



AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

Mkhambathini Local Municipality

2022-23

Date: 30 November 2023

CONTENTS

Introduction	3
Section 1: Audit outcomes and material irregularities	4
Overall audit outcomes	4
Section 2: Significant matters	6
Financial statements.....	6
Financial management and performance.....	9
Performance planning, management and reporting.....	11
Achievement of planned targets	15
Other information in annual report	16
Human resource management	16
USE OF CONSULTANTS	16
INFORMATION SECURITY MANAGEMENT	16
Procurement and contract management.....	16
Irregular expenditure	17
Consequence management	17
Fraud risk	18
Section 3: Control environment	19
Overall control environment	19
Accountability ecosystem.....	19
Recommendations and responses	20
Section 4: Overall recommendations	22
Conclusion	23
Annexure A: Financial assessment	25
Annexure B: Procurement and contract management	28
Annexure C: Assessment of internal control	30
Annexure D: Summary of detailed audit findings	32
Annexure E: Upcoming changes	34

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.
 - 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:
 - 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.
 - 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 AND MATERIAL IRREGULARITIES

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:	▶	Green	Green	Green
Annual performance report:				
Basic Service Delivery	▶	Dark Purple	Dark Purple	Dark Purple
Compliance with legislation:				
• Annual financial statements and Annual report	▶	Red	Red	Red
• Utilisation of conditional grants	▶	Green	Green	Green
• Expenditure Management	▲	Green	Red	Red
• Consequence management	▶	Green	Green	Green
• Procurement and contract management	▶	Green	Green	Red
• Revenue management	▶	Green	Green	Green
• Assets management	▶	Green	Green	Green
• Strategic planning and performance management	▶	Red	Red	Red

Green	Unqualified / No material findings	Dark Purple	Qualified	Red	Adverse	Dark Red	Disclaimed	Light Red	Material findings	Black	Not audited
-------	------------------------------------	-------------	-----------	-----	---------	----------	------------	-----------	-------------------	-------	-------------

▲	Improvement	▼	Regression	▶	Unchanged
---	-------------	---	------------	---	-----------

7. The municipality sustained the unqualified audit opinion for the past 3 years after being allowed adjustments. Numerous material misstatements on financial statements and performance information were identified during the audit which were not detected and prevented through the different levels of reviews by different role players within the accountability ecosystem which is the same as the prior year. Management needs to strengthen the record keeping controls and review controls over the financial statements and performance information.

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

9. 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

10. The financial statements were submitted to us for auditing on 31 August 2023.
11. We identified material misstatements in the financial statements submitted for auditing which were subsequently corrected by management. 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
Construction contract revenue					
GRAP 11 – Construction contract	Misclassification	R29 225 029	INEP grant revenue incorrectly accounted for in terms of GRAP 23 – Revenue from non-exchange transactions instead of GRAP 11.	None	None
Risk management disclosure					
GRAP 104 – Financial instruments	Disagreement	R9 915 554	Difference between the comparative amount in disclosure note 36 and amount as per prior year audited AFS (COAF 16)		None
Cash flow statement					
GRAP 2 – Cash flow statement	Disagreement	Various amounts	Differences between the cash flows from operating activities and cash flows from investing activities and the related notes to the AFS (COAF 15)		

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Statement of changes in net assets					
GRAP 1 – Presentation of financial statements	Disagreement	Various amounts	Differences between the amount as per the Statement and the recalculated amounts (COAF 16)		
Statement of Comparison of Budget and Actual Amounts					
GRAP 24 -	Disagreement	Various amounts	Differences between the approved budget amounts and amounts disclosed on the Statement of Comparison of Budget and Actual Amounts (COAF 17)		
Segment reporting					
GRAP 18 – Segment reporting	Disagreement	Various amounts	Differences between the amounts disclosed in note 44 segment reporting, supporting schedule and amount as per the AFS (COAF 15)		
Consumer Debtors					
GRAP 1 – Presentation of financial statement	Disagreement	R28 720 042	Differences noted in gross amounts for consumer debtor's age analysis disclosed in note 12 (COAF 8)		

	Uncorrected		Corrected		No prior-year misstatement
--	-------------	--	-----------	--	----------------------------

12. Incorrect interpretation of the guidance issued by national treasury led to the municipality accounting for INEP grant received in terms of GRAP 23 instead of GRAP 11. Furthermore, the guidance provided by national treasury was issued late thus not allowing for adequate discussions and resolution of queries relating to the guidance.

