherence to the GRAP standards. All amendments should be appropriately substantiated against supporting evidence and provided to the auditors for validation purposes. All

adjustments to comparative amounts should be performed in accordance with the GRAP 3 standard on prior period errors.

The acting CFO should improve the review of the financial statements through implementation and completion of financial statements and GRAP checklists as issued by National Treasury.

The internal audit and audit committee should improve their review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with the municipality's accounting policy and GRAP standards.

Management response

The Ally CAD and ERP (System) PMS have been disposed off in the 2018/19 financial year, Samras and ERP system correction will be made in accordance with GRAP.

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 6 November 2019

Auditor's conclusion

Ally CAD and ERP PMS – Regardless of the disposal in the current year, these intangible assets have not been amortised since inception and therefore were not appropriately valued in the prior periods. The impact of comparatives in terms of GRAP3 and the current year gain or loss on sale of these assets needs to be considered.

SAMRAS and ERP system – A revised set of financial statements with journals, updated FAR and management workings have not been provided to confirm that the necessary corrections has been made in terms of GRAP.

Subsequently management have presented the auditors with the revised financial statements, fixed asset register and journal to confirm that the necessary corrections have been made. Management is urged to improve reviews of asset purchase documentation to confirm appropriate classification in line with its accounting policy. A follow up in this regards will be performed in the 2019-20 financial period.

22. Reduction in property rates revenue due to write off

Audit finding

In terms of section 122(1) of the MFMA every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Included in the property rates general ledger accounts supporting the revenue disclosure in the financial statements of R21 376 716 are amounts marked as write-offs as follows:

Description as per general ledger	Amount R	Number of properties
BILLING WRITE OFF- MAHEHLE	-403 693.41	439
BILLING WRITE OFF-MARIATHAL	-105 989.47	93
FAIRVIEW BILLING WRITE OFF	-297 797.50	122
Total	-R807 480.38	654

Mahehle and Mariathal

- (a) As per council resolution CBTO126/19 dated 25 July 2019, all debts within the Mahehle and Mariathal areas were approved for write off by Council. However, the motivation to support the write off has not been provided for audit purposes.
- (b) Any debt to be written off should not be offset against the revenue account but should be recognised as an expense in the statement of financial performance.

Fairview

- (c) Management have indicated that this is not a write off as described but rather adjustments made to rate billings within the Fairview area. Sufficient appropriate evidence to support the validity and accuracy of the adjustments have not been provided for audit purposes.

This results in an understatement of revenue from non-exchange transactions in the financial statements of R807 480.

Internal control deficiency

Financial management

The acting CFO did not implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support rates adjustments and write offs during the financial period.

The acting CFO did not adequately review the journal entries regarding the write off to confirm appropriate accounting treatment in terms of the GRAP standards.

Recommendation

The acting CFO should implement proper record keeping in a timely manner to confirm that complete, relevant and accurate information is accessible and available to support rates adjustments and write offs during the financial period.

The acting CFO should improve the review of journal entries regarding debt write offs to confirm appropriate accounting treatments in terms of the GRAP standards.

The acting CFO should follow up and present the auditors with the outstanding information in support of these adjustments.

Management response

Management notes the finding. An item sent to council with a motivation is attached for verification and validation by the audit. A detailed explanation and working from the municipality valuer relating to the Fairview adjustment is also attached to support R297 797.50 shown as write-off instead of billing adjustment.

Name: AP Mbatha

Position: Assistant CFO

Date: 13 November 2019

Auditor's conclusion

The necessary evidence has been provided to support the write off and the rate adjustments during the financial period. In addition, management has made the corrections to the annual financial statements to ensure accurate recording of these transactions. Management is urged to improve record keeping and the review of journals to confirm accurate recording of adjustments in the financial statements that are appropriately supported through proper trail. A follow up in this regards will be performed in the 2019-20 financial period.

23. Discrepancies on the statement of comparison of budget and actual amounts

Audit finding

In terms of section 122(1)(a) of the MFMA, every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of paragraph 12(a) of GRAP24, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight the approved and final budget amounts.

Paragraph 12(c) of GRAP24 requires an entity to include in the statement of comparison of budget and actual amounts by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

- (a) The approved budget and final budget amounts in the "statement of comparison of budget and actual amounts" did not agree to the council approved budget documents of the municipality. The differences are illustrated in the table below:

Description	Approved Budget Documents			AFS			Variances		
	Approved budget	Adjustments	Final Budget	Approved Budget	Adjustments	Final Budget	Approved Budget	Adjustments	Final Budget
Service Charges	2 090 247	-90 247	2 000 000	2 090 247	-90 247	2 000 000	0	0	0
Rental of facilities and equipment	1 000 000		1 000 000	1 000 000	0	1 000 000	0	0	0
Agency Services	815 300	-70 000	745 300	815 300	-45 000	770 300	0	-25 000	-25 000
Licences and Permits	3 678 900	-1 000 000	2 678 900	3 615 780	-1 000 000	2 615 780	63 120	0	63 120
Other Income	1 306 192	86 000	1 392 192	1 369 312	61 000	1 430 312	-63 120	25 000	-38 120
Interest received - Investment	10 000 000	4 000 000	14 000 000	10 000 000	4 000 000	14 000 000	0	0	0
Total revenue from non-exchange transactions	18 890 639	2 925 753	21 816 392	18 890 639	2 925 753	21 816 392	0	0	0
Revenue from non-exchange transactions									
Property Rates	36 001 948	-14 075 226	21 926 722	36 001 950	-14 075 227	21 926 723	-2	1	-1
Government grants & subsidies	148 819 096	24 750 810	173 569 906	148 819 096	10 154 756	158 973 852	0	14 596 054	14 596 054
Fines, Penalties and Forfeits	200 000	800 000	1 000 000	200 000	800 000	1 000 000	0	0	0
Total revenue from non-exchange transactions	185 021 044	11 475 584	196 496 628	185 021 046	-3 120 471	181 900 575	-2	14 596 055	14 596 053
Total revenue	203 911 683	14 401 337	218 313 020	203 911 685	-194 718	203 716 967	-2	14 596 055	14 596 053

Description	Approved Budget Documents			AFS			Variances		
	Approved budget	Adjustments	Final Budget	Approved Budget	Adjustments	Final Budget	Approved Budget	Adjustments	Final Budget
Expenditure									
Employee related costs	68 426 559	-570 207	67 856 351	68 686 494	0	68 686 494	-259 935	-570 207	-830 143
Remuneration of councillors	9 862 407	496 436	10 358 844	9 962 311	299 967	10 262 278	-99 904	196 469	96 566
Depreciation and amortisations	20 000 000		20 000 000	20 000 000		20 000 000	0	0	0
Impairment loss/ Reversal of impairments									
Finance costs									
Debt impairment	1 578 000		1 578 000				-1 578 000	0	-1 578 000
Other Materials	756 454	-6 000	770 454	0	0	0	1 578 000	0	1 578 000
Transfers & Subsidies	20 152 096	20 614 787	40 766 883	0	0	0	756 454	-6 000	770 454
Contracted Services	21 047 892	19 042	21 021 934	13 979 949	461 440	14 441 385	20 152 096	20 614 787	40 766 883
Other Expenditure	24 124 744	384 866	24 534 610	51 761 402	5 722 071	57 483 473	7 067 943	-442 398	6 580 549
Total expenditure	165 948 152	20 938 924	186 887 076	165 968 156	6 483 478	172 451 630	-27 636 658	-5 337 205	-32 948 863
							-20 004	14 455 446	14 435 446
Operating Surplus	37 963 531	-6 537 587	31 425 944	37 943 529	-6 678 196	31 265 337	20 002	140 609	160 607
Loss on disposal of asset	0	0	0	0	0	0	0	0	0
Surplus/deficit	37 963 531	-6 537 587	31 425 944	37 943 529	-6 678 196	31 265 337	20 002	140 609	160 607

- a) The explanations provided for variances between budget and actual amounts is inadequate and does not promote fair presentation of the financial statements. The following serves as examples:

Reference on page 9	Financial statement line items	Explanation for Variance as per AFS	Auditors' comment
b)	Rental of facilities and equipment	This was due to lower than anticipated halls hired during the year	Actual income exceeds budget therefore explanation does not correlate to the variance.
e)	Other Income	Lower than planned sale of land due to delays in implementing infrastructure development around the planned areas to be sold	Explanation is not adequate as the sale of land would be recognised under gain or loss on disposal on the statement of financial performance.
g)	Property rates	Improved collection strategies played a vital role in this year's property rates collection	Under accrual basis of accounting, rates collection has no impact on revenue recognised
l)	Impairment loss/Reversal of impairments	Lower collections than planned and therefore a higher than budget impairment provision	Explanation is not relevant as the impairment relates to assets and not consumer debt.
n)	Contracted services	The expenditure relating to grants is accounted for in general expenses	Reason lacks sufficient detail
p)	Other expenditure	-	No explanation provided to support the material variance of R32 688 176

Based on the above, the budget statement in the financial statement is inaccurate and not fairly presented in terms of GRAP24.

Internal control deficiency

Financial management

The acting CFO did not perform an adequate review of the statement of comparison of budget and actual amounts against the underlying approved budget to confirm its accuracy in the financial statements.

Recommendation

The acting CFO should improve the review of the statement of comparison of budget and actual amounts against the underlying approved budget to confirm accuracy of the disclosure.

The acting CFO should update the budget statement and the supporting narratives to confirm accuracy and adherence to the GRAP24 standard. All explanations for variances must be substantiated against appropriate evidence and be presented to the auditors for validation purposes.

Management response

Management notes the finding, statement of budget versus actual has been amended using the final approved budget and all explanations have been revised accordingly. The extract from the updated financial statements has been filled for audit and verification.

