

SCOPA BRIEFING NOTE

MFMA audit outcomes of the 2017-18 financial year

Ngaka Modiri Molema District Municipality

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Introduction

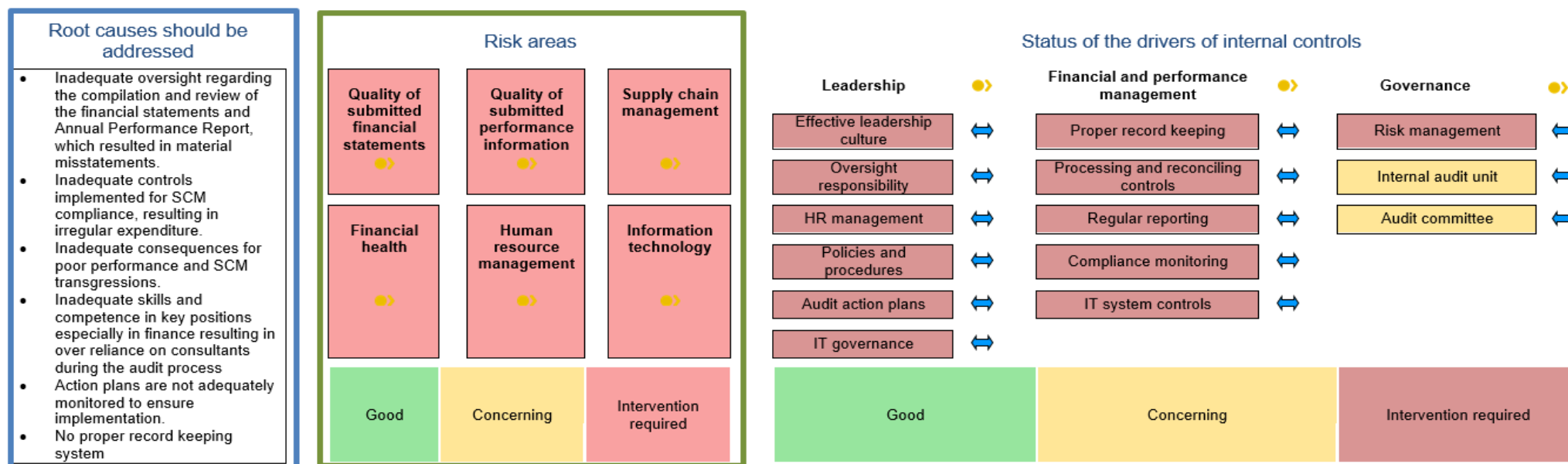
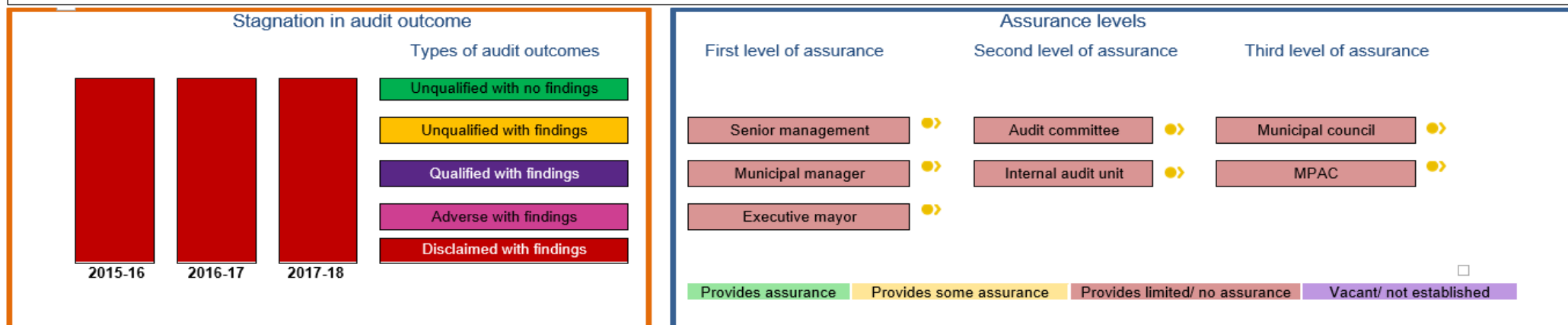
The purpose of this report is to provide the Standing Committee on Public Accounts (SCOPA) with an overview of the audit outcomes and internal control deficiencies that have prevented the municipality from attaining the desired audit outcome, i.e. financially unqualified with no material findings on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

