



AUDITOR - GENERAL  
SOUTH AFRICA

2019



# Mamusa Local Municipality 2018-19 Audit outcomes briefing note

Auditor General of South Africa  
North West Business Unit

# What we **do** and what we **do not** do



## The Auditor-General South Africa



DO's



Provide assurance that financial statements are free from misstatements



Report on material non-compliance with relevant legislation



Report on usefulness and reliability of the information in the annual performance report



Identify key internal control deficiencies to be addressed



DONT's



Provide assurance that all applicable legislation has been complied with



Identify fraud



Provide assurance that service delivery has been achieved



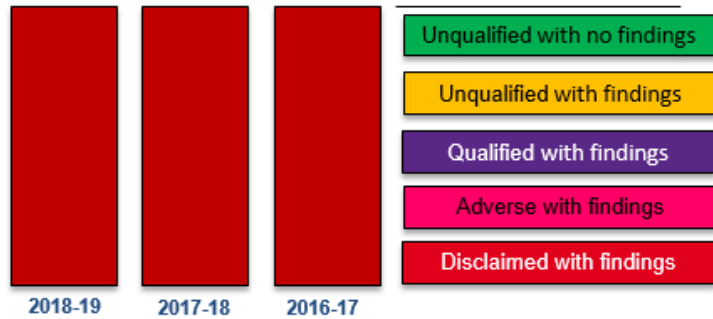
## Introduction

The purpose of this report is to provide the constitutional stakeholders with an overview of the audit outcomes and internal control deficiencies that may 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 2018-19 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

### Stagnation in audit outcomes



#### Types of audit outcomes

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings

### Assurance levels

#### First level of assurance

- Senior management
- Municipal manager/CEO
- Mayor/Executive mayor

#### Second level of assurance

- Audit committee
- Internal audit

#### Third level of assurance

- Municipal council
- MPAC

Provides assurance      Provides some assurance      Provides limited/no assurance      Vacant/ not established

1

To improve/maintain the **audit outcomes** ...

2

... the key role players need to **assure** that ...

5

... the **root causes** are addressed ...

4

... the **risk areas** and ...

3

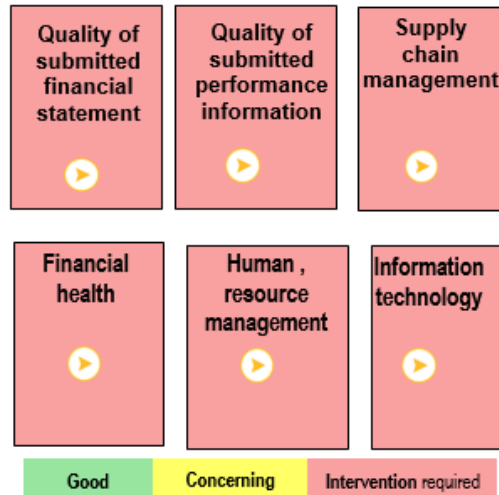
... attention is given to the **key controls** and ...

... the **best practices** are maintained.

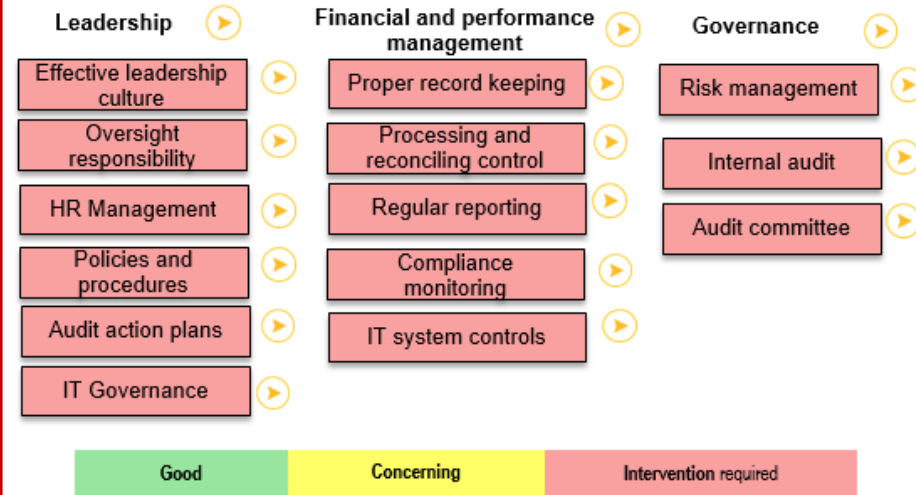
#### Root causes should be addressed

- No Sustainable systems, proper record keeping, daily and monthly systems for recording, processing, reconciling and reporting of transactions and balances were established or performed during the year
- Non-compliance with legislation remains a major concern
- Poor quality of financial statements submitted, lack of systems for expenditure management, asset management, HR management, procurement and CM.
- lack of actions taken and consequences management implemented for poor performance or transgressions committed on UIF.

