AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

Dr Nkosazana Dlamini Zuma Local Municipality

2022-2023

CONTENTS

INTRODUCTION

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 30 June 2023, as well as the insights and significant matters that require the attention of the accounting officer. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.

2. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report has been signed.

3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure D**, we provide a summary of detailed findings communicated to management.

4. The management report is structured as follows:

    - In **section 1** we share the overall audit outcomes and the status of material irregularities. We also summarise the material irregularities in **annexure F**.

    - In **section 2** we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include:

    o significant deficiencies in internal control that caused the findings we report: significant internal control deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.

    o key recommendations and the responses received from management on implementing the recommendations.

    - In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem, as well as key recommendations and responses from management.

    - In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment, as well as recommendations for the accounting officer to address the root causes.

    - We end the report with a **conclusion**.

5. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a municipality that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

SECTION 1: AUDIT OUTCOMES

OVERALL AUDIT OUTCOMES

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

Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements	▶			
Annual performance report				
• KPA 2: Basic service delivery and infrastructure development	▶			
Compliance with legislation				
• Annual financial statements, performance reports and annual reports	▶			
• Procurement and contract management	▶			
• Expenditure management	▶			
• Utilisation of conditional grants	▶			
• Consequence management	▶			
• Strategic planning and performance management	▶			
• Revenue management	▶			
• Asset management	▶			
• Human resource management	▶			

Unqualified / No material findings	Qualified	Adverse	Disclaimed	Material findings	Not audited

▲	Improvement	▼	Regression	▶	Unchanged

6. Over the past three years, the audit results have stagnated and the municipality once again received an unqualified opinion on the financial statements. The matters reported in the current year related to the statement of cash flow discrepancies as well as duplicated amounts that were found in the commitment register. These matters are not similar to those that were reported in the prior year audit, I this regard management was able to implement preventative measures to ensure that prior year issue were not repeated.

7. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.

8. Annexure E lists matters that will affect future financial statements, annual performance reports and compliance with legislation.

SECTION 2: SIGNIFICANT MATTERS

FINANCIAL STATEMENTS

Audit results

9. The financial statements were submitted to us for auditing on 31 August 2023.

10. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with the MFMA. The non-compliance will be reported as a material finding in the auditor's report.

Material misstatements corrected

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Commitments					
GRAP 1	Overstatement	4 210 584	Duplicate item identified in the commitments register		
GRAP 2	Overstatement	52 506 771	Cash flow statement discrepancies		

Uncorrected | Corrected | No prior-year misstatement

11. **Impact:** The poor quality of the financial statements submitted for auditing does not bode well for the-year financial reporting, as it means that decisions, analyses and monitoring could be based on unreliable information.

12. As per the engagement letter management will be provided with one opportunity to correct the misstatement of a line item where a misstatement or internal control deficiency affecting the line item is identified for the first time and in some instance no opportunity will be provided, i.e. where a misstatement / internal control deficiency has been identified for a second time or more and management was afforded an opportunity to address it in the current or previous years.

13. The following misstatement qualifies for correction and management was granted an opportunity to correct this misstatement. Should this misstatements / internal control deficiency re-occur in the next cycle, management may not be afforded and opportunity to correct them as they would have been communicated to management for correction in the current year and management would have been afforded the opportunity to address them and also design and implement appropriate internal controls to prevent re-occurrence.

- Capital commitments (duplicate amounts resulting in Overstatement)
- Cash flow statement (Inaccuracies in calculations)

Internal control and recommendations

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

Significant internal control deficiencies – financial records and financial statements

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Management did not adequately maintain and independently review the annual financial statements in detail against the supporting schedule to ensure accuracy of the amount presented in the annual financial statements.	Yes	Yes
Management did not perform review and monitoring procedures over commitment register, to ensure that commitments register was accurate and that all disclosed commitments were supported by appropriate evidence.	Yes	No
The municipality's risk assessment was considered to be adequate, however, it did not proactively manage risks relating to inaccurate and incomplete financial reporting and the failure to comply with key legislation due to slow response by management in implementing the action plan on the previous financial year recommendations.	No	No

15. Internal control deficiencies relating to the annual financial statement review should be improved to improve the audit outcomes in the future.

