



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

BUFFALO CITY METROPOLITAN MUNICIPALITY

Management report

For the year ended 30 June 2022





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SOUTH AFRICA

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Final management report

Buffalo City Metropolitan Municipality

30 June 2022

Communicated to the accounting officer on: 29 November 2022



Management report

Buffalo City Metropolitan Municipality

30 June 2022

Management report to the accounting officer on the audit of the Buffalo City Metropolitan Municipality for the year ended 30 June 2022

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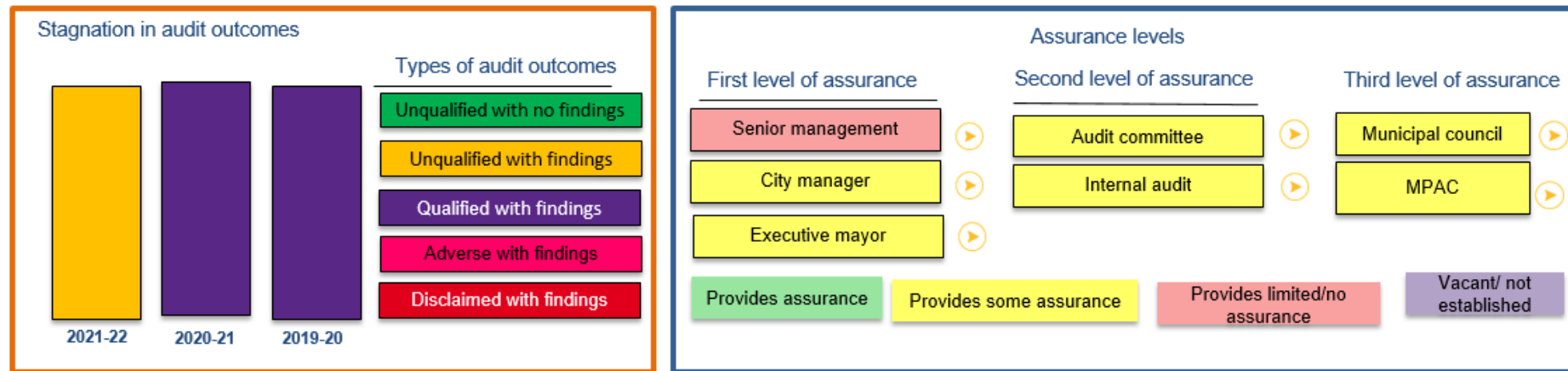
INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.
2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2022. These findings were communicated to management and this 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 priorities, 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 25 of 2004 (PAA).
 - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.
4. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
5. 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.
6. 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.
7. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipients. It 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 of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.
8. 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



1

To improve the **audit outcomes** ...

2

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

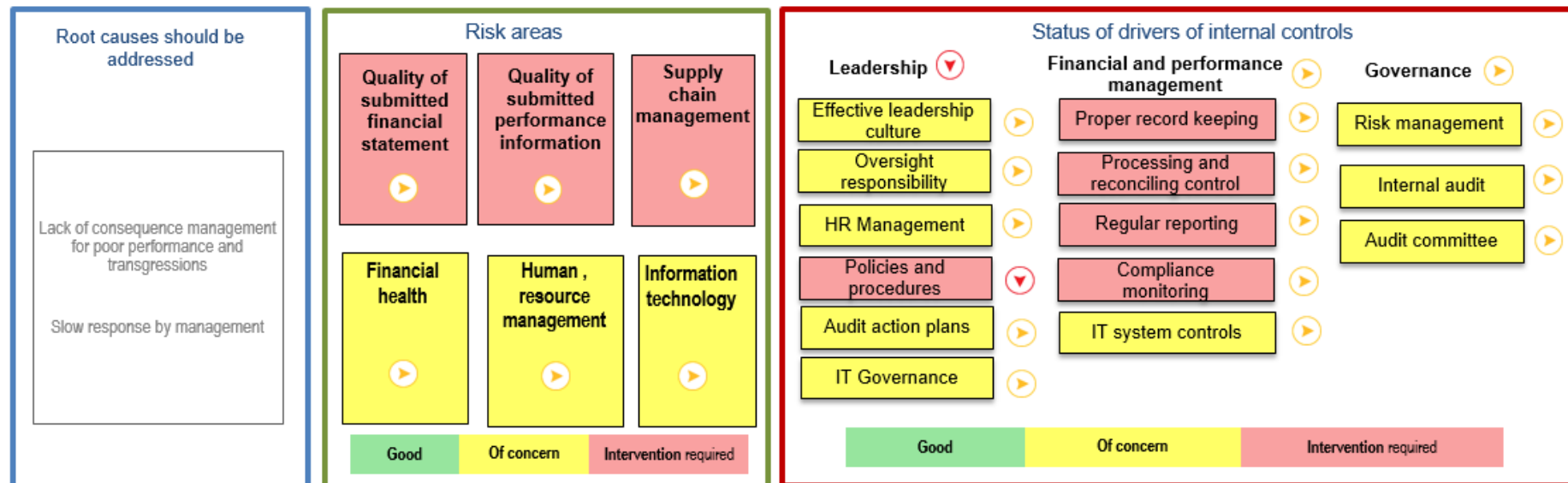
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... the **root causes** are addressed ...

4

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

3

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


OVERALL MESSAGE

9. The audit outcome improved to a unqualified opinion in the current year. However, there has been no improvement in the municipality's internal control processes as management did not respond to the audit recommendations resulting in an ineffective action plan. This was due to slow response by management to integrate and align its directorates, information systems and processes. Management relied on the audit process to resolve the material findings.
10. Inadequate procurement, project and contract management resulted in projects not meeting timelines at the required quality necessary to benefit the intended citizens. The competitive procurement processes were ineffective thereby increasing the risk of irregular expenditure as a result of invalid deviations, bid splitting and continued reliance on annual contracts. The annual contract system was being heavily relied upon to provide service delivery. Furthermore, the work allocated to annual contractors was not consistently and appropriately documented and communicated to ensure that the allocation was fair, transparent, equitable and competitive. A number of material non-compliances with supply chain management (SCM) laws and regulations were identified and reported within this report.
11. Management did not exercise due care in ensuring that the overall control environment would prevent and detect non-compliance with laws and regulations. This gave rise to material disclosures of irregular and unauthorised expenditure. The weakened control environment could be attributed to a lack of performance management system and monitoring on all levels within the municipality, which has also been reported as a material non-compliance with human resource management.
12. The municipality accounts for the majority of its assets on the revaluation method in terms of the standards of GRAP. The asset register was not adequately reviewed which resulted in repeat findings on the asset register as well as over valuation of newly constructed infrastructure assets. These deficiencies have been reported as a material non-compliance with the requirements to maintain an adequate asset management system.
13. Environmental challenges and non-compliance has been identified with the main causes being aging infrastructure which are insufficient to support the growing numbers of citizens reliant on municipal services. There is a significant risk of public harm due to high pollution levels, breakages and breakdowns of systems that provide drinking water, and lack of operating licenses for waste water treatment plants and closed solid waste sites. The municipality is falling behind in the fight against urbanisation and therefore not ensuring its service potential is growing at the same rate.
14. The municipality did not meet its performance targets for water and sanitation as well as electrification indicators despite spending 87% and 100% of the budget respectively. The performance report of the municipality is not adequately highlighting the difficulties encountered to demonstrate management's commitment to its citizens in delivering these key basic services. MFMA Circular 88 indicators are not aligned to the processes of management. The lack of standard operating procedures for all circular 88 indicators has also been highlighted as a material non-compliance. Management did not exercise due care in ensuring that all performance was reported upon and did not document its intended actions to meet performance target backlogs.

