Management report

Nyandeni Local Municipality

30 June 2022

Communicated to the accounting officer on: 25 November 2022

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Nyandeni Local Municipality

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

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2022. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

3. In accordance with the terms of engagement, our responsibility in this regard is to:

   - express an opinion on the financial statements
   - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected development priorities, and report the material findings in the auditor's report
   - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act 25 of 2004 (PAA).
   - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.

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

5. 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.

6. 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.

7. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s). It may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of this material is strictly prohibited. Should the information be used or processed in

a manner that contravenes any laws in the Republic of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.

1. 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:

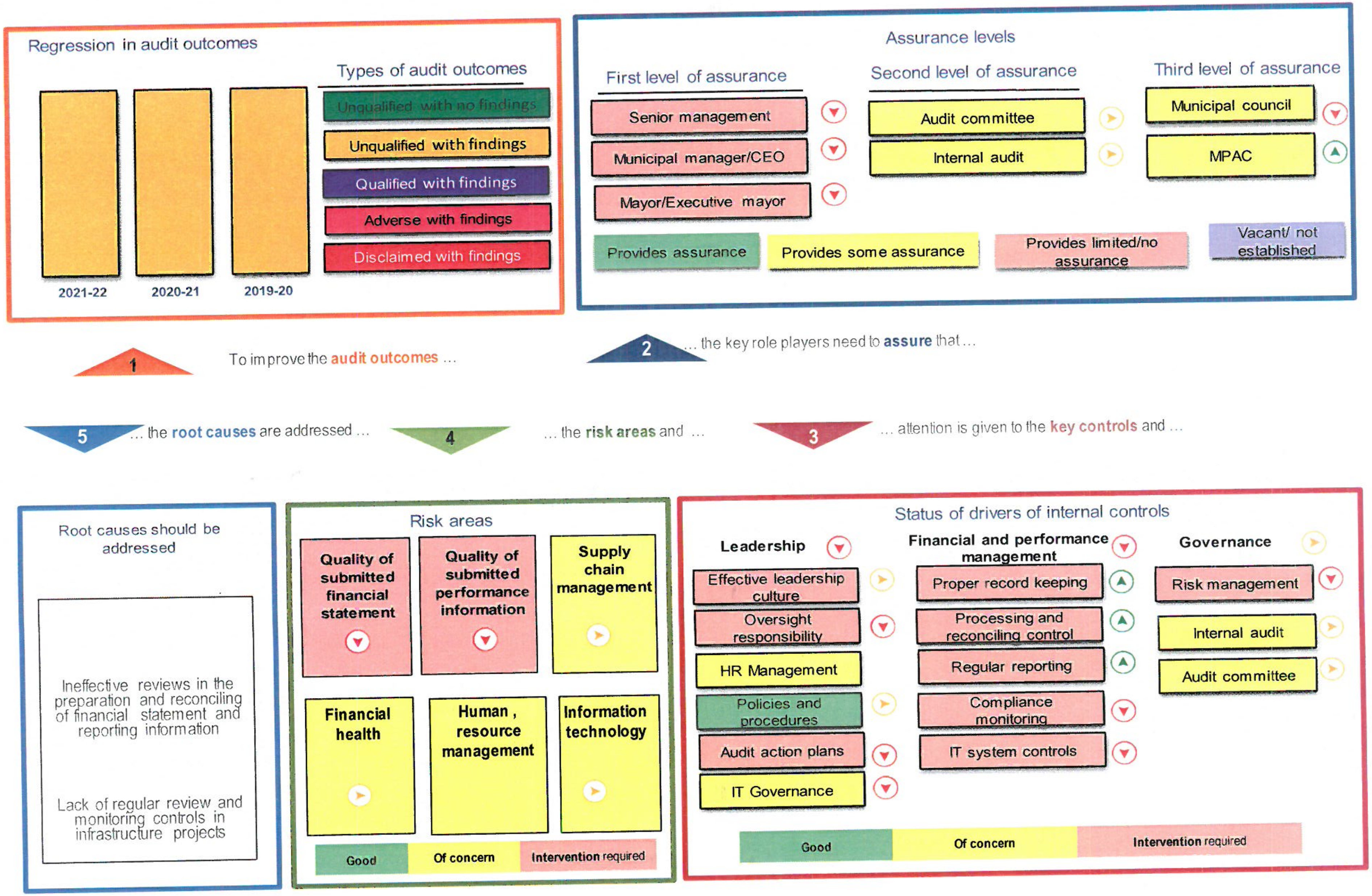
   - Status of the audit outcomes
   - Status of the level of assurance provided by key role players
   - Status of the drivers of internal controls
   - Status of risk areas
   - Root causes to be addressed