13. Ineffective reviews on the financial statements led to numerous material misstatements being identified during the audit on the consumer debtors, cash flow statement, statement changes in net assets, statement of comparison of budget and actual amounts and the segment reporting disclosure.
14. **Impact:** The financial statements submitted for audit were not prepared in accordance with the standards of generally recognised accounting practice as material misstatements were identified. The financial statements would have been qualified had the misstatements not been corrected. Furthermore, the financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.
15. Additional audit work had to be re-performed post management's adjustments to ensure the accuracy and completeness of the adjustments made.

Internal control and recommendations

16. We identified significant internal control deficiencies in financial recordkeeping and the financial statement preparation, 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
Inadequate reviews of financial reporting and application of GRAP to ensure credibility of the AFS submitted for audit. Material misstatements noted during the audit were not detected and prevented through the different levels of review by the role players within the accountability ecosystem.	√	√

17. We made recommendations to improve the financial records and the financial statements preparation process to the CFO and 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 – financial records and financial statements

Recommendation and management response	Year originally recommended	Status of implementation
<p>Recommendation: The accounting officer and CFO should develop and implement a financial statement preparation plan which must be regularly monitored by those charged with governance</p> <p>Response: The AFS and APR preparation plan was developed and implemented by management. This plan guided the process of developing the 202/23 financial statement and annual performance plan.</p>	2021-22	In progress
<p>Recommendation: Management should strengthen their review processes over the financial information to ensure credibility and accuracy thereof.</p> <p>Response: Management has implemented reviews over the financial statements.</p>	2022-23	In progress

18. Management developed an action plan to address the prior year audit findings and implemented it, however the action plan was not effective to prevent material misstatements being identified on the current years' financial statements.

Information to be included in auditor's report

19. 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 matters will be included as 'other matters' in the auditor's report:

Unaudited disclosure note

- 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, I do not express an opinion on it.
20. 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

- As disclosed in note 35 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 allowance for impairment – consumer debtors

- As disclosed in note 12 to the financial statements, consumer debtors were impaired by a total amount of R33, 53 million (2021-22: R31, 36 million) as the recoverability of these debts was doubtful.

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

21. 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.
22. 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

23. 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.
24. We also tested compliance with the legislative requirements for the preparation and approval of the budget for the next financial year. We did not identify findings on these budget processes.

Financial assessment and compliance

25. 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.

26. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.
27. We concluded based on the assessment that the financial health of the municipality is good, which is the same as the previous year.
28. 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
The debtor's impairment provision still remains high at 94% compared to 95% in the prior year, this indicates that the municipality is struggling to collect debtors as and when they fall due. Management should strengthen the debt collection processes failing which there will be increased pressure on the municipality to continue to rely on grant funding to sustain its operations.
Asset and liability management
National Treasury recommends that the level of capital expenditure should be in the region of between 10 and 20 per cent of total expenditure. The municipality spent 45 % of total expenditure on capital expenditure which is above the norm. Municipality should monitor this spending closely to ensure that there is no risk of financial sustainability due to eroding cash reserves.

29. **Impact:** failing to collect debts by the municipality will lead to an increased pressure on the municipality to continue to rely on grant funding to sustain its operations and using 45% of the total expenditure on capital expenditures might lead to the municipality utilising its reserves to fund operating expenditure.
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 did not identify findings to highlight in this area of financial management.

