



Municipal Infrastructure
Support Agent (MISA)

REPUBLIC OF SOUTH AFRICA



MUNICIPAL INFRASTRUCTURE SUPPORT AGENT



ANNUAL REPORT
2017/2018 FINANCIAL YEAR







MUNICIPAL INFRASTRUCTURE SUPPORT AGENT (MISA)

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A low-angle photograph of several construction cranes silhouetted against a dramatic sky at sunset or sunrise. The sun is a bright orange glow on the right side, partially obscured by the cranes. The sky transitions from a deep blue at the top to a lighter orange near the horizon. The cranes are of various sizes and are positioned across the frame, creating a sense of scale and industrial activity.

PART A: GENERAL INFORMATION

1. GENERAL INFORMATION FOR MISA

REGISTERED NAME:	MUNICIPAL INFRASTRUCTURE SUPPORT AGENT
REGISTRATION NUMBER:	NONE
PHYSICAL ADDRESS:	1303 HEUWEL AVENUE LETABA HOUSE RIVERSIDE OFFICE PARK CENTURION 0046
POSTAL ADDRESS:	PRIVATE BAG X105 CENTURION 0157
TELEPHONE NUMBER:	+27 12 848 5300
EMAIL ADDRESS:	communications@misa.gov.za
WEBSITE ADDRESS:	www.misa.gov.za
EXTERNAL AUDITORS:	AUDITOR-GENERAL SOUTH AFRICA
BANKERS:	STANDARD BANK
COMPANY/ BOARD SECRETARY:	NONE

2. LIST OF ABBREVIATIONS AND ACRONYMS

AGSA	Auditor-General South Africa	ICT	Information Communication Technology
APP	Annual Performance Plan	IT	Information Technology
B2B	Back to Basics	LGTAS	Local Government Turnaround Strategy
CEO	Chief Executive Officer	M&E	Monitoring and Evaluation
CFO	Chief Financial Officer	MISA	Municipal Infrastructure Support Agent
CoGTA	Cooperative Governance and Traditional Affairs	MoA	Memorandum of Agreement
DBSA	Development Bank of Southern Africa	MoU	Memorandum of Understanding
DCOG	Department of Cooperative Governance	MTEF	Medium Term Expenditure Framework
DORA	Division of Revenue Act	MTSF	Medium Term Strategic Framework
DoT	Department of Transport	NDP	National Development Plan
DPSA	Department of Public Service and Administration	PFMA	Public Finance Management Act
FMPPi	Framework for Managing Programme Performance Information	PMDS	Performance Management and Development System
GDP	Gross Domestic Product	PMU	Project Management Unit
GRAP	Generally Recognised Accounting Practice	PSP	Professional Service Providers
HR	Human Resources	SANRAL	South African National Road Agency Limited
HRD	Human Resources Development	SCM	Supply Chain Management
		SO	Strategic Objectives

3. FOREWORD BY THE MINISTER

In the period under review, the Municipal Infrastructure Support Agent (MISA) continued to effectively play its role as the vehicle for supporting municipalities on the delivery and management of basic service infrastructure. During this period at least 81 municipalities received support through engineers and other technical professionals, as well as professional service providers. The agency also continued with the setting up of the Programme Management Office (PMO) established to manage the implementation of support for 27 districts prioritised by cabinet in view of relatively high service backlogs still prevalent within their spaces. The Inter-Ministerial Task Team (IMTT) for service delivery will intensify efforts towards reducing backlogs in these 27 districts and other municipalities in line with targets set in Outcome 9 of the Medium Term Strategic Framework (MTEF) for five years to 2019.



A key programme implemented by MISA in the period under review is the Regional Management Support Contract (RMSC). The successful implementation of this programme would enable municipalities to holistically improve their institutional systems and processes for delivering infrastructure and services. The institutional turnaround of municipalities is essential for improving their functionality and sustainability. A functional municipality is one that consistently performs the basic functions such as road maintenance, cutting of grass at the verges of the road, water supply, energy supply, refuse removal and maintenance of street lights to the satisfaction of its customers. The RMSC programme is also aligned with the Back to Basics approach that seeks to position all municipalities to serve their communities better.

In the period under review, MISA continued to function without adequate capacity due to high vacancies on the approved structure. Significant strides have been made in the filling of vacancies, particularly the appointment of engineers and other technical personnel as permanent employees. Notwithstanding the intense competition for scarce skills in the market, MISA is doing everything possible to attract and retain the right calibre of technical professionals to drive the implementation of its programmes.

It is also of concern that the number of municipalities struggling with spending on Municipal Infrastructure Grant (MIG) allocations remains high. Some of the municipalities with a perennial record of underspending have been found to be distressed or dysfunctional. To turn these municipalities around, we have initiated an intervention programme that is focussing on assisting distressed municipalities to build permanent capacity for the better delivery of infrastructure and services. In this regard, at least 55 municipalities have been selected to receive this kind of support during the first phase.

Targeted support to these municipalities will be provided through District Support Teams comprising of experts in various fields such as engineering, project management, finance, governance and geographic information systems, among others. MISA is key in the implementation of this programme, working with the Back to Basics team in the Department of Cooperative Governance. The strengthening of capacity in municipalities can only be sustained through the recruitment of suitably qualified people for critical positions. This will be achieved through, among others, the creation of a skills pipeline by training graduates and artisans, as well as upskilling of individuals already employed by municipalities to become professionals in their respective fields.

The MISA management and staff have done well on efforts towards getting municipalities to improve and accelerate the delivery of infrastructure for sustainable provision of services to the citizens. I also thank the Deputy Ministers for their unwavering support and invaluable contributions to the challenging task of enhancing the capability of the local government sphere towards improving people's lives.



DR ZWELINI L MKHIZE MP
MINISTER

4. DEPUTY MINISTER STATEMENT

Our dream of creating 'homes, neighbourhoods, villages, towns and cities that are safe and filled with laughter' as envisioned in the National Development Plan (NDP) remains intact. This dream is further accentuated in the Integrated Urban Development Framework (IUDF). The goal of achieving spatial justice and transformation would only be realised through collaborative efforts from all sectors of society. As CoGTA, we are acutely alive to numerous obstacles lying on the road towards the realisation of this ambitious goal. Accordingly, we have been intensifying the implementation of a range of initiatives aimed at improving our spatial configuration, under the oversight of the IUDF Political Steering Committee.

These initiatives include, among others, the Small Town Regeneration Project spearheaded by SALGA, National Treasury's City Support Programme targeted at the Metros and the Intermediate City Support Programme currently being piloted by CoGTA in uMhlatuze and Polokwane municipalities. Seven more municipalities from among the 39 targeted for support through the Intermediate City Support Programme will join the programme in the next two years. We are also working with the Department of Human Settlements to localise the New Urban Agenda through the IUDF.



The prolonged strike that recently plagued the bus transport sector severely impacted on low-income workers who rely on public transport to travel to work and access economic opportunities. Their burden is compounded by the long distances they have to cover on a daily basis since they live in the periphery of cities. The impact on these communities would have been cushioned under a spatial setting that provides better linkages between settlements, work opportunities and transportation networks. This experience serves to underscore the need to urgently address persisting deficiencies in our spatial planning system. There is a strong linkage between initiatives to transform spatial landscapes and increased access to land for human settlements. Our efforts would be in vain if they do not result in the integration of more disadvantaged families into settlements close to areas of work and served by efficient and integrated transport networks.

MISA has an immense contribution to make towards the transformation of our urban spaces through the support to municipalities on spatial planning and land use management. Some Planning Specialists within MISA are already playing a pivotal role in the implementation of the Intermediate City Support Programme. There is a need for a drastic shift among municipalities as far as planning for infrastructure development and human settlements is concerned. More emphasis should be placed on the importance of integrating human settlements with economic infrastructure and transportation system in their planning approach. Local Economic Development should also be at the centre of municipalities' developmental efforts given that the creation of jobs is critical for the sustainability of municipalities.

It has been my pleasure to continue to contribute to the transformation of the municipal planning and infrastructure landscape working with a dedicated team of managers in MISA over the past year. My work was made much easier because of unwavering support from the Minister and Deputy Minister Obed Bapela. I am also grateful to Minister Mkhize whose drive to turnaround distressed municipalities has invigorated our efforts to realise the vision of a developmental local government.

A stylized, handwritten signature in black ink, appearing to read 'ANDRIES NEL'.

ANDRIES NEL, MP

DEPUTY MINISTER FOR COOPERATIVE GOVERNANCE

5. CHIEF EXECUTIVE OFFICER'S OVERVIEW

The Municipal Infrastructure Support Agent received a budget of R381 million from the National Revenue Fund through CoGTA Vote in 2017/18. An additional R4 million worth of interest was received resulting in the total revenue for the year of R385 million. Spending against allocated budget was R302 million as at the end of the financial year, which is equivalent to 78% of the total annual budget. Underspending for the year amounted to R83 million. This is as a result of low expenditure on compensation of employees and the ring-fenced allocation earmarked for the rollout of the Regional Management Support Contracts (RMSC) programme. The RMSC is a change management programme aimed at turning around municipalities for improved the delivery of basic services infrastructure. There was a delay in the rollout of the RMSC programme due to a slow start in the implementation of the programme in some of the pilot districts. Substantial progress has, however, been made towards the realisation of the RMSC objectives. Planned milestones for phases one and two have been approved in one district. Draft turnaround and implementation plans for two districts are in place.



Underspending in relation to compensation of employees was due to high vacancy rate that persisted during the period under review. This was caused by the time lag between job evaluation, advertisement and the completion of the appointment process. Consequently, most of new employees only joined the organisation towards the end of the financial year. Huge strides have been made in bringing new employees into the organisation to date. Expanded capacity created by ongoing recruitment will not only result in higher spending level in the next year but will also enhance the ability of MISA to achieve performance targets in the 2018/19 annual performance plan.

Slow implementation of projects linked to performance targets in the annual performance plan was the main reason behind unsatisfactory organisational performance. Other factors that contributed to low performance are delays in the procurement process and weaknesses in project management. Enhancement of internal capacity through ongoing recruitment will enable management to address these weaknesses. Monthly reviews of performance against the APP targets to improve performance monitoring are being conducted. Management intends to apply for the retention of unspent funds from the 2017/18 budget to fund projects that are part of commitments emanating from the last financial year.

The Minister has initiated an intervention programme for turning around municipalities categorised as distressed or dysfunctional. MISA is playing a critical role towards the successful implementation of this programme. A minimum of 55 municipalities considered to be distressed have been selected for support under this initiative. The selection of municipalities for this programme was based on poor spending of the Municipal Infrastructure Grant (MIG) allocations over the past five years and other service delivery concerns. Municipalities included in the above list either had their MIG allocations stopped and reallocated to other municipalities at least twice over the past five years or have been consistently experiencing service delivery challenges. The focus of this programme is to support these municipalities to enable them to create permanent capacity for effective and efficient provision of infrastructure for basic service provision.

In the preceding financial year MISA experienced challenges with regard to the supply chain management (SCM) function due to capacity constraints within the unit. Weaknesses in internal controls within the SCM function resulted in high incidences of irregular expenditure. To address capacity challenges, MISA sourced additional capacity by appointing an external service provider starting from April 2017 and prioritised the filling of key vacancies. With expanded capacity, management has already addressed most of the weaknesses in SCM system and processes previously raised by the Auditor-General. Capacity

deficiencies in other programmes also contributed to unsatisfactory organisational performance in the period under review. Enhancement of internal capacity through ongoing recruitment will enable management to improve performance in the coming years.

In 2016/17 financial year, MISA received unqualified audit opinion on the annual financial statements for the fourth consecutive year. With respect to the audit of predetermined objectives (AoPO), the Auditor-General (AG) expressed a qualification opinion on Programme 2 (Technical Support) and an unqualified opinion on Programme 3 (Technical Skills). Although this was an improvement from the previous audit outcomes in relation to both programmes, management is implementing measures aimed at achieving a clean audit. Key among these measures, is the quarterly review of performance information by the Planning, Monitoring and Evaluation (PME) Committee to ensure reliability of documented evidence to validate reported performance.

In 2018/19 MISA will continue to fill vacancies in the approved structure. This will ensure that the agency is adequately resourced for effective execution of its mandate and improvement in organisational performance. Improved organisational performance will, in turn, alleviate the problem of underspending. It is critical for MISA to attract suitably qualified engineers and other technical professionals to improve the quality and level of support provided to municipalities. The need for additional resources is underscored by the shift towards supporting municipalities to build permanent internal capacity for municipal infrastructure delivery and management. There is a need for additional resources to ensure that the programme towards building permanent internal capacity is realised. To this end, MISA is currently engaging National Treasury with the aim of requesting additional funding during the budget adjustment in September 2018.

Achievements highlighted in this report are duly attributable to commitment and efforts of the management team and all other staff members within MISA. I am grateful for the contribution made by my colleagues and their appreciation of the tough task of taking the organisation to even higher performance levels in the future. It is also my pleasure to acknowledge the leadership and support provided by the Minister, Deputy Ministers and the Director-General of DCoG without which it would have been extremely difficult to reach our milestones for the year.



NTANDAZO G VIMBA
CHIEF EXECUTIVE OFFICER
MUNICIPAL INFRASTRUCTURE SUPPORT AGENT

DATE: 31/07/2018

6. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor General. The annual report is complete, accurate and is free from any omissions. The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB). The annual financial statements are based upon appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the entity and places considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring that the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operational risk cannot be fully eliminated, the agency endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by Management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, the performance information and the financial affairs of the entity for the financial year ended 31 March 2018.

Yours faithfully



NTANDAZO G VIMBA
CHIEF EXECUTIVE OFFICER
MUNICIPAL INFRASTRUCTURE SUPPORT AGENT

DATE: 31/07/2018

7. STRATEGIC OVERVIEW

7.1 Vision

Our vision is to strive for sustainable municipal infrastructure and service delivery.

7.2 Mission

Our mission is to render technical advice and support to municipalities to enable them to optimise municipal infrastructure provisioning. By optimising the provision of infrastructure, municipalities will be able to deliver municipal services of the right quality and standards.

7.3 Values

Guided by the spirit of Batho Pele, our values are:

- Commitment to public service;
- Integrity and dedication to fighting corruption;
- A hands-on approach to dealing with local challenges;
- Public participation and people centered approach;
- Professionalism and goal orientation;
- Passion to serve; and
- Excellence and accountability.

8. LEGISLATIVE AND OTHER MANDATES

8.1 MISA's Mandate

MISA is mandated, in terms of the operational notice issued by the Minister in July 2013, to render technical advice and support to municipalities so that they optimise municipal infrastructure provision. MISA is expected to execute this mandate by performing the following functions:

- Supporting municipalities to conduct effective infrastructure planning to achieve sustainable service delivery;
- Supporting and assisting municipalities with the implementation of infrastructure projects as determined by the municipal integrated development plans (IDPs);
- Supporting and assisting municipalities with the operation and maintenance of municipal infrastructure;
- Building the capacity of municipalities to undertake effective planning, delivery, as well as operations and maintenance of municipal infrastructure; and
- Performing any function that may be deemed ancillary to those listed above.

As a government component under the Portfolio of Cooperative Governance and Traditional Affairs, MISA derives its mandate from the same legislative framework applicable to the entire CoGTA Portfolio. Its specific mandate is, however, set out in the Government Notice on Administration and Operations of the Municipal Infrastructure Support Agent gazetted on the 5th of July 2013, in accordance with the Public Service Act of 1994.

The broader legislative provisions that set out the mandate for CoGTA are presented below. Although MISA's operation is ring-fenced, the organisation operates as an integral part of the Department of Cooperative Governance that is legally designated as the parent department for MISA.

8.2 Constitutional Mandate

CoGTA's mandate is primarily derived from Chapters 3, 5, 6, 7, and 9 of the Constitution of the Republic of South Africa, 1996, hereafter referred to as the Constitution. The main thrust for each of these chapters is presented below.

Chapter 3 - This chapter deals with cooperative government and intergovernmental relations. The Department will have to observe and adhere to the principles in this chapter and that we conduct our activities within the parameters of this chapter.

Chapter 5 - This chapter deals with national intervention in provincial administration when a province cannot or does not fulfil an executive obligation in terms of the Constitution or legislation.

Chapter 6 - This chapter deals with provincial intervention in local government, in particular when municipalities are unable to fulfil their executive obligation. Chapter 6 is also relevant when a municipality, as a result of financial crisis, breaches its obligations to provide basic services in order to meet its financial obligations.

Chapter 7 - The chapter deals, inter alia, with municipalities in cooperative governance. The Department, by legislation, must support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers and perform their functions.

Chapter 9 - This chapter deals with those institutions whose role requires strengthening the constitutional democracy of the country. The DCoG has to comply with all legislative frameworks in this chapter in order to meet legislative requirements under the auspices of institutions such as the Auditor-General and Public Protector.