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 remained as a disclaimer opinion on the audit of financial statements, with material findings on performance information and compliance with laws and regulations. The stagnation in the overall audit outcome is due to the lack of response to effectively address the root causes for the findings raised and also lack of consequence for poor audit outcomes.
2. Sustainable systems and processes were not introduced and implemented during the year for the recording, reconciling and reporting of transactions and balances in the financial statements. We further identified that there is lack of adequate skills within the finance department of the municipality. Despite the use of consultants to compile the financial statements submitted for audit, these statements were of poor quality and they contained numerous basic accounting and numerical errors that could reasonably have been prevented had due care been exercised. The quality of the financial statements was further hampered by the poor implementation of MSCOA in the year under review, which posed additional challenges with regard to integration between the existing accounting systems and MSCOA accounting system, resulting in numerous misclassifications and incorrect mapping of accounts.
3. The overall outcomes for predetermined objectives and the quality of the annual report submitted has also regressed in the current year. As reported in the prior year, the significant root cause emanating from the basis of conclusion reached are due to inadequate controls relating to the collating and recording of information. The audit action plan was not adequate as it did not address the root cause findings on performance information.
4. Non-compliance with legislation remains a major concern and the municipality is unlikely to improve the audit outcomes if the root causes for material non-compliance findings is not addressed. Various repeat findings were identified relating to poor quality of financial statements submitted, lack of systems for expenditure management, asset management, human resource management and, procurement and contract management. In addition, the audit identified that there is lack of actions taken and consequence management implemented relating to unauthorised, 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 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.
5. The assurance provided by internal audit and audit committee depicts a picture that indicates that the combined assurance model is not effective. Although the municipality 's governance committees had suitably skilled role players with an understanding of the improvements required to achieve a clean administration. However, the effectiveness of the audit committee as an assurance provider was compromised by the municipality's inability to act on the recommendations made by the audit committee.



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	18-19	17-18	16-17
Audit opinions				
Disclaimer audit opinion (with findings)	➡			
Predetermined objectives(PDO's)				
KPA 2: Basic service delivery	➡			

Summary of qualification areas, root causes and recommendations

Financial Statement qualification areas

1) Property, Plant & Equipment

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> The municipality could not provide supporting evidence for the adjustments made to corresponding figures Depreciation and amortisation was not correctly calculated Supporting audit evidence could not be provided for road infrastructure assets disclosed in the financial statements 	<ul style="list-style-type: none"> A high number of unsupported "force balancing" journals used to "correct" prior year balances (limitations of audit scope = disclaimer) without investigating or correcting the underlying root causes that cause the qualifications in the first place The municipality could not provide Sufficient appropriate audit evidence relating to road infrastructure assets disclosed in the financial statements Lack of accountability from senior 	<ul style="list-style-type: none"> All journals processed to correct prior period errors need to be adequately supported by proper supporting documents to address prior years' qualifications Develop asset road infrastructure methodology which will guides the correct accounting of roads within the demarcated area of the district. This should be done in line with the guidance provided for by the legislation on powers and functions specifically with regards to ownership of roads. Furthermore, the municipality should have



Finding	Root cause	Recommendation
	management .The responsibility of ensuring the quality of annual financial statements was left entirely to consultants with no supervision from management.	<p>appropriate audit evidence to support the roads that they disclose in the financial statements</p> <ul style="list-style-type: none"> • Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit • Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required.

2) VAT Receivable

Finding	Root cause	Recommendation
Sufficient appropriate audit evidence for Vat receivable for the current and prior year could not be provided. Journals were processed in order to agree the VAT receivable per the VAT 201 and the VAT control account but management could not explain these journals and could not provide supporting documents for these journals.	Regular reconciliations are not prepared and reviewed and there are no supporting documents for journals processed.	<ul style="list-style-type: none"> • Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit • Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required.



