

# SCOPA BRIEFING NOTE



MFMA audit outcomes of the 2017-18 financial year

Mamusa Local Municipality

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## Introduction

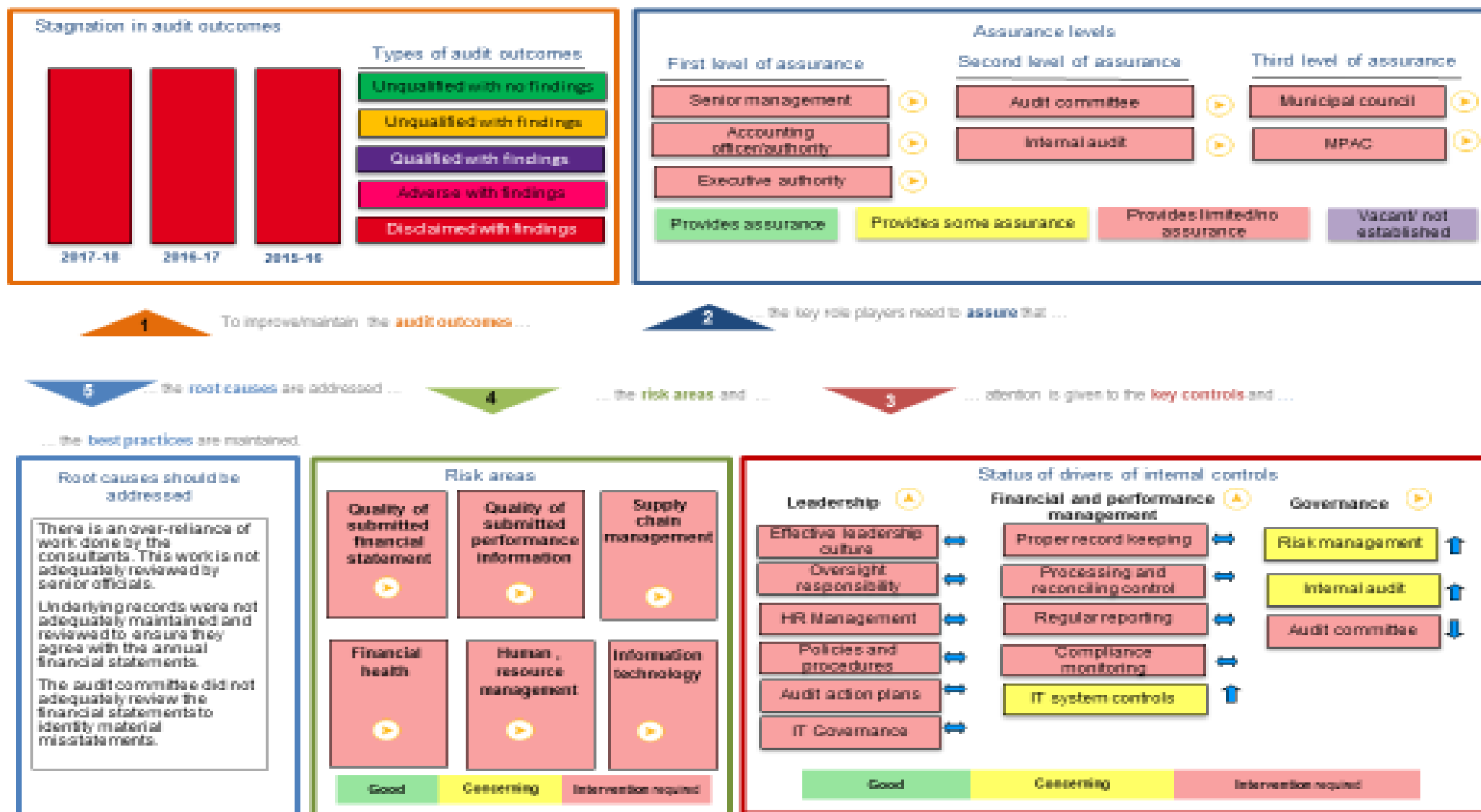
The purpose of this report is to provide the Standing Committee on Public Accounts (SCOPA) with an overview of the audit outcomes and internal control deficiencies that have prevented the municipality from attaining the desired audit outcome, i.e. financially unqualified with no material findings on legislation and predetermined objectives (also known as a 'clean audit outcome'). Below is the summary of the 2017-18 audit outcomes and the status of material findings reported under predetermined objectives and compliance with legislations.

