



AUDITOR-GENERAL
SOUTH AFRICA

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FINAL MANAGEMENT REPORT

NAMA KHOI LOCAL MUNICIPALITY

30 June 2020

Communicated to the accounting officer on: 31 March 2021





Management report

Nama Khoi Local Municipality

30 June 2020

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Management report to the accounting officer on the audit of the Nama Khoi Local Municipality for the year ended 30 June 2020

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2020.
2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2020. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected development priority and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act 25 of 204 (PAA).
 - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.

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









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

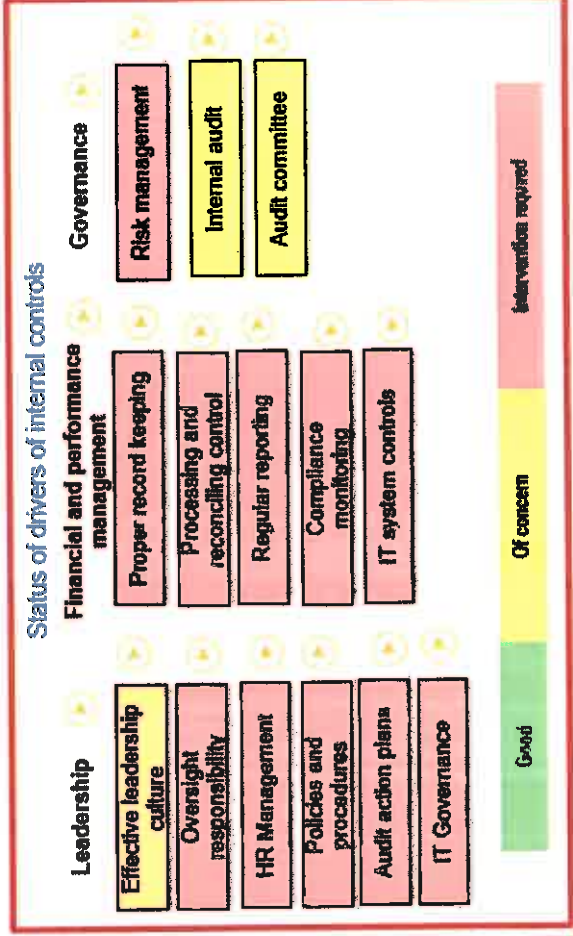
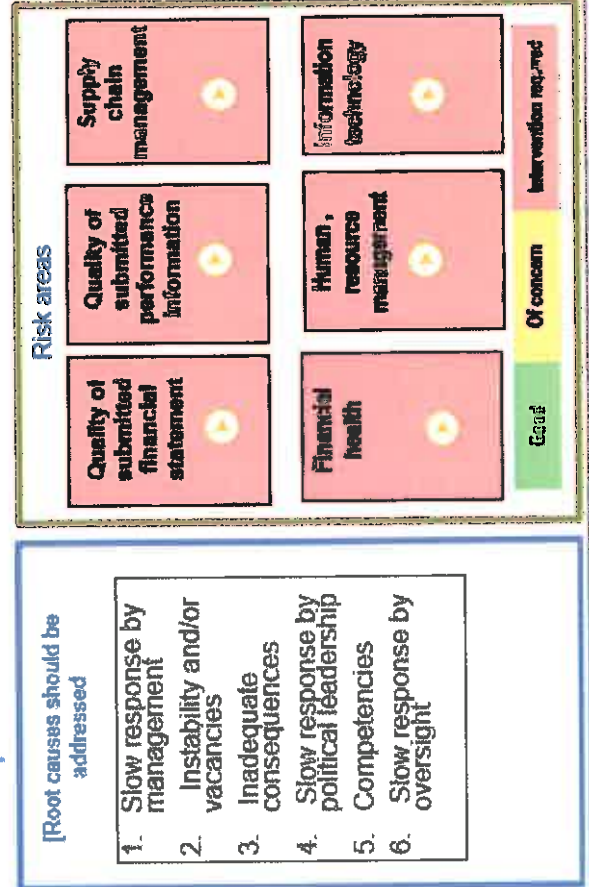
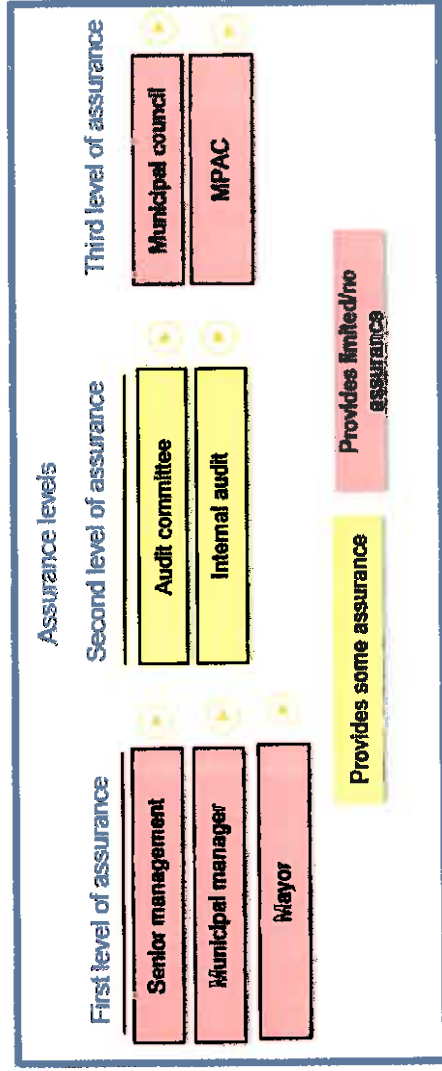
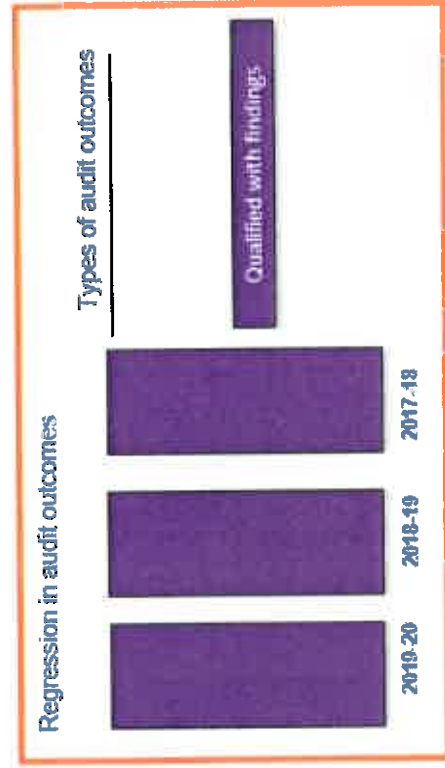
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7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes, with the focus on the following:

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

Movement from the previous year is depicted as follows:

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



OVERALL MESSAGE

8. The audit outcome of the municipality has remained stagnant from prior year to the current year. This is result of improper record keeping by management.
9. Irregular expenditure being incurred by the municipality remains high in the current year as it has increased from prior year to the current year. This is mainly due to the lack of consequence management and non-adherence with SCM prescripts.
10. In the financial statements that were submitted for audit, instances of material misstatements and also non-compliance with the applicable legislation and standards were identified. Some of the non-compliance issues identified are a repeat of the prior year non-compliance paragraphs that were reported in the prior year.
11. Improper record keeping was also identified in the current year. This is a mainly due to lack of management oversight and improper record keeping by the municipality.
12. The financial health of the municipality remains concerning in the current year as this has not changed from the assessment of the financial health of the municipality in the prior year. This is mainly due to the municipality not being able to settle their debts as they become due. The financial health assessment conducted clearly indicated that the municipality is exposed to a cash flow risk which may alternatively affect its ability to delivery on service delivery.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Audit report discussion	0
Municipal public accounts committee	No interactions	0
Mayor	Initial engagement meeting with auditee to discuss engagement letter and audit strategy as well as unfolding of audit process. Submission of the annual financial statements and annual performance report to the Auditor General of South Africa. Discussion of the draft audit report	3
Municipal manager	Initial engagement meeting with auditee to discuss engagement letter and audit strategy as well as unfolding of audit process. Further meetings in regard to audit progress, matters to be followed up and audit challenges including COVID 19 matters	8

Key stakeholder	Purpose of interaction	Number of interactions
Audit committee	Initial engagement meeting with auditee to discuss engagement letter and audit strategy as well as unfolding of audit process.	1

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

- Critical areas that to be urgently addressed by the municipality
- Actions that needs to be taken by the municipality to address communication of audit findings
- Improvements in the internal control environment with the objective of achieving an improved audit outcome
- Challenges in relation to the impact of COVID 19
- Challenges in relation to the impact of IT virus

15. No stakeholders made specific commitments to implement initiatives that can improve the audit outcome.

SECTION 2: Matters relating to the auditor's report

Audit of the financial statements

16. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).
17. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement				
Financial statement item	Finding	Occurred in prior year	Impact R current year	Impact R previous year
Material misstatements not corrected				
Non-current assets				
Investment property	ISS24: Investment Property- Rights and obligation to the property could not be confirmed ISS.102: Compliance- Investment property disposals not valid	No	Impractical	
Investment property	ISS.26: Investment property- Completeness of investment property register could not be confirmed	No	2 472 369	
Investment property	ISS.42: Investment property: Valuation of investment property not conducted in accordance with GRAP 16	Yes	Impractical	Impractical
Current assets				
Cash and cash equivalents	ISS.134: Cash & cash equivalents - Bank reconciliation not appropriately prepared	No	51 276 566 presentation	