15. Financial sustainability has become strained with contributing factors being loss of revenue through non-billing of services rendered, incurring significant water and electricity losses and subsidising invalid indigent debtors. This, together with pressures on the national fiscus is threatening the municipality's future ability to continue to meet its short term commitments and funding of projects.
16. There has been little to no progress relating to investigations into irregular expenditure. Council changed during the year under review, however, these investigations were under the control of an administrative management committee who should have ensured that continued investigations do take place despite the change in executive leadership.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

17. 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 reviews of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	To report on the audit outcome.	1
Municipal public accounts committee	To report on the audit outcome and discuss the role of the committee as well as the way forward on consequence management.	1
Executive mayor	To report on the audit outcome for the previous financial year, the audit progress and outcome of the current financial year. We also obtained commitments from the executive mayor and his deputy executive mayor.	3
City manager	To engage on the current year financial audit, progress in addressing internal control deficiencies. Report on findings raised and potential and actual audit outcome for the current year.	9
Audit committee	To obtain an understanding of the risks facing the municipality, to share the audit strategy and progress against the strategy as well as to share the audit outcome.	4

18. 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 consolidated financial statements

19. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	current year	previous year
Material misstatements corrected				
Non-current assets				
Property, plant and equipment	The municipality has overvalued the carrying value of asset additions.	No	R603 million	-
Current assets				
Receivables	Understatement of impairment of receivables	No	R117 million	-
Disclosure				
Irregular expenditure	Understatement of irregular expenditure due to: <ul style="list-style-type: none"> Inappropriate utilisation of annual contracts. Other non-compliance with Supply Chain Management (SCM) regulations. 	Yes	R318,8 million	R324,4 million
Commitments	Factual misstatement relating to the inclusion of a contract wherein the Joint Venture is no longer a valid going concern due to the liquidation of one of the parties to it.	No	R941,1 million	-
Unauthorised expenditure	Unauthorised expenditure understatement due to additional impairment of receivables identified	No	R117 million	-

Matters to be brought to the attention of users

Emphasis of matter paragraphs

20. 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 financial statements:

Restatement of corresponding figures

21. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2021 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses and impairments

22. As disclosed in notes 10 and 11 to the financial statements, material impairment allowances of R1 billion (2021: R750,2 million) and R2,9 billion (2021: R1,9 billion) were made against receivables from non-exchange and exchange transactions respectively. The net movement in these impairment allowances together with the bad debt write-offs resulted in an impairment expense of R1,4 billion (2021: R911,7 million).
23. As disclosed in note 37 to the financial statements, material electricity losses of R413,4 million (2021: R368,2 million) were incurred, which represents 20% (2021: 23%) of total electricity purchased. The non-technical losses amounted of 10% (2021: 17%) and was due to illegal connections, meter tampering, electrical faults and billing errors.
24. As disclosed in note 37 to the financial statements, material water losses of R139,3 million (2021: R125,5 million) were incurred, which represents 38% (2021: 36%) of the total water cost. The non-technical losses amounted to 16% (2021: 17%) and was mainly due to theft or illegal access as well as technical and administrative inaccuracies associated with customer metering.

Underspending on conditional grants

25. As disclosed in note 14 to the financial statements, the municipality had an unspent portion of conditional grants of R274,3 million (2021: R264,7 million).

Other matter paragraph

26. 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 note


27. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Audit of the annual performance report

28. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance 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. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

29. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected strategic objectives presented in the municipality's annual performance report for the year ended 30 June 2022:

Strategic Outcome	Pages in annual performance report	Opinion	Movement
Strategic Outcome 3: A Connected City	x – x	Disclaimer	Not applicable
Strategic Outcome 4: A Spatially Transformed City	x – x	Qualification	

30. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): Assurance engagements other than audits or reviews of historical financial information.
31. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Strategic Outcome 3: A Connected City

Disclaimer of opinion

32. We do not express an opinion on the reported performance information for A Connected City of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report. We have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the strategic objective.

Basis for disclaimer of opinion

Various indicators

33. We were unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report as well as the reasons for variances between the planned targets and reported achievements. This was due to a lack of proper performance management systems and processes and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm reported achievements and the reasons for variances by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievements and the reasons for the variances for the indicators listed below.

Indicator description	Reported Achievement
Number of dwellings provided with connections to the mains electricity supply	643
Percentage of planned maintenance performed	84.8%
Installed capacity of embedded generators on the municipal distribution network	1750.56kW

Strategic Outcome 4: A Spatially Transformed City

Qualified opinion

34. In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the reported performance information for A Spatially Transformed City is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Basis for qualified opinion

Number of sites serviced

35. We were unable to obtain sufficient appropriate audit evidence for the reported achievement in the annual performance report as well as the reason for the variance between the planned target and reported achievement. This was due to a lack of proper performance management systems and processes and formal standard operating procedures that predetermine how the achievement would be measured, monitored and reported. We were unable to confirm the reported achievement and the reason for variance by alternative means. Consequently, we were unable to determine whether any adjustment was required to the reported achievement and the reason for the variance.

Other matters

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

Achievement of planned targets

37. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinion expressed on the usefulness and reliability of the reported performance information in paragraphs 32 of this report. The municipality achieved 68% of the planned targets for the year in the selected strategic outcome 3, A Connected City. The planned target that was not achieved relates to a key service delivery indicator on electricity, per the table below:

	Indicator	Planned Target	Reported Achievement
1.	Number of dwellings provided with connections to the mains electricity supply	780	643

38. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph 34 of this report. The municipality achieved 46% of the planned targets for the year in the selected strategic outcome 4, A Spatially Transformed City. The planned targets that were not achieved relate to key service delivery indicators on water and sanitation, per the table below.

	Indicator	Planned Target	Reported Achievement
1.	Number of new water connections meeting minimum standards	500	347
2.	Number of serviced sites	800	322
3.	Number of ablution facilities constructed (seats)	99 (seats)	97 (seats)

39. Reasons for the underachievement of targets are included in the annual performance report on pages xx to xx.

Adjustment of material misstatements

40. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic Outcome 3: A Connected City and Strategic Outcome 4: A Spatially Transformed City. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. The indicators that were not corrected is included in the basis for the disclaimer of opinion and qualified opinion paragraphs respectively.

Responsibilities of the accounting officer for the reported performance information

41. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework 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

42. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected strategic outcomes presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinions. 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.

43. Our procedures address the usefulness and reliability of 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 examine whether the actions taken by the municipality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
44. 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

45. 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.

Annual financial statements

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, non-current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

47. The performance management system and related controls were inadequate as it did not describe how the performance measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Asset management

48. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Expenditure Management

49. Reasonable steps were not taken to prevent irregular expenditure of R6,1 billion as disclosed in note 55 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was incurred on management's use of annual contracts outside of the supply chain management (SCM) regulations.
50. Reasonable steps were not taken to prevent unauthorised expenditure of R163,7 million, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by over expenditure on debt impairment.

Human Resource Management

51. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 (MSA).

Procurement and contract management

52. Some of the goods and services with a transaction value of above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a) and (b). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
53. Contracts and quotations were awarded to bidders based on functionality criteria that were not weighted for each criterion in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 5(3). This non-compliance was identified in the procurement processes for the key project relating to provision of maintenance, repairs and construction of 32kv, 11kv, 400v overhead mains, streetlight overhead mains and underground cables in the municipal area of supply.
54. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). This non-compliance was identified in the procurement processes for the projects related to construction of 275 top structures and provision of internal engineering services for Cambridge West Ciskei National Independent Party victims housing project as well as the re- alignment of the R 72 sleeper site: Phase 2.
55. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
56. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
57. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.
58. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the MSA.

Consequence management

59. Some of the irregular 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.
60. Some of the fruitless and wasteful 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.

Environmental management

61. The following wastewater treatment plants did not have valid operating licences as required by section 22(1)(b) of the National Water Act 36 of 1998:

- Amalinda/Central ■ Berlin ■ Breidbach ■ Dimbaza ■ East Bank ■ Gonubie
- Kayser's Beach ■ Kidd's Beach ■ Mdantsane ■ Potsdam ■ Schornville ■ Westbank

Other information

62. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
63. 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.
64. 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 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.
65. The following paragraph will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
66. I did not receive the other information prior to the date of this report. When I do receive and read this information, if we conclude that there is a material misstatement therein, I am 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, I 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.

Internal controls

67. The significant deficiencies in internal control that led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are 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

Effective leadership culture

68. Despite instability within the city manager and chief financial officer posts, the two acting positions were supported by individuals who were actively involved in the audit process and responded to our findings in a professional manner. In addition, the audit control process was sufficiently capacitated during the audit thereby ensuring responsiveness to audit queries and direction was provided.
69. The prior year qualification on the completeness of irregular expenditure was resolved through multiple audit adjustments to the financial statements and not due to an improved control environment. Management's disagreement to the use of annual contracts was not supported by National Treasury as no formal response was received.
70. The annual performance report was not prepared adequately resulting in a number of miscellaneous and unnecessary audit adjustments. Management's analysis of the variances between reported and planned targets was inadequately documented. The review and assurance provided prior to submission of the annual performance report was insufficient to identify these errors and inconsistencies.
71. The municipal accounts committee (MPAC) was appointed post the municipal elections during the financial year, this created a gap in continuity to ensure all transgressions relating to fruitless and wasteful and irregular expenditure were being investigated to ensure adequate consequence management was being performed. A smooth transition of the newly established MPAC was not achieved through management providing adequate information on the progress of investigations and information for MPAC to continue with this vital function.

