



AUDITOR - GENERAL
SOUTH AFRICA

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AUDITOR-GENERAL
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Auditing to build public confidence

Final management report

Umvoti Local Municipality

30 June 2021

Communicated to the accounting officer on: 8 December 2021



Management report

Umvoti Local Municipality

30 June 2021

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With effect from 30 June 2021 the Minister of Finance has withdrawn the MFMA Ministerial Exemption Notice No. 429 of 30 March 2020. As from 1 July 2021 all municipalities and municipal entities will be required to adhere to all the requirements of the MFMA going forward and ensure that all internal controls are fully effective. The implication of this is that the Auditor-General may again audit adherence with all relevant MFMA legislative requirements i.e. including those which were subject to the MFMA exemption during the 2020-21 period.	27
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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.....	71
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Management report to the accounting officer on the audit of the Umvoti Local Municipality for the year ended 30 June 2021

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer. The report does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2021.
2. These findings were communicated to management. The report details management's response to these findings and 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).

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

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

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

Stagnation in audit outcomes

Types of audit outcomes



1 To improve/maintain the **audit outcomes** ...

2 ... the key role players need to **assure** that ...

5

... the **best practices** are maintained ...

4

... the **risk areas** and ...

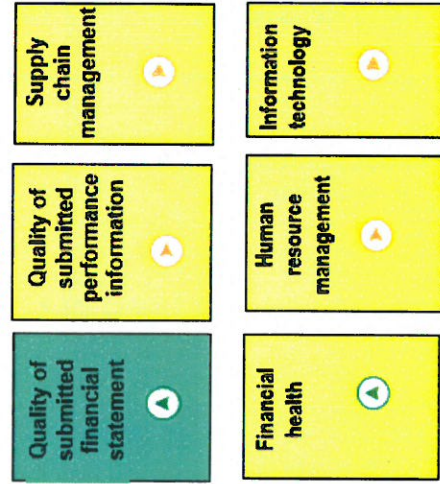
3

... attention is given to the **key controls** and ...

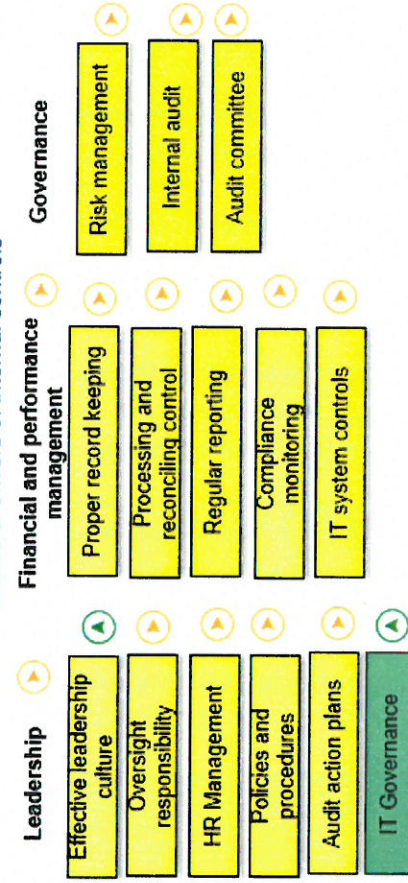
Root causes should be addressed

Inadequate review of performance information
Inadequate processes to prevent unauthorized expenditure

Risk areas



Status of drivers of internal controls



Intervention required

Of concern

Good

OVERALL MESSAGE

8. Management has exercised adequate oversight over the preparation of the financial statements as there were no material misstatements that were identified during the audit.
9. The review of performance information and related evidence was however inadequate as it resulted in findings being identified during the audit, but were subsequently corrected.
10. Although there has been an improvement in compliance with laws and regulations, management still needs to address the recurring finding on unauthorised expenditure not been prevented.
11. The financial health of the municipality has also improved from requiring intervention in the prior year to concerning in the current year, due to certain indicators improving as depicted in the financial viability section.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

12. 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	Tabled the 2019-20 audit outcomes	1
Municipal public accounts committee	Tabled the 2019-20 audit outcomes	1
Mayor	2019-20 Audit outcomes - Discussion of the 2020-21 audit report	2
Municipal manager	2019-20 Audit outcomes - of the 2020-21 audit engagement letter and audit strategy document - Discussion of the 2020-21 addendum to the audit engagement letter - Discussion of the 2020-21 draft management report - Discussion of the 2020-21 audit report - Discussion of audit progress	6
Audit committee	2019-20 Audit outcomes 2020-21 Audit engagement letter and Audit strategy document 2020-21 Addendum to Audit engagement letter - Discussion of 2020-21 draft Management report - Discussion of the 2020-21 audit report	5

13. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee:
- Fraud discussions
 - Outstanding requests for information and responses to audit findings
 - Management's commitment to ensuring an efficient audit
14. 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

15. We commend the municipality for submitting financial statements that were free from material misstatements.

Matters to be brought to the attention of users

Emphasis of matter paragraphs

16. 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:

Material impairment/allowance provision – Receivables from exchange and non-exchange transactions

17. As disclosed in notes 5 and 6 to the financial statements, the municipality recognised a material allowance and provision for the impairment of receivables from exchange transactions amounting to R17,89 million (2020: R3,01 million) and non-exchange transactions amounting to R4,61 million (2020: R4,28 million) respectively.

Material write-offs – Receivables from exchange and non-exchange transactions

18. As disclosed in notes 5 and 6 to the financial statements, the municipality recognised material write-offs of receivables from exchange transactions amounting to R20,16 million (2020: R4,28 million) and non-exchange transactions amounting to R5,99 million (2020: R1,23 million).

Material losses – Electricity distribution losses

19. As disclosed in note 43 to the financial statements, the municipality incurred material electricity distribution losses of R12,44 million (2020: R8,04 million), which represents 19,25% of the total electricity purchased. This was mainly due to illegal connections as well as distribution losses through ageing infrastructure.

Other matter

20. We draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

21. 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, we do not express an opinion on it.

Audit of the annual performance report

22. 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

23. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected key performance area (KPA) presented in the municipality's annual performance report for the year ended 30 June 2021.

KPA	Pages in annual performance report	Opinion	Movement
Basic services	x – x	Unqualified	▲

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

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

KPA – Basic services

Opinion

26. In our opinion, the reported performance information for basic services 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

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

Achievement of planned targets

28. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year.

Adjustment of material misstatements

29. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic services KPA. 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

30. 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

31. 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.
32. 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.

33. 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

34. 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.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R34,12 million as disclosed in note 40 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of this expenditure was caused by the municipality not following the supply chain management processes.
36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R26,59 million as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure was caused by overspending on employee related costs, protective clothing and non-cash items not budgeted for.

Other information

37. 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 the selected key performance area presented in the annual performance report that has been specifically reported in this auditor's report.
38. 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.
39. 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.
40. We did not receive the other information prior to the date of the auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal controls

41. 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 7, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility

42. The accounting officer did not provide adequate oversight to ensure that the initially reported performance information was reliable and supported by accurate information.

Human resource management

43. We identified the following shortcomings in human resource management relating to predetermined objectives:
- No evidence was provided for audit confirming that quarterly reports on the status of disciplinary cases were sent to the MEC responsible for local government
 - Management did not perform adequate screening of candidates during the recruitment and selection process to ensure that employees who work for other departments are not recruited.
 - Management did not update the organogram frequently to take into account changes in positions for effective decision making.
 - Some contracts for newly recruited employees were not signed by the accounting officer.

Policies and procedures

44. The following implemented processes were not in accordance with the documented policies and procedures in relation to HR:
- No evidence was provided to confirm that some of the overtime worked was pre-authorised.
 - Overtime payments were made to a person earning above the prescribed threshold.
 - Some officials worked more than the 40 hours overtime per month.

Action plans to address internal control deficiencies

45. The municipality developed a plan to address internal and external audit findings, however there were repeat audit findings relating to non-compliance with laws and regulations.

Financial and performance management

Proper record keeping

46. Supporting documents were not always available on request by auditors within the agreed upon timeframes.

Daily and monthly processing and reconciling of transactions

47. Management did not provide adequate monitoring over the following daily and monthly controls:
- Leave management has not been adequately monitored and the system was not fully utilised for managing leave transactions.
 - Differences were identified when agreeing the prepaid revenue from the bank statements to the prepaid revenue recognised in the general ledger.
 - Management did not implement adequate processes in ensuring that only persons who qualify as indigents receive the free basic services.

Regular, accurate and complete performance report

48. As indicated in section 2.3, the annual performance report, the annual performance report contained misstatements that were subsequently corrected. This was mainly due to inadequate reviews of the performance report submitted for audit.

Compliance monitoring

49. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored on a regular basis and non-compliance promptly addressed.

Information technology systems

50. Management did not test the disaster recovery plan and update it to reflect the current IT environment.

Governance

Internal audit

51. The internal audit unit did not adequately review the performance information to confirm the reliability of the report before it was submitted for audit.



52. The internal audit unit did not adequately review compliance with legislation.

Audit committee

53. The audit committee did not adequately review compliance with legislation.
54. No evidence was provided for audit to confirm that the audit committee reviewed coverage and scope between external and internal audit to avoid duplication and promote possible cost savings from the alignment of the two functions
55. No evidence was provided to confirm that an in-camera session was scheduled where internal audit met separately with the audit committee to discuss issues at least once a year without management being present.

