

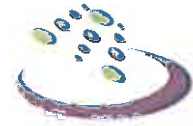


AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Harry Gwala District Municipality
Consolidated management report for
the year ended 30 June 2019





AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONSOLIDATED MANAGEMENT REPORT

HARRY GWALA DISTRICT MUNICIPALITY

30 June 2019

Communicated to the accounting officer on: 18 November 2019





CONSOLIDATED MANAGEMENT REPORT

HARRY GWALA DISTRICT MUNICIPALITY

30 June 2019

CONTENT

INTRODUCTION.....	55
SECTION 1: Interactions with stakeholders responsible for oversight and governance	8
SECTION 2: Matters relating to the auditor's report.....	99
AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS.....	99
MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS.....	9
AUDIT OF THE ANNUAL PERFORMANCE REPORT.....	1040
AUDIT OF COMPLIANCE WITH LEGISLATION.....	11
OTHER INFORMATION	11
INTERNAL CONTROLS.....	13
OTHER REPORTS.....	15
SECTION 3: Assurance providers and status of implementation of commitments and recommendations.....	15
ASSESSMENT OF ASSURANCE PROVIDERS	15
STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS	17
SECTION 4: Specific focus areas.....	17
FINANCIAL VIABILITY	17
PROCUREMENT AND CONTRACT MANAGEMENT	19
FRAUD AND CONSEQUENCE MANAGEMENT	20
USE OF CONSULTANTS.....	22
PUBLIC PARTICIPATION	23
CONDITIONAL GRANTS.....	23
WATER AND SANITATION SERVICES	24
SUPPORT TO LOCAL GOVERNMENT.....	29
SECTION 5: Using the work of internal auditors.....	29





SECTION 6: Emerging risks.....	30
SECTION 7: Entities controlled by the municipality.....	31
SECTION 8: Ratings of detailed audit findings.....	31
SECTION 9: Conclusion.....	32
SECTION 10: Summary of detailed audit findings.....	33
Detailed audit findings: Annexure A to C.....	37
Annexure D: Performance management and reporting framework	88
Annexure E: Auditor-general's responsibility for the audit of the reported performance information.....	91
QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS	91
REPORTED PERFORMANCE INFORMATION.....	91
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE	91
Annexure F: Assessment of internal controls.....	92



MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE HARRY GWALA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 June 2019

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the consolidated and separate financial statements, performance information and compliance with legislation for the year ended 30 June 2019.
2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the consolidated and separate financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected development objectives, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

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

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipients and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.

7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

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

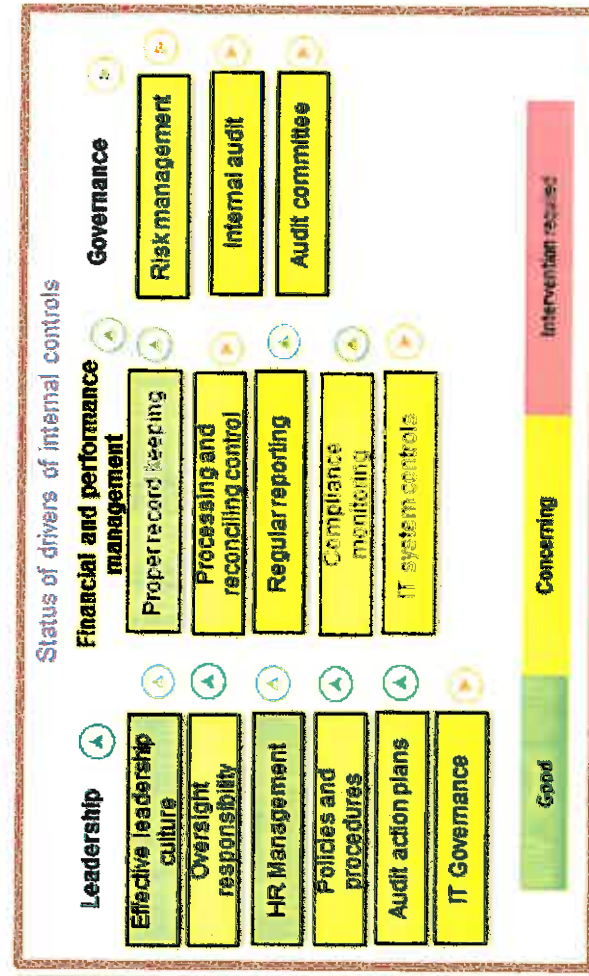
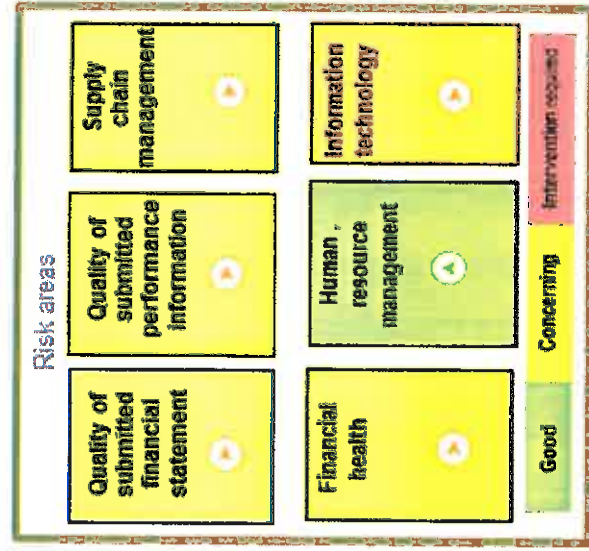
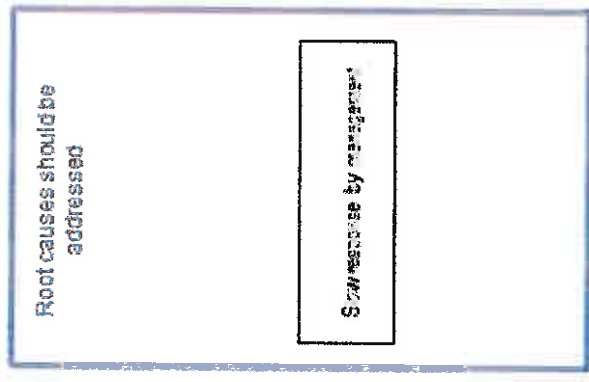
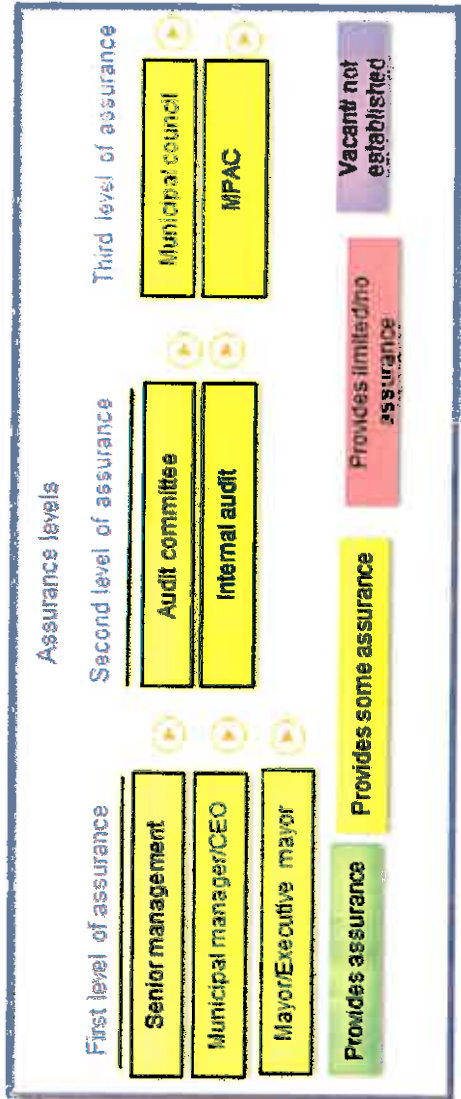
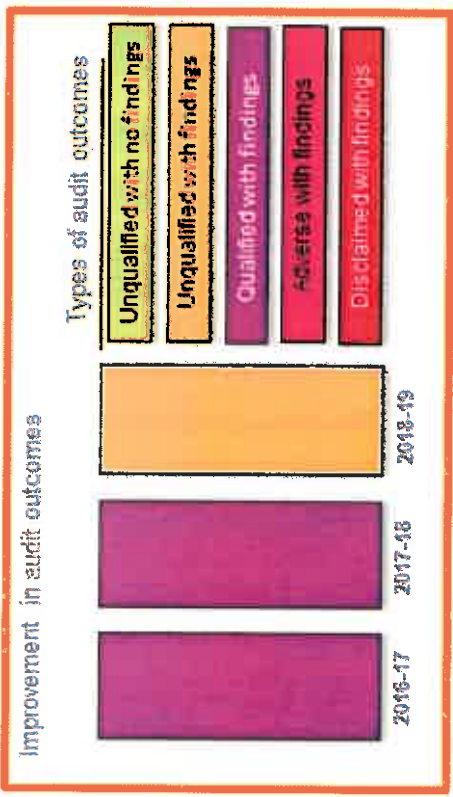
Movement from the previous year is depicted as follows:

/ ↑ Improved

/ ↔ Unchanged / slight improvement / slight regression

/ ↓ Regressed





OVERALL MESSAGE

8. Leadership and senior management need to improve oversight of key controls to ensure accurate and reliable reporting of financial information, performance information as well as adherence to key legislation. This should include ongoing monitoring of audit action plans, financial policies and procedures as well as implementation of effective consequence management procedures to support the improvement of audit outcomes.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	1
Municipal public accounts committee	Reaffirm roles and responsibilities of the MPAC to influence effective development, implementation and monitoring of an action plan	1
Mayor	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	1
Municipal manager	Create and understanding of the audit outcomes and influence effective development, implementation and monitoring of an action plan	5
Audit committee	Reaffirm roles and responsibilities of the audit committee to influence effective development, implementation and monitoring of an action plan	3

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

- Initiatives that can improve the audit outcome;
- Discussions and progress made on management’s commitments;
- Audit engagement and planning including the audit strategy; and
- Fraud risks

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



SECTION 2: Matters relating to the auditor's report

AUDIT OF THE FINANCIAL STATEMENTS

12. We commend the municipality for submitting financial statements that were free from material misstatements.

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

13. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the consolidated and separate financial statements:

Significant uncertainties – Contingent Liabilities

14. With reference to note 39 to the consolidated and separate financial statements, the municipality and its entity is a defendant in various claims received from suppliers. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result was made in the financial statements.

Material losses - water

15. As disclosed in note 48 to the consolidated and separate financial statements, material water losses of R9,02 million (2017-18: R9,11 million) were incurred by the municipality, which represents 31,9% (2017-18: 38,2%) of total water distributed.

Restatement of corresponding figures

16. As disclosed in note 41 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Other matter paragraph

17. The following other matter paragraph will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes

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

AUDIT OF THE ANNUAL PERFORMANCE REPORT

19. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report.

Introduction and scope

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

Development objective	Pages in annual performance report	Opinion	Movement
Objective 1 – To improve the coverage, quality, efficiency and sustainability of water and sanitation services in all urban and rural communities.	x – x	unqualified	⬆

21. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.

22. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Development objective 1 – To improve the coverage, quality, efficiency and sustainability of water and sanitation services in all urban and rural communities

Opinion

23. In our opinion, the reported performance information for: to improve the coverage, quality, efficiency and sustainability of water and sanitation services in all urban and rural communities is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Other matters

24. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

25. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and explanations provided for the overachievement of a significant number of targets. This information should be considered in the context of the opinion expressed on the usefulness and reliability of the reported performance information in paragraphs 26 of this report.

Adjustment of material misstatements

26. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of: to improve the coverage, quality, efficiency and sustainability of water and sanitation services in all urban and rural communities. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.



Responsibilities of the accounting officer for the reported performance information

27. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

28. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected development objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

29. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.

30. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

31. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure of R62,57 million incurred during the year by the municipality, as disclosed in note 45 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budgeting for bulk purchases, inventory consumed and operational costs.

33. Reasonable steps were not taken to prevent irregular expenditure of R138,49 million incurred during the year by the municipality, as disclosed in note 47 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awarding contracts without following proper procurement processes.

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

35. Some of the unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
36. Some of the irregular and fruitless and wastful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

37. Some of the construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

OTHER INFORMATION

38. 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 consolidated and separate financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on, in the auditor's report.
39. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. The other information we obtained prior to the date of this report is the Mayor's foreword and the accounting officers report. The audit committee's report is expected to be available to me after 29 November 2019.
42. If based on the work, we have performed on the other information that we obtained prior to the date of this auditor's report. We conclude that there is a material misstatement on this other information, we are required to report that fact. We have nothing to report in this regard.
43. When we do receive and read the audit committee report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, we may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.
44. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that. We have nothing to report in this regard.

INTERNAL CONTROLS

45. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 8, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility

46. The municipality manager, audit committee and municipal public accounts committees did not exercise responsibility regarding compliance with legislation to confirm necessary action was taken to address irregular, unauthorised and fruitless and wasteful expenditure at the municipality.

Policies and procedures

47. The municipality did not establish formal policies and procedures that govern the investigation, recovery and write off of irregular, unauthorised and fruitless and wasteful expenditure of the municipality.

Action plans to address internal control deficiencies

48. Management did not adequately monitor their audit action plan as similar findings relating to receivables and revenue management, performance reporting and compliance with key legislation were identified during the current audit.

Information technology governance framework

49. An information technology (IT) governance framework had been developed and implemented at the Harry Gwala District Municipality. Deficiencies were however noted relating to the lack of a valid service level agreement (SLA) with Business Connexion (BCX) for support of the e-Venus system during the 2018-19 financial year, service level agreements (SLAs) for ION Consulting and Payday systems were not in place. Service performance monitoring minutes not approved, policies and procedures governing the Information and Communication Technology (ICT) environment not timeously approved by the Council and processes to monitor benefits derived from spend over IT not established. These findings were attributed to inadequate review and prolonged internal processes resulting in delays in the approval of the SLA and other IT strategic documents.

Financial and performance management

Daily and monthly processing and reconciling of transactions

50. Commitments and unauthorised expenditure were not reconciled to registers, contracts and payment certificates to confirm accuracy and completeness.

Regular, accurate and complete financial and performance reports

51. As indicated in par C of section 2, the annual performance report contained material misstatement that were corrected. This was mainly due to lack of regular review of the reported performance by senior management against the submitted portfolio of evidence.

Compliance monitoring

52. Non-compliance with key legislation could have been prevented had compliance checklists been updated, properly reviewed and monitored by management.



Information technology systems

53. The status of information technology (IT) controls within Harry Gwala District Municipality had remained stagnant. Thirteen (13) IT findings were previously reported and four (4) IT audit findings were resolved. The remaining nine (9) findings will be reported in the 2018-19 financial year. IT audit findings relating to the Windows Active Directory, eVenus, Reasebetsa and Payday systems were identified and reported. In the current audit, fifteen (15) new findings relating to IT general controls were identified. These findings were relating to the Windows Active Directory, e-Venus and Payday systems and ranged across the IT general controls focus areas of IT security, user access management, program change management and IT service continuity. A lack of management's commitment and inadequate auctioning of plans to address previous IT audit findings has resulted in prior year audit findings not being resolved.
54. The ICT Logical Access Policy was inadequate. Furthermore, failed logon attempts on the Windows Active Directory and eVenus systems were not monitored. Inadequate ICT governance skills and knowledge and a lack of required monitoring being performed by system administrators gave rise to these deficiencies.
55. User access management findings included generic user accounts identified on the Windows Active Directory, terminated employee still being active on the Windows Active Directory. The e-Venus Administrator activity log did not indicate password resets, generic and duplicate user accounts were identified on the Payday system. This was attributed to the lack of defined user naming conventions for ICT systems, poor communication between ICT and Human Resources (HR) units and System Administrators not exercising due diligence when performing the user access reviews resulted in these findings.
56. ICT Change Management Policy omitted the process for migration of changes to the production environment when implementing program changes. This was due to a lack of a detailed review of the Change Management Policy before it was submitted for approval.
57. Deficiencies were noted in the Disaster Recovery Plan, backup restoration tests were not performed, Veeam backups not replicating to the off-site location and there was no evidence of monitoring of Veeam backup logs. IT service continuity weaknesses were attributed to the disaster recovery site not being finalised to allow ICT to perform the DR tests as well as a lack of monitoring of backups performed by ICT.