Oversight responsibility

72. Credible and relevant information is not always provided by the accounting officer to council and MPAC on which guidance is provided, recommendations made and resolutions taken. This is evidenced by the resolutions taken in council meetings to defer matters or for further reports to be provided in order to resolve pertinent matters.

Human resource management

Acting appointments:

73. The municipal staff provisioning policy is not being adhered to, as follows:
 - An acting position for a HOD post was approved by another HOD and not the city manager.
 - Employees have acted in positions for period exceeding 6 months.

Performance management:

74. The Municipality does not have a process in place for monitoring, measuring, and evaluating the performance of all other employees below city manager and section 56 managers.

Overtime:

75. There was no approved overtime policy, improper monitoring of overtime payments and inadequate controls in place to ensure overtime worked was in line with requirements and prescribed in the Basic Conditions of Employment Act. Furthermore, employees were paid at higher rates compared to approved rates.

Policies and procedures

76. The municipality does have policies and procedures in place to govern the various business processes. However, the policies and procedures were not implemented in all instances contributing to the misstatements in the financial statements and annual performance report as well as instances of non-compliance with legislation. The following deficiencies were identified during the audit:
- There was no approved policy and procedure on rotation of suppliers to ensure fair, competitive and transparent procurement of goods and services.
 - The standard operating procedures for predetermined objectives were not yet developed to align the operations of the municipality to MFMA circular 88 of 2017.
 - The credit control policy for the 2021-22 financial year was not appropriately implemented for billing of refuse and sewerage services relating to the back charging of consumers.
 - The municipality has not developed and implemented a policy detailing the processes and procedures followed to capitalise a complete capital project from work-in-progress to the fixed asset register, including identifying the date when a capital project is available for use, in the location and condition intended by management

Action plans to address internal control deficiencies

77. The audit controller's office is responsible for the audit improvement plan, however the success of the action plans stems from the directorates who committed to such actions. Very little progress has been made relating to the internal control deficiencies identified and reported in the prior financial year.

Information technology governance framework

78. Whilst slight improvements were noted in various areas of the ICT environment, Information Technology Governance was still concerning as the municipality was still unable to mitigate known risks and improve the ICT environment.

Financial and performance management

Proper record keeping

79. The municipality does not have a proper lease management system in place to account for its property lease debtors. Properties being rented out could not be satisfactorily linked to debtors to confirm the completeness of lease debtors at year end.

80. The portfolio of evidence submitted for four material key performance indicators was inadequate and did not logically link to the performance report. This was as a result of a lack of detailed standard operating procedures aligned to the technical indicator descriptions.

Daily and monthly processing and reconciling of transactions

81. The misstatement in receivables from exchange transactions, although not material, results from the following deficiencies in internal control:
- Inadequate reviews between the billing system and underlying records which resulted in misstatements in sewerage and indigent debtors.
 - Consumers were not consistently billed on a monthly basis, resulting in financial losses for the municipality. Lease debtors in particular were not billed in line with their lease agreements. The municipality had not correctly applied the escalation rates contained in the lease agreements since inception of the lease agreement, thereby resulting in under-billing of the debtor. Lease debtors are therefore being billed an amount for the rental that is significantly lower to what they actually should be billed. The municipality is therefore losing revenue as they do not have an appropriate system to track, record and manage these rental debtors. A large number of lease agreements were found to be outdated and operating on a month to month basis. Valid lease agreements/contracts should therefore firstly be signed and in place before any other processes of internal controls, systems and registers are prepared as the information included in the system and registers would be obtained from these lease agreements.

Regular, accurate and complete financial and performance reports

82. Management did not adequately review and analyse reported performance information against supporting and explanatory evidence which resulted in material misstatements in the annual performance report.
83. The municipality did not implement and perform adequate review procedures on the output amounts recorded in the fixed asset register to ensure the accuracy and completeness thereof, and this led to a material misstatement in property, plant and equipment, subsequently adjusted by management.
84. The municipality processes a significant number of prior period adjustments each year and this indicates that internal controls were not adequate to detect errors during the financial year. This is particularly the case for property, plant and equipment, work-in-progress, revenue and receivables and expenditure for which material prior period restatements have been processed. This indicates that the processes to ensure that credible in-year and year-end financial and performance reports were not effective.

Compliance monitoring

85. The municipality's non-compliance findings mainly stem from inadequate systems to monitor and account for financial transactions, performance information and ensuring compliance with supply chain management regulations.

86. The municipality did not implement effective procurement and contract management which resulted in the over reliance on annual contracts, non-adherence to contract management principles resulting in lack of monitoring of projects implemented through annual contracts and lack of consequences for poor project management by the annual contractors.

Information technology systems

87. IT security management controls, User account management controls, IT service continuity controls, and IT Program Change management also remained concerning. These focus areas identified above had key controls being inadequately implemented.

Governance

Risk management activities and risk strategy

88. The municipality is not proactive to issues such as environmental management, preventing and detecting irregular expenditure, poor supply chain management processes resulting in supplier complaints, ageing infrastructure, billing errors and consequence management as no clear performance system is in place to monitor and report on the performance of all staff. This has resulted in poor coordination and integration within the municipality which creates a reactive rather than proactive approach to risk management.

Internal audit

89. The findings raised by internal audit and those by external audit have a similar theme in terms of internal control deficiencies as well as lack of ownership by the directorate for ensuring proper record keeping, improved coordination with other directorates and enhanced financial and performance reporting. The role of internal audit is to provide assurance that key processes and procedures are in process to ensure reliable and credible information is being communicated to those charged with governance and the city manager to act upon. However, the work of internal audit has been hindered by slow response by management to its messages and late submission of key performance and financial reports for its review.

Audit committee

90. The audit committee sets resolutions for implementation by management and guides the municipality on areas where deficiencies have been reported. However, the response by management is slow and thereby undermining the ability for the audit committee to wholly fulfil its mandate in providing effective assurance.

Summary

91. The matters above, as they relate to the findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
92. Leadership's oversight responsibility to ensure credible and reliable financial and performance reporting as well as compliance with legislation was limited due to inadequate coordination and monitoring between directorates of the municipality.

93. The SCM policies and procedures implemented were inadequate to ensure fairness, competitiveness and transparency when procuring goods and services. This, together with a lack of monitoring of contracts resulted in non-compliance with SCM regulations and the incurrence of irregular expenditure.
94. The daily and monthly disciplines required by management were inadequate to account for all the financial and performance processes of the municipality. Furthermore, management did not prepare regular, accurate and complete financial and performance reports supported and evidenced by reliable information.

Material irregularities

95. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities reported in the previous year.
96. We have notified the accounting officer of material irregularities identified during the audit and the actions the AGSA will take with regard to these material irregularities. We also assessed the progress made in resolving the material irregularities reported in the previous year.
97. Except for the summary of material irregularities, the auditor's report will include the following summarised information:

Material irregularity identified during the audit

98. The material irregularity identified is as follows:

Vandalism and theft of completed asset

99. The municipality did not comply with section 63(2)(c) read together with section 63(1)(a) of the MFMA which requires that the accounting officer of a municipality be responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. Management did not safeguard Phase 2 of the Gonubie Beacon Bay link road post-handover from the contractor which resulted in vandalism and theft. The road will only be brought into use once all phases of the five phased project are complete. The non-compliance has resulted in a material financial loss of R4,1 million.
100. I notified the accounting officer of the material irregularity on 4 July 2022 and invited him to make a written submission on the actions taken. The accounting officer has responded by indicating that there is a lack of own revenue and grant revenue forecast to complete the remaining phases of the road in order to bring it into use.
101. In the short term, the accounting officer conducted a cost-benefit analysis in order to safeguard the completed phase 2 of the project as there are no funds available to continue with the remaining phases in order to bring the road into use.
102. The accounting officer has committed to secure funding for the remaining phases by 30 June 2023, the contractor to be procured by 30 June 2024 and the project to be initialised and completed by 30 June 2027.

103. A follow up will be done in the next audit to assess the appropriateness of the actions taken by the accounting officer upon receipt of the investigation report.

Material irregularities in-progress

104. We identified another material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. This material irregularity will be included in the next year's auditor's report.