Grant management

32. The municipality received grants totalling R134 775 000 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the use of grants.
33. We did not identify findings to highlight in this area of financial management.
34. We audited a selection of key projects funded by the grants and no findings were noted.

Internal control and recommendations

35. We did not identify significant internal control deficiencies in the financial management processes. Where we identified possible improvements, we reported these to management.

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

36. 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.
37. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on performance planning and management

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
The performance management system and related controls were inadequate as it did not describe how the performance planning and measurement processes should be conducted as required by municipal planning and performance management regulation 7(1).	Yes	√	No

38. The predetermined method of calculation (percentage) and related systems and processes were not properly established to enable consistent measurement and reliable reporting of the actual achievement of key performance indicators.
39. **Impact:** Inadequate performance management system and related controls resulted in material findings on the usefulness of the annual performance report which also impacted the reliability of some of the indicators reported in percentages as detailed below.

Audit of annual performance report

40. The SDBIP and annual performance report were submitted to us for auditing on 31 August 2023.
41. As detailed in the engagement letter, we undertook a reasonable assurance engagement on a specific key performance area (KPA) selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion as included in **section 1**.
42. We selected the following key performance area for auditing:
- **Basic service delivery**
43. The basic service delivery KPA is the core function of the municipality which aims to ensure the provision, upgrade and construction of infrastructure and basic services that enhance socio economic development within the municipality.
44. We evaluated the reported performance information for the selected KPA 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.

47. 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**.

Audit results – Basic Service Delivery

48. We did not identified findings on the completeness of indicators.

49. We did not identify material findings on the overall presentation of performance information in the annual performance report.

50. We identified material misstatements in the reported performance information in the annual performance report submitted for auditing.

Material misstatements not corrected

Description	Prior-year misstatements	
	2021-22	2020-21
<p>Key Performance Indicator: Makhokhoba Access Road / Bridge Detailed Performance Measure: Percentage of Makhokhoba Access Road / Bridge of 0.5 KM completed by 30 June 2023 (accumulative) and Bridge</p>		
Predetermined method of calculation and related systems and processes cannot be determined		
<p>Key Performance Indicator: Jilafohlo Access Road Detailed Performance Measure: Percentage of Jilafohlo Access Road of 4.5KM completed by 30 June 2023 (accumulative)</p>		

Description	Prior-year misstatements	
	2021-22	2020-21
Predetermined method of calculation and related systems and processes cannot be determined		
Key Performance Indicator: Chibini Access Road Detailed Performance Measure: Percentage of Mgwaphuna Access Road of 1.5KM completed by 30 June 2023 (accumulative)		
Predetermined method of calculation and related systems and processes cannot be determined		
Key performance indicator: F1503 access road: Detailed Performance Measure: Percentage completion of F1503 access road of 1 km by 30 June 2023 (accumulative)		
Predetermined method of calculation and related systems and processes cannot be determined		
Key Performance Indicator: Maqongqo Taxi Rank Detailed Performance Measure: Percentage of Maqongqo Taxi Rank completed (accumulative)		
Predetermined method of calculation and related systems and processes cannot be determined		

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

51. The material misstatements that were not corrected will be reported in the auditor's report. These misstatements formed the basis for the qualified opinion.

Material misstatements corrected

Description	Prior-year misstatements	
	2021-22	2020-21
Key Performance Indicator: Makhokhoba Access Road / Bridge Detailed Performance Measure: Percentage of Makhokhoba Access Road / Bridge of 0.5 KM completed by 30 June 2023 (accumulative) and Bridge		
Reported target not consistent when compared to planned target		
Key Performance Indicator: Jilafohlo Access Road Detailed Performance Measure: Percentage of Jilafohlo Access Road of 4.5KM completed by 30 June 2023 (accumulative)		
Reported target not consistent when compared to planned target		
Key Performance Indicator: Reduce waste transferred to landfill through use of ward-based central waste sorting and disposal areas managed through EPWP and CWP Programmes		

