**FINAL MANAGEMENT REPORT**

**Ephraim Mogale Local Municipality**

**30 June 2019**

**Communicated to the accounting officer on: 20 November 2019**

**MANAGEMENT REPORT**

**Ephraim Mogale Local Municipality**

**30 June 2019**

**CONTENT**[**MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF EPHRAIM MOGALE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 June 2019** 6](#_Toc26182570)

[**INTRODUCTION** 6](#_Toc26182571)

[**OVERALL MESSAGE** 9](#_Toc26182572)

[**SECTION 1: Interactions with stakeholders responsible for oversight and governance** 9](#_Toc26182573)

[**SECTION 2: Matters relating to the auditor’s report** 10](#_Toc26182574)

[**AUDIT OF THE FINANCIAL STATEMENTS** 10](#_Toc26182575)

[**MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS** 12](#_Toc26182576)

[Emphasis of matter paragraphs 12](#_Toc26182577)

[**Restatement of corresponding figures** 12](#_Toc26182578)

[**Significant uncertainties** 12](#_Toc26182579)

[Other matter paragraphs 12](#_Toc26182580)

[**Unaudited disclosure notes** 12](#_Toc26182581)

[**Unaudited supplementary schedules** 12](#_Toc26182582)

[**AUDIT OF THE ANNUAL PERFORMANCE REPORT** 12](#_Toc26182583)

[**Introduction and scope** 13](#_Toc26182584)

[**Key Performance Area 2: Basic service delivery and infrastructure development** 13](#_Toc26182585)

[**Other matters** 14](#_Toc26182586)

[Achievement of planned targets 14](#_Toc26182587)

[**Auditor-general’s responsibilities for the reasonable assurance engagement on the reported performance information** 14](#_Toc26182588)

[**AUDIT OF COMPLIANCE WITH LEGISLATION** 15](#_Toc26182589)

[Annual financial statements, performance and annual report 15](#_Toc26182590)

[Consequence management 15](#_Toc26182591)

[Expenditure management 15](#_Toc26182592)

[Procurement and contract management 15](#_Toc26182593)

[**OTHER INFORMATION** 16](#_Toc26182594)

[**INTERNAL CONTROLS** 16](#_Toc26182595)

[**Leadership** 16](#_Toc26182596)

[**Financial and performance management** 17](#_Toc26182597)

[**Governance** 18](#_Toc26182598)

[**Summary** 18](#_Toc26182599)

[**SECTION 3: Assurance providers and status of implementation of commitments and recommendations** 19](#_Toc26182600)

[**ASSESSMENT OF ASSURANCE PROVIDERS** 19](#_Toc26182601)

[**STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS** 21](#_Toc26182602)

[**SECTION 4: Specific focus areas** 21](#_Toc26182603)

[**FINANCIAL VIABILITY** 21](#_Toc26182604)

[**High-level comments** 23](#_Toc26182605)

[**PROCUREMENT AND CONTRACT MANAGEMENT** 23](#_Toc26182606)

[Irregular expenditure 23](#_Toc26182607)

[Awards to persons in the service of the state 23](#_Toc26182608)

[Awards to close family members of persons in the service of the state 24](#_Toc26182609)

[Procurement processes 24](#_Toc26182610)

[Internal control deficiencies 25](#_Toc26182611)

[**FRAUD AND CONSEQUENCE MANAGEMENT** 25](#_Toc26182612)

[Measures to manage consequences 26](#_Toc26182613)

[Failure to properly deal with allegations reported in the prior year 26](#_Toc26182614)

[Irregular and fruitless and wasteful expenditure 26](#_Toc26182615)

[Allegations of financial misconduct, fraud and improper conduct in SCM 26](#_Toc26182616)

[Transgressions reported to management for investigation 26](#_Toc26182617)

[**USE OF CONSULTANTS** 27](#_Toc26182618)

[**PUBLIC PARTICIPATION** 27](#_Toc26182619)

[**CONDITIONAL GRANTS** 28](#_Toc26182620)

[**ROADS INFRASTRUCTURE** 28](#_Toc26182621)

[**SUPPORT TO LOCAL GOVERNMENT** 28](#_Toc26182622)

[**SECTION 5: Using the work of internal auditors** 28](#_Toc26182623)

[**SECTION 6: Emerging risks** 29](#_Toc26182624)

[**Accounting, performance management/reporting and compliance matters** 29](#_Toc26182625)

[New pronouncements 29](#_Toc26182626)

[**Standards of GRAP** 29](#_Toc26182627)

[The ASB has issued the following GRAP pronouncements, with effective dates as indicated 29](#_Toc26182628)