Date of material irregularity notification	Description of material irregularity	Status
MI notification no. 01 of 2021-22 issued on 8 December 2022	Municipality not billing lease debtors all monies due from the rental of its properties	<p>The municipality does not have an appropriate system to document and control its leased properties and the related lease debtors. The properties lease register is manually prepared and was found to have a significant number of deficiencies which resulted in an inability to place reliance on this register.</p> <p>The municipality has also not billed a significant number of property lease debtors in line with their lease agreements. A large number of lease agreements were found to be outdated and on a month to month basis. The municipality had not correctly applied the escalation rates contained in the lease agreements since inception of the lease agreements, thereby resulting in under-billing of the debtor. Lease debtors are therefore being billed an amount for the rental that is significantly lower to what they actually should be billed. The municipality is therefore losing revenue as they do not have an appropriate system to track, record and manage these rental debtors which is in contravention of section 64(2)(e) of the MFMA.</p> <p>The non-compliance results in a material financial loss for the municipality if not all monies due from property rentals can be recovered from the debtors and is likely to result in further material financial losses for the municipality if the deficiencies with the lease management system are not addressed.</p>

Status of previously reported material irregularities

Revenue for water services not calculated on a monthly basis

105. The municipality did not charge water service charges for 8 337 properties for the year ended 30 June 2020. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The non-compliance resulted in a material financial loss as a result of the services not being billed.
106. The accounting officer was notified of the material irregularity on 24 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter.

107. The following action has been taken to resolve the material irregularity:
- The municipality notified and commenced billing the affected consumers from the 2020-21 financial year, as per the municipality's credit control policy.
 - The accounting officer instituted disciplinary investigations to identify the persons responsible for the material irregularity.
 - The municipality developed standard operating procedures to guide the flow of information from the source to the financial system as at 30 June 2022.
108. The accounting officer further planned to implement the following actions to resolve the material irregularity:
- A service level agreement (SLA) has been developed but is still to be signed between Infrastructure, Spatial Planning and Development and Corporate Services directorates. The SLA outlines the value chain process between these directorates, including performing investigations to confirm whether water lines and water points do exist for all properties to determine which properties should be billed for water and to link all properties to the billing system.
 - The Finance directorate to perform monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for water services.
 - The monthly report will be sent to the Infrastructure Directorate for investigation.
 - Monthly meetings to be held with all relevant directorates to assess progress made in addressing any exceptions identified.
109. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made some progress in addressing the material irregularity.
110. A commitment and a detailed project plan was thus obtained from the accounting officer and it was indicated that the date committed to have fully addressed the material irregularity is 30 June 2023.
111. The implementation of the above planned actions and committed deadline will be followed up in the next audit cycle.

Revenue for refuse removal services not calculated on a monthly basis

112. The municipality did not charge a number of properties for refuse removal service charges for the year ended 30 June 2021. This resulted in non-compliance with section 64(2)(b) of the MFMA which requires revenue due to the municipality to be calculated on a monthly basis. The non-compliance resulted in a material financial loss as a result of the services not being billed.
113. The accounting officer was notified of the material irregularity on 29 March 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.
114. The following action has been taken to resolve the material irregularity:
- The municipality notified and commenced billing the affected consumers from the 2020-21 financial year, as per the municipality's credit control policy. The municipality is however, still recognising revenue foregone and not billing the customers in line with the credit control policy.

- The accounting officer instituted disciplinary investigations to identify the persons responsible for the material irregularity.
 - The municipality developed standard operating procedures to guide the flow of information from the source to the financial system as at 30 June 2022.
115. The accounting officer further planned to implement the following actions to resolve the material irregularity:
- A SLA has been developed but is still to be signed between Infrastructure, Spatial Planning and Development and Finance directorates to perform investigations and assign responsibilities for the linking of refuse removal services on the billing system.
 - The integration of the service departments systems to the financial system to cater for controls such as audit trails and segregation of duties.
 - The Finance directorate to perform monthly reconciliations between the valuation roll and billing system to identify any further properties not being billed for refuse removal services.
 - Monthly meetings to be held with all relevant directorates to assess progress made in addressing any exceptions identified.
116. The implementation of the planned actions was followed up in the current year audit and it was noted that the accounting officer has made some progress in addressing the material irregularity.
117. A commitment and a detailed project plan was thus obtained from the accounting officer and it was indicated that the date committed to have fully addressed the material irregularity is 30 June 2023.
118. The implementation of the above planned actions and committed deadline will be followed up in the next audit cycle.

Other reports

119. We draw attention to the following engagements by various parties that have or could 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 financial statements or findings on the reported performance information or compliance with legislation.

Investigations

120. There were five investigations conducted by external parties during the year under review relating to SCM irregularities and financial misconduct cases which cover the periods 2013-14 to 2019-20. These investigations were ongoing at year end and therefore no recommendations have yet been communicated to management.

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

Assessment of assurance providers

121. 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 financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
122. 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.
123. 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 **limited assurance**

- Senior management attended engagements with the auditors to provide insight on queries raised. The audit process in most accounts was adhered to in terms of the engagement letter, however in some cases, management made requests to the auditors which resulted in time being spent and billed outside of the budgeted fee. Management are therefore requested to ensure that the audit improvement plan is implemented throughout the year and not rely on the audit process to improve the audit outcome.
- Policies and procedures should be reviewed by management to ensure these are sufficient to implement adequate processes and internal controls necessary for financial and performance reporting that are free from material misstatements and continued compliance with relevant laws and regulations.

Accounting officer: provides **some assurance**

- The accounting officer provides oversight and direction to senior management, however this was not always implemented in an efficient and effective manner to ensure the root causes of the issues raised are addressed timeously.
- Recurring internal control deficiencies, material findings for predetermined objectives, irregular expenditure, revenue and receivables as well as non-compliance findings indicates that the leadership controls have not been effective during the period under review.
- There were inadequate measures put in place to ensure that SCM regulations were adhered to and to limit the extent of irregular expenditure being incurred by the municipality.

Mayor: provides some assurance

- The executive mayor provided political guidance on budgeting and other aspects of financial planning on a consistent basis to the relevant officials within the municipality. However, the number of repeat audit findings indicates that the action required to be taken by the executive mayor in term of section 131 of the MFMA was not adequate.

Second level of assurance

Internal audit unit: some assurance

- Legislation in South Africa requires the establishment of, and provides for, the 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.
- Management has not been responsive to the recommendations of internal audit, particularly in the area of performance information where material findings were reported.
- As a result of resource capacity constraints, internal audit did not complete a substantial portion of the planned audits for the 2021-22 financial year and a number of key audits were rolled over to the following financial year. This reduces the effectiveness of internal audit as it does not allow for management to address key risks identified by the unit timeously.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the council, accounting officer 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.
- Audit committee meetings were held as required during the period with attendance of the accounting officer and senior management. The audit committee liaised with MPAC and the executive mayor during the financial year as required.
- The assessed effectiveness of the audit committee is further reduced by the fact that material misstatements were identified in the annual financial statements and annual performance report before submission for audit. This indicates that insufficient reviews and oversight were being performed in the areas of financial, performance and compliance within the municipality. The lack of an effective combined assurance model within the municipality dilutes the effectiveness of the audit committee.

- Although the audit committee made recommendations to management, these recommendations are not always addressed timeously or sufficiently or at all.

Third level of assurance

Municipal council: provides some assurance

- The irregular expenditure as well as fruitless and wasteful expenditure incurred in prior years has not been adequately addressed and the number of material misstatements in the financial statements and annual performance report indicates that the oversight over the processes to produce credible financial and performance reports was not as effective as it should be.

Municipal public account committee (MPAC): provides some assurance

- The MPAC has ensured that the capacity of the internal audit function is assessed and a report is provided to enable MPAC to decide on the appropriate action to be taken. There were instances of fruitless and wasteful expenditure as well as irregular expenditure that were written off by MPAC post to year end.

Status of implementing commitments and recommendations

124. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings. The commitments below were made by the city manager and are all in progress.