DCoG's primary mandate is to:

Develop and monitor the implementation of national policy and legislation seeking to transform and strengthen key institutions and mechanisms of governance to fulfil their developmental role.

Develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementation within government.

Promote sustainable development by providing support to and exercising oversight over provincial and local government.

8.3 Legislative Mandate

As a national department, DCOG's function is to develop national policies and legislation with regard to local government and to monitor, inter alia, the implementation of the following pieces of legislation:

Name of Legislation	Mandate
Municipal Property Rates Act, 2004 (Act No.6 of 2004)	To regulate the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies; to make provision for fair and equitable valuation methods of properties; and to make provision for an objections and appeals process therewith.
Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003)	To secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.

Name of Legislation	Mandate
Disaster Management Act, 2002 (Act No. 57 of 2002)	<p>To provide for:</p> <p>An integrated and coordinated disaster management policy, which focuses on preventing or reducing the risk of disasters, mitigating the severity of disasters, emergency preparedness, rapid and effective response to disasters and post-disaster recovery.</p> <p>The establishment of national, provincial and municipal disaster management centres.</p> <p>Disaster management volunteers.</p> <p>Matters incidental thereto.</p>
Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)	<p>To provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities; to ensure universal access to essential services that are affordable to all; to define the legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures; to provide for the manner in which municipal powers and functions are exercised and performed; to provide for community participation; to establish a simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change, which underpin the notion of developmental local government; to provide a framework for local public administration and human resource development; to empower the poor and ensure that municipalities establish service tariffs and credit control policies that take their needs into account, by providing a framework for the provision of services, service delivery agreements and municipal service districts; to provide for credit control and debt collection; to establish a framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment.</p>
Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998)	<p>To provide for the establishment of municipalities, in accordance with the requirements relating to categories and types of municipality; to establish criteria for determining the category of municipality to be established in an area; to define the types of municipality that may be established within each category; to provide for an appropriate decision of functions and powers between categories of municipality; to regulate the internal systems, structures and office-bearers of municipalities; to provide for appropriate electoral systems; and to provide for matters in connection therewith.</p>
The Intergovernmental Relations Framework Act (Act No. 13, of 2005)	<p>The objective of this Act is to facilitate coordination by the three spheres of government in the implementation of policy and legislation. It is a Framework Act, which allows for flexibility between the spheres in meeting the challenges within the conduct and practice of cooperative government. It also provides for the basic architecture of intergovernmental structures and for processes to guide the settlement of intergovernmental disputes.</p>

Name of Legislation	Mandate
Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998)	To provide for criteria and procedures for the determination of municipal boundaries by an independent authority; and to provide for matters connected thereto.
Organised Local Government Act, 52 of 1997	To provide for the recognition of national and provincial organisations representing the different categories of municipalities; to determine procedures by which local government may designate representatives to participate in the National Council of Provinces; to determine procedures by which local government may consult with national and provincial government; to determine procedures by which local government may nominate persons to the Financial and Fiscal Commission; and to provide for matters connected therewith.
Fire Brigade Services Act, 99 of 1987	To provide for the establishment, maintenance, employment, coordination and standardisation of Fire Brigade Services; and for matters connected therewith.
Remuneration of Public Bearers Act, 20 of 1998 Local Government: Cross-Boundary Municipal Act, 29 of 2000	<p>To provide for a framework determining the salaries and allowances of the President, members of the National Assembly, permanent delegates to the National Council of Provinces, Deputy President, ministers, deputy ministers, traditional leaders, members of provincial Houses of Traditional Leaders and members of the Council of Traditional Leaders; to provide for a framework determining the upper limit of salaries and allowances of Premiers, members of Executive Councils, members of provincial legislatures and members of Municipal Councils; to provide for a framework determining pension and medical aid benefits of office bearers; to provide for the repeal of certain laws; and to provide for matters connected therewith.</p> <p>To give effect to section 155(6A) of the Constitution by authorising the provincial executives affected to establish cross-boundary municipalities; to provide for the re-determination of the boundaries of such municipalities under certain circumstances; and to provide for matters connected therewith.</p>

8.4 Policy Mandate

The National Development Plan (NDP) – Vision 2030

The National Development Plan (NDP) recognises the need for South Africa to invest in the expansion of its infrastructure network essential for the achievement of the country's socio-economic objectives. This goal of expanding infrastructure throughout the country can only be achieved through the development of robust infrastructure and ensuring that once developed the infrastructure assets are properly maintained.

Notwithstanding the pivotal role designated for local government in the ongoing roll-out and maintenance of infrastructure for the provision of basic services such as water, sanitation, electricity, solid waste as well as roads and storm-water, this sphere of government is still confronted with numerous challenges that continue to constrain the ability of most municipalities to

fulfil this role. These challenges include the following:

- Lack of proper planning for the development of new infrastructure;
- Ineffective project management practices that adversely affect both the quality and duration of projects.
- Inadequate investment in operation and maintenance of existing infrastructure;
- Limited human and financial resources, especially in rural municipalities, to deliver and manage infrastructure for services provision;
- Inadequate bulk infrastructure to supply all households with basic services like water and electricity; and
- Lack of long term planning towards addressing infrastructure backlogs and enhancing the sustainability of the infrastructure.

Medium Term Strategic Framework for 2014 – 2019

The Medium Term Strategic Framework (MTSF) for the period 2014–2019, particularly the chapter on Outcome 9, provides a foundational base for the revised strategic plan of MISA (and COGTA) for 2014–2019 and the 2017/18 Annual Performance Plan (APP). MISA's Strategic Plan for 2014 – 2019 (as amended) and APP for 2017/18 were aligned to CoGTA's strategic plan for the same period. The Department of Cooperative Governance (DCOG) is responsible for leading and coordinating the implementation of Outcome 9, which seeks to build a "*Responsive, accountable, effective and efficient developmental local government system*".

There are five sub-outcomes under Outcome 9 as listed below:

- Members of society have sustainable and reliable access to basic services.
- Intergovernmental and democratic governance arrangements for a functional system of cooperative governance and participatory democracy strengthened.
- Sound financial and administrative management.
- Promotion of social and economic development.
- Local public employment programmes expanded through the Community Work Programme.


In accordance with its core mandate, MISA has positioned itself to contribute towards the achievement of sub-outcome 1 of Outcome 9.

Sub Outcome 1 strives for "*Members of society to have sustainable and reliable access to basic services*". MISA contributes to the attainment of this sub-outcome by providing technical support to municipalities to enable them to properly plan for, deliver, operate and maintain infrastructure projects aimed at expanding or maintaining access by households to basic services such as water and sanitation, electricity, waste collection and roads and storm water. This support was directed largely to municipalities within the 27 districts identified by Cabinet in 2011 as priority focus areas owing to their relatively high level of service backlogs.

The Local Government Back to Basics Strategy

The Minister of COGTA, in the COGTA Budget Vote delivered after the 2014 General Elections, set out the Back to Basics (B2B) approach, which was subsequently presented at the Presidential Local Government Summit in September 2014 and widely endorsed by all local government stakeholders. The B2B programme is designed to ensure that all municipalities perform their basic responsibilities and functions without compromise. The programme is built on 5 pillars outlined below:

- Put people and their concerns first and ensure constant contact with communities through effective public participation platforms.
- Create conditions for decent living by consistently delivering municipal services of the right quality and standard. This includes planning for and delivery of infrastructure and amenities, maintenance and upkeep, including the requisite budgeting to do this and ensuring that there are no failures in services, and where there are, restore services with urgency.
- Be well governed and demonstrate good governance and administration, this includes cutting wastage, spending public funds prudently, hiring competent staff, and ensuring transparency and accountability.



Ensure sound financial management and accounting, and prudently manage resources so as to sustainably deliver services and bring development to communities.

Build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and skilled personnel at all levels.

The methodology to operationalise the B2B approach was based on a more integrated and hands-on approach to cooperative governance intended to reassert the unitary nature of the South African state. This involves measuring and managing the performance of municipalities (through 'institutional performance management'), and recognising and responding differently to different levels of performance (a 'differentiated approach'). CoGTA is responsible for mobilising a coalition of stakeholders around the B2B approach to unlock the creative energies across all spheres of government and sectors of society, including the private sector. Part of this 'unlocking' valuable contribution by key players involves putting tools directly in the hands of citizens to hold their municipalities to account.

Relevant Court Rulings

There are no court rulings that have had an impact on MISA's strategic plan.

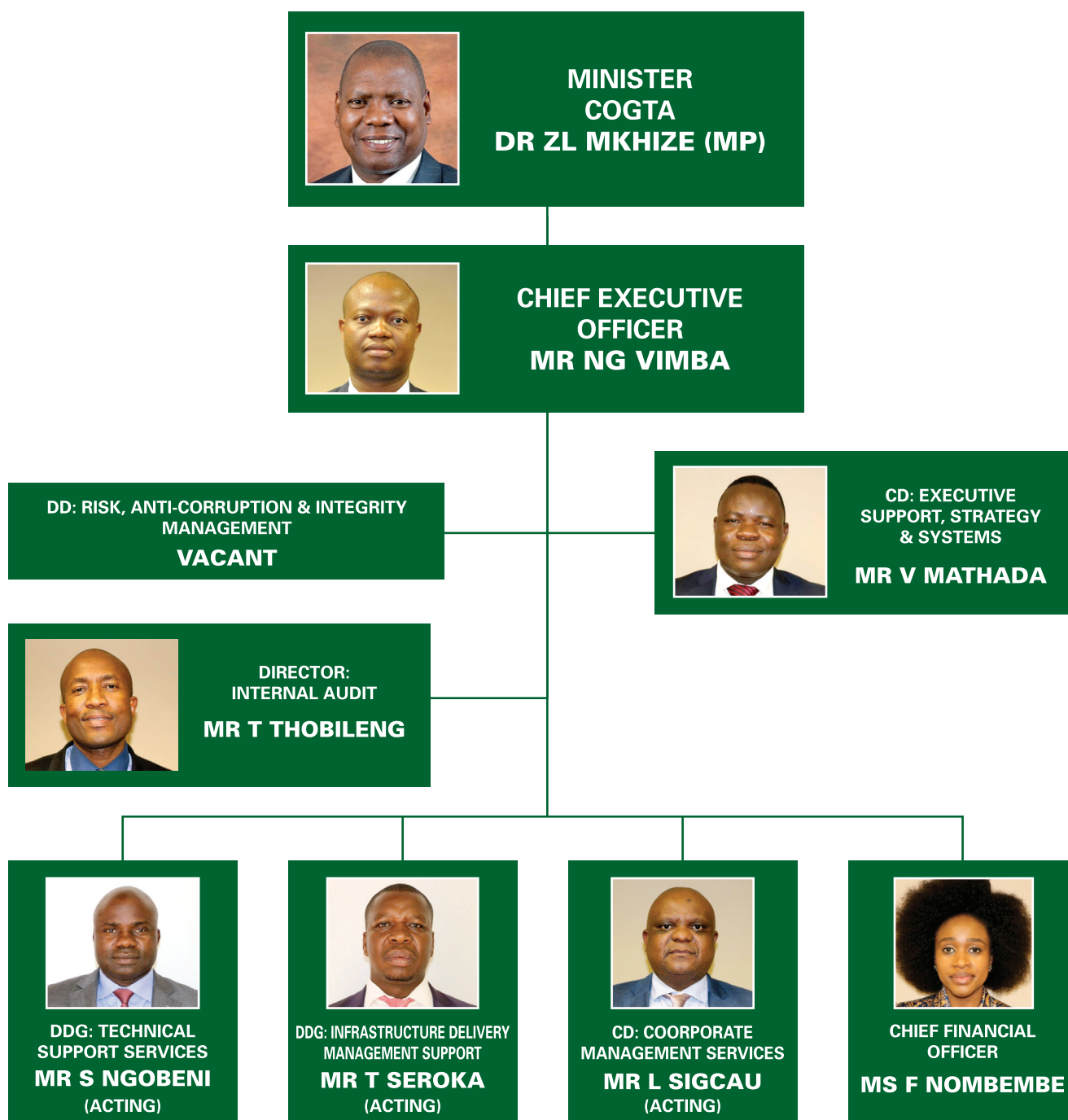
Policy Initiatives

The envisaged outcome of the ongoing process of amending the Municipal Systems Act, 32 of 2000 with the aim of professionalising local government would go a long way in enabling the achievement of MISA's objective of building technical capacity in municipalities for improved delivery and management of municipal infrastructure. The envisaged regulations would compel all municipalities to appoint only suitably qualified and experienced professional staff for the performance of technical functions.

9. ORGANISATIONAL STRUCTURE

At the beginning of 2017/18 financial year, the Department of Public Service and Administration granted concurrence to the approved structure for MISA. Upon obtaining this concurrence, MISA management embarked on the filling of vacancies on the revised structure to strengthen organisational capacity. In implementing the new structure, management prioritised the filling of technical positions and other critical positions under the support functions. Significant strides have been made in the appointment of engineers and other technical professionals on a permanent basis, in line with the Occupation Specific Dispensation (OSD) within the public service. This achievement has enabled the organisation to progressively reduce its reliance on consultants for performing its core function of supporting municipalities. The approved structure is presented below.

Figure A: Organisational Structure for Municipal Infrastructure Support Agent (MISA)





PART B: PERFORMANCE INFORMATION

1. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The Auditor-General's report on the audit of Predetermined Objective is incorporated into the report of the external auditor under Part E of this annual report.

2. SITUATIONAL ANALYSIS

2.1 Service Delivery Environment

Local government is a primary site for the delivery of basic services in South Africa, and since 1994 tremendous progress has been made in the delivery of water, electricity, sanitation and refuse removal. Notwithstanding these achievements, there are areas in which local government is failing to meet the expectations of the citizens, where a collapse in core municipal infrastructure services has resulted in services either not being provided at all, or provided at unacceptably low levels.

Concomitant to this collapse are problems associated with municipal governance, capacity and financial viability. The low rate of collection of revenue also continues to undermine the ability of municipalities to deliver services to communities. There are far too many instances both of inappropriate placements and skills not measuring up to requirements. This is compounded by widespread instances of rent seeking and corruption amongst public representatives and businesses, reflecting a broader breakdown in the values and good governance principles. These municipalities lack a culture of public service, and there is slow or inadequate responses to service delivery challenges, which results in the breakdown of trust between councils and communities. Social distance by our public representatives is reflected in inadequate public participation and poorly functioning ward councillors and committees.

In 2014, CoGTA conducted a review of South Africa's 278 municipalities, which revealed that the top third of municipalities were managing to do the basics right and perform their functions at least adequately. Within this group, there is a small group of top performers that are doing extremely well. The middle third of municipalities reviewed are fairly functional, but still characterised by worrying signs of poor performance or decline. This middle group can be classed as 'at risk', since if left unchecked these could lead to a further decline. The bottom third of municipalities are frankly dysfunctional, and the basic mechanisms to perform their functions are not in place. These municipalities were found to be failing the citizens, and urgent intervention was considered necessary in order to correct the decay in the system. In support of the implementation of the Back to Basics programme, MISA refocused its programmes to align with the approach and to complement efforts of other branches within DCOG and other role players.

At the heart of Back to Basics approach is the emphasis on getting each municipality to be a well-functioning institution with the necessary human resources capability to perform its core function effectively and efficiently. The achievement of the objectives of Pillar 2 (delivering municipal services of the right quality and standard) largely depends on addressing current infrastructure backlogs and deficiencies in the management of municipal infrastructure. Efforts towards addressing infrastructure and service delivery challenges, in line with Pillar 2 of B2B, are directed at the following:

- Development and implementation of municipal infrastructure plans;
- Implementation of operations and maintenance plans (at least 7% of OPEX Budget);
- Reduction of backlogs and ensure that municipalities acquire relevant skills for infrastructure development and management;
- Accelerated implementation of a pipeline of projects in 27 Districts with particular focus on water and sanitation;
- Service delivery interruptions monitored at national level – No service failures; where they occur, ensure they restore them urgently; and
- Coordinating service delivery initiatives of national government and provincial departments.

These measures will bring about positive outcomes only if they are complemented by other components of the municipality being targeted through the other four pillars of the B2B approach. To address the service delivery challenges raised above, government continues to mobilise key role players in the local government sector to contribute to efforts towards getting the basics right. This is being done through the setting of performance benchmarks that should be implemented to ensure that municipalities perform their basic responsibilities, every day, without fail. MISA has positioned itself to contribute towards the achievement of the objectives of pillar 2 of B2B and to a reasonable extent pillar 5, as presented below:

- **Pillar 2:** Ensuring significant improvements in service delivery through sound infrastructure management.
- **Pillar 5:** Building institutional resilience and initiating the next phase of institution building.