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



## Overall audit outcome graphic



## Overall Message

1. The audit opinion relating to the annual financial statements remained stagnant from the previous year as a disclaimer of opinion. The stagnation is due to the continued lack of proper record keeping, which resulted in the Auditor-General being unable to conclude on a significant number of financial statements' line items. Over and above the lack of supporting documentation, there was also a lack of review by management of the municipality and incorrect application of accounting standards. Many of the findings are similar as in the prior year with additional issues identified relating to SCM and contract management.
2. The key contributors for the disclaimer of opinion were:
  - Sustainable systems, proper record keeping, daily and monthly systems for recording, processing, reconciling and reporting of transactions and balances were not established or performed during the year. This resulted in numerous basic accounting and numerical errors that could have been prevented had due care been exercised and therefore hampering the quality of the financial statements.
  - Non-compliance with legislation remains a major concern and municipality is unlikely to improve the audit outcomes if the root causes for material non-compliance findings are not addressed. Various repeat findings were identified relating to poor quality of financial statements submitted, lack of systems for expenditure management, asset management, human resources management, procurement and contract management and performance information.
  - There is a lack of actions taken and consequences management implemented for poor performance or transgressions committed by officials at the municipality relating to unauthorized, fruitless and wasteful expenditure which was incurred in the prior years. The assessment of the root cause for non-compliance with laws and regulations further indicates that there is a lack of review and monitoring by senior management, a lack of oversight from leadership and no regards for compliance with laws by officials of the municipality.



### Audit opinion history

	Clean audit opinion: Financially unqualified opinion with no findings on PDO and compliance
	Financially unqualified opinion with findings on PDO and compliance
	Qualified audit opinion (with findings)
	Disclaimed/adverse audit opinion

DESCRIPTION	Movement	17-18	16-17	15-16
<b>Audit opinions</b>				
Disclaimer audit opinion (with findings)	●➤			
<b>Predetermined objectives(PDO's)</b>				
Development priority 2 – Basic Service Delivery	●➤			

## Summary of qualification areas, root causes and recommendations

### Financial Statement qualification areas

#### 1) Property, Plant and Equipment (PPE)

Finding	Root cause	Recommendation
<p>Various adjustments were made to the opening balance of PPE. These adjustments were material. Limitations were experienced on the adjustments:</p> <ul style="list-style-type: none"> <li>- For certain adjustments the municipality was unable to provide a listing to enable an audit of a sample. This is to determine whether valid adjustments were done accurately (the transactions did take place and was recorded in the correct period and at the correct amounts)</li> <li>- For other adjustments the auditee was unable to explain the logic for the adjustments. This is in order for the auditor to determine whether the adjustment was necessary (valid).</li> <li>- The municipality could also not provide a reconciliation between what the balances were before and what they are now and providing the logic (valid adjustments) and audit evidence (occurrence and accuracy) for the movement/adjustment.</li> <li>- Certain corrections on the prior period balances were seemingly done incorrectly. This is based on the fact that the municipality wanted to do further corrections on these prior period corrections.</li> <li>- In many instances these adjustments were not adequately disclosed to explain to the users of</li> </ul>	<ul style="list-style-type: none"> <li>• There is a lack of review of the work done by the consultants.</li> <li>• There is a lack of understanding of the audit evidence that must be compiled and filed in order to substantiate adjustments. The audit file submitted for audit was inadequate as far as the adjustments were concerned.</li> <li>• The daily, monthly and quarterly controls were not performed adequately. This includes regular reconciliations.</li> <li>• There is an overreliance on the consultants.</li> </ul>	<ul style="list-style-type: none"> <li>• Extra care should be taken to ensure that the adjustments are necessary, substantiated with adequate registers and lists, that the supporting documentation is separately filed and that these adjustments can be explained and substantiated by the municipal officials responsible for asset management.</li> <li>• A separate audit file must be maintained containing the above information.</li> </ul>



Finding	Root cause	Recommendation
<p>the financial statements the adjustments made and the reason for that</p> <ul style="list-style-type: none"> <li>Lastly, as these adjustment were material and they also affected the closing balances, the material limitation is therefor also on the closing balance of PPE.</li> </ul>		