Governance

Risk management activities and risk strategy

58. Management's risk identification and the monitoring thereof need to be intensified as the risk of non-compliance with key legislation and inaccurate financial and performance reporting has still materialised in the current year.

Internal audit and audit committee

59. Internal audit and audit committee's review of the annual financial statements and annual performance report can be improved as various misstatements were still identified by audit and subsequently corrected by management in the areas of unauthorised expenditure and commitments including the misstatements of the reported performance information.

Summary

60. The matters above, as they relate to the basis for the opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
61. Leadership did not exercise adequate oversight and monitoring over compliance with laws and regulations.



62. Non-compliance could have been prevented, had management updated their compliance checklists with all the required legislative requirements relating to expenditure, consequence management and procurement and contract management.

OTHER REPORTS

63. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the consolidated and separate financial statements or findings on the reported performance information or compliance with legislation.
64. In terms of proclamation number R10 of 2017, Government Gazette 40594 of 3 February 2017, the special investigating unit is investigating various irregularities regarding the procurement of goods and services from 10 service providers which covers the period 1 January 2010 to 3 February 2017. These investigations were still in progress at the date of this report.
65. The entity requested an independent consultant to investigate an allegation of possible financial misconduct by the former accounting officer, which covers the period 14 May 2018 to 7 September 2018. The investigation is still in progress at the date of this report.
66. The municipality requested two independent consulting firms to investigate allegations relating to possible misappropriation of funds and payments to fictitious employees. The two investigations cover the periods 1 July 2014 to 30 June 2017, and the period prior to 31 January 2017. These investigations were completed at the date of this report and resulted in criminal proceedings against the implicated employees. These proceedings are currently in progress.

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

ASSESSMENT OF ASSURANCE PROVIDERS

67. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the consolidated and separate financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
68. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
69. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides some assurance

- Management did not pro-actively respond to internal and external audit recommendations as majority of commitments to address previous years' findings were not honoured according to the agreed upon timeframes which led to repeat findings being identified in the current year. In addition, there is a high reliance on consultants to produce financial information however this information was not reviewed by senior management prior to consolidated and separate financial statements being submitted for audit. There was little improvement in areas of document management relating to financial information. In addition, the information on the financial and performance information was not adequately reviewed by senior management prior to financial statements and annual performance report being submitted for audit as evidenced by the material misstatements throughout the audit process.

Accounting officer: provides some assurance

- The municipal manager did not provide adequate oversight over the preparation of the consolidated and separate financial statement, performance reporting and compliance with legislation which resulted in material misstatements in the financial statements, performance reports and non-compliance with legislation

Mayor: provides some assurance

- The mayor displayed a positive approach to addressing the previous year's audit findings however did not adequately exercise adequate and regular oversight over management's progress thereof in order to influence positive audit outcomes.

Second level of assurance

Internal audit unit: provides some assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
 - The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
70. Internal audit review of the consolidated and separate financial statements and performance report can be improved as various misstatements were identified by audit and subsequently corrected by management in the areas of unauthorised expenditure and commitments including the misstatements of the reported performance information.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the council and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.

- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

71. Audit committee's review of the consolidated and separate financial statements and performance report can be improved as various misstatements were identified by audit and subsequently corrected by management in the areas of unauthorised expenditure and commitments including the misstatements of the reported performance information.

Third level of assurance

Municipal council: **provides some assurance**

- Council displayed a positive approach to addressing the previous year's audit findings however did not adequately exercise adequate and regular oversight over management's progress thereof in order to influence positive audit outcomes.

Municipal public account committee (MPAC): **provides some assurance**

- The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.
- The MPAC did not exercise adequate oversight over management's progress to address the previous year's findings.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

72. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Origin of commitment	Status
1	To liaise with affected institutions to confirm the liability relating to unspent conditional grants	CFO	November 2017	2017-18	In progress

- 56 audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- 35 recommendations are still being implemented and 21 have not been addressed, or very limited progress has been made.
- Details on the status of implementing the previous year's recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

73. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.



FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	42 Days	142 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	168 Days	148 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	85 %	88 %
	• Amount of debtors impairment provision	R150 710 112	R159 669 872
	• Amount of accounts receivable	R177 643 479	R181 585 006
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R216 889 403	R225 199 705
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current assets / (liability) position	(R58 579 492)	(R64 557 799)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R2 091 685 449	R1 824 437 544
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R71 592 765	R112 335 670
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R227 367 136	R303 342 165
4.3	Creditors as a percentage of cash and cash equivalents	40 %	82 %
	• Amount of creditors (accounts payable)	R28 594 565	R92 240 924
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R71 592 765	R112 235 670
4.4	Current liabilities as a percentage of next year's budgeted resources **	30 %	98 %
	• Amount of current liabilities	R174 766 031	R242 316 013
	• Amount of next year's budgeted income **	R575 631 885	R247 945 310
OVERALL ASSESSMENT			

FINANCIAL VIABILITY ASSESSMENT		
	AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
	Yellow (Concerning)	Yellow (Concerning)

High-level comments

74. The municipality has encountered cash flow challenges during the financial year which mainly emanates from the municipality having high payables from exchange transactions and cash flow constraints have led to slow creditor payments. The cash and cash equivalents balance decreased significantly from the prior year and consumer debtors and service charges have increased. Unauthorised and irregular expenditure was also not prevented.

PROCUREMENT AND CONTRACT MANAGEMENT

75. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

76. R138,47 million (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years, amounting to R0, was also identified in the current year. The root cause of the lack of effective prevention and detection are the lack of monitoring controls over the SCM compliance checklist and inadequate contract management.

Awards to persons in the service of the state

77. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

78. The findings were as follows (include details on awards and interests identified as per the table below. Include all interests identified per CAATs reports, excluding false exceptions, even if no finding was raised):

Finding	Number and value of awards made	Number and positions of official/councillor identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor or did not declare interest	Official/councillor was involved in awarding the contract/quotation
Awards made to officials and/or councillors of the municipality.	2 R6 500	2 Councillor, chief accountant	2	0	1	1	0
Awards to persons in the service of other state institutions	6 R8 026 832	6	9	0	6		

Procurement processes

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

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	44	204 057 622	26	1 292 551	18	202 765 071
Expenditure incurred on selected awards – current year		118 070 957		1 292 551		116 778 406

Internal control deficiencies

80. The current SCM checklist was not updated to include all of the requirements of the applicable laws and regulations.
81. The Director: SCM did not adequately review the contract management schedule against the contract register to confirm that all ongoing contracts of the municipality are being monitored on a monthly basis.

FRAUD AND CONSEQUENCE MANAGEMENT

82. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
83. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/ non-compliance due to fraud.



- Five instances of false declarations were made by suppliers which are indicative of fraud and should be investigated by management.
84. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:
85. Irregular, unauthorised or fruitless and wasteful expenditure incurred during the year was not investigated to determine if any person is liable for the expenditure. Prior period unauthorised, irregular and fruitless and wasteful expenditure was not investigated.

Measures to manage consequences

86. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
- The municipality did not adopt systems (policies) to investigate allegations of misconduct; and disciplinary procedures.

Ongoing investigations

87. A total of two investigations was ongoing at year-end on allegations relating to financial misconduct, fraud or improper conduct in SCM. Some of these investigations have been ongoing for a long time. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation must be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations as at year-end	6
• Number of SCM-related investigations	3
• Number of fraud-related investigations	3
Number of investigations exceeding a period of 3 months	6

Sanctions/recommendations not implemented for completed investigations

88. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that at completion of an investigation, the investigation report must be tabled to the council. The investigations are still ongoing.

Failure to properly deal with allegations reported in the prior year

89. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.



Unauthorised/irregular/fruitless and wasteful expenditure

Finding	Value R
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	R148 460 506
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if any person was liable for the expenditure	R116 023 404
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	R518 916

Transgressions reported to management for investigation

90. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
91. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings raised in the previous year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest	5	5	0	5	R15 947 201

92. Unauthorised/irregular/fruitless and wasteful expenditure disclosed in notes 42 to 44 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised/irregular/fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.
93. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. No matters have been escalated to the council for them to ensure that appropriate steps are taken to address the non-compliance:

USE OF CONSULTANTS

94. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals. To optimise the value of this partnership, we identified areas that need attention to get the best value for money and the findings were not raised on the use of consultants.



95. The total expenditure on consultants was R11 553 650.

96. A summary of the significant findings from the audit is as follows:

Performance management and monitoring

- Measures to monitor contract performance and delivery were not defined and/or implemented.

Internal control deficiencies

- The accounting officer and director: supply chain management did not exercise adequate oversight over the planning and appointment requirements and contract management of consultants.

PUBLIC PARTICIPATION

97. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation. We did not identify any findings in this regard.

CONDITIONAL GRANTS

98. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Municipal infrastructure grant (MIG)
- Regional bulk infrastructure grant (RBIG)
- Water sanitation infrastructure grant (WSIG)

99. For each of the grants tested above, we selected key projects funded by the grant and audited the use of grants on the projects. Listed below are the audit findings raised on each project.

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	Details
Name of grant	MIG	MIG	MIG
Project/initiative funded by the grant	<i>Ncabubana water supply project phase 3</i>	<i>Ingwe household sanitation</i>	<i>Extension of Umzimkhulu water scheme to Clydesdale border – Reservoir</i>
Audit findings			
Planned completion target for the selected project were not achieved	No findings	No findings	No findings
Project stage of completion was not assessed	No findings	No findings	No findings
Project stage of completion assessed by the municipality is incorrect	No findings	No findings	No findings
Findings on the procurement of goods and services for the project	No findings	No findings	No findings



Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	Details	Details	Details
Name of grant	MIG	MIG	MIG
Project/initiative funded by the grant	<i>Ncabubana water supply project phase 3</i>	<i>Ingwe household sanitation</i>	<i>Extension of Umzimkhulu water scheme to Clydesdale border – Reservior</i>
Audit findings			
Misstatements on the accounting for the expenditure relating to the project	No findings	No findings	No findings
Payments were made for goods/services not received	No findings	No findings	No findings
Misstatements on the accounting of funds used through implementing agents	No findings	No findings	No findings
Process for appointing implementing agents did not comply with legislation	No findings	No findings	No findings
Implementing agents failed to comply with SCM prescripts when spending the funds	No findings	No findings	No findings

WATER AND SANITATION SERVICES

100. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Delegation of function to provide water and sanitation services
- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure, including, routine maintenance and new infrastructure
- Water quality
- Reporting on water losses
- Waste water management
- Key water and sanitation infrastructure projects

101. A summary of the significant findings from the audit are as follows:

Water services

Planning and reporting on the provision of water services

- The table below summarises whether key performance indicators for the provision of water services were achieved, measurable, relevant and whether the reported achievements were reliable.



Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of households with access to basic water for the first time	1 984	Yes	Yes

Planning and budgeting for routine maintenance and new water infrastructure

- A policy on routine maintenance of water infrastructure was not developed.
- The incremental budgeting process is not an appropriate alternative basis for determining the details of the routine maintenance plan and budget.
- The achievement of targets and timeframes as per the routine maintenance plan could not be established as the actual maintenance dates was not submitted for audit.
- The approved maintenance budget did not adequately provide for routine maintenance of water infrastructure as per the Uniform financial ratios and norms prescribed by National Treasury in circular 71 for all routine maintenance projects identified in the maintenance plan. This was due to the budget not being split into routine and reactive maintenance and the budget not being informed by the maintenance plans.
- There are insufficient qualified engineers/technical staff to meet project needs and/or oversee the work performed by consulting engineers in relation to water infrastructure due to 365 vacancies in the water service unit and 13 vacancies in the infrastructure services unit.

Sanitation services

Planning and reporting on the provision of sanitation services

- The table below summarises whether key performance indicators for the provision of sanitation services were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of households with access to basic sanitation for the first time	2 500	Yes	Yes
Number of households connected to sewer water borne for the first time	480	Yes	Yes

Planning and budgeting for routine maintenance of and/or new sanitation infrastructure

- A policy on routine maintenance of sanitation infrastructure was not developed.
- The incremental budgeting process is not an appropriate alternative basis for determining the details of the routine maintenance plan and budget.
- The achievement of targets and timeframes as per the routine maintenance plan could not be established as the actual maintenance dates was not submitted for audit.
- The approved maintenance budget did not adequately provide for routine maintenance of sanitation infrastructure as per the Uniform financial ratios and norms prescribed by

National Treasury in circular 71 for all routine maintenance projects identified in the maintenance plan. This was due to the budget not being split into routine and reactive maintenance and the budget not being informed by the maintenance plans.

- There are insufficient qualified engineers/technical staff to meet project needs and/or oversee the work performed by consulting engineers in relation to water infrastructure due to 365 vacancies in the water service unit and 13 vacancies in the infrastructure services unit.

Waste water management

- No policy / strategy and/or documented processes was established for the identification and/or monitoring of environmental risks relating to waste water management
- During our audit the following was noted:
 - Thirteen facilities are operating without a license during the period under review;

Key water and sanitation infrastructure projects

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

103. The table below summarises the audit findings on the selected key projects.

	Water infrastructure	Sanitation infrastructure	Sanitation infrastructure
Project name			
Brief description of key project	Great Bulwer Donnybrook: Construction of 10ML Ixopo town augmentation reservoir	Horseshoe Sanitation Project, Construction of 1600mm Diameter x3,0km long reticulation sewer pipelines and construction of 295 toilets.	Ingwe Sanitation Project- construction of 2304 VIP Units
Source of funding	Regional Bulk Infrastructure Grant (RBIG)	Municipal Infrastructure Grant (MIG)	Water Service Infrastructure Grant (WSIG)
Project commenced as planned	No, date was revised from original planned date	Yes	Yes
Project completed within defined duration	No, delay of 13 months	No, delay of 7 months	Yes
Status of completion	96%	83%	100%
Available budget for the year	N/a	N/a	N/a
Actual amount spent in current year	R21 755 995,27	R12,074,511.89	R16 828 659,73

	Water infrastructure	Sanitation infrastructure	Sanitation infrastructure
Project name			
Total project budget (multi-year) – original / revised	R21 785 937,15	R15,093,139.86	R 700 000,00
Actual amount spent from inception to date	R19 740 428,54	R13 722 939,86	R16 828 659,73
Audit findings			
Significant overspending or underspending on budget available for the year	No findings identified.	No findings identified.	No findings identified
Significant overspending or underspending on total project budget	No findings identified.	No findings identified.	No findings identified
Findings on the procurement of goods and services for the project	No findings identified	No findings identified.	No findings identified
Overall quality of the project management was poor or not acceptable	Yes, quality shortcomings were identified.	No findings identified.	No findings identified
Findings on consequence management	No findings identified	No findings identified	No findings identified
Findings on fraud	No findings identified	No findings identified	No findings identified
Prior year findings not addressed	No findings identified	No findings identified	No findings identified
Goods and services delivered on project of poor or sub-standard quality	Yes, shortcomings identified on concrete used.	No findings identified	No findings identified
Findings on commissioning of the completed project	No findings identified.	No findings identified.	No findings identified
Findings on accounting for the project	No findings identified	No findings identified	No findings identified
Spending not aligned to stage of completion	No findings identified	No findings identified	No findings identified
Budget spent but project milestones not achieved	No findings identified	No findings identified	No findings identified
Findings on grant spending	No findings identified	No findings identified	No findings identified
Findings on fruitless and wasteful expenditure in relation to the project	No findings identified	No findings identified	No findings identified
Findings on irregular expenditure incurred on the project	No findings identified	No findings identified	No findings identified

	Water infrastructure	Sanitation infrastructure	Sanitation infrastructure
Project name			
Infrastructure / facility not utilised for intended purpose	No findings identified.	No findings identified.	No findings identified
Infrastructure / facility not utilised at all or under utilised	No findings identified.	No findings identified.	No findings identified

104. For those areas listed in the table where more detailed findings need to be brought to the attention of management, include a concluding summary or the overall finding on each key project addressing the key messages below.