Description	Prior-year misstatements	
	2021-22	2020-21
Detailed Performance Measure: Tons of Waste collected weekly from Wards 3, 4 & 7		
No comparison between planned and actual performance for the current year to prior year		
Key Performance Indicator: Ophokweni Access Road		
Detailed Performance Measure: Percentage completion of Ophokweni Access Road of 2.5KM by 30 June 2023 (accumulative)		
No comparison between planned and actual performance for the current year to prior year		

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

52. The material misstatements not corrected resulted in a qualified opinion which is the same as the prior year. The material misstatements noted on various indicators were due to internal control breakdown within the performance information processes which includes proper planning processes, proper recordkeeping and reviews. Furthermore, action plans developed to address prior year findings on the annual report were not effective as repeat material misstatements were identified in the current year.
53. **Impact:** Performance information planning processes were inadequate to ensure that indicators are well defined in accordance with National Treasury Framework for Managing Programme Performance Information and the municipal planning and performance management regulation 7(1). Furthermore, the APR was not properly reviewed as the misstatements should have been identified by management and internal audit and corrected prior to submission for audit.
54. Various misstatements noted on the annual performance report may also impose difficulties in assessing the level of impact the municipality had on the lived realities of the citizens.

Information to be included in auditor's report

55. 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

56. We identified significant internal control deficiencies, which caused the weaknesses in the performance planning, management and reporting processes as reported.

Significant internal control deficiencies – performance planning, management and reporting

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Management did not establish and implement proper planning processes to determine how planned targets would be measured.	√	No

Internal control deficiency	Prior years reported	
	2021-22	2020-21
There is a Lack of sufficient review controls to ensure that the annual performance report is free from material misstatements.	√	No

57. We made recommendations to improve the performance planning, management and reporting process to the accounting officer and senior management. 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 – performance planning, management and reporting

Recommendation and management response	Year originally recommended	Status of implementation
<p>Recommendation: Management should review, approve and implement the currently drafted technical indicator descriptions to ensure that all targets are clearly defined and each element making up the target can be verified and be validated.</p> <p>Standard Operating Procedures should be developed on how each target's data will be collated consistently throughout the year in support of the reported actual achievements</p> <p>Response: The management will ensure that during the planning processes on annual targets, this includes reviewing, approving, and implementing the currently technical indicator descriptions and will ensure that all targets are clearly defined.</p>	2021-22	In progress
<p>Recommendation: The 2023-24 SDBIP should be reviewed and amended if required to ensure the indicators and targets set adhere to the SMART principles.</p> <p>Response: The SMART principle will be utilized to adjust the key performance indicators as recommended by AG to ensure that KPI is well defined.</p>	2022-23	Not Started
<p>Recommendation: Management should implement stricter review controls over the preparation of the APR to ensure reporting is consistent, accurate and aligned to legislative requirements.</p> <p>Response: Management will ensure the implementation of stricter quality controls to ensure the accuracy of reported data.</p>	2022-23	Not Started

58. Prior year findings and recommendations were communicated regarding the predetermined method of calculation. Management did not properly implement their remedial actions resulting in repeat findings. Processes and controls should be established to address material findings and to improve the audit outcome

ACHIEVEMENT OF PLANNED TARGETS

59. As disclosed in the annual performance report not all of the planned targets were achieved for the key performance area we selected for auditing.

60. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

OTHER INFORMATION IN ANNUAL REPORT

61. We did not audit the information in the annual report except for the financial statements and the indicators in the annual performance report selected for auditing.
62. 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.
63. The annual report was not received in time for us to perform this procedure. We will report this in the auditor's report and indicate that any material misstatements identified when we receive it that are not corrected might result in us retracting the auditor's report and reissuing an amended report.

HUMAN RESOURCE MANAGEMENT

64. 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.
65. We did not identify findings.

USE OF CONSULTANTS

66. The municipality spent R1 161 301.5 on consultants to support the current year financial management and reporting processes which is a reduction from the R2 081 967 incurred in the previous year.
67. Our audit included an assessment of the effective use of consultants and compliance with local government requirements for the appointment and management of consultants.
68. We did not identify findings on the use of consultants.