## 2) Consumer Debtors

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality could not provide adequate audit evidence to substantiate the existence of debtors.</li> <li>The method used to impair consumer debtors does not comply with the accounting standards.</li> <li>The municipality has lumped together all debtors in certain category (E.g domestic, business, etc) and impaired them using a single rate. They have not taken into account the fact that certain debtors pay and others don't and they therefore pose different risk which must be treated differently and impaired differently. As an example, business debtors have not been impaired (0% impairment). Certain business debtors are paying and others are not. At the very minimum, those that are not paying must be impaired. However, they are not impaired at all. There is also no evidence that an exercise was done to identify paying and non-paying debtors. Neither is there evidence that an</li> </ul>	<ul style="list-style-type: none"> <li>The controls in place to manage the debtor's book are inadequate.</li> <li>The municipality is also unable to determine whether those debtors' balances exist.</li> <li>There is no evidence debt collection action has been put in place or implemented to try and recover debtors. This exercise may have provided evidence of existence of debtors.</li> <li>Impairment: there is a lack of understanding of what is required in terms of the accounting standards.</li> <li>There is also a lack of understanding of the debtors of the municipality and their risk profile.</li> <li>The impairment and valuation of debtors is left as exercise that must be done at</li> </ul>	<ul style="list-style-type: none"> <li>The debt collection policy must be strictly implemented.</li> <li>The indigent's debtor policy must also be fully implemented to assist debtors who cannot pay.</li> <li>Active steps must then taken against the debtors who do not qualify for indigent subsidies and that do not pay.</li> <li>Debtors must sign acknowledgement of debt during the year and their details updated to ensure the correct details are captured.</li> <li>The risk of each debtor must be taken into account when assessing the debtors for impairment. The municipality does have adequate information at its disposal such as the payment behaviour of each debtor. Taking legal action against non-paying debtors will gather further information to be used in the assessment of debtors for impairment.</li> </ul>





Finding	Root cause	Recommendation
exercise was done to assess the risk of debtors, for example, the 100 biggest debtors' risk and then impairing them based on the risk assessment.	<p>year-end which is not correct.</p> <ul style="list-style-type: none"> <li>The risk of debtors must be assessed throughout the year to assist the municipality in determining recoverability and to determine ways in which to improve recoverability. It must not only be an accounting exercise but also provides information on recoverability which affects cash flow management.</li> </ul>	

### 3) Receivables from exchange transactions

Finding	Root cause	Recommendation
The municipality claims that it is owed by the district municipality (Dr Ruth), however, it is unable to provide evidence that it is being owed this amount.	This limitation is lack of communication between the municipality and the district municipality.	Before the financial statements are prepared the municipality must obtain acknowledgements of debt from those it believes owes the municipality.

**4) Cash and cash equivalents**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The bank balance in the AFS is unsubstantiated.</li> <li>It does not agree to the underlying accounting records.</li> <li>It does not agree to the bank statements and confirmations.</li> <li>The municipality is unable to explain the material differences.</li> <li>It is highly concerning that it cannot reconcile the AFS balance to the underlying records and the bank statements.</li> </ul>	<ul style="list-style-type: none"> <li>There is concerning lack of controls over the bank cash.</li> <li>Reconciliations are an important part of these controls that is inadequate.</li> </ul>	<ul style="list-style-type: none"> <li>Regular bank reconciliations must be done.</li> <li>Differences must be immediately followed up and resolved.</li> </ul>

**5) Inventories**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The inventory valuation does not comply with the applicable accounting standards which requires that for land the current replacement cost must be assessed at each financial year-end</li> <li>There is no evidence that the current replacement cost was assessed at the year-end resulting in a limitation of the valuation of inventory.</li> </ul>	<ul style="list-style-type: none"> <li>This is caused by a lack of understanding of the applicable accounting standards.</li> <li>There is also an apparent confusion as to the purpose for which the land is held. The purpose for which land is held is an important determinant of the valuation model that must be used.</li> </ul>	<ul style="list-style-type: none"> <li>The municipality must decide for what purpose it is holding the land.</li> <li>Apply the applicable accounting requirements in valuing that land.</li> </ul>



**6) Value Added Tax (VAT)**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality has VAT balances for which it is unable to provide evidence of the correctness of the balance.</li> <li>It further could not provide evidence that information submitted in the VAT201 is correct and agrees to the accounting records.</li> </ul>	<ul style="list-style-type: none"> <li>Once again the municipality is over-relying on consultants to the extent that it cannot explain the balance it has on the AFS.</li> <li>The consultants hired for the preparation of the AFS can also not explain and substantiate the balance to the satisfaction of the auditor.</li> </ul>	<ul style="list-style-type: none"> <li>Adequate reconciliations must be prepared between the accounting records, VAT submissions and the AFS.</li> <li>Reconciliations must also be prepared to explain the differences arising from the accrual based accounting records and the cash based VAT submissions.</li> </ul>