- The key messages include:

Planning and budgeting of the projects:

- The maintenance budget was not informed by maintenance plan and as a result an incremental budgeting process was used, which did not cater for all the municipality's maintenance needs.
- The budget was not split between routine and reactive maintenance and as a result most of the maintenance budget was utilised on reactive maintenance causing a further backlog in planned maintenance.

Execution of the projects, including project management:

- Project managers were not present at all site meetings and as a result corrective action was not taken when slow progress or delays in the project was identified.
- Monitoring reports did not indicate any corrective action taken when slow progress or delays occurred in the projects
- Vacancies in the water services and infrastructure unit resulted in ineffective monitoring of the projects

Quality of infrastructure:

- Poor quality was identified during a site visit to the Donny Brooke Reservoir
- Stage of completion and achievement of the project milestones. Taking into consideration the reasons for and impact of delays and quality on the overall quality and progress of the projects.

105. Two of the three projects were delayed due to issues experienced by the main contractor and is still incomplete thus impacting on service delivery objects not being met.

106. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure, including, routine maintenance and new infrastructure
- Reporting on water losses

107. A summary of the significant findings from the audit are as follows:



Planning and budgeting for routine maintenance of and new water infrastructure

- No condition assessments of water infrastructure were performed to inform the water infrastructure maintenance plan.

Reporting on water losses

- Material water losses of 31,9% were incurred during the year under review as disclosed in note 44 of the financial statements.

SUPPORT TO LOCAL GOVERNMENT

108. The audit included an assessment of the support provided to local government by relevant national and provincial departments. No significant findings were identified in this regard.

OTHER VALUE ADDING WORK

Implementation of Municipal Standard Chart of Accounts (MSCOA)

109. Harry Gwala District Municipality implemented the Municipal Standard Chart of Accounts (MSCOA) compliant financial system, e-Venus Solaris 5.10 on 01 July 2017. It was however noted that the organisational change management procedures had not been formulated and there was no evidence indicating that the service provider had provided end user training as stipulated in the MSCOA Project Plan. The municipality was in the process of migrating to the SOLAR version which is expected to go live in the 2019-20 financial year. Management should ensure that robust change management initiatives and adequate training is provided to staff to ensure user buy-in for the SOLAR system.

Implementation and utilisation of the Reasebetsa Evaluation and Monitoring System

110. HTB Consulting was appointed in 2014 -15 to implement the Reasebetsa Evaluation and Monitoring System. Key documentation relating to the implementation and monitoring of the project was not provided by the municipality. Furthermore, the Water Services, Performance Management Services and Risk Management units had not used the system to its full capacity during the 2018 -19 financial year. A comprehensive assessment of the Reasebetsa system implementation should be done to evaluate the benefits that the municipality is deriving from using the system and to ensure that all required modules have been implemented and are being fully utilised. Control and functionality gaps identified as part of the evaluation process should be addressed to ensure that the system operates optimally.

SECTION 5: Using the work of internal auditors

111. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. The following internal audit reports were utilised for risk identification:

- Health and environment management, disaster management, fleet management, water services, human resources management, payroll management, project management, expenditure management, revenue management IT general controls, supply chain management, asset management grants management, budgeting and reporting.

SECTION 6: Emerging risks**Accounting, performance management/reporting and compliance matters****New pronouncements****Standards of GRAP**

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

Subsequent events

- No matters to report on.

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

112. The planned and reported performance information of selected development objectives was audited against the following additional criteria as developed from the Performance Management Reporting Framework:



- **Presentation and disclosure – Overall presentation:**
 - Overall presentation of the performance information in the annual performance report is comparable and understandable
- **Relevance – Completeness of relevant indicators:**
 - Completeness of relevant indicators in terms of the mandate of the auditee, including:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review

113. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected development objectives in this report. However, it may impact on the audit opinion in future. No material findings were noted in this regards.

SECTION 7: Entities controlled by the municipality

114. In terms of the MFMA, the municipality has certain oversight responsibilities regarding municipal entities over which it has control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Harry Gwala Development Agency	Unqualified	X	X	●	➤	●	➤	●	➤

Improved	Unchanged	Regressed
Good	Concerning	Intervention required

SECTION 8: Ratings of detailed audit findings

115. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor’s report: these matters should be addressed as a matter of urgency.



- Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: Conclusion

116. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully


Ntombiruthi Mhlongo
Business Executive: KwaZulu-Natal

12 December 2019

Enquiries: Jabulani Nkosi
Telephone: (033) 264 7400
Fax: (033) 264 7596
Email: jabulanink@agsa.co.za

Distribution:

Accounting officer
CFO
Audit committee
Head of internal audit unit

SECTION 10: Summary of detailed audit findings

Page no.	Finding	Compliance						Number of times reported in previous three years	Status of implementation of previous year(s) recommendation	
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report			Other important matters
Compliance with legislation										
37	Prior period unauthorised, irregular and fruitless and wasteful expenditure not investigated			X			X		3	In progress
38	Unauthorised, irregular and fruitless and wasteful expenditure not prevented			X			X		3	In progress
39	Suppliers not paid in 30 days			X			X		3	In progress
42	SCM tender value above CIDB grading			X			X		3	In progress
Performance information										
44	Inconsistencies between APR and SDBIP		X					X	3	In progress
Municipal entity										
78	Irregular expenditure			X				X	1	In progress
79	Transportation of fruits and vegetables				X			X	1	In progress
79	Fruitless and wasteful expenditure not investigated and prevented			X				X	1	In progress
81	No proof of delivery of fruits, vegetables and sourmilk				X			X	1	In progress
83	Performance indicators not well defined		X					X	1	In progress
86	Non-compliance with laws and regulations			X				X	1	In progress
82	Suppliers not paid within 30 days			X				X	1	In progress
85	Non-compliance with SARS regulations				X			X	1	In progress



Page no.	Finding	Classification							Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters		
Project management										
45	Greater Bulwer Donny Brooks				X				1	In progress
53	Horseshoe project				X				1	In progress
55	Formal policy for the management and maintenance of water and sanitation				X				1	In progress
56	Waste water management shortcomings				X				1	In progress
Information Technology Governance										
58	Service level agreement between Business Connexion and the municipality inadequately completed				X				5	In progress
58	No service level agreements for ION Consulting and Payday Systems				X				0	Not applicable
59	Service performance monitoring minutes not approved				X				0	Not applicable
60	Policies and procedures governing the Information and Communication Technology environment not timeously approved				X				0	Not applicable
61	Processes to monitor benefits derived from spend over Information Technology not established				X				0	Not applicable
Security Management										
61	Inadequate follow up on antivirus exceptions				X				2	In progress



Page no.	Finding	Classification								Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation			
		Missstatements in financial statements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Missstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery			Matters affecting the auditor's report	Other important matters	Administrative matters
62	No evidence of monitoring, reporting and follow up on network security patch exceptions			X				X					X			2	In progress
63	Inadequate firewall administration and monitoring			X				X					X			6	In progress
65	Information Communication Technology Logical Access Policy was inadequate			X				X					X			5	In progress
65	Failed logon attempts not monitored on the Windows Active Directory, eVenus and Payday systems			X				X					X			0	Not applicable
User Access Management																	
66	Generic user account identified on the Windows Active Directory			X									X			0	Not applicable
67	Terminated employee identified on the Windows Active Directory			X									X			0	Not applicable
67	e-Venus Administrator activity log does not indicate password resets			X									X			0	Not applicable
68	Generic and duplicate user accounts identified on Payday			X									X			0	Not applicable
IT Service Continuity																	
71	Business Continuity and Disaster Recovery Plans not tested			X									X			6	In progress
71	Deficiencies noted in the Information Communication Technology Disaster Recovery Plan			X									X			0	Not applicable



Page no.	Finding	Classification							Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation	
		Missstatements in financial statements	Missstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters					
72	Backup restoration tests not performed				X						X		0	Not applicable
73	Veeam backups not replicating to the off-site location				X						X		0	Not applicable
73	No evidence of monitoring of Veeam backup logs				X						X		0	Not applicable
Program Change Management														
68	System change control log not available on e-Venus				X						X		2	In progress
69	Information and Communications Technology Change Management Policy omits the process for migration of changes to production				X						X		0	Not applicable
Municipal Standard Chart of Accounts														
74	Project management deficiencies noted when implementing Municipal Standard Chart of Accounts				X						X		2	In progress
Electronic Funds Transfer														
75	Electronic funds transfer files not encrypted for e-Venus and Payday				X						X		2	In progress
Reasebetsa System Health Check														
76	Deficiencies with regard to the implementation of the Reasebetsa Evaluation and Monitoring System				X						X		1	In progress



Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

1. Prior period unauthorised, irregular and fruitless and wasteful expenditure not investigated

Audit Finding

Section 32(2) of the MFMA states that a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless –

1. In the case of unauthorised expenditure is –
 - i. Authorised in an adjustment budget; or
 - ii. Certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
2. In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council.

As per note disclosures 41 to 43 in the financial statements, the municipality incurred unauthorised, fruitless and wasteful and irregular expenditure in the prior period as follows:

Description	2017 R
Unauthorised expenditure	413 807 042
Fruitless and wasteful expenditure	3 967 385
Irregular expenditure	460 044 832

No investigations into these amounts were performed by the municipality to establish recoverability.

This results in a material non-compliance with section 32(2) of the MFMA and will be included in the audit report.

Internal control deficiency

Leadership

The accounting officer did not establish formal policies and procedures that govern the investigation, recovery and write off of irregular, unauthorised and fruitless and wasteful expenditure of the municipality.

Recommendation

The accounting officer should establish policies and procedures that need to be implemented when irregular, unauthorised and fruitless and wasteful expenditure is identified by the entity. To confirm proper investigative processes, an investigation checklist should be implemented to ensure that the following criteria are met:

- The investigation is commissioned/approved at the appropriate level
- Terms of reference of the investigation are approved
- The scope of the investigation addresses the allegation
- The recommendations/findings were relevant to the allegation
- Investigations comply with the entity's policies regarding independence and qualification/position



The accounting officer should expedite the investigations into the irregular, unauthorised and fruitless and wasteful expenditure incurred in the prior period and implement consequence management processes against relevant officials in accordance with the MFMA.

Management response

Management does not agree with the finding.

The unauthorized, irregular and fruitless and wasteful expenditure for 2014/2015 and 2015/2016 was investigated by MPAC and a report was tabled at a Council meeting. The Council took a resolution to write off the unauthorized, irregular and fruitless and wasteful expenditure, however the Office of the Auditor General was not happy with the report and instructed that the municipality should write back the expenditure.

The unauthorized, irregular and fruitless and wasteful expenditure for 2016/17 was investigated but is still being processed by the MPAC.

The unauthorized, irregular and fruitless and wasteful expenditure for 2017/18 is still being investigated by MPAC.

Furthermore, the municipality an low revenue base and unfunded budget which is resulting in the unauthorised expenditure. A financial recovery plan was drafted in consultation with Treasury and is currently being implemented to improve the situation however the process will take a number of years.

Name: Mrs. AN Dlamini

Position: Municipal Manager

Date: 05/11/2019

Auditor's conclusion

Management comments are noted and this finding is will be reported as a non-compliance with section 32(2) of the MFMA in the audit report. In the previous year the matter was referred to MPAC for investigation, however no actual investigation has been performed by the municipality at the date of the previous report.

2. Unauthorized, irregular and fruitless and wasteful expenditure not prevented

Audit Finding

In terms of section 62(1)(d) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Reasonable steps were not taken to prevent unauthorised, irregular or fruitless and wasteful expenditure amounting to R71 368 144, R138 486 434 and R70 084 respectively, as disclosed in notes 41 to 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

This results in a material non-compliance with legislation and will be included in the audit report as such.

Internal control deficiency

Leadership

The accounting officer did not adequately monitor the audit action plan to confirm that effective measures were taken to address the previous findings on compliance with key legislation resulting in a repeat finding.

Financial management

The accounting officer did not adequately legislate requirements surrounding unauthorised, irregular or fruitless and wasteful expenditure to confirm that the necessary action is undertaken to address adverse findings in a timely manner.

Recommendation

The accounting officer should improve the monitoring of the audit action plan to confirm that effective measures were taken to address the previous findings on compliance with key legislation which resulted in a repeated audit finding in the current audit.

The accounting officer should improve the monitoring of compliance requirements on a regular basis to confirm that the necessary action is undertaken to address adverse findings in a timely manner.

Management response

Management agrees with the finding.

Unauthorised expenditure - The municipality has a low revenue base and unfunded budget which is resulting in the unauthorised expenditure. A financial recovery plan was drafted in consultation with Treasury and is currently being implemented to improve the situation however the process will take a number of years.

Irregular expenditure– The municipality has commenced the termination of some consultants with regard to prior years' irregular contracts. The municipality has prepared performance based service level agreements for all the old irregular appointments.

Fruitless and wasteful expenditure – The municipality is faced with cash flow challenges which results in late payment of some suppliers. The municipality prepares monthly cash flow projections and tries and prioritise invoices to avoid the recurrence of interest charges.

Name: Mrs. AN Dlamini

Position: Municipal Manager

Date: 05/11/2019

Auditor's conclusion

Management comments are noted and this finding will be included in the audit report.

3. Suppliers not paid within 30 days**Audit finding**

In terms of section 65(2)(e) of the MFMA, the accounting officer must take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

Based on a randomly selected sample, the following expenditure voucher payments were not paid within 30 days of receiving the relevant invoice:

Bulk Purchases					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Ugu District Municipality	INV10351457	2019/06/30	2019/08/06	37	312 025,72
Ugu District Municipality	INV10351448	2019/06/30	2019/08/06	37	520 002,00
Umngeni Water	300023938	2019/06/30	2019/08/06	37	1 134 709,38
Ugu District Municipality	10351448	2018/10/31	2018/12/20	50	222 589,48

Bulk Purchases					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Umngeni Water	90003508	2018/08/13	2018/09/20	38	387 622,74
Umngeni Water	300023270	2019/06/06	2019/07/18	42	990 872,37
Umngeni Water	300020589	2019/02/02	2019/03/26	52	826 694,92
Umngeni Water	300021257	2019/03/08	2019/04/11	34	917 436,84
Umngeni Water	411525978	2019/02/18	2019/03/26	36	37 483,77

Contracted Services					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Impande Engineers and Project Managers	0631	2018/11/30	2019/01/18	49	680 711,25
Impande Engineers and Project Managers	0638	2018/12/10	2019/04/02	113	3 196 704,35
Mdledle Inc	631/2019PMB	2019/03/09	2019/04/12	34	685 055,00
Wise Training Centre CC	6071	2018/07/31	2018/09/20	51	417 502,25
Matthew Francis Inc	Multiple	2018/07/31	2018/09/13	44	398 899,52
Shiyakazi Construction and related services (Pty) Ltd	Sh013	2018/07/03	2018/08/30	58	39 000,00
VK Distributors	9415	2018/09/13	2018/10/31	48	77 395,00
Travel With Flair (Pty) Ltd	Multiple	2019/01/23	2019/03/29	65	2 245 890,68
Conrite Walls (Pty) Ltd	T17741	2019/04/15	2019/05/28	43	5 495 329,31
Conrite Walls (Pty) Ltd	T17743	2019/04/15	2019/05/28	43	2 570 363,91
LMS Services	10169	2019/05/07	2019/06/11	35	158 405,26

Operational costs					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Auditor General of South Africa	FC-48237	2019/03/31	2019/04/17	47	542 542,06
Greater Kokstad Municipality	210958201904	2019/04/30	2019/06/11	42	262 027,24

Operational costs					
Supplier Name	Invoice Number	Date of invoice	Date of Payment	No of Days Outstanding	Amount R
Eskom	706933538228	2019/02/14	2019/03/31	45	62 237,97
Eskom	727600404343	2019/02/20	2019/03/31	39	50 445,70
Eskom	727600404343	2019/02/17	2019/03/31	42	58 869,35
Travel With Flair	3848742	2018/07/02	2018/09/07	67	1 202 861,81
Travel With Flair	3854280	2018/07/23	2018/09/07	46	237 560,70

This results in a material non-compliance with section 65(2)(e) of the MFMA and will be included in the audit report as such.