Summary

56. The matters above, as they relate to the basis for the opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
57. The misstatements identified in the annual performance report were as a result of inadequate reviews by management of the quarterly, mid-year, and annual performance reports to ensure that it was supported by reliable information.
58. Management did not adequately monitor and review compliance with laws and regulations.

Other reports

59. We draw attention to the following engagements by various parties that have or could have an impact on the [type of auditee]'s financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.

Investigations

60. The municipality's attorneys conducted an investigation into charges of financial misconduct against a municipal official, who alleged took out cellphone contracts with a cellphone service provider using the municipality's account and then selling them to third parties. The investigation was concluded and the disciplinary enquiry is in progress.
61. The municipality's internal audit unit identified the alleged theft of electrical cables. Council referred the matter to the legal counsel for further investigation.

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

Assessment of assurance providers

62. 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.
63. 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.
64. 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**

- Senior management did not monitor the implementation of action plans as evidenced by the repeat findings relating to material adjustments to the performance information and non-compliance with legislation.

Accounting officer: provides **some assurance**

- The accounting officer did not adequately monitor the implementation of controls over the accuracy, validity and reliability of reported performance information and compliance with laws and regulations.

Mayor: provides **some assurance**

- The honourable mayor was committed to resolving audit issues; however, some internal control deficiencies were not addressed as evidenced by repeat findings on compliance with legislation.

Second level of assurance

Internal audit unit: provides some assurance

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
- Internal audit performed the above responsibilities and reviewed quarterly performance reports to alert management to weaknesses in controls that could be addressed prior to the external audit. However, internal audit did not perform adequate reviews to ensure that the annual performance report was free from material misstatements and non-compliance with laws and regulations was identified and addressed.

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 did not in all instances comply with the requirements of the audit committee charter and MFMA as the audit committee did not perform adequate reviews to ensure that the annual performance report is free from material misstatements.

Third level of assurance

Municipal council: provides some assurance

- Council and its committees were functional, as it was able to hold regular meetings and provided oversight in the affairs of the municipality, however, this was not sufficient to improve the audit outcomes for the 2020-21 financial year.



Municipal public account committee (MPAC): provides some assurance

- Council and its committees were functional as it was able to hold regular meetings and provide oversight in the affairs of the municipality, however, this was not sufficient to improve the audit outcomes for the 2020-21 financial year.

Status of implementing commitments and recommendations

65. 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	Conduct physical assessment on a cyclical basis.	CFO	14/04/2021	Action plan to address 2019-20 audit findings	Resolved
2	Ensure that the register for Fruitless and wasteful expenditure is revised to include disputed interest; alignment of the indicators from the planning document to the APR.	CFO	14/04/2021	Action plan to address 2019-20 audit findings	In progress
3	Inclusion of the lines local content in 7 days quotations & compliance checklist. Review all appointed bids and declare irregular expenditure if there's local content omission.	CFO	14/04/2021	Action plan to address 2019-20 audit findings	Resolved
4	Distribution losses – Remedial actions being done include: • Meter conversions; • Actively looking for funding to replace aged infrastructure.	CFO Director Technical Services	14/04/2021	Action plan to address 2019-20 audit findings	Not addressed
5	SCM: Contract management - Revise the structure of the monitoring mechanisms and frequency to strengthen the monitoring mechanisms and documentation thereof	All	14/04/2021	Action plan to address 2019-20 audit findings	Resolved
6	Management undertakes to extend the scope of Internal Audit to include the review of the final APR against the	MM	14/04/2021	Action plan to address 2019-20 audit findings	Resolved

No.	Commitment	Made by	Date	Origin of commitment	Status
	SDBIP before submission to the Office of the Auditor General.				
7	Due diligence processes will be adhered to which include the signing and dating of the weekly activity sheets by the preparer and reviewer with immediate effect.	Director : Technical	14/04/2021	Action plan to address 2019-20 audit findings	Resolved
8	Document the identified trainings which will be implemented in phases to capacitate IT personnel	Director:Corporate	14/04/2021	Action plan to address 2019-20 audit findings	Resolved
9	The process of advertising is being finalized to test the market. Resources have been allocated for a phased implementation of an enhanced Disaster Recovery Plan beginning in the the 2021/22 financial year.	Director:Corporate	14/04/2021	Action plan to address 2019-20 audit findings	In progress
10	Revenue misstated - Ensure Multi-layered review of quarterly and annual financial statements prepared by the Accountant.	CFO	14/04/2021	Action plan to address 2019-20 audit findings	In progress

- Six (6) 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.
- Three (3) recommendations are still being implemented and one (1) have not been addressed, or very limited progress has been made.
- Details on the status of implementing the previous year's/years' recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

Financial viability

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

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2021	As at 30 June 2020
Expenditure management			
1.1	Creditor-payment period	37 Days	35.6 Days
Revenue management			
2.1	Debt-collection period (after impairment)	123 Days	143 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	36.7%	37.4%
	• Amount of debt-impairment provision	R29 220 031	R33 253 703
	• Amount of accounts receivable	R79 663 272	R88 902 270
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes
	• Amount of the surplus / (deficit) for the year	R27 048 623	(R3 922 128)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	Yes
	• Amount of the net current assets / (liability) position	(R24 767 249)	R7 850 387
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R612 919 131	R623 875 189
Cash management			
4.1	The year-end bank balance was in overdraft	No	No

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2021	As at 30 June 2020
	Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R55 206 771	R36 987 651
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	R65 563 436	R42 930 542
4.3	Creditors as a percentage of cash and cash equivalents	35.1 %	43 %
	Amount of creditors (accounts payable)	R19 360 951	R15 916 136
	Amount of cash and cash equivalents / (bank overdraft) at year-end	R55 206 771	R36 987 651
4.4	Current liabilities as a percentage of next year's budgeted resources **	34%	42%
	Amount of current liabilities	R85 828 329	R102 497 869
	Amount of next year's budgeted income **	R252 615 887	R244 173 598
Overall assessment			
Overall, the financial viability is assessed as:		Concerning	Intervention required

High-level comments

67. The creditor-payment period of 37 days is more than prior year and it exceeds the prescribed 30 days in the MFMA. On the other hand, the debt-collection period after impairment is 123 days 20 less days compared to prior year. The debt-collection period being high could be as a result of the effect of COVID-19 pandemic as indicated in note 48 of the financial statements that it has affected the municipality's ability to collect revenue but it has improved from prior year.
68. Furthermore, the total expenditure did not exceed the total revenue in this financial year, resulting in a surplus. This means that the municipality is able to meet its current obligations should they become due, overall the financial viability of the municipality has improved from the prior year but still concerning due to the debt-collection days.

Procurement and contract management

69. 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

R34 124 626 (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 R14 219 747 was identified in the current year. 100% of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause of the lack of effective prevention and detection is the inadequacy of the compliance checklist that is used to review compliance with all SCM requirements before an award is made. Of the irregular expenditure incurred, goods and/or services were not received for expenditure amounting to R9 596 954.

Procurement processes

70. 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	53	116 922 799	29	3 196 932	113 725 867	24
Expenditure incurred on selected awards – current year		79 874 360		3 196 932		79 557 428
Limitations – awards selected but could not be tested	None	None	None	None	None	None
Awards where non-compliance was identified	5	52 955 370	None	None	5	52 955 370
Irregular expenditure identified	2	R34 124 626	0	0	2	R34 124 626
Instances of irregular expenditure where goods/services were not received	None	None	None	None	None	None

Procurement processes – general

- Invitations for competitive bids for the procurement of two (2) contracts to the value of R34 124 626 were not advertised for the required minimum number of days.

Construction contracts

- The competitive bid invitation for one construction works contract to the value of R7 999 764 did not stipulated the minimum category which the bidders must be registered at with the CIDB in order to qualify.

Local content and production (designated sectors)

- For eighteen (18) compititive bids and quotations to the value of R43 672 623, the DTI was not provided with copies of the contracts and the bidder's MBD 6.2 certificate.

Contract management

- Five (5) contracts were extended without reporting the reasons for the proposed amendment in the council meeting of the municipality . The total value of the extensions was R 52 955 370.

Internal control deficiencies

71. Management did not perform adequate review and monitoring to ensure that the municipality SCM regulations were complied with.

Fraud and consequence management

72. 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.
73. 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.
74. No significant findings on consequence management were noted.

Ongoing investigations

75. A total of 2 investigations into allegations relating to fraud were ongoing at year-end. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations at year-end	2
• Number of fraud-related investigations	2
• Number of investigations exceeding 3 months	2

76. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority.

Internal control deficiencies

Use of consultants

77. 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.
78. The total expenditure on consultants was R3 405 424.
79. There were no significant findings identified during the audit.

Conditional grants

80. 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 Grants (MIG)
 - Integrated National Electrification Programme (INEP)
 - Finance Municipal Grant (FMG)
 - Urban Renewal
81. No compliance findings were raised on the utilisation of these grants.

SECTION 5: Using the work of internal auditors

82. 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 of the following internal audit reports for risk assessment purposes during the planning of the audit.

- ULM IA Audit report – PMS
- ULM IA Audit report – Asset management
- ULM IA Audit report – Inventory management
- ULM IA Audit report – Revenue management
- ULM IA Audit report – Traffic fines
- ULM IA Audit report – Project and contract management
- ULM IA Audit report – HR and payroll
- ULM IA Audit report – SCM and expenditure

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters/

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

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

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

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

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

Audit findings on matters that may be recognised as material irregularities in future audits

Audit findings identified in the current year

83. The amendments to the PAA and the Material Irregularity Regulations issued in terms of the PAA became effective on 1 April 2019.
84. The amendments introduce the concept of a material irregularity. As per the definition in the PAA, a material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty, identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
85. The AG has a statutory discretion to determine the manner in which, and the time frames within which, certain elements of the amendments are implemented. For the 2019-20 audits, the AG opted to apply a phased approach to the handling of material irregularities, which includes implementing the process only at selected auditees.
86. Although Umvoti Local Municipality was not selected in this phase of implementation, we highlight the following significant matters that came to our attention during the audit which may be recognised as material irregularities in future when the process is implemented at the municipality. The matters are reported as audit findings in the annexures to this report.