Financial statement item	Material misstatement			Impact R current year	Impact R previous year
	Finding	Occurred in prior year			
Receivables from exchange transactions	ISS.151: Receivables - debtors existence not verified	No		137 400 021	
Receivables from exchange transactions	ISS.150: Receivables - Differences between age analysis and statements	No		1 825 813	
Receivables from exchange transactions	ISS.105: Receivables - Journals not approved by delegated official and no supporting documents attached	No		13 306 081	
Receivables from non - exchange transactions	ISS.167: Receivables non-exchange transactions - Journals not approved by delegated official and no supporting documents attached	No		8 108 142	
Non-current liabilities					
Provisions	Iss.166: Provisions - Landfill site per AFS does not agree to supporting schedule ISS.28: Infrastructure asset: Landfill asset not accurately valued at year end ISS30: Infrastructure asset- Useful lives for landfill site not in accordance with the accounting policy ISS.32: Infrastructure asset: Completeness of landfill site register could not be confirmed	Yes		Impractical	Impractical
Employee benefits	ISS.110: Employee Benefits - Limitation on base data ISS.114: Employee Benefits - base data for long service award incomplete	Yes		Impractical	Impractical
Employee benefits	ISS.113: Long Service Awards - s56 Manager in estimate	Yes		188 992	

Material misstatement				
Financial statement item	Finding	Occurred in prior year	Impact R current year	Impact R previous year
Current liabilities				
Trade and other payables from exchange transactions	[C10] Iss.96: Trade and other payables - Supporting schedules not submitted for audit	No	17 987 052	
Trade and other payables from exchange transactions	Iss.95: Payables - Differences between supporting schedule and AFS	No	121 404	
Trade and other payables from exchange transactions	ISS.119: Payables Journals - No invoices or supporting documents attached	No	1 900 030	
Trade and other payables from exchange transactions	ISS.148: Trade Payables - Supplier's Statement not attached	No	5 120 992	
Trade and other payables from exchange transactions	ISS.177: Payables - Amounts that should have been included as Payables	No	695 524	
Trade and other payables from exchange transactions	ISS.177: Payables - Amounts that should have been included as Payables	No	197 043	
Trade and other payables from exchange transactions	ISS.153: Payables - Specific Items - Individual Suppliers statement not submitted	Yes	260 691	
Trade and other payables from exchange transactions	ISS.164: Trade Payables - Journals supporting documents not submitted	No	2 366 214	

Material misstatement				Impact R current year	Impact R previous year
Financial statement item	Finding	Occurred in prior year			
Trade and other payables from exchange transactions	ISS.165: Trade payables - Journals supporting documents not submitted	No		2 296 544	
Trade and other payables from exchange transactions	ISS.154: Payables: Payables amounts do not agree with Statement amounts	No		1 601 548	
Revenue					
Revenue from exchange transactions	ISS.41: Revenue from exchange transaction - Difference identified between the GL and Billing Reports	No		5 565 609	
Revenue from exchange transactions	ISS.64: Revenue from exchange transaction - Difference identified for services charges – Water	No		1 616 060	
Revenue from exchange transactions	ISS.65: Revenue from exchange transaction - Difference identified for services charges – Refuse	No		8 424 567	
Revenue from exchange transactions	ISS.66: Revenue from exchange transaction - Difference identified for services charges – Sewerage	No		11 057 749	
Revenue from non-exchange and exchange	ISS.85: Indigent application not complete	No		1 480 542	
Revenue from non-exchange and exchange	ISS.97: Revenue - Journals not approved by delegated official and no supporting documents attached	No		11 987 935	
Revenue from exchange	ISS.74: Revenue - Debtor not charged for 12 months for service charges and property rates	No		Unquantifiable but material	
Revenue from non-exchange and exchange	ISS.74: Revenue - Debtor not charged for 12 months for service charges and property rates	No		Unquantifiable but material	

Material misstatement				
Financial statement item	Finding	Occurred in prior year	Impact R current year	Impact R previous year
Revenue from non-exchange and exchange	ISS.84: Revenue from non-exchange transaction - Difference identified between the GL and Billing Reports	No	2 180 195	
Revenue from non-exchange and exchange	ISS.136: Revenue from non-exchange - Journals not received	No	2 505 492	
Expenditure				
Operational cost	ISS.46: SCM Expenditure - Incorrect classification of expenditure	No	1 141 433	
Inventory consumed	ISS.82: Stores transactions: Incorrect classification	No	1 090 323	
Employee related cost	ISS.63: Occurrence of housing allowance	No	1 317 684	
Employee related cost	ISS.159: Other benefits and allowances - Limitation	No	3 168 004	
Employee related cost	ISS.175: Limitation - No support for employment with municipality	No	5 659 335	
Employee related cost	ISS.176: Employee Related Costs - Reconciliation differences	No	1 687 544	
Disclosure				
Irregular expenditure	[C16]ISS.128 UIFW: Irregular expenditure register does not include an opening balance	Yes	201 095 498	Unknown
Irregular expenditure	[C16]ISS.139 UIFW: Payments not included in disclosure for Irregular expenditure	No	4 449 393	
MFMA Disclosure Section 125	[C15] Iss.137 MFMA Disclosure: Distribution losses misstatement	No	1 838 882	