Internal control deficiency

Financial management

The CFO did not implement an invoice received register at the municipality to monitor long overdue invoices. In addition, invoices received by the Municipality are not stamped on date of receipt but rather when it is received by the finance unit for processing of payment

Recommendation

The CFO should implement the utilisation of an invoice received register to record receipt of all invoices. The document should be stamped on the day of receipt by the municipality and recorded on this register. The register should be monitored by the CFO on a regular basis to ensure that all overdue invoices are promptly followed up and paid.

Where invoices are not paid within 30 days of receipts thereof, the reasons for the delay should be documented on the payment voucher together with the relevant documentation to support reasons provided.

The accounting officer should implement consequence management processes to ensure that individuals are held accountable for invoices that are paid late without valid reasons.

Management response

Management agree with the audit finding

Harry Gwala District Municipality is experiencing financial difficulties, owing to poor revenue collection and provision of non-revenue water coupled with high maintenance cost of the infrastructure. To address this challenge National and Provincial Treasury and COGTA are assisting the Municipality with different interventions, a Financial Recovery Plan has been developed by the Department of National Treasury in collaboration with COGTA and the Harry Gwala District Municipality. There is also an Interim Finance Management Committee which is convened weekly and is composed of Provincial Treasury, Municipal Senior Officials and Political Leadership.

With the current negative financial outlook of the Municipality, certainly a number of invoices cannot be processed within 30 days. The Municipality further understands the risk of interest that could be charged on overdue accounts which will also culminate into fruitless and wasteful expenditure.

The municipality is putting measures in place in order to improve on debt collection by restricting the flow of water to defaulting consumers. The other measure is the installation and the activation of the water smart meters which have been activated in the entire area of Extension 7. To try and manage the situation, the municipality is trying to balance the cash flows by managing payments in such a way that fruitless and wasteful expenditure in the form of interest charged on long outstanding creditors is avoided whenever possible.



The Municipality is working around the clock to balance its cash inflow with cash outflows, which is not an easy task considering the aforementioned challenges.

Name: AN Dlamini

Position: Municipal Manager

Date: 14 November 2019

Auditor's conclusion

Management response is noted and this finding will be raised in the audit report as a non-compliance with section 65(e) of the MFMA.

4. Tender value is above the CIDB grading

Audit Finding

In terms of CIDB regulation 17, the winning contractor's grading is suitable for undertaking a contract in the range of tender value.

Note:

A contractor registered in a contractor grading designation indicated in the table below from the CIDB regulations, is considered to be capable of undertaking a contract in the range of tender values indicated in that table in the class of the construction works to which the category of registration of that contractor relates:

Grading	Tender Value
1	200 000
2	650 000
3	2 000 000
4	4 000 000
5	6 500 000
6	1 300 000
7	40 000 000
8	130 000 000
9	No limit

During audit we compared the attached CIDB proof grading in tender documents to the awarded contract amount and we noted that the tender value is above the Grading Value allowed in the following instances:

Tender	Contract awarded	CIDB grading	limit is R2 000 000	Total amount paid to date
Menopix Cc: General Conditions Of Contract: Hgdm 585/Hgdm/2018	4 758 127	Grade 3	R2 000 000	R4 426 212
Makizes Plumbing And Projects; Hgdm 549/Hgdm/2017/1; Umzimkulu Identified Villages: Magcakini Village- Construction Of 2km Of 90-85 Diameter Long Rising Main Klambon And Hdpe Pipeline 100kl Galvanized Prefabricated Tank, Pumphouse And Mechanics.	2 913 173	Grade 3	R2 000 000	R2 617 268

This results in non-compliance with laws and regulation, and irregular expenditure.



Internal control deficiency

This is a result of the BEC committee did not ensure that the provisions of the CIDB are followed and suppliers are awarded contracts correctly.

Recommendation

The BEC committee should ensure that going forward the provisions of the CIDB are followed and suppliers are awarded.

Management response

Management note the finding.

The expenditure for both contracts is included in the irregular expenditure.

Name: AN Dlamini

Position: Municipal Manager

Date: 21 November 2019

Auditor's conclusion

Management responses are noted and this finding will be reported as a non-compliance with legislation in the audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS

Predetermined objectives

5. Inconsistences between APR and SDBIP

Audit Finding

In terms of section 121(4) (d) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and in accordance with the Framework for Managing Programme Performance Information (FMPPPI), the accounting officer is required to prepare an Annual Performance Report (APR).

As per section 54 (1) (c) of the MFMA, on receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must; consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;

Contrary to the above, Annual Planned Targets as per approved revised SDBIP did not agree with submitted APR

No.	Planned indicators/ measures per annual planning document (SDBIP)	Reported indicators/ measures per APR	Annual Planned Targets		Differences
			Approved Revised SDBIP	Draft – APR	
1	Percentage of households with access to basic water for the first time	Percentage of households with access to basic water for the first time	1,88%	5,92%	4,04%
2	Number of households with access to basic water for the first time	Number of households with access to basic water for the first time	834(HH)	1590(HH)	533(HH)
3	Percentage of households with access to basic sanitation for the first time	Percentage of households with access to basic sanitation for the first time	6,70%	8,90%	2,20%
4	Number of households with access to basic sanitation for the first time	Number of households with access to basic sanitation for the first time	2500	2400	100
5	Date in which water services By-laws are reviewed and gazette	Date in which water services By-laws are reviewed and gazetted	Dec-18	Jun-19	Dec18 Jun19
6	Date in which improvements plan on the gaps identified on the previous BDS and GDS assessments were adopted by council	Date in which improvements plan on the gaps identified on the previous BDS and GDS assessments were adopted by council	Dec-18	Jun-19	Dec18 Jun19

This is a result of not applying the monitoring process as stipulated in the Harry Gwala District Municipality's Performance Management Framework Policy on monitoring processes on reported targets.

Internal control deficiency

Financial management

The Director: IDP & PMS did not review the reported information before submitting them for auditing.

Recommendation

The Director: IDP & PMS should perform a review of the reported information before submitting them for auditing.

It is recommended that (Director: IDP&PMS) provide auditors with correct revised APR that agree with approved SDBIP, and use of checklist for review and monitoring of reported information.

Management response

Management agrees with the audit finding.

A revised APR has been submitted to the auditors for review.

Name: Mrs. AN Dlamini

Position: Municipal Manager

Date: 05/11/2011

Auditor's conclusion

Management comments are noted and the revision to the APR will be considered for reporting in the audit report.

6. Greater Bulwer Donny Brooke

Background

Akwande Civils was appointed on the 8 September 2017 as a main contractor to construct a 10ML Augmentation Reservoir in the town of Ixopo at a cost of R 21 785 937. The commencement date of the project was 26 February 2018 and the date of completion was 31 March 2019 (13 months).

The extent of works for the project included:

- a) Site clearing {Excavation}
- b) Importing of G5 material
- c) Bulk excavations for reservoir and earthworks
- d) 10ML Construction of reinforced concrete structure
- e) Water tightness testing of reinforced concrete structure
- f) Fencing

Practical completion was only achieved on the 30 July 2019 and the project is still incomplete to date.

Audit finding

Through inspection of the relevant documentation and a site visit on the 18 October 2019 revealed the following:



Project management

It is best practice for an implementing agent (Imvula Engineers) to appoint a project manager to plan and implement projects. This would prevent delays in the project and overspending of the budget. However, as evident from the below-mentioned anomalies the following activities of the project manager appointed to plan and implement projects were not performed during the project management phase:

- Municipality officials assigned to the project were not always present at site meetings. Through a perusal of the minutes of the site meetings that was submitted for audit, it was revealed that the municipality's representative was not present at all site meetings held between the period 2018 to 2019 (duration of the project). It is evident from the lack of attendance during the site meetings, proper and adequate project management did not take place, to avoid slow progress or delays in the completion of the project.

Response:

- Management does not agree with the finding. Proper construction management and supervision was done on the project.
- The consultant was submitting monthly progress reports to the municipality (*see attached Annexure A, Consultants report*),
- Site Visits by the project manager were done (*see attached Annexure B, daily diary*)
- We have been reporting monthly to the Portfolio Committee and to the Executive Committee about the project progress (*see attached Annexure C, Portfolio Committee Reports*).
- It is to be noted that the consultants are appointed to be project managers and to represent the municipality.
 - Not all site minutes was submitted for audit and the minutes submitted were not signed.

Response:

- We agree that not all site meetings minutes were submitted and we have corrected the error and now we have submitted all of them.
- The copies that were submitted to AG were copies that were not signed and we have since corrected this and we have attached the signed copies of the minutes.
 - A perusal of the following site minutes revealed the following:
 - a) Site minutes dated 3 October 2018, indicated that the councilor (Mr. M.C Ndlovu) expressed concerns regarding the slow progress of the project, which was approximately eight months into the project, however no action plans were instituted by the municipality to address his concerns and the slow progress.

Response:

- The contractor was instructed to work extra hours and also on weekends. He was also instructed to employ additional labour. (See attached November PSC meeting)
 - Site minutes dated 15 October 2018, indicated issues in respect of the quality of the work concrete used, the contractor did not comply with the site instruction given by the engineer, corrective action was not mitigated accordingly.

Response

- Site instruction was issued to the contractor dated 23 August 2018.
- Method Statement from the contractor was received from the contractor.
- The corrective action was undertaken as the contractor appointed concrete specialists at his own costs to undertake the following:
 - Rectification of Construction / Expansion joints on the floor slab have been rectified in accordance with the approved method statement issued by the contractor
 - Quotation received from the contractor on the 28th of September 2018 for the specialist to fix the concrete works (Block Contractors).
 - Proof of payment for Block Contractors after they completed the works dated 02 October 2018
- During a site visit by the auditors on the 18 October 2019, the poor quality of the reservoir was identified, as detailed in 1.2 below:
 - b) Technical minutes dated 12 September 2018, indicated that 52 per cent of the budget was already utilized with only 30 per cent of the work being completed and the project timeline was already at 50 per cent. Furthermore, there is no signed contract between the main contractor (Akwande Civils) and the sub-contractor (Leo Construction).

Response:

- The expenditure includes the Preliminary and General Items which are not part of the actual scope of works.
- Part of the costs also include the payment for the materials on site which is always 80 % of all the materials that are onsite. This payment is always reversed when the materials have been under their respective items.
- The signed contract between the Main Contractor and Subcontractor is now attached.
 - A review of the progress reports ending August 2019 revealed the following:
 - c) There was no monitoring of the budget against the project deliverables or project completion status. In August 2018 approximately six months into the project 50 per cent of the budget was already spent with the project only at 31 per cent complete and a year later when the project was to supposed to be complete the project was only 64 per cent complete with 86 percent of the budget spent as indicated in the table 1 below:

Response:

- As per the Consultants Progress Report for August 2019 the percentage of Expenditure is 92 % and progress is 87 %.
- The difference between progress and expenditure percentage is because of the payment for the Preliminary and General Items.

Table 1: Budget vs project completion status

Month	Budget utilized in percentage	Project completion in percentage
August 2018	31%	52%
9 October 2018	42%	52%
15 October 2018	51%	56%
28 October 2018	51%	56%
15 December 2018	64%	86%
09 February 2019	64%	86%
26 February 2019	64%	86%
16 April 2019	71%	86%
16 May 2019	82%	86%
07 June 2019	82%	92%
10 July 2019	87%	92%
30 August 2019	96%	92%

- A review of the monitoring reports by the municipality did not address any of the above concerns. The only aspects reported were the financial implications and the cost of the projects.

Response:

- The municipal monitoring reports did not address this issue because the municipality is happy with the expenditure vs. progress because the two are never the same till the project reaches completion.
 - There was only an approval for a delay 68 days on the 15 March 2019 for an extension of time to the 31 July 2019, however the project is still incomplete to date.

Response

- The structure of the reservoir is complete and it is now awaiting the water tightness test.
- There are areas that we have not backfilled because they are crucial on the testing process.
- We have not been able to the testing due to the drought that has been experienced in our area.
- The reservoir requires 10 Million litres of water of which we currently do not have that in our dams at the moment due to drought.
 - As of the 18th of October 2019, there has currently been no further approved extension of time to extend the contract beyond the last extension of the 31st of July 2019 which is approximately 58 days.

Response:

- The structure of the reservoir is complete and it is now awaiting the water tightness test.
- There are areas that we have not backfilled because they are crucial on the testing process.
- We have not been able to the testing due to the drought that has been experienced in our area.
- The reservoir requires 10 Million litres of water of which we currently do not have that in our dams at the moment due to drought.
 - Furthermore, page CD8 of the signed tender document indicates on Clause 43.1 that the amount of penalties to be paid per day for failure of the contractor to meet the stipulated timeframes is R1000.00 per calendar day, however since the 31st of July 2019, no penalties have been levied against Akwande Civils.
- The last claim that was done for the contractor was in June 2019 because there are no activities that are taking place.
- The issue of penalties is not final because the current delay is not the fully the fault of the contractor.

Findings identified during the site visit conducted on the 18 October 2019



Drawing no. GBD-10M-GA-001 depicts that the circumference of the reservoir should be uniform, however, upon inspection of the reservoir it was found that the final output does not resemble the required uniformity.

Although an amount of R2,680,350.00 has been paid for 35 Mpa concrete; value for money has not been achieved since there is extensive poor workmanship that is evident across the reservoir. As indicated in the pictures 1 and 2 below:

Response:

- It is true that about 10m of the wall 1st lift bulged, this was caused by the defective restraining bolts during the process of vibrating the concrete.
- This has resulted in the following:
 - The contractor had to pour more concrete at his own cost than planned
 - The bulging or deform has no structural bearing and does not affect the required 35Mpa strength.
 - This defect (bulging) needs to be rectified. This forms part of the snag list to be issued by the engineer once there is availability of water to fill and test the reservoir.
 - All quality tests required were conducted and the quality of concrete is of acceptable standards. (see quality test results)
 - Internally the columns and walls are smooth. The external bulging of about 10m in a total circumference of 140m meters will be rectified as explained above.
 - The contractor has submitted the method statement for the rectification of this work

Poor workmanship on construction of 10 ML Ixopo Town Augmentation Reservoir

	
<p>Picture 1: circumference of reservoir indicating extensive concrete defects</p>	<p>Picture 2: jagged edges of reservoir as a result of poor workmanship</p>

As a result of the above, the reservoir is not completed and is not of the desired quality.

Response:

- The Municipality is aware of the defects on the concrete works of the reservoir. Instruction was issued to the contractor dated 08 August 2019 to rectify the defects on the reservoir. This matter is still being attended to in the current financial year. (See attached instruction note dated 08 August 2019).
- The contractor has submitted concrete strength test cubes done by soilco and they have all passed 28-day strength test.
- Slump test was done and it passed.
- The only issue that is a defect with the reservoir is the smoothness on the outside which will be addressed before final commissioning of the reservoir.

Internal control deficiency

- Critical project management and monitoring was not effectively conducted at key milestones dates of the infrastructure project to ensure that the project was completed timeously and within its contractual completion date.
- Management has not adequately applied the provisions of the contract as set out in the contractual documents.

Recommendation

It is recommended that:

- Penalties should be instituted by the municipality for slow progress and delays.
- The Municipality should compile from best industry practice the requirements of good project management for all infrastructure projects. These requirements should be communicated to the implementing agents and adherence to these requirements should be strictly monitored by the Municipality.
- Management should establish appropriate corrective actions that must be taken when issues arise;
- Management should prepare an action plan that is responsive to project challenges that outlines its intentions to quickly expedite progress to complete projects.
- Management must conduct an integrity assessment on all the concrete placed by the appointed service provider. Upon conclusion of the assessment, management must conduct an investigation into all payments that were made to Akwande Civils for concrete works with the view to effecting recovery for poor quality of work.