#### Risk areas



#### Status of drivers of internal controls






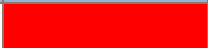
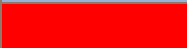
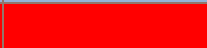


## Overall Message

The records management system of the municipality is of great concern together with the lack of leadership stability and the vacancies of key senior positions. There are very little to internal control systems established and/or implemented and the preparation of financial statements, registers, reconciliations and ledgers are mainly an annual exercise performed for the purpose of compliance.

## 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
<b>Audit opinions</b>				
Disclaimer audit opinion (with findings)				
<b>Predetermined objectives(PDO's)</b>				
KPA 2: Service delivery and infrastructure development				

## Summary of qualification areas, root causes and recommendations

### Financial Statement qualification areas

#### 1. Property, plant and equipment

Finding	Root cause	Recommendation
<p>Various issues identified within the PPE:</p> <ul style="list-style-type: none"> <li>Material differences identified between the Fixed Asset Register (FAR) and the annual financial statements</li> <li>Due to duplicated descriptions and information on the FAR, we were unable to distinguish</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 also a lack of understanding of the audit evidence that must be compiled to substantiate balances/transactions disclosed on the AFS.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive detail reconciliations should be performed and all information disclosed on the AFS be supported by a detailed FAR, adequate registers and lists and other supporting documentation.</li> </ul>

Finding	Root cause	Recommendation
<p>between physical assets and determining which asset on the FAR is represented by asset</p> <ul style="list-style-type: none"> <li>• Rights and obligation in regards to land assets could not be established as there is no logical link between an asset on the land register and title deeds (title deed numbers are missing from the FAR)</li> <li>• Existence of assets could not be verified as the municipality did not have adequate internal controls to maintain records of properties owned, assets included in the FAR that we couldn't not confirm whether these assets exists.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are 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>• FAR should be updated to reflect title deed numbers for all land and buildings</li> <li>• Comprehensive annually or bi-annual asset count should be performed, all items in the FAR not in existence should be removed from the FAR</li> <li>• A separate detailed audit file must be maintained containing the above information.</li> </ul>

## 2. Investment Properties

Finding	Root cause	Recommendation
<p>The municipality incorrectly classified land and buildings held to earn rentals or capital appreciation as property, plant and equipment instead of Investment Properties, PPE overstated and Investment Properties understated by R19 734 366.</p>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• There is an overreliance on the consultants.</li> <li>• This is caused by a lack of understanding of the applicable accounting standards.</li> </ul>	<p>A thorough scrutiny of all expenses should be performed monthly to make sure all expenditure items that should be capitalized are capitalized instead of being expensed.</p>

### 3. Receivables from exchange transactions

Finding	Root cause	Recommendation
<p>No underlying and supporting documentation to support the balance as did not have adequate systems to maintain records to support financial information. Could not confirm these balances by alternative means.</p>	<ul style="list-style-type: none"> <li>The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>There is an overreliance on the consultants.</li> </ul>	<p>Before the financial statements are prepared the municipality must obtain acknowledgements of debt from those it believes owes the municipality.</p>

### 4. VAT Payable & Receivables

Finding	Root cause	Recommendation
<p>Various issues on VAT identified:</p> <ul style="list-style-type: none"> <li>Material differences identified between the AFS and General Ledger (GL)/Trial Balance (TB).</li> <li>Differences between GL, reconciliations and VAT returns submitted which could not be substantiated.</li> <li>Various limitations from revenue and expenditure where documents were not submitted for audit purposes and we could not evaluate if VAT was appropriately accounted for.</li> </ul>	<ul style="list-style-type: none"> <li>The daily, monthly and quarterly controls are 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>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>

### 5. 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> </ul>	<ul style="list-style-type: none"> <li>The controls in place to manage the debtor's book are inadequate.</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> </ul>