It is important to indicate that MISA has been operating within the institutional arrangement created for the implementation of Back to Basics. MISA's programme management teams in various provinces will continue to vigorously participate in the provincial task teams and the district crack teams driving the B2B implementation in municipalities. A process of reallocating resources to align the support with the district approach that has been introduced through the B2B is currently in motion. Simultaneously, a review of MISA operational model will be undertaken with the objective of improving the effectiveness of the support programmes and to ensure that our technical professionals respond with greater speed to instances of infrastructure failures.

The implementation of Back to Basics approach necessitated a change in MISA's operational approach to ensure that the provincial teams become more responsive to the challenges facing municipalities. The approach of assigning individual professionals to focus on one or more municipalities over a period of time was deemed to be out of sync with the imperatives of back to basics. To address this deficiency in the operational model, MISA initiated a process of aligning with the district approach that required the establishment of multi-disciplinary teams based at the district level for the purpose of supporting all municipalities within a particular district on the basis of their respective needs and problems.

2.2 Organisational Environment

During the year under review management embarked on the process of boosting its capacity by filling vacancies on the revised structure approved by the Executive Authority in January 2017. Considerable progress has been made in the filling of priority positions, especially under the core programmes responsible for providing support to municipalities. In this regard, more than half of technical positions have been filled to date. The appointment of engineers and other technical professionals on a permanent basis is allowing the agent to reduce its reliance on external consultants in the performance of core functions.

Notwithstanding the above-mentioned progress, it is proving difficult to attract engineers due to the competitive remuneration offered by private sector companies. The ability of MISA to effectively compete for scarce skills remains constrained despite the adoption of the Occupation Specific Dispensation (OSD) as the mechanism for appointing skilled technical professionals. The positions of Chief Executive Officer (CEO) and Deputy Directors-General (DDGs) remained vacant throughout the year under review. The process of appointing the CEO on a permanent basis has since been finalised. The filling of two DDG positions will be concluded before the end of September 2018. Capacity challenges that continued to plague the organisation during the year under review adversely impacted on the achievement of some targets in the annual performance plan (APP) due to slow implementation of projects linked to affected indicators.

2.3 Key Policy Developments and Legislative Changes

There were no changes in policies and legislation with a bearing on the operations of the organisation during the year under review.

2.4 MISA's Strategic Outcome Oriented Goals

MISA has four strategic outcome oriented goals as reflected in the updated five-year strategic plan and annual performance plan for 2017/18. In the paragraph below each goal is presented followed by an outline of progress in the achievement thereof during the year under review.

2.4.1 Programme 1: Administration

This programme provides strategic direction, leadership, management and effective and efficient administrative support services to the organisation. The programme serves as the enabler to the key functions of the organisation.

Strategic Goal 1

Refocus and strengthen the capacity of MISA to deliver on its mandate.

The capacity of the Administration Programme has been enhanced through the filling of vacancies in critical functions such as Supply Chain Management (SCM) and Internal Audit. The strengthening of capacity has resulted in improvements in internal controls, particularly in relation to SCM processes. Following the appointment of Director for Information Communication and Technology in March 2018, the agent has made progress towards improving controls within the ICT environment. It is envisaged that most of the audit findings previously raised by the Auditor-General and Internal Audit in respect to ICT will be addressed in the first half of 2018/19. MISA will strive to improve spending against budget in the coming financial year by ensuring improvement in the management of projects linked to performance targets in the annual performance plan. Notable improvements have been made in the reliability of performance information, as reflected in the audit outcome.

2.4.2 Programme 2: Technical Support Services

The Technical Support Services Programme manages the provision of technical support and technical capabilities to enhance the delivery of municipal infrastructure programmes. Each of the two goals under this programme is presented below and an outline of progress towards the achievement of each.

Strategic Goal 2

Ensure significant improvements in service delivery through sound infrastructure management.

MISA provided support to more than 81 municipalities on infrastructure planning, delivery and operations and maintenance. Support to each of these municipalities was set out in the technical support plan (TSP) developed jointly by MISA provincial teams and respective municipalities. Although technical support provided by MISA has enabled municipalities to undertake activities relating to planning, infrastructure development and maintenance, most municipalities continue to experience disruption in service provision due to lack of operations and maintenance of infrastructure. Some municipalities consistently underspend on their Municipal Infrastructure Grant (MIG) allocation resulting in stopping and reallocation of funds to the detriment of communities expecting the delivery of services. More work will be done in the coming year to ensure weaknesses in infrastructure delivery identified during the assessment of some of 27 priority districts are addressed by municipalities with support from MISA. The implementation of the Regional Management Support Contracts (RMSC) programme started at a slow pace at the beginning of the financial year but picked up as the year progressed. The implementation of this programme will continue in the three pilot districts in the course of 2018/19.

Strategic Goal 3

Improving technical capabilities in identified municipalities for effective and efficient delivery and management of municipal infrastructure.

The Technical Skills sub-programme focusses mainly in the implementation of learning programmes in collaboration with municipalities that host learners enrolled for training with MISA and the training of municipal officials. MISA also contributes to the creation of a pipeline of scarce skills through the bursary scheme that provide financial support to students enrolled for technical courses in universities and Technical Vocational Education and Training (TVET) colleges. A major challenge in relation to capacity building for local government is that there are few municipalities absorbing artisans and graduates trained by MISA despite experiencing high shortages of skilled personnel to perform functions related to infrastructure delivery and management. To bridge this gap, MISA has introduced an Artisan Placement Programme in terms of which qualified artisans and water process controllers are placed in municipalities over a maximum period of two years with the undertaking that the respective municipalities will absorb them into their organograms at the end of the placement period. During the year under review MISA initiated the development of a Capacity Building Framework that will guide the building of capacity for local government in the coming years. The rationale for developing the framework is to create broad parameters for a systematic approach to building capacity in local government. This approach is already being piloted in seven municipalities that are being supported to develop and implement capacity building plans.

2.4.3 Programme 3: Infrastructure Delivery Management Support

This is a new programme introduced within MISA in the 2016/17 financial year. It has been included in the newly approved structure for MISA, based on the Refining the Focus of MISA document. The programme manages the provision of implementation support services on infrastructure projects, operations and maintenance of municipal infrastructure.

Strategic Goal 4

Ensure sustainable improvement in municipal infrastructure delivery through infrastructure procurement, financing, contract management and development of institutional capacity of municipalities to procure and contract manage infrastructure projects.

The main focus of the Infrastructure Delivery Management Support (IDMS) during the year under review was the setting up of framework contracts against which municipalities can place orders for certain infrastructure goods and services. A priority has been given to water and sanitation, goods and services and electrical transformers. The rationale behind framework contracts is that municipalities could shorten the procurement process by tapping into existing contracts thereby improving responsiveness in the event of disruption to services caused by infrastructure failures. From the experience in setting up framework contracts, it became apparent that the setting up of such contracts involves complex processes. Progress in this area was derailed because the bidding process in respect to contracts for water and waste water infrastructure, as well as water and sanitation goods and service had to be restarted after cancellation due to non-responsiveness of received bids. Framework contracts for ground and pole mounted electrical transformers were successfully awarded during the period under review.

3. PERFORMANCE INFORMATION BY PROGRAMME

3.1 PROGRAMME 1: ADMINISTRATION

Purpose: Provide strategic direction, leadership, management and effective and efficient administrative support services to the organisation.

Programme overview: The programme serves as the enabler to the key functions of the organisation. It has the following sub-programmes:

Sub-programme 1.1: Executive Support, Strategy and Systems

This sub-programme is located within the office of the Chief Executive Officer (CEO) with the responsibility of providing executive and administrative support to the Accounting Officer. It ensures that the organisational strategy enhances the ability of MISA to achieve its mandate and that the organisational design facilitates effective implementation of strategic objectives. In addition to the management of the Office of the CEO, the sub-programme ensures that the organisation develops and implements effective planning processes; and that the strategic plan and annual performance plans derived are aligned to the service delivery imperatives identified and also performs monitoring and evaluation function. This function includes performance oversight and implementation of measures for organisational performance improvement. The sub-programme is also responsible for providing Information Communication and Technology management services and performing the Internal Audit and Risk Management function within the organisation. Internal Audit and Risk Management units are also under the CEO's Office. Internal Audit unit reports to the CEO on administrative matters while operating independently from management.

Sub-programme 1.2: Financial Management Services

Provides sound financial stewardship and management in the organisation, in compliance with relevant legislation, regulations and policies. This includes Supply Chain Management and Asset Management functions.

Sub-programme 1.3: Corporate Management Services

This sub-programme is responsible for ensuring that the work environment in MISA enhances motivation and productivity in the workplace. The sub-programme provides human resource management and development, facilities management, legal services, security services, as well as communication services.

Programme Name: Administration						
Executive and Administrative Support, Strategic Planning, and Monitoring & Evaluation						
Goal 1: Refocus and Strengthen the capacity of MISA to deliver on its mandate						
Strategic Objective 1.1: Improve the usefulness and reliability of performance information						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
1.1.1 Strategic Plan and/or Annual Performance Plan (APP) compiled, approved by Executive Authority and submitted to Parliament in line with the National Treasury guidelines, including within National Treasury stipulated timelines	Achieved Approved APP was tabled in Parliament within the deadline	Compliant 2017/18 APP approved and submitted on time	Achieved	N/A	N/A	
1.1.2 Number of performance reports produced in terms of National Treasury guidelines and timeframes and approved by the Accounting Officer or Executive Authority	New Indicator	6 approved performance reports (4 Quarterly Performance Reports, 1 Performance Information Report and 1 Annual Report)	Achieved	N/A	N/A	
1.1.3 Number of approved Programme and/or Project Monitoring & Evaluation reports per year as per approved Monitoring and Evaluation Plan		2	Not Achieved	1 Below Target	Delays in the appointment of a service provider to conduct an evaluation of the Technical Support Programme.	

Programme: Administration						
Internal Audit and Risk Management						
Goal 1: Refocus and Strengthen the capacity of MISA to deliver on its mandate						
Strategic Objective 1.2: Improve the effectiveness of internal controls, risk management and governance structures						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
1.2.1 Approved Risk Register	Not Achieved	Risk Register updated and approved by Accounting Officer by 31st March of each year	Not Achieved	The risk register was approved by the Accounting Officer after the 31st of March 2018	The risk assessment was conducted only late resulting in the assessment register being approved after the 31st of March 2018.	
1.2.2 Number of risk monitoring reports submitted to the Audit Committee	Partially Achieved 2	4 risk monitoring reports per financial year	Achieved	N/A	N/A	
1.2.3 3-year rolling strategic internal audit plan and annual coverage plan submitted to the Audit Committee	Partially Achieved	3-year rolling strategic internal audit plan and annual coverage plan submitted to the Audit Committee by 30 June of each year	Achieved	N/A	N/A	
1.2.4 Number of progress reports against the annual audit coverage plan submitted to the Audit Committee	Partially Achieved 3	4 internal audit reports produced and submitted to Audit Committee, per financial year	Achieved	N/A	N/A	

Programme: Administration						
Corporate Services (Human Resources Management, Information and Communications Technology, and Legal Services)						
Goal 1: Refocus and Strengthen the capacity of CoGTA to deliver on its mandate						
SO 1.3: Provide effective and efficient corporate, financial and legal support services for MISA to deliver on its mandate						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
1.3.1 Percentage of performance agreements, reviews and assessments concluded on time	Achieved 98%	Achieve 98% submissions of performance agreements, reviews and assessments by due dates, per year	Not Achieved 78%	20% Below Target	Some performance agreements were submitted did not comply with the prescribed template and the convening of the performance moderation panel was delayed due to unavailability of panel members resulting in targets for quarters 1 and 2 not achieved.	
1.3.2 ICT Implementation Plan approved and implemented	Partially Achieved	ICT Implementation Plan approved and implemented	Achieved	N/A	N/A	
1.3.3 Percentage of internal requests for which legal opinions are provided within 15 working days	Achieved 100%	100 % of all routine internal requests ¹ for legal opinions provided within 15 working days	Achieved	N/A	N/A	

¹ Routine request refers to normal requests of not more than three contracts or opinions as opposed to request made for projects

Programme: Administration						
Financial Services (Financial Administration, Supply Chain and Asset Management)						
Goal 1: Refocus and Strengthen the capacity of CoGTA to deliver on its mandate						
SO 1.3: Provide effective and efficient corporate, financial and legal support services for MISA to deliver on its mandate						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
1.3.4 Percentage of adjusted budget spent by the end of the financial year	Partially Achieved 85%	At least 98% by end of each financial year	Not Achieved 78%	20% Below target	Underspending was mainly due to high vacancies on the approved structure and slow progress in the implementation of RMSC programme.	
1.3.5 Unqualified audit opinion on the annual financial statements	Achieved	Achieve unqualified audit opinion on Annual Financial Statements, per year	Achieved	N/A	N/A	
1.3.6 Approved Procurement Plan	Achieved	Procurement Plan approved and submitted to National Treasury by 30 April of each financial year	Achieved	N/A	N/A	
1.3.7 Quarterly verification of assets	Achieved	Asset register verified quarterly in each financial year	Achieved	N/A	N/A	

Strategy to Overcome Areas of Under Performance

The main reason for underperformance in relation to the Administration Programme is slow implementation of projects linked to performance targets. This is partly attributed to capacity challenges due to vacancy rate that remained high throughout the year. Underperformance resulted in low spending on allocated budget. The strengthening of supply chain management system and processes undertaken during the year under review as well as the filling of critical positions has positioned the organisation for improvement in both performance and spending of allocated budget in the coming years. Enhancement of human resource capacity through the ongoing recruitment will enable the agency to effectively implement projects in the future. Slow implementation of projects in the year under review partly contributed to underspending.

Changes to Planned Targets

During the year under review no changes were made on the performance indicators and targets under the Administration Programme.

Linking Performance with Budget

	2017/18			2016/17		
Programme/activity/objective	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	68 500	57 942	10 558	77 800	63 868	13 932

The biggest proportion of the budget allocated for goods and services under Administration Programme was earmarked for support services provided to the agent in relation to supply chain management (SCM), Internal Audit and ICT. Spending on budget allocated for these services was relatively good. This contributed to the achievement of most performance targets under Internal Audit and Risk Management. Although the target relating to the development of a risk register was not achieved, the reason for non-achievement was that the risk assessment was only conducted after the deadline set in terms of the indicator and annual target. The bulk of underspending for this programme relates to compensation of employees. The overall underspending against the total annual budget resulted in the indicator target of spending 98% of the total budget not being achieved by the end of the financial year. The level of spending over the entire financial year stood at about 78% as at 31 March 2018.

3.2 PROGRAMME 2: TECHNICAL SUPPORT SERVICES

Purpose: To manage the provision of technical support and technical capabilities to enhance the delivery of municipal infrastructure programmes.

Programme overview: The Programme coordinates the provision of technical support and assistance in conducting infrastructure assessments and analysis; coordinates the provision of technical support and expertise for municipal infrastructure delivery, planning, maintenance and land use management services with relevant stakeholders; coordinates the development of technical skills to support the delivery of municipal infrastructure support programmes. The Programme consists of the following sub-programmes:

Sub-programme 2.1: Infrastructure assessment and analysis

The sub-programme focusses on the monitoring and analysis of various issues relating to municipal infrastructure, such as expenditure against budgets, condition of municipal assets, and infrastructure maintenance expenditure to inform tailored support and interventions. A lack of coordination, mobilisation and monitoring is one of the main contributing factors to the slow-down in the rate of eradication of backlogs. These weaknesses are due mainly to:

- Lack of central coordination of different stakeholders;
- Lack of project management in relation to the process towards the reduction of backlogs; and
- Lack of continuous engagements and interactions between key stakeholders.

The Technical Support unit facilitates agreements between all national, provincial and municipal stakeholders on the key actions to be taken to reduce backlogs per district, and monitor implementation of these actions, through the Inter-Ministerial Task Team (IMTT) on Service Delivery.

Sub-programme 2.2: Infrastructure Delivery, Maintenance and Stakeholders Coordination

This sub-programme provides technical expertise to support municipalities to plan, deliver, operate and maintain infrastructure, including land use management related planning. The sub-programme's functions include rendering technical support based on identified needs in targeted municipalities to improve infrastructure delivery, operations and maintenance; rendering planning support in order to improve land use management in municipalities; and providing mentoring and coaching to apprentices, experiential learners and young graduates under MISA skills programme.

Sub-programme 2.3: Technical Skills

This sub-programme coordinates the development of technical skills to support the delivery of municipal infrastructure programmes. This entails the facilitation of opportunities for workplace experience in municipalities for graduates, apprentices and learners in technical fields and training of municipal officials; providing mentoring and coaching to apprentices, experiential learners and graduates in MISA Skills Programme; facilitating the placement of qualified artisans in municipalities experiencing acute shortage of technical personnel; and supporting municipalities in the recruitment of qualified technical personnel. The sub-programme is also responsible for providing bursaries to qualifying students pursuing qualifications in technical disciplines at accredited tertiary institutions.