Response

- Cube tests results for all concrete elements poured were subjected to 7; 14 and 28 days' compression tests and the results complied with the required standards.
- These tests were conducted by an accredited independent laboratory Soilco Lab. See attached lab results

Management comments

- Management does not agree with the finding. Proper construction management and supervision was done on the project.
- The consultant was submitting monthly progress reports to the municipality (see attached Annexure A, Consultants report),
- Site Visits by the project manager were done (see attached Annexure B, daily diary)
- We have been reporting monthly to the Portfolio Committee and to the Executive Committee about the project progress (see attached Annexure C, Portfolio Committee Reports).
- It is to be noted that the consultants are appointed to be project managers and to represent the municipality. We agree that not all site meetings minutes were submitted and we have corrected the error and now we have submitted all of them.
- The copies that were submitted to AG were copies that were not signed and we have since corrected this and we have attached the signed copies of the minutes.
- The contractor was instructed to work extra hours and also on weekends. He was also instructed to employ additional labour. (See attached November PSC meeting)
- Site instruction was issued to the contractor dated 23 August 2018.
- Method Statement from the contractor was received from the contractor.
- The corrective action was undertaken as the contractor appointed concrete specialists at his own costs to undertake the following:
- Rectification of Construction / Expansion joints on the floor slab have been rectified in accordance with the approved method statement issued by the contractor
- Quotation received from the contractor on the 28th of September 2018 for the specialist to fix the concrete works (Block Contractors).



- Proof of payment for Block Contractors after they completed the works dated 02 October 2018. The expenditure includes the Preliminary and General Items which are not part of the actual scope of works.
- Part of the costs also include the payment for the materials on site which is always 80 % of all the materials that are onsite. This payment is always reversed when the materials have been under their respective items.
- The signed contract between the Main Contractor and Subcontractor is now attached. As per the Consultants Progress Report for August 2019 the percentage of Expenditure is 92 % and progress is 87 %.
- The difference between progress and expenditure percentage is because of the payment for the Preliminary and General Items.
- The municipal monitoring reports did not address this issue because the municipality is happy with the expenditure vs. progress because the two are never the same till the project reaches completion.
- The structure of the reservoir is complete and it is now awaiting the water tightness test.
- There are areas that we have not backfilled because they are crucial on the testing process.
- We have not been able to the testing due to the drought that has been experienced in our area.
- The reservoir requires 10 million litres of water of which we currently do not have that in our dams at the moment due to drought.
- The last claim that was done for the contractor was in June 2019 because there are no activities that are taking place.
- The issue of penalties is not final because the current delay is not the fully the fault of the contractor.
- It is true that about 10m of the wall 1st lift bulged, this was caused by the defective restraining bolts during the process of vibrating the concrete.
- This has resulted in the following:
 - The contractor had to pour more concrete at his own cost than planned
 - The bulging or deform has no structural bearing and does not affect the required 35Mpa strength.
 - This defect (bulging) needs to be rectified. This forms part of the snag list to be issued by the engineer once there is availability of water to fill and test the reservoir.
 - All quality tests required were conducted and the quality of concrete is of acceptable standards. (see quality test results)
 - Internally the columns and walls are smooth. The external bulging of about 10m in a total circumference of 140m meters will be rectified as explained above.
 - The contractor has submitted the method statement for the rectification of this work
 - The Municipality is aware of the defects on the concrete works of the reservoir. Instruction was issued to the contractor dated 08 August 2019 to rectify the defects on the reservoir. This matter is still being attended to in the current financial year. (See attached instruction note dated 08 August 2019).
 - The contractor has submitted concrete strength test cubes done by soilco and they have all passed 28-day strength test.



- Slump test was done and it passed.
- The only issue that is a defect with the reservoir is the smoothness on the outside which will be addressed before final commissioning of the reservoir.
- Cube tests results for all concrete elements poured were subjected to 7; 14 and 28 days compression tests and the results complied with the required standards.
- These tests were conducted by an accredited independent laboratory Soilco Lab. See attached lab results

Auditors response

Management comments have been noted, and the finding has been amended in respect of the attendance to site meetings and site minutes. However, the finding still remains.

- a) If proper project management was in place would result in the project being completed on time and within an acceptable quality, however, the project was and is still delayed by 13 months, there is still no signed or proper documented action plans have been furnished to the auditors to indicate that proper monitoring was in place by the municipality to evaluate the implementation of the corrective action taken.
- b) Management indicated above that monitoring reports were done on the expenditure, however monitoring should not only be limited to the expenditure of a project but also to the progress and quality of work done as well.
- c) Furthermore, quality issues were identified during the site visit in respect of the poor workmanship as agreed above by management. The corrective action will be followed up in the next financial year.

7. Horse shoe project

Background

Thetha Traders trading as LG Construction was appointed on the 28 August 2015 as a main contractor to construct a 160mmX30 Km long UPVC Sewer Reticulation pipelines and to convert 308 VIP toilets to waterborne sanitation at a cost of R 10 934 139.86. The contract commenced on the 3 October 2017 and the original date of practical completion was 25 August 2018 (10 months). However, this date was revised to 20 October 2018 a further two months, However, actual practical completion was only achieved on the 29 May 2019, (a delay of approximately 7 months) and the project is still not complete to date.

Audit finding

Through inspection of the relevant documentation and a site visit on the 17 October 2019 revealed the following:

Project management

It is best practice for an implementing agent (Ziyanda Consulting) or project manager to plan and implement projects. This would prevent delays in the project and overspending of the budget. However, as evident from the below-mentioned anomalies the following activities of the appointed project manager to plan and implement projects were not performed during the project management phase:

- Not all site minutes and progress reports was submitted for audit, while those submitted were not signed.
- Slow progress and delays experienced by the main contractor due to challenges with the sub-contractor was noted in the progress reports that was submitted for audit, however no actions were implemented to address the issues.



- An extension of time was requested on the 30 September 2018 by the contractor, however there is no approval for the extension by the municipality on file.

As a result, there was a delay of seven months in the project thus causing delays in service delivery.

Internal control deficiency

Critical project management and monitoring was not effectively conducted at key milestones dates of the infrastructure project to ensure that the project was completed timeously and within its contractual completion date.

Recommendation

It is recommended that:

- The Municipality should compile from best industry practice the requirements of good project management for all infrastructure projects. These requirements should be communicated to the implementing agent and adherence to these requirements should be strictly monitored by the Municipality.

Management comments

- Agree: Only 2 sets of minutes were not signed. These two sets of minutes were affected by the strike. One meeting was before the strike and the other set is the last meeting of the project. The last set that was not signed because it was the meeting done before the project was completed and will only be confirmed during the final approval meeting.
- Management agrees with the finding that not all the site meetings sat for the project and that is mainly because at that time the project was under practical completion stage with the contractor attending to the snag lists as issued by the Engineer. The project was practically completed during the month of May 2019 as per the signed practical completion date.
- Agree: This was done by the consultant and the General Conditions of Contracts does allow for the Engineer to approve the extension of time. We agree that the Municipality did not approve the extension of time and we have put plans in place to ensure that going forward all the extension of time will be approved by the Municipality.
- Agree: We agree in the sense that the project was not completed on time. Monitoring was adequate because the subcontractors were made to destroy structures that did not meet the standards and there was enough project management in terms of financial control and also penalties were imposed to the contractor for up to 87 days for slow progress.

Auditors response

Management comments are noted, however, cognizance must be taken of the fact that:

- a) The project was delayed and there were gaps in the progress reports between 2018 and 2019, please see information submitted for audit
- b) Although management had asked the main contractor to terminate, this was not done and the corrective action was not implemented.
- c) Documentation in respect of the corrective action and the implementation thereof was not furnished for audit e.g. the destroying of structures that did not meet quality standards. Monitoring reports did not indicate any concerns or corrective action.

The management of projects will be followed up in the next financial year

8. Formal policy for the management and maintenance of water and sanitation infrastructure

Audit finding

The Municipal Systems Act, Act 32 of 2000, section 11(3) (a) states that “A municipality exercises its legislative or executive authority by—

Developing and adopting policies, plans, strategies and programmes, including setting targets for delivery”;

The municipality does not have an approved policy for the management and the maintenance of water and sanitation infrastructure to address the following:

- Strategic planning
- Planned maintenance and conditional assessment of water infrastructure (timing of these)
- Proactive and routine maintenance planning
- Funding of new water infrastructure and maintenance of existing road infrastructure
- Management information system
- Addressing backlogs

The absence of an approved water and sanitation policy resulted in the following:

- The budget allocation for the maintenance projects are not informed by the maintenance plan, which resulted in projects selected and completed within an allocated budget and not according to the maintenance needs of the municipality or community.
- The budget allocation is not split into routine maintenance and planned maintenance and as a result not all planned maintenance could be completed due to an inefficient budget process and allocation.
- Backlogs not being adequately addressed
- No formalised system or process to track actual maintenance against planned maintenance to ensure maintenance is conducted as per the maintenance plan and within the stipulated timeframe and budget.

Internal control deficiency

The accounting officer did not exercise adequate oversight responsibility to ensure that all policies governing the effective service delivery responsibilities were in place, approved and implemented.

Recommendation

- A comprehensive policy on the management of water and sanitation to facilitate decision making should be developed, approved and implemented.
- A proper system should be in place to track actual maintenance against the planned maintenance detailing timeframes and responsibility.
- Budget should be informed by a proper maintenance plan and the conditional assessments conducted should inform the maintenance plan.

Management comments

- Management agrees with the audit finding. The policy on the management of water and sanitation facilities has been developed and awaits approval by council and that's the outstanding part.
- Maintenance schedules are in place are being followed by the municipality,



Auditor's conclusion

Management comments are noted and the implementation of management's actions indicated in their management comments above will be followed up in the next financial year.

9. Waste water management shortcomings

Finding

- a) In terms of Section 20 (b) of National Environmental Management: Waste Act No. 59 of 2008, no waste management activity may commence, be undertaken or conducted without a license for such activity.

During the audit, it was noted that all 13 waste water plants (100%), as tabulated below, operated in the Harry Gwala District are not licensed by the Department of Water and Sanitation to provide waste water services.

Table 2: List of waste water plants not licensed

Local municipality	Waste water treatment facility
Umzimkhulu	Riverside Ponds
	Umzimkhulu WWTW
	Ibisi WWTW
	Rietvlei WWTW
Dr NDZ	Hlanganani WWTW
	Underberg WWTW
	Underberg WWTW (New)
	Bulwer WWTW
	Himeville WWTW
Greater Kokstad	St Apolinaris Ponds
	Kokstad WWTW
Ubuhlebezwe	Franklin WWTW
	Ixopo WWTW

- b) In the absence of the license for its waste water facilities the municipality's control of its waste management activities will be questionable as it will be unable to prove compliance with its legislative requirements to operate the facilities or defend itself if a dispute was raised, e.g. pollution of the rivers or streams. Furthermore, the well-being of the community and environment will be adversely impacted on in the event of a malfunction at waste water facilities.
- c) Municipalities are required in terms of section 23(1)(c) of the Municipal Systems Act (MSA) to contribute to the fundamental rights contained in terms of section 24 of the Constitution to have an environment that is not harmful to the health of citizens and have the environment protected. The National Environmental Management Act gives effect to the environmental right in the Constitution. Section 6(1)(a) of NEMA requires that every organ of state must exercise every function it may have, or that has been assigned or delegated to it, by or under law, and that may significantly affect the protection of the environment, substantially in accordance with the environmental implementation plan or the environmental management plan, submitted and adopted by that organ of state.
- d) The management of environmental risks relating to waste water management needs to be considered and incorporated in municipal planning processes, whether being a formal environmental strategy or policy or other approved documented processes.
- e) Also, the municipality does not have an environmental policy/strategy that address the identification and monitoring of environmental risks relating to waste water management.

- f) Consequently, the municipality is unable to mitigate environmental risks from the management of its waste water treatment plants. Furthermore, the safety of the community and environment will be adversely impacted on in the event of a malfunction at waste water facilities.

Internal control deficiency

The oversight processes at the municipality were not effective to ensure that an environmental policy/strategy is developed and approved.

Recommendation

Management should ensure that all waste water facilities are licensed with the Department of Water and Sanitation and comply with the license requirements. The progress made to obtain the licenses should be monitored by a senior official and reported on monthly until finality is reached.

Management should also develop and approve an environmental policy/strategy without delay. The strategy should include the following:

- Obtaining the necessary licenses to operate its waste management facilities
- Identifying environmental risks, for example through environmental scanning or specific processes to assess and monitor environmental requirements relating to waste water management (third party environmental reports, media or public complaints or reports)
- Process or processes to address breaches identified, complaints reported or poor quality results
- Reporting on progress on the corrective actions taken.

Management comments

- Management agrees with the audit findings on WWTW's.
- The process of getting the waste water facilities licenses will be finalized by end of June 2020 as per recommendations. Two of our big WWTW's will require licenses which is Kokstad and Umzimkhulu, and the remaining small WWTW's will require General Authorization.

Auditor's conclusion

Management comments are noted and the implementation of management's actions indicated in their management comments above will be followed up in the next financial year.

Information Technology Governance

10. Service level agreement between Business Connexion and the municipality inadequately completed

Audit finding

As previously reported, the service level agreement (SLA) with vendor, Business Connexion (BCX) for the support of the e-Venus financial system was signed off as approved on 29 August 2018. However, the following was still not included in the newly approved BCX SLA:

- Clause 5.1 indicated only the effective years however the exact date the SLA was to commence and end were not specified.
- Witnesses signatures on behalf of the service provider were not present on page 12.

The municipality will not be able to determine the renewal date for the SLA. In the absence of an adequately and completed SLA, the municipality may not have any legal recourse against the service provider if services rendered are poorly performed.

Internal control deficiency

Inadequate review of the SLA by the municipality's Legal Services team to ensure that the exact dates are specified in the SLA. Furthermore, Legal Services team should ensure that the SLA is adequately signed off by witnesses of BCX. Lastly, the Manager: ICT did not ensure that the Legal Services team was aware of the previous audit finding to action the management commitment made.

Recommendation

The Legal Services team should ensure that SLAs are thoroughly reviewed and the required information is adequately documented and signed off by witnesses. The Director Corporate Services should ensure weaknesses identified during audits and require the Legal Services Team to action them are timeously communicated for implementation.

Management's response

The ICT Unit will liaise with Legal Services, BCX and Office of the MM to ensure that the SLA period/duration is stated clearly and signed accordingly by both parties (Municipality and BCX) including witnesses. The contract period in the SOLAR agreement commenced from 1 July 2018 to 30 June 2019 (page 5).

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 March 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

11. No service level agreements for ION Consulting and Payday Systems

Audit finding

The service level agreements (SLAs) between the municipality and ION Consulting, service provider for hardware and software provisioning and Payday Systems could not be provided.

The absence of adequate SLAs could result in management not being able to hold the service providers accountable for non-delivery or poor quality services. If minimum service levels, procedures to be adhered to and monitoring mechanisms are not formally documented and agreed upon by both parties this could result in the service provider not meeting the needs of the municipality.

Internal control deficiency

ICT did not provide the audit team with copies of the SLAs as they had not been signed off.

Recommendation

The Legal Services team should ensure that SLAs with ICT service providers are timeously documented, reviewed. Once the terms of the SLAs have been agreed upon, Legal Services should ensure that these agreements are timeously signed by both parties.