Material misstatement				
Financial statement item	Finding	Occurred in prior year	Impact R current year	Impact R previous year
Prior period error	[C17]Iss.156 Prior period error: Misstatements identified	No	Unquantifiable but material	
Material misstatements corrected				
Property plant and equipment	ISS.6: Infrastructure assets - Difference between fixed asset register and annual financial statements	No	20 712 557	
Statutory receivables	ISS.162: Statutory receivables not disclosed	No	77 641 135	
Employee Benefits	ISS. 109: Employee Benefits - No Consideration for COVID-19	No	33 746 000	
Fruitless and wasteful expenditure	ISS.125 UIFW: Difference between Register for Fruitless and Wasteful Expenditure and the movement in disclosure note	No	1 739 128	
Fruitless and wasteful expenditure	ISS.126 UIFW: Transaction incorrectly included under Fruitless and Wasteful expenditure	No	1 804 544	
Employee related cost	ISS.158: Allowances - Misclassification of motor vehicle allowances	No	3 255 765	
Operational cost	Iss.77: Expenditure - Comparative Operating expenditure not correctly cast	Identified in current year		3 975 480

Matters to be brought to the attention of users

Emphasis of matter paragraphs

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

Events after reporting period

19. With reference to note 59 to the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of the virus attack the municipality's future prospects, performance and cash flows. Our opinion is not modified in respect of this matter.

Uncertainty relating to the future outcome of exceptional litigation

20. With reference to note 56 to the financial statements, the municipality is the defendant and claimant in several litigation actions. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grant

21. As disclosed in the note 22.3 and 22.4 of the annual financial statements, the municipality materially underspent the Municipal Infrastructure Grant by R5 344 769 and the Water Services Infrastructure Grant by R11 648 071.

Material uncertainty relating to going concern

22. We draw attention to note 58 to the financial statements, which indicates that the municipality is dependent on government grants and subsidies for the continued sufficient operations of the municipality and the budgeted deficit of the municipality for the following two financial period. As stated in note 58, these events or conditions, along with the other matters as set forth in note 58, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter paragraphs

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

Unaudited disclosure notes

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


Unaudited supplementary schedules

25. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion on them.

Audit of the annual performance report

Introduction and scope

26. We were engaged to undertake a reasonable assurance engagement on the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2020:

Objective	Pages in annual performance report	Opinion	Movement
Basic Service Delivery and Infrastructure	x – x	Disclaimer	

27. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*.
28. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Basic Service Delivery and Infrastructure

Disclaimer of opinion

29. We do not express an opinion on the reported performance information for Basic Service Delivery and Infrastructure of the municipality. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of objective.

Basis disclaimer of opinion

30. We were unable to audit the usefulness and reliability of the selected objectives listed below as the annual performance report was presented without accurate and complete underlying records. This placed limitation on the scope of my work as we was unable to obtain sufficient and appropriate audit evidence and to audit the reported performance information by alternative means.

Other matter

31. We draw attention to the matter below. Our opinions is not modified in respect of this matter.

Achievement of planned targets

32. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraph [x] of this report.

Responsibilities of the accounting officer for the reported performance information

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

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

34. Our My objectives are to obtain reasonable assurance about whether the reported performance information in the annual performance report for the selected objective is free from material misstatement, in accordance with International Standard on Assurance Engagements, ISAE 3000: Assurance engagements other than audits or reviews of historical financial information and to issue a management report that includes my opinion. However, because of the matter described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on the selected objective.
35. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Audit of compliance with legislation

36. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA

Annual financial statements, performance reports and annual reports

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, expenditure, comparative expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material

misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

38. The 2018/19 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.
39. The local community was not invited to submit representations in connection with the 2018/19 annual report, as required by section 127(5)(a) of the MFMA.

Strategic planning and performance management

40. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management reg 7(1).
41. The SDBIP for the year under review did not include the monthly operational as required by section 1 of the MFMA

Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
43. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
44. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R56 864 513, as disclosed in note 48.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by non-payment of suppliers within 30 days.
45. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R65 043 125, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.

Revenue management

46. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

47. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic



municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

48. An effective system of internal control for assets was not in place, as required by section 63(2) of the MFMA.

Procurement and contract management

49. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
50. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
51. Some of the competitive bids were adjudication by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
52. The preference point system was not applied on some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
53. The performance of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Utilisation of conditional grants

54. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 16 of 2019).

Consequence management

55. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
56. Irregular and Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the



financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported in the auditor's report.

58. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on it.
59. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
61. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal controls

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

Leadership

Effective leadership culture

63. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff and there is no evidence that staff was trained to properly understand and implement the code. There were however no ethical issues that were identified affecting the municipality.
64. Management did not instil the culture of taking responsibility and accountability within the municipality. This was due to the fact that most of the findings identified in the current financial year were repeat findings from the prior year and these therefore indicates that leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the municipality.

Oversight responsibility

- 65. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a development priority level and for purposes of taking corrective action.
- 66. Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with applicable laws and regulations and related internal controls. This was due to management not addressing the root cause (internal control deficiencies) of the prior year issues which therefore led to repetition of the prior year issues in the current year, of which that could have been evaded had proper controls been implemented.
- 67. The accounting officer did not adequately review the financial statements and performance reporting against the supporting documentation used to prepare them. There was a lack of review over number of reports used to compile the financial statement and performance reporting as evidenced in the current financial year under review.
- 68. Leadership did not review the annual performance reporting for audit of predetermined objectives so as to ensure that the report was prepared in accordance with the required standards, laws and regulation and performance information guidelines.