	Annual contracts /	Consequence management	Project tracking
Commitment	Obtain National Treasury opinion on use of annual (rate based) contracts for large capital projects above R200 000 and disclose irregular expenditure if appropriate.	Strengthen and accelerate the implementation of consequence management at all levels.	Tracking of projects including actual versus budgeted costs, stage of completion, variation orders and delays will be available on an automated project tracking tool.
Date	November 2019	November 2016	November 2016
Update	The municipality met with National Treasury but have not yet received a legal opinion on this matter. National treasury response on this matter was that it is not opposed to the use of annual contracts for projects above R200 000. The same practice as applied on RT contracts.	The city manager appointed an administrative committee in last quarter to assist MPAC with the investigative process. This matter is ongoing, the team had to focus on clearing the back log of many years before attending	Automation of Contracts management is underway with deployment of this module due soon. The integration of the SOLAR financial management system is complete. A phased in approach was recommended due to the complexity of the module. Annual contracts are currently being loaded on the system. The Demand Management team is loading all suppliers not listed on Vendor Portal. The automation on SOLAR failed as some of the

Annual contracts /		Consequence management	Project tracking
		to the current and recent years. These date back to 2012.	functionalities were not fully developed yet. The contracts module in eProcurement has since been activated and went live during this financial year. The process of loading all the contracts onto the system is currently underway.

125. Below are new commitments made by the municipality to address during the current years' audit findings. The commitments below are **new** made by various stakeholders;

No	Date	Commitment	Made by	Origin of commitment
1	26 October 2022	Executive management to discuss with administrative management on how the municipality can improve coordination between directorates and ensure that irregular expenditure is reduced by specifically looking at annual contracts. In addition, processes to improve consequence management through MPAC need to be implemented. In addition, processes to improve consequence management through MPAC need to be implemented.	Deputy Executive Mayor	Irregular expenditure
2	26 October 2022	Council to implement an action plan on the billing system and how to ensure collection thereof	Deputy Executive Mayor	Revenue
3	26 October 2022	Council to be more proactive in solutions to aging infrastructure.	Deputy Executive Mayor	Assets infrastructure
4	26 October 2022	Quarterly meetings should be held to interrogate management on service delivery, environmental issues, performance and budget compliance.	Deputy Executive Mayor	Performance Audit
5	26 October 2022	Find time to look into SCM irregularities and engage with management on how to turn around the municipality in being compliant.	MPAC Chairperson	Supply Chain Management

SECTION 4: Specific focus areas

Financial viability

126. 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 2022	As at 30 June 2021
Expenditure management			
1.1	Creditor-payment period	147 Days	190 Days
Revenue management			
2.1	Debt-collection period (after impairment)	164 Days	164 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	56%	49%
	• Amount of debt-impairment provision	R 3,6 billion	R 2,5 billion
	• Amount of accounts receivable	R 6,4 billion	R 5 billion
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	No
	• Amount of the surplus / (deficit) for the year	(R 149,3 million)	R 543,2 million
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R 1,3 billion	R 1,4 billion
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R 26,6 billion	R 23,1 billion
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)	R 677 million	R 1,1 billion
4.2	Net cash flows for the year from operating activities were negative	No	No

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	As at 30 June 2021
	<ul style="list-style-type: none"> Amount of net cash in / (out)flows for the year from operating activities 	R 1,1 billion	R 1,5 billion
4.3	Creditors as a percentage of cash and cash equivalents	202 %	138 %
	<ul style="list-style-type: none"> Amount of creditors (accounts payable) Amount of cash and cash equivalents / (bank overdraft) at year-end 	R 1,4 billion R 677 million	R 1,6 billion R 1,1 billion
	Current liabilities as a percentage of next year's budgeted resources *	33 %	43 %
4.4	<ul style="list-style-type: none"> Amount of current liabilities Amount of next year's budgeted income * 	R 2,2 billion R 6,8 billion	R 2,3 billion R 5,4 billion
Overall assessment			
Overall, the financial viability is assessed as:		Concerning	Concerning
* This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on employee costs and remuneration of councillors.			

Financial indicators that can impact on service delivery:

127. In addition to the assessment of financial viability, our audit included a high-level overview of the municipality's financial indicators that can impact on service delivery as at year-end. This assessment provides useful information for accountability and decision-making purposes and complements the financial viability assessment by providing an overview of potential service delivery implications of financial transactions. It will also highlight to management those issues that may require corrective action in order to avoid service delivery failures.

Financial indicators that can impact on service delivery			
1.1	% spending on repairs and maintenance	1,6%	1,8%
	<ul style="list-style-type: none"> Total expenditure on repairs and maintenance for the year Total Property, plant and equipment at year end 	R 403,2 million R 25,1 billion	R 386 million R 21,5 billion
	Total capital expenditure as a % of total expenditure	13,5%	20,1%
1.2	<ul style="list-style-type: none"> Amount of capital expenditure for the year Amount of total expenditure for the year 	R 1,4 billion R 9,1 billion	R 2,1 billion R 8,2 billion
	% of electricity distribution losses	20,5%	22,8%
1.3	<ul style="list-style-type: none"> Amount of units generated/purchased Amount of units sold to consumers 	1,4 billion kwh 1,1 billion kwh	1,4 billion kwh 1,1 billion kwh
	% of water distribution losses	37,5%	36,3%
1.4	<ul style="list-style-type: none"> Amount of units generated/purchased Amount of units sold to consumers 	60,9 million kl 38 million kl	60,2 million kl 38,3 million kl

High-level comments

128. The creditor payment period improved, however it is significantly higher than the 30 day legislated requirement. The non-payment of supplier could have a negative impact on the relationships formed between the municipality and its suppliers, which in turn could result in delays in service delivery and infrastructure development.
129. The debt impairment provision has increased from the prior period as the municipality is struggling to collect from its debtors due to an ineffective debt collection process. The non-collection of debtors puts strain on the financial sustainability of the municipality's operations.
130. The cash reserves have been decreasing over the past three financial periods with a decrease of R423 million in the current period. Furthermore, creditors as a percentage of cash and cash equivalents have increased significantly by 64%. The municipality is facing potential liquidity problems which should be addressed through prioritization of key projects from own funding and ensuring efficiencies in its operations.
131. The municipality is spending 1,6% of its assets value on repairs and maintenance. This is below the 8% recommendation from National Treasury. This percentage is indicating that inadequate provisions are being made for repairs and maintenance which could lead to asset breakdowns, service disruptions and ultimately service delivery failure.
132. Capital expenditure is 13,5% of total expenditure. Though this is still within the region of 10% to 20% recommended by National Treasury, it is a reduction from the prior year's 20,1%. The municipality is investing in infrastructure, however, if this downward trend continues, then the municipality may find itself in a position where investment in infrastructure is insufficient, which will negatively impact service delivery. However, investment in infrastructure is dependent on collection of revenue.
133. The municipality has lost a total of R139,3 million and R413,4 million through water and electricity losses respectively. The municipality's mitigating processes have not effectively assisted in curbing in particular the non-technical losses. This was mainly due to ageing infrastructure, illegal connections and theft or damage of cables or infrastructure. The potential total loss of water and electricity revenue amounts to R552,7 million, which has contributed to the net deficit of R149,3 million as well as the reduction in cash reserves.
134. Ineffective debt collection and loss of potential revenue have resulted in the municipality not having sufficient funding available for repairs and maintenance, and investing in infrastructure assets. If this continues, the financial health of the municipality will deteriorate and ultimately lead to service delivery failure.

Procurement and contract management

135. 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

136. R1,4 billion (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 R4,4 billion was identified in the current year. A total of 55% of this irregular expenditure was identified during the audit process and not detected and disclosed by the municipality's monitoring processes. The root causes of the lack of effective prevention and detection is due to the lack of standard operating procedures outlined for the rotation of suppliers for multi-supplier annual contracts and lack of monitoring the length of time taken to awarding competitive bids to avoid deviations, bid splitting and not following the competitive bidding process.

Awards to persons in the service of the state

137. 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 or 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.

138. The findings were as follows:

Nature of finding	Number and value of awards made	Number and positions of officials / councillors 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)
Awards to persons in the service of other state institutions	5	5	5	-	5

Awards to close family members of persons in the service of the state

139. Awards to providers owned by close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM regulation 45. The audit included the identification of awards to close family members. Further testing was performed to determine whether the financial statement disclosure was made and the legislated requirements with regard to declarations of interest were adhered to.

140. The findings were as follows:

- Close family members of six officials had an interest in awards made to the value of R8,3 million. All of these officials did not declare their interest.
- None of these awards to close family members were not disclosed in the financial statements.