Management's response

The ICT Unit will liaise with Legal Services and Office of the MM to speed up the signing of the SLAs.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 December 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

12. Service performance monitoring minutes not approved

Audit finding

The following quarterly service performance minutes of meeting between the municipality, Information, and Communication Technology (ICT) service providers, which include Payday Systems and Business Connexion (BCX), service provider for Venus had not been approved:

- Harry Gwala District Municipality SLA meeting held 26 September 2018
- Harry Gwala District Municipality SLA meeting held 05 December 2018

In the absence of formal approval of service performance minutes for meetings held between the municipality and service providers, management may not be aware of items agreed upon during these meetings. Furthermore, the completeness and accuracy of these minutes could not be confirmed. Disputes that may arise from previous minutes will not be resolved by just referring to the minutes.

Internal control deficiency

The Manager ICT did not prioritise the formal approval of service performance minutes of meetings held with ICT service providers. Furthermore, these minutes were not confirmed in the next meeting.

Recommendation

The Manager ICT should circulate the minutes of meetings to confirm the items discussed during the service performance meetings. Alternatively, minutes should be formally signed off as a form approval that all attendees are in agreement of all matters discussed during the meeting.

Management's response

The ICT Unit would ensure that all minutes are approved and signed.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 29 November 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

13. Policies and procedures governing the Information and Communication Technology environment not timeously approved

Audit finding

Majority of the ICT policies and procedures were not approved during the 2017-18 financial year. The following policies and procedures either still had an outstanding approval or were reviewed and updated during the 2017 -18 financial year but were however as only approved on 28 June 2019.

No.	Document name	Auditors comment
1.	ICT Governance Framework	Reviewed and updated 2018
2.	Master Systems Plan	Outstanding approval as from 2017-18
3.	Business Continuity Plan	Outstanding approval as from 2017-18
4.	Disaster Recovery Plan	Outstanding approval as from 2017-18
5.	Backup Plan	Outstanding approval as from 2017-18
6.	Information Systems and Security Policy	Outstanding approval as from 2017-18
7.	Firewall Policy	Reviewed and updated 2018
8.	Change Management Policy and Procedure	Reviewed and updated 2018
9.	ICT Logical Access Policy	Outstanding approval as from 2017-18

Furthermore, the following framework, plans and procedure documents were noted as newly developed polices but were also only approved on 28 June 2019.

- ICT Risk Management Framework
- Server Room Maintenance Plan
- IT Scorecards
- IT RACI Matrix

ICT is an ever - changing environment and requires that the policies and procedures are continuously improved to ensure that they are kept in line with the latest developments with regard to regulations, IT standards and security requirements. In the absence of timeously approved ICT policies and procedures, the municipality may be implementing and adhering to processes that are not in line with these regulations, IT standards and industry best practices. Furthermore, staff may not be aware of the correct processes to be adhered to when performing ICT activities relating to frameworks, plans and policies that were identified as mandatory within the environment but not timeously approved and were previously not in place. This may result in inconsistencies in the implementation if ICT processes.

Internal control deficiency

Council meetings were not held as required which resulted in these documents not being able tabled for approval.

Recommendation

The Council should prioritise the approval of ICT policies and procedures for roll out and implementation within the municipality. Once approved these policies should be communicated to all employees of the municipality for implementation and adherence should be monitored.

Management's response

All ICT related policies were submitted for Council and unfortunately Council failed to sit and approved policies in 2018/19. The policies and procedures were approved 28 June 2019.

Name: N. Lungwengwe



Position: Executive Director: Corporate Services

Action date: N/A. Finding has been resolved

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

14. Processes to monitor benefits derived from spend over Information Technology not established

Audit finding

Formally documented processes to ensure the evaluation of return on investment (ROI) and benefits realisation (BR) for IT spend on infrastructure, software, external service providers and system development were not in place.

The Municipal Manager may not be aware of whether the return on investment and the benefits expected from its IT spend have been achieved. Inconsistent processes to report on ICT projects may be implemented if formal processes are not defined.

Internal control deficiency

ICT unit placed reliance on the Supply Chain Management (SCM) policies and procedures for monitoring and reporting on IT spend.

Recommendation

The ICT unit and SCM should evaluate the current policies governing IT spend and revise them to include processes for evaluation of ROI and BR. These processes should be incorporated into ICT project management and reported on regularly.

Management's response

The finding is new; it has never been raised before. The ICT unit will seek advise on how to approach the issue. All ICT related projects must be submitted to the ICT Steering Committee before approval and implementation.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Information Technology Security Management

15. Inadequate follow up on antivirus exceptions

Audit finding

As previously reported, there was no evidence of follow up and remedial actions taken to resolve the antivirus exceptions reported on the Antivirus Updates Report regarding computers with outdated operating system and outdated virus signature databases.

Inadequately patched computer machines may allow for an attacker to exploit vulnerabilities to gain access to the municipal systems and thus obtaining access to sensitive information or cause malicious damage leading to the unavailability of system. This could also impact the integrity of data on the municipality's systems.



Internal control deficiency

The Manager ICT did not implement adequate processes to ensure that the computer machines with outdated antivirus definitions reflected on the antivirus exception report were adequately followed up and resolved to ensure that the antivirus definitions on all computer machines were up to date.

Recommendation

The Manager: ICT should ensure that all exceptions noted on the monthly Antivirus Update Reports are reported and all exceptions noted followed up with appropriate actions taken to ensure that all operating systems and databases are regularly receiving updates. Evidence of follow up and remedial actions taken should be maintained.

Management's response

The ICT Unit has been issuing out emails and calls were made to employees to connect to the network for Anti-virus update. The same employees are reported on a monthly basis in the ICT report submitted to the Portfolio Committee and Executive Committee. The ICT Unit will seek assistance and from the ICT Steering committee and Management Committee to ensure that all users connect their computers to the network. Furthermore, a formal communique between Corporate Services and the head of the unit who has employees who failed to connect will be issued. However, the ICT Security Officer will also continue to update those computers in person where users are accessible

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 December 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

16. No evidence of monitoring, reporting and follow up on network security patch exceptions

Audit finding

As previously reported, it was noted that exception monitoring, review and reporting for the roll out and successful installation of network security patches was still not performed. Furthermore, there was no evidence of follow up on patch exceptions identified.

In the absence of regular monitoring, reviews and reporting on patch reports, management may not be able to identify outdated and failed patches. This could result in computers and servers becoming vulnerable to data corruption and security breaches due to security threats not being timeously detected and remediated.

Internal control deficiency

The Network and Server Administrator did not generate patch exception reports from the Windows Server Update Services (WSUS) to ensure that rolled out patches are monitored and successfully completed. The Manager: ICT did not monitor and ensure that the Network and Server Administrator was generating and monitoring these reports.

Recommendation

Network and Server Administrator should generate the patch exception reports from WSUS tool and ensure that they are monitored on a frequent basis. System generated patch management reports should be regularly reviewed to identify any anomalies and appropriate actions taken. Evidence of follow up and remedial actions taken should be maintained.



Management's response

WSUS (Windows Update Server) was failing to push updates because of slow internet access, however the internet speed was upgraded. Patch management (third party tool) is being procured. The patches will be monitored by the Network and Server Administrator on monthly basis and reported to the ICT Manager and reviewed every quarter.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 March 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

17. Inadequate firewall administration and monitoring

Audit finding

As previously reported, the municipality had implemented a Fortinet firewall; however, no evidence of the following firewall management activities being performed could be provided:

- Governance and change management
 - Changes to the firewall security rules were formally logged and approved
- Configuration Management
 - Reviews regarding the rules of access
 - Firewall rule commentary was clear, sufficient, accurate and reviewed
 - Maintenance to the firewall could only be initiated by the security team from a secured location
- User access management
 - Access to the firewall and underlying operating system was controlled through the completion of supporting documentation approved by management.
- Monitoring
 - Real-time alerts were being sent
 - Exceptions were noted and followed up immediately

Furthermore, the following was noted in the current review:

- The Firewall Policy did not specify the following:
 - Firewall rule and rule descriptors (meta-data accompanying each rule)
 - There was no process in place that required for the firewall rules a long with accompanying metadata to be reviewed on a regular basis.
 - The frequency at which the firewall ruleset should be reviewed
 - A deployment process for moving the new firewall rules into production after it has been tested Inadequate
- The municipality has implemented a hot standby firewall solution to ensure that in the event the main firewall fails, the hot standby takes over. The following deficiencies were however noted regarding its implementation:



- The DR Plan did not detail the replacement process that would be followed in the case that the firewall failed.
- Firewall redundancy tests were not conducted to determine whether the hot standby would be able to take over in the event of a failure.
- A top table top exercise was not conducted to simulate a firewall failure.
- The following generic accounts which had super-administration rights were identified on the firewall
 - Techsupport
 - admin

In the absence of a robust and adequately managed firewall, the municipality may not be able to detect and monitor potential security threats on a real time basis.

Internal control deficiency

The firewall rules had not been documented by the previous service provider to ensure adequate continuity after the services were terminated. The ICT unit was not adequately skilled with regard to firewall administration and management.

Recommendation

ICT should ensure that a proper handover process is adhered to whenever service provider agreements come to an end. ICT Manager and Human Resources (HR) should ensure that training is scheduled for ICT staff to ensure that they are able to adequately support and manage the firewall. Alternatively, the municipality should appoint a new service provider to assist with the implementation of adequate firewall policies and procedures, support and maintenance of the firewall. Processes to ensure skills transfer to ICT staff should be established and implemented. Furthermore, The DRP should be reviewed and updated to include the process for replacing the firewall in the event of failure. Firewall redundancy tests should be performed on a periodic basis and test results should be retained and used to enhance the plans.

Management's response

The ICT Unit will update the Firewall Policy, Backup Policy and DRP accordingly. Training in managing the firewall will be prioritised for ICT personnel.

Name: N. Lungwengwe

Position: Executive Director

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

18. Information Communication Technology logical access policy was inadequate

Audit finding

The ICT Logical Access Policy omitted the following:

- Turnaround time to complete user account management activities
- Account lockout threshold configuration requirements for ICT systems
- A process for the review of unusual and failed logon attempts on Windows Active Directory (AD), eVenus and Payday systems.
- A standard naming convention for user accounts



In the absence of comprehensively defined user account management procedures, staff may not be aware of the correct processes to be followed when user account management activities are required to be undertaken. This could result in user access being inappropriately or incorrectly assigned.

Internal control deficiency

The ICT Logical Access Policy was not adequately documented by the Manager: ICT as he was not aware that this needed to form part of the policy.

Recommendation

The Manager: ICT should be trained in ICT Governance to obtain the required skill on items to look for when reviewing the ICT policies. The ICT Logical Access policy should be updated to include the required information. Once updated and approved the policy should be communicated to all relevant stakeholders.

Management's response

The ICT Unit will be trained in ICT Governance to obtain the required skill on items to look for when reviewing the ICT policies.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

19. Failed logon attempts not monitored on the Windows Active Directory and eVenus

Audit finding

No process was established for the monitoring and reviewing of unusual and failed logon attempts on the municipal systems.

Not reviewing user logon attempts could result in unauthorised access attempts going undetected for extended periods of time. This may compromise the confidentiality, integrity and availability of the data stored on the systems.

Internal control deficiency

A process for the review of unusual and failed logon attempts on ICT systems was not included in the ICT Logical Access Policy.

Recommendation

The Manager: ICT should ensure that the ICT logical access policy is reviewed and updated to include the process for the review of unusual and failed logon attempts. The system administrators for the Windows Active Directory (AD) and eVenus should ensure that the unusual and failed logon attempts are monitored, reviewed and followed up on a regular basis.

Management's response

The ICT Unit will ensure that the ICT Logical Access Policy is reviewed and updated to include the process for the review of unusual and failed logon attempts. The system administrators for the Windows Active Directory (AD) and eVenus will ensure that the unusual and failed logon attempts are monitored, reviewed and followed up on a regular basis.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

User Access Management

20. Generic user account identified on the Windows Active Directory

Audit finding

The following Windows AD user account was not adequately assigned to an individual that ICT could identify.

S.No	Display name	SAM Account Name	Account Status
25	Biyase	biyase@harrygwalaadm.gov.za	Enabled

Furthermore, user activity reports to confirm the activities performed under this account could not be provided. The license agreement for the AD Audit Plus tool which is used to generate Windows AD logs had expired.

Generic accounts could be used to perform unauthorised activities that could not be linked to a specific user. An individual will not be held accountable for activities performed using this account. Furthermore, in the absence of user activity reports, ICT will not be able to monitor and timely detect unauthorised activities due to an expired license for the Audit Plus Tool.

A lack of defined user naming conventions for ICT systems on the ICT Logical Access Policy.

Internal control deficiency

Reports could not be generated as the license agreement for the AD Audit Plus tool had expired.

Recommendation

The Manager: ICT should ensure that the ICT Logical Access Policy is reviewed and updated to define the user naming conventions to be adhered to for ICT systems. The policy should be rolled out and correct naming conventions applied by the system administrators. ICT unit should ensure that the license for the Windows AD audit tool is timeously renewed and reports generated to confirm activities performed under generic accounts.

Management response

The ICT Unit has deactivated the account.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 20 November 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.



21. Terminated employee identified on the Windows Active Directory

Audit finding

The following user was identified as an employee that was no longer employed by the municipality but found to still have an active user account on the user report for Windows AD:

Emp Code	Employee Name	Termination Date	Account Status
394	Thamsanqa Mazibuko	2019/02/08	Enabled

Furthermore, the user report could not be provided confirm whether the user had accessed the network after termination date. The license agreement for the AD Audit Plus tool which is used to generate logs had expired.

User accounts not terminated in a timely manner are prime targets for hackers and disgruntled employees who have left the municipality. These accounts may be compromised and utilised to gain access to the network which could be used to perform unauthorised activities or view sensitive and confidential municipal information.

Internal control deficiency

A lack of communication resulted in Human Resource (HR) and ICT not informing the ICT Manager. Reports could not be generated as the license agreement for the AD Audit Plus tool had expired.

Recommendation

Constant communication between the HR and ICT units should be established to ensure terminated employee's access on the Windows Active Directory are timely revoked. ICT should ensure that key ICT license agreements including the license for the Windows AD audit tool are monitored and timeously renewed to ensure that service are continuously available. Alternatively, the Manager ICT should consider implementing a control on Windows AD to automatically lock the account if not used for a period more than 30 days.

Management response

The ICT Unit will periodically check all the accounts on the ICT systems to verify if they meet standards set on ICT policies and terminate those that are not inline.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 29 November 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

22. e-Venus Administrator activity log does not indicate password resets

Audit finding

The administrator activity log on e-Venus did not indicate password resets performed by the system administrator. As a result, the controls for password resets could not be tested.

Management may not be aware of and confirm user account management activities performed by administrators on e-Venus due to lack of detailed audit logs. This may result in unauthorised password reset activities not being timeously detected.

Internal control deficiency

System functionality limitations prevented the indication of password reset activities on the system administrator activity log.

Recommendation

The Manager ICT should liaise with the Business Connexion (BCX) to enhance the administrator log to ensure that detailed audit logs are available. Once the logs are available, they should be monitored and reviewed by the System Administrator on a regular basis. Evidence of the reviews should be retained.

Management response

UNIX did not have the capacity to indicate password resets. The municipality has recently upgraded the system to SOLAR. Windows Active Directory will be used to indicate password resets because SOLAR does not have a module for password resets.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 December 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

23. Generic and duplicate user accounts identified on Payday**Audit finding**

The following eight generic user accounts were identified on Payday:

PwNo	Name	Last Login Date	Account Dormant	Auditors comment
.	-	0	No	Account not used to login to system, has access to all menu's; however still active
.0	-	0	No	Account not used to login to system, no access to menu's; however still active
89	-	0	No	Account not used to login to system, account still active but has no access to menu's
90	Auditors	0	Yes	Account not used to login to system, has view access and access to Rep menu; however account is not active
98	Payday Colly	2018/01/30	Yes	Consultants account was used to login to system, has access to all menu's and account still active
99	Payday AJ	2019/05/09	No	Consultants account was used to login to system, has access to all menu's however account disabled
CP	-	0	No	Account not used to login to system, no access to menu's; however still active
X0	-	0	Yes	Account not used to login to system, has access to all menu's and account still active

The following duplicate account was identified on Payday:

PwNo	Name	Last Login Date	Account Dormant	Auditors comment
86	Xolo Mhlongo	2019/09/04	No	Account used to login to system, access to some menu's and account still active
Cp	Xolo Mhlongo	0	No	Account not used to login to system, no access to menu's but account still active

Generic and duplicate accounts could be used to perform unauthorised activities that could not be linked to a specific user. An individual using these accounts will not be held accountable for unauthorised activities performed. Using untrained staff may result in unintentional errors being made when doing user administration in the Payday system.