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

87. The planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the performance management reporting framework:
 - Presentation and disclosure – overall presentation
 - Overall presentation of the performance information in the annual performance report is comparable and understandable.

- Relevance – completeness of relevant indicators
 - Completeness of relevant indicators in terms of the auditee's mandate, including whether:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review

88. 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/objectives] in this report. However, they may have an impact on the audit opinion in future.

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

SECTION 7: Ratings of detailed audit findings

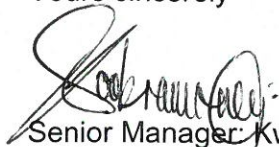
90. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- 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

91. 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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17 December 2021

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Distribution:

Audit committee
Head of internal audit unit
Executive auth/ority

SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification						Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters			
	Expenditure management											
41	Unauthorised and irregular expenditure not prevented			>				>		3	Not addressed	
	Material losses											
43	Electricity distribution losses above the norm			>				>		3	Not addressed	
	Procurement and contract management											
37	Advertising period less than 30 days			>				>		0	Not applicable	
45	Advertisement did not stipulate the CIDB grading			>					>	0	Not applicable	

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
46	Amendments to the infrastructure contracts not reported to council			<				<		0	Not applicable
48	Local content documents not forwarded to Department of trade and industry (DTI)			<				<		0	Not applicable
	Consequence management										
54	No evidence that current irregular expenditure was investigated prior to write-off			<				<		1	In progress
	Property, plant and equipment										
79	Damaged assets not impaired, repaired or maintained	>						>		1	In progress
	Revenue- from exchange										

Page no.	Finding	Classification						Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
77	Indigents – CAATs findings	<						<		0	Not applicable
73	Prepaid revenue incorrectly recognized	<						<		0	Not applicable
75	Government grants and subsidies misstated	<						<		0	Not applicable
76	Incorrect amount paid to supplier – Urban Renewal Grant	<						<		0	Not applicable
	Employee cost										
58	No evidence that quarterly reports were submitted to the MEC			<				<		0	Not applicable
59	Employees employed by other government departments				<			<		0	Not applicable
61	Recruitment, selection and appointment policy not followed				<			<		0	Not applicable
63	Overtime policy not adhered to				<			<		0	Not applicable

Page no.	Finding	Classification						Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters			
66	Inadequate leave management				<				<		0	Not applicable
	Audit of Predetermined objectives											
52	Reported indicator not consistent with planned indicator	<	<	<					<		3	In progress
	Cash and cash equivalents											
71	Interest received not agreeing to bank confirmations	>							<		0	Not applicable
	Audit committee											
69	Deficiencies in roles and responsibilities of Audit committee				>				>		0	Not applicable

Page no.	Finding	Classification								Rating		Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters				
	Information systems audit												
56	Information Systems: Disaster recovery plan not tested and updated to reflect the current IT environment				<			<			3		In progress

Detailed audit findings

Annexure A: Matters affecting the auditor's report

1. Procurement and contract management

1.1 Advertising period less than 30 days

Audit finding

Section 22(1)(b)(i) of the supply chain management determines the procedures for the invitation of competitive bids and stipulates :-

- a) that any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality/ municipal entity or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and
- b) The information a public advertisement must contain, which must include:-
 - i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper; and

During the audit of procurement, it was noted that the following tenders were not advertised for at least 30 days:

Tender details	Advertisement date	Closing date	Advertise-ment period	Tender amount
Slum clearance households Oshikishikini	2018/09/12	2018/10/05	23 days	R28 221 000,00
Upgrading of Enhlalakahle sport field	2019/06/05	2019/06/28	23 days	R10 798 661,12
Total				R39 019 661,12

The amounts paid against these tenders from inception to the current year should be disclosed as irregular expenditure.

Internal control deficiency

Management did not perform adequate monitoring to ensure that all bids are advertised for the required period.

Recommendation

Management should disclose all the payments made against the above tenders as irregular expenditure.

Management should review the entire population of competitive bids to ensure that all non-compliance resulting in irregular expenditure is disclosed in the financial statements.

Management response**Management comment on audit finding:**

Management does not agree with the finding in that the adverts were flighted as follows:

Oshikishini was advertised from 6 September 2018 as shown below.

Download	169
File Size	74.04 KB
File Count	1
Create Date	September 6, 2018
Last Updated	September 6, 2018

**Request for Proposal
for the Implementing
Agent to undertake
Turnkey Solution to
Electrify the Slum
Clearance 1030
Household and
Oshikishikini
06.09.2018**

Please follow and like us:

Like 0

Enhlalakahle Sportfied was advertised from 31 May 2019

[DOWNLOAD](#)

Ternder Notice 31.05.2019

Download 166

File Size 206.48 KB

File Count 1

Create Date May 31, 2019

Last Updated May 31, 2019

SCM Regulation 22 1(a), allows an advert to be either in newspapers, website or any other appropriate ways. The municipality advertised for 30 days through the website

Management comment on recommendation:

Oshikishikini – from the date the advert is placed (06 September 2018), to 05 October 2018, the number of days is 30.

Enhlalakahle sports field – management agrees that an error was encountered in counting, indeed the period is short by 1 day.

Management has since put in place a control measure where the bid committees confirm the period for each advert and Internal Audit also conducts a bid review prior to awarding. A copy of sample Bid Evaluation report has been availed for inspection. Please refer to page 5.

Remedial action:

What actions will be taken:

By whom

By when:

Person:

Position:

Auditor's conclusion

Management comment is noted and the evidence provided has been reviewed and it is still confirmed that the tenders were not advertised within 30 days. The analysis is as follows:

- Upgrading of Enhlalakahle sport field – 31 May 2019 – 28 June 2019 – The advertising period is 28 days. The finding remains.
- Slum clearance households – Oshikishikini – 6 September 2018 – 05 October 2018 –The advertising period is 29 days.

Hence, the finding remains and the expenditure must be disclosed as irregular expenditure.

2. Expenditure management

2.1 Unauthorised, irregular and fruitless and wasteful expenditure not prevented

Audit finding

Section 62(1)(d) 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 unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;"

As tabulated below, the municipality has incurred unauthorised, irregular as well as fruitless and wasteful expenditure in the current year.

Details	Opening balance	Incurred in the current year	Written off during the year	Closing balance
Unauthorised expenditure	R1 507 909	R26 590 020	0,00	R28 097 929
Irregular expenditure	0,00	R1 249 303	-R728 916	R520 387
Fruitless and wasteful expenditure	R1 842 794	R194 690	0,00	R2 037 484

This results in non-compliance with the above legislation.

Internal control deficiency

Management did not implement adequate controls to prevent non-compliance with SCM processes and the MFMA legislation.

Recommendation

All transgressions that led to the incurrence of irregular, unauthorized and fruitless & wasteful expenditure must be investigated with action plans being put in place to prevent the transgressions from re-occurring.

Management response

Management comment on audit finding:

Management agrees that there was UIFW incurred in the current year.

1. Unauthorized expenditure – R20 808 720 is attributable to non-cash items which are difficult to estimate reliably at the time of the original and adjustment budget. Management will make use of experts to assist with the non-cash items.
2. Irregular expenditure – this is going down in line with processes that the municipality is following to ensure that all SCM process are followed. Only R 520 387 was incurred in the current year compared to R 1 829 184 from the prior year.
3. Fruitless and wasteful expenditure – this is Eskom interest that has been disclosed emanating from late submission of invoices which lead to late payment. The matter was escalated to the senior ESKOM officials and COGTA.

Management comment on internal control deficiencies:

Management is implementing controls to prevent non-compliance with SCM processes and the MFMA legislation.		
Management comment on recommendation: UIFW was investigated and plans were developed to prevent UIFW.		
Remedial action: Comply with SCM and MFMA provisions as applicable.		
What actions will be taken: Continue monitoring the implementation and impact of procedures in place to curb UIFW.	By whom Person: CB Mkhize Position: Chief Finance Officer	By when: On going

Auditor's conclusion

Management response is noted. This matter will be included in the audit report as a material non-compliance.

3. Material losses

3.1 Electricity distribution losses above the norm

Audit finding

National Treasury issued MFMA circular 71 regarding uniform financial ratios and norms. Annexure 1 of the circular indicates what the acceptable ranges for losses of electricity and water are and provides the auditee and the auditor with a guideline on when these losses are material i.e. exceeds the norm. This norm is as follows:

Electricity distribution losses	7% - 10%
---------------------------------	----------

In terms of the National Energy Regulating Authority of South Africa (NERSA) the tolerable range for energy losses is between 5% - 12%.

While evaluating electricity distribution losses disclosed in note 43 to the financial statements, it was noted that the overall distribution losses for the 2020-21 financial year was 19,25%, which is above the abovementioned norms.

This results in loss of revenue by the municipality and an emphasis of matter paragraph may be included in the management and audit reports.

Internal control deficiency

Management did not implement adequate controls to ensure that electricity losses are minimized to be at the acceptable norm.