Name: LL Makhaye

Position: Manager Budget

Date: 13 November 2019

Auditor's conclusion

A revised set of financial statements has been presented and validated by audit to confirm that the necessary corrections have been made. However there are still instances where narrations do not correlate with financial results or have been omitted. Management is urged to improve the review of the budget statement and supporting variance explanations against underlying records to confirm accurate and fair presentation in the financial statements. A follow up in this regards will be performed in the 2019-20 financial period.

24. Prior period qualification on property rates revenue

Audit finding

In terms of section 122(1) of the MFMA every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

The municipality obtained a qualification on revenue – property rates in the prior period:

"The municipality did not recognise all revenue from property rates in accordance with GRAP23, Revenue from non-exchange transactions due to lack of controls in the billing of rates revenue. Consequently, property rates and trade receivables from non-exchange transactions disclosed in note 25 and 13 to the financial statements, respectively is understated by R4.1 million."

A follow up was performed in the current audit to establish management's process for revisiting the entire population of rates and addressing the qualification. A manual calculation was performed using the market values of all properties as per the consolidated 2017/18 valuation and council approved tariffs. The total recalculated figure was compared to the total rates revenue recognised in the prior period and a blanket adjustment was processed in the financial statements without updating and billing individual consumer accounts. The resultant impact is that a receivable has been raised in the municipality's records without due consideration surrounding the entitlement and recovery of these amounts. No assurance can be obtained regarding the existence and rights of the debt raised in the municipality's records as it does not have an enforceable claim to these amounts at year end.

GRAP1 *Presentation of financial statements* defines an asset as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Contrary to this definition, the municipality is recognising an asset in its records where there is no past event (i.e. the consumers have not been billed and notified on the amounts due) and as a result there is no future economic benefits expected to flow to the entity.



Therefore, the process adopted by management is incorrect and the qualification has not been satisfactorily addressed resulting in a repeat modification on the comparative rates figure in the financial statements.

Notwithstanding the above, the following discrepancy was identified regarding management's computation:

- The total billed amounts on properties as per management's schedule does not reconcile to the revenue recognised in the prior year and was not considered before processing the correction:

Description	Amount R
Amounts per prior period billing report as per management's calculation	11 621 335.34
Prior period rates revenue recognised	12 774 064.00
Difference	1 152 728.66

Internal control deficiency

Leadership

The accounting officer did not adequately monitor the achievement of the audit action plan to confirm prior period findings relating to revenue from non-exchange transactions are addressed in a timely manner.

Financial management

The acting CFO did not adequately review the rates calculation against the financial records of the municipality to confirm appropriate recognition of receivables in line with the GRAP standards.

Recommendation

The accounting officer should improve oversight on the achievement of the audit action plan to confirm prior period findings relating to revenue from non-exchange transactions are addressed in a timely manner.

The acting CFO should improve the review of the rates adjustment calculation against billing and the financial records of the municipality to confirm appropriate recognition of receivables in line with the GRAP standards.

Management response

The finding is Noted. However, in correcting the qualification a manual calculation of property rates was conducted as presented to the auditors. It was then discovered that the total misstatement is R 937 079 not 4.1m as mentioned above. The prior year's property rates and debtors control account were adjusted accordingly in the 2018/19 Annual financial statements.

The individual debtors' statements were indeed not amended as the Municipality was awaiting the AG to audit and approve the adjustment. Upon approval of the adjustment the individual debtors may be adjusted immediately as the workings are per individual debtor.

It is noted that AG agrees with manual individual computation, However the act mentioned above does not define the treatment of the above-mentioned transactions or denies the municipality in processing the adjustment as a consolidated adjustment.

Should the AG agree/approve with the calculations the municipality will undertake the necessary procedures of informing its customers of the adjustments that shall be effected on accounts/statements.

In calculating the adjustment amount – the Municipality used the Recalculated Amount as per the schedule R 13 711 143 Less amount recognised in previous AFS R 12 774 064.

The recalculation of R 13 711 143 is evident in the 2018/19 AFS comparatives. This is the amount than is supported by the Municipality.

Name: AP Mbatha
Position: Assistant CFO
Date: 13 November 2019

Auditor's conclusion

The act quoted in the finding requires the municipality to prepare financial statements that fairly presents the state of affairs of the municipality. To achieve fair presentation, the financial statements should be appropriately presented in terms of its financial reporting framework.

In addressing the prior period qualification, the municipality has processed an adjustment that is not in line with GRAP as the municipality has raised a receivable in its records that does not satisfactorily meet the definition of an asset. The adjustment was not processed against individual consumer accounts therefore no assurance could be obtained regarding the existence and rights of the debt raised in the municipality's records as it does not have an enforceable claim to this amount.

The responsibility for effecting rates adjustments to the billing system rests with the accounting officer in terms of the revenue management requirements outlined under section 64 of the MFMA. The municipality should not seek any approval from audit regarding adjustments as this would be in contravention of section 5 of the Public Audit Act.

Subsequently, management have effected the necessary adjustments against individual consumer accounts on its billing system. A revised set of financial statements with the necessary calculations have been received and validated by audit.

25. Annual financial statement discrepancies

Audit finding

In terms of section 122(1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

The following discrepancies were noted on the annual financial statements:



Statement of financial performance

1. The opening accumulated surplus balance as previously reported does not agree to the prior period audited financial statements resulting in the following difference:

Accumulated Surplus	Amounts R
Opening balance as previously reported in the statement of changes in net assets	387 814 442
Closing accumulated surplus as per prior period audited financial statements	385 889 162
Difference	R1 925 280

Cash flow statement

2. Paragraph 11 of GRAP2 states that the cash flow statement shall report cash flows during the period classified by operating, investing and financing activities. The purchase of PPE line item under investing activities of R16 160 265 does not agree to the PPE reconciliation disclosure under Note 11 as it omits WIP acquisitions and incorrectly includes completed WIP Transfers;

Description	Amount R
Purchase of PPE as per cash flow statement	16 160 265
Total acquisitions as per PPE reconciliation on Note 11	41 613 452
Additions	16 160 265
Less WIP Transfers	-14 555 196
Add WIP Additions	40 008 383
Difference	R25 453 187

Notes to the annual financial statements

Note 5 – Trade receivable from non-exchange transactions

3. The ageing for exchange transactions (i.e. Housing debtors, Rental, Interest accrued, Sundry, Refuse) is incorrectly included under Note 5 instead of Note 6 - Receivables from exchange transactions.
4. The ageing categories presented in the financial statements is inconsistent per receivable type as illustrated in the table below:

Receivable type	Ageing Categories	2019 Amounts R
Rates	Current (0 - 30 days)	1 843 393
	31-60 days	1 579 434
	61 - 90 days	1 532 749



Receivable type	Ageing Categories	2019 Amounts R
	91 - 120 days	1 318 877
	> 121 days	27 654 470
		R33 928 923
Fines	30 - 365 days	R3 039 664
Housing debtors	30 - 365 days	R115 075
Rental	30 - 365 days	R1 138 854
Interest Accrued	121 -365 days	R1 858 665
Sundry	121 - 365 days	R22 652
Refuse	30 - 365 days	R5 714 984

5. Disclosure of the age of receivables that are past due but not impaired as required by paragraph 128 of GRAP104 Financial Instruments is not presented in the financial statements.

Note 11 – Property, plant and equipment

6. An asset addition is the **cost** involved for adding new assets or improving existing assets in an entity. However, the municipality has incorrectly included completed work in progress assets of R14 555 196 as additions in the PPE reconciliation for 2019.
7. Paragraph 88 of GRAP17 *PPE*, an entity shall separately disclose expenditure incurred to repair and maintain PPE in the notes to the financial statements. As per note disclosure 32 - Contracted Services, the municipality incurred repairs and maintenance costs of R4 266 552 (2018: R3 111 623), however no consideration of the disclosure requirements outlined in GRAP17 has been made under the PPE note disclosure of the financial statements.
8. Paragraph 87 (b) and (c) of GRAP17 *PPE*, states that an entity shall disclose the following in the notes to the financial statements in relation to property, plant and equipment which is in the process of being constructed or developed:
- The carrying value of the property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays.
 - The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s).
 - The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

In terms of paragraph 20 of GRAP26 *Impairment of cash generating assets*, an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Contrary to these GRAP requirements, the municipality has not considered slow moving work in progress projects as part of its PPE disclosure and impairment computations.

Note 45 – Prior period errors

9. In terms of paragraph 51 of GRAP3 Accounting Policies, Estimates and Errors, an entity shall disclose the following:

- a) the nature of the prior period error
- b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
- c) the amount of the correction at the beginning of the earliest prior period presented; and
- d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected

As per the prior period error note disclosure, the municipality has restated comparative amounts in the financial statements however a description depicting the nature of these restatements have not been presented in line with GRAP3 above.

Internal control deficiency

Financial management

The acting chief finance officer (CFO) did not perform an adequate review of the financial statements to confirm disclosures are accurate and made in accordance with GRAP standards.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Recommendation

The acting CFO should make the necessary corrections to the financial statements to confirm its accuracy and adherence to the GRAP standards. All amendments should be appropriately substantiated against supporting evidence and provided to the auditors for validation purposes.

The CFO should improve the review of the financial statements through implementation and completion of financial statements and GRAP checklists as issued by National Treasury.

The internal audit and audit committee should improve their review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Management response

Statement of financial performance

1. The finding is noted. However, the differences are as a result of the following entries which affected accumulated surplus/profit in the 2017/18 Y/E

Accumulated Surplus Difference in prior year

Accumulated Surplus	Amounts R
Opening balance as previously reported in the statement of changes in net assets	387 814 442
Closing accumulated surplus as per prior period audited financial statements	385 889 162
Difference	R1 925 280
The Difference is as a result of the following Prior period errors which directly affected accumulated surplus/profit	
	1 925 280.00
1 Increase in revenue property rates(correction of error)	937 079.00
2 Prior period error of Ithala bank	257 907.00
3 Investment property	417 000.00
4 Correction of Surplus	337 798.00
5 Licenses	11 642.69
Total	1 958 141.91

Cash flow statement

2. Management agrees with the finding. The Cash flow statement in the AFS will be updated accordingly.

Notes to the annual financial statements

Note 5 – Trade receivable from non-exchange transactions

3. Management notes the finding. The above mentioned notes will be amended in the AFS and the categories will be disclosed in Note 6 - Receivables from exchange transactions in the AFS.
4. Management notes the finding. The following action will be taken:
- Housing debtors, Rental, Interest Accrued, Sundry and Refuse will be removed from Note 5 and shown under Note 6 of the AFS with no aging.
 - Fines aging will be adjusted and disclosed.
5. Management notes the finding. The above will be investigated and, where applicable, the disclosure will be made in applicable notes for receivables in the AFS.