**7) Payables from exchange transactions**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>There are material differences between the supplier statements and the payables listing for which we could not get adequate explanations in the form of payables reconciliations.</li> <li>There is a material salary deduction balance for which no listing or audit evidence could be provided.</li> <li>Included in payables is a material balance which apparently relates to unallocated deposits. No evidence could be provided of these deposits. This should be a suspense account which should be cleared before year-end. It therefore results in a possible overstatement of payables and receivables. The balance per the bank statement amounts to R528 000 while these unallocated deposits amount</li> </ul>	<ul style="list-style-type: none"> <li>There is a lack of regular reconciliations between the accounting records and supplier statements.</li> <li>Suspense accounts are not cleared on a monthly basis.</li> <li>Possible payments by debtors are not regularly reviewed and traced to which debtors it relates to.</li> </ul>	<ul style="list-style-type: none"> <li>Regular (monthly) payables reconciliations must be performed and the differences followed up and resolved. Records of this must be maintained for audit purposes.</li> <li>Suspense accounts must be cleared every month and before the preparation of the financial statements.</li> <li>Deposits that still are not allocated must be held in a separate account/not be used until its origin has been established.</li> </ul>



Finding	Root cause	Recommendation
to R8 381 701. If correct, then it means these funds have been used without knowing what the origin of the funds is.		

### 8) *Unspent conditional grant*

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality has restated the corresponding balance for unspent grants</li> <li>It has not provided an adequate reason for why it had to restate</li> <li>Further, it did not provide adequate audit evidence to support the reconciliation submitted.</li> <li>Therefore, we were unable to determine whether this restatement was necessary and whether it was done correctly.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to inadequate record keeping.</li> <li>Restatements are also done without adequate consideration for the audit evidence that must back up the restatement.</li> <li>There is a lack of adequate reviews of restatements.</li> <li>Total reliance is placed on the consultants without adequate internal reviews for restatements made.</li> </ul>	<ul style="list-style-type: none"> <li>Restatements must always be red flagged so that management can track it to ensure that it is adequately substantiated and can be fully explained.</li> <li>The CFO, internal audit and audit committee must always thoroughly review all restatements and audit evidence.</li> </ul>

### 9) *Revenue from exchange transactions*

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Incorrect tariffs have been loaded for service charges resulting in a limitation in the revenue recognised.</li> <li>Consumption recorded on the billing system could</li> </ul>	<ul style="list-style-type: none"> <li>Council has approved tariffs and there should be a review to ensure that tariffs are clear and are captured correctly on the system.</li> </ul>	<ul style="list-style-type: none"> <li>A review should be done of the tariff policy before it is approved by council to ensure it is clear and not open to misinterpretation.</li> <li>A review should be done of the tariffs captured on</li> </ul>



Finding	Root cause	Recommendation
not be traced back to meter reading reports and supporting documents.	<ul style="list-style-type: none"> <li>The fact that there were discrepancies points to the likelihood that there no or inadequate reviews done by senior officials to ensure that the tarrifs are clearly stated in the policy and are correctly recorded.</li> </ul>	the revenue system to ensure it agrees to the council approved tarrif policy.

#### 10) Revenue from non-exchange transactions

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>For a certain number of months not all revenue from property rates have been recorded.</li> <li>This relates to property where there was a change in ownership.</li> <li>The valuation roll was not adjusted to reflect this change in ownership.</li> <li>There was also no supplementary valuation roll.</li> <li>As a result there was a material limitation on property rates.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to inadequate controls around the updating of the valuation roll when there are changes</li> <li>There is also no or inadequate controls in place to ensure that each year there is a supplementary valuation.</li> </ul>	<ul style="list-style-type: none"> <li>On an annual basis there must be a review of the valuation roll and a supplementary valuation roll compiled and approved.</li> <li>Changes in ownership of properties must done on a monthly basis based on the reports from the deeds office.</li> <li>A reconciliation should be done between the updated valuation roll and the values and ownership details on the revenue system on a monthly basis to ensure all properties were billed and the correct owner was billed.</li> </ul>