Programme: Technical Support Services						
Sub-programme 2.1: Infrastructure Assessment and Analysis						
Goal 2: Ensure significant improvements in service delivery through sound infrastructure management.						
Strategic Objective 2.1: Provide effective support and interventions with greater impact on citizen's lives						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
1.3.7 Number of approved municipal infrastructure assessments	Achieved 5	12	Not achieved 7	5 Below target	Delays in the procurement of service providers to undertake the assessments resulted in only 7 assessments completed. Additional resources have been acquired to expedite the procurement of a service provider to conduct assessments in remaining municipalities.	

Programme: Technical Support Services						
Sub-programme 2.2: Infrastructure Delivery, Maintenance and Stakeholder Coordination						
Goal 2: Ensure significant improvements in service delivery through sound infrastructure management.						
Strategic Objective 2.2: Improved technical capacity and enhanced technical skills in municipalities						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
2.2.1 Number of municipalities with which annual technical support plans are signed and reported against	Achieved 40	60	Achieved 60	N/A	N/A	
2.2.2 Number of municipal sector plans developed or reviewed	Achieved 20	34 Developed	Not achieved 21	13 Below Target	Delays in procurement processes within MISA and targeted municipalities adversely impacted on the achievement of the annual target. The development of plans for outstanding municipalities will be completed in the course of 2018/19.	
	New Baseline	26 Reviewed	Not Achieved 12	14 Below Target	Sector plans for some of targeted municipalities were not performed due to capacity challenges arising from expiry of contracts for most technical consultants. Outstanding plans will be reviewed by newly appointed technical professionals in 2018/19.	

Programme: Technical Support Services						
Sub-programme 2.2: Infrastructure Delivery, Maintenance and Stakeholder Coordination						
Goal 2: Ensure significant improvements in service delivery through sound infrastructure management.						
Strategic Objective 2.2: Improved technical capacity and enhanced technical skills in municipalities						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
2.2.3 Number of municipalities for which Spatial Development Frameworks are developed or reviewed	Achieved 11	14 Developed	Achieved 17	3 Above Target	The annual targets was exceeded due additional town and regional planners deployed in various districts and the provision of support to all local municipalities under Gert Sibande District on the development of an integrated Land Use Management System.	
	New Baseline	13 Reviewed	Achieved 13	N/A	N/A	
2.2.4 Number of municipalities for which Infrastructure Operations and Maintenance Plans are developed	Achieved 20	15	Achieved 16	N/A	The annual target was exceeded due to deployment of additional technical consultants in various districts.	
2.2.5 Number of municipalities Supported with institutional Turnaround for water Services function	New Indicator	3	Not Achieved	3 Below Target	Delays in the procurement of service providers and slow start in the implementation process affected the achievement of set target. Draft turnaround and implementation plans for Amathole and Sekhukhune DMs were in place as at the end of the financial year.	

Programme: Technical Support Services						
Sub-programme 2.3: Technical Skills						
Goal 3: Improving technical capabilities in identified municipalities for effective and efficient delivery and management of municipal infrastructure						
Strategic Objective 3.1: Increase the number of skilled technical professionals and artisans in identified municipalities						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
3.1.1 Number of learners provided with apprenticeship training towards meeting the requirements for qualifying as artisans	Achieved 372	300	Achieved 303	3 Above target	303 was the number of apprentices at the start of the 2017/18 financial year and this is the total number of apprentices trained during the course of the financial year.	
3.1.2 Number of learners provided with workplace (experiential) training	Not Achieved 55	90	Achieved 103	13 Above target	More learners were provided with experiential training due to the allocation of additional budget.	
3.1.3 Number of graduates recruited and placed with municipalities for workplace training and mentorship towards professional registration	Achieved 66	70	Achieved 85	15 Above target	More young graduates were recruited and placed in municipalities to satisfy municipalities' requests for placement of graduates.	
3.1.4 Number of municipal officials provided with technical skills training	Achieved 887	450	Achieved 557	107 Above target	The number of municipal officials trained exceeded the target due to higher responses to invitation by municipalities	
3.1.5 Number of students provided with bursaries for studies in technical professions	Achieved 164	200	Achieved 202	2 Above target	Two more applicants meeting the requirements were awarded the bursary due to high number of applications.	

3.1.6	Number of municipal general workers (Section 28 Apprentices) provided with training	New Indicator	20	Not Achieved 11	9 Below Target	Municipalities delayed releasing general workers for assessments at the training centres due to the National Treasury not approving utilisation of Majuba and Vuselela TVETs without a competitive bidding process.
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Programme: Technical Support Services						
Sub-programme: Technical Skills						
Goal 3: Improving technical capabilities in identified municipalities for effective and efficient delivery and management of municipal infrastructure						
Strategic Objective 3.2: To coordinate and ensure the implementation of a strategic approach to the development of technical capacity in the sector						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
3.2.1 Number of approved Capacity Development Framework	New Indicator	1	Not Achieved	A Draft Capacity Development Framework compiled but consultations were not concluded by the end of the year.	Delays in the procurement of a service provider to develop the framework. The framework will be finalised and approved by 30 June 2018 after consultations on the draft are conducted.	
3.2.2 Number of municipal capacity developed and implemented	New Indicator	7	Not Achieved	7 Below target	Delays in the procurement of a service provider to assist with the development of capacity development plans. The Plans will be developed and implemented during the 2018/19 financial year.	
3.2.3 Number of qualified artisans placed in municipalities or private sector companies	New Indicator	100	Achieved 102	2 Above target	Two additional artisans/ water process controllers were appointed and placed in municipalities to address the needs of municipalities.	

Strategy to Overcome Areas of Under Performance

Targets for six key performance indicators under Technical Support Services were not achieved in the year under review. The main reasons for underperformance are delays in the procurement process towards the appointment service providers for implementing projects linked to affected performance indicators and slow implementation of some of the major programmes such as the Programme Management Office (PMO) and Regional Management Support Contractors (RMSK). The underlying cause for these is deficiencies in project management and performance monitoring. These deficiencies are being addressed through monthly review of performance against both individual projects and performance targets in the annual performance plan. The main objective of monthly performance reviews is to identify and ensure timeous implementation of remedial measures.

Changes to Planned Targets

Performance indicators and targets under Technical Support Services were not changed during the financial year under review.

Linking Performance with Budget

Programme/activity/objective	2017/18			2016/17		
	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
MSTS	243 013	181 630	61 883	187 500	147 200	40 300
Technical Skills	69 962	63 243	6 719	84 600	82 245	2 355
Total	312 975	244 873	68 102	272 100	229 445	42 655

Performance targets for six indicators in the annual performance plan were not fully achieved in the year under review leading to a disproportionately high spending variance against the budget allocated to Technical Support Services for the year. Although part of underspending relates to compensation of employees emanating from high level of vacancies in the programme, underspending against key programmes such as RMSK was also very high and this is reflected in the non-achievement of the performance target linked to this programme.

3.3 PROGRAMME 3: INFRASTRUCTURE DELIVERY MANAGEMENT SUPPORT

Purpose: To manage the provision of implementation support services on infrastructure projects, operations and maintenance of municipal infrastructure.

Programme Overview: This is a new programme within MISA. It has been included in the new structure for MISA, based on the refined focus of MISA. The programme's objective is to deliver infrastructure projects on behalf of identified municipalities and provide infrastructure financing, procurement and contract management guidance and advice to municipalities. It also focusses on the development of institutional capacity of municipalities to procure and contract manage infrastructure projects efficiently and effectively. Through the Programme, MISA should be able to put in place national transversal/framework contracts for municipal infrastructure goods and services. The Programme consists of the following sub-programmes:

Sub-programme 3.1: Project Management

This sub-programme is responsible for coordinating the provision of technical support to municipalities with regard to project management, infrastructure procurement and contract management processes.



Sub-programme 3.2: Framework Contracts and Infrastructure Procurement

The purpose of this sub-programme is to coordinate the development and implementation of national framework for contracting municipal infrastructure services.

Sub-programme 3.3: Infrastructure Financing

The purpose of this sub-programme is to facilitate processes to support innovation and private sector financing on infrastructure and Municipal Infrastructure Grant (MIG).

Programme: Infrastructure Delivery Management Support						
Sub-programme 3.2: Framework Contracts and Infrastructure Procurement						
Goal 4: Ensure sustainable improvement in municipal infrastructure delivery through infrastructure procurement, financing, contract management and development of Institutional Capacity of municipalities to procure and contract manage infrastructure projects						
Strategic Objective 4.1: Provide infrastructure planning, procurement and contract management capacity and services to identified municipalities						
Programme Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target to Actual Achievement for 2017/18	Comment on Deviations	
4.1.1 Number of national framework contracts for municipal infrastructure goods and services concluded	Not Achieved	2	Achieved	N/A	N/A	

Strategy to Overcome Areas of Under Performance

The target for the one indicator under this programme was fully achieved. One framework contract for pole mounted electrical transformer and the other one for ground mounted transformer were concluded as planned.

Changes to Planned Targets

Performance indicators and targets were not changed during the financial year under review.

Linking Performance with Budgets

The budget allocated to Programme 3 was later incorporated into the allocation for Technical Support Services. This programme is relatively new and will become fully functional from the next financial year.

4. REVENUE COLLECTION

Sources of Revenue	2017/18			2016/17		
	Estimate	Actual Amount Collected	(Over) /Under Collection	Estimate	Actual Amount Collected	(Over) /Under Collection
	R'000	R'000	R'000	R'000	R'000	R'000
Sale of Tender Documents	-	-	-	-	21	-
Management Fee from BEP Programme	-	-	-	-	244	-
LGSETA Grant for Apprenticeship Programme	-	-	-	-	2 754	-
Interest Received	-	4 151	-	-	2 573	-
Total	-	4 151	-	-	5 592	-

Capital Investment

During the year under review MISA did not implement any capital development project. There were no capital projects under implementation at the beginning of the financial year. MISA also did not own, acquire or dispose of any asset or facility of capital in nature during the period under review.



PART C: GOVERNANCE

1. INTRODUCTION

The governance processes and systems for MISA are set out in the Public Service Act, 1994. In particular, section 7A of the Act sets out the manner in which MISA as a government component should be managed and be held accountable. These processes are also outlined in the government notice on MISA administration and operations gazetted on 05 July 2014. In terms of the Act, MISA's execution of its mandate is subject to the guidance of the Minister for Cooperative Governance and Traditional Affairs, as the designated Executive Authority, and an Advisory Board (if established). In terms of the Act, the Head of MISA is the designated Accounting Officer of the organisation.

MISA is, for administrative and operational purposes, subjected to both the Public Service Act and the Public Financial Management Act, 1999 (Act 1 of 1999). In terms of these pieces of legislation, MISA is required to submit to the Minister for approval a strategic plan setting out its policy priorities, programmes and project plans for a three-year period. The organisation is also required to submit a business and financial plan to the Minister for approval at least three months before the end of each financial year. It is also required to prepare an annual report and financial statements for each financial year in accordance with the generally accepted accounting practice. Such financial statements should be submitted to the Auditor-General for auditing within three months after the end of each financial year. The annual report, together with the audited financial statements and the accompanying Auditor-General's report should be submitted to the Director-General for Cooperative Governance within five months after the end of the financial year. MISA is also required to report to the Executive Authority on a quarterly basis in relation to its administrative and operational performance, as well as performance in the implementation of the annual performance plan in the preceding quarter.

During the financial year under review, MISA applied the corporate governance principles of fairness, accountability, responsibility and transparency in conjunction with relevant legislation. The organisation established and maintained governance and management structures as well as processes for discharging its legal responsibilities. In this regard, the Executive Authority and the Accounting Officer of MISA were responsible for corporate governance.

2. PORTFOLIO COMMITTEES

MISA was invited to brief the Portfolio Committee on Cooperative Governance and Traditional Affairs and other relevant Parliamentary Committees on specific matters. Accordingly, MISA management attended the Committee meetings as summarised in the table below:

COMMITTEE	DATE OF MEETING	FOCUS AREA	AREAS OF RISK
Portfolio Committee on CoGTA	14 March 2018	Annual Performance Plan for 2017/18	Slow absorption of graduates and qualified artisans by municipalities. Artisan Placement Programme has been introduced to bridge the gap.
Portfolio Committee on CoGTA	26 September 2017	Annual Report for 2016/17	High irregular expenditure due to SCM weaknesses. Capacity within the SCM function has been strengthened and internal control weaknesses addressed
NCOP Select Committee on CoGTA	06 June 2017	Annual Performance Plan for 2017/18	None
Select Committee on Appropriations	25 August 2017	Fourth Quarter Expenditure for the 2016/17 financial year	None
Select Committee on Communication and Public Enterprises	21 February 2018	Progress report on the issues of Richtersveld Community	None
Portfolio Committee on CoGTA	27 March 2018	Annual Performance Plan for 2018/19	Too low targets. More municipalities will be supported as per operational plans.

3. EXECUTIVE AUTHORITY

During the year under review the Accounting Officer for MISA compiled and submitted the following reports to the Executive Authority.

Report Submitted	Date of Submission	Comments by the Executive Authority	Action Taken
2016/17 fourth quarter performance report	28/04/2017	Noted	None
2017/18 first quarter performance report	28/07/2017	Noted	None
2017/18 second quarter performance report	30/10/2017	Noted	None
2016/17 Annual Report	19/11/2017	Approved for tabling in Parliament	Approved Annual Report was subsequently tabled in Parliament
2017/18 third quarter performance report	30/01/2018	Noted	None

In addition, management presented an overview of MISA as part of the briefing to the new Minister, following the assignment of the Honourable Zwelini Mkhize as the Minister of CoGTA, on 05 March 2018. Upon receiving the presentation, the Minister directed MISA to develop an intervention plan to address capacity challenges in municipalities persistently struggling to spend their Municipal Infrastructure Grant (MIG) allocations resulting in stopping and reallocation of such funds to better performing municipalities. The Minister further emphasised that support to distressed municipalities should be the main focus for MISA and other components within the CoGTA portfolio.

4. THE ACCOUNTING AUTHORITY / BOARD

Notwithstanding that section 7A(4) of the Public Service Act provides for an option of establishing an Advisory Board, without executive functions, the Executive Authority has not established the Board since MISA's establishment. In terms of the legislation the role of the Advisory Board would be limited to providing advice and guidance to both the Executive Authority and Accounting Officer on matters pertaining to municipal infrastructure delivery.

5. RISK MANAGEMENT

The Risk Management Policy and Strategy for MISA have been approved by the Accounting Officer. These policy documents are presented to the Audit Committee to ensure that they comply with the National Treasury Framework for managing Risks. The Strategic Risk Assessment for 2017/18 has been conducted and the Risk Assessment report including the risk register approved by the Accounting Officer. The risk register was used to direct internal audit efforts and priorities for the year. Progress on Branch Risk registers are being communicated to various programmes during quarterly review meetings to ensure that risks are being managed effectively and monitored on a regular basis.

MISA has a functional Risk Management Committee. Members were formally appointed by the Accounting Officer and do comply with the approved terms of reference. The Risk Management Committee meet on a quarterly basis to evaluate and monitor risks identified and advise for improvements. In improving governance, MISA has appointed the Risk Champions to assist the Risk owners in monitoring the implementation of mitigation (action) plans within various programmes. Risk Management reports are also discussed at management meetings to ensure that timeous mitigation of risks are implemented to improve organisational performance.

The Committee advised management to conduct robust risk assessment that addresses key strategic objectives of the institution. The Committee analyses the risk management reports and advise accordingly on how to mitigate risk to an acceptable level. The Committee ensures that Internal Audit develops a risk based internal audit plan. The Audit Committee plays an independent oversight responsibility in relation to the Organization's internal controls, governance and risk management. The Committee comments on the effectiveness of Risk management within the organisation which must be aligned to the organisational objectives and performance of the Institution. For the period under review there was a slight improvement in addressing identified risks, which led to the improved control environment in the last quarter of the financial year.

6. INTERNAL CONTROL UNIT

An Internal Control and Compliance sub-directorate has been introduced under Financial Management Services unit on the revised structure. The main function of this unit is to coordinate the implementation of audit recommendations and monitoring of compliance with policies and procedures across the organisation. Two positions under this unit have not been filled yet. Management implemented measures to address audit findings and improve internal controls with the aim of minimising risks facing the organisation. Progress in the implementation of the Post Audit Action Plan (PAAP) was reviewed at least quarterly.