Note 11 – Property, plant and equipment

6. Management notes the finding. The proposed amendment to the disclosure between WIP and the transfers has been effected in the AFS.

▼ Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Work in Progress	Depreciation	Impairment loss	Total
Buildings	17 152 294	-	-	5 889 574	(954 850)	-	22 988 018
Plant and Equipment	3 729 271	70 180	(49 218)	-	(889 511)	-	3 050 602
Furniture and fixtures	3 047 894	319 040	(3 543)	-	(1 237 183)	-	2 126 223
Motor vehicles	5 719 325	551 719	(427 819)	-	(1 645 695)	-	5 197 530
IT equipment	588 884	523 232	(2 932)	-	(302 478)	-	811 708
Infrastructure	118 114 240	193 617	-	20 949 479	(10 890 419)	-	128 276 917
Community	101 251 391	37 271	-	12 398 530	(3 188 038)	(3 184 550)	107 293 594
Libraries	3 063 133	-	-	-	(162 270)	-	2 920 863
	251 702 032	1 606 069	(483 547)	40 006 383	(18 978 322)	(3 184 550)	270 689 055

7. Management notes the finding. The Note for PPE in the AFS will be updated to include a disclosure of the expenditure incurred to repair and maintain PPE for 2018/19 and 2017/18.
8. Management notes the finding. We have identified one the slow moving project relating to the construction of Municipal double story house. This project has incurred no expenditure in the current financial year and will be disclosed accordingly.

Note 45 – Prior period errors

9. Management notes the finding. The description depicting the nature of the comparative restatements will be included under Note 45 – Prior Period Errors

Name: LL Makhaye

Position: Manager: Budget & Reporting

Date: 23 October 2019

Auditor's conclusion

A revised set of financial statements with supporting evidence has been presented to confirm that the necessary corrections have been made by management to address the discrepancies above. Management and those charged with governance are urged to improve the review of the financial statements prior to submission. This can be facilitated through implementation of financial statement and GRAP checklists as issued by National Treasury.

26. Annual financial statement discrepancies

Audit finding

Paragraph 17 of Generally Recognised Accounting Practice (GRAP) 1 states that the financial statements shall present fairly the financial position financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions other events and conditions in accordance with the definitions and recognition criteria for assets liabilities revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

The following discrepancies were identified upon review of the Annual financial statements submitted for audit:

- a) The following line items do not agree to the notes to the annual financial statements:

Pages	Note	Line item	Year	AFS R	Note R	Difference R
4 31	6	Receivables from exchange transactions	2018	5 922 815	5 986 247	(63 432)
5 44	24	Property rates	2018	13 681 143	12 744 064	937 079
4 6 53	40	Going concern note: Reference	2019	437 571 745	439 304 167	(1 732 422)



Pages	Note	Line item	Year	AFS R	Note R	Difference R
		to accumulated surplus				
4 53	40	Going concern note: Net assets	2019	437 945 532	439 677 954	(1 732 422)
6 55	45	Prior period error note: Accumulated surplus	2018	392 697 671	390 398 604	2 299 067

- b) The following line items do not agree to the prior year annual financial statements and there is no indication of a prior period adjustment regarding these items:

Page	Line item	2019 (Comparatives) R	2018 R	Difference R
4	Investment Property	20 270 275	19 853 275	417 000
7	Total Net cash flows from investing activities	71 063 391	70 651 706	411 685

- c) Inconsistencies identified between reconciliation of PPE and reconciliation of WIP (Work on progress):

Page	Line item	Year	Page 37 R	Page 38 R	Difference R
37 38	Community - Work in progress	2019	12 368 530	12 379 056	(10 526)
37 38	Community - Transfers	2019	4 333 903	-	4 333 903

In addition, the reconciliation of PPE for 2018 does not include a column for WIP yet there is a Reconciliation of WIP for 2018 on page 38.

- d) Other discrepancies identified:

Page	Note	Item	Discrepancy
47	25	Government grants and subsidies	A separate disclosure for Electrification grant is excluded.
54	44	Irregular expenditure	A statement Council condoned the Irregular expenditure which is in contravention of section 170 of the MFMA.
54	44	Irregular expenditure	The amount condoned is R581 321 whereas it should be R448 983 as per reference to the 2016/17 Annual report and Council resolution.

e) Amounts per Annual financial statements do not agree to amounts per Fixed asset register:

Line items	Amount per Annual financial statements R	Amount Fixed asset register R	Difference R
Infrastructure – Additions	31 274 389	31 300 652	(26 263)
IT Equipment - Closing Cost	3 220 462	2 879 511	340 951
Community Assets - Book Value	107 296 894	107 308 104	(11 210)
Work-in-progress - Book Value	60 984 378	56 018 959	4 965 419
Total			R5 268 898

Internal control deficiency

Financial management

The chief finance officer (CFO) did not perform an adequate review of the financial statements to confirm disclosures are accurate and made in accordance with GRAP standards.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Recommendation

The CFO should make the necessary corrections to the financial statements to ensure that it is accurate and conforms to the applicable GRAP standards. All adjustments made should be appropriately substantiated against supporting evidence and provided to the auditors for validation purposes.

The CFO should improve the review of the financial statements through implementation and completion of financial statements and GRAP disclosure checklists.

The internal audit and audit committee should improve their review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards.

Management response

a) Management agrees with the finding. The notes will be updated to agree with amount disclosed on the face of annual financial statements for the following notes:

1. Note 6;
2. Note 24; and
3. Note 40.
4. The amount disclosed for accumulated surplus as per page 6 as per the finding is incorrect as it is the net asset figure. The accumulated surplus amount is R392,323,884. The difference is as result of the R417,000 relating to Investment Property and R937,079 relating to Trade Debtors as already identified above. The Note to the AFS will be amended accordingly.

- b) Management agrees with the finding. The reasons for the differences are as follows:
- A prior period error was identified for investment property as an addition was not accounted for in the 2018 financial year. This was subsequently correct in the 2018/2019 Annual Financial Statements. The prior period error note in the 2018/19 Annual Financial Statements will be updated for this change.
 - As a result of the above, the comparative cash flow statement for the 2018/19 AFS was amended to include the purchase of investment property of R417,000.00 as well as other prior period errors. This resulted for the change in the "Total Net cash flows from investing activities" line item.
- c) Management agrees with the finding. The following action will be taken:
- The Community – Work in progress balance on page 38 will be updated to R12,368,530 and the reconciliation of WIP will be updated accordingly.
 - The transfer for Community assets will be included in the reconciliation of WIP on page 38 and the reconciliation of WIP will be updated accordingly.
 - A column will be included for WIP in the reconciliation of PPE for 2018 to reflect WIP for 2018.
- d) Management agrees with the finding. The following action will be taken:
- Note 25 - A separate disclosure will be included for Electrification grant.
 - Note 44 will be amended and aligned with section 170 of the MFMA.
 - Note 44 - The difference between the balances of R132 338 was as a result amounts written off in the prior years.
- e) Management agrees with finding. The following action will be taken:
1. The difference is due to a duplicate capitalisation of an asset on the FAR. The FAR will be amended accordingly with the removal of the duplicate item.
 2. This will be investigated and the necessary adjustments made on conclusion of the investigation.
 3. A correction journal will be processed and the AFS will be updated accordingly.
 4. The Work in progress balance as per the AFS will be reduced by approximately R4,333,903 due to the transfer of community assets to be included in the reconciliation of WIP on page 38 of the AFS.

Name: MP Mbatha

Position: Deputy Chief Finance Officer

Date: 20 September 2019

Auditor's conclusion

A revised set of financial statements with the necessary evidence has been provided and validated by audit. Management and those charged with governance are urged to improve the review of the financial statements prior to submission. A follow up in this regards will be performed in the 2019-20 financial period.

27. Inaccurate revenue agency fees recognised

Audit finding

In terms of section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all



reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The agency fee recognised in the financial statements did not agree to audit's calculation which was determined using the NATIS RD323 transaction summary from the KZN Department of Transport. The difference is reflected in the table below:

Revenue	General Ledger/AFS	Audited calculation using RD323 NATIS Report	Difference
Agency services	R650 829	R884 997.85	R234 168.85

Consequently, this results in an understatement of agency services (revenue from exchange transactions) recognised of R234 169.

Internal control deficiency

Financial management

The acting CFO did not implement a monthly reconciliation between the agency services recognised and the NATIS transaction summary report to confirm accurate and complete financial recording.

Recommendation

The acting CFO should implement a monthly reconciliation between the agency services recognised and the NATIS transaction summary report to confirm accurate and complete financial recording. This should be signed as evidence of review

The acting CFO should follow up on the variance identified. Any proposed correction to the financial statements should be appropriately substantiated against evidence and be presented to the auditors for validation.

Management response

Management notes the finding, a correction journal has been prepared and effected into the financial system. See audit evidence file for verification and validation.

Name: L Makhaye
Position: Budget Manager
Date: 14 November 2019

Auditor's conclusion

The communication of finding was issued on 7 November 2019 and we await management's response in this regards.