INFORMATION SECURITY MANAGEMENT

69. 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.
70. We did not identify significant deficiencies in the IT security controls.

PROCUREMENT AND CONTRACT MANAGEMENT

71. 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.
72. 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 identified findings.

73. Next, we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in **annexure B**.

Findings on procurement and contract management

Area	Findings		
	2022-23	2021-22	2020-21
Audit limitations	Green	Green	Green
Deviations	Green	Green	Green
Conflict of interest	Yellow	Yellow	Yellow
Non-compliance: competitive bidding process	Green	Yellow	Green
Non-compliance: quotation process	Yellow	Green	Green
Contract management	Green	Green	Yellow

Material non-compliance with legislation	Findings	No findings
--	----------	-------------

74. **Impact:** The findings did not result in material non-compliance in the current year, however preventative measures should be put in place by management to avoid similar findings being identified in future which may have an impact on the audit report.

75. Even though the non-compliance with SCM regulations identified in the past 3 years was not material, there is still a need for management to improve its preventative controls to ensure there are no transgressions in the future.

76. Some of the findings on procurement and contract management indicate suspected fraud. Our observations are included in the section on fraud risk.

IRREGULAR EXPENDITURE

77. Non-compliance with legislation resulted in irregular expenditure of R184 000. The irregular expenditure incurred constitutes non-compliance with SCM regulations.

78. The irregular expenditure incurred was not disclosed in the financial statements.

79. There is an overall improvement in the irregular expenditure, as only one non-compliance was identified which resulted in irregular expenditure of R184 000 compared to the prior year amount of R 6 157 343. Identified by auditors.

CONSEQUENCE MANAGEMENT

80. 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.

81. We did not identify findings.

82. During prior-year audits, we reported findings on transgressions by officials or other role players for management to investigate. During the current year's audit, we performed follow-up tests to determine whether management has dealt with these matters. None of the reported transgressions were investigated and resolved.

Prior-year transgressions

Prior-year finding	Instances reported	Instances investigated	Instances resolved through investigation	Prior years reported	
				2020-21	2019-20
Improper conduct in supply chain management process by suppliers					
False declarations by suppliers	2	0	0	No	No

83. Management did not investigate the prior year finding relating to the suppliers who submitted false declarations, however the suppliers with false declarations were not used in the current year resulting in no impact on compliance with SCM regulations.

84. We did not identify significant internal control deficiencies in the consequence management processes.

FRAUD RISK

85. 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.

86. We are required to evaluate whether the information obtained during our audit indicates whether there are 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 identify fraud risk factors.

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

87. 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.
88. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant internal control deficiencies – overall control environment

Internal control deficiency	Prior years reported	
	2021-22	2020-21
There is a lack of adequate reviews on financial reporting and application of the standards of GRAP to ensure credibility of the AFS submitted for audit. Material misstatements noted during the audit were not detected and prevented through the different levels of review by the role-players within the accountability ecosystem.	√	√
Management did not establish and implement proper planning processes to determine how planned targets would be measured.	√	√
There is a lack of sufficient review controls to ensure that the APR is free from material misstatement.	√	√

89. Overall control environment within the municipality is still the same as the previous year with a noticeable improvement around compliance with laws and regulations which yielded some positive results in reducing the amount of unauthorised and irregular expenditure incurred.
90. In **annexure C** we provide a more detailed view of the overall state of internal control.

ACCOUNTABILITY ECOSYSTEM

91. The accountability ecosystem is the collection of role-players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality. These role-players include the officials, senior management and accounting officer, supported by the internal audit unit and the audit committee.
92. 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

93. Accounting officer and senior management displayed commitment to driving and sustaining positive audit outcomes and ensuring credible and reliable financial reporting, however, material misstatements were noted on the current year submitted annual financial statements and annual performance report. There is still a great need to improve the planning and monitoring processes on the APR and review processes on the AFS and the APR.