3) Inventories

Finding	Root cause	Recommendation
<ul style="list-style-type: none">The municipality could not provide an inventory listing that agrees to the inventory balance as disclosed in the financial statements.Further, management could not provide audit evidence for journals processed against inventories.	<ul style="list-style-type: none">There is no reliable system to account for inventory movements and there is no proper record management system in place.Further, the financial statements are not adequately reviewed to ensure that amounts disclosed in the financial statements agree to underlying supporting documents.	<ul style="list-style-type: none">Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for auditImplement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required.

4) Payables from exchange transactions

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> Supporting evidence for payables disclosed in the financial statements and journals processed against payables for the current and prior year could not be provided for audit. the local municipalities within the district were providing retail water services on behalf of the district municipality as per the agreement with the district municipality, the actual cost incurred by the local municipalities for the provision of free basic water and sanitation services should be paid by the district municipality to the local municipalities in accordance with the DORA allocations but the DM did not transfer these funds and did not disclose any payable in this respect resulting in understatement of payables. 	<ul style="list-style-type: none"> The district municipality failed to disclosed the money owed to the local municipalities for provision of water services on behalf of the district and the money owed to Sedibeng water for drought relief due to lack of evidence to support that the municipality verified the services provided by the water board. Supporting evidence for journals processed was not provided for audit 	<ul style="list-style-type: none"> Implement contract management processes for the regular verification of the delivery of goods and or services by service providers Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required.

5) Revenue from exchange transactions

Finding	Root cause	Recommendation
The municipality paid R55,2million to a contractor for the rural sanitation programme when no services were received by year end and incorreced recognised revenue against the municipal infrastructure grant when the conditions of the grant were not yet met. Further the municipality failed to record the related pre-payment	Lack of adequate understanding of the basic accounting principles resulting in incorrect application of the accounting framework.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

6) General expenditure

Finding	Root cause	Recommendation
Expenditure was not disclosed as per the requirements of GRAP 1; there were differences between expenditure per the financial statements and supporting documents and expenditure was recorded in the incorrect period.	Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.



7) Contracted services

Finding	Root cause	Recommendation
The municipality could not provide sufficient audit evidence that expenditure relating to drought relief was indeed incurred before payment was made.	Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

8) Bulk Purchases

Finding	Root cause	Recommendation
The municipality did not record all expenditure relating to bulk purchases as money owed to Sedibeng Water was not all recorded resulting in understatement of bulk purchases and payables from exchange transactions	Incorrect accounting treatment of money owed to Sedibeng for bulk water purchases resulting in the bulk purchases being incorrectly disclosed as contingent liabilities	<ul style="list-style-type: none"> Implement contract management processes for the regular verification of the delivery of goods and or services by service providers Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrievable when required for audit.



9) Commitments

Finding	Root cause	Recommendation
The municipality did not record all its commitments and could not provide adequate supporting documents for the commitments they disclosed .Further the municipality failed to correctly reconcile payments made on its commitments.	Lack of an adequate record management system e.g. signed contracts/ appointment letters, payment vouchers etc.	<ul style="list-style-type: none"> Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required. Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

10) Accumulated surplus

Finding	Root cause	Recommendation
The municipality could not provide supporting documents to substantiate adjustments made against the accumulated surplus disclosed in the financial statements.	Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

11) Prior-year adjustments

Finding	Root cause	Recommendation
The municipality did not disclose all adjustments made to the comparative figures in the financial statements. For the adjustments that they disclosed, the municipality failed to provide supporting evidence for these adjustments .	Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

12) Unauthorised expenditure

Finding	Root cause	Recommendation
The municipality incorrectly calculated unauthorised expenditure and further could not provide any audit evidence for the current year unauthorised expenditure and adjustments to the prior year unauthorised expenditure.	Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.	Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis .These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

13) Irregular expenditure

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> Documentation to support irregular expenditure disclosed was not provided Additional irregular expenditure was identified during the audit due to non-compliance with supply chain regulations which was not disclosed in the financial statements 	<ul style="list-style-type: none"> The increase in irregular expenditure is mainly attributed in the municipality not emphasising the importance of ensuring compliance with laws and regulations. Most of the contracts awarded by the municipality were assessed as irregular The officials within the SCM department also lacked adequate skills to understand some of the applicable laws and regulations 	<ul style="list-style-type: none"> Implement records management processes and systems to ensure that documents are properly filled, controlled and easily retrieved when required. Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.