28. Prior period cash and cash equivalents written off

Audit finding

Section 62 of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration



of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

As per note disclosure 45 *Prior period errors*, the municipality restated cash and cash equivalents by R118 447 as the bank statements did not agree to the respective general ledger accounts. These adjustments were processed directly against accumulated surplus:

Bank and Account Number	Amount per general ledger	Amount per bank statement	Restatement R
FNB - 52552416194	4 956 359.00	5 214 266.34	257 907.34
Investec - 1100539353455	44 174 735.59	43 798 381.59	-376 354.00
Total			-R118 446.66

With the exception of bank statements, sufficient appropriate evidence could not be obtained to confirm that the municipality investigated the differences prior to adjusting its financial records to the bank statements. No consideration was made of the entries that were processed or omitted against the general ledger accounts.

Consequently, this results in a limitation misstatement in the financial statements.

Internal control deficiency

Financial management

The acting CFO did not implement proper investigative measures before adjusting cash and cash equivalents in its financial records.

The acting CFO did not adequately review the prior period adjustments to confirm that it is valid and appropriately supported by sufficient appropriate evidence.

Recommendation

Any restatement of comparative amounts in the financial statements should be appropriately supported to confirm that it is valid, accurate and appropriately accounted for in terms of GRAP3.

Where differences are identified between the municipality's financial records and the underlying source document, a review should be performed through properly documented reconciliations in support of these differences. The reconciliations should be reviewed and monitored by the acting CFO on regular basis to ensure that long outstanding items are correctly addressed and cleared. Any corrections necessitated through performance of these reconciliations should be effected in line with original entries that resulted in the difference and not simply written off to the statement of financial performance/accumulated surplus.

Management response

Management notes the finding, an investigation of the reconciling items between the cashbook and bank statement is in progress to justify further the adjustment.

Name: AP Mbatha
 Position: Acting CFO
 Date: 14 November 2019

Auditor's conclusion

Sufficient appropriate evidence to support the variance has not been provided to audit therefore the misstatement of R118 447 has been transferred to the summary of uncorrected misstatement schedule.

29. LGSETA receipts not allocated

Audit finding

In terms of section 64(1)(2)(e) of the MFMA, the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which recognises revenue when it is earned; accounts for debtors; and accounts for receipts of revenue.

The following LGSETA related receipts were not reallocated from unidentified deposits to the correct account thus impacting completeness of revenue recognised in the financial statements:

No.	Transaction date	Description	Reference	Amount R
1	2018/10/02	Magtape credit user 9541 seq 003859	Cashfocus L150709402	50 774.29
2	2019/01/31	Magtape credit user 9541 seq 025255	Cashfocus L150709402	10 042.50
3	2019/04/30	Magtape credit user 9541 seq 023031	Cashfocus L150709402	46 495.13
TOTAL				R107 311.92

This results in an understatement of the other revenue income in the financial statements of R107 312.

Internal control deficiency

Leadership

The accounting officer and acting CFO did not establish and communicate formal procedures to enable and support regular maintenance and clearing of unallocated receipts

Recommendation

The accounting officer and acting CFO should establish and communicate formal procedures to enable and support regular maintenance and clearing of unallocated receipts. This should include follow up investigations by the finance unit in consultation with the bank. All follow ups should be logged and reviewed by the CFO to confirm timely clearing of the suspense account and to prevent long outstanding receipts. Documentary evidence to support these follow up avenues performed by management should be maintained for audit trail purposes.

The acting CFO should follow up and make the necessary corrections to the annual financial statements. The adjustment should be appropriately supported by the correcting journal and presented to the auditors for validation.

Management response

Management notes the finding, a reclassification journal has been performed and attached for audit and verification.

Name: AP Mbatha
Position: Assistant CFO
Date: 13 November 2019

Auditor's conclusion

A revised set of financial statements with evidence has been presented and validated by audit to confirm that the necessary corrections have been made. Management is urged to improve controls surrounding the maintenance and clearance of unallocated deposits. A follow up in this regards will be performed in the 2019-20 financial period.

30. Revenue – Fines, penalties and forfeits**Audit finding**

In terms of section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Depicted below are audit discrepancies relating to fines:

a) The following fine as per the summons book did not agree to the amount recorded in the general ledger:

No.	Date	Notice no.	Amount as per the notice	Name	Notice no. as per GL	Amount as per GL	Case no.
1	2019/02/25	14076	R600.00	Madlala Hlanganisani	10760	R700.00	72/05/19

b) Based on a selected sample, the following fines as per the summons book were not recorded in the general ledger:

No.	Date	Notice no.	Amount	Name	Notice no. as per GL	Amount	Case no.
2	2019/03/27	14276	R200.00	Mbatha Mlondi	-	-	-
3	2019/05/28	14321	R150.00	Sithole Jabulani	-	-	-
4	2018/10/23	13276	R1500.00	Essopekassim Razur	-	-	-

This results in a projected understatement of revenue from non-exchange transactions in the financial statements of R244 474.

c) Based on a selected sample, the following fines were incorrectly recorded exclusive of VAT

No.	Date	Invoice no.		Amount as per GL	Fine no.	Amount as per the notice	Difference
5	2018/08/28	INV0292	POS Sale	R1304.35	14175	R1500.00	R195.65
6	2019/04/08	INV0459	POS Sale	R260.87	14147	R300.00	R39.13

This results in a projected understatement of revenue from non-exchange transactions in the financial statements of R28 338.

Internal control deficiency

Financial management

The acting CFO did not perform a reconciliation between the summons book/fines register and the general ledger to confirm accurate and complete recording of fines revenue in the financial statements.

Recommendation

The acting CFO should implement a reconciliation between the summons book/fines register and the general ledger to confirm accurate and complete recording of fines revenue in the financial statements.

The acting CFO should revisit the entire population to identify errors of similar instances and propose the necessary corrections to the financial statements. The adjustment must be appropriately substantiated against evidence and presented to the auditors for validation purposes.

Management response

1. Management notes the finding, however if a debtor pays the fine after the court date an additional amount of R100, therefore the amount recorded is indeed correct.
2. Management agrees with finding, notice number 14276 will be recorded into the financial system.
3. Management disagrees with the finding, a GL printout with this amount is attached for validation and verification.
4. Management agrees with finding, notice number 13276 will be recorded into the financial system.
5. Management disagrees with the finding, a GL printout with the amount inclusive of VAT is attached for validation and verification.
6. Management disagrees with the finding, a GL printout with the amount inclusive of VAT is attached for validation and verification.

Name: AP Mbatha

Position: Acting CFO

Date: 13 November 2019

Auditor's conclusion

The necessary corrections have not been made to the revised annual financial statements submitted for audit. The projected misstatement has been transferred to the summary of uncorrected misstatement schedule. A follow up in this regards will be performed in the 2019-20 financial period.



31. Expenses transactions incorrectly recorded inclusive of VAT

Audit Finding

In terms of section 122(1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of the section 1(1) of the VAT Act, input tax is VAT charged by a supplier on the supply of goods or services made by the supplier to the vendor, to the extent that the goods or services are acquired for the purpose of consumption, use or supply of making taxable supplies.

Based on a selected sample, the following expense transactions were incorrectly recorded inclusive of VAT:

Doc no.	Description	Supplier	Amount as per the GL	Amount (VAT inclusive) as per invoice	Misstatement R
14310878 431	All Municipal Cellphone Accounts	Cell C	134 001.05	134 001.05	17 478.40
647/19PM B	Legal Fees	Mdledle Incorporated	58 987.77	58 987.77	8 848.17
81653509 1040	Municipal building	ESKOM	125 458.35	125 458.35	16 364.13
IN101493	Installation	Simply IT	42 286.00	42 286.36	5 515.61
Total					R48 206.31

Consequently, this results in a projected overstatement of expenditure of R165 889.

Internal control deficiency

Financial management

The finance accountant did not perform an adequate review of the payment voucher to confirm appropriate accounting and tax treatment of input VAT prior to approval and capturing thereof.

The acting CFO did not implement a tax invoice checklist to assist in the correct capturing and accounting of VAT in line with SARS requirements.

Recommendation

The acting CFO should review the entire population of expenses to identify errors of a similar nature and propose the necessary corrections to the financial statements with substantiating evidence i.e. journals and supporting payment vouchers. All updated inputs should be correctly declared to SARS through VAT 201 submissions.

The finance accountant should improve the review of payment vouchers to confirm appropriate accounting and tax treatment of input VAT prior to approval and capturing thereof.

The acting CFO should implement a tax invoice checklist to assist in the correct capturing and accounting of VAT in line with SARS requirements.

Management response

Management notes the finding, a correction journal has been prepared and effected into the financial system, a journal is filled in the audit evidence file for audit and verification.

Name: L Makhaye

Position: Budget Manager

Date: 13 November 2019

Auditors conclusion

A revised set of financial statements confirming the corrections by management has not been provided. The projected misstatement has been transferred to the summary of uncorrected misstatement schedule.

32. Completeness of related party note disclosure

Audit finding

GRAP20 defines a related party as a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party or vice versa, or an entity that is subject to common control, or joint control.

Paragraph 27 outlines the minimum disclosure requirements for related party transactions in the financial statements:

- a) The amount of the transactions
- b) The amount of outstanding balances, including commitments
- c) Provisions for doubtful debts related to the amount of outstanding balances and
- d) The expense recognised during the period in respect of bad or doubtful debts due from related parties

Paragraph 32 states that a reporting entity is exempt from all the disclosure requirements in paragraph 27 in relation to related party transactions if that transaction occurs within:

- (a) Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- (b) Terms or conditions within the normal operating parameters established by that reporting entity's legal mandate.

Paragraph 34 states that where a reporting entity is exempt from the disclosures in accordance with paragraph 32 the entity shall disclose narrative information about the nature of the transactions and the related outstanding balances referred to in paragraph 27 to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements.