[**Audit findings on matters that may be recognised as material irregularities in future audits** 30](#_Toc26182629)

[4. Although Ephraim Mogale local municicpality was not selected in this first phase of implementation, we highlight the following significant matters which came to our attention during the audit which may be recognised as material irregularities in future when the process is implemented at the municipality. It is reported as audit findings in the annexures to this report. 30](#_Toc26182630)

[Management is encouraged to take appropriate, effective and t 30](#_Toc26182631)

[Timeous action on these matters to prevent any losses, misuse or harm or to recover any losses as a result thereof. Appropriate steps should also be taken against the responsible officials or other parties. 30](#_Toc26182632)

[**Audit findings on the annual performance report that may have an impact on the audit opinion in future** 30](#_Toc26182633)

[**SECTION 7: Ratings of detailed audit findings** 32](#_Toc26182634)

[**SECTION 8: Conclusion** 32](#_Toc26182635)

[**Annexure D: Performance management and reporting framework** 33](#_Toc26182636)

[Annexure D – Criteria developed from the performance management and reporting framework 34](#_Toc26182637)

[**Annexure E: Auditor-general’s responsibility for the audit of the reported performance information** 36](#_Toc26182638)

[QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS 36](#_Toc26182639)

[REPORTED PERFORMANCE INFORMATION 36](#_Toc26182640)

[COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE 37](#_Toc26182641)

[**Annexure F: Assessment of internal controls** 38](#_Toc26182642)

**MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF EPHRAIM MOGALE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 June 2019**

**INTRODUCTION**

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and 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 2019.
2. These findings were communicated to management and the 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 key performance area, 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, 2004 (Act No. 25 of 2004) (PAA).
* notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor’s report.

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

1. 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.
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 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.
3. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.
4. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to sustain the audit outcomes with the focus on the following:

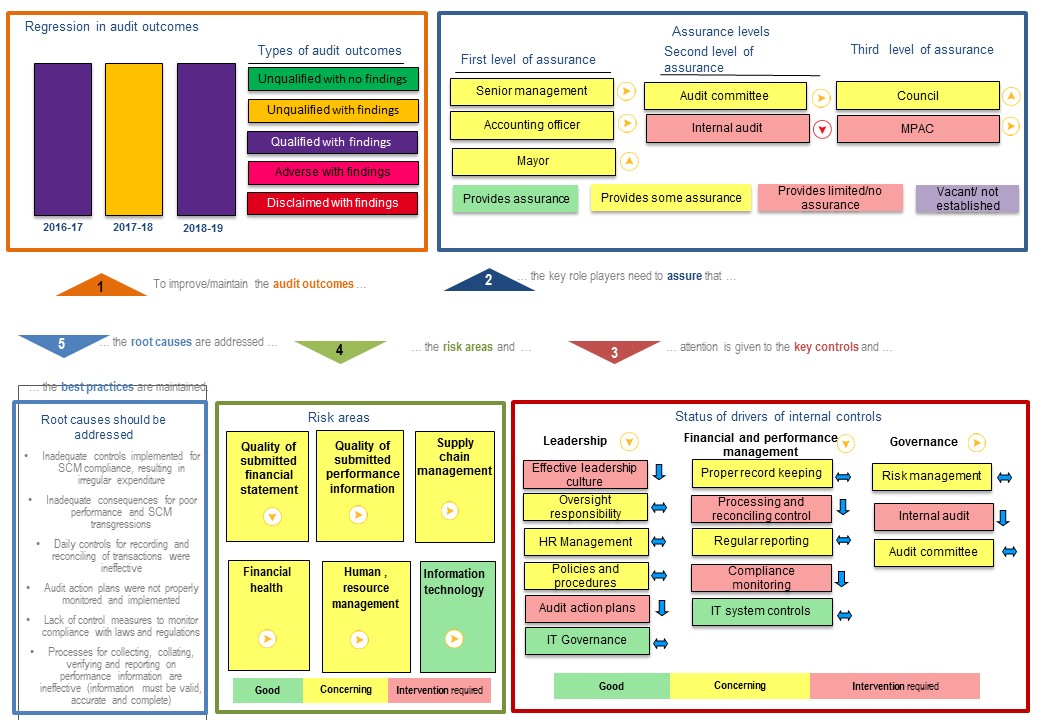
* Status of the audit outcomes
* Status of the level of assurance provided by key role players
* Status of the drivers of internal controls
* Status of risk areas
* Root causes to be addressed

Movement from the previous year is depicted as follows:

 / Improved

 / Unchanged / slight improvement / slight regression

 / Regressed



**OVERALL MESSAGE**

1. The municipality’s audit outcome regressed to qualified audit opinion on financial statements, with findings on compliance matters and annual performance report.
2. The number of findings decreased compared to the prior year, however uncorrected material findings were identified that resulted in the regression of opinion. The internal control deficiencies and key riskareas are still a concern as reflected on in the above graph.
3. There must be strict monitoring of compliance with supply chain management laws and regulations; and the annual performance report and financial statements must be properly reviewed.
4. Management is further encouraged to develop, implement and monitor action plans that have specific actions to deal the actual the root causes identified

**SECTION 1: Interactions with stakeholders responsible for oversight and governance**

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

| **Key stakeholder** | **Purpose of interaction** | **Number of interactions** |
| --- | --- | --- |
| Mayor | Fraud risk assessment  Streering committee meeting  Status of record review | 3 |
| Audit committee | Fraud risk assessment  Audi strategy and engagement letter  Audit streering committee meeting | 3 |
| Municipal Manager | Fraud risk assessment  Audit steering committee meeting  Status of records review | 6 |

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

* Monitoring of action plan
* The quality of the annual financial statements and annual performance report submitted for audit.
* Findings raised during the cause of the 2018-19 audit.
* Inadequate work performed by internal audit devision

1. Some stakeholders made commitments to implement initiatives that can maintain the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

**SECTION 2: Matters relating to the auditor’s report**

**AUDIT OF THE FINANCIAL STATEMENTS**

1. 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,, 2003 (Act No. 56 of 2003) (MFMA).
2. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

| **Material misstatement** | | | **Impact**  **R**  current year | **Impact**  **R**  previous year |
| --- | --- | --- | --- | --- |
| **Financial statement item** | **Finding** | **Occurred in prior year** |
| **Material misstatements not corrected** | | | | |
| **Disclosure** |  |  |  |  |
| Commitments | Completeness of commitments | No | Undetermined | 0 |
| **Material misstatements corrected** | | | | |
| **Current assets** |  | No |  |  |
| Cash and cash | Overstatement of the note | No | 84 076 833 | 0 |
| **Non-current assets** |  | No |  |  |
| WIP | Incorrect classification of WIP additions | No | 3 742 872 | 0 |
| PPE | Assets depreciated after useful life lapsed | No | 42 554 560 | 0 |
| PPE | Opening balance of accumualated depreciation is misstated | Yes | 0 | 17 024 132 |
| **Current Liabilities** |  | No |  |  |
| Trade payables | Limitation of scope | No | 979 128 | 0 |
| **Expenditure** |  | No |  |  |
| Employee Cost | Allowances not given to qualifying employees | No | 1 915 009 | 0 |
| **Disclosure** |  | No |  |  |
| Contingent Assets | Incorrect classification | Yes | 0 | 36 000 000 |
| Irregular Expenditure | Completeness of Irregular Expenditure | No | 3 999 246 | 2 898 850 |

**MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS**

Key audit matters

Emphasis of matter paragraphs

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

**Restatement of corresponding figures**

1. As disclosed in note 48 to the financial statements, the corresponding figures for

30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

**Significant uncertainties**

1. With reference to note 39 to the financial statements, the municipality is the defendant in a a number of legal claims involving companies and individuals. The municipality is opposing the claims, as it believes that is has reasonable grounds to defend the claims. 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.

**Material losses due to impairment**

1. As disclosed in note 30 to the financial statemets, material losses of R12 472 193 (2018: R20 840 867) was incurred as a result of a write-off of irrecoverable trade debtors.

Other matter paragraphs

1. 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**

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

**Unaudited supplementary schedules**

1. 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**

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

**Introduction and scope**

1. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019 :

|  |  |  |  |
| --- | --- | --- | --- |
| **Key Performance Area** | **Pages in annual performance report** | **Opinion** | **Movement[[1]](#endnote-2)** |
| KPA 2: Basic service delivery and infrastructure development | x – x | Qualified |  |

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

**Key Performance Area 2: Basic service delivery and infrastructure development**

**Qualified opinion**

1. In our opinion, except for the effects of the matters described in the basis for qualified opinion section of our report,the reported performance information for KPA 2: basic service delivery and infrastructure development is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

**Basis for Qualified opinion**

**Various indicators:**

1. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

|  |  |  |
| --- | --- | --- |
| **Indicator description** | **Reported achievement** | **Audited Value** |
| Kilometers of road to be upgraded by June 2019 (Ngwalemong internal streets) | 0.5km | 3.3km |
| Kilometers of road to be upgraded by June 2019 (upgrading of Letebejane & Ditholong internal road) | 0.5km | 2.8km |
| Number of quarterly local aids council meetings scheduled and held by June 2019 | 2 | 1 |
| # of streetlights fittings inspected by June 2019 | 1 056 | 5 755 |
| # of mastlights fittings inspected by June 2019 | 528 | 2349 |