Audit committee

94. There is a functioning audit committee which is adequately resourced with skilled and competent individuals who were able to execute oversight over the internal audit function; external audit process; governance, risk management and internal control system; financial and operational reporting systems; and compliance with legal and regulatory requirements. In addition, the audit committee reviewed the AFS and fulfilled its other responsibilities as required by legislation and the audit committee charter.

Internal audit unit

95. There is a functioning internal audit unit which is adequately resourced with skilled and competent officials which was able to execute its annual operational plan and made recommendations for management implementation. Internal audit reviews on the submitted financial statements was not effective as numerous material misstatements were noted and these were not identified by the IA review process.

96. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We have used internal audit work for risk identification purposes.

97. All role-players in the ecosystem exercised their duties in accordance with relevant requirements. However we recommend some improvements in the processes in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality.

RECOMMENDATIONS AND RESPONSES

98. 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
<p>Recommendation: The accounting officer and CFO should develop and implement adequate controls together with respective records management in order to support and confirm compliance with the relevant key legislation with respect to the administration of panels.</p> <p>Response: The controls are now in place and the records in respect to the administration of panels have been developed and these are included in our SCM policy.</p>	2021-22	Implemented
<p>Recommendation: A proper review of the SDBIP should be performed to confirm that the required level of performance and the method to calculate all indicators and targets are clearly defined to support credible and reliable performance reporting including revisiting existing indicators and targets during the upcoming mid-year performance assessment to correct significant deficiencies identified during the audit.</p> <p>Response: Although a proper review of the Annual Performance Plan for 2022-23 was done and issues raised in 2021-22 were reviewed and tabled to council, we note the need to revisit the indicator calculation method and amendments to the current indicators and targets which will be effected during the mid-year review.</p>	2021-22	Limited progress
<p>Recommendation: Management should implement stricter review controls over the preparation of the APR and portfolio of evidence to ensure reported information is accurate and agrees to the portfolio of evidence.</p>	2022-23	In progress

Recommendation and management response	Year originally recommended	Status of implementation
Response: Management will improve the reviews over performance information as per AG recommendations.		
Recommendation: Management should develop proper planning processes on annual targets, this includes reviewing, approving and implementing the currently drafted technical indicator descriptions and developing standard operating procedures on how each target will be measured. Response: Management will improve the reviews over performance information as per AG recommendations.	2021-22	In progress

99. Management indicated that they have implemented the prior year recommendations, however there is a need to improve the implemented controls as repeat findings were noted in the current year. An adequate action plan should be developed, implemented and monitored to ensure the real root causes of inadequate reviews and planning processes on performance information are being addressed.

SECTION 4: OVERALL RECOMMENDATIONS

100. We provided recommendations to senior management to rectify the weaknesses identified in financial management / performance management 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.

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

- The directors for technical services and community services did not ensure that the SMART (specific, measurable, achievable, and relevant and time bound) criteria were met in their reviews of the SDBIP.
- Management did not implement adequate reviews of the annual financial statements and annual performance report to ensure accuracy thereof.

102. 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 achieving clean administration.

103. 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.	Recommendation: Management should intensify the review processes of the financial statements to ensure credibility and accuracy thereof.	2021-22	In progress
2.	Recommendation: Management should implement stricter review controls over the preparation of the APR and portfolio of evidence to ensure reported information is accurate and agrees to the portfolio of evidence.	2022-23	In progress
3.	Recommendation: Management should develop proper planning processes on annual targets, this includes reviewing, approving and implementing the currently drafted technical indicator descriptions and developing standard operating procedures on how each target data will be measured.	2021-22	In progress

104. To improve performance, accountability, transparency and institutional integrity of the municipality, the accounting officer should build on the current existing controls within the municipality by strengthening the planning and monitoring processes on performance information and review processes on the AFS and APR. This will assist the municipality to improve the audit outcome towards clean administration.