GRAP 20, paragraph 35 states that an entity shall disclose the remuneration of management per person and in aggregate, for each class of management, in the following categories:

- (a) fees for services as a member of management;
- (b) basic salary;
- (c) bonuses and performance related payments;
- (d) other short-term employee benefits;
- (e) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (f) termination benefits;
- (g) other long-term benefits;
- (h) any commission, gain or surplus sharing arrangements; and
- (i) any other benefits received.

As per note disclosure 38 *Related parties* in the financial statements, it states that there were no related party transactions in the current financial period however management have not considered the disclosure requirements regarding the following under the note:

- (a) Remuneration to S57 employees (i.e. Management)
- (b) Remuneration to council members
- (c) Outstanding amounts owing to the municipality by council members and other related parties as defined

This is a non-compliance with the GRAP 20 standard and impacts the completeness of the related party note disclosure in the financial statements.

Internal control deficiency

The acting CFO did adequately review the related party disclosure against its accounting policy and the GRAP20 standard to confirm its accuracy and completeness thereof.

Recommendation

The acting CFO should improve the review of the related party disclosure against its accounting policy and the GRAP20 standard to confirm its accuracy and completeness thereof.

The acting CFO should follow up and update the related party disclosure of the financial statements in terms of its accounting policy and the GRAP20 standard.

Management response

Management notes the finding, related party disclosure note has been amended and is now aligned with GRAP 20, see amended annual financial statement for more details.

Name: AP Mbatha
Position: Assistant CFO
Date: 13 November 2019

Auditor's conclusion

As per the revised financial statement submitted for audit, the related party disclosure has been updated with the requirements of GRAP20. Management and those charged with governance are urged to improve the reviews of the financial statements against GRAP prior to submission for audit. A follow up in this regards will be performed in the 2019-20 financial period.



33. Omission of disclosure relating to remuneration of councilors

Audit finding

Section 124(1)(a) of the MFMA states that the notes to the annual financial statements of municipality must include particulars of the salaries, allowances and benefits of political office-bearers and councilors of the municipality whether financial or in kind, including a statement by the accounting officer whether or not these salaries, allowances and benefits are within the upper limits envisaged in section 219 of the constitution.

Contrary to the above, note 27 relating to councilors remuneration does not include a statement by the accounting officer on whether or not the salaries, allowances and benefits paid to councilors are within the upper limits envisaged in section 219 of the constitution.

Internal control deficiency

Leadership

The acting CFO did not adequately review the financial statements against the MFMA to confirm completeness of disclosure requirements relating to council remuneration.

Recommendation

The acting CFO should improve the review of the financial statements against the MFMA to confirm completeness of the disclosure requirements relating to council remuneration.

The acting CFO should update the disclosure in the financial statements to confirm adherence to section 124(1)(a) of the MFMA.

Management response

Management notes the finding, the statement by the accounting officer confirming that remuneration of councilors are within the upper limits envisaged in section 219 of the constitution, see attached amended disclosure on the updated financial statements.

Name: MP Mbatha

Position: ACFO

Date: 13 November 2019

Auditor's conclusion

A revised set of financial statements has been presented however the necessary corrections to the disclosure requirements as outlined under GRAP20 has not been adequately made by the municipality.

34. Completeness of unauthorised expenditure disclosed

Audit finding

In terms of section 15 of the Municipal Finance Management Act, 2003 (Act No.56 of 2003), a municipality may, except where otherwise provided in this Act, incur expenditure only

- (a) In terms of an approved budget; and
- (b) Within the limits of the amounts appropriated for the different votes in an approved budget



The Act defines unauthorised expenditure as any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) and includes:

- (a) Overspending of the total amount appropriated in the municipality's approved budget;
- (b) Overspending of the total amount appropriated for a vote in the approved budget

Audit performed a comparison between the budget and actual expenditure per vote at the Municipality and identified a total of 159 votes where the actual expenditure exceeded the appropriated budget of R27 681 152. The following significant differences serves as examples:

Vote Number	Description	Budget Expenditure	Actual Expenditure	Unauthorised Expenditure
O0001/IE00036/F004 1/X018/R0115/001/4 00	SD Community - Basic Salaries	822 731.00	7 333 717.82	6 510 986.82
O0001/IE07587/F004 1/X049/R0115/001/2 01	Depreciation - Roads	7 115 461.00	10 890 418.78	3 774 957.78
O0001/IE07547/F004 1/X049/R0115/001/2 01	Impairment - Community Assets	0.00	3 184 560.22	3 184 560.22
O1616- 3/IE012305/F13641/ X077/R3734/001/225	MFULOMUBI HOUSING PROJECT	12 010 327.00	14 803 303.80	2 792 976.80
O0001/IE00044/F004 1/X018/R0115/001/4 00	SD Community - Pension Fund Contribution	168 316.00	1 427 535.52	1 259 219.52
O0001/IE03969/F004 1/X018/R0116/001/4 00	Municipal Running Cost/Non Structured/Equitable Share/Cultural Matters/Whole of the Municipality/Default/Community Development	6 000.00	831 619.50	825 619.50
O0001/IE07625/F004 1/X049/R0115/001/2 01	Depreciation - Municipal Offices	210 207.00	1 016 919.77	806 712.77
O0001/IE00036/F004 1/X132/R0115/001/8 00	REF - Basic Salary and Wages	5 650 696.00	6 434 860.06	784 164.06
O0001/IE01526/F004 1/X018/R0115/001/4 00	SD Community - Bonuses	65 561.00	730 101.58	664 540.58
O0001/IE00036/F004 1/X101/R0115/001/2 15	TOWN PLANNING - Basic Salary and Wages	874 539.00	1 461 662.27	587 123.27
O0001/IE00043/F004 1/X018/R0115/001/4 00	SD Community - Medical Aid Contribution	88 970.00	604 054.71	515 084.71
O0001/IE06815/F004 1/X018/R0115/001/4 00D	Director SC - Travel and Subsistence	0.00	499 070.03	499 070.03
O0001/IE00036/F004 1/X049/R0115/001/2 01	BTO Staff - Basic Salary and Wages	6 752 230.00	7 122 783.74	370 553.74
O0001/IE00030/F004 1/X049/R0115/001/2 01	Depreciation - Intangible Assets (Computer Softwares)	0.00	268 322.28	268 322.28

Vote Number	Description	Budget Expenditure	Actual Expenditure	Unauthorised Expenditure
O0001/IE01530/F004 1/X018/R0115/001/4 00	SD Community - Leave Pay	26 322.00	289 447.41	263 125.41
O0001/IE00715/F004 1/X049/R0115/001/2 01	Depreciation - Machinery and Equipment	439 800.00	699 601.09	259 801.09
O0001/IE00036/F004 1/X046/R0115/001/2 10A	CORP ADMIN - Basic Salary and Wages	5 602 066.00	5 860 738.16	258 672.16
O0001/IE07583/F004 1/X049/R0115/001/2 01	Depreciation - Investment Properties	0.00	210 464.93	210 464.93
O0001/IE01535/F004 1/X018/R0115/001/4 00	SD Community - Standby Allowance	0.00	208 330.23	208 330.23
O0001/IE01533/F004 1/X044/R0115/001/1 00	Municipal Running Cost/Long Service Award/Equitable Share/Mayor and Council/Administrative or Head O/Default/ EXECUTIVE COUNCIL	0.00	194 000.00	194 000.00
O0001/IE00036/F116 9/X116/R0116/001/9 00	Municipal Running Cost/Basic Salary and Wages/Expanded Public Works Pr/Roads/Whole of the Municipality/Default/Roads/	1 590 000.00	1 777 232.18	187 232.18
O0001/IE00126/F004 1/X049/R0115/001/2 01	BTO Staff - Travel or Motor Vehicle	72 000.00	255 965.32	183 965.32
O0001/IE00126/F004 1/X101/R0115/001/2 15	TOWN PLANNING - Travel or Motor Vehicle	69 600.00	216 675.99	147 075.99
O0001/IE00119/F004 1/X116/R0115/001/2 25	Municipal Running Cost/Accommodation, Travel and/Equitable Share/Roads/Administrative or Head O/Default/Technical Services	21 000.00	153 705.54	132 705.54
O0001/IE00119/F004 1/X049/R0115/001/2 01	BTO Staff - Accommodation, Travel and Travel	4 200.00	131 104.49	126 904.49
O0001/IE00138/F004 1/X045/R0115/001/3 00M	MM - Pension Fund Contribution	0.00	117 825.12	117 825.12
O0001/IE06234/F004 1/X018/R0115/001/4 00D	Director SC - Pension	0.00	112 364.46	112 364.46
O0001/IE00036/F004 1/X098/R0115/001/6 50	LICENCING - Basic Salary and Wages	528 716.16	636 547.48	107 831.32

This results in a material understatement of the unauthorised expenditure disclosure in the financial statements of R27 681 152 and may result in a modification of the audit opinion.

Internal control deficiency

Financial management

The acting CFO did not adequately monitor actual expenditure against the budget vote on a regular basis to confirm that the necessary action is undertaken to address adverse variances in a timely manner.

Recommendation

The acting CFO should improve the monitoring of actual expenditure against the budget on a regular basis to confirm that the necessary action is undertaken to address adverse variances in a timely manner.

The acting CFO should follow up and update the unauthorised expenditure disclosure accordingly in the financial statements.

Management response

Management notes the finding; however, this was as a result of a sector linking from our financial system (Employee related cost and Depreciation) and a further breakdown detailing the budget versus expenditure per line has been performed and is attached for verification and validation by the audit team.

Name: AP Mbatha
Position: Assistant CFO
Date: 13 November 2019

Auditor's conclusion

Audit has validated the subsequent schedule submitted for audit and no unauthorised expenditure has been noted. Management is urged to improve records management surrounding the budget process to confirm effective audit trail. A follow up in this regards will be performed in the 2019-20 financial period.