Internal control deficiency

The System Administrator had not been adequately trained to use the Payday system and therefore generic and duplicate accounts created unintentionally. Furthermore, the System Administrator did not exercise due diligence when performing the user access reviews.

Recommendation

The Manager ICT should ensure that the System Administrator is adequately trained to perform user account administration activities. Furthermore, the System Administrator should ensure due diligence is exercised when performing the reviews as the accounts listed in the finding were not identified and corrected through the normal review process. Access

for generic and duplicate accounts that are not required, should be timeously revoked by the System Administrator as per the relevant user account amendment and termination procedures.

Management response

The ICT Unit deleted all inactive accounts as they were already deactivated except two Payday accounts as they already have transactions performed. These Payday accounts are used by Payday consultants but were deactivated and will not be deleted.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 29 November 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Program Change Management

24. System change control log not available on e-Venus

Audit finding

As previously reported, a system generated list of changes on the e-Venus application could not be provided to substantiate if any changes had been implemented for the period.

An inadequate change control process may lead to untested and unauthorised changes being migrated to the live environment. This may affect the stability of applications and accuracy of calculations performed and could compromise the confidentiality, integrity and availability of business data.

Internal control deficiency

System functionality limitations on the e-Venus application prevented change control logs from being generated.

Recommendation

The municipality should liaise with the service provider that supports the e-Venus application to determine if it can be enhanced to allow for the generation of change control logs. These logs should thereafter be reviewed and monitored to ensure that no authorised changes have been implemented in the live environment.

Management response

The ICT Unit will liaise with BCX to check if this is possible since the system was upgraded to SOLAR.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 March 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

25. Information and Communications Technology Change Management Policy omits the process for migration of changes to production

Audit finding

The ICT Change Management Policy omits the process to be adhered to when migrating changes to the production environment.

This may result in incorrect or inconsistent processes adhered to due to a lack of adequately documented change management procedures. Unauthorised program changes may be deployed onto the production environment. This may affect the stability of the system.

Internal control deficiency

The ICT Logical Access policy was not adequately documented by ICT as the Manager ICT was not aware that this needed to form part of the policy

Recommendation

The ICT Manager should ensure that the ICT Change Management Policy is reviewed and updated to include the process to be adhered to when migrating changes to production for all municipal systems. This policy as well as supporting documents should be approved, rolled out and implemented within the municipality.

Management response

The ICT Change Management Policy will be reviewed and updated to include the process to be adhere to when migrating changes to production for all municipal systems. The policy as well as supporting documents will be approved, rolled out and implemented within the municipality.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Information Technology Service Continuity

26. Business Continuity and Disaster Recovery Plans not tested

Audit finding

As previously reported, the municipality had established a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) however these have never been tested.

The municipality may not be aware of the effectiveness of its BCP and DRP if regular testing is not performed. In the event of a disaster the municipality may not be able to recover business operations in a timely manner.

Internal control deficiency

The BCP and DRP were not tested due to bandwidth, internet upgrades and installation of uninterruptable power supplies (UPS) being delayed.

Recommendation

The Manager ICT should communicate with the service provider to speed up the process of upgrading the bandwidth, internet and the installation of the UPS. The BCP and DRP tests should be performed on a periodic basis once the upgrade has been concluded.

Management response

The DR site was done in phases due to financial constraints, however the site has since been completed, the testing will be done on/before 31 December 2019 and the deficiencies noted on both BCP and DRP will be resolved before 31 March 2020.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 March 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

27. Deficiencies noted in the Information Communication Technology Disaster Recovery Plan

Audit finding

The approved Disaster Recovery Plan (DRP) omits the following:

- Scope of the plan does not define the specific applications, operating systems and databases that the plan applied to.
- Business impact analysis (BIA)
- Recovery time objectives (RTO) and recovery point objectives (RPO) were not documented

In the absence of an adequately documented DRP, the municipality might not be able to reinstate critical ICT services within an acceptable or defined period of time. The unsuccessful recovery of ICT systems and information could result in the loss of funds, breakdown of operational functions and may impact the municipality's reputation.



Internal control deficiency

The Manager ICT did not ensure that the DRP was not adequately documented by ICT as the Manager ICT was not aware that this needed to form part of the DRP. Furthermore, there was no BIA evidence provided to determine both the RTOs and RPOs for the municipality.

Recommendation

The Manager ICT should ensure that the DRP is reviewed and updated to include and specify municipal systems the DRP to ensure that it included all the required procedures. The DRP has not been tested to determine RTOs and RPOs. Detailed BIA assessment should be performed and the results of the DR test should be used to update the RTO and ROP objectives in the BIA. The DRP should also be updated with the results of the assessment performed.

Management response

The DRP will be reviewed and updated to include and specify municipal systems and to ensure that it includes all the required procedures. The DRP will be tested to determine the RTOs and RPOs. Detailed BIA assessment will be performed and the results of the DRP test will be used to update the RTO and RPO objectives in the BIA. The DRP will also be updated with the results of the assessment performed.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

28. Backup restoration tests not performed

Audit finding

Page 7 of the ICT Backup Policy states "Evidence of restoration tests performed, test results and resulting remediation should be retained for record purposes." However, evidence indicating that backup restoration tests were performed as well as evidence of the test results and remediation was not in place.

In the absence of backup restoration tests, management may not be aware if backups taken can be successfully read and used to restore data.

Internal control deficiency

The setup and upgrade of the DR site had not been completed.

Recommendation

The Manager: ICT should develop a test plan defining the procedures to be adhered to during the recovery and restoration of critical systems. Once the DR site has been implemented, the Manager: ICT should ensure that the DR test and backup restoration test are scheduled and performed in line with the approved ICT Backup Policy and test plans.

Management response

The ICT Unit will develop a test plan defining the procedures to be adhered to during the recovery and restoration of critical systems. Once the DR site has been implemented, the Manager: ICT will ensure that the DR test and backup restoration test are scheduled and performed in line with the approved ICT Backup Policy and test plans.



Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 December 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

29. Veeam backups not replicating to the off-site location

Audit finding

The daily backups performed using Veeam backup software were not replicating to the municipality's off-site location in Kokstad.

In the event of a disaster or data loss at the main site, the municipality may not be able to recover information replicated to the offsite location.

Internal control deficiency

Backup not replicating to the off-site location due to limited bandwidth and connection problems between the municipality and the off-site location. The service provider, Telkom has delayed the commencement of upgrading the bandwidth of the off-site location.

Recommendation

The Manager ICT should liaise with Telkom to commence with the implementation of the project. Once the bandwidth is in place it should be monitored. Management should take the necessary recourse actions as per the terms of agreement between the municipality and the service provider should Telkom not be delivering expected and agreed upon services.

Management response

A meeting with Telkom has been arranged for 20 November 2019 to try and resolve the bandwidth problem. Replication will be done as soon as the issue is resolved.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 31 March 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

30. No evidence of monitoring of Veeam backup log

Audit finding

There was no evidence indicating that the daily backups were being monitored for successful completion and exceptions noted followed up on.

The municipality may not be aware of the status of backups performed. In the event of many unsuccessful backups, information lost may not be recovered using backup media.

Internal control deficiency

The Network and Server Administrator responsible for the monitoring of Veeam backups did not ensure that the Veeam backup reports were generated and monitored for successful completion. The Manager: ICT did not ensure that the reviews are performed correctly.



Recommendation

The Network and Server Administrator and Manager: ICT should ensure that the daily Veeam backup reports are generated, monitored and reviewed on a regular basis. Failed backups should be identified and corrective action taken to address the issues. More diligence should be applied when reviewing the backup results.

Management response

The initial Veeam backup did not have sufficient capacity to monitor backup logs. Veeam could only send emails but not the report for backup logs. The municipality has added capacity by procuring Veeam 1 and the backup logs are generated.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 29 November 2019

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Municipal Standard Chart of Accounts

31. Project management deficiencies noted when implementing Municipal Standard Chart of Accounts

Audit finding

As previously reported, it was noted that the municipality implemented the Municipal Standard Chart of Accounts (MSCOA) compliant financial system, e-Venus Solaris 5.10 on 01 July 2017. It was however noted that the following required project management activities had however not been performed:

- Organisational Change Management Procedures were not formulated
- There was no evidence indicating that the service provider provided end user training as stipulated on the MSCOA Project Plan.

End users may not accept or fully utilise the system if change management and user training is not adequately performed. User resistance to adopt the system may lead to capturing errors and staff not bypassing processes required to be performed on the system.

Internal control deficiency

The project Manager did not comply with the MSCOA Project Plan as they were of the view that the system did not change and hence staff training was not required.

Recommendation

The Project Manager should ensure that an Organisational Change Management Procedures are developed and end user training provided to all municipal staff who use the e-Venus system. Adherence to the MSCOA plan should be monitored by the Finance department.

Management response

Management agrees with the finding. The Harry Gwala District Municipality established a project steering committee in order to monitor the implementation of Municipal Standard Chart of Accounts (MSCOA), however the service provider was under tremendous pressure resulting in implementation being carried out off site. There was no need for training as the municipality did not change the financial management system, the change affected the chart of accounts in the general ledger not the operations by the users.

Name: M. Mkatu

Position: Chief Financial Officer

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Electronic Funds Transfer

32. Electronic funds transfer files not encrypted for e-Venus and Payday

Audit finding

As previously reported, the monthly salaries and creditors payment files which are extracted from the Payday and e-Venus applications and uploaded to the FNB Online Banking System for electronic funds transfer (EFT) payments were not encrypted. The files are saved in a Microsoft Notepad format and the contents of the files can be modified.

Sensitive payroll and creditor information may be viewed and changed prior to payment. This could result in unauthorised EFT payments being made and reputational damage to the municipality.

Internal control deficiency

The municipality was still in the process of implementing the hash total solution provided by First National Bank (FNB).

Recommendation

The Chief Financial Officer should investigate compensating controls to ensure that payment files downloaded for payments is not editable. While waiting for the implementation of hash total solution a secured folder with restricted access should be used to store the file before it is being transferred to the banking system for processing.

Management response

Management agrees with the finding. The municipality engaged the system vendor with First National Bank, however it transpired that the financial management system and the Payday Payroll system were not compatible to effect encryption and that the process would be activated after the eVenus has been upgraded to SOLAR. The encryption of the payments will be effected in the current financial year 2019/20 as the upgrading was completed this financial year.

Name: M. Mkatu

Position: Chief Financial Officer

Action date: 30 June 2020

Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

Reasebetsa System Implementation Health Check

33. Deficiencies with regard to the implementation of the Reasebetsa Evaluation and Monitoring System

Audit finding

As previously reported, HTB Consulting was appointed as the service provider to implement the electronic monitoring and evaluation system, Reasebetsa. The general scope of work was stipulated in the bid for tender document however no evidence of the following project documents could be provided:

- Approved business case
- Approved budget
- Approved project plan
- Regular monitoring and progress reporting against approved project deliverables and budget
- Formal project hand-over and sign off
- Approved contract/service level agreement between the municipality and the service provider
- System generated list of users with accounts on the system

Furthermore, it was noted that the scope of work in the bid for tender document required 16 modules to be implemented. Verification that all required modules were adequately implemented could not be performed as the Water Services, Performance Management Services and Risk Management units were not using the system to its full capacity.

In the absence of adequate project management documents and full utilisation of the system, the municipality may not be able to objectively assess whether the proposed benefits of implementing the system are being realised.

Internal control deficiency

Poor document management by the previous project manager and inadequate handover processes were noted as key individuals who were involved in the project are no longer employed by the municipality. The Reasebetsa system was not being used to its full capacity as the project implementation was still in progress and was finalised after the 2018-19 financial year.

Recommendation

The project Manager should ensure that proper hand over processes are followed when staff leave the municipality to ensure continuity of operations. Adequate document management processes should be established and implemented within the municipality to ensure that project management documents are adequately retained and available when required. A comprehensive assessment of the Reasebetsa system implementation should be done to evaluate the benefits that the municipality is deriving from using the system and to ensure that before the project is concluded all required modules are implemented and are fully operational.

Management response

Reasebetsa will form part of the municipal risk register 20/21 since other documents could not be found as the project was initially handled by another department.

Name: N. Lungwengwe

Position: Executive Director: Corporate Services

Action date: 30 June 2020



Auditor's conclusion

Management comments are noted. An assessment of the progress on corrective actions agreed to by management will be performed during the next review cycle.

MUNICIPAL ENTITY FINDINGS

34. Non-compliance with regards to the SCM policy

Audit finding

In terms of regulation 12(1), A supply chain management policy must subject to regulation 11 (2), provide for the procurement of goods and services by way of:

- a) Petty cash purchases, up to a transaction value of R2,000(Vat included);
- b) Written or verbal quotations for procurements of a transaction value over R2,000 up to R10,000(Vat included);
- c) Formal written price quotations for procurements of a transaction value over R10,000 up to R200,000(Vat included); and
- d) A competitive bidding process for –
 - Procurements above a transaction value of R200,000(Vat included); and
 - The procurement of long-term contracts.

Nature

The contract for the transportation of fruits, vegetables and other items was awarded to Sidlakahlela Catering without following competitive bidding processes by receiving other bids and evaluating which bid was an ideal choice by scoring the most points. The contract was over R2 million.

Internal control deficiency

Lack of management oversight with respect to the compliance to the SCM policy.

Recommendation

Management needs to be stricter with regards to the compliance to the SCM policy and ensure that staff follow the processes involved before any contracts / tenders can be awarded.

Management's response

There were serious challenges at the planning stage which led to delays in terms of signing the Service Level Agreement with the Department of Education due to uncertainties, which left the municipal entity not knowing the way forward of the project. The service level agreement was only signed on the 8th of March 2019 where the municipal entity was given a directive to deliver to schools as from the 2nd of April 2019, the municipal entity had a period of less than a month to commence with the implementation of the project.

Given the above background, and the complexity of the project, the municipal entity had no choice but to deviate from the Supply Chain Management in terms of section 36 of the regulations for a successful implementation of the project.

Name: Ms N. James

Position: CEO

Date: 04 November 2019

Auditor's conclusion

Information provided does not support the reason for deviation, SCM policy should be followed for all processes. Given the size and impact of the project, strict adherence to SCM policy was crucial and warranted.



35. Fruitless and wasteful expenditure not prevented

Audit finding

In terms of section 95(d) of the MFMA, the accounting officer of a municipality entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that irregular and fruitless and wasteful expenditure and other losses are prevented. The MFMA defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

In terms of section 102(1) of the MFMA, on discovery of any irregular expenditure or any fruitless and wasteful expenditure, the board of directors of a municipal entity must promptly report, in writing, to the mayor and municipal manager of the entity's parent municipality;

- a) Particulars of the expenditure; and
- b) Any steps that have been taken –
 - i. To recover the expenditure; and
 - ii. To prevent a recurrence of the expenditure

Nature

The entity indicated that there was no fruitless and wasteful expenditure in the current year, however the following fruitless and wasteful expenditure has been identified:

- Through inspection of the SARS PAYE Statement of Account, there were interest and penalty charges of R3 992,91 and R15 184,89 for the 2019/06 period, which should have been classified as fruitless and wasteful expenditure in the AFS.
- The penalties of R2 750 incurred for the late submission and payment on the annual returns to CIPC needs to be recorded as fruitless and wasteful expenditure.

Internal control deficiency

The accounting officer did not develop a policy which outlines processes for the identification, accountability, treatment and reporting of fruitless and wasteful expenditure.

Recommendation

The accounting officer should develop a policy which outline processes for the identification, accountability, treatment and reporting of fruitless and wasteful expenditure. This should be approved by the board of directors and disseminated to all staff members for implementation.