Movement from the previous year is depicted as follows:

/ Improved

/ Unchanged / slight improvement / slight regression

/ Regressed


Regression in audit outcomes
Types of audit outcomes
Unqualified with no findings
Unqualified with findings
Qualified with findings
Adverse with findings
Disclaimed with findings
2021-22
2020-21
2019-20
Assurance levels
First level of assurance
Senior management
Municipal manager/CEO
Mayor/Executive mayor
Second level of assurance
Audit committee
Internal audit
Third level of assurance
Municipal council
MPAC
Provides assurance
Provides some assurance
Provides limited/no assurance
Vacant/ not established
1
To improve the audit outcomes ...
2
... the key role players need to assure that ...
3
... attention is given to the key controls and ...
4
... the risk areas and ...
5
... the root causes are addressed ...
Root causes should be addressed
Ineffective reviews in the preparation and reconciling of financial statement and reporting information
Lack of regular review and monitoring controls in infrastructure projects
Risk areas
Quality of submitted financial statement
Quality of submitted performance information
Supply chain management
Financial health
Human , resource management
Information technology
Good
Of concern
Intervention required
Status of drivers of internal controls
Leadership
Effective leadership culture
Oversight responsibility
HR Management
Policies and procedures
Audit action plans
IT Governance
Financial and performance management
Proper record keeping
Processing and reconciling control
Regular reporting
Compliance monitoring
IT system controls
Governance
Risk management
Internal audit
Audit committee
Good
Of concern
Intervention required

OVERALL MESSAGE

2. The Nyandeni Local Municipality audit outcomes has stagnated on an unqualified audit opinion for the 2021-22 financial year. The audit outcomes can be attributed to the repeat material misstatements identified in the financial statements due to submission of supporting schedules that do not agree with the submitted financial statements and inability to report consistently on the planned targets as well as non-compliance with laws and regulations.

3. The material findings identified are due to lack of clear processes and controls that should be in place in the daily processing, recording, reconciling and reporting within the municipality. These controls need to be established and implemented for the municipality to operate under financial discipline that are not tolerant to non-compliance or non-adherence to controls.

4. The leadership will need to review the operational risks and ineffective controls in the daily processes and reporting so that it can be able to design controls that can be implemented to mitigate to risks through effective monitoring.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Key stakeholder	Purpose of interaction	Number of interactions
Municipal manager	Kick-off, audit strategy, audit steering committee, audit progress and red flags	4
Audit committee	Audit Strategy meeting and audit update	2

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

- The red flags observed during the audit that would impact the audit outcomes
- The material misstatements identified
- The challenges we were facing regarding the availability of staff to clarify matter to auditors

7. Some stakeholders made commitments to implement initiatives that can maintain/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.

OVERALL MESSAGE

2. The Nyandeni Local Municipality audit outcomes has stagnated on an unqualified audit opinion for the 2021-22 financial year. The audit outcomes can be attributed to the repeat material misstatements identified in the financial statements due to submission of supporting schedules that do not agree with the submitted financial statements and inability to report consistently on the planned targets as well as non-compliance with laws and regulations.

3. The material findings identified are due to lack of clear processes and controls that should be in place in the daily processing, recording, reconciling and reporting within the municipality. These controls need to be established and implemented for the municipality to operate under financial discipline that are not tolerant to non-compliance or non-adherence to controls.