**Various indicators:**

1. We were unable to obtain sufficient appropriate audit evidence to support the reported achievement against the planned target. This was due to inadequate formal standard operating procedures and a proper performance management system that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the indicator by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievements reported in the annual performance report.

|  |  |
| --- | --- |
| **Indicator description** | **Reported achievement** |
| % of households with access to a minimum level of basic waste removal by June 2019(once a week) | 15.5% |
| Number of households with access to a minimum level of basic waste removal by June 2019 (once per week | 6 369 |

**Other matters**

1. We draw attention to the matters below. Our opinion/s are not modified in respect of these matters.

Achievement of planned targets

1. 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 qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.

**Responsibilities of the accounting officer for the reported performance information**

1. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as 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**

1. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected key performance area presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
2. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
3. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

**AUDIT OF COMPLIANCE WITH LEGISLATION**

1. 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 and annual report

1. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion

Consequence management

1. Some of the losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).
2. Some of 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.
3. Allegations of fraud which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of PRECCA.

Expenditure management

1. Reasonable steps were not taken to prevent irregular expenditure amounting to R5 275 078 as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d)  of the MFMA. The majority of the irregular expenditure was caused by deviation from following normal supply chain processes.
2. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R114 365, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by payments not done within 30 days.

Procurement and contract management

1. A construction contract were awarded to the contractor that were not registered with the CIDB and/or did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) (CIDB Act) and CIDB regulations 17 and 25(7A).
2. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
3. SCM officials whose associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).
4. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

**OTHER INFORMATION**

1. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee’s report . The other information does not include the financial statements, the auditor’s report and those selected key performance area presented in the annual performance report that have been specifically reported in the auditor’s report.
2. 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 thereon.
3. 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 key performace area presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
4. The following paragraphs will be included in the auditor’s report to highlight to the users whether any inconsistencies in the other information exist:

**INTERNAL CONTROLS**

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

**Leadership**

**Oversight responsibility**

1. As the accounting officer did not adequately review the financial statements and the annual performance report before submitting them for auditing, this resulted in material adjustements to the financial statement and the performance report.

**Human resource management**

1. We have identified the following shortcomings in human resource management relating to appointments and payments of salaries:

*Appointment processes*

* The municipality appointed employees who where not recommended by the panel for appointment

*Management of vacancies*

* Management vacancies rate at year end decreased from 33% in the previous year to 17% in the current year.

**Policies and procedures**

1. The municipality has approved policies and procedures, however there are no standard operating procedures for a performance management systems and sufficient monitoring controls to ensure adherence to the internal policies and procedures for purposes of taking corrective and preventing irregular and fruitless and wasteful expenditure.
2. The municipality did not have documented and approved internal policies and procedures to address the process of collecting performance information.

**Action plans to address internal control deficiencies**

1. The municiplaity 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.

**Financial and performance management**

**Proper record keeping**

1. The municipality did not have a proper record management system to maintain information that supported the submitted annual financial statements. This included information that related to the verification a00nd reporting of balances in the financial statements.

* There were delays in submission of information from the municipality which also resulted in limitation of scope
* There were some journals which were passed without supporting documentation

1. The municipality does not have adequate skills in the finance unit resulting in over reliance on external consultants for financial reporting functions

**Daily and monthly processing and reconciling of transactions**

1. Management did not implement the following daily and monthly controls designed for the municipalitie’s business processes:

* Reconcilling items for the monthly bank reconcilliations where not timely reconciled
* Adequate review of the implementation of the changes in accounting estimates such as changes in the usefull life of assets

**Regular, accurate and complete financial and performance reports**

1. As indicated in section 2.1, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

**Compliance monitoring**

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

**Governance**

**Risk management activities and risk strategy**

1. The municipality’s risk management strategy/process was inadequate as it could not prevent the large number of internal control deficiencies that were identified.

**Internal audit**

1. We are concerned about the following matters regarding the effectiveness of the internal audit unit, which require attention:

* The internal auditors were not technically competent, as they had only limited experience and training as auditors
* Due to the lack of an effective methodology and non-adherence to standards on internal auditing, internal audit work was not undertaken with due professional care.
* The internal audit unit did not review internal control and provide recommendations for addressing deficiencies.
* The internal audit unit did not review supply chain management.
* The internal audit unit did not review compliance with legislation.
* The internal audit unit did not follow up the implementation of internal and external audit recommendations to address audit findings.