Procurement and contract management processes

141. The table below is a summary of findings identified on procurement and contract management processes:

	Total		Quotations		Competitive bids		Contract management	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	84	4,4 billion	27	4,5 million	30	1,8 billion	27	2,6 billion
Expenditure incurred on selected awards – current year		732,2 million		1,9 million		70,9 million		659,4 million
Awards where non-compliance was identified	59	2,7 billion	10	1,8 million	25	52,8 million	23	2,6 billion
Irregular expenditure identified	28	180,5 million	10	1,8 million	9	48,9 million	9	129,8 million

- Twelve contracts and quotations to the value of R6,1 million were awarded to bidders based on preference points that were not allocated and calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.
- Five quotations were awarded to bidders who had not submitted a declaration as to whether they were employed by the state or connected to any person employed by the state.

Local content and production (designated sectors)

- Specifications for three awards to the value of R6 million did not stipulate the minimum threshold for local production and content.

Contract management

- Five contracts were amended or extended without approval by a delegated official. The total value of the extensions was R12,2 million.
- The contract performance and monitoring measures and methods applied in monitoring thirteen contracts to the value of R315,8 million were insufficient to ensure effective contract management. Furthermore, these contracts were not monitored on a monthly basis.

Internal control deficiencies

142. Management does not monitor the actual operating and capital expenditure against annual contracts which has resulted in the material adjustments to irregular expenditure. The procurement process for annual contracts is not appropriate when compared to the manner in which these contracts are to be used by the municipality. The key SCM regulation principles of competitiveness, fairness and transparency have not been met when analysing how annual contracts are being utilised.

Fraud and consequence management

143. 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 for issuing 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.
144. 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.
- Inadequate contract management controls resulting in manipulation of contract management processes (i.e. contract extensions, variation orders, amendments) and irregular, fruitless and wasteful expenditure.
 - Inadequate controls on billing and revenue management resulting in collusion between BCMM employees and the public to defraud the municipality through irregular debt write-offs resulting in revenue losses.
145. 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:

Measures to manage consequences

146. 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

147. A total of twenty nine investigations into allegations relating to financial misconduct, fraud or improper conduct in SCM were ongoing at year-end. 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 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 at year-end	29
• Number of SCM-related investigations	15
• Number of fraud-related investigations	14
Number of investigations exceeding 3 months	29

Failure to deal properly with allegations reported in the previous year

148. 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.

Irregular / fruitless and wasteful expenditure

Finding	Value R
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure.	R2,5 billion
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	R10,7 million

Transgressions reported to management for investigation

149. 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	33	-	-	13	R9.5 million
B: Improper conduct in SCM by officials					

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)
Officials failed to disclose their own interest or that of close family members, partners or associates	14	-	-	6	R8,3 million

150. Unauthorised, irregular and fruitless and wasteful expenditure disclosed in notes 53, 54 and 55 to the financial statements should 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 and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

Grants Management

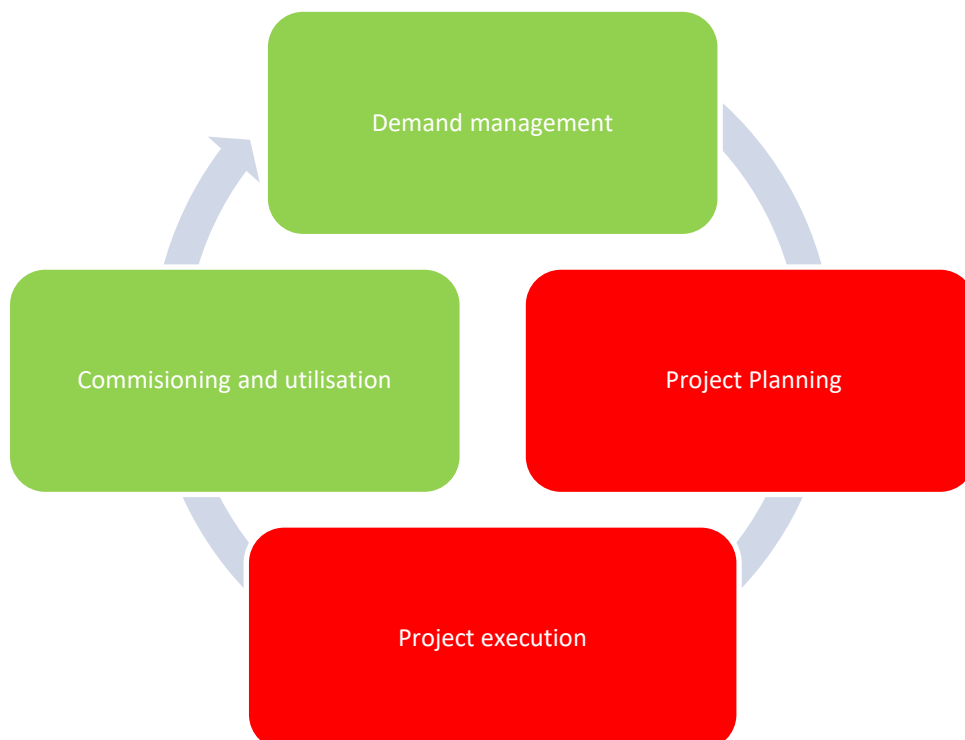
151. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Urban Settlement Development Grant (USDG)
- Informal Settlements Upgrading Partnership Grant (ISUPG)

152. There were no compliance findings raised on the utilisation of the selected grants.

Infrastructure Delivery

Value chain: Key projects



153. Key projects funded by the Urban Settlement Development Grant (USDG) and Informal Settlements Partnership Upgrading Grant (ISUPG) were identified, tested and reported on, over the project life cycle of the selected key projects. We tested the timelines, budget spending, compliance with procurement processes, appropriate recording of the transactions in the financial statements and that the quality of the goods and services delivered agreed with the initial requirements

154. The audit findings raised on each project are reported in the table below:

Key project	Description	Contract Value
CNIP Victims Housing Project : Cambridge West	Development of a housing development consisting of 275 erven together with dwelling units for the CNIP Victims. Municipal Services include roads, water, sanitation and storm water management.	R87,6 million
Findings identified <ul style="list-style-type: none"> Awarded Professional Service Provider (PSP) tender was not responsive as the appointed consultant did not achieve the minimum of 80% for functionality and should have been disqualified resulting in irregular expenditure of R2 million paid to Sokhani Housing Consortium The contract was awarded two years and two months after the tender closing date with no substantial reasons for the delay, which resulted in a delayed service delivery. The appointed employer's agent did not qualify to act as an agent as he was not a registered Professional Engineer (PrEng) or a Professional Engineering Technician (PrTech Eng) as required by the Engineering Council of South Africa (ECSA). The PSP misrepresented his registration status with ECSA as the drawings indicated that they were signed by a PrEng, however the person who signed off on the drawings was not registered with ECSA. Payments made for which no value was derived resulting in a potential overpayment of R4,1 million Quality Issues were identified on site and below are few examples of those issues: <ul style="list-style-type: none"> There was poor quality of sewer trench backfill, over size material was identified in the in sewer trench backfill Substandard compaction was noted along sewer trench backfill as evidenced by the longitudinal cracking caused by settlement of the backfill material. Site safety was noted as an issue due to the lack of barricading to the open sewer trenches. The public road had been fenced, however, the access entrances were open and not controlled. Contract administration failures were identified as the first site meeting minutes were dated 28 July 2022, this was three (3) months after the site handover meeting which was contrary to the industry standard of holding monthly progress meetings. 		

WIP Projects

155. The purpose of the audit was to determine if the projects existed, were executed according to the expected quality, the value of the projects on site agreed to the expenditure of the projects.

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

WIP 852 : Roads Provision-Ward 1
Surface failure Identified

Surface failure on a section of the road was observed. It could not be ascertained whether any inspections of the work had taken place.

Human Settlements: WIP 1426 Phakamisa South

Quality issues identified on site

The toilet doors were not sufficiently robust to withstand the elements to which they are exposed to in the environment they have been constructed

Rates for VIP toilets structures not contained in the Bill of Quantity (BoQ)

No rates could be found in the BoQ for the provisioning and installation of new structures or for the refurbishment of the existing toilet structures.

WIP 129.3 :Project Taxi rank infrastructure

Over measurement in claimed excavation items (especially in rock and soft rock) resulting in a possible estimated overpayment of R295 768 to the Fencing Contractor (Ginsburg Taxi Rank)

Comparison between calculations provided by management for the fencing contract and the Payment Certificate 4 BoQ was done and an overpayment of R295 768 was identified.

Ad hoc Project Planning resulting in poor project implementation

On WIP 129.3 (Ginsburg taxi rank /Security fencing) where monitoring was undertaken in-house it could not be ascertained who was responsible for providing the specifications and drawings to carry out the works.