CONCLUSION

105. We are encouraged by the municipality's ability to maintain the unqualified audit opinion, however there is an urgent need for improvement through regular reviews of financial information and comprehensive reviews of the AFS to prevent repeat findings from occurring in the next audit cycle.
106. Planning and monitoring controls of performance information requires urgent attention. Strengthening these controls will not only assist the municipality to achieve clean administration, it will also ensure that the desired impact on the lived realities of the citizens through execution of the municipal mandate is reliably measured and clearly identified and reported.
107. The improvement in compliance with SCM regulations should be sustained to ensure that the positive trend of reduction on unauthorised and irregular expenditure is maintained in future.
108. We appreciate the accounting officer and senior management's determination and optimistic approach displayed towards the audit process. We encourage the accounting officer and senior management to build on that positive approach to strengthen the controls highlighted in this report and drive the municipality towards the right direction of clean administration and instil a culture of accountability to the lower-level staff members as well.
109. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to improve the audit outcome to a clean administration. Our staff remain committed to assist 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



Preshnee Moonia
Senior manager: KwaZulu-Natal

Date: 30 November 2023

Enquiries: Nomzamo Khwela
Phone: 083 554 4177
Email: Nomzamok@agsa.co.za

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	15.0 days	13,7 days
1.2	Deficit was realised for the year (total expenditure exceeded total revenue)	No	No
	Amount of surplus / (deficit) for the year	R39 790 362	R1 565 523
Revenue management			
2.1	Debt-collection period (after impairment)	3.8 days	3.4 days
	<ul style="list-style-type: none"> Amount of debtor's impairment provision Amount of accounts receivable 	R35 533 772 R35 633 918	R31 361 204 R32 981 030
2.2	Debt-impairment provision as a percentage of accounts receivable	94,1%	95,1%
	<ul style="list-style-type: none"> Amount of debt-impairment provision Amount of accounts receivable (before impairment) 	R35 533 772 R35 633 918	R31 361 204 R32 981 030
Asset maintenance and renewal			
3.1	Percentage spending on repairs and maintenance	9,60%	15,60%
	<ul style="list-style-type: none"> Amount of expenditure on repairs and maintenance Amount of property, plant and equipment (carrying value) 	R23 338 224 R242 567 587	R33 078 458 R212 108 858
3.2	Total capital expenditure as percentage of total expenditure	45,06%	34,60%
	<ul style="list-style-type: none"> Amount of capital expenditure Amount of total expenditure (operating + capital) 	R74 262 976 R162 714 931	R59 715 834 R172 610 241
3.3	Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure	100%	100%
	<ul style="list-style-type: none"> Amount of asset renewal / rehabilitation expenditure 	R74 262 976	R59 715 834
3.4	Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment	572,7%	507,5%
	<ul style="list-style-type: none"> Amount of depreciation and impairment 	R12 968 088	R11 767 557

		Current year	Previous year
Asset and liability management			
4.2	Current liabilities as a percentage of next year's budgeted resources	25.0%	24.5%
	<ul style="list-style-type: none"> Amount of current liabilities Total budgeted income for the next year, excluding employee costs and remuneration of councillors 	R20 083 674 R80 353 000	R31 360 352 R128 192 000
4.3	Net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	<ul style="list-style-type: none"> Amount of net current asset / (liability) position 	R33 836 242	R28 414 296
4.4	Net non-current liability position was realised (total non-current liabilities exceeded total non-current assets)	No	No
	<ul style="list-style-type: none"> Amount of net non-current asset / (liability) position 	R250 630 576	R216 262 163
4.5	Net liability position was realised (total liabilities exceeded total assets)	No	No
	<ul style="list-style-type: none"> Amount of net asset / (liability) position 	R284 466 818	R244 676 459
4.6	Liquid assets as a percentage of total current liabilities (acid test percentage)	268.3%	190.5%
	<ul style="list-style-type: none"> Amount of liquid assets 	R53 882 278	R59 741 233
4.7	Current ratio	2,68:1	1,91:1
	<ul style="list-style-type: none"> Amount of current assets 	R53 919 916	[R59 774 648
4.8	Total debt to total assets ratio	0,09:1	0,14:1
	<ul style="list-style-type: none"> Amount of debts Amount of assets 	R26 906 674 R311 373 492	R38 379 352 R283 155 811
Cash management			
4.9	Year-end bank balance was in overdraft	No	No
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) 	R44 062 954	R53 241 343
4.10	Cash plus investments less applications	(R2 393 531)	R36 353 926
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) Amount of total investments (short and long term) Less: amount of cash applications/ commitments 	R44 062 954 R0 R46 456 485	R53 241 343 R0 R16 887 417
4.11	Cash coverage	3,2 months	3,7 months