Recommendation

Management should investigate the root causes for the material losses and come up with an action plan to address these.

Management response

Management comment on audit finding: Management agrees with the finding
Management comment on internal control deficiencies: Management is implementing some programmes to try and limit electrical losses • monthly spot checks for dysfunctional meters and • Inspections for tampered meters • There are also engagements with DBSA to fund a project for conversion and / replacement of aged infrastructure • Utilising maintenance budget to replace aged infrastructure. • Revenue enhancement project with DBSA • Appointment for installation of motorised kiosk boxes to try and prevent illegal connections.

Management comment on recommendation:

Management appreciates the recommendation. Technical Services are leading the efforts to curb Electricity losses.

Remedial action:

- Meter conversions; Smart and more modern technology
- Actively looking for funding to replace aged infrastructure
- Installation of motorised kiosk boxes, to try curb illegal connections.

What actions will be taken:	By whom	By when:
• Meter conversions • Replace aged infrastructure • Installation of motorised kiosk boxes, to try curb illegal connections.	Person: N. Qwabe (Mr) Position: Director – Technical Services	• Meter conversions – in progress • Replace aged infrastructure – when funding has been secured. • Kiosks boxes- Service provider appointed, process in progress.

Auditor's conclusion

Management response is noted. This results in a loss of revenue by the municipality and an emphasis of matter paragraph will be included in the audit report.

Annexure B: Other important matters

4. Procurement and contract management

4.1 Advertisement did not stipulate the CIDB grading

Audit finding

Section 25 (1) of the CIDB regulation states:

(1) Subject to subregulation (1)(A), in soliciting a tender offer or an expression of interest for a construction works contract, a client or employer must stipulate that only submissions of tender offers or expressions of interest by contractors who are registered in the category of registration required in terms of subregulation (3) or higher, may be evaluated in relation to a project.

(3) The category of registration for contractors whose submissions of tender offers or expressions of interest qualify to be evaluated in terms of subregulation (1), is –

(a) a contractor grading designation not lower than that derived from-

(i) the selection of a single class of construction work that best describes the construction works contract for which tender offers or expressions of interest is invited, or the broad technical capabilities required of the contractor, provided that if more than one class of works equally describes the construction work for which tender offers are invited, then an alternative class of work may also be selected in terms of this subparagraph, but not more than two classes of work may be so selected; and

(ii) the identification of the tender value range based on the estimated tender value where expressions of interest are called for or tenders are advertised and the tendered price where tenders are evaluated, and where that estimate is within 20 percent of the lower limit of that tender value range, the tender value range immediately below that tender.

(b) from a date determined by the Minister in the Gazette, the recognition status in terms of a best practice contractor recognition scheme in relation to the capabilities of the contractor concerned but if a requirement in terms of this paragraph is set, it must be justifiable in respect of the quality of the procurement.

During the audit of competitive bids, it was identified that the advertisement for slum clearance households and Oshikishikini did not stipulate the CIDB category of registration required for the project. Refer to table below for the details:

Supplier name	Details of contract	Contract amount	Current year payments
Infinity Alliance JV Shantis	Slum clearance households Oshikishikini	R28 221 000	R7 999 763,87

This results in a non-compliance with the CIDB regulation.

Internal control deficiency

Management did not perform adequate monitoring in ensuring that the CIDB regulation are complied with.

Recommendation

Management must implement a SCM compliance checklist for all tenders and review it before making the awards to confirm that all SCM requirements have been complied with.

Management response

Management comment on audit finding: Agreed. An SCM Checklist will be updated to include compliance matters		
Management comment on recommendation: Management agrees with the recommendation		
Remedial action: Update the SCM checklist in use		
What actions will be taken: Updated the SCM Checklist to include compliance matters	By whom Person: CB Mkhize Position: Chief Finance Officer	By when: January 2022

Auditor's conclusion

Management has agreed to the finding and therefore remains.

4.2 Amendments to the infrastructure contracts not reported to council**Audit finding**

Section 116(3) of the Municipal Finance Management Act, states that: "a contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties, but only after:

- a) The reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality".

During the audit of contract management, it was identified that the reasons for the extension of time for the following infrastructure projects were not tabled in the council meeting:

N o.	Supplier	Project	Commence ment date	Initial end / terminati on date	Extension date
1	Infinity Alliance JV Shanti	Slum clearance household Oshikishikini	01/06/2019	30/12/2021	20/12/2022
2	Buzakithi Trading CC	Construction of Emsengeni community hall in ward 14	10/07/2019	30/12/2021	30/12/2022
3	Aphelele multipurpose co-operative	Upgrading of Enhlalakahle sport field	12/02/2020	29/10/2021	30/10/2022
4	DNA Structure	Urban renewal of Enhlalakahle township at ward 7	02/05/2020	30/09/2021	30/09/2022
5	DNA Structure	Construction of Hlalaphansi community hall in ward 12	05/02/2020	20/09/2021	30/09/2022

This results in a non-compliance with the MFMA regulations.

Internal control deficiency

Management did not perform adequate monitoring to ensure that all the MFMA regulations are complied with.

Recommendation

Management have to ensure that all contracts extended by the municipality comply with the above MFMA regulation.

Management response

Management comment on audit finding:		
Management agrees with the finding. These amendments will be tabled on the next Council sitting		
Management comment on recommendation:		
Management agrees with the recommendation		
Remedial action:		
Table the changes to Council		
What actions will be taken: Table the changes to Council	By whom Person: CB Mkhize Position: Chief Finance Officer	By when: February 2022

Auditor's conclusion

Management response noted, the finding remains

4.3 Local content documents not forwarded to Department of trade and industry (DTI)

Audit finding

Section 7 of the National treasury designated sectors instruction number 5 of 2016/2017 stipulates:

7.1 Once bids are awarded, the DTI must be:

- (i) notified of all the successful bidders and the value of the contracts; and
- (ii) provided with copies of the contracts, SBD/MBD 6.2 certificates together with the declaration C submitted by the successful bidders.

During the audit of competitive bids and quotations with local content requirements, it was identified that the municipality did not provide the DTI with copies of the above documents for the successful bidders.

No.	Quotation/ Tender Number	Quotation description	Supplier	Awarded Amount
1	T2020/02/07/MIG 2019/2020 WARD 8	Construction of Emsamo Community Hall	Lithuba Lam Projects	R5 389 898.43
2	T2020/02/07/MIG 2019/2020 WARD 11	Construction of Eyethu Community Hall	Daleka Trading Enterprise	R6 645 059.55
3	T2020/02/07/MIG 2019/2020 WARD 4	Construction of Lilani Community Hall	Lithuba Lam Projects	R4 190 468.36
4	T2020/06/04/MIG 2020/2021 WARD 1	Construction of ward 1 sportsfield	TDOZ 82 Trading JV Vitsha Trading	R14 136 788.40
5	T2020/10/15/CKM in Ward 12	Construction of Khokhoba to Matshemane link road in ward 12	Athindura trading	R7 745 212.34
6	T2021/04/30 LED PLANNING	Agricultural water supply	Kalula Enterprise	R2 826 040.00
7	T2021/03/23/SDEF	Supply, delivery and erection of fencing material for one hectare garden for 14 wards	BDB Agricultural supplies	R1 367 548.00
8	T2021/03/17/SDITU	Supply, delivery and off- loading of informal traders upliftment program mobile vending units.	BDB Agricultural supplies	R94 730.10
9	Q2020/08/24/SDDM	Supply and delivery of duvets and mattresses	Sisukumisaneni (Pty) Ltd	R90 000.00
10	Q2020/09/02/SDM	Supply and delivery of Material	Msanekid Trading (Pty) Ltd	R83 912.00
11	Q2020/10/26/SDPC	Supply and delivery of Electrical Department Protective Clothing	Volonta Services (Pty) Ltd	R88 899.00
12	Q2020/09/23/SDGB	Supply and delivery of Hexagonal Gabion baskets	Nyambane Projects and other services	R65 000.00

No.	Quotation/ Tender Number	Quotation description	Supplier	Awarded Amount
13	Q2020/10/23/SDIG	Supply, delivery and Installation of guard rails in ward 7 and 10.	Swagg Nations (Pty) Ltd	R199 334.21
14	Q2021/03/09/SDTSM	Supply and delivery of Technical Services Material	Emkhontweni Trading	R125 000.00
15	Q2021/03/09/SDBM	Supply and delivery of mattresses and blankets	Emkhontweni Trading	R149 000.00
16	Q2021/03/16/SATG	Supply and delivery of track suits and golf shirts	Xulu brands Company (Pty) Ltd	R132 232.50
17	Q2021/05/04/SDCCTVS	Supply and delivery of CCTV equipment for KwaGijima and old cemetery	Sisukumisaneni (Pty) Ltd	R190 000.00
18	Q2021/03/29/SDIME	Supply, delivery and Installation of material for Eshane community Hall	Volonta	R153 500.00
	Total			R43 672 622,89

This results in a non-compliance with the above instruction note.

Internal control deficiency

Management did not perform adequate monitoring to ensure that all the National treasury instructions notes are complied with.

Recommendation

- Management must ensure compliance with the above instruction note relating to local content bids.
- All correspondence sent to the DTI must be maintained for audit purposes.