WIP 352 : TYUTYU PHASE 3

Ad hoc Project Planning resulting in poor project implementation and financial planning

The project involves upgrading of 5.5 km of urban roads and only 1.2 km of road was constructed as a task order due to budget constraints

Follow Up projects

157. The follow-up audit was conducted by the AGSA on the selected sample of projects. The site visits were conducted from 17 to 20 October 2022 and focused on the assessment of the remedial actions taken by the BCMM to address previous year's findings.
158. A follow up audit was done on five selected projects that were tested in the last financial years where major issues were identified (e.g. quality, delays etc.) and/or were not completed.
159. A summary of the significant findings from the audit are as follows:

	Project name	Project type	Financial year audited	Contract Value
1	Zwelitsha WWTW	Upgrading of Zwelitsha Waste Water Treatment Works	2021-22	R386,9 million
	Unresolved prior year findings: <ul style="list-style-type: none"> Due to procurement irregularities and subsequent litigation process (due to an unfair SCM process that was followed by the BCMM in awarding the contract to Civcon Construction), the contract amounts increased by R88,9 million. Project completion was still delayed by 3 years and 8 months due to litigation processes, non-performance of the Mechanical and Electrical contractor, inclement weather, community unrest and termination of the contract by Haws and Inglis. The equipment Warranties / Guarantees had expired as they were not in use. 			

Project name	Project type	Financial year audited	Contract Value
	<ul style="list-style-type: none"> Potential fruitless and wasteful expenditure of R2,5 million interest due to unpaid payment certificates 58, 59, 60 and 61 which amounts to R9,2 million. <p>New Findings raised:</p> <ul style="list-style-type: none"> The site and assets on the site were not safe guarded resulting in a loss to the BCMM (Vandalism) Equipment were exposed to environment without any servicing, signs of rust and decay were visible due to the equipment not being used or maintained 		
2	Mdantsane Swimming Pool	Redevelopment of the Mdantsane Swimming Pool	2021-22 R22,4 million
<p>Unresolved prior year findings:</p> <ul style="list-style-type: none"> The project completion was delayed by 5 months with no approved extension of time and no penalties had been imposed (service provider - Vitsha Civils) Quality tests for the water and sewer pipeline were not carried out accordingly as required by SANS paragraph <p>New Findings raised:</p> <ul style="list-style-type: none"> There was a delay in the project completion, contractor had left site without completing the project , there were no approved extension of time from the revised completion date of 31 January 2022 and no penalties were imposed to the contractor for not completing the project on time. Different payment certificate No 12 on file could lead to duplication of payments. Excessive use of day works for the payment of the foreman, surveyor's assistant, skilled labourers, semi-skilled labourers and unskilled labourers which were were priced for on the Bill of Quantities resulting in a possible loss of R1,4 million. Poor standard of work on site and the following are few examples identified: <ul style="list-style-type: none"> Structural steel beams in the chlorine dosing building were not galvanized Low pressure fittings were used in medium pressure pipe work in the small pool pump station There was severe "Rutting" visible in the paved area due to sub-standard compaction Grassing was placed on un-prepared surfaces which resulted in extremely uneven grassed areas Missing pumps in the main pool pump station and the chlorine dosing equipment were noted to have been removed on 16 May 2022 by the contractor after installation and after the items were paid for by the BCMM in payment certificate No 12. 			
<p>The following two projects are being developed and managed by the municipal entity on behalf of the municipality:</p>			
3	East London Waterworld	Upgrading of the upgrading and expansion of water world	2021-2022 R103,1 million
<p>Unresolved prior year findings:</p> <ul style="list-style-type: none"> Amount of R1,3 million for redesign paid in vain. 			

Project name	Project type	Financial year audited	Contract Value
	<ul style="list-style-type: none"> Interim Payment Certificate paid without being certified by Employer's Agent. Possible delay in project completion date without approved extension of time. New Findings raised: <ul style="list-style-type: none"> Completion date for project was extended from 11 February 2022 to 11 February 2023 with no valid extension of time claims. Poor standard of specifications and supervision by Consulting engineer and the BCMDA as the external walls of all the buildings consisted of 220 mm thick walls, whereas the South African National Standard (SANS) 10400, Section K, Subsection KK14.2 specify the use of 250 mm cavity walls for outside walls in areas which can experience prolonged periods of wind driven rain such as next to the sea Poor standard of workmanship by the contractor were noted as follows: <ul style="list-style-type: none"> Severe dampness was noticed on the inside of the outer walls to Building B. Many instances were identified where there were voids in the mortar beds of brick in the walls Walls where bricks were laid were out of alignment. There were various areas where water was ponding on the new concrete slabs due to the absence of slopes to drain such water. 		
4	East London Court Crescent Construction of Court Crescent in East London	2021-2022	R87,7 million
	Unresolved prior year findings: <ul style="list-style-type: none"> Amount of R1,2 million for redesign paid in vain Possible delay in project completion date without approved extension of time New Findings raised: <ul style="list-style-type: none"> Completion date for project was extended from 11 February 2022 to 11 February 2023 with no valid extension of time claims. 		

Use of consultants

160. 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.
161. The total expenditure on consultants was R19,5 million relating to financial consultation service. The asset management consultant was paid R14,2 million.
162. A summary of the significant findings from the audit relating to the consultants involved in asset management is as follows:

Planning and appointment process

- Insufficient information was provided to confirm if a GAP analysis was performed prior to the appointment of the consultants.

Internal capacity

- Insufficient information was provided to confirm if the skills necessary to perform the project were available at the municipality.

Transfer of skills

- Insufficient information was provided to confirm if the measures to monitor the transfer of skills according to the contract were implemented.
- Insufficient information was provided to confirm that skills were transferred or training programmes took place.
- Insufficient information was provided to confirm if employees were identified for training or were available to attend training.

Performance management and monitoring

- Insufficient information was provided to confirm if the work of consultants was monitored by staff who were not sufficiently skilled and/or experienced to ensure effective contract management.
- Material misstatements were identified by the auditors for property, plant and equipment, an area of responsibility of the asset management consultants. Management did not take responsibility for overseeing the work of the consultants through adequate review and interrogation of the asset register.
- The consultant's contract did not stipulate the travel and subsistence costs in accordance with government's travel policy.

Internal control deficiencies

- Inadequate reviews of the work completed by consultants to ensure that these contribute to the preparation and submission of accurate, regular and complete financial reports.

Water and sanitation services

163. 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 and routine maintenance
- Environmental management and drinking water quality
- Reporting on water losses

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

Water services

Performance planning and reporting on 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 new water connections meeting minimum standards (500)	347	Yes	Yes
Percentage of water connections metered (92%)	92%	Yes	Yes

Planning and budgeting for water infrastructure and routine maintenance

- The water service development plan (WSDP) did not address:
 - Timeframes
 - Number and location of persons not being provided basic services

Environmental management and drinking water quality

- Insufficient information was provided to confirm if an environmental policy, strategy or documented processes were established for the identification and/or monitoring of environmental risks relating to water provision.

Sanitation services

Performance planning and reporting on 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 new sewer connections meeting minimum standards (300)	312	Yes	Yes
Number of ablution facilities constructed (99)	97	Yes	Yes

Planning and budgeting for sanitation infrastructure and routine maintenance

- The water service development plan (WSDP) did not address:
 - Timeframes
 - Number and location of persons not being provided basic services

Wastewater management

165. The audit included as assessment of the wastewater management service delivery function of the municipality. Procedures were performed in relation to the following:

- Understanding the processes for environmental risk identification and monitoring relating to wastewater management
- Whether the wastewater treatment works of the municipalities are licenced
- Physical site visits at selected wastewater treatment works to determine and assess:
 - Physical conditions and operations of wastewater treatment infrastructure
 - Whether processes for wastewater treatment, quality monitoring and disposal exist and whether wastewater quality results comply with the disposal requirements
 - Whether processes for preventing pollution or degradation of the environment were established or monitored

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

Environmental risk identification and monitoring processes

- Insufficient information was provided to confirm if an environmental policy / strategy and/or documented processes were established for the identification and/or monitoring of environmental risks relating to water provision.

Licensing of the Waste Water Treatment Works

- Twelve of the fifteen wastewater treatment plants did not have valid operating licences for the period under review, as required by section 22(1)(b) of the National Water Act (NWA). Please see paragraph 56(page 18) for the names of these plants.