**Audit committee**

1. Due to inaccurate and unreliable financial and performance reports that were submitted by the municipality, the audit committee could not perform some of its oversight functions effectively.

**Summary**

1. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor’s report.

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

**ASSESSMENT OF ASSURANCE PROVIDERS**

1. 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.
2. 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.
3. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

**First level of assurance**

Senior management: provides some assurance

1. The senior management is responsible for the development and implementation of internal controls of the municipality so that monthly, quarterly, annual financial statements and performance information can be relied upon. However there were control deficiencies that were identified as a result of controls not being well designed and others not implemented. The deficiencies also resulted in numerous material misstatememts and non-complinace with legislation.
2. Standard operating procedures has not been developed for performance onfirmation which resulted in similar misstatements identified with performance information.

Accounting officer: provides some assurance

1. The accounting officer is suspended and for the year under review we interacted with acting encumbants in the position of accounting officer. We have had interactions with the accounting officers and where information and clarity was required we were responded to.
2. Responsibilities were not adequately exercised as numerous non-compliance and misstatements in the financial statement and performance report were identified. Control deficiencies that were identified by the external auditors were not resolved timely.
3. Standard operating procedures has not been developed for performance confirmation which resulted in similar misstatements identified with performance information.

Mayor: provides some assurance

1. The mayor has shown interest in the audit process and has also met with the audit team. The recommendations made during the year, did not prevent the occurance of misstatementsin the financial statements, performance information and compliance with laws and regulations.

**Second level of assurance**

Internal audit unit: provides limited assurance

1. Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality’s governance, risk management and internal control processes.
2. 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.
3. The municipality did not conduct an external quality assurance assessment of the internal audit function for the past five years which questions if audit work was performed with due care. The approved annual plan of the internal audit was not completed at year end, due to a lack of capacity within the internal audit unit.

Audit committee: provides some assurance

1. 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.
2. 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.
3. The audit committee has performed its oversight responsibility as they met with the municipality during the financial year. The committee also met the external auditors and had a respresentive in the streeting committee meetings. to the annual financial statements were reviewed, howver material misstatements were still identified on the financial statements, performance information and compliance with relevant laws and regulations.

**Third level of assurance**

Municipal council: provides some assurance

1. The municipal council met frequently during the year and made resolutions affecting the affairs of the municipality incuding approval of policies
2. The municipal council was able to refer all cases of irregular, fruitless and wasteful expenditure to MPAC for investigation.
3. Municipal council has also performed its oversight during the audit with attendace and inputs on audit matters
4. The municipality still incurred irregular, fruitless and wasteful expenditure in the current year, even though MPAC did not find anyone liable and the expenditure was written off as irrecoverable.

Municipal public account committee (MPAC): provides limited assurance

1. MPAC investigated all prior year’s irregular and fruitless and wasteful exoenditure and did not find anyone liable and recommended all irregular expenditure to be written off. Some instances of irregular expenditure where written off without an investigation.
2. The municipality still incurred irregular, fruitless and wasteful expenditure in the current year, even though MPAC did not find anyone liable and the expenditure was written off as irrecoverable.

**STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS**

1. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years’ audit findings.
2. Management accepted 111 audit recommendations in the previous year on matters included in the auditor’s report and other important matters were implemented, or alternative actions were taken to resolve the finding.
3. There are 93 recommendations that are still being implemented and 18 have not yet been addressed.

**SECTION 4: Specific focus areas**

**FINANCIAL VIABILITY**

1. 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 2019** | **AS AT 30 JUNE 2018** |
| **EXPENDITURE MANAGEMENT** | | | |
| 1.1 | Creditor-payment period | **47.1Days** | **27.7 Days** |
| **REVENUE MANAGEMENT** | | | |
| 2.1 | Debtor-collection period (after impairment) | **172.2 Days** | **151.1 Days** |
| 2.2 | Debtors impairment provision as a percentage of accounts receivable | **56.7%** | **56.7%** |
| * Amount of debtors impairment provision * Amount of accounts receivable | **R71 068 452**  **R125 305 577** | **R58 596 259**  **R103 360 574** |
| **ASSET AND LIABILITY MANAGEMENT** | | | |
| 3.1 | A deficit for the year was realised (total expenditure exceeded total revenue) | **No** | **Yes** |
| * Amount of the surplus / (deficit) for the year | **R32 568 638** | **(R64 486 822)** |
| 3.2 | A net current liability position was realised (total current liabilities exceeded total current assets) | **No** | **No** |
| * Amount of the net current assets / (liability) position | **R160 536 839** | **R78 867 722** |
| 3.3 | A net liability position was realised (total liabilities exceeded total assets) | **No** | **No** |
| * Amount of the net asset / (liability) position | **R956 265 746** | **R923 688 553** |
| **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) | **R107 550 221** | **R68 645 417** |
| 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 | **R72 880 974** | **R76 859 246** |
| 4.3 | Creditors as a percentage of cash and cash equivalents | **11.80 %** | **10.3 %** |
| * Amount of creditors (accounts payable) * Amount of cash and cash equivalents / (bank overdraft) at year-end | **R12 692 806**  **R107 550 221** | **R7 054 423**  **R68 645 417** |
| 4.4 | Current liabilities as a percentage of next year’s budgeted resources \*\* | **10.7 %** | **9.9%** |
| * Amount of current liabilities * Amount of next year’s budgeted income \*\* | **R40 329 274**  **R375 935 300** | **R35 296 575**  **R355 707 085** |
| **OVERALL ASSESSMENT** | | | |
| Overall the financial viability is assessed as: | | **Yellow (Concerning)** | **Yellow (Concerning)** |
| *\*\* This amount excludes the portion of next year’s budgeted resources that is budgeted to be spent on “employee costs” and "remuneration of councillors”.* | | | |