16. We made recommendations to improve the financial records and the financial statements preparation process to the chief financial officer. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – financial records and financial statements

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Management should improve its review of annual financial statements. A checklist should be developed when performing the validation of information presented therein. **Response:** The recommendation is noted	2022-23	Not started
Recommendation: Management should perform adequate reviews of the commitments register which should include validation of disclosed commitments against the source documentation, i.e. contracts, variation orders, approved orders, invoices and project payment certificates to identify errors timeously. **Response:** The recommendation is noted	2022-23	Not started

Information to be included in auditor's report

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

Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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.

19. We will include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to the following matters which we deem to be fundamental to their understanding of the financial statements:

Restatement of corresponding figures

20. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairments – Receivables from non-exchange transactions

21. As disclosed in note 3.1 to the financial statements, the municipality recognised an allowance for impairment of R32,21 million (2021-22: R32,61 million) as the recoverability of these amounts was doubtful.

Material impairments – Receivables from exchange transactions

22. As disclosed in note 3.2 to the financial statements, the municipality recognised a debt impairment of R9,57 million (2021-22: R8,49 million) as the recoverability of these amounts was doubtful.

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

23. Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the municipality's ability to continue as a going concern.

24. We did not identify any events or conditions that cast significant doubt on the municipality's ability to continue as a going concern.

Budget management

25. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify findings to highlight in this area of financial management.

Financial assessment and compliance

26. Our audit included a high-level assessment of the financial position and key financial ratios of the municipality based on its financial results to assess its going concern (as detailed earlier), and also to highlight to management those issues that may require corrective action to maintain financial stability. The financial ratios used for assessment include those that the National Treasury also apply when assessing whether a municipality is in financial distress. The assessment is intended to complement, rather than substitute, management's own financial assessment.

27. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.

28. We concluded based on the assessment that the financial health of the municipality is good, which is an improvement from the previous year.

29. Next, we summarise the key matters identified through the assessment that require attention to maintain the good financial health.

Financial assessment – key matters

Revenue management]
On average the municipality has a debt impairment provision as a percentage of accounts receivable of 103 percent which indicates a high debtors impairment provision and there is low debtors payments.

30. We did not identify non-compliance with legislation and other local government requirements on financial management.

Losses

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

Disclosures on losses

Nature	Description	Rand value		
		2022-23	2021-22	2020-21
Fruitless and wasteful expenditure	Interest on over due accounts	R180 363	R5 131	R93 652
Debts written off	Amount relating to Statutory receivables	0	R1 148 112	0

32. The municipality has incurred FWE for the past 3 years, and has not implemented adequate preventative measures to curb this non-compliance.

33. **Impact:** Incurring FEW may have a negative impact on the funding of key service delivery projects.

34. The fruitless and wasteful expenditure incurred constitutes non-compliance with the MFMA. The non-compliance will be reported as a material finding in the auditor's report.

35. The fruitless and wasteful expenditure incurred was fully disclosed in the financial statements as required.

Grant management

36. The municipality received grants totalling R40 960 000 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the use of the integrated national electrification programme and the municipal infrastructure grant.

37. We did not identify findings to highlight in this area of financial management.

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

38. We tested whether the municipality's performance planning and management processes, integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) complied with the key requirements from legislation.

39. We did not identify findings.

Audit of annual performance report

40. The SDBIP and annual performance report were submitted to us for auditing on 31 August 2023, respectively.

41. As detailed in the engagement letter, we undertook a limited assurance engagement on a specific development priority selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion / conclusions as included in **section 1**.