7. INTERNAL AUDIT AND AUDIT COMMITTEES

MISA has a functional Internal Audit led by the Chief Audit Executive, who report functionally to the Audit Committee and administratively to the Accounting Officer. Internal Audit complies with the Code of Ethics issued by the Institute of Internal Auditors. Internal audit provides an independent objective assurance and consulting activities designed to add value and improve the organisation's internal control environment and operations. It helps the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance process. During the period under review, an external service provider was appointed to assist Internal audit in executing the approved audit plan.

During the year under review, the internal audit function developed and implemented a risk-based strategic and operational coverage plan that encompasses the following areas:

- Review of Financial Statements;
- Review of Performance Information(Pre-determined Objectives), quarterly and annual performance plans;
- Review of Human resource Management and Payroll Management including application controls on VIP;
- Review of accounts payable including payments to suppliers within 30 days and review of application controls on Pastel;
- Review of SCM processes (procurement and verification of irregular expenditure);
- IT General Controls(GCR);
- Verification of Post Audit Action Plan (PAAP) quarterly;
- Review of the filing and Record Management process;
- Review of Technical capacity and enhance technical skills in municipalities;
- Review of technical skills to support the delivery of infrastructure programmes;
- Review IT application on VIP and Pastel; and
- Investigation of Petty Cash management.

The Audit Committee is fully functional and comply with the terms of reference set out in the charter. The Committee convened regularly during the period under review to provide oversight on the operations of the organisation and the system of internal controls supporting the achievements of the organisation's objectives. The Committee met with the Executive Authority and raised issues which could adversely impact on the organisational performance and the spending of the

budget. Quarterly performance reports were tabled to the Audit Committee, which enabled the Committee to monitor the performance of Internal Audit against the approved Internal Audit plan. The Committee also plays an oversight role to ensure that recommendations from internal audit were being implemented by management towards the improvement of systems of internal control. Management also implemented the Post Audit Action Plan (PAAP) with the aim of addressing findings raised through external audit, and progress in the implementation of remedial measures included in the PAAP was monitored by the Audit Committee on a quarterly basis.

The table below discloses relevant information on the Audit Committee members:

Name	Qualifications	Internal or External	Date Appointed	Date Resigned	No. of Meetings Attended
Mr F Sinthumule	Dip: Finance & Auditing, BCom Accounting, MBA (Special Project on PFMA)	External Member	Chairperson appointed on 22 July 2013	N/A	4
Mr E Cousins	BCom Accounting (M); BCom Hons (Auditing), Advanced Diploma in Public Administration	External Member	Member appointed on 22 July 2013	N/A	4
Adv RR Dehal	Advocate of the High Court of South Africa, BProc, LLB	External Member	Member appointed on 22 July 2013	N/A	4
Ms D Dondur CA(SA)	Bachelor Of Accounting, B Compt Hons Honours In Business Administration, MBA Post Graduate Certificate in Labour Relations, Chartered Director (CD) (SA)	External Member	Member appointed on 01 September 2014	N/A	2
Ms P Mzizi CA(SA)	BBusSci Finance (UCT) BCompt Hons CTA (UNISA) BCom Hons in Transport Economics (UNISA)	External Member	Member appointed on 01 February 2015	N/A	4

8. COMPLIANCE WITH LAWS AND REGULATIONS

Notable progress was made in the year under review to improve internal controls and procedures relevant to the agent to comply with relevant legislation, regulations and directives in conducting the agency's operations.

9. FRAUD AND CORRUPTION

MISA's Fraud Prevention Plan integrates the processes, policies and resources to minimise the risk of fraud and corruption. The Fraud prevention Plan was revised during the period under review to be aligned with international best practices. The risk assessment conducted during the period under review included fraud risk which were monitored through action plans. The fraud awareness was conducted during the period under review. Fraud and Anti-Corruption awareness was conducted during the orientation of the new employees.

Employees are constantly encouraged to report suspected incidences of fraud and corruption using any of the following mediums of communications:

National Anti-Corruption Hotline: 0800 701 701
 Website: www.publicservicecorruptionhotline.org.za
 Unique e-mail address: integrity@publicservicecorruptionhotline.org.za
 Postal address: PO BOX 582, Umhlanga Rocks, Kwazulu-Natal, 4320
 Free Fascimile: 0800 2014 965
 SMS: 39772

Cases are reported anonymously via hotlines managed by the Public Service Commission. Then individual cases are referred to the relevant department/ entity for investigations.

10. MINIMISING CONFLICT OF INTEREST

All staff in MISA are required to disclose financial interest through the recently introduced electronic disclosures and have complied with this requirement. Based on the disclosures lodged, none of the officials was found to have violated rules governing conflict on interest.

11. CODE OF CONDUCT

In the year under review, MISA maintained a Code of Conduct applicable within the Public Service, including the standard set of rules and regulations that all employees were expected to abide by. The Code of Conduct clarified the standards of behaviour expected of all MISA employees in the performance of their duties. It also provides guidance in areas where employees need to make personal and ethical decisions, created a link to MISA values and contributed to the upholding of Batho Pele Principles. In compliance with the Code, employees conducted themselves in a professional and appropriate manner while at work, or in a situation related to their work. There was full compliance among all with the annual declaration of financial interests.

An employee found guilty of a minor form of misconduct would be given a verbal warning at the first occurrence. The issuing of a written warning would be used prior to disciplinary action for minor misconduct depending on the evidence, circumstances and seriousness of each situation. Each transgression would be dealt with on its own merits in all instances. At the occurrence of a misconduct of a more serious nature, an employee would receive a warning (written or final), or suspension, a demotion or a combination of these sanctions or face dismissal or summary dismissal at the discretion of MISA management, depending on the evidence, circumstances and seriousness of each situation. Any official found guilty of an offence would be afforded an opportunity to lodge an appeal against the verdict or sanction within five working days of being informed of the outcome. There was no formal disciplinary hearing in the financial year under review.

12. HEALTH SAFETY AND ENVIRONMENTAL ISSUES

MISA followed the provisions of the Employee Health and Wellness Strategic Framework (EHWSF) as a broad guide for the implementation of its employee health and wellness programme. This resulted in a working environment that supported effective and efficient service delivery without compromising employees' personal circumstances and their health conditions. Health safety and environmental issues were addressed by:

- Ensuring the development and implementation of a written policy on managing the health, safety and wellbeing of employees;
- Appointing a designated official to champion the Health and Safety Management programmes in the workplace; and
- Ensuring the provision of resources for the implementation of Health and Safety Management programmes in the organisation.

13. COMPANY / BOARD SECRETARY

Since its establishment, MISA has not had an Advisory Board as contemplated under section 7(A)(4) of the Public Service Act. In terms of this section, it is optional for the relevant Executive Authority to establish an Advisory Board for the government

component. Such a Board would only play an advisory and guiding role without the mandate to exercise an executive authority over the component. In the absence of the Board, management has not appointed or assigned any employee or employees as the Board Secretary. The Executive Support Directorate under the Office of the Chief Executive Officer is responsible for the performance of secretariat function for all formal governance structures within the organisation.

14. SOCIAL RESPONSIBILITY

MISA did not implement any social responsibility programme during the financial year under review. Although MISA contributes to the development of technical skills considered to be scarce and critical for economic development, through the implementation of various learning programmes, these programmes are an integral part of the agency's core functions.

15. REPORT OF THE AUDIT COMMITTEE

The Audit Committee ("the Committee") is established as an independent statutory committee in terms of the PFMA. The committee functions within approved terms of reference and complies with relevant legislation, regulations and governance codes.

The Committee submits this report for the year ended 31 March 2018, as required by the Treasury Regulations 3.1.9 and 3.1.13 (b) and (c) issued in terms of sections 38 (1) (a)(i) and 76(4)(e) of the PFMA.

15.1. AUDIT COMMITTEE MEMBERS AND ATTENDANCE:

The Committee consists of five Independent Members and is chaired by Mr F Sinthumule. The Chief Executive Officer, Chief Financial Officer and Internal and External Auditors have a standing invitation to all meetings of the Committee. The Committee is required to meet at least four times per annum as per its approved terms of reference. Four (4) meetings were held for the reported financial period ended 31 March 2018.

Name	Qualifications	Role	Scheduled Meetings	
			Held	Attended
Mr F Sinthumule	Dip: Finance & Auditing, BCom Accounting, MBA (Special Project on PFMA)	Chairperson appointed on 22 July 2013	4	4
Mr E Cousins	BCom Accounting (M); BCom Hons (Auditing), Advanced Diploma in Public Administration	External Member appointed on 22 July 2013	4	4
Adv RR Dehal	Advocate of the High Court of South Africa, BProc, LLB	External Member appointed on 22 July 2013	4	4
Ms D Dondur CA(SA), Chartered Director (SA)	Bachelor Of Accounting, B Compt Hons Honours In Business Administration MBA	External Member appointed on 01 September 2014	4	2
Ms P Mzizi CA(SA)	BBusSci Finance (UCT) BCompt Hons CTA (UNISA) BCom Hons in Transport Economics (UNISA)	External Member appointed on 01 February 2015	4	4

15.2 AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee is satisfied that it has complied with its responsibilities as outlined in Section 38(1) (a) of the PFMA and Treasury Regulation 3.1. The Audit Committee also reports that it has adopted and reviewed formal terms of reference as its Audit Committee Charter, and has discharged all its responsibilities as contained therein. The Committee met with the Executive Authority and raised issues which could impact on the organisational performance and the spending of the budget. MISA also implemented the Post Audit Action Plan with regards to all findings raised through external audit and progress on the implementation of these recommendations are monitored by the Audit Committee on a quarterly basis.

15.3 THE EFFECTIVENESS OF INTERNAL CONTROLS

The PFMA requires the Accounting Officer to ensure that the entity has and maintains effective, efficient and transparent systems of financial, risk management and internal control, whilst it is the Committee's role to review the effectiveness of internal controls and oversee risk management. Reviews on the effectiveness of the internal controls were conducted and they covered financial, operational, compliance and risk assessment.

In line with the PFMA, Internal Audit provides the Audit Committee and management with reasonable assurance that the internal controls are appropriate and effective. This is achieved by evaluating internal controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. Our review of the findings of the Internal Audit work, which was based on the enterprise risk assessments conducted at MISA revealed certain shortcomings in mitigating those risks, which were brought to the attention of the entity.

Through our analysis of the audit reports and engagement with MISA we can report that the system of internal controls for the period under review was not entirely adequate and effective in improving the control environment and to reduce the risk to an acceptable level.

15.4 RISK MANAGEMENT

The Risk Management Policy and Strategy for MISA has been approved by the Accounting Officer. These policy documents are presented to the Audit Committee to ensure that they comply with the National Treasury Framework for managing Risks. The Strategic Risk Assessment for 2017/18 has been conducted and the Risk Assessment report including the risk register approved by the Accounting officer. The risk register was used to direct internal audit efforts and priority. Progress on Branch Risk registers are being communicated to various programmes during quarterly review meetings to ensure that risks are being monitored on a regular basis.

MISA has a functional Risk Management Committee. Members were formally appointed by the Accounting Officer and do comply with the approved terms of reference. The Risk Management Committee meet on a quarterly basis to evaluate and monitor risks identified and advise for improvements. In strengthening the process of monitoring risks and improving governance, MISA has appointed the Risk Champions for each programme to assist the Risk owners in monitoring the implementation of mitigation (action) plans within various programmes. Risk Management reports are also discussed at management meetings to ensure that timeous mitigation of risks are implemented to improve organisational performance. The final risk monitoring report reflected a static improvement in mitigating action plans and the Committee concluded that management must take risk management seriously to ensure that the strategic objectives of the entity are achieved.

15.5 THE EFFECTIVENESS OF INTERNAL AUDIT

Internal Audit Unit is responsible for reviewing and providing assurance on the adequacy and effectiveness of the internal control environment across all the significant areas of the entity and its operations.

The Committee is responsible for ensuring that the entity's internal audit function is independent and has the necessary

resources, skills, standing and authority within the entity to enable it to discharge its responsibilities effectively. The Internal Auditors have unrestricted access to the Committee.

The Committee reviews and approves the Internal Audit Plan annually. Internal Audit's activities are measured against the approved internal audit plan and the Head: Internal Audit tables progress reports in this regard to the Committee.

The MISA Internal Audit function worked as an independent, objective assurance and consulting unit designed to add value and improve the entity's operations. It helped the entity to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

During the period under review, MISA did not have a fully functional Internal Audit unit. The service provider to assist internal audit was appointed during the third quarter to assist in the execution of the approved Internal Audit Plan

In the year under review, the Internal Audit Unit developed and implemented a risk-based strategic and operational coverage plan that encompassed the following areas:

Auditable Area
1. Audit of Performance Information (Quarterly, Annually)
2. Review of Financial statement(Bi-annual, Annual)
3. Review of Post Audit Action Plan (PAAP)
4. Review of Human Resource Management and Development including payroll
5. Review of supply chain management and irregular expenditure
6. Review of accounts payable and payments made within 30 days
7. Review of filing and records management
8. Review of Information Technology (GCR)
9. Review of VIP (IT) System
10. Investigation of Irregular Fruitless and Wasteful Expenditure
11. Review of technical skills in municipalities
12. Review of technical support to ensure the delivery of infrastructure programme processes
13. Review of Petty Cash Process

For the financial year ended 31 March 2018, the Internal Audit function was co-sourced with an external service provider. The Internal Audit function arrived at their overall opinion based on the rating scale below:

Concluding Ratings	Reporting Audit Results	Key Exposure Identified	Potential Impact of Exposure Identified
Good	Audit objectives are met and therefore the system of internal control is adequate and effective.	No	The system of internal controls is adequate and effective to provide reasonable assurance that the business objectives will be met.
Adequate	Audit objectives are met. However, immaterial incidents require correction. Therefore, the system of internal control is generally adequate and/or effective.	Not Likely	Except for immaterial incidents that need to be corrected, the system of internal control is adequate and effective to provide reasonable assurance that the business objectives will be met. These incidents are not likely to expose the organization to significant risk.
Partially Adequate / Partially Effective	Audit objectives are only partly met, as there are material incidents that require correction. Therefore, the system of internal control is only partly adequate and/or effective.	Yes	Due to material incidents that need to be corrected, the system of internal control can only be partly relied upon to provide assurance that business objectives will be met. Alternatively, the system of internal control may be adequate, but will not provide reasonable assurance that business objectives will be met if material incidents are not corrected.
Weak	Audit objectives are not met and the system of internal controls is not adequate and/or effective	Yes	Because of the total breakdown of controls and/or the absence of a system of internal control, business objectives will not be met.

The table below summaries our overall opinion which was determined based on the audit results for the period under review:

No	Process	Opinion
1	Control Environment	Partially Adequate and Partially Effective

15.6 QUALITY OF MANAGEMENT AND MONTHLY / QUARTERLY REPORTS SUBMITTED IN TERMS OF THE ACT AND THE DIVISION OF REVENUE ACT

MISA presented and reviewed the financial management and performance (predetermined objectives) reports at its Quarterly Review Meetings. These reports were also tabled and discussed at the Audit Committee meetings and the Audit Committee reviewed these reports and raised questions and issues for clarity and explanations.

MISA has reported to the Executive Authority as required by the PFMA.

15.7 EVALUATION OF FINANCIAL STATEMENTS

The Committee reviewed the Annual Financial Statements of the entity and is satisfied that they comply with GRAP Standards and that the accounting policies used are appropriate. The Annual Financial Statements were reviewed with the following focus:

- Significant financial reporting judgements and estimates contained in the financial statements;
- Clarity and completeness of disclosure and whether disclosures made have been set properly in context;
- Changes in the Accounting Policies and Practices;
- Significant adjustments resulting from the Audit;
- Compliance with accounting standards and legal requirements;
- Explanation for the accounting treatment adopted;
- Reasons for year-on-year fluctuations; and
- Asset valuations and revaluations.

The review of Annual Financial Statements and the Draft Annual Report for the 2017/18 Financial Year was done at the Committee's meeting held on 23 May 2018.

15.8 EXTERNAL AUDIT: AUDITOR GENERAL SOUTH AFRICA

The Committee, in consultation with the Accounting Officer, agreed to the terms of the Auditor General South Africa's engagement letter, audit strategy and audit fees in respect of the 2017/18 financial year.

The Committee also monitored the implementation of the action plan to address matters arising from the Management Report issued by the Auditor-General South Africa for the 2016/17 Financial Year.

The Audit Committee has also had In-Committee meetings with the Auditor General South Africa.

The Committee have reviewed MISA's implementation plan for audit issues raised in the previous year and concluded that such plan is partially effective as many of the audit findings have not been adequately resolved.

The Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General South Africa.

15.9 GENERAL

The Audit Committee strongly recommends that MISA must prioritise the adequate and effective implementation and frequent monitoring of the audit action plans for both internal and external audit in order to achieve the required effectiveness in governance, accountability and clean administration.