<ul style="list-style-type: none"> <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 payment 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 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.</li> </ul>	<ul style="list-style-type: none"> <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 year-end which is not correct.</li> <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 an accounting exercise but also provides information on recoverability which affects cash flow management.</li> </ul>	<ul style="list-style-type: none"> <li>• Active steps must then taken against the debtors who do no 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>
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## 6. 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> </ul>	<ul style="list-style-type: none"> <li>• There is a lack of regular reconciliations between the accounting records and supplier statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular (monthly) payables reconciliations must be performed and the differences followed up and resolved.</li> </ul>



<ul style="list-style-type: none"> <li>• Material differences between creditors age analysis and AFS.</li> <li>• Appropriate evidences couldn't be obtained from supplier statements.</li> <li>• Appropriate audit evidence could not be obtained for some of the payables as the listings making up the balance for the current year and prior year were not provided by the municipality.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are 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>• Records of this must be maintained for audit purposes.</li> </ul>
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### 7. Unspent Conditional Grant

Finding	Root cause	Recommendation
Material differences noted between the amount disclosed in AFS and the amount recorded in the GL.	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• This is due to inadequate record keeping.</li> </ul>	Unspent conditional grants should be supported by a letter from Treasury and differences between the GL and AFS should be appropriately reconciled and supporting documentation provided in the audit file.

### 8. Revenue from Exchange Transactions

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>• Limitation of scope due to inaccurate, non updated valuation roll provided for audit therefore could not test service charges or rely on the maps or valuation roll.</li> <li>• No SLA between the district municipality and Mamusa to direct accountability, roles and responsibilities for the same of water.</li> <li>• Supporting documentation not provided for audit for prepaid electricity.</li> </ul>	<ul style="list-style-type: none"> <li>• The valuation roll was not adjusted to reflect all the details of the customers.</li> <li>• There was also no supplementary valuation roll.</li> <li>• Expiration of the SLA.</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 and other details 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>

		<ul style="list-style-type: none"> <li>• SLA should be signed between the district and Mamusa LM with clear guidelines how water should be accounted for</li> <li>• Underlying appropriate supporting documentation from 3rd parties should be obtained, reconciled, recorded and provided in the audit file relating to prepaid electricity</li> </ul>
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### 9. Revenue from Non-Exchange Transactions

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>• Limitation of scope due to inaccurate, non updated valuation roll provided for audit therefore could not test property rates or rely on the maps or valuation roll.</li> <li>• Not all information was provided for audit relating to government grants.</li> </ul>	<ul style="list-style-type: none"> <li>• The valuation roll was not adjusted to reflect all the details of the customers</li> <li>• There was also no supplementary valuation roll.</li> <li>• This is due to inadequate record keeping.</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 and other details 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>

### 10. Expenditure

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>• Incorrect classification and expensing of repairs and maintenance instead of these to be capitalized into PPE.</li> <li>• Expenditure transactions not recorded in the general ledger.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are 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>• A thorough scrutiny of all expenses should be performed monthly to make sure all expenditure items that should be capitalized are capitalized instead of being expensed.</li> </ul>

<ul style="list-style-type: none"> <li>• Expenditure items recorded in an incorrect year.</li> <li>• Expenditure items where no supporting documentation was provided for audit.</li> <li>• No supporting calculation/documentation to prove the Inventory write-down amount the previous year.</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>• All expenditure items with appropriate underlying supporting invoices should be recorded in the GL.</li> <li>• A review of all expenditure items at year-end and beginning of the new year should be reviewed in detail to make sure that these are recorded in the correct year based on the supporting documentation.</li> <li>• A thorough review of carrying amounts for land stock should be performed to make sure that these are appropriately accounted for at the correct amount.</li> </ul>
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### 11. Unauthorized Expenditure

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>• There were material unexplained differences between the listing provided to support the opening balance of the current year.</li> <li>• Sufficient and appropriate audit evidence could not be obtained that the assets purchased (i.e additions) in the current year were appropriately budgeted for.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• There is an overreliance on the consultants.</li> <li>• This is due to inadequate record keeping.</li> </ul>	<ul style="list-style-type: none"> <li>• All expenditure items should be appropriately budgeted for</li> <li>• The daily, monthly and quarterly controls are should be performed adequately to make sure material differences are identified timely and resolved.</li> </ul>

### 12. 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> </ul>	<ul style="list-style-type: none"> <li>• 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 experienced staff 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> </ul>

<ul style="list-style-type: none"> <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> <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>		<ul style="list-style-type: none"> <li>• There must be a policy of consequence management that is implemented and communicated to staff.</li> </ul>
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### 13. Contingent Liabilities