42. We selected the following indicators for auditing:

- PWBS 1 - Number of kilometers of gravel roads renewed
- PWBS 2 - Number of meters of roads stormwater installed
- PWBS 3 - Number of kilometres of roads surfaced with asphalt
- PWBS 4 - Number of kilometres of gravel roads maintained
- PWBS 13 - Number of households connected to electricity grid
- PWBS 14 - Number of households with access to solid waste removal
- PWBS 15 - Number of indigent households with access to solid waste removal
- PWBS 17 - Number of Work Opportunities created through EPWP grant

43. These indicators directly addresses and impacts service delivery of the core functions that that the municipality is primarily responsible for in terms of its mandate and has an impact on the public. Our strategy is focused on improving the lives and lived experiences of ordinary South Africans and the selection of these indicators allows us to provide the required insight into the municipality's impact on the improvement of the lives of the citizens within its jurisdiction. This is directly linked to the inroads that the municipality has made in achieving its service delivery targets and the quality of its reported performance information.

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

45. We performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives

- the indicators are well defined and verifiable to ensure that they are easy to understand and consistently applied, and that we can confirm the methods and processes to be used for measuring achievements

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance, as well as how performance will be evaluated

- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents

- the reported performance information is presented in the annual performance report in the prescribed manner

- there is adequate supporting evidence for the achievements reported and for the measures included that are taken to improve performance.

46. We also performed procedures to test whether:

- the overall presentation of the performance information in the annual performance report is comparable and understandable

- the indicators used for planning and reporting are complete by considering the core functions of the municipality as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

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

Number of Households with access to solid waste removal

47. We did identify material misstatements in the reported performance information in the annual performance report submitted for auditing which were subsequently corrected by management.

Material misstatements corrected

Description	Prior-year misstatements	
	2022-21	2020-21
Number of Households with access to solid waste removal		
Different between reported actual achievement and listing /Quarterly reports		

	Uncorrected		Corrected		No prior-year misstatement		indicator not audited/included in prior-year annual performance report

48. The municipality did not have material misstatements in the previous year.

49. **Impact:** This has resulted in material misstatement in the APR which were subsequently adjusted.

Number of work opportunities created through EPWP grant

50. We did identify material misstatements in the reported performance information in the annual performance report submitted for auditing which were subsequently corrected by management.

Material misstatements corrected

Description	Prior-year misstatements	
	2022-21	2020-21
Number of work opportunities created through EPWP grant		
Number of work opportunities created through EPWP grant		

	Uncorrected		Corrected		No prior-year misstatement		Indicator not audited/included in prior-year annual performance report

51. The municipality did not have material misstatements in the previous year.

52. **Impact:** This has resulted in material misstatement in the APR which were subsequently adjusted.

Information to be included in auditor's report

53. We may communicate in the auditor's report matters about the audit, the auditor's responsibilities and the auditor's report that are important for users of the annual performance report to know about. We will include information on the corrections to the material misstatements in the submitted annual performance report in the 'other matters' section in the auditor's report.

Internal control and recommendations

54. We did identify significant internal control deficiencies in the performance planning, management, and reporting processes. Where we identified possible improvements, we reported these to management.

Significant internal control deficiencies – performance planning, management and reporting

Internal control deficiency	Prior years reported	
	2022-21	2021-20
Management did not perform adequate reviews and reconciliation between the actual reported performance information and the source data.	No	No

55. We made recommendations to improve the performance planning, management, and reporting process to the accounting officer. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – performance planning, management and reporting

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: *Management should prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information to eliminate any discrepancies per quarter reconciling to the evidence submitted to support the reported achievements.* The reported achievement in the annual performance report information should be amended to reflect the actual achievement as per the supporting documentation. **Response:** The management is going to use more quality assurance mechanisms to ensure that accurate actual performance information is recorded in the annual performance report.	2022-23	In progress

ACHIEVEMENT OF PLANNED TARGETS

56. As disclosed in the annual performance report, not all of the planned targets were achieved for the development priority we selected for auditing.

57. We will draw the attention of oversight to the non-achievement of key service delivery indicators by including the table that follows in the 'other matters' section in the auditor's report, with reference to the pages in the annual performance report where the measures for improvement are included.

OTHER INFORMATION IN ANNUAL REPORT

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

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

60. We did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, we are 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, we 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.