Management response

Management comment on audit finding: (i) The municipality disagrees with the finding because the list was submitted to DTI and also availed for inspection by the Auditors (ii) Management agrees with the finding and in future will send both the list and documents as listed in the practice notes.		
Management comment on recommendation: Management welcomes the recommendation		
Remedial action: Submit both the list and documentation as per practice notes		
What actions will be taken: Submit both the list and documentation as per practice notes	By whom Person: CB Mkhize Position: Chief Finance Officer	By when: On going

Auditor's conclusion

Management response noted, the finding remains

5. Audit of Predetermined objectives (AOPO)

5.1 Performance targets not specific

Audit finding

Section 41(b) of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) states that;

A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed set measurable performance targets with regard to each of those development priorities and objectives;

- a) The following targets were not specific to enable data to be collected and measured consistently:

No.	Performance indicator	Performance target	Auditor's comment
1.	Percentage of motor vehicles and plant serviced by 30 June 2021 (Outsourced)	100%	The target of 100% motor vehicles is not specific as there is no basis for this target. 100% indicates that all motor vehicles within the municipal premises were planned to be serviced, of which was not the case.
2.	Percentage of motor vehicles and plant repaired by 30 June 2021 (outsourced)	100%	The target of 100% motor vehicles to be repaired is not specific as there is no basis for this target. 100% indicates that all motor vehicles within the municipal premises were planned to be repaired, of which was not the case.

- b) In addition, the total municipality vehicles operational in the current year was 76, but based on portfolio of evidence provided for audit, only 34 vehicles were serviced in total in the current year. Therefore, the 100% achievement reported in the APR is not accurate.
- c) Furthermore, the total municipality vehicles operational in the current year was 76, but based on portfolio of evidence provided for audit, only 71 vehicles were repaired in total in the current year. Therefore, the 100% achievement reported in the APR is not accurate.

This results in non-compliance with the above framework.

Internal control deficiency

Management did not perform adequate reviews to ensure that developed targets are specific in terms of what was planned to be achieved.

Recommendation

Management and internal audit should ensure that all targets are specific so as to ensure that the data is collected and reported consistently.

Management response

Management comment on audit finding: Management does not agree with the finding. 100% servicing of motor vehicles and plant- This is informed by the fact that the municipality has to attend to all vehicles that will require servicing. So, we are saying that 100% of those motor vehicles and plant to be serviced (not the entire fleet, but only those requiring servicing); 100% repairing of motor vehicles and plant- This is informed by the fact that the municipality has to repair all vehicles that had some damages. So, we are saying that 100% of those motor vehicles and plant to be repaired (not the entire fleet, but only those requiring repairing. We cannot anticipate or quantify as to how many will need repairs.		
Management comment on internal control deficiencies: Management does not agree with the finding		
Management comment on recommendation: Management is of the view that all targets are specific so as to ensure that the data is collected and reported consistently.		
Remedial action:		
What actions will be taken: Management will continue ensuring that all targets are specific so as to ensure that the data is collected and reported consistently.	By whom Person: A. Majola Position: Manager: Fleet	By when: 30 June 2022

Auditor's conclusion

Management response noted however finding still remains as there is no basis justifying the 100% planned target, basis of calculating percentage of achievement requires a denominator and a numerator of which the APR does not specify the basis of the numerator used during the planning of the 100% planned achievement.

6. Consequence management

6.1 No evidence that irregular expenditure was investigated prior to write-off

Audit finding

In terms section 171(4)(a) of the MFMA, " A municipality must investigate allegations of financial misconduct against the accounting officer, the chief financial officer, a senior manager or other official of the municipality unless those allegations are frivolous, vexatious, speculative or obviously unfounded.

Section 32(2)(b) of the MFMA states that: "A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure in the case of irregular expenditure or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council".

No evidence was provided for audit to confirm that irregular expenditure amounting to R728 916 written-off in the current year was investigated to determine if any person is liable for the expenditure, as required by above legislation.

This results in non-compliance with sections 32 and 171 of the MFMA.

Internal control deficiency

Council did not exercise adequate oversight responsibility to ensure that all irregular expenditure was investigated by a council committee to determine if any person was liable for that expenditure.

Recommendation

Council must perform a proper investigation as outlined above to:

- investigate all instances of irregular expenditure and determine if any person is liable for the irregular expenditure
- based on the result of the investigation, recover the and irregular expenditure from the liable person or certify the irregular expenditure as irrecoverable
- institute disciplinary proceedings against the liable person and
- report all cases that constitute a criminal offence to the SAPS

Management response

Management comment on audit finding:

The Municipality conducted an investigation in the current year, but MPAC did not sit to consider the findings and recommend a write off.

The write off on the note to the Annual Financial Statements on irregular expenditure is on multi-year contracts which were investigated in the 2019/20 financial year and approved for write off.

These contracts need not be investigated or approved for write off again as per the guidelines shared by COGTA and have been availed for inspection.

Management comment on internal control deficiencies:

UIFW amounting to R728,916 was investigated and approved in the 2019/20 financial year		
Management comment on recommendation:		
Management ensures that UIFW is investigated as appropriate		
Remedial action:		
None		
What actions will be taken: Municipality will continue applying the provisions of the law as far as UIFW is concerned.	What actions will be taken: Municipality will continue applying the provisions of the law as far as UIFW is concerned.	What actions will be taken: Municipality will continue applying the provisions of the law as far as UIFW is concerned.

Auditor's conclusion

Management's response is noted. Note 40 of the financial statements provided for audit reflects a write-off of irregular expenditure in the current year of R728 916. However, no evidence was provided for audit to confirm that this write-off was investigated to determine if any person is liable for the expenditure, as required by above legislation. Finding therefore remains.

7. Information systems audit

7.1 Information Systems: Disaster recovery plan not tested and updated to reflect the current IT environment

Audit finding

Section 62(1)(b) 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".

The following weaknesses were identified regarding disaster recovery planning:

- (a) Although a disaster recovery plan (DRP) for the municipality exists, the DRP was not reviewed during the 2020-21 financial year, to ensure that it is still relevant to the IT environment of the municipality and also not approved
- (b) The Pastel and VIP applications have been omitted from the DRP
- (c) Furthermore, there was no proof provided for audit to confirm that the DRP was tested since its approval in 2013.

In the absence of a review of the DRP, management may not be aware if the existing plan is adequate to respond to threats and disasters that may disrupt business continuity.

In addition, if DRP testing is not regularly performed, management may not be aware of shortcomings in the plan and would not be able to assess its effectiveness in recovering critical IT resources in the event of a disaster. The municipality may not be able to respond to event of a disruption, whether due to a major disaster or a minor incident to ensure business continuity.

Internal control deficiency

Management did not in all instances establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Recommendation

Management should consider implementing the following:

- A process should be established to ensure that previous audit findings are adequately addressed in a timely manner.
- The DRP should be updated to include all relevant information. It should thereafter be approved, tested and communicated to all employees.
- The municipality should consider allocating budget for the testing of the DRP.

Management response

Management comment on audit finding: Management Accepts the finding		
Management comment on internal control deficiencies: Management will revise the current IT Governance Framework in place to ensure it supports and enables the business, delivers value and improves performance.		
Management comment on recommendation: Management will ensure the recommendations are implemented and monitored regularly		
Remedial action: Advertise a bid for DRaaS (Disaster Recovery as a Service) to the DRP is always up to date and ensure regular testing		
What actions will be taken: Appoint a service provider to test the DRP annually	What actions will be taken: Appoint a service provider to test the DRP annually	What actions will be taken: Appoint a service provider to test the DRP annually

Auditor's conclusion

Management comment is noted. Management should prioritise DRP as this has a direct impact on the continuous and uninterrupted operations of the municipality. The finding will be followed up in the 2021-22 audit.

8. Employee cost

8.1 No evidence that quarterly reports were submitted to the MEC

Audit finding

Section 62 1(b) 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."

Regulation 19(1) of the Local Government Disciplinary regulations for Senior Managers, states that: "municipalities must provide quarterly reports on the status of disciplinary cases to the MEC responsible for local government in the province"

During the walkthrough test performed on compensation of employees, no evidence was provided for audit confirming that quarterly reports on the status of disciplinary cases were sent to the MEC responsible for local government, as required by above legislation.

This results in non-compliance with the Disciplinary Regulations for Senior Managers regulation 19(1) and (3) Municipalities

Internal control deficiency

Management did not implement adequate controls to ensure that all compliance matters are adhered to.

Recommendation

Management should ensure that all evidence for compliance related matters is securely maintained to enable ease of retrieval when required.

Management response

Management comment on audit finding:

The reports are normally sent on a quarterly basis as confirmed by Quarter 4 report that was sent on 18 June 2020. On our daily activity book, the reports for Quarter 1 (Sept 2020) and Quarter 2 (Dec 2020) were sent on 04th December 2020 but information can be obtained from the emails due to archiving of emails between August 2020 and April 2021. Nevertheless, the information was once again sent to CoGTA on 08th October 2021.

For future purposes, proper records will be kept as part of evidence.

Management comment on internal control deficiencies:

Proper record keeping.

Management comment on recommendation:

The management support the recommendation.

Remedial action: The remedial action was resending the information to CoGTA.

What actions will be taken: Management will ensure that all evidence for compliance related matters is securely maintained to enable ease of retrieval when required.	By whom Person: Melusi Maphanga Position: Corporate Services Director	By when: 01 December 2021
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Auditor's conclusion

Management's response is noted but finding stands. Management should ensure that all evidence for compliance related matters is securely maintained to enable ease of retrieval when required as no evidence was provided when requested.

8.2 Employees employed by other government departments

Audit finding

Section 62(1)(c)(i) of the of the MFMA states that; The accounting officer of a municipality is responsible for the managing of the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control".