15.10 CONCLUSION

The Audit Committee wishes to extend its appreciation to the Executive Authority, Accounting Officer and Management, Internal Auditors and Auditor General South Africa for their tireless efforts, commitment and support throughout the year.

Signed on behalf of the Audit Committee by:



**Chairperson of the Audit Committee
Municipal Infrastructure Support Agent (MISA)**

Date: 31 JULY 2018



PART D: HUMAN RESOURCE MANAGEMENT

1. INTRODUCTION

Following the approval of its organisational structure in January 2017 and concurrence thereon by the Minister of Public Service and Administration, MISA embarked on a process of filling strategic positions as one of its priorities for the year under review. These positions include civil engineers, electrical engineers, town planners and project managers, among others. The other priority area was to fill positions within Supply Chain Management as this was identified a critical area lacking in sufficient capacity necessary to address previously identified weaknesses. To date the majority of these positions have been filled. These include 5 out of 9 chief engineers, 20 out of 41 civil engineers, 13 out of 15 electrical engineers and 12 out of 15 town planners. Critical positions within the Supply Chain Management Unit have been filled to boost capacity for the function.

During the period under review there were interviews for the position of CEO that was completed by June 2018. The filling of Deputy Directors-General positions is still in progress. With the recruitment of technical personnel in the form of engineers, project managers and town planners as part of the staff compliment on a permanent basis, MISA is phasing out the reliance on technical consultants previously engaged on a short term basis. To attract and retain skilled technical personnel, management has decided to recruit technical professionals through the Occupation Specific Dispensation (OSD) which recognises and rewards the skills and experience of particular categories of professionals in the public service. Employee performance and rewards were managed in accordance with the Performance Management Development System (PMDS) applicable to the public service.

Another notable achievement was the successful implementation of a separate PERSAL system for the agent with effect from the 1st of March 2018. All human resources information previously processed by the Department of Cooperative Governance (DCoG) have since been migrated to the system and processing of all HR related transactions is conducted internally. The development of a Human Resource (HR) Plan for the organisation has completed with the plan submitted to the Department of Public Service and Administration (DPSA) by 30 June 2018. The development of mandatory HR policies aligned to the HR Plan has commenced. MISA will continue to utilise DCoG policies until its own policies are in place. The filling of the remaining vacancies is being pursued in order to reduce the vacancy levels and strengthen capacity in certain areas.

2. HUMAN RESOURCE OVERSIGHT STATISTICS

Personnel Cost by Programme/ Activity/ Objective

Programme/ activity/ objective	Total Expenditure for the entity (R'000)	Personnel Expenditure (R'000)	Personnel Expenditure as a % of total exp. (R'000)	No. of employees	Average personnel cost per employee (R'000)
Administration / Strategic Support	57 942	16 786	29%	39	430
Technical Support	181 630	15 668	8.6%	17	921
Technical Skills	63 243	32 802	52%	512	64
Total	302 815	65 256	21.6%	568	114

Personnel Cost by Salary Band

Level	Personnel Expenditure (R'000)	% of personnel exp. to total personnel cost (R'000)	No. of employees	Average personnel cost per employee (R'000)
Top Management	0	0	0	0
Senior Management	22 342	34%	21	1 078
Professional qualified	0	0	0	0
Skilled	10 310	16%	24	736
Semi-skilled	4 400	7%	11	400
Unskilled	28 204	43%	512	55
Total	65 256	100%	568	114

Performance Rewards

Programme/activity/objective	Performance rewards	Personnel expenditure (R'000)	% of performance rewards to total personnel cost (R'000)
Top Management	0	0	0%
Senior Management	258 723	22 342	1.2%
Professional qualified	0	0	0%
Skilled	180 797	10 310	1.8%
Semi-skilled	0	4 400	0%
Unskilled	0	28 204	0%
Total	439 520	65 256	0.7%

Training Costs

Programme//activity/objective	Personnel Expenditure (R'000)	Training Expenditure (R'000)	Training Expenditure as a % of Personnel Cost.	No. of employees trained	Average training cost per employee
Admin & Vendor	16 786	1 068	6%	108	9 880
Technical Support	15 668	-	0%	-	-
Technical Skills	32 802	14 527	44%	412	35 260
Total	65 256	15 595	24%	520	29 990

Employment and Vacancies

Programme/activity/objective	2015/2016. No. of Employees	2017//2018 Approved Posts	2017/2018 No. of Employees	2017/2018 Vacancies	% of vacancies
Office of the CEO		20	7	13	65%
Technical Support Services		133	20	113	85%
Infrastructure Delivery Management Services		15	1	14	93%
Corporate Services Management		23	12	11	48%
Financial Services		29	15	14	48%
Total		220	55	165	75%

Programme/activity/objective	2015/2016. No. of Employees	2017//2018 Approved Posts	2017/2018 No. of Employees	2017/2018 Vacancies	% of vacancies
Top Management		3	0	3	100%
Senior Management		35	21	18	51%
Professional qualified		84	0	84	100%
Skilled		67	24	40	63%
Semi-skilled		31	10	20	65%
Unskilled		0	0	0	-
Total		220	55	165	75%

Management has been embarking on the filling of vacancies on the approved organisational structure in phases, starting with priority positions. The filling of two Deputy Director's-General positions on the approved structure has been derailed by delays in advertisement. These positions were advertised in February 2018 and the shortlisting with the aim of conducting interviews in June 2018. Other vacant senior management positions will be advertised during the course of 2018/19 financial year.

Most of the positions on the approved structure will be filled by external people since the current structure was approved in 2017 and most of internal staff already occupy critical positions on the structure. Current vacancies have been there for more than 12 months because of the phased approach giving priority to critical positions, particularly those under the line function programmes. To improve the organisation's ability to attract and retain skilled technical personnel, management has adopted the Occupation Specific Dispensation (OSD) as the mechanism for appointing engineers, planners and other scarce skills. Although this approach is largely effective, it remains difficult to compete for these skilled personnel with the private sector given the limited flexibility in granting competitive remuneration packages in the public sector.

Employment changes

Salary Band	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top Management	0	0	0	0
Senior Management	13	6	3	16
Professional qualified	0	0	0	0
Skilled	13	16	3	26
Semi-skilled	15	2	4	13
Unskilled	0	0	0	0
Total	41	24	10	55

Reasons for staff leaving

Reason	Number	% of total no. of staff leaving
Death	0	0%
Resignation	9	90%
Dismissal	0	0%
Retirement	0	0%
Ill health	0	0%
Expiry of contract	1	10%
Other	0	0%
Total	10	100%

Labour Relations: Misconduct and disciplinary action

Nature of disciplinary Action	Number
Verbal Warning	1
Written Warning	3
Final Written Warning	0
Dismissal	0
Total	4

Equity Target and Employment Equity Status

MISA does not have an employment equity plan since the current structure was approved only in January 2017 and the process of developing plans on HR matters is still under way. It is for this reason that no targets are reflected on the employment equity tables below.

Levels	MALE							
	African		Coloured		Indian		Coloured	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	0	0	0	0	0	0	0
Senior Management	11	0	0	0	0	0	0	0
Professional qualified	0	0	0	0	0	0	0	0
Skilled	7	0	0	0	0	0	0	0
Semi-skilled	4	0	0	0	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
Total	22	0	0	0	0	0	0	0

Levels	FEMALE							
	African		Coloured		Indian		Coloured	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	-	0	-	0	-	0	-
Senior Management	6	-	0	-	0	-	0	-
Professional qualified	0	-	0	-	0	-	0	-
Skilled	8	-	0	-	0	-	0	-
Semi-skilled	9	-	0	-	0	-	0	-
Unskilled	0	-	0	-	0	-	0	-
Total	23	-	0	-	0	-	0	-

Levels	DISABLED STAFF			
	Male		Femail	
	Current	Target	Current	Target
Top Management	0	0	0	0
Senior Management	0	0	0	0
Professional qualified	0	0	0	0
Skilled	0	0	0	0
Semi-skilled	0	0	0	0
Unskilled	0	0	0	0
Total	0	0	0	0



PART E: FINANCIAL INFORMATION

1. REPORT OF THE EXTERNAL AUDITOR

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the Municipal Infrastructure Support Agent set out on pages 66 to 100, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Infrastructure Support Agent as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

I am independent of the government component in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material underspending of the budget

As disclosed in the statement of comparison of budget and actual amounts, there was a material underspending of R82 818 873 by the government component, due to delays in the filling of posts, resulting in delays in implementing planned projects.

Responsibilities of the accounting officer for the financial statements

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the accounting officer is responsible for assessing the Municipal Infrastructure Support Agent's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the government component or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

My procedures address the reported performance information, which must be based on the approved performance planning documents of the government component. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the government component for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 2 – Technical Support Services	31 - 39
Programme 3 – Infrastructure Delivery Management Support	39 - 42

I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:

Programme 2 – technical support services

Programme 3 – infrastructure delivery management support

Other matters

I draw attention to the matters below.

Achievement of planned targets

Refer to the annual performance report on pages 26 to 38 for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a number of targets.

Adjustment of material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the technical support services programme. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the government component with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings on compliance with specific matters in key legislation are as follows:

Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R12 156 825, as disclosed in note 23 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused by the lease of the office space.

Procurement and contract management

Some of the invitations for competitive bidding were not advertised for a required minimum period, as required by treasury regulation 16A6.3(c). Similar non-compliance was also reported in the prior year.

Other information

The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations, resulting in material misstatements in the annual performance report as well as findings on compliance.

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information, resulting in material misstatements in the annual performance report.

The accounting officer did not ensure compliance with supply chain management regulations was monitored regularly so that non-compliance could be addressed timeously.

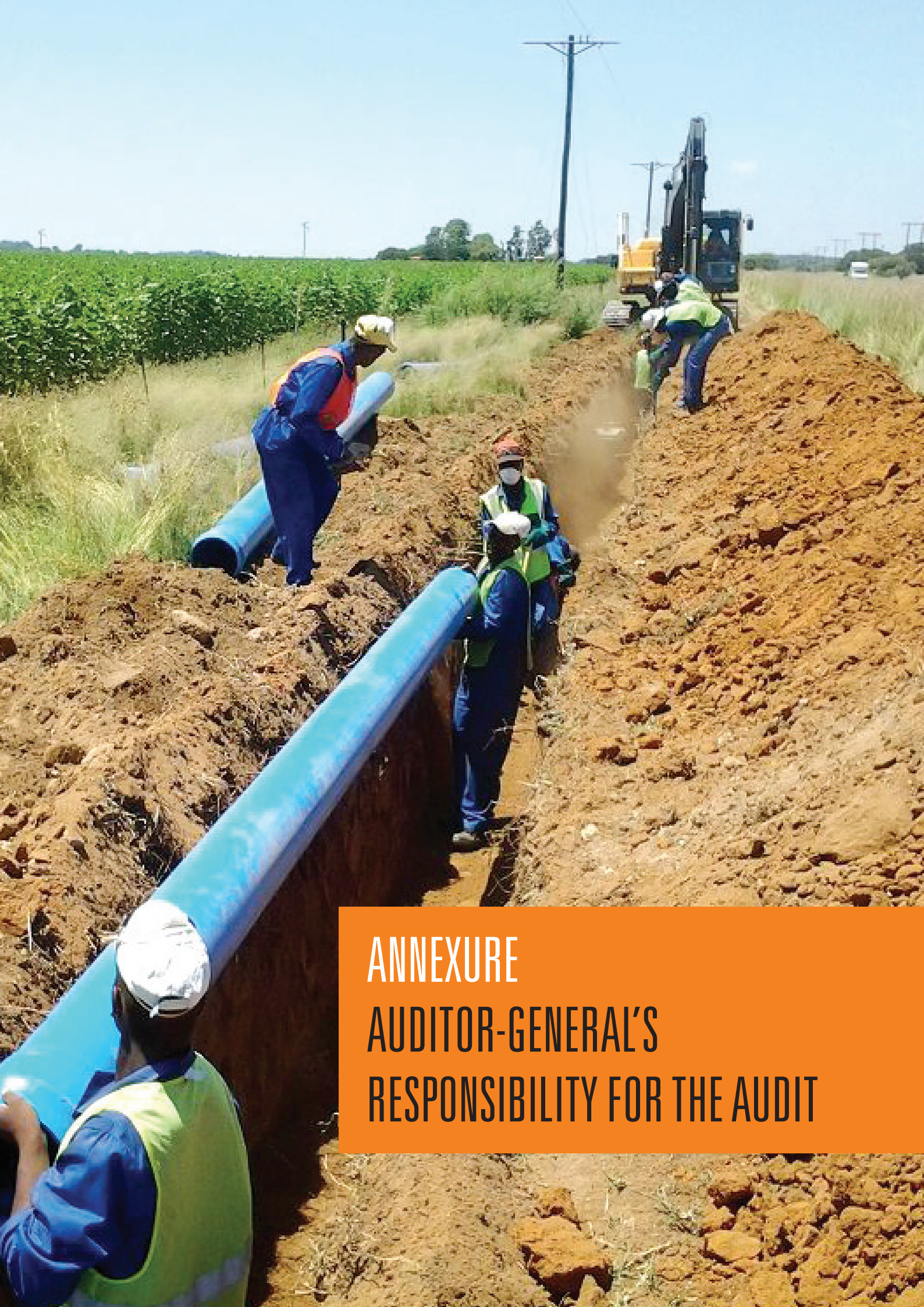
Auditor General

Pretoria

31 July 2018



AUDITOR - GENERAL
SOUTH AFRICA



ANNEXURE
AUDITOR-GENERAL'S
RESPONSIBILITY FOR THE AUDIT

AUDITOR GENERAL'S RESPONSIBILITY FOR THE AUDIT

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the government component's compliance with respect to the selected subject matters

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the government component's internal control;

evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer;

conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipal Infrastructure Support Agent's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a government component to cease continuing as a going concern; and

evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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

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



Municipal Infrastructure
Support Agent (MISA)

REPUBLIC OF SOUTH AFRICA

MUNICIPAL INFRASTRUCTURE SUPPORT AGENT (MISA)
Annual Financial Statements
for the year ended 31 March 2018

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

General Information

Nature of business and principal activities

MISA is a dedicated and coordinated technical capacity programme to support municipalities in accelerating the service delivery as well as the sustainable operations and management of municipal infrastructure.

Registered office

Letaba House
Riverside Office Park
1303 Heuwel Road
Centurion
0046

Postal address

Private Bag X105
Centurion
0046

Controlling entity

The Municipal Infrastructure Support Agent (MISA) is a Government Component within the Ministry for Cooperative Governance and Traditional Affairs (CoGTA) established in terms of Presidential Proclamation No. 29 of 2012. It is a Schedule 3 entity regulated in terms of the Public Service Act, of 1994, as amended. Its principal mandate is to provide technical support to and assist municipalities to strengthen their internal capacity for delivery and maintenance of basic service infrastructure.

Bankers

Standard Bank South Africa

Auditors

Auditor-General South Africa

Secretary

None

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Index

The reports and statements set out below comprise the annual financial statements presented to the Parliament:

Index	Page
Accounting Officer's Responsibilities and Approval	70
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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
DCoG	Department of Cooperative Governance
GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (Act No.56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
PFMA	Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999)
TVET	Technical Vocational Education and Training
UIF	Unemployment Insurance Fund

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Public Finance Management Act (Act 10 of 1999 as amended by Act 29 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of MISA as at the end of the financial year and the results of its operations and cash flows for the period then ended in conformity with Generally Recognised Accounting Practice (GRAP) standards and in a manner required by the PFMA. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

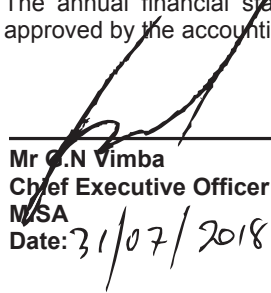
The annual financial statements are based upon appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Agency and all employees are required to maintain the highest ethical standards in ensuring that the Agency's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operational risk cannot be fully eliminated, the Agency endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or deficit.

The Accounting Officer has reviewed the Agency's cash flow forecast for the year to 31 March 2019 and, in light of this review and the current financial position, he is satisfied that the entity will have access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 67 to 102, which have been prepared on the going concern basis, were approved by the accounting officer on 31 July 2018 and were signed on its behalf by:


Mr C.N. Vimba
Chief Executive Officer
MISA
Date: 31/07/2018

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Accounting Officer's Report

The Accounting Officer submits his report for the year ended 31 March 2018.

1. Incorporation

The Municipal Infrastructure Support Agent (MISA) is a Government Component within the Ministry for Cooperative Governance (DCoG), established in terms of Presidential Proclamation No.29 of 2012. It is a schedule 3 entity regulated in terms of the Public Service Act, of 1994, as amended. Its principal mandate is to provide technical support to and assist municipalities to strengthen their internal capacity for delivery and maintenance of basic service infrastructure.