Human resource management

- 69. An assessment of human resource management has identified the following:

Management of vacancies

- 70. The overall vacancy rate decreased from 37% in the prior year to 29% in the current financial year.
- 71. The senior management rate at year end was 60%, which is consistent with the prior financial year.
- 72. The finance unit vacancy rate at year end was 19% of which represent the acceptable capacity.

Competency of key officials

- 73. The municipality did not properly plan and provide training on planning, managing and reporting on performance information.
- 74. Leadership did not enforce and put controls in place over the monitoring of the performance of outsourced service providers and to ensure that skills are transferred to the employees in the division where outsourced services are utilised.

Performance management

- 75. There is no formal performance management system in place for employees other than senior managers.

Policies and procedures

76. Documented policies and procedures, relevant to both the financial and performance reporting , are not always implemented to guide the operations of the municipality to comply with relevant laws and regulations. The processes in place are not adequate to prevent and detect unauthorised and irregular expenditure and fruitless and wasteful expenditure. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.
77. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets

Action plans to address internal control deficiencies

78. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. There were number of repeat finding on the financial statements, performance information reporting, and compliance with legislation and performance information which were not addressed in accordance with the developed action plan.

Information technology governance framework

79. There was a lack of an effective oversight committee to ensure that the IT function is strategically aligned to the municipality's key performance areas.

Financial and performance management

Proper record keeping

80. The municipality did not have a proper record management system to maintain information that supported the reported performance in the Annual Performance Report (APR). This included information that related to the collection, collation, verification, storing and reporting of actual performance information. This resulted in the auditor not being able to verify the business process as the performance indicators disclosed in the APR were not SMART.
81. The municipality did not formulate and implement a record management policy and related procedures to ensure that all documentation was properly controlled. This evident due to number of cut off letters issued to leadership regarding the requested information.
82. Even though the municipality designated members of the staff to take responsibility for record management and submitting the requested information to the auditors, the following significant difficulties were however encountered:
 - There were significant delays in management providing the required information
 - Extensive unexpected effort to obtain sufficient appropriate audit evidence
 - Expected requested information unavailable (incorrect information submitted)

Daily and monthly processing and reconciling of transactions

- 83. There were material findings on non-compliance with laws and regulations, which is evident of the weaknesses in controls over daily and monthly processing and reconciliation of transactions. This was due to compliance checklists not being prepared and reviewed on a monthly basis to enable the municipality to prevent and detect any non-compliance from occurring.
- 84. Controls over daily and monthly processing and reconciling of transactions were not implemented for suspense accounts, receivables, cash and cash equivalents, capital assets and irregular expenditure.

Regular, accurate and complete financial and performance reports

- 85. The financial statements contained numerous misstatements that need to be corrected. This was mainly due to staff members not fully applying the requirements of the financial reporting framework.
- 86. The annual performance report contained the misstatement that could not be corrected in the current financial year as a results of the report not being prepared in accordance with the requirements of performance reporting. This was mainly due to staff not understanding the requirements of performance reporting.

Compliance monitoring

- 87. Non- compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored. The municipality does not have a skilled and trained compliance specialist to address and monitor new changes in legislation affecting the municipality.

Governance

Risk management activities and risk strategy

- 88. A risk management strategy was developed and a comprehensive risk assessment was conducted by the risk management department. However, certain errors still occurred due to risks that were not effectively managed.

Internal audit

- 89. The Internal audit unit did not review financial reports to confirm the reliability of the reports before their submission to external auditors.
- 90. The Internal audit unit did not follow up on the implementation of internal and external audit recommendations to address audit findings. There were numerous repeat findings in current year which is evident that there was no follow up to ensure that the findings were addressed.

Audit committee

91. The audit committee did not adequately review the financial statements and annual performance report before submission as material misstatements were identified. Some of the identified material misstatements were repeat misstatements from the prior financial year.

Summary

92. The matters above, as they relate to the basis for the [qualified/adverse/disclaimer of] opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
93. Leadership did not adequately exercise appropriate oversight over financial and performance reporting, compliance monitoring and related internal controls, which led to matters being repeatedly raised from the prior year to the current year.
94. Despite having approved policies in place, this has not made a significant impact on the municipality due to the remaining lack of skills and capacity that exist within the finance department and the municipality as a whole.
95. Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the financial statements and performance report were free from material misstatements. The non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented during the financial year.
96. The audit committee did not appropriately discharge their mandate for the financial year under review. The internal audit interventions did not strengthen the controls over the areas of qualifications with the work that was executed during the year.
97. Management did not monitor the implementation of action plans to address internal control deficiencies.

Material irregularities

98. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during the audit.
99. None identified to date

Other reports

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



101. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of land being disposed inappropriately that occurred during 2008 and 2009. These proceedings were in progress at the date of this report.

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

Assessment of assurance providers

102. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives, and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
103. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
104. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides **limited assurance**

- Senior management was involved during the audit process to provide information. The information provided, however, was not always credible or accurate, extensive reconciliation work was performed by the auditor as well as lots of follow up of information. This is evidenced by the high number of cut-off letters communicated to the client regarding outstanding information. This resulted in both corrected material misstatements and uncorrected immaterial misstatements the accompanying audit outcome.