During the audit of CAATs exceptions raised, the following employees were identified to be employed by other governments departments whilst employed at Umvoti Local Municipality:

No	Employee number	Employee surname and initials	ID number	Other department	Position/department in Umvoti Local Municipality
1.	T000415	S Zulu	6608090355086	KZN: Transport	Parks and Beautification 20-21
2.	T000485	BN Sithole	8011210386081	KZN: Education	Parks and Beautification 20-21
3.	T000493	A Zuke	8111150272083	KZN: Education	Parks and Beautification 20-21
4.	T000465	SN Dlomo	9504110968080	KZN: Education	Community Facilities 20-21

This may result in employees being paid for work not performed.

Internal control deficiency

Management did not perform adequate screening of candidates during the recruitment and selection process to ensure that employees who work for other departments are not recruited.

Management response**Management comment on audit finding:**

Recruitment of EPWP beneficiaries is normally done through ward structures including the ward councilor. Therefore the municipality mainly rely on those structures to ensure that only unemployed people benefit from those opportunities. The employees worked during this period on the basis of evidence from the recruitment process that they are not beneficiaries to any other program and paid based on attached attendance registers. The EPWP unit on renewal and signing of contracts made some PERSAL Checks where there were findings that some EPWP workers were also participating in other EPWP Programs in other government departments. Thereafter terminations were effected on 15th September 2021.

Persal checks conducted are attached for reference.

Management comment on internal control deficiencies:

PERSAL Checks are now conducted to check if the employee is not a government employee or participating in any other government programme.

Management comment on recommendation:

PERSAL Checks to be conducted before signing of contract.

Remedial action: Employees were terminated.

What actions will be taken:	By whom Person: MF Maphanga Position: Corporate Services	By when: 15 September 2021
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Auditor's conclusion

Management's response is noted and this matter will be followed up in the next audit cycle.

8.3 Recruitment, selection and appointment policy not followed

Audit finding

Paragraph 2 of the municipality's recruitment policy defines posts as "means permanent posts which can be identified on municipal organogram as well as non-permanent post as may be created by Council from time to time"

Paragraph 4.2.1 states: "The advertisement will be compiled by the Human Resource Department/Section in consultation with the Municipal Manager or Acting Municipal Manager, in terms of the job description and guidelines on qualifications and experience and competencies required for performing the Key Performance Areas".

Paragraph 4.2.2 states: "All posts excluding temporary and relief posts shall be first advertised timeously displaying advertisements on official notice boards and local newspapers.(senior managers must be advertised nationally".

Paragraph 4.2.3 states: "Local advertisements of positions shall be placed on the official notice boards and/or local newspapers for a period not longer than fourteen (14) days.(I would not have a clause that compels you to first advertise internally you must retain discretion depending on the post to even advertise simultaneously internally and externally".

Paragraph 4.2.5 states: "For the purpose of external advertisement, posts shall be placed in one (1) national and any other provincial or district newspaper to attract a pool of candidates provincial and nationwide".

Paragraph 4.2.3 states: "For the purpose of selecting candidates to be interviewed, the selection panel shall sift-out the following applications:

vi) Applications lacking the essential requirements of the position".

During the audit of new appointments, the following issues were noted:

a) The posts for the employees listed below were not available / indicated as vacant in the 2020-2021 organogram:

No.	Employee name	Salary number	Identity number	Engagement date	Occupation
1	Mzila FG	S3100,10	7411130491089	01-Feb-21	Caretaker
2	Zuma MT	S100150	8212135350083	01-Apr-21	Security Officer
3	Dlamini S	S100151	8509245885084	01-Apr-21	Security Officer
4	Masikane SZ	S100172	8811105864088	01-Mar-21	Security Officer
5	Buthelezi TS	S100204	8601235483085	01-Dec-20	Director Planning Economic Services

Management Response**Management comment on audit finding:**

Management does not agree with the finding.

It is catered for in 2020/21 Organogram Annexure 6.1 Community Services Department coded as KZ245CS034. There is a pool of Security posts catered for in the organogram where these employees were employed. The post of Director Planning is catered for in 2020/21 Organogram Annexure 5 Planning and Development Services coded as KZ245PED001.

Management comment on internal control deficiencies:

Management does not agree with the finding

Management comment on recommendation:**Remedial action:**

What actions will be taken:	By whom Person: MF Maphanga Position: Corporate Services	By when: 30 June 2022
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Auditor's conclusion

Management's response is noted. The positions were catered for however it was not indicated that they were vacant as they were in a white box which indicates occupied and not pink box that indicates vacant. Management should update the organogram frequently to take into account changes in positions for effective decision making.

- b) The employment contracts of the following employees was not signed by the municipal manager:

No.	Employee name	Salary number	Identity number	Engagement date	Occupation
1	Mahajar S	S310027	8101065886084	01-Dec-20	Protection Officer
2	Makanya LS	S310029	7702027393085	01-Dec-20	Protection Officer
3	Mdladla SL	S310030	8103225328081	01-Dec-20	Protection Officer
4	Gwala WD	S310025	7705095677081	01-Dec-20	Protection Officer
5	Majola HT	S310028	8211295464080	01-Dec-20	Protection Officer
6	Zondi M S	S310033	7812175622084	01-Dec-20	Protection Officer
7	Khuzwayo NR	S310026	6702115543089	01-Dec-20	Protection Officer
8	Zondi SM	S310034	7309135743084	01-Dec-20	Protection Officer

No.	Employee name	Salary number	Identity number	Engagement date	Occupation
9	Masikane SZ	S100172	8811105864088	01-Mar-21	Security Officer
10	Ngubane M J	S310031	8811205628086	01-Dec-20	Protection Officer
11	Zama A Z	S100149	8004110751082	12-Apr-21	Stores Clerk

Management response

Management comment on audit finding:		
The contract of Stores Clerk was signed by all parties. With other contracts, there was a delay in signing of these employment contracts due to the issue of tools trade while seeking a legal opinion, but these employees are aware of contract obligations and they signed the contracts. The employer party will finalize the signing of contract and this matter will be addressed.		
Management comment on internal control deficiencies:		
Management comment on recommendation:		
Remedial action:		
What actions will be taken:	By whom Person: MF Maphanga Position: Corporate Services	By when: 30 June 2022

Auditor's conclusion

Management's response is noted. The finding will be followed up in the next audit cycle.

8.4 Overtime policy not adhered to Audit finding

Paragraph 5.4 of the municipality's overtime policy states that employees may not work overtime except in accordance with an agreement signed with the municipality.

In addition, paragraph 11.1 states that if in receipt of a regular annual earnings of not less than the amount per annum as regulated by Government Gazette from time to time regarding the earnings threshold which is currently **R211 596,00** are exempted from this policy, but are entitled to time off.

Paragraph 6 states: "If an employee agrees to work overtime, the employee may not work:

6.1 Overtime except in accordance with an agreement

6.2 More than 10 hours overtime per week"

During the audit of overtime, the following issues were noted:

- a) The December 2020 pre-authorisation forms requested have not been not received.

Management response

Management comment on audit finding:

- a) The December 2020 pre-authorisation forms requested have not been not received.

Management does not agree with the finding that Pre-authorisation forms were not submitted. Attached is the email submission made and the copies submitted.

Management comment on internal control deficiencies:

Management comment on recommendation:

Remedial action:

What actions will be taken:
None

By whom
Person: CB Mhkize
Position: Chief Finance Officer

By when:

Auditor's response

Management's response is noted. However, we advise that October and November 2020 pre-authorisation forms were received, but not December 2020. Therefore the finding remains.

- b) The following employee with a salary above R211 596 received overtime payment.

No.	Salary number	Employee	Overtime month	Dated posted	Gross monthly salary (per pay slip)	Annual salary
1	S310376	Ndawonde R K	Aug-20	2020/08/25	R24 419,84	R 293 038

Management response

Management comment on audit finding:

Management agrees that a staff member was paid overtime when they earn above the threshold. However, EXCO approved the same due to the nature of their work and submission was made to SALGBC of which the council did not sit to consider the submission, therefore it's pending. Re-submission to be made again.

Management comment on internal control deficiencies:		
EXCO approved the same due to the nature of their work and submission was made to SALGBC of which the council did not sit to consider the submission, therefore it's pending. Re-submission to be made again.		
Management comment on recommendation:		
Remedial action:		
What actions will be taken: Re-submission of the SALGA application	By whom Person: M. Maphanga Position: Director – Corporate Services	By when: 31 August 2022

Auditor's conclusion

Management's response is noted and this matter will be followed up next year..

- c) The employees listed below worked more than the 40 hours per month.

No.	Salary number	Employee	Overtime month	Hours 1.5 worked	Hours 2.0 worked	Total O/T hours worked
1	S311645	Luswazi BT	Jun-21	0	48	48
2	S311646	Majola KS	Jun-21	0	48	48
3	S311647	Sithole M	Jun-21	0	48	48
4	S100020	Dlomo BP	Sep-20	73	20	93

This results in non-compliance with the municipality's overtime policy

Internal control deficiency

Management did not perform adequate reviews to ensure that the overtime policy adopted by the municipality is followed.

Recommendation

Policies adopted by the municipality should be adhered to at all times.

Management response

Management comment on audit finding: Management agrees with the finding and will strengthen control over overtime claims		
Management comment on internal control deficiencies: Management notes the deficiency noted and will strengthen controls on overtime claims		
Management comment on recommendation: Management welcomes the recommendation made by audit		
Remedial action: Control on overtime claims will be enhanced		
What actions will be taken: Enhance control on overtime claims	What actions will be taken: Enhance control on overtime claims	What actions will be taken: Enhance control on overtime claims

Auditor's conclusion

Management comment noted and this matter will be followed up in the next audit cycle.