Establishment of MISA

In 2011, DCoG announced that it was in the final stages of setting up a Special Purpose Vehicle (SPV), to be called Municipal Infrastructure Support Agent (MISA), which will assist weaker municipalities with infrastructure delivery by:

- Supporting municipalities to conduct effective infrastructure planning to achieve sustainable service delivery
- Supporting and assisting municipalities with the implementation of Infrastructure projects as determined by the municipal Integrated Development Plans (IDPs)
- Supporting and assisting municipalities with the operation and maintenance of municipal infrastructure.
- Building the capacity of municipalities to undertake effective planning, delivery, operations and management of municipal infrastructure.
- Any function that may be deemed ancillary to that listed in the subparagraph.

On the establishment, the funding for the SPV was ring-fenced within the vote of the principal department. At the time, the SPV was operating as a sub-programme within the Department of Cooperative Governance Programme 6: Infrastructure and Economic Development.

MISA was officially proclaimed as a government component on 11 May 2012, in terms of section 7(5)(c) of the Public Service Act, 1994 (promulgated under Proclamation No. 103 of 1994). It has been established under the executive authority of the Minister for Cooperative Governance and Traditional Affairs, with the Department of Cooperative Governance (DCoG) as its principal department. Accordingly, MISA operates within the department's broader legislative and policy mandates.

As a government component MISA is expected to operate in accordance with all the relevant legislation, regulation and policies of the Public Service. These include:

- Public Finance Management Act, 1999 (Act No. 29 of 1999, as amended) and Treasury Regulations
- Public Service Act, 1994 (promulgated under proclamation No. 103 of 1994) and Public Service Regulations (2001)

The Head of MISA is an Accounting Officer of the institution in terms of section 36 (2) (b) of the PFMA.

Section 40 of the PFMA requires the Accounting Officer of the institution to "prepare financial statements for each year and submit those financial statements within two months after the end of the financial year to the Auditor-General South Africa and National Treasury.

2. Review of activities

Main business and operations

MISA is a dedicated and coordinated technical capacity programme designed to support municipalities in accelerating the service delivery as well as the sustainable operations and management of municipal infrastructure.

This is the fourth year of reporting as a separate entity.

MISA was established as a government component in terms of Section 7(5)c of the Public Service Act (PSA) as amended by Act 30 of 2007. The establishment of MISA as a government component is intergrally tied to the turnaround strategy of the Department of Cooperative Governance.

Net surplus for the period under review

Net surplus of the entity for the year under review is R 82 818 873 (R59 703 852: 2017).

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Accounting Officer's Report

3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the National Treasury through DCoG will continue funding the ongoing operations of the entity. MISA will continue its operations for the foreseeable future.

4. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Statements of GRAP, issued by the Accounting Standards Board as prescribed by the framework for National Treasury.

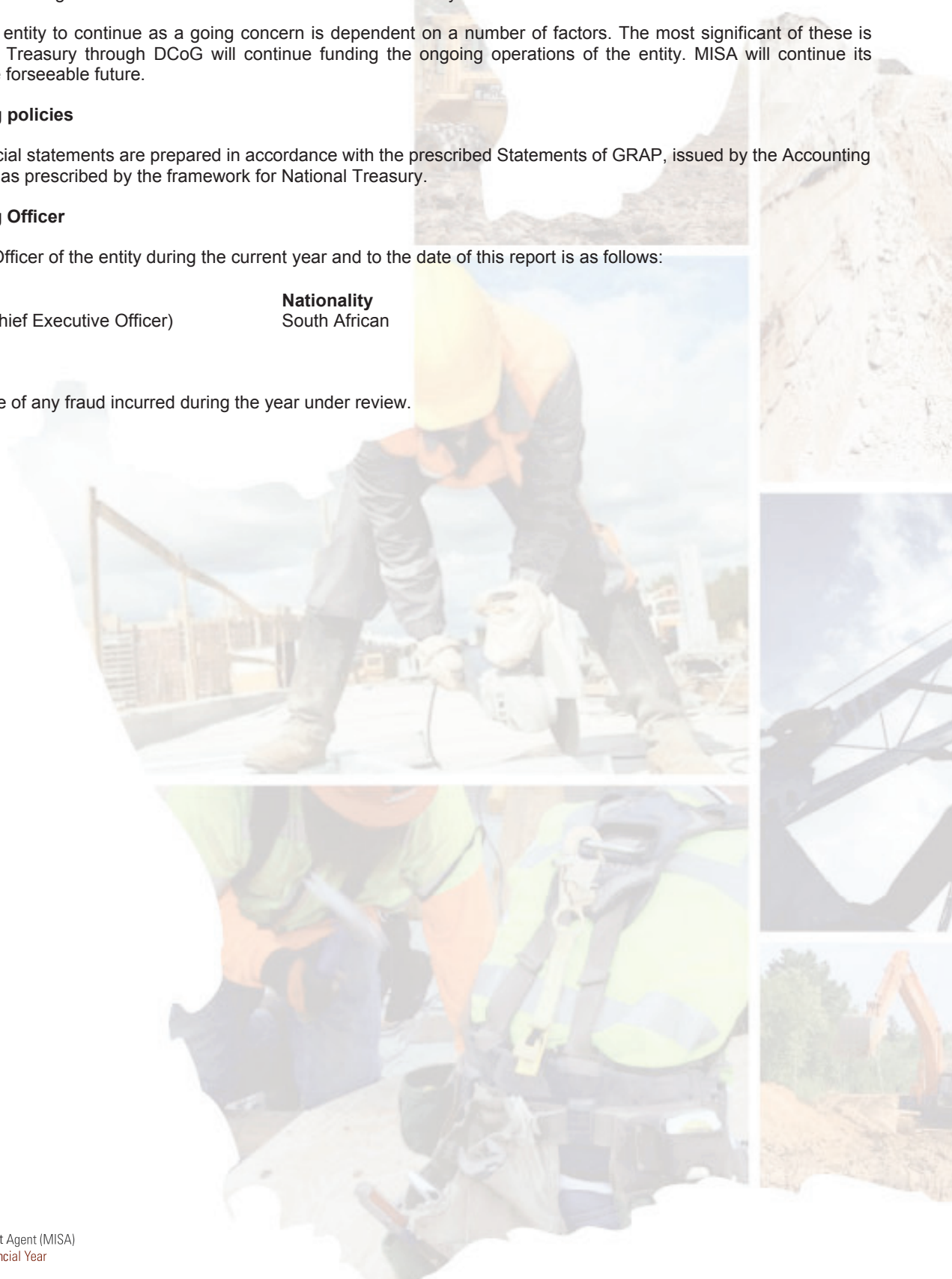
5. Accounting Officer

The Accounting Officer of the entity during the current year and to the date of this report is as follows:

Name	Nationality
Mr G.N Vimba (Chief Executive Officer)	South African

6. Fraud

MISA is not aware of any fraud incurred during the year under review.



Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Statement of Financial Position as at 31 March 2018

	Notes	2018	2017
Assets			
Current Assets			
Prepayments	3	1 096 514	2 500 000
Receivables from non-exchange transactions	4	322 831	129 471
Cash and cash equivalents	5	202 579 900	119 725 957
		<u>203 999 245</u>	<u>122 355 428</u>
Non-Current Assets			
Property, plant and equipment	6	3 605 518	4 342 613
Intangible assets	7	24 680 907	28 053 566
		<u>28 286 425</u>	<u>32 396 179</u>
Total Assets		<u>232 285 670</u>	<u>154 751 607</u>
Liabilities			
Current Liabilities			
Operating Lease Liability	8	132 027	659 746
Payables from exchange transactions	9	39 403 244	44 501 767
Provisions	10	7 217 965	6 876 532
		<u>46 753 236</u>	<u>52 038 045</u>
Total Liabilities		<u>46 753 236</u>	<u>52 038 045</u>
Net Assets		<u>185 532 434</u>	<u>102 713 562</u>
Accumulated surplus		<u>185 532 434</u>	<u>102 713 562</u>

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Statement of Financial Performance

	Notes	2018	2017
REVENUE			
Revenue from Exchange Transactions			
Management fees received		-	244 160
Sale of bid documents		-	20 700
Interest received		4 151 824	2 573 178
Total revenue from exchange transactions		4 151 824	2 838 038
Revenue from Non-Exchange Transactions			
SETA Funding		-	2 754 000
Transfer revenue			
Government grants (DCoG)	12	381 483 000	349 889 000
Total revenue from non-exchange transactions		381 483 000	352 643 000
TOTAL REVENUE	11	385 634 824	355 481 038
Expenditure			
Employee related costs	13	(65 256 221)	(53 326 928)
Depreciation and amortisation	14	(6 357 138)	(7 443 487)
Contracted services	15	(179 846 068)	(164 191 228)
General Expenses	16	(51 356 524)	(70 815 543)
TOTAL EXPENDITURE		(302 815 951)	(295 777 186)
Surplus for the year		82 818 873	59 703 852

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Balance at 01 April 2016	43 009 710	43 009 710
Changes in net assets		
Surplus for the year	59 703 852	59 703 852
Total changes	59 703 852	59 703 852
Balance at 01 April 2017	102 713 561	102 713 561
Changes in net assets		
Surplus for the year	82 818 873	82 818 873
Total changes	82 818 873	82 818 873
Balance at 31 March 2018	185 532 434	185 532 434

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Cash Flow Statement

	Notes	2018	2017
Cash flows from operating activities			
Receipts			
Grants		381 483 000	349 889 000
Interest income		4 151 824	2 573 178
Other income		-	2 774 700
		<u>385 634 824</u>	<u>355 236 878</u>
Payments			
Employee costs		(61 625 329)	(52 479 826)
Goods and Services		(238 821 026)	(235 773 147)
		<u>(300 446 355)</u>	<u>(288 252 973)</u>
Net cash flows from operating activities	17	<u>85 188 469</u>	<u>66 983 905</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(2 285 362)	(197 574)
Purchase of other intangible assets	7	(49 163)	-
		<u>(2 334 525)</u>	<u>(197 574)</u>
Net cash flows from investing activities			
Net increase in cash and cash equivalents		82 853 944	66 786 331
Cash and cash equivalents at the beginning of the year		119 725 956	52 939 625
Cash and cash equivalents at the end of the year	5	<u>202 579 900</u>	<u>119 725 956</u>

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest received - investment	-	-	-	4 151 824	4 151 824	Note 25
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	381 483 000	-	381 483 000	381 483 000	-	
Total revenue	381 483 000	-	381 483 000	385 634 824	4 151 824	
Expenditure						
Personnel	(131 588 000)	50 000 000	(81 588 000)	(65 256 221)	16 331 779	Note 25
Depreciation and amortisation	(7 800 000)	-	(7 800 000)	(6 357 138)	1 442 862	Note 25
Contracted Services	(188 168 000)	(50 000 000)	(238 168 000)	(179 846 068)	58 321 932	Note 25
General Expenses	(53 927 000)	-	(53 927 000)	(51 356 524)	2 570 476	Note 25
Total expenditure	(381 483 000)	-	(381 483 000)	(302 815 951)	78 667 049	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	-	-	-	82 818 873	82 818 873	

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 40(1)(b) of the Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rands.

The preparation of annual financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods..

Provision for Technical Consultant Overtime

To determine the provision for overtime for technical consultant, judgement was used in determining the future forfeiture based on the past experience of technical consultant who left with unutilised hours.

Useful lives of property, plant and equipment

MISA's management determines the estimated useful lives and related depreciation charges for Property , plant and equipment. This estimate is based on time period they expect to use the assets. Management also consider's the time period similar assets are used for by entities of a similar nature.

Intangible assets

To determine the useful life of assets management considered for what time period they expect to use the assets. Management considered the impact of technology and the service requirements of the entity to determine the optimum useful life expectation of the assets for internally generated intangible assets management determine the useful life by considering the software platform , software language and software source code. Management also considered information relating to the useful life provided by software developer.

1.3 Contingent liabilities

Contingent liabilities are recorded in the notes to the financial statements when there is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the government component or when there is a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably .

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

An item of property, plant and equipment is derecognised:

- on disposal, and/ or
- when no future economic benefits or service potential expected from use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	3-5 years
Motor vehicles	Straight line	5-7 years
Office equipment	Straight line	3-5 years
Computer equipment	Straight line	3-5 years

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. If expectations differ from previous estimates, the change is accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

1.5 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets acquired are measured on initial recognition at cost.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Amortisation method	Average useful life
Computer software, other	Straight line	3-5 years
Computer software, internally generated	Straight line	10 years

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

The recoverable amount used for the impairment is the higher of fair value less costs to sell and the value in use.

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Accounting Policies

1.7 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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Accounting Policies

1.8 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

State plans

The entity classifies state plans as a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

1.9 Provisions

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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Accounting Policies

1.9 Provisions (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.10 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Municipal Infrastructure Support Agent (MISA)

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Interest is recognised, in surplus or deficit, using the effective interest rate method and is recognised on a time proportion basis.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

MISA receives annual transfers from DCoG as per the allocation from National Treasury in four tranches.

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

MISA recognises the transfers after submitting quarterly performance and financial reports to DCoG.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the Irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the note.

Irregular expenditure receivables are measured at the amount that is expected to be recovered and are de-recognised when settled or written-off as irrecoverable.

Irregular expenditure is disclosed in note 23 in the annual financial statements.

1.15 Budget information

Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis.

The approved budget covers the fiscal period from 2017/04/01 to 2018/03/31.

The budget for the economic entity includes all the entities approved budgets under its control.

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Accounting Policies

1.15 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.16 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. The following are regarded as related parties of the entity;

- a) A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity; or
 - is a member of the management of the entity or its controlling entity.
- b) An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to others)
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third party and the other entity is an associate of the third party;
 - the entity is a post employment benefit plan for the benefit of employees of either entity is itself a plan, the sponsoring employers are related to the entity;

Related party transaction: is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence: is the power to participate in the financial and operating policy decisions of an entity but is not control over those policies.

Management: are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with the legislation, in instances where they are required to perform such functions.

Close family members: close family members of a family are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Disclosure: Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or less favourable than the terms it would use to conclude transactions with any other person are disclosed.

MISA is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the Board is exempt from the disclosures in accordance with the above, it discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its unaudited annual financial statements.

1.17 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Municipal Infrastructure Support Agent (MISA)

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1.17 Events after reporting date (continued)

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.18 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Receivables from non-exchange transactions

MISA does not have trade receivables. Other receivables are initially recognised at fair value, plus or minus transactions costs, and subsequently measured at amortised cost using the effective interest rate method.

Payables from exchange transactions

Trade payables are initially measured at fair value plus or minus transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method and are derecognised when payment is made.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and subsequently at amortised cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivables
Cash and cash equivalents

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Payables

Category

Financial liability measured at amortised cost

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Accounting Policies

1.18 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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1.18 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2019	Impact is currently being assessed
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Impact is currently being assessed
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Impact is currently being assessed

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2018 or later periods but are not relevant to its operations:

GRAP 20

GRAP 20 sets out the principles for the identification and disclosure of related party relationships and transactions. MISA has adopted the principles set out in GRAP 20. MISA will officially apply the standard on the effective date to be determined by the Minister. The impact of initial application is currently being assessed.

GRAP 21

GRAP 21 sets out the accounting principles for the accounting treatment for the impairment of non-cash-generating assets. MISA has adopted the principles set out in GRAP 21. MISA will officially apply the standard on the effective date to be determined by the Minister. The impact of initial application is currently being assessed.

GRAP 31

GRAP 31 sets out the accounting principles for the accounting treatment for the Intangible Assets. MISA has adopted the principles set out in GRAP 31. MISA will officially apply the standard on the effective date to be determined by the Minister. The impact of initial application is currently being assessed.