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SECTION 2: Matters relating to the auditor's report

Audit of the financial statements

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

9. The material misstatements were corrected and form the basis for the unqualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	**Finding** (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	**Occurred in prior year** (Insert Yes/No)	**R** current year	**R** previous year
Material misstatements not corrected				
All material misstatements were corrected				

Matters to be brought to the attention of users

Emphasis of matter paragraphs

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

Restatement of corresponding figures

11. As disclosed in note 58 to the financial statements, the corresponding figures for 30 June 2021 were rested as a result of reclassification in the financial statements of the municipality at, and for the year ended, 30 June 2022

Other matter paragraphs

12. The following other matter paragraphs 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

13. 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 annual financial statements. This disclosure 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

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

Introduction and scope

15. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected development priority presented in the municipality's annual performance report for the year ended 30 June 2022:

[Development priorities/objectives]	Pages in annual performance report	Opinion	Movement
Development priority 1 - *Basic services and infrastructure*	x – x	Disclaimer	▼

Development priority 1 – Basic service delivery

Basis disclaimer of opinion

16. Achievements were reported against indicators and their planned targets that were unrelated to their planned indicators and their predetermined measurement processes. As a result, I was unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report. I was unable to confirm these achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements for the indicators listed below.

No	Indicator	Target	Reported achievement
1	Number of Gravel Road Kilometres Constructed for Langakazi A/R at Ward 27 by 30 June 2022	Complete construction of **5km** Langakazi A/R in Ward 27 by 30 June 2022	Overall progress is at 95% complete
2	Number of Gravel Road Kilometres Constructed for Sofia AR in Ward 10 by 30 June 2022	Complete construction of **5.9km** at Sofia A/R in Ward by 10 June 2022	Overall progress is at 95% complete
3	Percentage Progress Report for Construction of Tholeni AR in Ward 26 by 30 June 2022	Develop progress report for Construction of **5.5km** in Tholeni A/R at ward 26. Project to be at 55% percent by 30th June 2022	Overall Progress is at 55%
4	Percentage Progress Report for Construction of Ntshazini Bridge to Canzibe in Ward 22 &28 by 30 June 2022	Develop progress report for Construction of **11.2km** Ntshazini Bridge to Canzibe low volume road in Wards 22 and 28 project to be at 30% percent by 30 June 2022	Overall Progress is at 33%
5	Percentage Progress Report for constructed Mbange in Ward 20 by 30 June 2021	Develop progress report for Construction of **9,5km** of Mbange Internal Roads in Ward 24 by 30 June 2022. (Project to be at 30%)	Overall progress is at 31%

No	Indicator	Target	Reported achievement
6	Number of kilometres constructed for surfaced road at Libode by 30 June 2022	Complete Construction of **2.5km** of surfaced road at Libode by 30 June 2022	Overall progress is at 85%
7	Number of kilometers Constructed for 5.1km Mdina JSS to Mcwilli in Ward 04 by 30 June 2022	Construction of **5.1km** at Mdina JSS to Mcwillii A/R at Ward 04 by 30 June 2022	Overall Progress is at 67%
8	Constructed Ngqeleni Sport Field at Ward 21 by 30 June 2022	Construction of Ngqeleni Sport Field at ward 21 by 30June 2022	Overall Progress is at 33%

Other matters

17. I draw attention to the matters below.

Achievement of planned targets

18. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 18 of this report.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basis service delivery development priority. I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Responsibilities of the accounting officer for the reported performance information

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

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

21. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected development priorities presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinions. 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.

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

23. 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

24. 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

25. 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 non-current assets, liabilities and expenditure identified by auditors in the submitted financial statements were subsequently corrected and supporting documents were provided and resulted to the financial statements receiving a unqualified audit opinion.

Human resource management

26. I was unable to obtain sufficient appropriate audit evidence that Municipal Manager and Senior Managers signed performance agreement within the prescribed period, as required by section 57(2) of the MSA.

Asset management

27. An adequate management accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA

Revenue management

28. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) MFMA.

Expenditure management

29. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2) (b) of the MFMA.

Procurement and contract management – Local content

30. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

Other information

31. 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 priorities presented in the annual performance report that have been specifically reported in the auditor's report.

32. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.

33. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

34. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:

35. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be not be necessary

Internal controls

36. The significant deficiencies in internal control that led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 3, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

37. Leadership didn't drive a culture of adherence to daily financial and performance disciplines in the administration of financial and performance information.

Oversight responsibility

38. The oversight functions were not output based to enable the assess if the oversight is effective or not and to ensure that through the oversight functions there is accountability for non-compliance and non-adherence to controls.