8.5 Inadequate leave management
Audit finding

Section 62 1(b) 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.

Paragraph 7.2 of the municipality's leave policy states that: "before the application for leave is recommended by the supervisor, enquiries should be made to the Human Resources Section or relevant official responsible for leave within the department by the employee or said supervisor as to the number of days of leave due to the employee concerned."

During the audit of leave pay, the following issues were noted:

- a) Leave days as per the leave register do not agree to the leave days recorded in the payslip. The following are examples:

No.	Salary no.	Surname & initials	Leave days as per leave file	Leave days as per 30 June 2021 payslip	Difference - days
1	S100366	Shandu DT	27	12	15
2	S311563	Gwala XM	27	12	15
3	S102691	Hendricks NE	27	14	13
4	S100359	Maphumulo NF	21	22	-1
5	S100034	Ngubane CS	21	44	-23
6	S311642	Ngubane SYT	23	44	-21
7	S104001	Sibiya N	23	18	5
8	S100004	Shaikh AM	48	14	34
9	S100054	Busani VM	23	52	-29
10	S311010	Ndlovu VP	30	4	26
11	S100046	Zondi NBA	30	52	-22
12	S100253	Zuma BP	30	6	24
13	S102637	Sithole SN	48	4	44
14	S101049	Sokhabase SN	48	12	36
15	S101183	Vilakazi BO	44	6	38
16	S105165	Vilakazi ZI	35	45	-10

- b) The auditee has a system called ESS for the processing of leave, however, it was not used by the municipality. This could result in fruitless and wasteful expenditure.
- c) The following employee has negative leave days' balance.

No.	Salary no.	Surname & Initials	Days per as per leave file (A)	Leave days per 30 June 2021 payslip (B)
1.	S105036	Shabalala NJ	-12	-12

This could result in leave balances being misstated.

Internal control deficiency

Management did not implement adequate internal controls to ensure proper and accurate recording and management of leave.



Recommendation

Management should ensure that leave days are recorded and managed correctly. Reasons for not using the leave system should be investigated and corrective action taken.

Management response**Management comment on audit finding:**

The discrepancy is noted where balances on leave files does not correspond with balances appeared on payslips.

Since the system is linked with payroll, all employees applying for leave should use the ESS system and the transaction update immediately to payroll system,

However, in this case employees due to limited resources some employees were un able to apply on their own, they turned to use manual book when taking leaves.

Therefore, accurate balance should be the one appears on leave files.

To avoid such discrepancy, we are now capturing all leave taken on system for immediate updates.

Management comment on internal control deficiencies:**Management comment on recommendation:****Remedial action:**

Capturing of all leave taken on system for immediate updates.

What actions will be taken:	What actions will be taken:	What actions will be taken:
Capturing of all leave taken on system for immediate updates.	Capturing of all leave taken on system for immediate updates.	Capturing of all leave taken on system for immediate updates.

Auditor's conclusion

Management comment noted and this matter will be followed up next year.

9. Governance – Audit committee

9.1 Deficiencies in roles and responsibilities of Audit committee

Audit finding

In terms of section 68(1)(c)(i)(ii) 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 the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control and of internal audit operating in accordance with any prescribed norms and standards.

In addition, the Public Sector Audit Committee Forum (PSACF), states that “an annual assessment of the finance function should be performed by the audit committee. Quality and reliable financial information is a prerequisite for effective decision making and the attainment of set objectives. To achieve this, an organization needs to have an effective finance function which is equipped with professionals who have the requisite skills and expertise not only at the technical and operational level, but also at the strategic level.

During the review of the audit committee’s roles and responsibilities, the following control deficiencies were identified:

- a) No evidence was provided for audit to confirm that the audit committee reviewed coverage and scope between external and internal audit to avoid duplication and promote possible cost savings from the alignment of the two functions
- b) No evidence was provided to confirm that the audit committee did consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the auditees finance function.
- c) No evidence was provided to confirm that an in-camera session was scheduled where internal audit met separately with the audit committee to discuss issues at least once a year without management being present

The inability to assess the finance function could lead to undetected ineffectiveness of the finance function, which could also impact the quality and reliability of the financial and performance reporting.

Internal control deficiency

Council did not provide adequate oversight to ensure that the audit committee performs all its roles and responsibilities.

Recommendation

The Audit and Risk Committee should:

- perform an evaluation of the finance function on a yearly basis in order to influence the effectiveness of financial reporting and controls,
- review the coverage and scope between external and internal audit to avoid duplication of audit work, and
- ensure an agenda point is added for an in-camera session to be scheduled where internal audit meets separately with the audit committee to discuss issues at least once a year without management being present

Council must provide the necessary oversight to ensure that the best practices as mentioned above are implemented

Management response

Management comment on audit finding:

- a) Audit committees are regulated by section 166 of the Municipal Finance Act 2003 (MFMA). This section of the act does not contain a requirement to align internal audit to external audit coverage and procedures which in the case of Umvoti are substantive in nature to provide assurance on financial statement components. A written directive from the Auditor General would be required to enable internal audit to provide assistance to the external audit process. This directive must indicate the process to be followed having regard to external audit requirements. Furthermore internal audit units are governed by section 165 of the MFMA which requires internal audit to prepare a risk based audit plan and audit program for each financial year. This is the process followed at Umvoti and the risk assessment conducted for the financial year in question was utilized to develop an Internal Audit Plan.
- b) Financial Evaluation was conducted by members of the Audit Committee.
- c) Audit committees are regulated by section 166 of the Municipal Finance Act 2003. This section of the act does not contain a requirement to hold in-camera sessions with internal auditors. It must be pointed out that the internal audit unit have unrestricted access to the Audit Committee members at all times.

Management comment on internal control deficiencies:

The financial evaluation was conducted by members of the Audit Committee.

Management comment on recommendation:

None

Remedial action:

None

What actions will be taken: The Financial evaluation will be forwarded to Audit	What actions will be taken: The Financial evaluation will be forwarded to Audit	What actions will be taken: The Financial evaluation will be forwarded to Audit
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Auditor's conclusion

Management's response is noted. These are best practices as per the Public Sector Audit Committee role in overseeing Internal Audit.

10. Cash and cash equivalents

10.1 Interest received not agreeing to bank confirmations

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".

The following differences were identified when comparing the interest earned from investments per the bank confirmations to that disclosed in the investment register.

Bank account details	Interest amount as per bank confirmation as of 30/06/2021	Interest accrued as per bank confirmation	Total as per bank confirmation	Interest amount as per the investment register (AFS)	Difference
Standard bank account no. 268530947-046	R323 176,20	R16,53	R323 192,73	R324 378,18	R 1185,45
Standard bank account no. 268530947-047	R39 631,85	-	R39 631.85	R218 786,03	R179 154,18
Nedbank account no. 03/7165015566 (Nedbank)	R848 239,95	R23 865,74	R872 105.69	R848 239,95	-R23 865,74
Total					R156 473,89

Consequently, interest earned from investments is overstated by a net amount of R156 473,89.

Internal control deficiency

Management did not perform adequate reviews of the financial statements to ensure that the interest earned from investments is accurately recorded.

Recommendation

Management should ensure that the interest earned on the investments accounts agree to the bank confirmations.

Management response

Management comment on audit finding:

Management does not agree with the finding.

The R218,786 from a Standard Bank investment was accumulated over a period of six months on an investment of R10 000 000.00. Initially the investment was placed for one month after which it was redone on a 7 day basis. The amount confirmed by the bank was only for the one month investment and did not include the rest.

Bank statements are available for inspection.

Management comment on internal control deficiencies:

Management comment on recommendation:

Remedial action:

What actions will be taken:	By whom	By when:
Share the bank statement with the Auditors	Person: CB Mkhize Position: Chief Finance Officer	

Auditor's conclusion

No response received for items 1 and 3. Management response is noted for item 2; however we await bank statements for inspection. This matter will be followed up next year.

11. Revenue from exchange transactions

11.1 Prepaid revenue incorrectly recognized

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

The following differences were identified when agreeing the prepaid revenue from the bank statements to the prepaid revenue recognised in the general ledger:

Month	Gross mount as per Contour recons/bank statement	Amount recorded in the GL excluding VAT	Amount recalculated by auditor	Difference	Comments
September 2020	R956 198.92	R956 198.92	R831 477,32	R124 721,60	This transaction is recorded as R956 198.92 inclusive of VAT in the GL (05/10/2020), the amount should have been excluding VAT on the GL
April 2021	R1 087 509.18	R773 828.13	R945 660,15	-R171 832.02	The amount recorded in GL excluding VAT is R773 828,13 (04/05/2021) but gross amount received in bank and as per recon is R1 087 509,18, so amount excluding vat should be R945 660,15 on GL.
May 2021	R1 218 788.32	R1 027 279.34	R1 059 815,92	-R32 536.58	The amount recorded in GL excluding VAT is R1 027 279,34 (02/06/2021) but amount as per recon and received as per bank statements is R1 218 788,32 so amount in GL excluding VAT should be R105 9815,93.
June 2021	R1 253 915.77	R909 780.93	R1 090 361.54	-R180 580.61	The amount in GL excluding VAT is R909 780,93 (29/06/2021) but total as per recon and received in bank is R1 253 915.77 as at June 2021, so amount excluding VAT should have been R1 090 361.54
Total	Difference			-R260 227,61	

This results in an understatement of prepaid electricity revenue by R260 227,61.