Accounting officer: provides **limited assurance**

- The Municipal Manager did not effectively implement effective, efficient and transparent systems for internal control and compliance management for the year under review, this is evident in the material compliance findings identified during the audit.
- The monitoring of the municipal staff should be facilitated by an approved policy and the review should be formalised with documentation for future reference to ensure all the required actions have been addressed

Mayor: provides limited assurance

An action plan to address prior year external and internal audit findings was not implemented. Policies of the municipality has been approved for the financial period, however implementation is not monitored as evidenced by the audit findings raised.

Second level of assurance**Internal audit unit: provides some assurance**

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
- Internal Audit unit performed work on various components of the municipality, this was conducted as per the internal audit plan and the internal control weaknesses raised were communicated to the municipality in a timely manner in written reports. The municipality did not provide internal audit with all the requested documentation and did not sufficiently respond to the findings raised in the quarterly reports.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

105. The audit committee was in place for the current financial. The audit committee did review the financial statements before submission thereof. The audit committee reviewed findings raised by the internal audit unit and made recommendations on how to prevent future misstatements but did not adequately follow up if all recommendations have been implemented. The audit committee did not review the key performance indicators and performance management system of the municipality.

Third level of assurance

Municipal council: provides limited assurance

- Municipal council has not sufficiently provided oversight to the municipality. This is evident in the weak internal control environment, the number of repeat findings on the financial statements, performance information and compliance with legislation.

Municipal public account committee (MPAC): provides limited assurance

- The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.
- The impact that the committee had could not be determined as the committee did not perform investigations or sufficiently documented meetings and discussions during the period as the committee was not full operational.

Status of implementing commitments and recommendations

106. No specific commitments were recorded

SECTION 4: Specific focus areas**Financial viability**

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

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2020	As at 30 June 2019
Expenditure management			
1.1	Creditor-payment period*	770 Days	683 Days
Revenue management			
2.1	Debt-collection period (after impairment) *	119 Days	40 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	62 %	84 %
	• Amount of debt-impairment provision*	R198 830 023	R157 354 013
	• Amount of accounts receivable*	R319 012 080	R187 753 340

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2020	As at 30 June 2019
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	Yes
	• Amount of the surplus / (deficit) for the year	(R110 522 551)	(R59 308 918)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current assets / (liability) position*	(R216 282 499)	(R262 604 620)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position*	R651 372 126	R669 891 677
Cash management			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R42 560 544	R29 491 605
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R26 741 081	R44 094 879
4.3	Creditors as a percentage of cash and cash equivalents	830.6 %	964.8 %
	• Amount of creditors (accounts payable) *	R353 249 760	R284 287 577
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R42 560 544	R29 491 605
4.4	Current liabilities as a percentage of next year's budgeted resources **	200.3 %	167.4 %
	• Amount of current liabilities *	R397 509 674	R344 563 618
	• Amount of next year's budgeted income **	R319 383 000	R213 155 000
Overall assessment			
Overall, the financial viability is assessed as:		Red (unfavourable – intervention required)	Red (unfavourable – intervention required)
<p>* These amounts have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</p> <p>** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on employee costs and remuneration of councillors.</p>			

High-level comments

108. The financial statements indicate that the municipality incurred a net loss of R95 252 073 (2019: R57 797 102) during the year ended 30 June 2020 and, as of that date, the municipality's current liabilities exceeded its current assets by R324 051 097 (2019: R262 603 620). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The municipality is supported by the government, funding will be provided to the municipality to deliver its mandate. The funding is however limited to the appropriated funds and additional funding to promote service delivery through the recovery of service charges are not being implemented by management.
109. Creditor's payment is a concern and needs to be improved. On average, it takes the municipality 770 day (2019: 673 days) to pay its creditors, this indicates, a poorly managed expenditure management policy. This has resulted in the municipality incurring fruitless and wasteful expenditure as suppliers charged the municipality interest for late payment of accounts.
110. The revenue collection of the municipality requires urgent attention and corrective measures should be implemented. The municipality is not exercising fiscal effort in collecting outstanding debts. The municipality created an impairment provision for 87.3% (2019: 84%) of their debtors balance which is indicative of poorly managed credit control policy.

Procurement and contract management

111. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

112. R3 866 111 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root causes of the lack of effective prevention and detection are inadequate monitoring of staff to ensure that they adhere to SCM legislation and internal policies.