		Current year	Previous year
	<ul style="list-style-type: none">Amount of monthly expenditure	R4 758 533	R4 684 589

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.

Audit limitations

2. No audit limitations were encountered during the audit process.

Deviations

3. Supply chain management legislation and policy prescribe the processes that apply when procuring specific goods and services as well as their threshold values, including competitive bidding, obtaining quotations or participating in transversal contracts. It also defines the requirements for deviating from the prescribed processes. We did not identify deviations where the stipulated requirements for such deviations were not complied with.

Competitive bidding and quotation processes

4. Supply chain management legislation and policy prescribe the manner in which bidding and quotation processes should be performed to enable fair, competitive and equitable procurement. We identified non-compliance with the requirements for the quotation process.

Findings on quotation process

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
The service provider was not tax compliant by the time the award was made, which resulted in non-compliance with SCM regulation 13(b) read with regulation 43.	R184 000	1	No	No	No

5. **Impact:** The finding does not result in material non-compliance.
6. The finding was not identified in the previous two financial years and management should implement proper review controls to ensure that suppliers' tax compliance statuses are confirmed before an award is made.

Contract management

7. Supply chain management legislation and policy prescribe the manner in which contracts should be managed to ensure that payments are only made for goods and services that have been received and that have been delivered at the right quality. We did not identify non-compliance with these requirements.

Conflict of interest

8. We assessed the interests of officials/councillors and other persons in service of the state in the suppliers to the municipality. The supply chain management regulations prohibit awards to suppliers where there could be conflict of interest. We did not identify such interests.
9. We identified further non-compliance in the procurement process for the identified awards.

Non-compliance with legislation

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
False declarations submitted by two suppliers in which their directors were in service of the state at the time of the award resulting in non-compliance with SCM regulation 44.	R602 420	2	No	√	No



10. **Impact:** Management to investigate the above conflict of interest instances to ensure that no further awards are made to the above suppliers as this would result in irregular expenditure. A follow-up will be done in the next audit cycle.

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL



- 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.
- 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.

- 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			N/A	N/A	N/A	N/A
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	
Annual Financial Statements						
INEP Grant incorrectly accounted for				√		0
Differences in Statement of Cash Flow and the note				√		1
Differences in segment information and non-disclosure of it related information				√		0
Risk management disclosure is incomplete				√		0
Differences in statement of change in net assets				√		0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Differences noted on the statement of comparison of budget and actual amounts				√			0
Disclosure note does not agree to debtors age analysis				√			0
Impairment misstated		√					0
Differences on recalculation of Depreciation		√					0
Predetermined Objectives							
No technical indicator descriptions or standard operating procedures					√		0
Predetermined method of calculation cannot be determined			√				1
Compliance							
Supplier not tax compliant				√			0
False declaration by suppliers					√		1
Three quotations not received				√			0

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 25 on Employee benefits (revised)	Employee benefits	01 April 2023
GRAP 104 on Financial instruments (revised)	Financial instruments	01 April 2025
IGRAP 7 on the limit on a defined benefit asset, minimum funding requirements and their interaction (revised)	Employee benefits	01 April 2023
IGRAP 21 on The effect of past decisions on materiality	Financial statements	01 April 2023