**11) Expenditure**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The comparative figures for expenditure was restated.</li> <li>The municipality could not provide adequate evidence in support of the restatement as well as adequate reasons to justify the need for restatement.</li> <li>In certain instances there were no responses on the findings raised.</li> <li>Indigent subsidies: adequate supporting evidence could not be provided to support the indigent subsidies expenses. This supporting documents includes approved forms and other related documents used in assessing a consumer's application for the subsidy. Furthermore, there were material differences between the subsidy expensed and the indigent subsidy register.</li> </ul>	<ul style="list-style-type: none"> <li>This is caused by inadequate record keeping that results in the application forms not being traceable.</li> <li>There is also inadequate review, by senior officials, of the indigent register against the subsidy expensed.</li> </ul>	<ul style="list-style-type: none"> <li>Restatements must always be red flagged so that management can track it to ensure that it is adequately substantiated and can be fully explained.</li> <li>The CFO, internal audit and audit committee must always thoroughly review all restatements and audit evidence.</li> <li>The indigent subsidy register must be reviewed regularly against the amounts expensed in the accounting records.</li> <li>Furthermore, each person on the register must be traced to the approved application form to ensure that the proper processes were followed.</li> <li>Before a subsidy is granted a senior official must check the application form and supporting documents to ensure that all processes were followed and that it is appropriately approved.</li> </ul>

**12) Accumulated surplus**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The opening balance of accumulated surplus did not agree with the prior year AFS.</li> <li>Furthermore, there were arithmetical errors on the statement of changes in net assets.</li> </ul>	<ul style="list-style-type: none"> <li>This is caused by inadequate reviews of the AFS before it is submitted for audit.</li> <li>The work of the consultants is not adequately reviewed.</li> <li>It also points towards an inadequate review</li> </ul>	<ul style="list-style-type: none"> <li>Before submission for audit the CFO must thoroughly review the AFS.</li> <li>The internal audit and audit committee must thoroughly review the AFS.</li> </ul>



Finding	Root cause	Recommendation
	by the audit committee.	

**13) Related parties**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Adjustments were made to the prior year disclosure of related parties.</li> <li>No evidence was provided to support the adjustment.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to inadequate reviews of the AFS and inadequate record keeping.</li> <li>The need to make adjustments is not linked to the need to keep records in support of the adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>All adjustments must be thoroughly reviewed by the CFO, internal audit and the audit committee to ensure that it is necessary, correctly done and adequately supported.</li> <li>This must be done well before the submission of the AFS for audit.</li> </ul>

**14) Irregular expenditure**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality did not follow all the prescripts when procuring goods and services.</li> <li>This is, for example, in instances where it did not obtain the minimum number of quotations or properly following the bidding process.</li> <li>This resulted in non-compliance with the SCM requirements and therefor irregular expenditure.</li> <li>This irregular expenditure was not included in the register and in the AFS disclosure</li> </ul>	<ul style="list-style-type: none"> <li>This is due to a vacancy in the position of SCM manager, instability in top management and a lack of consequence management for transgressions.</li> <li>Furthermore, the recording keeping process and facilities are not adequate to ensure the documents are safely stored and can be easily retrieved.</li> </ul>	<ul style="list-style-type: none"> <li>An SCM manager who is knowledgeable of the prescripts must be appointed as a matter of urgency.</li> <li>An adequate filing system must be put in place that is safe and that will ensure that documents can be retrieved with ease.</li> <li>There must be a policy of consequence management that is implemented and communicated to staff.</li> </ul>



Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>As a result the irregular expenditure in the AFS has been materially misstated,</li> <li>The misstatement amount could not be quantified as the municipality did not revisit the population of expenses to identify further instances.</li> <li>Furthermore, there were instances where we could not audit whether SCM processes were followed as the necessary documentation was not submitted for audit.</li> <li>This applies to, for example, competitive bidding where the majority of items could not be audited.</li> </ul>		

### 15) *Unauthorised expenditure*

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Adjustments were made to the prior year total. Adequate evidence to support this adjustment could not be provided. Furthermore, there are transactions included in the register which should not have been classified as unauthorised. This is a material amount. Management has not investigated the register to identify further instances.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to a lack of reviews by senior officials and a lack of adequate record keeping relating to restatements.</li> </ul>	<ul style="list-style-type: none"> <li>All adjustments must be thoroughly reviewed by the CFO, internal audit and the audit committee to ensure that it is necessary, correctly done and adequately supported.</li> <li>This must be done well before the submission of the AFS for audit.</li> </ul>