INFRASTRUCTURE PROJECTS

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

62. We did not identity significant findings on the key projects.

Langelihle Creche

63. The project was budgeted at an amount of R2 988 616, and the actual amount spent on the project was R 2 988 616, and the project was funded through Municipal Infrastructure grant.

Creighton Sports Centre (Phase 2) Construction of artificial grass

64. The project was budgeted at an amount of R 12 814 371, and the amount spent for 2022/23 financial year was R 8 000 000. And the project was funded through Municipal Infrastructure grant.

DELIVERY OF KEY MUNICIPAL SERVICES

65. The audit included an assessment on the delivery of services to indigent households.

66. We did not identity significant findings on delivery of the municipal services.

HUMAN RESOURCE MANAGEMENT

67. We audited compliance with legislation on human resource management and assessed the processes in place to ensure adequate and sufficiently skilled resources are in place.

68. We did not identify findings.

USE OF CONSULTANTS

69. The municipality spent R239 411 on consultants to support the current year financial, performance management and reporting processes – a reduction from the R1 199 971 in the previous year.

70. Our audit included an assessment of the effective use of consultants and compliance with local government requirements for the appointment and management of consultants.

71. We did not identify findings on the use of consultants.

INFORMATION SECURITY MANAGEMENT

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

73. We did not identify significant deficiencies in the IT security controls.

PROCUREMENT AND CONTRACT MANAGEMENT

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

75. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We did not identify findings.

IRREGULAR EXPENDITURE

76. Non-compliance with legislation resulted in irregular expenditure of R1 614 852. The irregular expenditure incurred constitutes non-compliance with legislation. The non-compliance will be reported as a material finding in the auditor's report.

77. The irregular expenditure incurred was disclosed in the financial statements.

78. The irregular expenditure related to non-compliance with SCM policy – tender advertised for 13 days instead of 14 days. This non-compliance in not repeated from the prior year.

CONSEQUENCE MANAGEMENT

79. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the municipality's management of consequences.

80. We did not identify findings.

FRAUD RISK

81. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage.

82. We are required to evaluate whether the information obtained during our audit indicates whether there any fraud risk factors present at the municipality and consider its impact on the audit. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud (e.g. inadequate controls to prevent or detect fraud). We did not identity fraud risk factors.

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

83. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for which the accounting officer and senior management are responsible.

84. The overall control environment is reflected in regression of the audit outcome which have been achieved at the municipality. Adequate preventative and corrective measures should be defined, implemented and monitored to demonstrate sound governance and audit matters being attended to.

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

ACCOUNTABILITY ECOSYSTEM

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

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

Accounting officer and senior management

88. The accounting officer did not exercise adequate oversight over credible and reliable financial reporting and over compliance with key legislation. Measures should be implemented and tracked to ensure that the municipality is not found wanting in terms of its ability to meet its service delivery objectives. Additionally, errors in the financial statements and the annual performance report can be reduced if additional supervisory reviews are undertaken along with regular monitoring of corrective controls.

89. Senior Management did not adequately maintain and independently review schedules supporting financial statement disclosures to ensure the accuracy and completeness thereof.

Audit committee

90. The audit committee met regularly during the year in their oversight role and responsibilities impacting the audit process at the municipality which included matters surrounding overall governance and operational matters at the municipality.

91. In the meetings, managed financial and other risks that affect the municipality. The audit committee should improve oversight over the design and implementation of internal financial controls to improve the effectiveness of internal audit and financial function. The audit committee also ensure the regular monitoring of the audit action plan by management and ensures that this was reported on in the quarterly audit committee meetings.

Internal audit unit

92. Internal audit unit carried out their responsibility of advising the accounting officer and reporting 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. There were no significant findings identified on the effectiveness of the internal audit unit.

93. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We made reference to the internal audit reports as part of risk identification and assessment on procurement and contract management, asset management, performance management and other areas of the internal audit plan.