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
3. Prepayments		
The prepayment for Microsoft refers to licence fees paid to a service provider for the 12 months from February 2018 to end of January 2019. Prior year prepayment for GTAC was expensed in the 2017/18 financial year.		
Prepayment - Microsoft	1 096 514	-
Prepayment - GTAC	-	2 500 000
	<u>1 096 514</u>	<u>2 500 000</u>

4. Receivables from non-exchange transactions

Staff recoveries	441 392	257 572
Provision for debtors- staff recoveries	(118 561)	(128 101)
	<u>322 831</u>	<u>129 471</u>

Reconciliation of provision for doubtful debts

Opening balance	(128 101)	-
Reversal of impairment	9 540	(128 101)
Closing balance	<u>(118 561)</u>	<u>(128 101)</u>

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand-Petty Cash	20 574	1 962
Bank balances-Current and Salary Account	113 224 125	94 540 618
Short-term deposits- Call Account	89 335 201	25 183 377
	<u>202 579 900</u>	<u>119 725 957</u>

6. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	5 174 752	(4 617 948)	556 804	4 818 956	(3 739 326)	1 079 630
Motor vehicles	624 322	(338 380)	285 942	624 322	(249 191)	375 130
Office equipment	2 839 340	(1 682 410)	1 156 930	2 050 255	(1 296 004)	754 251
Computer equipment	11 012 627	(9 406 785)	1 605 842	10 430 839	(8 297 237)	2 133 602
Total	<u>19 651 041</u>	<u>(16 045 523)</u>	<u>3 605 518</u>	<u>17 924 372</u>	<u>(13 581 758)</u>	<u>4 342 613</u>

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	1 079 630	355 796	-	(878 622)	556 804
Motor vehicles	375 131	-	-	(89 189)	285 942
Office equipment	754 251	891 270	(35 149)	(453 442)	1 156 930
Computer equipment	2 133 602	1 038 296	(51 995)	(1 514 061)	1 605 842
	<u>4 342 614</u>	<u>2 285 362</u>	<u>(87 144)</u>	<u>(2 935 314)</u>	<u>3 605 518</u>

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

2018

2017

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	1 992 069	44 232	(67)	(956 604)	1 079 630
Motor vehicles	464 319	-	-	(89 188)	375 131
Office equipment	1 038 150	153 341	(27 430)	(409 810)	754 251
IT equipment	4 778 712	-	(99 365)	(2 545 745)	2 133 602
	8 273 250	197 573	(126 862)	(4 001 347)	4 342 614

Pledged as security

There are no items of Property plant and equipment pledged as security:

Cost of Fully depreciated assets still in use

Computer Equipment	5 165 319	-
Office Equipment	621 863	-
Office furniture	2 645 926	-
Software	301 108	-
	8 734 216	-

7. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	553 496	(483 647)	69 849	504 333	(456 453)	47 880
Municipal Infrastructure Performance Management Information System (MIPMIS)	33 946 286	(9 335 228)	24 611 058	33 946 286	(5 940 600)	28 005 686
Total	34 499 782	(9 818 875)	24 680 907	34 450 619	(6 397 053)	28 053 566

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	47 880	49 163	(27 194)	69 849
Municipal Infrastructure Performance Management Information System (MIPMIS)	28 005 686	-	(3 394 628)	24 611 058
	28 053 566	49 163	(3 421 822)	24 680 907

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
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7. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	95 393	(47 513)	47 880
Municipal Infrastructure Performance Management System :MIPMIS	31 400 312	(3 394 626)	28 005 686
	31 495 705	(3 442 139)	28 053 566

Pledged as security

There are no idle assets held and there are no assets pledged as security of liens assets.

Intangible assets with a cost of (R-0) (R244 714:2017) were scrapped during the year, these assets were fully depreciated.

8. Operating Lease Liability

Non-current liabilities	-	-
Current liabilities	(132 027)	(659 746)
Operating lease accrual	(132 027)	(659 746)
Minimum Lease payments due		
TOTAL	18 959 288	4 392 006
Within one year	9 975 667	4 392 006
In the second to fifth year	8 983 621	-

The amounts above shows operating leases for office space and copier. The office space is for Riverside Office Park.

The lease term for Riverside Office Park is for a period of 2 years which commenced on 1 December 2017 and ends on 30 November 2019. The escalation clause is 8.5% per year.

The lease period for Konica Minolta is for a period of 3 years which commenced on the 1st of July 2017 and ends on the 1st of June 2020.

9. Payables from exchange transactions

Other payables	994 663	221 475
Trade creditors	38 408 581	44 280 292
	39 403 244	44 501 767

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
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10. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Movement	Total
Leave Provision: Technical consultant	4 989 668	(2 556 912)	2 432 756
Leave provision: Permanent staff	1 886 864	2 198 345	4 085 209
Bonus Provision	-	700 000	700 000
	6 876 532	341 433	7 217 965

Technical Consultants' Time-Off Provision: This relates to the monetary value of overtime owing to MISA technical consultant. Judgement was used in determining the future forfeiture rate based on the past experience of technical consultants whose contracts ended/resigned with unutilised hours.

Leave Provision: This relates to the value of leave owing to MISA staff, the liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee. Accumulating leave is carried forward and can be used in future periods if the current period entitlement is not used in full. Any unused leave relating to prior year will be forfeited in June of the subsequent year. All unused leave will be paid out to the employee at the end of the employment term.

Bonus Provision: This relates to performance bonus to be paid in the 2018/19 year. Currently the performance assessments are being moderated. The actual amount to be paid is unknown, however a reasonable estimate has been calculated as indicated in the table above.

11. Revenue

Management fees received	-	244 160
Sale of Tender Documents	-	20 700
Interest received	4 151 824	2 573 178
SETA Funding	-	2 754 000
Government grant	381 483 000	349 889 000
	385 634 824	355 481 038

The amount included in revenue arising from exchanges of goods or services are as follows:

Management fees received	-	244 160
Sale of tender documents	-	20 700
Interest received - investment	4 151 824	2 573 178
	4 151 824	2 838 038

The amount included in revenue arising from non-exchange transactions is as follows:

SETA Funding	-	2 754 000
Transfer revenue		
Government grant (DCoG)	381 483 000	349 889 000
	381 483 000	352 643 000

12. Government grants (DCoG)

Government grant	381 483 000	349 889 000
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Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
13. Employee related costs		
Salaries	60 114 628	49 926 066
Bonus	1 401 095	942 414
Medical aid	443 506	253 810
Pension	2 465 905	1 681 363
Travel, motor car, accommodation, subsistence and other allowances	831 087	523 275
	65 256 221	53 326 928
Remuneration of Chief Executive Officer - Vimba GN		
Annual Remuneration	1 213 305	870 614
Contributions to UIF, Medical and Pension Funds	94 729	109 994
Non pensionable cash, Motor car and Housing	490 670	394 573
	1 798 704	1 375 181
Remuneration of Chief Financial Officer - Nombembe F		
Annual Remuneration	800 976	753 144
Contributions to UIF, Medical and Pension Funds	104 202	97 908
Non pensionable cash, Motor car and Housing	239 148	224 867
	1 144 326	1 075 919
Remuneration of Acting Deputy Director General - Ngobeni TS		
Annual Remuneration	893 960	886 892
Contributions to UIF, Medical and Pension Funds	114 717	108 134
Non pensionable cash, Motor car and Housing	234 288	161 332
	1 242 965	1 156 358
Remuneration of Acting Deputy Director General - Seroka T		
Annual Remuneration	39 929	-
The amount reflected only represents an acting allowance for four months (December 2017 to March 2018) as T Seroka's salary is paid by DCoG.		
Remuneration of Chief Director : Office of CEO - Mathada V		
Annual Remuneration	766 245	727 673
Contributions to UIF, Medical and Pension Funds	104 318	99 623
Non pensionable cash, Motor car and Housing	308 356	292 833
	1 178 919	1 120 129
Remuneration of Acting Chief Director - Dladla TH		
Annual Remuneration	675 458	454 537
Contributions to UIF, Medical and Pension Funds	101 940	10 788
Non pensionable cash, Motor car and Housing	261 006	28 935
	1 038 404	494 260

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
13. Employee related costs (continued)		
Remuneration of Chief Director - Seabelo KG		
Annual Remuneration	-	53 701
Car Allowance	-	10 000
Contributions to UIF, Medical and Pension Funds	-	6 981
Non pensionable cash, Motor car and Housing	-	14 344
	-	85 026
Remuneration of Acting Chief Director - Sigcau L		
Annual Remuneration	729 826	-
Contributions to UIF, Medical and Pension Funds	87 660	-
Non pensionable cash, Motor car and Housing	349 853	-
	1 167 339	-
14. Depreciation and amortisation		
Property, plant and equipment	2 935 315	4 001 349
Intangible assets	3 421 823	3 442 138
	6 357 138	7 443 487
15. Contracted services		
Information Technology Services	1 826 738	3 708 538
Professional and consulting services	165 958 176	150 098 379
Property rental	8 063 818	6 509 899
Agency support	3 168 620	3 103 988
Security services	828 716	770 424
	179 846 068	164 191 228

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
16. General expenses		
Advertising expenses	879 660	2 107 539
External audit fees	4 857 765	3 847 630
Bank Charges	96 510	69 851
Cleaning	507 117	519 662
Computer expenses	280 254	1 014 256
Consumables	1 363 407	1 342 246
Reversal of impairment	(9 540)	128 101
Entertainment	78 206	39 135
Printing and stationery	52 600	8 800
Telephone	1 135 918	1 161 199
Transport	2 101 658	1 781 241
Training	19 242 649	43 639 403
Accommodation	10 825 799	6 144 723
Bursaries	7 732 163	7 730 929
Catering	745 370	323 652
Sundry expenses	1 413 515	923 428
Venues and facilities	53 473	33 748
	51 356 524	70 815 543
Included under sundry expenses are the following expenses:		
Consumables	66 431	150 052
Staff funeral	10 000	10 000
Courier	9 966	3 035
Court order	34 668	-
Security Enhancement	-	316 360
Legal costs	1 205 306	317 119
Loss on disposal of fixed assets	87 144	126 862
	1 413 515	923 428
17. Cash generated from operations		
Surplus for the year	82 818 873	59 703 852
Adjustments for:		
Depreciation and amortisation	6 357 138	7 443 487
Debt impairment	-	128 101
Loss on disposal of fixed assets	87 144	126 863
Decrease in operating lease liabilities	(527 719)	(631 367)
Decrease in provisions	341 433	-
Other receivables from non-exchange transactions	(193 360)	(7 639)
Prepayments	1 403 486	(965 051)
Payables from exchange transactions	(5 098 526)	1 185 659
Cash generated from operations	85 188 469	66 983 905

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
18. Commitments		
Approved Expenditure		
Approved and contracted for		
• Technical Experts	14 355 905	62 615 743
• Contractors	241 247 685	66 515 257
	255 603 590	129 131 000
Approved and contracted for-within one year		
• Technical Experts	14 355 905	53 727 986
• Contractors	190 033 919	45 664 284
	204 389 824	99 392 270
Approved and contracted for -2 years and longer		
Technical Experts	-	8 887 847
Contractors	51 213 766	20 850 973
	51 213 766	29 738 820

This committed expenditure relates to consultants and service providers and will be financed by annual transfers from National Treasury through DCoG.

19. Contingencies

Contingent liability

The contingent liabilities relate to the following:

1. Claim by former service providers contracted to provide services relating to arranging travel, accommodation and venue hire for MISA. The service provider is claiming payment for service rendered which MISA is disputing. MISA is uncertain of the timing of any outflows, (R1 075 000).
2. Claim by service provider for work done on the Northern Cape Bucket eradication program. Contract was terminated by mutual agreement, (R13 000 000).
3. Claim by former technical consultants relating to extension of contracts, (R5 000 000).

Opening balance	19 075 000	18 000 000
Claim by service providers	-	1 075 000
	19 075 000	19 075 000

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
20. Related parties		
Relationships		
The following are members of the same economic entity namely:	Department of Cooperative Governance South African Local Government Association-Fellow Controlling Entity South Africa Cities Networks-Fellow Controlled Entity	
Related party transactions		
Transfer Received		
Transfer from DCoG	381 483 000	349 889 000
Payments made		
Amounts paid to DCoG for reimbursement of costs	32 092 892	31 520 288
Related party balances		
Amount included in payables from exchange transaction (Trade Creditors) owed to DCoG for the recovery of cost paid by DCoG on behalf of MISA. This is payable within 30 days of invoicing.	3 603 929	3 696 912
21. Risk management		
Financial risk management		
The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The management of the entity have overall responsibility for the establishment and monitoring of the entity's risk management policies and procedures which have been established to identify and analyse the risks faced by the entity, to set appropriate risk limits and controls and to monitor adherence to limits, risk management policies and procedures and reviewed regularly to reflect changes in market conditions and the entity's activities		
Liquidity risk		
Liquidity risk is the risk that relates to the entity's ability to pay all its creditors.		
MISA does not have any long term liabilities. The entity receives its funding from CoGTA and incurs expenditure in terms of a planned budget. MISA has sufficient resources to meet its obligations as they fall due, Refer to note 5 . Monthly management meetings are held to ensure that the planned budget is adequately managed.		
Maturity analysis		
Total	39 403 244	44 501 767
30 days	38 147 419	44 501 767
30-90 days	1 255 825	-

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

	2018	2017
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21. Risk management (continued)

Credit risk

Credit risk is the risk that an entity's debtors will not be able to pay. MISA is not a trading entity and therefore does not usually have debtors and therefore has minimal credit risk. The receivables as reflected below relate to staff debtors who have been over-paid, consequently no independent assessment on the quality of the debtor was done. For the debtors reflected below acknowledgement of debt and repayment plans have been received. The majority of debtors are abiding by the repayment terms.

Financial assets exposed to credit risk at year end were as follows:

Age analysis of receivables for non-exchange transactions (neither past due nor impaired)	2018	2017
0-3 months	185 327	-
3-6 months	-	14 188
6-12 months	-	-
12 months and older	137 504	115 283
TOTAL	322 831	129 471

Market risk

Market risk is the risk that the fair value or future cash flows of an entity's financial instruments may fluctuate due to changes in market prices. MISA has insignificant market risk in terms of the cash held in its bank account.

22. Fruitless and wasteful expenditure

Opening balance	1 524 317	1 077 137
Add: Expenditure incurred on lapsed bids	-	447 180
	1 524 317	1 524 317

23. Irregular expenditure

Opening balance	269 801 872	241 325 092
Add: Irregular Expenditure - Prior year	-	45 116 407
Less: Irregular Expenditure - Prior year adjustment	-	(15 609 880)
Add: Irregular Expenditure - Prior year adjustment	-	5 856 626
Add: Irregular Expenditure - current year	12 156 825	44 676 705
Less: Amounts recoverable (condoned)	-	(51 563 078)
	-	-
	-	-

The reduction in irregular expenditure relates to guidance received from Auditor General regarding payments to TVET colleges that were previously regarded as irregular due to Non compliance with procurement policies. After consideration, Auditor General has guided that these payments should not be considered as irregular. All irregular expenditure has been submitted to National Treasury for consideration of condonation.

281 958 697	269 801 872
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Analysis of expenditure awaiting condonation per age classification

Current year	12 156 825	-
Prior years	269 801 872	-
	281 958 697	-

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

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	2018	2017
23. Irregular expenditure (continued)		
Details of irregular expenditure – current year		
Non compliance with various Supply Chain Management policies	Disciplinary steps taken/criminal proceedings Disciplinary steps have been initiated	12 156 825
24. Employee benefit obligations		
Defined benefit plan		
Contributions	2 465 905	1 681 364
MISA employees belong to a defined benefit plan which is managed by the Government Pension Fund, sufficient information relating to MISA employees is not available as the employees are a part of a larger pension fund scheme managed by the Government Fund. Therefore, the defined benefit plan is disclosed as a defined contribution plan as sufficient information is not available to use defined benefit accounting.		
25. Actual operating expenditure versus budgeted operating expenditure		
Interest received on the call account was not budgeted for, hence the positive variance.		
Employee costs: MISA organisational structure was approved late and positions were in the process of being filled.		
Goods and Services: There was a delay in the implementation of the RMSC project as well as training implementation leading to the variance.		
26. Fees for members of Audit and Risk Committee		
Mr F Sinthumule: Chairperson	177 568	199 707
Mr E Cousins: External Member	139 156	144 353
Adv RR Dehal: External Member	117 862	109 890
Ms D Dondur: External Member	31 410	103 132
Ms P Mzizi: External Member	139 156	131 309
	605 152	688 391
27. Prior-year adjustments		
Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:		
Statement of financial position		
Errors		
The following prior period errors adjustments occurred:		
Irregular expenditure		
Various expenses incurred in contravention of Supply Chain policies.		
Irregular expenditure previously reported	279 555 126	
Reduction in irregular expenditure relating to prior year	(15 609 880)	
Additional irregular identified in current year relating to prior year	5 856 626	
Restated	269 801 872	

Municipal Infrastructure Support Agent (MISA)

Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

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27. Prior-year adjustments (continued)

Contingent liabilities

Claims by service providers for work done on the Northern Cape Bucket eradication program and claim by four former Technical consultants on extension of contracts not previously disclosed.

Contingent liabilities previously reported

875 000

Contingent liabilities not disclosed

18 200 000

Restated

19 075 000

Reclassifications

The following reclassification adjustment occurred:

Reclassification

The reclassification relates to provision of bonus and leave previously included in Provisions and now included under Payables from exchange transactions.

The effects of the reclassification are as follows:

Statement of Financial Position

Payables from exchange transactions

612 432

Provisions

(612 432)

-





Municipal Infrastructure Support Agent (MISA)

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