**16) Commitments**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality could not provide the contracts and variation orders in support of the commitments.</li> <li>As a result there was a material limitation on the commitment balance disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to inadequate record keeping.</li> </ul>	<ul style="list-style-type: none"> <li>An adequate filing system must be put in place that is safe and that will ensure that documents can be retrieved with ease.</li> </ul>

**17) Prior period error**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Restatements were made without disclosing this as required by the accounting standards.</li> <li>Furthermore, some of those disclosed does not agree to the restatement on the AFS.</li> <li>Some of the restatements made are not adequately supported by audit evidence and explanations as to the reason for the restatement.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to a lack of review by senior officials and the internal audit and audit committee.</li> <li>Reliance is placed on the work of consultants without proper reviews being done.</li> </ul>	<ul style="list-style-type: none"> <li>The CFO must review the AFS against the previous year's AFS to identify any differences.</li> <li>These differences must be traced to the prior period error note to ensure the note includes adequate information.</li> <li>The differences must be traced to adequately documented explanations to determine whether it was necessary.</li> <li>The differences must be traced to adequate audit evidence to ensure the adjustments are correct.</li> <li>Internal audit and the audit committee must perform the same reviews.</li> </ul>



**18) Material losses**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality did not disclose electricity and water losses as a result of, for example, leakages.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to a lack of understanding of the MFMA and GRAO required disclosures.</li> <li>It is also due to a lack of review.</li> </ul>	<ul style="list-style-type: none"> <li>A disclosure checklist must be compiled to include all items that are required to be disclosed.</li> <li>This checklist must be review against the AFS by the CFO to ensure that all required disclosures were made.</li> </ul>

**19) Going concern**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>The municipality currently has challenges to pay its debt as it falls due. This is evidenced by the long outstanding debtors and the fact that its current assets exceeds its current liabilities.</li> <li>During the year the municipality also had challenges paying third party employee payables such as pension funds, medical funds and SARS on time.</li> <li>Furthermore, the municipality had to use conditional grants to pay salaries.</li> <li>This is evidence financial difficulties all of which points towards material uncertainties which should have been disclosed in the AFS.</li> <li>The municipality has not disclosed the material uncertainties relating to going concern.</li> </ul>	<ul style="list-style-type: none"> <li>The municipality has not done adequate going concern reviews before preparation of the financial statements.</li> <li>As a result, it has not identified these material uncertainties that should have been disclosed.</li> <li>Furthermore, this points towards a lack of understanding of the applicable accounting standards and the disclosure requirements.</li> </ul>	<ul style="list-style-type: none"> <li>The CFO and Accounting Officer must annual perform a thorough going concern assessment and identify material uncertainties that affect going concern and ensure that it is adequately disclosed if the conclusion is that the municipality is still a going concern.</li> <li>The audit committee must also review the going concern assessment.</li> </ul>

## Predetermined objectives qualification areas

### Development priority 2 – Basic Service Delivery

Finding	Root cause	Recommendation
<p>Strategic objectives and indicators approved in the service delivery budget implementation plan were not reported in the annual performance report for the following:</p> <p><u>Strategic objectives:</u></p> <ul style="list-style-type: none"> <li>To provide quality basic services and infrastructure</li> <li>To ensure good governance, financial viability and optimal institutional transformation</li> <li>To fight poverty and to build clean, healthy, safe and sustainable communities</li> <li>To effectively do revenue collection to ensure sound financial matters</li> <li>To foster participatory development and Batho Pele</li> </ul> <p><u>Indicators:</u></p> <ul style="list-style-type: none"> <li>Number of households with access to basic level of water</li> <li>Number of households with access to basic level of electricity</li> <li>Number of households with access to sanitation</li> <li>% reduction of sewer spillages</li> <li>Km's of roads and stormwater constructed</li> <li>Number of high mast lights constructed</li> </ul>	<p>Insufficient review of the annual performance report to ensure consistency with the planning documents.</p>	<p>Performance should be reported quarterly in the quarterly performance reports. Reporting in the quarterly performance reports needs to be done on a cumulative basis. There needs to be consistent reviews on the quarterly performance reports, wherein the municipality ensures that actual achievement is reported for all planned indicators and the reported achievement is agreed to the underlying records.</p> <p>The reviewed 4th quarterly performance report should then be used for preparation of the annual performance report. The annual performance report needs to be reviewed to ensure that it includes all indicators planned for in the SDBIP.</p>






Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Construction of Access Road</li> <li>Number of grave yards fenced</li> </ul>		
<p><u>Indicator - 95% for Green and Blue status obtained by target date</u></p> <p>The indicator and target approved in the service delivery budget implementation plan was 60% for Green and Blue status obtained by target date. However, the indicator and target reported in the annual performance report was 95% for green and blue drops status obtained. The indicator was changed without obtaining the necessary approval</p> <p>In addition, it was not possible to audit the reliability (validity, accuracy and completeness) of the reported achievement</p>	<p>Insufficient review of the annual performance report to ensure consistency with the planning documents.</p> <p>Inability by management to consistently monitor compliance with all criteria in the performance management and reporting framework.</p>	<p>Training on the criteria contained in the performance management and reporting framework needs to be provided to all officials involved in the performance management and reporting process.</p> <p>Officials involved in the performance management and reporting process need to be well acquainted with the legislative requirements of criteria contained in the performance management and reporting framework: consistency, measurability, relevance, presentation &amp; disclosure and reliability.</p>
<p><u>Indicator - Number of new townships established</u></p> <p>It was not possible to audit the reliability (validity, accuracy and completeness) of the reported achievement of the following indicator:</p>	<p>This was due to the achievement reported in the annual performance report not being specific. The reported achievement is reported as 'Not achieved' in the annual performance report.</p>	<p>Management should ensure that achievement reported in the annual performance report is specific. Achievement should not be reported as 'not achieved' as it then becomes impossible for the auditors to verify this.</p>
<p>It was not possible to audit the reliability (validity, accuracy and completeness) of the reported achievement of the below indicators:</p> <ul style="list-style-type: none"> <li>Number of households with access to basic level of solid waste removal</li> <li>% of storm water drainage system maintained</li> <li>Number of community cemeteries maintained</li> <li>Kilometers of streets bladed</li> </ul>	<p>This was due to the indicators not being measurable (not well defined and not verifiable), owing to the lack of technical indicator descriptions in the SDBIP, lack of standard operating procedures and an inability by the municipality to explain performance management systems and processes that predetermine how achievement is measured, monitored and reported.</p>	<p>Management should ensure that the SDBIP contains technical indicator descriptions that define the indicators and explain to the user how achievement of the indicators will be measured, monitored and reported. It also needs to be clear to the user what the source of achievement is.</p>
<p>The measures taken to improve performance against targets were not included in the annual performance report for the following indicators:</p>	<ul style="list-style-type: none"> <li>Insufficient review of the annual performance report</li> <li>Inability by management to consistently</li> </ul>	<p>Training on the criteria contained in the performance management and reporting framework needs to be provided to all officials involved in the performance</p>






Finding	Root cause	Recommendation
<ul style="list-style-type: none"><li>• % of storm water drainage system maintained</li><li>• Km of streets bladed</li></ul>	monitor compliance with all criteria in the performance management and reporting framework.	management and reporting process. Officials involved in the performance management and reporting process need to be well acquainted with the legislative requirements of criteria contained in the performance management and reporting framework: consistency, measurability, relevance, presentation & disclosure and reliability.
Audit evidence was not provided to support the measures taken to improve performance against targets as reported in the annual performance report for the indicators listed below: <ul style="list-style-type: none"><li>• Number of new Townships Established</li><li>• Number of community cemeteries maintained</li></ul>	Lack of proper record keeping	Management needs to ensure that there's audit evidence for all improvement measures recorded in the annual performance report.

### Key focus areas

The table below provides an extract of the municipality's performance broken down into specific key areas. The colour attached to each area represents the severity of the concerns noted within the key area.

	<b>Good</b> – minor issues noted and reported
	<b>In progress</b> – resolution of concerning issues raised is in progress
	<b>Intervention required</b> – matters raised require urgent attention

<i>Quality of submitted financial statements</i>		<ul style="list-style-type: none"> <li>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by MFMA.</li> </ul>
<i>Quality of submitted annual performance reports</i>		<ul style="list-style-type: none"> <li>The annual performance report submitted for auditing was not prepared in accordance with the performance management and reporting framework and not supported by full and proper records.</li> </ul>
<i>Supply chain management, and unauthorised, irregular as well as fruitless and wasteful expenditure</i>		<ul style="list-style-type: none"> <li>There was an overall limitation on procurement and contract management testing of competitive bids due to non-submission of tender files for the selected awards</li> <li>There was non-compliance and irregular expenditure identified on 20 of the 23 quotations selected for testing. The value of these quotations is R1 139 334.</li> </ul>