RECOMMENDATIONS AND RESPONSES

94. We made recommendations to improve the overall control environment to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – control environment

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: The accounting officer should update action plans so that all audit findings are adequately implemented. **Response:** Action plans will be updated on finalisation of audit and the action plans will be implemented and monitored by the oversight bodies.	2020-21	In progress
Recommendation: The accounting officer, together with senior management, should regularly monitor the effectiveness of preventative measures to improve the overall control environment. **Response**: None	N/a	N/a
Recommendation: Audit committee and internal audit unit should continue to diligently review and evaluate controls related to financial and performance reports, as well as compliance with legislation. **Response**: None	N/a	N/a

SECTION 4: OVERALL RECOMMENDATIONS

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

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

- Slow response in implementing action plans to deal with deficiencies in the reviews of the annual financial statements and annual performance report before submission for auditing.
- Lack of monitoring of financial information and compliance with key legislation to ensure that the objectives of transparency, credible and reliable reporting were achieved.
- Lack of adequate reviews of underlying schedules supporting financial statement disclosures.
- Lack of adequate steps to prevent breakdowns in compliance processes by instilling discipline in the institutionalisation of policies and procedures as well as strict monitoring of compliance checklists

97. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success. The current action plan should be improved and updated as per the latest report going forward.

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

Overall recommendations

	Recommendation	Year originally recommended	Status of implementation
1.	Management should improve their review of underlying records to ensure that the registers used to prepare the AFS are complete and accurate. In addition, An action plan to address significant internal deficiencies in financial reporting as well as non-compliance with key legislations must be developed, submitted to the Internal audit and audit committee for input, and approved by the accounting officer. This must be implemented early to ensure sufficient time to address the significant internal control deficiencies	2020-21	In progress
2.	The strategic manager, internal audit and audit committee should improve the review of underlying records and supporting evidence making up the reported achievements in the annual performance report on a quarterly basis to ensure that reported targets are adequately supported.	2020-21	In progress
3.	The municipality including political and administrative leadership should evaluate its role, IDP and SDBIP and align the core functions to include all relevant indicators linked to its mandate. This will help leadership to focus on service delivery and be in a better position to ensure that the municipality is performing its role effectively and improving the lives of citizens. Furthermore, Leadership, senior management, and those charged with governance need to improve their oversight of action plan	2022-23	In progress

	Recommendation	Year originally recommended	Status of implementation
	monitoring and internal control enforcement to achieve credible and reliable reporting of financial reporting and compliance with key legislation.		

CONCLUSION

99. The matters communicated throughout this report relate to the three fundamentals on 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

Manelisi Njisane

Senior Manager: KwaZulu-Natal

30 November 2023

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ANNEXURE A: FINANCIAL ASSESSMENT

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

Financial health assessment

		Current year	Previous year
Expenditure management			
1.1	Creditor-payment period	49.2 Days	133 Days
1.2	Deficit was realised for the year (total expenditure exceeded total revenue)	No	No
	Amount of surplus / (deficit) for the year	R46 484 012	R25 810 286
Revenue management			
2.1	Debt-collection period (after impairment)	0.3 Days	0.3 Days
	• Amount of debtor's impairment provision • Amount of accounts receivable	R9 573 253 R9 332 151	R8 489 493 R8 298 562
2.2	Debt-impairment provision as a percentage of accounts receivable	102.6 %	102.3 %
	• Amount of debt-impairment provision • Amount of accounts receivable (before impairment)	R9 573 253 R9 332 151	R8 489 493 R8 298 562
Asset maintenance and renewal			
3.1	Percentage spending on repairs and maintenance	3.7 %	3.5 %
	• Amount of expenditure on repairs and maintenance • Amount of property, plant and equipment (carrying value)	R18 878 328 R513 888 429	R16 642 156 R479 615 687
3.2	Total capital expenditure as percentage of total expenditure	87.3 %	85.9 %
	• Amount of capital expenditure • Amount of total expenditure (operating + capital)	R16 483 829 R18 878 328	R214 301 231 R16 642 156
3.3	Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure	9.3 %	17.5 %
	• Amount of asset renewal / rehabilitation expenditure	R1 535 591	R2 496 323
3.4	Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment	36.5 %	34.5 %
	• Amount of depreciation and impairment	R45 220 178	R48 220 450