**High-level comments**

1. The municipality needs to effectively implement and improve the controls over debt collection to enhance its cash flows from operating activities. The municipality’s debt collection period stands at 172 days. Improved debt collection will generate much needed funds to settle creditors.
2. Although at year end the municipality had a positive bank balance, on average it takes 47 days for municipality to pay its creditors.
3. The municipality will still be able to pay off all creditors with the current status of its bank account, and will be able to deliver services.
4. Based on the assessment made by management and external auditors, the going concern assumption is still applicable for the municipality, regardless of the concerning overall assessment on financial viability.

**PROCUREMENT AND CONTRACT MANAGEMENT**

1. 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

1. The municipality incurred irregular expenditure of R7 762 542 (100%) in the current financial year as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years, amounting to R2 898 850, was also identified in the current year. Most (81%) (2018: 100%) of the irregular expenditure relating to the previous year was identified during the audit process and not detected by the municipality’s monitoring processes. The root causes of the lack of effective prevention and detection are inadequate skills and capacity in the SCM unit and the supply policy is not in line with SCM regulations.

Awards to persons in the service of the state

1. 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.
2. The findings were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Finding** | **Number and value of awards made** | **Number and positions of official/ councillor identified** | **Number of suppliers identified** | **Further non-compliance or irregularities regarding the awards** | | | |
| **Supplier did not submit declarations of interest** | **Supplier did not declare interest (false declaration)** | **Official/ councillor did not declare interest** | **Official/ councillor was involved in awarding the contract/ quotation** |
| Awards to persons in the service of other state institutions | 9 Awards to the value  Of  R150 083 | 9 Intern, Departmental head, Teacher, Junior Programme Manager, EPWP Practitioner, Professional Nurse: Intg Ext PHC & S/Abu, SHEQ Manager | 9 | 2 | 7 |  |  |

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

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

    The findings were as follows:

* One of the awards to close family members, amounting to R158 235, was not disclosed in the financial statements.
* Two awards amounting to R36 000  were made to two  providers in which partners or associates of the municipal officials had an interest, submitted the declaration but did not declare the interest.

Procurement processes

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Total | | Quotations | | Contracts | |
| Number | Value *R* | Number | Value *R* | Number | Value *R* |
| **Awards selected for testing** | *41* | *55 644 863* | *21* | *R1 889 861* | *20* | *53 755 002* |
| **Expenditure incurred on selected awards – current year** |  | *12 251 559* |  | *1 097 057* |  | *11 154 502* |
| **Awards on which non-compliance was identified** | *7* | *10 227 479* | *1* | *158 235* | *6* | *10 069 244* |
| **Irregular expenditure identified** | *5* | *4 344 856* | *0* | *0* | *5* | *4 344 856* |

*Procurement processes – general*

1. Two (2) contracts with a value of R620 985 were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
2. One (1) contract was awarded to bidders based on preference points that were not allocated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.
3. Nine (9) quotations with a value of R150 083 were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state

*Construction contracts*

1. One construction contract with a total value of R633 724 was awarded to contractors who were not registered with the CIDB.

Internal control deficiencies

1. The SCM policy of the municipalidy is not in line with the municipal supply chain regulation number 12(1)(b). In addition, poor planning by SCM personnel led to shortcomings in the SCM processes

**FRAUD AND CONSEQUENCE MANAGEMENT**

1. 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 to issue 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.
2. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/ non-compliance due to fraud.

* Petrol card transaction of fuel that could not be verified because there are no controls on the system for refilling fuel.