Finding	Root cause	Recommendation
<p>Not all details of all legal cases the municipality is facing were recorded in the contingent liabilities register leading us not to be able to obtain sufficient appropriate audit evidence for contingent liabilities.</p>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• This is due to inadequate record keeping.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are should be performed adequately to make sure material differences are identified timely and resolved.</li> <li>• A comprehensive list of all legal cases and municipality's assessment should be compiled.</li> <li>• Legal confirmations from different attorneys should be performed.</li> </ul>

#### 14. Related Parties

Finding	Root cause	Recommendation
<p>Incomplete and inaccurate related parties' disclosure on the AFS:</p> <ul style="list-style-type: none"> <li>• Related parties' disclosure indicated that there are no related parties.</li> <li>• Key information related to names, surnames and other details were missing from the disclosure.</li> <li>• Councillors owing the municipality and the applicable provision for doubtful debt was not disclosed.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• This is due to inadequate record keeping.</li> <li>• Lack of review of the details disclosed on the AFS.</li> <li>• Over reliance on the consultants.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are should be performed adequately to make sure material differences are identified timely and resolved.</li> <li>• Detailed related party schedule should be maintained and updated regularly with all the required details.</li> <li>• A checklist with requirements of GRAP should be designed to make sure all the requirements are met before the amounts/details disclosed on the AFS.</li> </ul>

#### 15. 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> <li>• Not all errors were identified and included as prior period error.</li> </ul>	<ul style="list-style-type: none"> <li>• The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>• This is due to inadequate record keeping.</li> <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>

**16. Employee Benefit Obligation**

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> <li>Information was included at incorrect values and members that should not have been excluded were included to calculate the employee benefit obligation.</li> <li>Incorrect assumptions were applied during the valuation of the provision for post-employment medical aid contributions.</li> </ul>	<ul style="list-style-type: none"> <li>This is due to inadequate record keeping.</li> <li>The daily, monthly and quarterly controls are not performed adequately. This includes regular reconciliations.</li> <li>Lack of review of the details disclosed on the AFS.</li> </ul>	<ul style="list-style-type: none"> <li>The daily, monthly and quarterly controls are should be performed adequately to make sure material differences are identified timely and resolved.</li> <li>Detailed review of the information provided to the actuaries should be performed to make sure the correct and accurate details are provided.</li> <li>Detailed review of the assumptions applied by the actuaries should be performed to make sure that these are consistent.</li> </ul>

**17. Commitments:**

Finding	Root cause	Recommendation
<p>The municipality could not provide the contracts and variation orders in support of the commitments. As a result there was a material limitation on the commitment balance disclosure.</p>	<p>This is due to inadequate record keepin.</p>	<p>An adequate filing system must be put in place that is safe and that will ensure that documents can be retrieved with ease.</p>

## Predetermined objectives qualification areas

### KPA 1: Basic Services and Infrastructure Development

Finding	Root cause	Recommendation
<p>1. The objectives approved in the service delivery and budget implementation plan (SDBIP) were not reported in the annual performance report for the objectives as listed below:</p> <ul style="list-style-type: none"> <li>• To improve accessibility and mobility and control and direct the flow of storm-water and prevent road erosion.</li> <li>• To repair the current fence of the graves.</li> <li>• % reduction of energy efficiency.</li> <li>• To provide basic municipal services</li> <li>• To maintain existing infrastructure.</li> <li>• To effectively do revenue collection to ensure sound financial matters.</li> <li>• To promote road safety.</li> <li>• To fight poverty and to build, clean, healthy, safe and sustainable communities.</li> <li>• To provide quality basic services and infrastructure.</li> <li>• To ensure good governance financial viability and optimal institutional transformation.</li> <li>• The upgrading of the traffic centre.</li> <li>• Conducting library awareness.</li> <li>• Maintenance of sports facilities.</li> </ul> <p>2. Indicators and targets approved in the SDBIP were not reported in the annual performance report for the indicators as listed below:</p> <ul style="list-style-type: none"> <li>• Percentage of high mast light Mamusa LM complaints resolved.</li> <li>• Electricity losses eliminated.</li> </ul>	<p>Insufficient review of the annual performance report to ensure consistency with the planning documents.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>