14) Cashflow statement

Finding	Root cause	Recommendation
The municipality could not provide sufficient audit evidence to support the cash flow movements in the cash flow statement.	Inadequate skills within the finance department and lack of adequate review of the financial statements	<ul style="list-style-type: none"> Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit. Staff within the finance unit to be trained to obtain an understanding on the basic accounting principle in order to be fully capacitated to properly prepare and review the financial statements prior submitting for



Finding	Root cause	Recommendation
		audit.

15) Material losses

Finding	Root cause	Recommendation
The municipality could not provide audit evidence for water distribution losses disclosed in the financial statements	<ul style="list-style-type: none"> Lack of monitoring systems and process for water consumption and lack of reconciliation between water consumption and water purchased to accurately determine any loss suffered. Further the municipality does not have an adequate system in place to determine water distributed for free basic services. 	<ul style="list-style-type: none"> Implement processes and procedures for water management including the adequate measurement of water distribution. Prepare regular reconciliation between water distributed and water purchases to determine whether they might be any losses during the distribution to address.

16) Going concern

Finding	Root cause	Recommendation
The municipality failed to correctly disclose that they are going concern as they incorrectly disclosed that they had an accumulated deficit and that its liabilities exceed its assets when the municipality actually had an accumulated surplus and its assets exceeded its liabilities.	<ul style="list-style-type: none"> Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner. Inadequate skills within the finance department and lack of adequate review of 	<ul style="list-style-type: none"> Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit. Staff within the finance unit to be trained to obtain an understanding on the basic accounting principle in



Finding	Root cause	Recommendation
	the financial statements	order to be fully capacitated to properly prepare and review the financial statements prior submitting for audit.

17) Budget statement

Finding	Root cause	Recommendation
The budget amounts included in the statement of comparison of budget and actual amounts did not agree to the final approved budget of council and reasons for variances between budget and actual were not disclosed.	<ul style="list-style-type: none"> Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner. Inadequate skills within the finance department and lack of adequate review of the financial statements 	<ul style="list-style-type: none"> Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit. Staff within the finance unit to be trained to obtain an understanding on the basic accounting principle in order to be fully capacitated to properly prepare and review the financial statements prior submitting for audit.

18) Contingent Liabilities

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> The municipality did not correctly disclose contingent liabilities as it did not have adequate systems to ensure that all claims against the municipality were recorded and the only claims that are 	<ul style="list-style-type: none"> Lack of proper monitoring controls during the preparation of the financial statements to ensure that information contained therein is accurate, complete, meets the requirements of the relevant reporting 	<ul style="list-style-type: none"> Implementation of key basic controls such as monthly reconciliations, systems controls over journal processing and quarterly reviewed financial statements basis. These controls should be executed by the municipality's own officials



Finding	Root cause	Recommendation
<ul style="list-style-type: none"> not yet finalised were disclosed. Further the municipality did not provide supporting documents for some of the contingent liabilities disclosed. 	<p>framework and is supported and evidenced by reliable information that is accessible and available to support financial reporting in a timely manner.</p> <ul style="list-style-type: none"> Inadequate skills within the finance department and lack of adequate review of the financial statements 	<p>throughout the course of the financial year to ensure errors are timeously detected and addressed prior the submission of the annual financial statements for audit.</p> <ul style="list-style-type: none"> Staff within the finance unit to be trained to obtain an understanding on the basic accounting principle in order to be fully capacitated to properly prepare and review the financial statements prior submitting for audit.

19) Financial instruments

Finding	Root cause	Recommendation
The municipality did not disclose in the financial statements, the classes of financial instruments held and the nature of risks arising from these financial instruments.	Inadequate skills within the finance department and lack of adequate review of the financial statements	Staff within the finance unit to be trained to obtain an understanding on the basic accounting principle in order to be fully capacitated to properly prepare and review the financial statements prior submitting for audit.