		Current year	Previous year
Asset and liability management			
4.1	Total debt / borrowings vs total revenue for the year	26.0 %	35.5 %
	• Amount of debt / borrowings • Amount of revenue for the year	R71 991 078 R276 624 781	R90 676 709 R255 321 089
4.2	Current liabilities as a percentage of next year's budgeted resources	24.1 %	210.4 %
	• Amount of current liabilities • Total budgeted income for the next year, excluding employee costs and remuneration of councillors	R51 482 481 R213 520 000	R70 965 076 R33 734 740
4.3	Net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of net current asset / (liability) position	R22 806 430	R150 406 349
4.4	Net non-current liability position was realised (total non-current liabilities exceeded total non-current assets)	No	No
	• Amount of net non-current asset / (liability) position	R478 828 506	R479 625 470
4.5	Net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of net asset / (liability) position	R501 634 936	R630 031 819
4.6	Liquid assets as a percentage of total current liabilities (acid test percentage)	144.3 %	311.9%
	• Amount of liquid assets	R22 806 430	R150 406 349
4.7	Current ratio	1.4 Ratio	3.1 Ratio
	• Amount of current assets	R74 288 911	R221 371 425
4.8	Total debt to total assets ratio	0.13 Ratio	0.13 Ratio
	• Amount of debts • Amount of assets	R71 991 078 R573 626 014	R90 676 709 720 708 528
Cash management			
4.9	Year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R159 255 744	R180 234 959
4.10	Cash plus investments less applications	R249336286	R312 529 859

		Current year	Previous year
	• Amount of year-end bank balance (cash and cash equivalents) • Amount of total investments (short and long term) • Less: amount of cash applications/ commitments	R159 255 744 R141 820 700 R55 950 938	R R180 234 959 R167 549 768 R312 529 859
4.11	Cash coverage	8.5 months	10.1 months
	• Amount of monthly expenditure	R19 073 665	R18 666 777

ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

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

2. We did not identify findings.

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL

1. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management**, and **governance** that should enable credible financial statements and performance reports and compliance with legislation.

2. The assessments are rated as follows:

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

3. Movement from the previous year is shown as follows:

▲	Improvement	▼	Regression	►	Unchanged

Internal control assessment

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Leadership	⇔		⇔		⇔	
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity						
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
Develop and monitor the implementation of action plans to address internal control deficiencies						

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

ANNEXURE D: SUMMARY OF DETAILED AUDIT FINDINGS

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

2. The findings are rated as follows:

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

Summary of audit findings

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Annual financial statements							
Disclosure of principal-agent arrangement without binding arrangement		[√]			[√]		0
High Level Review of AFS: Inconsistencies and discrepancies identified		[√]			[√]		0
Commitments							
Differences noted in the commitments register and auditors recalculated amount		[√]			[√]		0
Duplicate item identified in the commitments register				[√]			0
Cash flow statement							

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Cash flow statement discrepancies		[√]		[√]			2
Audit of performance information							
AOPO - Inconsistencies between the reports submitted and the APR			[√]		[√]		2

ANNEXURE E: UPCOMING CHANGES

1. This Annexure lists upcoming changes and events that will potentially affect the preparation of financial statements and annual performance report and compliance with legislation.

2. The municipality should ensure that systems and controls are in place to implement upcoming changes in the [accounting standards that could have an impact on future audit outcomes.

Upcoming changes

Description	Audit outcome area	Effective date
GRAP 1 on *Presentation of Financial Statements* (revised)	Financial statements	1 April 2023
GRAP 25 on *Employee benefits* (revised)	Financial statements	1 April 2023
GRAP 103 on *Heritage assets* (revised)	To be determined	1 April 2023
GRAP 104 on *Financial instruments* (revised) *	Financial statements	1 April 2025
IGRAP 7 on *The limit on a defined benefit asset, minimum funding requirements, and their interaction* (revised)	Financial statements	1 April 2023
IGRAP 21 on *The effect of past decisions on materiality*	Financial statements	1 April 2023
Guideline on *Accounting for landfill sites*	Financial statements	1 April 2023