<ul style="list-style-type: none"> <li>• Percentage of low voltage Mamusa LM complaints resolved.</li> <li>• Water losses reduced.</li> <li>• The percentage of households with access to basic level of sanitation.</li> <li>• Km of main / outfall sewers cleaned.</li> <li>• The percentage of households with access to basic level of electricity.</li> <li>• Number of electricity backlogs eliminated - Rural Settlements.</li> </ul>														
<p>The planned targets for these indicators were not specific in clearly identifying the nature and required level of performance and not measurable as listed below:</p> <table border="1" data-bbox="161 596 831 1361"> <thead> <tr> <th data-bbox="161 596 488 660">Indicator</th> <th data-bbox="488 596 831 660">Planned target</th> </tr> </thead> <tbody> <tr> <td data-bbox="161 660 488 794">Number of energy use reduced in various buildings, high-mast and street lights.</td> <td data-bbox="488 660 831 794">No of energy use reduced in various buildings, high masts and street lights by June 2019.</td> </tr> <tr> <td data-bbox="161 794 488 895">Electricity losses eliminated.</td> <td data-bbox="488 794 831 895">Eliminating electricity losses (town) from _% to _% by June 2019</td> </tr> <tr> <td data-bbox="161 895 488 1129">Percentage of low voltage Mamusa LM complaints resolved.</td> <td data-bbox="488 895 831 1129">Resolving at least 95% of all low voltage Mamusa LM complaints in the Mamusa LM licensed area (telephonic, written and verbal) received by June 2019.</td> </tr> <tr> <td data-bbox="161 1129 488 1230">Water losses reduced.</td> <td data-bbox="488 1129 831 1230">Reducing water losses from 35% to 23% by June 2019.</td> </tr> <tr> <td data-bbox="161 1230 488 1361">The percentage of households with access to basic level of sanitation.</td> <td data-bbox="488 1230 831 1361">100% of Households with access to basic level of sanitation by June 2019 .</td> </tr> </tbody> </table>	Indicator	Planned target	Number of energy use reduced in various buildings, high-mast and street lights.	No of energy use reduced in various buildings, high masts and street lights by June 2019.	Electricity losses eliminated.	Eliminating electricity losses (town) from _% to _% by June 2019	Percentage of low voltage Mamusa LM complaints resolved.	Resolving at least 95% of all low voltage Mamusa LM complaints in the Mamusa LM licensed area (telephonic, written and verbal) received by June 2019.	Water losses reduced.	Reducing water losses from 35% to 23% by June 2019.	The percentage of households with access to basic level of sanitation.	100% of Households with access to basic level of sanitation by June 2019 .	<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>
Indicator	Planned target													
Number of energy use reduced in various buildings, high-mast and street lights.	No of energy use reduced in various buildings, high masts and street lights by June 2019.													
Electricity losses eliminated.	Eliminating electricity losses (town) from _% to _% by June 2019													
Percentage of low voltage Mamusa LM complaints resolved.	Resolving at least 95% of all low voltage Mamusa LM complaints in the Mamusa LM licensed area (telephonic, written and verbal) received by June 2019.													
Water losses reduced.	Reducing water losses from 35% to 23% by June 2019.													
The percentage of households with access to basic level of sanitation.	100% of Households with access to basic level of sanitation by June 2019 .													



Km of main / outfall sewers cleaned.	Cleaning__20_ km of main / outfall sewers as per program in the Mamusa LM municipal area by June 2019.		
The percentage of households with access to basic level of electricity.	99% of Households with access to basic level of electricity by June 2019.		
Number of electricity backlogs eliminated - Rural Settlements.	Number electricity backlogs to be eliminated according to Eskom plan by June 2019 (Jurisdiction of Eskom).		
<p>I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to a lack of technical indicator descriptions, formal standard operating procedures or documented system descriptions to validate the existence of systems and processes that enable reliable reporting of actual service delivery against these indicators and a lack of underlying records support the reported achievement. I was unable to validate the existence of systems and processes and confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements reported in the annual performance report for the indicators as listed below:</p>		<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>
<b>Indicator reported</b>	<b>Reported achievement</b>		
The percentage of households with access to basic level of water.	70% of households with access to basic level of water.		
Percentage of medium voltage forced interruptions Mamusa LM complaints resolved.	100% at least all medium voltage forced interruptions in the Mamusa LM licensed area were resolved.		