Awards to persons in the service of the state

113. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.
114. The findings were as follows:

Nature of finding	Number and value of awards made	Number and positions of officials/councillors identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor or did not declare interest	Official/councillor was involved in awarding the contract/accepting the quotation
Awards to persons in the service of other state institutions	1 R918 130	2	1	0	1	0	0

Procurement processes

115. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Competitive bids		Deviations		Contracts	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	57	46 315 802	35	1 838 163	8	10 883 657	1	550 506	13	33 043 476
Expenditure incurred on selected awards – current year		20 424 250		1 729 262		8 108 959		550 506		10 035 522
Limitations – awards selected but could not be tested	-	-	-	-	-	-	-	-	-	-
Awards on which non-compliance was identified	41	12 162 924	23	1 188 593	7	3 301 800	1	550 506	10	7 122 025
Irregular expenditure identified	31	6 821 170	20	1 188 593	7	3 301 800	0	0	4	2 330 777
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0	0	0	0	0

Procurement processes – general

- 116. Twelve (12) awards to the value of R399 121 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- 117. One contract and one quotation to the value of R1 248 232 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.
- 118. Nine (9) quotations to the value of R330 811 were awarded to bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state.
- 119. Four (4) competitive bids to the value of R2 702 592 were adjudicated by adjudication committees that were not properly constituted.
- 120. Five (5) [contracts and/or quotations] to the value of R426 147 were awarded without applying the preference points system.
- 121. Three (3) quotations were awarded to bidders based on preference points that were not allocated and/or calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Contract management

- 122. The performance of eleven (11) contractors or providers was not monitored monthly. The total value of related contracts was R35 533 076
- 123. Payments amounting to R1 597 637 were made for goods and services that were either not received or were not delivered according to the criteria documented in the contract. This relates to six (6) quotations and one (1) contract

Internal control deficiencies

- 124. The action plan for addressing external findings on SCM is not fully effective and not implemented by the municipality.
- 125. Proper record keeping, together with an effective internal monitoring system, was not in place to ensure that complete, relevant and accurate information is accessible and available to support the procurement processes.
- 126. Council oversight resolutions on SCM have not been substantially implemented in the financial period.
- 127. The plan for addressing internal and external findings on SCM is not fully effective and not implemented by the municipality.
- 128. Controls regarding SCM are in place but not effectively implemented by the municipality.

Fraud and consequence management

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

130. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

Measures to manage consequences

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

- The municipality did not adopt systems (policies) to investigate allegations of misconduct; and disciplinary procedures.
- A disciplinary board was not established to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor.
- There was no hotline or similar process/mechanism for reporting financial misconduct/transgressions that are committed by officials and suppliers of the municipality.
- There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the municipality.

Failure to deal properly with allegations reported in the previous year

132. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised/ irregular/ fruitless and wasteful expenditure

Particulars	Value R
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	328 060 389
Irregular expenditure	

Findings	Value: R
Irregular expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	201 095 498
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	44 929 402

Allegations of financial misconduct, fraud and improper conduct in SCM

Findings	Number of instances
Allegations against officials other than senior managers of municipalities	
Financial misconduct, fraud and other improper conduct were not properly investigated	2
Allegations of [theft/fraud/extortion/forgery] exceeding R100 000 were not reported to the SAPS	2
Confirmed cases of financial misconduct that constituted a crime were not reported to the SAPS	2

Transgressions reported to management for investigation

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

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

Findings	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest	0	0	0	1	R918 130

135. Unauthorised; irregular and fruitless and wasteful expenditure disclosed in note 48 to the financial statements must be investigated to determine whether any official is liable for losses

incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised; irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

136. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. The following matters will be escalated to the council for them to ensure that appropriate steps are taken to address the non-compliance:

- The unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- The irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- The fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Conditional grants

137. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Municipal Infrastructure Grant
- Water Services Infrastructure Grant

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

Finding	Municipal Infrastructure Grant	Water services Infrastructure Grant
The grant was not spent according to the applicable grant framework		
The municipality did not evaluate its performance on programmes funded by the grant		

139. For each of the grants tested as per the table above, we selected initiatives funded by the grant and audited the use of grants for the projects. The audit findings raised on each project are reported in the table below and subsequent sections of the report.

Key initiatives funded by the grant		
Summary of selected key project and result of testing	Details	Details
Name of grant	Municipal Infrastructure Grant	Water Services Infrastructure Grant
Project/initiative funded by the grant	Phillip Soudens streets phase 2	Extension of Sewer Network Phase 3
Audit findings		
Planned completion target for the selected project were not achieved		
Project stage of completion was not assessed		
Project stage of completion assessed by the municipality is incorrect		
Findings on the procurement of goods and services for the project		
Misstatements in the accounting for the expenditure relating to the project		
Payments were made for goods/services not received		
Misstatements in the accounting of funds used through implementing agents		
Process for appointing implementing agents did not comply with legislation		
Implementing agents failed to comply with SCM prescripts when spending the funds		

SECTION 5: Using the work of internal auditors

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

- Internal audit reports have been used for risk assessment purposes only.