Procurement and contract management

35. Indicators of cover quoting and bid rigging

Audit finding

In terms of section 115(1) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), the accounting officer of a municipality must implement the supply chain management (SCM) policy and take all reasonable steps to ensure that proper mechanisms and separation of duties in the SCM are in place to minimize the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

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



Bid rigging, also referred to as collusive tendering, occurs when two or more competitors agree they will not compete genuinely with each other for tenders, allowing one of the cartel members to win the tender. Participants in a bid rigging cartel may take turns to be the 'winner' by agreeing about the way they submit tenders, including some competitors agreeing not to tender. Bid rigging can take a variety of forms. It includes:

- cover bidding - where competitors choose a winner and everyone but the winner deliberately bids above an agreed amount to establish the illusion that the winner's quote is competitive.
- bid suppression - where a business agrees not to tender to ensure that the pre-agreed participant will win the contract
- bid withdrawal - where a business withdraws its winning bid so that an agreed competitor will be successful instead
- bid rotation - where competitors agree to take turns at winning business, while monitoring their market shares to ensure they all have a predetermined slice of the pie
- non-conforming bids - where businesses deliberately include terms and conditions that they know will not be acceptable to the client.

Municipal Supply Chain Management Regulations 38(1) states that an SCM policy must provide measures for combating abuse of the SCM system, and must enable the accounting officer

(e) to reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract.

(f) to cancel a contract awarded to a person if –

- The person committed any corrupt or fraudulent act during the bidding process or the execution of the contract or
- An official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person;

(g) to reject the bid of any bidder, if that bidder or any of its directors has abused the SCM system of the municipality and has committed any improper conduct in relation to such system.

The following indications of cover quoting and bid rigging have been identified:

Quote/Bid number	Description	Bidders	Amount quoted/bidder R	Address per Bidding documents	Address per CIPRO Report
UBU-Q-08/02/19 (Quote)	Supply And Deliver Harry Gwala Marathon Promotional Material	Bargain Uniforms	123 625	47 San Jerez Ballito	49 Palm Street Verulam
		Fana Manufacturing	160 080	49 Palm Street Verulam	49 Palm Street Verulam
UBU-B/07/07/18 (Tender)	Supply And Delivery Of Protective Clothing For 36 Months (Re-Advert)	Bargain Uniforms	19 617 (Rate)	47 San Jerez Ballito	49 Palm Street Verulam
		Fana Manufacturing	14 820 (Rate)	49 Palm Street Verulam	49 Palm Street Verulam

In addition to having a similar business address above, the directors of these companies share the same surname:

Bidders	Director
Bargain Uniforms	Ronel Parthab
Fana Manufacturing	Neil Parthab

The above is indicative of fraud and should be investigated by management.

Internal control deficiency

Leadership

The bid evaluation committee (BEC) did not adequately review the bid documentation prior to making recommendations for approval.

Recommendation

The BEC should intensify the reviews of bid documentation and be vigilant of possible indicators of cover quoting or bid rigging through implementation of procurement checklists. These should be promptly escalated to the accounting officer for corrective action.

The accounting officer should investigate all cases of possible fraud and implement corrective actions against suppliers and/or employees in terms of the MFMA and the SCM regulations.

Management response

Management note the finding. Bargain uniforms have been contacted to get clarity about the same address on the CIPRO and the same surname. According to him, they are brothers, but they no longer use the same address as it can be seen on their quotation documents. According to him, when they were registering the companies, they were still using the same address. He said they now live in different towns and they don't even discuss the tenders as their businesses are independent and operates in different locations.

According to the quotations supporting documents, Fana Manufacturing director lives under Ethekwini Municipality and Bargain Uniforms is under Kwa- Dukuza Municipality. Copies of the quotations and their proof of municipal account are attached as **annexure 1**.

As the way forward and prevention measure, the SCM will amend the checklist to include the column for cover quoting.

Name: LF Ndlovu
Position: SCM Manager
Date: 6 November 2019

Auditor's conclusion

Having considered management's response and the feedback obtained from the supplier, a detailed investigation is still required to determine if these two companies are indeed tendering as independent parties:

- The directors of the companies are brothers and therefore related
- Based on a selected sample of awards, the two companies submitted proposals for two awards at the municipality.
- The quotation and bid documents were signed and certified by the same individual in Verulam.

A follow up into the investigation and management's commitment to update its SCM checklist will be performed in the 2019-20 audit.

36. Deviation disclosure discrepancies

Audit finding

In terms of section 122(1)(a) and (b) of the MFMA, every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year and disclose the information required in terms of sections 123, 124 and 125.

In terms of SCM regulation 36, the accounting officer must record the reasons for any deviations in terms of sub regulation (1)(a) and (b) and report them to the next meeting of the council, and include as a note to the annual financial statements.

The municipality has disclosed regulation 36 deviations in totality as oppose to detailing particulars of each of award in the financial statements that promotes fair presentation (i.e. Supplier, award amount and reason in terms of regulation 36).

It is further stated in the note that deviation from tender stipulations were presented to the executive committee. This is incorrect and should be the council of the municipality.

Extract of Annual Financial Statements

Supply chain management regulations		
Section 36 deviations	417 415	308 511
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.		
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.		
Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.		

Internal control deficiency

Financial management

The chief finance officer (CFO) did not perform an adequate review of the financial statements to confirm disclosures are accurate and made in accordance with GRAP standards and MFMA disclosure requirements.

Governance

The internal audit and audit committee did not perform an adequate review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards and MFMA disclosure requirements.

Recommendation

The CFO should make the necessary corrections to the financial statements to ensure that it is accurate and conforms to the applicable GRAP standards and MFMA disclosure requirements.

The CFO should improve the review of the financial statements through implementation and completion of financial statements and GRAP disclosure checklists which should also incorporate MFMA disclosure requirements.

The internal audit and audit committee should improve their review of the financial statements prior to it being submitted for audit to confirm disclosures are accurate and made in accordance with GRAP standards and MFMA disclosure requirements.

Management response

Management noted the finding and necessary disclosure amendments will be effected on the amended financial statements.

Name: MP Mbatha
Position: Acting CFO
Date: 6 November 2019

Auditor's conclusion

A revised set of financial statements has been provided and validated by audit to confirm that the necessary disclosures for deviations have been made. Management and those charged with governance are urged to improve reviews of the financial statements against the MFMA requirements prior to submission for audit.

37. Deviation requirements not met

Audit finding

In terms of section 112(1)(m)(i) of the MFMA, the SCM policy of a municipality must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and must cover measures for combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management.

In terms of SCM Regulation 36(1)(a), a supply chain management policy may allow the accounting officer to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only in the following circumstances:

- i) in an emergency - where immediate action is necessary
- ii) if goods or services are produced or available from a sole provider;
- iii) for acquisition of special works of art or historical objects
- iv) acquisition of animals for zoos;
- vi) it was an unsolicited bids;
- vii) the auditee participated in a contract arranged by another organ of state; or
- v) in any other exceptional case where it is impractical or impossible to follow the official procurement process.

An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids.

The following deviation from competitive bidding did not comply with the requirements of SCM regulation 36:

Quote number	Description	Awarded Bidder	Value of award R	Reason for deviation	Date supplier requested to inspect site	Memo Date	PO Date	Audit comment
Deviation 8	Borehole Repairs At Thusong Centre And Municipal Main Offices	Happy Growth Properties	34 379	It is motivated that this is an emergency as the boreholes are used to supply people with water. The service provider requested was Happy Growth Properties	03-May-2019	09-May-19	15-May-19	Not deemed to be an emergency as a RFQ process could have been followed in 12 days between engaging the supplier and the purchase order date.

As per correspondence between the supplier and the municipality, the supplier was requested to visit the two borehole sites on 3 May 2019. It was established that the motors and power supplies were faulty which required replacement. A quote was presented to the municipality on 6 May 2019 and the supplier was available to commence the work on 9 May 2019. The memorandum to deviate was only presented to the municipal manager on 9 May 2019 for approval. Given the timeframe between the date the supplier was engaged and the purchase order date of 15 May 2019, this is not deemed to be an emergency as the municipality could have obtained three quotations through its invitation for quotation process.

Notwithstanding the above, the supplier selected was not registered on the CSD at the time of appointment and there is no evidence to confirm that its tax compliance status was verified by the municipality before appointment.

Consequently, all payments made for the above award should be regarded as irregular expenditure and disclosed in the financial statements.

Internal control deficiency

Leadership

The accounting officer did not perform an adequate review of the request for deviation document to confirm that reasons are valid and compliant with applicable laws and regulations, prior to approval thereof.

Recommendation

The accounting officer should perform an adequate review of the request for deviation document to confirm that reasons are valid and compliant with applicable laws and regulations, prior to approval thereof.

The accounting officer should implement consequence management procedures to address municipal officials who apply for deviations from approved SCM policies and procedures resulting from poor planning.

The CFO should include the expenditure relating to this award as irregular expenditure in the financial statements.

Management response

Management note the finding. The reason that is stated on the memo refers to the quote being more than R30 000 which would have required the 7 days advert not the 3 quotes as cited by the finding. As this was urgent, the 7-day advert process usually takes more than 14 days before it can be finalised, and it would have been delayed.

In addition, this was for the repairs, which is impractical to get 3 quotes as it normally requires strip before the quotation can be issued. (Some service providers charge for stripping and charge for call out fee). This would mean that the municipality would have to advertised for 7 days, if get responses, ask the service providers to strip the borehole then each gives the municipality the quotation which was impractical.

Name: LF Ndlovu
Position: SCM Manager
Date: 6 November 2019

Auditor's conclusion

The reasons provided as per management's response contradicts the reason outlined in the memo in support of the deviation. The memo indicates the need for an urgent appointment as water needs to be supplied to the people. Given the timeframes between engaging the supplier and issuing the order, this was not considered an emergency. This constitutes irregular expenditure and the amount has subsequently been disclosed as per the revised financial statements submitted for audit.



38. Inadequate contract management

Audit finding

In terms of paragraph 2(1) of the municipality's supply chain management policy, all officials and other role players in the supply chain management system of the municipality must implement the policy in a way that is equitable, transparent, competitive and cost effective.