<i>Financial health</i>	<ul style="list-style-type: none"> <li>• The current liabilities exceed the current assets. The liquidity is very concerning at this stage and requires immediate attention.</li> <li>• The municipality has an ongoing cash shortage. As per the bank statement there was just over R500 000 in the bank which is alarming when compared to the total payables of R118 000 000. Payables far exceed the cash on hand. This has resulted in fruitless and wasteful expenditure being incurred as the municipality cannot settle its debt as it falls due.</li> <li>• Instances were identified where 3rd party payments relating to employees were not paid on time. The reason given was that the municipality has cash flow challenges.</li> <li>• The municipality encountered difficulty in paying employees' salaries. Conditional grants were utilised for this purpose.</li> </ul>
<i>Vacancies and stability, competencies, management of consultants and consequence management</i>	<ul style="list-style-type: none"> <li>• There's a 27% vacancy rate within the finance department. Furthermore, there's inadequate skills amongst the filled positions.</li> <li>• Competencies of the staff were not assessed to determine whether they meet the required level of skills to carry out their duties</li> <li>• There is an over-reliance on the use of consultants without the necessary management reviews.</li> <li>• Unauthorised, irregular, fruitless and wasteful expenditure incurred in prior years has not been investigated.</li> </ul>
<i>Status of records</i>	<p><b>Oversight and monitoring</b></p> <ul style="list-style-type: none"> <li>• Minutes and reports of Audit Committee were not submitted.</li> <li>• There is no evidence of regular reviews of reports, reconciliations and registers by senior management.</li> <li>• 2017/18 Post audit action plan not yet implemented – two quarters into the new year. All 49 findings are 0% complete.</li> <li>• Internal audit reports were not submitted.</li> <li>• Risk register and risk strategy not submitted.</li> </ul> <p><b>Financial Management</b></p>



- 2nd quarter Interim Financial Statements not submitted - The SORR RFI was issued two months after the end of the 2nd quarter, the 2nd quarter AFS should have been readily available at this stage
- Quarterly reports on grants submitted to transferring officers not appropriately reviewed and reconciled – there are differences between the balances per the municipality's conditional grants register and balances per the reports submitted to transferring officers
- Bank reconciliations not submitted
- Differences between balance in the creditors age analysis and the creditor's statement for one of the creditors selected
- There's differences between VAT201s and GL in the VAT reconciliation which are not explained and not followed up/cleared, there is also no support provided for the differences
- There's no evidence of review of the valuation roll
- Fixed asset register not submitted
- There is a suspense account (unallocated deposits) which is not followed up and cleared on a monthly basis

#### **Performance Management**

- 2018/19 SDBIP not submitted
- 1<sup>st</sup> and 2<sup>nd</sup> Quarterly Performance Reports not submitted

#### **Procurement and Contract Management**

- SCM deviation reports not submitted
- Procurement plan implementation progress report not submitted

#### **Compliance Management**

- Proof that unauthorised, irregular, fruitless and wasteful expenditure was investigated not submitted

#### **Human Resources Management**

- Vacancies in key positions - PMS/IDP manager post is still vacant





- |  |   |
|--|---|
|  | <ul style="list-style-type: none"><li>• Approved organisational structure not submitted</li><li>• Performance agreements of senior managers not submitted</li></ul> |
|--|---|

### *Summary of common root causes to be addressed*

- 1) There is an over-reliance of work done by the consultants. This work is not adequately reviewed by senior officials. This is evidenced by material misstatements, notes on the AFS that does not tie up with the AFS and AFS figures which do not tie up with underlying records.
- 2) Underlying records and general ledger were not adequately maintained and reviewed to ensure they agree with what is presented in the annual financial statements.
- 3) The supply chain management unit of the municipality did not function effectively as incidences of irregular and fruitless and wasteful expenditure were identified. The necessary procurement procedures were not followed in most instances or processes followed is not supported by records.
- 4) The audit committee did not adequately review the financial statements to identify material misstatements.

### *Conclusion*

The municipality received a disclaimer of opinion in the 2017/18, 2016/17 and 2015/16 financial years. This is due to the continued lack of proper record keeping and lack of reviews of the financial statements and annual performance reports by management. The municipality is currently under section 139(1)(b) of the MFMA.