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

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

GRAP pronouncement	Effective date
GRAP 18 on <i>Segment reporting</i>	1 April 2020
GRAP 34 on <i>Separate financial statements</i>	1 April 2020
GRAP 35 on <i>Consolidated financial statements</i>	1 April 2020
GRAP 36 on <i>Investments in associates and joint ventures</i>	1 Apr 2020
GRAP 37 on <i>Joint arrangements</i>	1 April 2020
GRAP 38 on <i>Disclosure of interests in other entities</i>	1 April 2020
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
GRAP 110 on <i>Living and non-living resources</i>	1 April 2020
IGRAP 20 on <i>Accounting for adjustments to revenue</i>	1 April 2020
Guideline on <i>Accounting for landfill sites</i>	To be determined
Guideline on <i>Application of materiality to financial statements</i>	Voluntary*
<p>* The guideline was issued in April 2019. The guideline is available for immediate consideration to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the guideline is voluntary, application is encouraged.</p>	

Provision for post-retirement medical aid benefits

141. Medical scheme subsidies for retired employees as a condition of service were not covered in the bargaining council collective agreements. We therefore want to inform the municipality of the *Nel & Groenewald v Gariep Local Municipality et al* Case No 2512/2102 Eastern Cape Division of the High Court of South Africa delivered on 13 June 2014 that may create a legal obligation for the municipality based on the matching arrangement as stipulated in this judgement. Whilst this judgment is binding in the Eastern Cape province only, it will have persuasive authority in the Northern Cape High Court, as this arrangement was in place and applicable when the Eastern Cape province and the Northern Cape province prior to 1994 were part of the greater Province of the Cape of Good Hope, and such matching arrangement are then also be applicable in the successors-in-law. The municipality should assess the impact of the matching arrangement in this judgement on their provision for post-retirement medical aid benefits and where needed adjustments must be made. It is then further recommended that the municipality should ensure that it has a council policy in place that is in

line with the matching arrangement and the council policy should also clearly state if senior managers are eligible for this benefit as they are excluded from the bargaining council collective agreements.

142. As this is a complex legal and technical matter the municipality should get an opportunity to assess the impact of the legal aspects on their provision. The timing of this matter does not allow sufficient time for the municipality to assess the legal impact and make adjustments where needed during the 2019-20 audit. Furthermore, consistent treatment in the province should be ensured and therefore this matter will be followed up during the next audit cycle.

Subsequent events

143. The following subsequent events occurred at the municipality:

- Other

144. The municipality suffered an IT virus to their network on 09 December 2020. This virus resulted in the loss of information on the municipal network and function of key financial systems. As a result the municipality suffered operational losses in revenue generation and collection and will be required incur cost to restore functionality to financial systems and networks.

145. Medical scheme subsidies for retired employees as a condition of service were not covered in the bargaining council collective agreements. We therefore want to inform the municipality of the *Nel & Groenewald v Gariep Local Municipality et al* Case No 2512/2102 Eastern Cape Division of the High Court of South Africa delivered on 13 June 2014 that may create a legal obligation for the municipality based on the matching arrangement as stipulated in this judgement. Whilst this judgment is binding in the Eastern Cape province only, it will have persuasive authority in the Northern Cape High Court, as this arrangement was in place and applicable when the Eastern Cape province and the Northern Cape province prior to 1994 were part of the greater Province of the Cape of Good Hope, and such matching arrangement are then also be applicable in the successors-in-law. The municipality should assess the impact of the matching arrangement in this judgement on their provision for post-retirement medical aid benefits and where needed adjustments must be made. It is then further recommended that the municipality should ensure that it has a council policy in place that is in line with the matching arrangement and the council policy should also clearly state if senior managers are eligible for this benefit as they are excluded from the bargaining council collective agreements

Legislation change

Division of Revenue Act

146. Section 33 of the 2019 DoRA states that expenditure of a municipal allocation contrary to the DoRA is irregular expenditure in terms of the MFMA, except if it results in unauthorised expenditure in terms of the MFMA. Municipalities have been disclosing contraventions with section 17(1) of the 2019 DoRA as irregular expenditure in the 2018-19 and 2019-20 financial

statements however, National Treasury recently indicated that this should have been disclosed as unauthorised expenditure from the 2018-19 year due to a change in DORA during that year. National Treasury agreed that the irregular expenditure treatment should be accepted for the 2019-20 financial year to remain consistent, however they will be issuing guidance in 2021 to municipalities on how to treat non-compliance findings with section 17(1) of the DORA for the 2020-21 financial year going forward.

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

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

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

148. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected objective in this report. However, they may have an impact on the audit opinion in future.

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

SECTION 8: Ratings of detailed audit findings

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

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

- Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

Refer to the separate annexure for detailed findings.

SECTION 9: Conclusion

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

Yours sincerely


Charles Baloyi

Business Executive: Northern Cape Business Unit

31 March 2021

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Distribution:

Audit committee

Head of internal audit unit

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

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.		
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound		
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPI	




Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPi	
3. A target is specific when the nature and required level of performance of the target are clearly identifiable.	Chapter 3.3 of the FMPPi	
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPi	
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPi	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives		
1. The performance indicator and target relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPi	
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance		
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
1. Reported performance occurred and pertains to the reporting entity.		

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
2. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.	Section 45 of the MSA Chapter 5 of the FMPPi	Section 45 of the MSA Chapter 5 of the FMPPi
3. All actual performance that should have been recorded is included in the reported performance information.		




Annexure E: Assessment of internal controls










Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the [annual performance report/ insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.


























































The internal controls were assessed as follows:


















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

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

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and						

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

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information 						
Governance						
Overall movement from previous assessment						
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	