In term of section 116(3)(a) of MFMA, a contract or agreement procured through the SCM policy of the municipality may be amended by the parties, but only after the reasons for the proposed amendment have been tabled in the council of the municipality and should be approved by a delegated official.

The total payments made under the contract up to date should not exceed the original contract price plus any approved extensions/variations to contracts.

b) The total payments under the following award exceeded the contract value and the variation was not approved in terms of section 116 of the MFMA:

Contract awarded	Supplier	Duration of contract	Total rand-value of contract R	Total expenditure per contract register R	Expenditure current year per out-going payment listing R	Difference R	Variation
Advertising Agency	Ayanda Mbanga Communications (Pty) Ltd	December 2017 - November 2020	597 870	597 870	764 103	166 234	28%

This results in a circumvention of required procurement processes and all payments in excess of the contract value should be disclosed as irregular expenditure in the financial statements.

Internal control deficiency

Financial management

The accounting officer and the SCM manager did not develop and implement effective contract management policies and procedures at the municipality.

Recommendation

The SCM manager should develop and implement contract management policies and procedures in support of proper procurement planning.

The acting CFO in conjunction with the SCM manager should monitor actual expenditure against contract values on a regular basis to ensure any variations are appropriately approved in line with key legislation. This is could be facilitated through regular reviews of the contract register against the underlying records of the municipality.

The accounting officer should implement consequence management procedures against employees who fail to implement corrective actions to support proper contract management.



The acting CFO should update the irregular expenditure disclosure in the financial statements with this award.

Management response

The appointment letter for Ayanda Mbanga Communications does not have a contract value as their services are procured as and when required. The value on the contract register represent all the payments made up to the date when it was last updated. This is in line with the guide given by Provincial Treasury. Attached are the copies of appointment letter, SLA and the extract from the rules of capturing as provided by Provincial Treasury.

Name: LF Ndlovu
Position: SCM Manager
Date: 12 November 2019

Auditor's conclusion

Evaluated the Service Level agreement and agree the services provided are rate based and included no contract value, therefore total payments under the award does not exceed the contract value and there is no variation.

In addition, the preparation and maintenance and review of the Contract register does require significant improvement to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards as required by section 62(1)(b) of the MFMA.

A follow up in this regards will be performed in the 2019-20 financial period.

Audit of Predeteremined Objectives

39. Performance indicator not well defined and verifiable

Audit finding

The FMPPi requires the municipality to have appropriate systems to collect, collate, verify and store performance information to ensure valid accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Paragraph 3.2(b) of Chapter 3 of the Framework for Managing Programme Performance Information states that a good performance indicator should be:

Well-defined: The indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use

Chapter 3: Key Performance information paragraph 3.3 on page 9 of the Framework for Managing Programme Performance of Information states that:
Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

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

- **Specific:** the nature and the required level of performance can be clearly identified
- **Measurable:** the required performance can be measured
- **Achievable:** the target is realistic given existing capacity
- **Relevant:** the required performance is linked to the achievement of a goal
- **Time-bound:** the time period or deadline for delivery is specified.

Sufficient appropriate audit evidence could not be obtained to support the reported achievement of the target for the following indicator. This was due to a lack of technical indicator descriptions, proper processes and systems that predetermined how the achievement would be measured, monitored and reported:

Indicator	Target	Reported actual achievement	POE as per SDBIP
Number of days within which refuse is collected in businesses and residential by 30-Jun-19	Monitor six days of refuse collection in businesses per week and once a week in residential by 30-Jun-19	The weekly schedule was followed on refuse collection and the waste was removed in the following areas as scheduled: •Mondays - High School down to Stuart Street up to Grant Street straight to testing ground •Tuesdays - Morning view - High street, Mary Street and centenary road •Wednesdays - Morning Side and Highflats •Thursdays - Little flower and Hospital. Umngeni, Sisonke •Fridays – Fairview •Saturdays - Highflats Ixopo	Signed quarterly report by manager community services and HOD

The municipality is reporting that refuse collection is performed six days in a week however the only evidence to confirm this as per the POE and management enquiries performed, is a quarterly report confirmation signed by the Director: Corporate Services. This is not deemed sufficient and appropriate to validate the existence of systems and processes that enable reliable reporting of actual service delivery against this indicator.

The existing POE does not enable audit to ascertain that refuse collection was performed for six days in every week during the financial period.

Notwithstanding, the indicator reads as “number of days within which refuse is collected in businesses and residential by 30 June 2019”. It does not make reference to any weekly requirement therefore there is no consistency with the target and the reported achievement.

Internal control deficiency

Performance management

The PMS manager did not develop systems, processes and technical indicator descriptions which specifies sufficient appropriate evidence to be collated to support the validity, accuracy and completeness of the achievements reported.

The PMS manager did not develop a performance management checklist to ensure planned indicators are well defined and verifiable in terms of the FMPPI.

Recommendation

The PMS manager should develop technical indicator descriptions in support of planned indicators to confirm that it is well defined and verifiable. These should have a clear meaning and address the following as a minimum:

- Indicator title
- Short definition
- Purpose/importance
- Source/collection of data
- Method of calculation
- Data limitations
- Type of indicator
- Calculation type
- Reporting Cycle
- New Indicator
- Desired performance
- Indicator responsibility

The PMS manager should develop a performance management checklist to ensure planned indicators are well defined and verifiable in accordance with the FMPPI prior to approval.

The accounting officer should develop and implement standard operating procedures to support the overall performance management process which should include as a minimum:

- Implementation and monitoring of the PMS compliance checklist quarterly
- Roles and responsibilities from planning to reporting
- Frequency of reporting
- Process of collecting information for reporting purposes
- Process and procedures for reporting of performance information per department per key performance indicator
- Source documentation per indicator
- Process for review of reported information to supporting evidence
- Applicable timelines for reporting per department and review of reported information

Management response

Management acknowledges the finding however the process for refuse collection is that the Truck drivers and General Workers sign attendance registers daily before they commence with the daily



activity, they are employed as Refuse Truck Driver and General Workers (Refuse), therefore that is what the work they do every day. We have an approved weekly schedule Plan that is monitored by Waste Management Supervisor and Manager Community Services to ascertain that the work was performed, with physical verifications being done by the Manager Community Services who then compiles a report, with the schedule included in that report, signs it and presents it to the Director Social Development who also verifies that work was done and signs off the report as well.

Further evidence that work was done can be attained from the tracker report, to show the truck movements as per the schedule weekly plan.

Going forward the POE will be adjusted to also request the Refuse Supervisor to sign a weekly timetable as proof that the areas reflected on the schedule were attended to, over and above signing the register.

The PMS unit will also make sure that when reporting actual work achieved on this target we refer to Number of days and not report on 'weekly Schedule'.

Name: Z Khumalo
Position: Manager IDP/PMS
Date: 6 November 2019

Auditor's conclusion

Audit was subsequently provided with tracker reports to verify and validate the reliability of the reported achievement in the annual performance report.

A revised annual performance report was presented to confirm that the necessary corrections were made by management to ensure the reported achievement is in line with the source information and evidence required.

40. Performance indicators not well defined

Audit finding

The FMPPI requires the municipality to have appropriate systems to collect, collate, verify and store performance information to ensure valid accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Paragraph 3.2(b) of Chapter 3 of the Framework for Managing Programme Performance Information states that a good performance indicator should be:

Well-defined: The indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use

Chapter 3: Key Performance information paragraph 3.3 on page 9 of the Framework for Managing Programme Performance of Information states that:

Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

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



- **Specific:** the nature and the required level of performance can be clearly identified
- **Measurable:** the required performance can be measured
- **Achievable:** the target is realistic given existing capacity
- **Relevant:** the required performance is linked to the achievement of a goal
- **Time-bound:** the time period or deadline for delivery is specified.

Contrary to these requirements, there are indicators expressed as percentages in the SDBIP and annual performance report that are not well defined:

Indicator
Percentage of gravel roads constructed by 31-Mar-19 (Shelembe and Nxele)
Percentage of gravel roads constructed by 30-Jun-19 (Esivandeni)
Percentage of constructed community hall (Amazabeko & Nkwentseleni) by 30-Jun-19
Percentage of Expansion of Municipal Buildings by 30-Jun-19
Percentage of constructed roads completed by 30-Jun-19 <ul style="list-style-type: none"> - Lower Valley View - Fairview
Percentage of constructed roads completed by 30-Sept-18 (Golfcourse Road)
Percentage of upgraded sport field completed by 30-Jun-19 <ul style="list-style-type: none"> - Pass 4 Phungula - KwaDladla
Percentage of electrification for Golf Course housing project completed by 30-Mar-19
Percentage of electrified wards completed by 30-Jun-19 <ul style="list-style-type: none"> - Webbstown - Blackstore

Evidence could not be obtained that clearly defined the predetermined method of calculation to be used when measuring the actual achievement for these indicators. This is attributed to lack of technical indicator descriptions and formal standard operating procedures:

- These indicators are expressed as percentages however the numerator and denominator to measure the reported achievement is not specified in the planning documents.
- The percentage achieved on a specific project may be determined using a variety of methods and should be specifically predetermined for reporting purposes to eliminate areas of ambiguity.

Internal control deficiency

Performance management

The PMS manager did not adequately develop technical indicator descriptions which clearly defines the method of calculation required to support the accuracy and completeness of achievements reported.



The PMS manager did not develop a performance management checklist to ensure planned indicators are well defined in accordance with the FMPPI.

Recommendation

The PMS manager should develop technical indicator descriptions in support of planned indicators to confirm that it is well defined. These should have a clear meaning and address the following as a minimum:

- Indicator title
- Short definition
- Purpose/importance
- Source/collection of data
- Method of calculation
- Data limitations
- Type of indicator
- Calculation type
- Reporting Cycle
- New Indicator
- Desired performance
- Indicator responsibility

The PMS manager should develop a performance management checklist to ensure planned indicators are well defined in accordance with the FMPPI prior to approval.