Management's response

The note has been updated, refer to journal GL-JB0073 processed.

Name: Ms N. Shabalala

Position: CFO

Date: 04 November 2019

Auditor's conclusion

Inspected updated fruitless and wasteful expenditure to confirm these amounts. Management should ensure that the register is updated timeously and not only when external audit identifies issues.

Management should ensure steps to prevent fruitless and wasteful expenditure are taken.



36. Transportation of fruits and vegetables

Audit finding

In terms of section 95(d) of the MFMA, the accounting officer of a municipality entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that irregular and fruitless and wasteful expenditure and other losses are prevented.

The MFMA defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised. In terms of section 102(1) of the MFMA, on discovery of any irregular expenditure or any fruitless and wasteful expenditure, the board of directors of a municipal entity must promptly report, in writing, to the mayor and municipal manager of the entity's parent municipality;

- c) Particulars of the expenditure; and
- d) Any steps that have been taken –
 - i. To recover the expenditure; and
 - ii. To prevent a recurrence of the expenditure

Nature

The number of kilometres travelled was not detailed or included on invoices paid to Sidlakahlela Catering as per the signed agreement with the provider and therefore are suggestive of excessive kilometres claimed and paid. The unsubstantiated excessive kilometres claimed and paid are indicative of fraud and should be investigated by management and the overpayments recovered from the respective service providers. As a result thereof, costs may be overstated. All payments made to Sidlakahlela Catering with respect to transportation costs should be regarded as irregular expenditure and disclosed accordingly.

Internal control deficiency

The CEO did not exercise adequate oversight over supply chain management processes to ensure that the procurement processes was implemented in a sufficient time in order for new contracts to be awarded upon expiry of the existing contracts.

The CFO did not review the mileage claimed by the transporters for reasonableness prior to the approval of the invoices for payment.

Recommendation

The Board should investigate all payments made to transporters during the year as they are indicative of fraud. All overpayments should be recovered from respective service providers after investigation and consequence management processes should be implemented against the respective officials.

The CEO should improve the oversight over supply chain management processes to ensure that the procurement processes was implemented in sufficient time in order for a new contract to be awarded upon expiry of the existing contracts.

The CFO should ensure a review of mileage claimed by the transporters is conducted for reasonableness prior to the approval of the invoices for payment.

The CFO should review all payments made to transporters during the year in order to identify similar cases which should be quantified and the annual financial statements revised accordingly.

Should excessive kilometres be identified to be claimed these should be reflected as fruitless and wasteful expenditure and all payments to the service provider should be regarded as irregular.

Management's response

The total number of kilometres to cover all schools in Harry Gwala District is 20 912 for a single trip, which makes 41 824 kilometres for a return. Based on these kilometres, the municipal entity would have paid 41 824 X R4,50 per kilometre which amounts to R188 208 for each delivery. The deliveries occurred twice a week, making a minimum of 8 deliveries a week. Therefore, for the 10 weeks that the service provider was contracted for, the municipal entity would have paid 41 824 X 2 trips X 10 weeks X R4,50 per kilometre = R3 764 160 which is more than the contract amount.

It should be noted that, we were using 3 (three) 7 ton trucks plus one horse and trailer that were used as distribution sites, which would have costed the municipal entity more if we used kilometres, due to the engine capacity of these vehicles.

Based on the above information, the municipal entity had to reach a certain agreement with the service provider to save costs.

Name: Ms N. James

Position: CEO

Date: 04 November 2019

Auditor's conclusion

Supporting information was presented on the 22 November 2019 detailing the kilometres travelled and cost of the transport costs for the project if based on kilometres travelled versus the standard rate charged by the service provider.

Corresponding GPS coordinates were provided to verify for reasonability and upon our review we confirmed no excessive kilometres were travelled.

37. No proof of delivery of fruits, vegetables and sour milk

Audit finding

In terms of best practices for good governance and record keeping the municipal entity should ensure that the balances disclosed on the statement of financial position can be agreed to the supporting documentation from third parties. Reconciliation of differences should be maintained where differences between the general ledger and documentation from third parties exists.

Every municipality and every municipal entity must for each financial year prepare annual financial statements which—

- Fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and disclose the information required in terms of sections 123, 124 and 125.

Nature

During the audit we have identified that the delivery of the fruits, vegetables and sour milk for an amount of R405 846,20 that were delivered to schools could not be supported by delivery notes to confirm occurrence of such deliveries. The corresponding transportation costs have been calculated as R324 279 based on a rate of R4.50 per km X (36 031km X 2) of all primary school deliveries as a reasonability check. Management is yet to provide us with the corresponding transportation costs.

Internal control deficiency

The accounting officer did not ensure that appropriate controls were in place for delivery of goods and did not ensure that payments to transporters were substantiated by signed delivery notes.



Recommendation

The municipal entity should account for the transportation expense of the unsupported deliveries as irregular expenditure.

Management's response

This was due to the fact that the transactions pertaining to the procurement of the fruit, vegetables and sour milk was done by Ithala Development Finance Corporation Limited, as a directive from the KZN Department of Economic Development, Tourism and Environmental Affairs after having transferred the funding to Ithala. The municipal entity requested all the supporting documentation from Ithala in order to ascertain the treatment of transactions by Ithala, but these were not made available timeously, until during the course of the audit. Necessary adjustments have been made on the Annual Financial Statements.

Supporting documentation serving as proof of the pickup of the fruit, vegetable and sour milk have been provided to the auditors for audit.

Name: Ms N. James

Position: CEO

Date: 14 November 2019

Auditor's conclusion

Documentation relating to the procurement of fruits and vegetables was presented on 15 November 2019. A total amount of R5 317 296,97 was paid out by Ithala for food and nutrition. Recovery confirmed from the department of education was for an amount of R2 748 585,67 with respect to claims that have been approved to date.

We have confirmed that the expenditure related to procurement of the fruits, vegetables and sour milk have been recorded by Ithala via inspection of their detailed ledger and corresponding trial balance and no further adjustment is required to the financial statements of the municipal entity.

The corresponding transport cost relating to the unsupported deliveries above have been quantified by the audit team to an amount of R162 139 which is less than materiality.

38. Suppliers not paid within 30 days

Audit finding

In terms of section 99(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), the accounting officer must take all reasonable steps to ensure that all money owing by the entity is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

Nature

The following suppliers was paid after 30 days from receiving the tax invoice:

- The supplier Travel with Flair with tax invoice no. 3793605 received on the 30/07/2018 for an amount of R16 865,74(excl. vat) was paid on the 30/08/2018 which is 31 days after receiving the tax invoice.
- The supplier Matthew Francis with invoice no. 160334 received on the 17/10/2018 for an amount of R26 945,53(excl. vat) was settled with two payments, the first payment was on the 30/10/2018 and the second payment was on the 15/03/2019. Although the first payment was before 30 days, the second payment however was made 149 days after receiving the tax invoice.

Internal control deficiency

Financial management:

The Chief finance officer (CFO) did not adequately monitor the invoice received register to confirm payment of invoices within 30 days of receipt thereof.

Leadership:

The accounting officer did not adequately develop the audit action plan to confirm that necessary actions are taken to address previous audit matters.

Recommendation

The CFO should improve her monitoring of the invoice received register to ensure that long outstanding invoices are followed up regularly in order to be paid within 30 days from the receipt thereof. Where invoices are not to be paid within 30 days of receipt thereof, the reasons for the delay should be documented on the payment voucher together with the relevant documentation to support the reasons provided.

The accounting officer should improve the development of the audit action plan to confirm that necessary corrective actions are taken to resolve previous audit matters.

Management's response

We agree with the finding, these were isolated cases and correspondences were provided to the auditors. We always ensure that we avoid this by paying our service providers within 30 days.

Name: Ms N Shabalala

Position: CFO

Date: 04 November 2019

Auditor's conclusion

Management should ensure that service providers are paid within 30 days and these findings will be included in the auditor's report.

39. Local Economic Development – Indicators are not well-defined

Audit finding

In terms of the Framework for Managing Programme Performance Information (FMPPI), a good performance indicator should be:

- a) **Reliable:** the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- b) **Well-defined:** the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- c) **Verifiable:** it must be possible to validate the processes and systems that produce the indicator.
- d) **Cost-effective:** the usefulness of the indicator must justify the cost of collecting the data.
- e) **Appropriate:** the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- f) **Relevant:** the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.

Nature

We were unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the following indicator, as required by the FMPPI. This was due to the technical indicator not being time bound or measurable against a timeline.

Upon application of the definition of the term 'well-defined' detailed above we find that the indicators below are not clearly defined against a time frame and do not allow for data to be consistently collected due to the ambiguity associated with each indicator. We were unable to test whether the indicator was well-defined by alternative means. The performance objectives below have been identified to not be well-defined with respect to their respective performance indicators:

Objective	Performance indicator	Planned target	Approved revised target	Reported actual performance
To ensure an inclusive tourism platform for tourism development	Number of District Tourism Forum meetings convened	4 District Tourism Forums	4 District Tourism Forums	4 District Tourism Forums
To facilitate transformation within the tourism sector	Number of Rural tourism enterprises supported with marketing/skills development and or material support	4 Rural Tourism Enterprises Supported	2 Rural Tourism Enterprises Supported	2 Rural Tourism Enterprises Supported
To profile and create awareness on tourism products and offerings	Number of Local Tourism Marketing events supported	4 Local Tourism Events Supported	4 Local Tourism Events Supported	6 Local Tourism Events Supported
To promote the district as a preferred tourism destination	Number of Tourism Marketing and Exhibition Shows participated at.	5 Tourism Exhibition Shows Attended	5 Tourism Exhibition Shows Attended	5 Tourism Exhibition Shows Attended
To ensure the coordination of district economic development planning and monitoring	Number of District LED Forum meetings convened	4 District LED Forum Meetings Convened	4 District LED Forum Meetings Convened	4 District LED Forum Meetings Convened
To facilitate growth and development of small enterprises	1.Number of SMMEs and Cooperatives supported with equipment/ material and or agricultural inputs	4 SMMEs and 4 Cooperatives Supported	2 SMMEs and 1 Cooperative Supported	2 SMMEs and 1 Cooperative Supported
To promote growth and stability of local business	Number of business networking sessions convened	4 Business Networking Sessions Convened	2 Business Networking Sessions Convened	4 Business Networking Sessions Convened
To provide emerging farmers with a marketing platform	Number of flea market days hosted	4 Flea Market Days Hosted	Adjusted to Zero	Target not met due to realignment of action plan and business plan for RASET programme.

Indicators not being well defined was communicated to management in the previous audit however sufficient action was not implemented to prevent repeat findings.

Internal control deficiency

The CEO did not adequately review the technical indicator descriptions to ensure alignment to the performance reporting manual.

Recommendation

The CEO should improve her monitoring processes over the development and approval of technical indicator descriptions that supports the accuracy and completeness of reported achievements required.

Management's response

We have adjusted the Annual Performance Report to indicate timelines as recommended.

Name: Ms N. James

Position: CEO

Date: 04 November 2019

Auditor's conclusion

Although the Annual Performance Report has been revised the revised SDBIP still reflect the indicators as per the incorrect Annual Performance Report and as a result indicators contained on the latest revised SDBIP presented to Auditors is not well-defined.

This further raises inconsistency between indicators per the revised SDBIP and amended Annual Performance Report.

40. Non-submission of VAT201 returns

Audit finding

Section 28 prescribes the due dates for rendering VAT returns and making VAT payments. Your return must be submitted together with payment of the VAT on or before the 25th day of the following month after the end of your tax period. The submission must be made by no later than the last business day before such 25th day should it fall on a Saturday, Sunday or public holiday. Alternatively, you have until the last business day of the month after the end of your tax period should you make use of eFiling to submit your return and make payment by electronic means (that is, payment submitted on eFiling or effected by electronic funds transfer (EFT) through internet banking). 99 For example, if your tax period ends on 31 March, you have until 25 April to submit the return and payment (or until 30 April if using eFiling to submit your return and make payment electronically). The date by which the return must be submitted to SARS is shown on the front of the return. Any returns received via drop boxes at SARS offices are removed from the drop boxes by no later than 15:00. Should a return be received after 15:00, it is given the next day's date.

Nature

The following VAT201 returns for the entity was submitted after the deadline stipulated above by the South African Revenue Services:

- June / July 2018 – submitted on the 05/09/2018
- August / September 2018 – submitted on the 05/11/2018
- February / March 2019 – submitted on the 23/05/2019
- April / May 2019 – submitted on the 18/10/2019
- June / July 2019 – submitted on the 18/10/2019



No interest and penalties was charged as the returns submitted all reflected refunds due.

Internal control deficiency

Lack of management oversight with respect to the compliance with SARS regulations.

Recommendation

Management needs to be stricter with regards to the compliance to the vat201 submission deadline.

Management's response

We had a challenge in terms of accessing the entity's profile after the changes that were introduced by SARS as of the first of July 2018. The issue has now been resolved and the profile is now running smoothly.

Name: Ms N Shabalala

Position: CFO

Date: 04 November 2019

Auditor's conclusion

The issues surrounding delayed payments to SARS have been prevalent in the last two audits. Therefore, management is expected to implement compensating controls or preventative measures to eliminate repeat findings. A manual return could have been submitted timeously and the process to resolve the E-filing challenges could have been initiated prior to external audit raising a finding.

41. Non-compliance with SARS regulations

Audit finding

In terms of Chapter 10 of the Tax Act Paragraphs 2(1), 5(1) and 14(2) of the Fourth Schedule Section 6 of the SDL Act Section 7(4) and 8 of the UIC Act, the employees' tax and UIF contributions as well as SDL must be paid over to SARS within seven days after the end of the month during which the amount was deducted or due or such longer period as the Commissioner determines.

Where the seventh day falls on a Saturday, Sunday or public holiday, the payment must be made not later than the last business day prior to such day. These cut-off dates apply to SDL and UIF contributions as well.

The employer must submit such declaration as the Commissioner may prescribe when making any payment. The prescribed EMP201 must be requested by the employer for payment purposes each month.

Nature

The EMP 201 and payment for PAYE Tax, UIF and SDL for the period 2019/06 was only paid on the 4th of October 2019 (declaration made on 25/10/2019). This is in direct contravention of the Income Tax Act provisions above.

Internal control deficiency

Financial Management

The accounting officer did not ensure that the EMP201 was submitted and paid for by the 7th of July 2019 as prescribed by the Income Tax Act.

Recommendation

Management needs to allocate this responsibility of handling the submission of annual returns and any other documents to CIPC to one of the officials.

Management's response

We had a challenge in terms of accessing the entity's profile after the changes that were introduced by SARS as of the first of July 2018. The issue has now been resolved and the profile is now running smoothly.

Name: Mrs N. Shabalala

Position: CFO

Date: 04 November 2019

Auditor's conclusion

The issues surrounding delayed payments to SARS have been prevalent in the last two audits. Therefore, management is expected to implement compensating controls or preventative measures to eliminate repeat findings. A manual return could have been submitted timeously and the process to resolve the E-filing challenges could have been initiated prior to external audit raising a finding.

Annexure D: Performance management and reporting framework

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

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

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

Criteria	References to PMRF per Institution	
	Municipalities	Municipal Entities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.		
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance Indicators are well defined and verifiable, and targets are specific, measurable and time bound.		
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPi	
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPi	
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPi	

Criteria	References to PWRF per Institution	
	Municipalities	Municipal Entities
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPJ	
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPJ	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.		
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPJ	
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.		
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	Chapter 5 of the FMPPJ	Chapter 5 of the FMPPJ
3. All actual performance that should have been recorded is included in the reported performance information.		



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

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.
2. We are independent of the Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

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

REPORTED PERFORMANCE INFORMATION

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE




5. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
6. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.



Annexure F: Assessment of internal controls
















Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.







The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Overall movement from previous assessment	↑		↑		↑	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			NA	NA	NA	NA
Governance						
Overall movement from previous assessment	↔		↔		↔	
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud						



	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	