Human resource management

39. Controls on the quarterly and bi-annual performance of employees was not enhanced to ensure that performance is monitored and aligned to the objectives of the municipality.

Action plans to address internal control deficiencies

40. The actions plans were developed and monitored however there are still repeat findings and therefore the effectiveness of monitoring the action plans need to be reviewed to ensure that, actions plans executed yield improvements of audit outcomes.

Financial and performance management

Proper record keeping

41. The performance information needs to substantiate with appropriate audit evidence, this requires proper record keeping for all performance conducted during the year and in performance reports or portfolio of evidence which was lacking at the Municiality.

Daily and monthly processing and reconciling of transactions

42. Daily controls to ensure discipline of financial and performance management were not enhanced or established and implemented so that the municipality can operate within a strong control environment that can prevent and detect error that will result in material misstatements.

Regular, accurate and complete financial and performance reports

43. Financial and performance information was not regularly cross referenced and agreed to supporting schedules to ensure that financial and performance reports were accurate and complete, which will prevent material misstatements identified during the audit and corrected through adjustments.

Compliance monitoring

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

Governance

Risk management activities and risk strategy

45. A risks analysis on operations such as; how revenue is collected and banked, how inventory is issued and utilised after being purchased by the municipality, how verifications are done for infrastructure projects before payment approvals are done need to be made to mitigate risks that exist in these areas as the controls within these areas are weak and require urgent interventions.

Internal audit

46. The internal audit unit has functioned effectively in performing its assurance duties in the financial year, producing a number of internal audit reports for the key risky areas within the municipality. The municipality however did not implement all recommendations from internal audit as some of the material misstatements raised by external auditors were also identified by internal audit unit

Audit committee

47. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation. Audit committee did review the financial statements and submitted recommendations to management.

Summary

48. The matters above, as they relate to the basis for the unqualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

49. There is a lack of effective controls in the municipality in the daily processing, reconciling, reviewing and monitoring financial and performance information.

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

Assessment of assurance providers

50. 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.

51. 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.

52. 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 limited assurance

- The financial statements and performance information were submitted by senior management with schedules that do not agree with management assertions in financial statements.

Accounting officer: provides limited assurance

- The accounting officer is required to ensure that there is strong control environment that will ensure material misstatements are prevented and detected, however the we have identified significant internal control deficiencies in the municipality.

Mayor: provides limited assurance

- The Mayor provides leadership in driving the mandate of the municipality, however the municipality has regressed, with compliance findings and performance information that had findings.

Second level of assurance

Internal audit unit: provides some assurance

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the [type of auditee's] governance, risk management and internal control processes.

- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the [accounting officer.

- The internal audit unit performed its function and it now needs to find ways to have its recommendations implemented by the municipality.

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.
- The audit committee will need to find effective ways to reviews financial and performance information in order to detect and prevent some of the misstatements and further monitor the actions plans with an objective prevent repeat findings.

Third level of assurance

Municipal council: provides limited assurance

- The council changed during the financial year and in the same period appointed a new Municipal Manager however the duration to appoint the new Municipal Manager should be reduced in future

Municipal public account committee (MPAC): provides assurance

- The committee investigated all matters brought to it timely during the year.

Status of implementing commitments and key recommendations

53. No specific commitments were recorded based on the deficiencies identified in 2021/2022 audit it was noted that management has not addressed all the deficiencies or weaknesses in internal controls identified in the prior year audit.