1. 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

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

* The disciplinary board was not properly constituted in accordance with the provisions of the financial misconduct regulations.

Failure to properly deal with allegations reported in the prior year

1. 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.

Irregular and fruitless and wasteful expenditure

| Finding | Value *R* |
| --- | --- |
| **Irregular expenditure** |  |
| Irregular expenditure was not properly investigated | 241 288 |
| Council’s decision to certify irregular expenditure as irrecoverable was not based on the results of an investigation | 1 582 589 |
| **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 | 197 325 |

Allegations of financial misconduct, fraud and improper conduct in SCM

| Finding | Number of instances |
| --- | --- |
| **Allegations against other officials other than senior managers of municipalities** | |
| Allegations of theft/fraud/extortion/forgery exceeding R100 000 were not reported to the SAPS | 1 |

Transgressions reported to management for investigation

1. 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.
2. 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 raised in the previous year | | | Findings reported in current year | |
| --- | --- | --- | --- | --- | --- |
| Finding | 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 who did not declare interest of their connections with employees in their declaration of interest for awards | 16 | 0 | 0 | 9 | 150 083 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **B: Improper conduct in SCM by officials / role players** |  |  |  |  |  |
| Official failed to disclose their own interest or that of close family members, partners or associates | 0 | 0 | 0 | 2 | 36 000 |

1. Irregular and fruitless and wasteful expenditure disclosed in note 44 and 45 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 irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

**USE OF CONSULTANTS**

1. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.
2. The total expenditure on consultants was R4 303 451.
3. A summary of the significant findings from the audit is as follows:

**Performance management and monitoring**

* Material findings were raised by the auditors on the work performed by the consultant or in areas of the consultants’ responsibilities. Some of the misstatements were subsequently corrected.

**PUBLIC PARTICIPATION**

1. As part of the audit of predetermined objectives we audit compliance with the provisions of the MSA relevant to community participation.

No findings were raised.

**CONDITIONAL GRANTS**

1. 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:
2. Municipal Insfrastructure Grant

No material findings were identified

**ROADS INFRASTRUCTURE**

1. The audit included an assessment of the roads infrastructure service delivery objective. Procedures were performed in relation to the following:

* Performance planning and reporting on roads infrastructure
* Planning for renewal and routine roads maintenance projects
* Planning for new or refurbished roads infrastructure projects
* Follow-up on the previous year’s findings
* Key roads infrastructure projects

Roads infrastructure projects

1. The audit also included an understanding of planning, project management and commissioning of key roads infrastructure projects undertaken at the municipality. This included testing the timelines, spending against budget, compliance with procurement processes, appropriate recording of transactions in the financial statements and the quality of the goods and services delivered.

* No findings were identified

**SUPPORT TO LOCAL GOVERNMENT**

1. The audit included an assessment of the support provided to local government by relevant national and provincial departments. A summary of the significant findings from the audit are as follows:

* No findings were identified

**SECTION 5:** **Using the work of internal auditors**

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

* Administration efficiency
* Quaterly performance information
* Labour relations

1. We have determined that the work performed by the internal auditors will be used for risk identification. However, it will not be possible to use their work for the purposes of modifying the nature and timing or reducing the extent of our audit procedures as the internal audit plan does not include any matters of relevance to the external audit.

**SECTION 6: Emerging risks**

**Accounting, performance management/reporting and compliance matters**

New pronouncements

**Standards of GRAP**

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

| The ASB has issued the following GRAP pronouncements, with effective dates as indicated:**GRAP pronouncement** | **Effective date** |
| --- | --- |
| GRAP 18 - *Segment reporting* | 1 April 2020 |
| GRAP 20 - *Related-party disclosures* | 1 April 2019 |
| GRAP 32 *- Service concession arrangements: grantor* | 1 April 2019 |
| GRAP 34 - *Separate financial statements* | 1 April 2020 |
| GRAP 35 *- Consolidated financial statements* | 1 April 2020 |
| GRAP 36 *- Investments in associates and joint ventures* | 1 April 2020 |
| GRAP 37 *- Joint arrangements* | 1 April 2020 |
| GRAP 38 *- Disclosure of interests in other entities* | 1 April 2020 |
| GRAP 104 - *Financial instruments* (Revised April 2019) | To be determined |
| GRAP 108 - *Statutory receivables* | 1 April 2019 |
| GRAP 109 *- Accounting by principals and agents* | 1 April 2019 |
| GRAP 110 *- Living and non-living resources* | 1 April 2020 |
| IGRAP 1 *Applying the probability test on initial recognition revenue* (amendments) | 1 April 2020 |
| IGRAP 17 *- Service concession arrangements where a grantor controls a significant residual interest in an asset* | 1 April 2019 |
| IGRAP 18 *- Recognition and derecognition of land* | 1 April 2019 |
| IGRAP 19 *- Liabilities to pay levies* | 1 April 2019 |
| IGRAP 20 *Accounting for adjustments to revenue* | 1 April 2020 |
| Guideline *Accounting for arrangements undertaken in terms of the national housing programme* | 1 April 2019 |
| Guideline *Accounting for landfill sites* | To be determined |
| Guideline *The application of materiality to financial statements* | Voluntary\* |
| \* The Guideline on *The application of materiality to financial statements* 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. | |