Internal control deficiency

Management did not perform adequate reviews of the prepaid transactions to ensure that it is correctly recorded in the general ledger.

Recommendation

The above variances should be investigated and the necessary adjustments processed in the general ledger and financial statements.

Management response**Management comment on audit finding:**

Management agrees with the finding.

The municipality reviewed the prepaid electricity transactions for the year and confirmed that the above are the only transactions that were misstated and propose to adjust in 2022. Attached are the Reviews performed on the Ledger and the proposed journal.

Management comment on internal control deficiencies:

Management agrees with the stated deficiency and will strengthen review processes

Management comment on recommendation:

Management agrees with the recommendation

Remedial action:

Monthly review of transactions

What actions will be taken:	By whom	By when:
Monthly review of transactions	Person: CB Mkhize Position: Chief Finance Officer	Immediately

Auditor's conclusion

Management response noted and will be followed up next year as management has requested to process the adjustments in 2021/22 financial year.

11.2 Government grants and subsidies misstated

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”.

The following weakness was identified during the testing of Government grants and subsidies:

a) Urban Renewal Grant – Metro Awnings and Carports

As per the supplier invoice number: M00973, payment voucher 7809 dated 28/05/2021, a total amount of R229 500 was owing and paid to the supplier. However, the payment was incorrectly recorded on the grant register as R263 925 (being R229 500 (excluding VAT) + R34 425 (VAT) No VAT was charged by the supplier and therefore the grant register erroneously includes the VAT portion.

This results in the unspent conditional grant for Urban Renewal being understated and revenue realised being overstated by R34 425.

b) FMG Grant – CCG System

The total amount paid as per the payment voucher 7179 dated 25/03/2021 is R53 790 and the total payment recorded inclusive of VAT on the Grant register is R53 931.75. The difference is R141.75. As per the invoice no. 14999 dated 16/03/2021 there is no VAT charged on the amount of R945 as per the supplier invoice, however the Grant register includes VAT portion of R141,75 on the amount of R945.

This results in unspent conditional Grant for FMG Grant being overstated and revenue realised being overstated by R141,75.

Internal control deficiency

Management has not performed adequate reviews of the grants invoices before approving for payment so as to confirm that the amounts recorded are accurate.

Recommendation

Management should check the accuracy of all invoices before making payment.

Management response

Management comment on audit finding:

Management agrees with the findings and proposes to make adjustments in the 2022 financial period because of the amounts involved. These are isolated mistakes

Management comment on internal control deficiencies:

Management agrees with the comment and will continue making use of review systems that are already set.		
Management comment on recommendation:		
Agreed		
Remedial action: Agreed		
What actions will be taken:	By whom	By when:
Review the Grants register against the invoices on a monthly basis.	Person: CB Mkhize Position: Chief Finance Officer	November 2021

Auditor's conclusion

Management response noted and will be followed up next year as management has requested to process the adjustments in 2021/22 financial year.

11.3 Incorrect amount paid to supplier – Urban Renewal Grant**Audit finding**

Section 62(1)(c)(i) of the of the MFMA states that; The accounting officer of a municipality is responsible for the managing of the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control”.

During the testing of grant expenditure, it was confirmed that the following supplier was paid the incorrect amount. Refer to details in the table below:

Supplier	Amount incl. VAT per supplier invoice	VAT portion per supplier invoice	VAT portion per auditors recalculation	Amount paid by municipality incl. VAT	Amount that should have paid per auditors recalculation
AVX Consulting	R114 130,44 (R76 086,96 excl. + R38 043,48 VAT)	R38 043,48	R11 413,04	R114 130,44	R87 500,04 (R76 086,96 x 1,15)

This results in an overpayment of the supplier invoice by R26 630,44

Internal control deficiency

Management did not perform adequate reviews of the invoices to ensure that the correct amount is paid to the supplier.

Recommendation

The above matter should be investigated and the necessary recoveries made from the supplier.

Management response

Management comment on audit finding:		
Management agrees with the finding.		
The municipality reviewed the prepaid electricity transactions for the year and confirmed that the above are the only transactions that were misstated and propose to adjust in 2022. Attached are the Reviews performed on the Ledger and the proposed journal.		
Management comment on internal control deficiencies:		
Management agrees with the stated deficiency and will strengthen review processes		
Management comment on recommendation:		
Management agrees with the recommendation		
Remedial action:		
Monthly review of transactions		
What actions will be taken:	By whom	By when:
	Person: CB Mkhize	Immediately
Monthly review of transactions	Position: Chief Finance Officer	

Auditor's conclusion

Management response noted and will be followed up next year as management has requested to process the adjustments in 2021/22 financial year.

11.4 Indigents – CAATs findings**Audit finding**

Section 62(1)(c)(i) of the MFMA states that; The accounting officer of a municipality is responsible for the managing of the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control”.

During the CAAT's testing performed on the current year approved indigents, the following findings were identified:

- a) Forty-eight (48) indigents were listed as a deceased persons on the National Population Register database.
- b) Twenty-nine (29) persons were approved as Indigents but invalid ID numbers were used in the indigent listing.
- c) Sixteen (16) persons were approved as indigents, but were employed by government department/ organization and some have no current employee details provided.

If the heir(s) of the deceased indigent did not re-apply for the indigent support and municipality cannot determine whether they qualify for the free basic services, this places a limitation of scope on determining whether revenue and receivables are understated.

Internal control deficiency

Management did not implement adequate processes in ensuring that only persons who qualify as indigents receive the free basic services.

Recommendation

Management should investigate this matter to determine whether these persons qualify as indigent or if they should be charged for the services.

Management response

Management comment on audit finding:		
The Municipality compiles a final list by March in line with draft budget if after that final list we get an applicant who qualifies we add them in. Our list is verified by AG once off. If an applicant dies within the financial year, we rely on the surviving members to update the municipality otherwise we wait till the next cycle.		
Management comment on internal control deficiencies:		
The municipality has no capacity or access to the Database for the National Population.		
Management comment on recommendation:		
Management welcomes the recommendation		
Remedial action:		
The municipality will continue using the services of Auditor General to verify indigent members of the society once a year.		
What actions will be taken:	By whom	By when:
Issue a notice inviting indigent beneficiaries to updated their details at the municipality.	Person: M Maphanga Position: Director: Corporate Services.	Quarterly

Auditor's conclusion

Management response is noted. The finding will be followed up in 2021-22 audit.

12. Property plant and equipment

12.1 Damaged assets not impaired, repaired or maintained

Audit finding

Section 62(1)(c)(i) of the MFMA states that; The accounting officer of a municipality is responsible for the managing of the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control".

Paragraph 20 of Generally Recognised Accounting Practice 26 states that: "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.

Paragraph 71 and 72 of Generally Recognised Accounting Practice 26 state:

71. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

72. An impairment loss shall be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in GRAP 17). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard.

During the physical verification of assets, the below assets appeared to be damaged due to vandalism. However, no impairment was provided for. Refer to zip attachment for pictures taken during the verification.

No.	Asset code	Asset description	Purchase date	Book value	Comments
1	ULM00103	Domerey Community Hall	2006/02/01	R400 000,00	Windows and doors damaged
2	ULM00112	Hlwimbithwa Community Hall	2015/06/29	R1 916 613,51	Entrance/front gate damaged
3	ULM00104	Vikindlala Community Hall	2006/02/01	R390 946,13	Windows damaged
4	ULM00092	Kranskop Peace and Skills Centre	2009/10/01	R507 436,30	Roof and fence damaged
5	ULM000111	Madekeni Hall	2015/06/15	R1 422 410,99	Windows and doors damaged
6	ULM00117	Esitikikini Community Hall	2015/12/23	R2 167 650,82	Gutters and windows damaged

No.	Asset code	Asset description	Purchase date	Book value	Comments
7	ULM00102	Ngome Community Hall	2006/02/01	R372 715,36	Windows damaged
8	ULM00131	Kwadolo Thusong Centre	2017/06/30	R2 816 644,69	Doors damaged

This may result in an overstatement of property, plant and equipment.

Internal control deficiency

Management did not perform adequate monitoring to ensure that all assets are physically verified on a regular to confirm that there are no impairment indicators or repair work to be performed.

Recommendation

Management must consider the repairs to be undertaken or possible impairment.

Management response

Management comment on audit finding:

Management agrees with the finding,

The assets in question are damaged but were not impaired because the extent of the damage did not affect the recoverable amounts of these assets. The municipality made use of experts to assist with impairment assessment.

In terms of repairs, the municipality set aside an amount of R8,254,775 for with R3,500,000 allocated for Buildings, Drainage and Public Works.

Management comment on internal control deficiencies:

Management does not agree with the stated deficiency. Assets are physically verified and inspected at least once a year. Over the years, this was done internally as well as by external service providers.

Management comment on recommendation:

Management welcomes the recommendation.

Remedial action:

Engage services of service providers to assist with repairs. SCM processes are being finalized for the same.

What actions will be taken:	By whom Person: N. Qwabe	By when:
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Appoint service providers for repairs and maintenance of assets	Position: Director – Technical Services	March 2022
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Auditor's conclusion

Management's response is noted. The finding will be followed up in the next audit cycle.

Annexure D: Performance management and reporting framework

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

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

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

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

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

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

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

Quality control relating to assurance engagements

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

Reported performance information

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

Communication with those charged with governance

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

Annexure F: Assessment of internal controls

Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of 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/ insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

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

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

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						

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

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