Percentage of street lights Mamusa LM complaints resolved.	50% at least all street lights Mamusa LM complaints in Mamusa LM Licensed area (telephonic, written and verbal) received were resolved.		
Percentage of high mast light Mamusa LM complaints resolved.	[Not reported]		
R value income collected from electricity sales.	R15 369 606.76		
R value income collected from pre-paid electricity sales.	R8 268 458.41		
R value income collected from water sales.	R2 147 909.56		
<p>1. A comparison between the performance of the year under review and previous year was not sufficiently disclosed in the annual performance report for the indicators as listed below:</p> <ul style="list-style-type: none"> <li>• Number of energy use reduced in various buildings, high masts and street lights.</li> <li>• The percentage of households with access to basic level of water.</li> <li>• Percentage of medium voltage forced interruptions Mamusa LM complaints resolved.</li> <li>• Percentage of street lights Mamusa LM complaints resolved.</li> <li>• R value income collected from electricity sales.</li> <li>• R value income collected from pre-paid electricity sales,</li> <li>• R value income collected from water sales.</li> <li>• Number of (K78) multi road blocks.</li> <li>• Number of households with access to basic level of solid waste removal.</li> <li>• Number of cleaned illegal dumping sites.</li> <li>• Number of community cemeteries maintained.</li> <li>• Number of traffic fines issued.</li> <li>• Number of library programmes conducted.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of proper record keeping.</li> <li>• Insufficient review of the annual performance report.</li> </ul>	<ul style="list-style-type: none"> <li>• Training on the criteria contained in the performance management and reporting framework needs to provide to all officials involved in the performance management and reporting process.</li> <li>• 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.</li> </ul>	

- Number of sports facilities maintained.
- The percentage of households with access to basic level of sanitation.
- The percentage of households with access to basic level of electricity.

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**Various indicators not reliable**

I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements reported in the annual performance report of the indicators as listed below:

Indicator description	Reported achievement
Km of paved road in Ipelegeng Ext 8 access roads	Only the box cuts or earthworks were done which amounts to 50% of the total works
Km of paved road in Ipelegeng roads5	1.8km of paving of Ipelegeng roads and storm water completed.
Fencing of graveyards in Molatswaneng / Amalia	1.6km of fence installed at Amalia/Molatswaneng
Number of (K78) multi road blocks	9 Conducted (K78( Multi road blocks with all law enforcement agencies in the Co Municipal area
Number of households with access to basic level of solid waste removal	20286 household with access to basic level of refuse removal
Number of cleaned illegal dumping sites	28 illegal dumping sites cleaned
Number of community cemeteries maintained	9 cemeteries maintained
Number of traffic fines issued	1647 traffic fines issued




- Lack of proper record keeping
- Insufficient review of the annual performance report

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.

Number of sports facilities maintained	3 Sports Facilities maintained		
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## 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> <li>The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by the MFMA.</li> <li>Late submission of the annual financial statements to the Auditor-General for auditing was not appropriately addressed by the mayor and municipal council, as required by the MFMA.</li> <li>The annual performance report for the year under review did not include a comparison of the performance with set targets and comparison with the previous financial year and/or measures taken to improve performance, as required by the MSA.</li> <li>The 2017-18 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by the MFMA.</li> <li>The 2017-18 annual report was not published for the local community to submit representations in connection with the annual report, as required by the MFMA.</li> <li>The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by the MFMA.</li> <li>The oversight report adopted by the council on the 2017-18 annual report was not made public, as required by the MFMA.</li> </ul>
<i>Quality of submitted annual</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.</li> </ul>

<i>performance reports</i>	
<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 are various non-compliance and irregular expenditure identified on selected bids/quotations for testing.</li> </ul>
<i>Financial health</i>	The municipality is experiencing cash flow challenges as a result of the low debtor's collection rate which has impacted on the municipality's ability to pay creditors. This matter along with the other matters, are an indication that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

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

1. Lack of adequate oversight responsibility by the Accounting Officer over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal controls. The leadership did not implement adequate processes to ensure that reviews took place before information was submitted. This was evidenced by the material misstatements identified in the financial statements, audit of performance information and instances of non-compliance with laws and regulations
2. Lack of internal controls and adherence to existing internal controls, which resulted in various instances of irregular, fruitless and wasteful expenditure being incurred and other material misstatements in the financial statements, not being detected
3. Material misstatements were identified in the financial statements, because senior management did not detect misstatements during the preparation and review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements. Also documentation required to support the amounts in the financial statements submitted for audit were not adequately maintained and filed.
4. Underlying records and general ledger were not adequately maintained and reviewed resulting in various incorrect transactions being recorded. Management also did not adhere to the reporting and disclosure requirements of the applicable accounting framework.
5. The supply chain management unit of the entity did not always function effectively as incidences of irregular and fruitless and wasteful expenditure were identified. The necessary procurement procedures were not always followed.
6. The audit committee did not adequately review the financial statements to identify material misstatements.