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

1. The amendments to the PAA and the Material Irregularities Regulations issued in terms of the PAA became effective on 1 April 2019.
2. The amendments introduce the concept of a material irregularity. As per the definition in the PAA, a material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
3. The AG has a statutory discretion to determine the manner of, and time frames within which to implement certain elements of the amendments. For the 2018-19 audits, the AG opted to apply a phased approach to the handling of material irregularities, which includes implementing the process only at selected auditees.
4. Although Ephraim Mogale local municicpality was not selected in this first phase of implementation, we highlight the following significant matters which came to our attention during the audit which may be recognised as material irregularities in future when the process is implemented at the municipality. It is reported as audit findings in the annexures to this report.

**Fuel and oil**

Misuse of municipaity’s petrol card for possible refuelling of personal cars

Management is encouraged to take appropriate, effective and t

Timeous action on these matters to prevent any losses, misuse or harm or to recover any losses as a result thereof. Appropriate steps should also be taken against the responsible officials or other parties.

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

1. The planned and reported performance information of selected key performance area 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 mandate of the auditee, including:
* 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

1. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected key performance area in this report. However, it may impact on the audit opinion in future.
2. No material findings were identified in respect of the additional criteria.

**SECTION 7: Ratings of detailed audit findings**

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

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

**SECTION 8: Conclusion**

1. 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 remains 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 faithfully

Nthanyiseni Dhumazi

Business Executive: Limpopo Business Unit

30 November 2019

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**Distribution:**

Audit committee

Head of internal audit unit

Executive authority

**Annexure D: Performance management and reporting framework**

The Performance Management and Reporting Framework (PMRF) consists of the following:

* Legislation applicable to performance planning, management and reporting, which includes the following:
  + MFMA
  + Municipal Systems Act, 2000 (MSA)
  + Regulations for planning and performance management, 2001, issued in terms of the MSA.
  + Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
* The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury (NT). This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
* Circulars and guidance issued by the NT regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

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

| **Criteria** | **References to PMRF per institution** | |
| --- | --- | --- |
| **Municipalities** | **Municipal Entities** |
| ***Consistency: 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  Section41 (a) - (c) & 46 of the MSA | Section 121(4)(d) of the MFMA |
| 1. Changes to strategic or development objectives are approved | Section25(2) of the MSA | Section54(1)(c) of the MFMA |
| 1. Reported indicators are consistent or complete when compared to planned indicators | Section 121(3)(f) of the MFMA  Section41 (a) - (c) & 46 of the MSA | Section121(4)(d) of the MFMA |
| 1. Changes to indicators are approved | Section 25(2) of the MSA | Section54(1)( c) of the MFMA |
| 1. Reported targets are consistent or complete compared to planned targets | Section 121(3)(f) of the MFMA  Section41 (a) - (c) & 46 of the MSA | Section 121(4)(d) of the MFMA |
| 1. Changes to targets are approved | Section25(2) of the MSA | Section 54(1)( c) of the MFMA |
| 1. 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 | |
| 1. 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 | |
| 1. A target is specific when the nature and required level of performance of the target is clearly identifiable. | Chapter 3.3 of the FMPPI | |
| 1. A target is measurable when the required performance can be measured. | Chapter 3.3 of the FMPPI | |
| 1. 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 relates 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 are 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 |
| 1. Measures taken to improve performance are disclosed in the annual performance report | Section 46 of the MSA | Section 46 of the MSA |
| 1. 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. | Section 45 of the MSA  Chapter 5 of the FMPPI | Section 45 of the MSA  Chapter 5 of the FMPPI |
| 1. Amounts, numbers and other data relating to reported performance is recorded and reported correctly. |
| 1. All actual performance that should have been recorded is included in the reported performance information. |

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

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected key performance area.
2. We are 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 our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

### QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

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

### REPORTED PERFORMANCE INFORMATION

1. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor’s report, we also:

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

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

1. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

**Annexure F: Assessment of internal controls**

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

1. [↑](#endnote-ref-2)