Predetermined objectives qualification areas

KPA 2: Basic service delivery

1) KPI 8: Number of public information education relations (PIER) conducted by June 2018

Finding	Root cause	Recommendation
The municipality could not submit programs relating to the PIER campaigns and we could not confirm if the relevant campaigns took place.	<ul style="list-style-type: none"> • Inadequate planning and reviews when indicators are developed to ensure that performance indicators and related targets were measurable and relevant. • Lack of adequate standard operating procedures that predetermine how the achievement would be measured, monitored and reported. • Inadequate review of the annual performance report 	<ul style="list-style-type: none"> • Ensure that there is a portfolio of evidence that agrees to the performance report should be kept and reviewed by departmental managers to ensure that credible, valid and accurate information is consistently accumulated for quarterly and annual reports and kept for audit purposes. • Correlation and verification of the appropriate supporting POE and schedules should be reviewed continuously and be reported to council throughout the financial year. • Develop standard operating procedures for all indicators included in the IDP and SDBIP to ensure that the source information, evidence and method of calculating the achievement of the planned indicator is clearly stated and defined, and that the target of this indicator is measurable. Furthermore, ensure that performance indicators set should be relevant to the municipality in achieving its service delivery mandate

2) KPI 11: Supply and installation of underground water

Finding	Root cause	Recommendation
<p>There was no clear and logical link between the indicator together with the target and the strategic objective to which it relates to.</p>	<ul style="list-style-type: none"> Indicators not well defined and not relevant to the mandate and function of the municipality. Lack of adequate standard operating procedures that predetermine how the achievement would be measured, monitored and reported. Inadequate review of the annual performance report 	<ul style="list-style-type: none"> Ensure that there is a portfolio of evidence that agrees to the performance report should be kept and reviewed by departmental managers to ensure that credible, valid and accurate information is consistently accumulated for quarterly and annual reports and kept for audit purposes. Correlation and verification of the appropriate supporting POE and schedules should be reviewed continuously and be reported to council throughout the financial year. Develop standard operating procedures for all indicators included in the IDP and SDBIP to ensure that the source information, evidence and method of calculating the achievement of the planned indicator is clearly stated and defined, and that the target of this indicator is measurable. Furthermore, ensure that performance indicators set should be relevant to the municipality in achieving its service delivery mandate

3) KPI 13: Number of villages served with water through tinkering

Finding	Root cause	Recommendation
The municipality could not provide sufficient audit evident to support reported achievement of the number of villages that were served with water as well as measures taken to improve its performance from the prior year.	<ul style="list-style-type: none"> Lack of proper record keeping to ensure that supporting documents for the reported achievements are properly kept and easily retrievable when required Inadequate review of the annual performance report 	<ul style="list-style-type: none"> Implement records management processes and systems to ensure that portfolio of evidence that agrees to the performance report should is kept and reviewed by departmental managers and that credible, valid and accurate information is consistently accumulated for quarterly and annual reports and easily retrievable for audit purposes.

4) KPI 14: Number of operations and maintenance incidents on water related queries addressed

Finding	Root cause	Recommendation
The supporting evidence provided did not agree to the reported achievement	<ul style="list-style-type: none"> Lack of proper record keeping to ensure that supporting documents for the reported achievements are properly kept and easily retrievable when required Inadequate review of the annual performance report 	Implement records management processes and systems to ensure that portfolio of evidence that agrees to the performance report should is kept and reviewed by departmental managers and that credible, valid and accurate information is consistently accumulated for quarterly and annual reports and easily retrievable for audit purposes.

5) KPI 17: Number of capital projects in construction stage to be completed by 30 June 2018

Finding	Root cause	Recommendation
The municipality did not disclose measures taken to improve performance even though the target was not met	<ul style="list-style-type: none"> Inadequate review of the annual performance report 	There needs to be consistent reviews on the quarterly performance reports and annual performance report ensure that actual achievement reported agrees to supporting document and measures to address underachievement are disclosed.

6) KPI 7: Number of disaster management awareness campaigns conducted by June 2018; KPI 12: Number of households connected with piped water inside yards by June 2018 and KPI 16 (A): Number of waste water treatment plant maintained by June 2018

Finding	Root cause	Recommendation
The municipality could not provide supporting evidence for measures taken to improve its performance as reported in the annual performance report where the set target was not achieved	<ul style="list-style-type: none"> Lack of proper record keeping to ensure that supporting documents for the reported achievements are properly kept and easily retrievable when required Inadequate review of the annual performance report 	Implement records management processes and systems to ensure that portfolio of evidence that agrees to the performance report should be kept and reviewed by departmental managers and that credible, valid and accurate information is consistently accumulated for quarterly and annual reports and easily retrievable for audit purposes.