Management response

Management acknowledges the findings however, Ubuhlebezwe does have Standard Operating Procedures and a Technical Indicator Description which are used to Monitor and evaluate performance. We have also used the SMART criteria in setting our targets. Our method of calculating is achieved by:

- taking all the work that must be done to complete the project as the denominator and
- the reported activities achieved as the numerator. The two divided, give us the percentage of work achieved.

In this way, the target is Specific (100% of road, hall, sportsfield completed) Measurable (total percentage of work expected, divided by number of activities achieved as per the report) Achievable (resources are made available by the Municipality, Contractors and Consultants are appointed), Relevant (the targets are linked to the achievement of our goals) and Time bound (Reasonable timeframes are set for when work should be completed).

The PMS unit is able to monitor performance in each quarter by checking the activities that were performed in that quarter against the expected outcome, where necessary, challenges are reported to APAC, MPAC, EXCO and Council.

However, due to the challenges experience during time of audit with this indicator, for the 2019/20 financial year we have changed the indicators for Roads, Halls, Electrification and Sportsfields and are now using Kilometres to measure performance on roads and a Number to measure Electrification, Halls and Sportsfields.

Name: Z Khumalo
 Position: Manager IDP/ PMS
 Date: 6 November 2019

Auditor's conclusion

Management subsequently provided audit with standard operating procedures and technical indicator descriptions in support of the above mentioned indicators. Through inspection and consultation with management, audit was able to determine the source information and evidence necessary to support the reported achievement on these indicators.

41. Reported performance information not reliable

Audit finding

The FMPPI requires the municipality to have appropriate systems to collect, collate, verify and store performance information to ensure valid accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

- (a) The reported achievements for the following indicators did not agree to audited values derived and recalculated from supporting evidence presented by management:

Roads

Name of indicator	Reported output	Audited output	Differences
Percentage of constructed roads completed by 30-Jun-19 (Low Valley View Road)	49% complete	47.2% complete	+1.8% complete
Percentage of constructed roads completed by 30-Jun-19 (Fairview Roads)	57% complete	57.9% complete	-0.9% complete
Percentage of constructed roads completed by 30-Sept-18 (Golf course Road)	89% complete	99.6% complete	-10.6% complete

Community Halls

Name of indicator	Reported output	Audited output	Differences
Percentage of constructed community hall (Nkwentsheleni) by 30-Jun-19	55% complete	55.5% complete	+0.5% complete
Percentage of constructed community hall	75% complete	72.2 % complete	+2.8% complete



Name of indicator	Reported output	Audited output	Differences
(Amazabeko) by 30-Jun-19			

Sports fields

Name of indicator	Reported output	Audited output	Differences
Percentage of upgraded sport field completed by 30-Jun-19 (Pass 4Phungula)	96% complete	96.5% complete	-0.5% complete

Due to the discrepancies above, this results in material disagreement misstatements and impacts the reliability of the reported achievements of these indicators.

Internal control deficiency**Leadership**

The accounting officer did not adequately monitor the achievement of the audit action plan to ensure that prior period matters relating to the reliability of performance information is addressed in a timely manner.

Performance management

The PMS Manager and the Head of Infrastructure did not review the reported actual performance against its supporting documentation to confirm reliability, prior to submission for inclusion in the quarterly and annual performance report.

Recommendation

The accounting officer should improve the monitoring of the achievement of the audit action plan to ensure that prior period matters relating to the reliability of performance information is addressed in a timely manner.

The PMS Manager and the Head of Infrastructure should improve the review of the reported actual performance against its supporting documentation to confirm reliability, prior to submission for inclusion in the quarterly and annual performance report.

The PMS Manager in consultation with the Head of Infrastructure should follow up and make the necessary corrections to the annual performance report. The revised report with the necessary supporting evidence should be presented to the auditors for validation purposes.

Management response**Roads**

Name of indicator	Reported output	Audited output	Differences	Management Response
Percentage of constructed roads completed by 30-	49% complete	47.2% complete	+1.8% complete	A human error was made during calculation where the consultant divided by 20 activities where in

Name of indicator	Reported output	Audited output	Differences	Management Response
Jun-19 (Low Valley View Road)				fact 21 activities were performed. We have adjusted the percentage on the APR to reflect 47.2%
Percentage of constructed roads completed by 30-Jun-19 (Fairview Roads)	57% complete	57,9% complete	-0.9% complete	Upon recalculation we have identified that an error was made in calculation and the correct percentage is 58% We have adjusted the percentage on the APR to reflect 58%
Percentage of constructed roads completed by 30-Sept-18 (Golf course Road)	89% complete	99.6% complete	-10.6% complete	There was an error made when typing the percentage on the annual performance report, the correct percentage is 99.6%. The discrepancy is due to a human error and has been rectified on the APR.

Community Halls

Name of indicator	Reported output	Audited output	Differences	Management response
Percentage of constructed community hall (Nkwentsheleni) by 30-Jun-19	55% complete	55.5% complete	+0.5% complete	The percentage has been recalculated and we maintain that 55% is correct
Percentage of constructed community hall (Amazabeko) by 30-Jun-19	75% complete	72.2 % complete	+2.8% complete	The percentage has been recalculated and we maintain that 75% is correct

Sports fields

Name of indicator	Reported output	Audited output	Differences	Management response
Percentage of upgraded sport field completed by 30-Jun-19 (Pass 4Phungula)	96% complete	96.5% complete	-0.5% complete	A completion certificate been submitted for the completion of the sportsfield.

Name: Z Khumalo
 Position: Manager IDP/PMS
 Date: 6 November 2019

Auditor's conclusion

The revised annual performance report with supporting evidence was subsequently been provided and validated by audit to confirm that the necessary corrections were made. Management and those charged with governance are urged to improve their reviews of the annual performance report against the underlying evidence prior to submission to the AG for audit. A follow up in this regards will be performed in the 2019-20 financial year.

Compliance

42. Deficiencies in investigation of 2016/17 irregular expenditure

Audit finding

Section 170(1) and 170(2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states the National Treasury may on good grounds approve a departure from a treasury regulation or from any condition imposed in terms of this act. Non-compliance with a regulation made in terms of section 168, or with a condition imposed by the National Treasury in terms of this Act, may on good grounds shown be condoned by the Treasury.

Section 32(2) of the MFMA states that a municipality must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless –

- (c) In the case of unauthorised expenditure is –
 - (iii) Authorised in an adjustment budget; or
 - (iv) Certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
- (d) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council.

The investigation outlined above must meet the following minimum requirements to be constituted as proper:

- The investigation is commissioned/approved at the appropriate level
- Terms of reference of the investigation are approved
- The scope of the investigation addresses the allegation
- The recommendations/findings were relevant to the allegation
- Investigations comply with the entity's policies regarding independence and qualification/position

As per note disclosure note 44 in the financial statements, irregular expenditure of R581 321 (i.e. relates to 2016/17 financial period) has been condoned during the current financial period. No evidence could be obtained to confirm approval by Treasury in terms of section 170 of the MFMA. Management have indicated that this was typographical error and should make reference to a write off that was approved by council.

MPAC (Municipal Public Accounts Committee) was appointed by the municipality to conduct an investigation of irregular expenditure that was incurred during the 2016/17 financial period. Upon

review of the report and minutes used to support the write off by council, the following shortcomings were noted:

- There were no approved terms of reference for the investigation performed
- The scope and objective of work performed by MPAC was not appropriately aligned to the MFMA which requires investigations into UIFW to isolate accountability and to determine if the amounts are recoverable or not.
- The investigation was not performed at transaction level but rather the amount investigated was considered in its entirety prior to recommendation for council for write off.

Internal control deficiency

Leadership

The accounting officer did not establish formal policies and procedures that govern the investigation, recovery and write off of irregular, unauthorised and fruitless and wasteful expenditure of the municipality.

The accounting officer did not adequately monitor MPAC that were assigned to perform the investigation into irregular expenditure to ensure deliverables are met and in accordance with section 32 MFMA requirements.

Recommendation

The accounting officer should establish policies and procedures that need to be implemented when irregular, unauthorised and fruitless and wasteful expenditure is identified by the entity. To confirm proper investigative processes, an investigation checklist should be implemented to ensure that the following criteria are met:

- The investigation is commissioned/approved at the appropriate level
- Terms of reference of the investigation are approved
- The scope of the investigation addresses the allegation
- The recommendations/findings were relevant to the allegation
- Investigations comply with the entity's policies regarding independence and qualification/position

The accounting officer and CFO should improve the monitoring of committees that are appointed to perform the investigation of irregular expenditure to confirm that agreed upon deliverables are satisfactorily met and in accordance with section 32 MFMA requirements.

The CFO should update the disclosure in the financial statements to reflect the condonement as a write off.

Management response

Management notes the finding.

The recommendations provided will be implemented.

Name: MP Mbatha

Position: Acting CFO

Date: 6 November 2019



Auditor's conclusion

Management's commitment to improve controls surrounding consequence management and the investigation of irregular expenditure will be followed up in the 2019-20 financial period.

Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - MFMA
 - Municipal Systems Act, 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 (NT). This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
- Circulars and guidance issued by the NT 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: Objectives, performance indicators and targets are consistent between planning and reporting documents.			
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA	
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.			
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPI		
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPI		



Criteria	References to PMRF per institution	
	Municipalities	Municipal Entities
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPi	
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPi	
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPi	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.		
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPi	
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.		
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	Chapter 5 of the FMPPi	Chapter 5 of the FMPPi
3. 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, 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' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are 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 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/measures and their related targets for the selected development priority.
 - 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.

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 bear on our independence and, where applicable, related safeguards.




Annexure F: Assessment of internal controls
















Below is our assessment of implementing the 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 either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

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

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and						

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

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Overall movement from previous assessment	↑		↑		↑	
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	