SECTION 4: Specific focus areas

Financial viability

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

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	**As at 30 June 2021**
Expenditure management			
1.1	Creditor-payment period	**16 Days**	**4 Days**
Revenue management			
2.1	Debt-collection period (after impairment)	**116 Days**	**70 Days**
2.2	Debt-impairment provision as a percentage of accounts receivable	**74.7 %**	**89.4 %**
	• Amount of debt-impairment provision • Amount of accounts receivable	**R24 130 687** **R32 294 853**	**R25 979 603** **R29 049 682**
Asset and liability management			
3.1	A deficit for the year was realized (total expenditure exceeded total revenue)	**No**	**No**
	• Amount of the surplus / (deficit) for the year	**R93 367 284**	**R158 612 631**
3.2	A net current liability position was realized (total current liabilities exceeded total current assets)	**No**	**No**
	• Amount of the net current assets / (liability) position	**R360 447 049**	**R311 829 127**
3.3	A net liability position was realized (total liabilities exceeded total assets)	**No**	**No**
	• Amount of the net asset / (liability) position	**R1 119 217 942**	**R1 015 426 640**
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)	**R383 855 991**	**R340 475 110**
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	**R141 494 332**	**R196 578 498**
4.3	Creditors as a percentage of cash and cash equivalents	**0.7 %**	**0.`3 %**
	• Amount of creditors (accounts payable) • Amount of cash and cash equivalents / (bank overdraft) at year-end	**R2 558 213** **R383 855 991**	**R929 145** **R340 475 110**
4.4	Current liabilities as a percentage of next year's budgeted resources **	**18.7%**	**11.8%**
	• Amount of current liabilities • Amount of next year's budgeted income **	**R2 558 213** **R367 679 000**	**R35 898 495** **R303 128 000**
Overall assessment			

FINANCIAL VIABILITY ASSESSMENT		
	As at 30 June 2022	As at 30 June 2021
Overall, the financial viability is assessed as:	Green (good)	Green (good)

High-level comments

55. Based on the analysis the municipality remains in good financial viability position

Procurement and contract management

56. 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:

Awards to persons in the service of the state

57. 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.

58. The findings were as

Nature of finding	Number and value of awards made	Number and positions of officials/councillors identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/ councillor did not declare interest	Official/ councillor was involved in awarding the contract/ accepting the quotation
Awards to persons in the service of other state institutions	17 Awards R2 647 456.95	17	17	17	0		

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

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

The findings were as follows:

- Seventeen providers in which were in service of other state institutions did not submit their declarations of interest.

Procurement and contract management processes

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

	Total		**Quotations**		**Contracts**	
	Number	Value *R*	Number	Value *R*	Number	Value *R*
Awards selected for testing	*37*	*64 178 402*	*21*	*2 616 991.46*	*16*	*81 601 008.16*
Expenditure incurred on selected awards – current year		*32 058 321*		*2 661 589.71*		*28 565 069*
Limitations – awards selected but could not be tested	*0*	*0*	*0*	*0*	*0*	*0*
Awards where non-compliance was identified	*5*	*827 120.67*	*5*	*827 120.67*	0	0
Irregular expenditure identified	*0*	*0*	*0*	*0*	*0*	*0*
Instances of irregular expenditure where goods/services were not received	*0*	*0*	*0*	*0*	*0*	*0*

Procurement processes – general

Local content and production (designated sectors)

- Specifications for 4 awards to the value of R456 967 did not stipulate the minimum threshold for local production and content.
- Invitations for competitive bids for the procurement of 1 contracts to the value of R370 154 were not advertised in the municipality website.

Fraud and consequence management

61. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and for issuing an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

62. 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.

    - There is a risk that revenue is generated and stolen before it is banked to the municipality bank accounts
    - There is a risk that payments are made for infrastructure goods that are not delivered

Measures to manage consequences

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

    - There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the municipality.

Ongoing investigations

64. A total of 1 investigations into allegations relating to financial misconduct, fraud or improper conduct in SCM were ongoing at year-end. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations at year-end	1
• Number of SCM-related investigations	1

• Number of fraud-related investigations	0
Number of investigations exceeding 3 months	0

Grants Management

65. 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
- Expanded Public Work Programme
- Local Government Financial Management Grant
- Neighbourhood Development Partnership Grant

Use of consultants

66. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals. (Include if findings were raised – to optimise the value of this partnership, we identified areas that need attention to get the best value for money.)

67. The contract amount for the consultants was R1 199 625 for a period of 5 months. The consultants were contracted to assist with the verification of immovable and movable assets, valuation of investment property, reconciliation of assets register and trial balance and to train and transfer skills to the municipality.

Internal control deficiencies

- The asset register did not agree with the amount reported in the financial statements, this is an indication that work of consultants was not adequately reviewed and verified. A system error was identified in the depreciation calculation, this is another indication that the work of consultants was not interrogated and reviewed prior being recorded in the submitted financial statements.

SECTION 5: Using the work of internal auditors

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

- We used all the internal audit reports for risk identification and follow ups.

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

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

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

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

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

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

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

SECTION 9: Conclusion

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

Yours sincerely

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