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.

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

<i>Quality of submitted financial statements</i>	■	<ul style="list-style-type: none"> The audit opinion on the financial statements remain stagnant as a disclaimer of opinion. Despite the use of consultants to compile the financial statements submitted for audit, these statements were of poor quality and it contained numerous basic accounting and numerical errors that could reasonably have been prevented had due care been exercised. In addition, the financial statements submitted for audit were not supported by accurate and complete schedules, reconciliations, registers and original supporting documents and as a result numerous items of the financial statements could not be audited.
<i>Quality of submitted annual performance reports</i>	■	<ul style="list-style-type: none"> The quality of the performance report had also deteriorated compared to the prior year. The number of material misstatements identified compared to prior years has increased. In addition, the performance report submitted for audit was not supported by accurate and complete underlying records.
<i>Supply chain management, and unauthorised, irregular as well as fruitless and wasteful</i>	■	<p>A number of non-compliance findings were identified on the supply chain management process. This include:</p> <ul style="list-style-type: none"> Supporting documents could not be obtained that all contracts and quotations were awarded in accordance with legislative requirements Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotation. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a



<p><i>expenditure</i></p>	<p>declaration on whether they were employed by the state or connected to any person employed by the state</p> <ul style="list-style-type: none"> - Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order - Some of the invitations for competitive bidding were not advertised for a required minimum period of days - Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding. Similar non-compliance was also reported in the prior year. - Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer. - The preference point system was not applied with some of the procurement of goods and services above R30 000. Similar non-compliance was also reported in the prior year. - Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year. - Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process. - Awards were made to providers who were in the service of other state institutions. 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). - Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) <p>The non-compliance matters identified above have resulted in irregular expenditure of R1 171 401 865 (2017:1 487 557 347)</p> <p>The municipality did not have adequate systems in place to identify and record all unauthorised expenditure throughout the year R4 033 756 287 (2017: 1 704 192 565).</p>
<p><i>Financial health</i></p>	<ul style="list-style-type: none"> • We have expressed a disclaimer of audit opinion on the financial statements. Consequently, the information in the financial statements is not sufficiently reliable to enable us to perform meaningful analyses of individual financial viability indicators.



<i>Vacancies and stability, competencies, management of consultants and consequence management</i>	<ul style="list-style-type: none"> Finance staff lack the appropriate competencies and do not fully understand the requirements of the financial reporting framework. There is an over-reliance on consultants to prepare the financial statements at year end. As a result, sustainable systems and processes were not introduced and implemented during the year for the recording, reconciling and reporting of transactions and balances. Consequence management was not implemented and poor performance and repeat transgressions were not dealt with.
<i>Status of records</i>	Despite management agreeing to the “Status of records reviews” (SORR) most of the information required to perform a SORR was not submitted due to lack of proper record keeping. This resulted in a very limited SORR. Urgent intervention especially with regards to record keeping is required as risks affecting the audit opinion may not be identified in time for management to implement corrective measures

Summary of common root causes to be addressed

- 1) Inadequate controls implemented for SCM compliance, resulting in irregular expenditure.
- 2) Quality of the financial statements and performance report; and concerning financial health
- 3) Inadequate consequences for poor performance and SCM transgressions.

Conclusion

It is recommended that the tone of leadership should create an environment of zero tolerance to non-compliance and transgressions and that will be achieved by ensuring the following:

- The political, executive and administrative leadership should institutionalise a culture of high performance behaviour and keep senior management and those in charge of internal control disciplines accountable. There should be a heightened emphasis on the timeliness of senior management to implement recommendations by different role players, develop action plans and address the root causes of audit findings.
- Leadership should ensure that there is appropriately skilled-staff in key positions within the finance, performance and compliance unit. This will reduce the excessive reliance on consultants to compile financial statements. Furthermore, leadership should perform in-year



reporting, monitoring and oversight to prevent material misstatements in the financial statements, non-compliance with laws and regulations.