Physical condition of selected Waste Water Treatment Works

- During our visit of the Reeston, Kidd's Beach and Zwelitsha wastewater treatment works, the following observations were made that indicate that the waste water works were not appropriately managed:
 - The Kidd's Beach treatment works was operating without a licence during the period under review
 - The treatment works were not safeguarded to prevent vandalised infrastructure and theft as required by section 63(1)(a) of the MFMA, rendering the wastewater works not operating as intended.

Wastewater / effluent quality and compliance monitoring

- The quality of the waste water (effluent) discharged at the Kidd's Beach waste water treatment works did not comply with the waste standards or management practices for the period 1 July 2020 - 30 June 2021 per the Green drop report issued 1 April 2022 as required by section 22(2)(c) of NWA.
- No action plan was established to address poor wastewater quality results during the period under review.

Overall assessment

- The overall condition and compliance of the wastewater treatment works based on the site inspections are assessed as follows:
 - Reeston Wastewater Treatment Plant: **Concerning**
 - Kidd's Beach Wastewater Treatment Plant: **Concerning**
 - Zwelitsha Wastewater Treatment Plant: **Concerning**
- Based on the above overall assessment, should the municipality not implement remedial actions to address the condition of the treatment plants, this may lead to a further deterioration of the plants, operational in capabilities and possible harm to the environment and public health.

Pollution of the Nahoon River, Nahoon Estuary and Nahoon Beach

- The Nahoon River has 16 pump stations with 34 pumps lining the river and surrounding residential and industrial areas. This infrastructure is under severe strain due to major developments along the Nahoon River and Estuary. This accelerated increase in residential and industrial development lead to an escalation in the recreational usage or effluent outfall. The serious and continual increase in pollution have severe (negative) health and safety impacts to the environment, its abundance of plant and animal life, as well as all users of the area. The non-compliance with National Water Act, 1998 (Act No. 36 of 1998) due to continued pollution of the Nahoon River, Nahoon Estuary and Nahoon Beach could result in substantial harm to the public and environment.

Solid waste management

167. The audit included an assessment of the solid waste management service delivery function of the municipality. Procedures were performed in relation to the following:

- Whether there is a waste management plan and a waste management officer is appointed
- Whether the landfill sites of the municipality are licensed
- Whether illegal waste dumping in the municipality's jurisdiction is regulated and monitored
- Physical site inspection and selected landfill sites to determine and assess:
 - Physical condition and maintenance of the infrastructure and equipment
 - Management of waste landfills and transfer stations according to legislation and license requirements
 - Whether processes for preventing pollution or degradation of the environment were established or monitored

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

Waste management processes

- The Integrated Waste Management Plan (IWMP) was not approved during the year under review.
- Processes to control and curb illegal waste dumping practices within the municipality's jurisdiction area were not enforced during the period under review as required by section 26(1) of National Environmental Management Waste Act (NEMWA).
- The provision for rehabilitation is overstated by R64,3 million due to the municipality double counting for the interest portion.

Physical condition of the landfill sites

- During our visit of the Roundhill and King William's Town landfill sites, the following observations were made that indicate that the landfills were not appropriately managed in terms of the waste management licence as required by section 16(1) of NEMWA:
 - Sites were on fire;
 - Improper access control;
 - Ineffective compaction of waste;
 - Serious resource needs ;
 - Hap-hazard dumping outside the Roundhill site;
 - Serious leachate flows at the Roundhill site;
 - Serious dust pollution at the King William's Town site;
- Since before 2014, the sites have been non-compliant to the permit conditions, with strategies developed in 2014 to assess the level of non-compliance.

Processes for preventing pollution or degradation of the environment

- During our visit of the Roundhill Site and King William's Town landfill site, the sites were on fire (caused by vagrants / illegal waste pickers) that indicate reasonable measures were not taken to prevent pollution and degradation of the adjacent environment as required by section 28(1) of National Environmental Management Act (NEMA).

Overall assessment



- The overall condition and compliance of the landfill sites based on the site inspections are assessed as follows:
 - Roundhill: **Intervention required**
 - King William's Town: **Intervention required**

Based on the above assessment, should the municipality not implement remedial actions addressing the current condition of the sites, this will have a negative impact on the environment and health of the public.

IT audit outcomes per focus area

IT Governance	Security Management	User Access Management	IT Service Continuity	Program Change Management
Facilities and Environmental Controls	Network Security Review	Process Control Reviews	Revenue CAATs Review	ICT Environment
The required IT controls are in place	Progress, however improvement is still required		Intervention is required	In progress

169. The IT audits focused on the following areas:

- ICT environment
 - IT Spent vs IT Budget
 - Software licences
 - System support for: Infrastructure and Maintenance
 - System support for: Water Quality
 - System support for: Water loss
- General Controls Review (GCR):
 - IT Governance
 - Security Management
 - User Access Management
 - IT Service Continuity
 - Program Change Management
 - Facilities and Environmental Controls
- Network/ Cyber Security Reviews
 - CITC
 - Vulnerability assessment (VA)
- Process Control Reviews- Revenue
 - Value matrix system - Solar application
 - Building plan system – Solar application
 - Meters (Water & Electricity) – Solar application

- Smart Meter (Water & Electricity)- Solar application
- Revenue CAATs Review
 - Reconciliation of billing reports
 - Recalculation of Service charges
 - Correction of tariff applications
 - Non billing of service charges

ICT environment

170. The municipality were unable to ensure that IT risks were mitigated which is concerning. In total, the municipality had spent about R247,8 million on information technology, however only R55,2 million was spent by the ICT directorate. This was due to the decentralised IT spending across directorates and not controlled by the responsible directorate.
171. The Municipality did not have any monitoring and reporting in place to allocate and manage the software licences found within the metro. This had resulted in non-utilisation of four Microsoft licences identified which when quantified at a cost of R2,6 million.

General Controls Review (GCR):

172. Weaknesses were identified in all systems audited despite the municipality having documented and approved policies to govern the ICT environment. Non-adherence and inadequate monitoring of these policies lead to internal control weaknesses.

Network / Cyber Security Reviews

173. The municipality had not fully ensured that adequate controls were in place to mitigate both internal and external risks relating to the IT Network & IT Security, with a total of 116 security vulnerabilities detected.
174. Cyber criminals often exploit security vulnerabilities to launch attacks on computers and network systems. When a cyber-attack has been launched successfully and the networks have been hi-jacked, these criminals would demand money or cryptocurrency to return the IT environments to normal. When demands are not met, the municipality's processes would likely be disrupted rendering it unable to be productive and at worst, losing all critical data for extended periods of time.
175. The impact of these challenges are likely to lead to IT down time of the network and systems. This would translate to slow response to servicing citizens of the metro.

Process Control Reviews- Revenue

176. The IT systems of municipality were not adequately integrated as there was also reliance on human intervention to map and integrate the systems manually. Human intervention are prone to mistakes and errors, which would further weakens the internal control environments thus affecting the integrity of the information.
177. The systems in place were not adequately configured to generate other key exception reports that would assist with the enhancement of the administration and monitoring of revenue. Examples of these exception reports include amongst others the reporting of unbilled property rates, unbilled water, unbilled electricity, unbilled refuse and unbilled sanitation (sewerage - SE).

Impact



178. The impact of these challenges are likely to lead to IT down time of the network and systems. This would translate to slow response to citizen's information, inaccuracies on citizen's statements, resulting in citizen frustration and a low confidence on the municipality's systems on recording and reporting citizens' concerns.

SECTION 5: Using the work of internal auditors

179. The auditing standards allow external auditors the option to use the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:
- The following internal audit reports were used during the planning phase of the audit and for risk identification:
 - Audit of performance information
 - Procurement business process
 - Audit improvement plan review
 - Reliance was also placed on the work performed by internal audit for the annual inventory count.
 - Due to the differences in audit methodology and the nature, timing and extent of work required for external audit purposes, no further reliance could however be placed on the work performed by internal audit for any other component audited by external audit.

SECTION 6: Emerging risks

Accounting, performance management, reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

180. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on Employee benefits (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	To be determined
Guideline on <i>Accounting for landfill sites</i>	To be determined

Subsequent events

181. There were no subsequent events identified to date.

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

182. The planned and reported performance information of selected strategic outcomes 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 auditee's mandate, including whether:
 - 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
 - standardised indicators related to the core functions prioritised for the year under review are included in planning documents.

183. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinions of the selected strategic outcomes in this report. However, they may have an impact on the audit opinion in future.

Relevance – completeness of relevant indicators




184. Standardised Tier 1 outcome indicators, as predetermined for the metro in Appendix A of National Treasury's consolidated indicator overview dated 17 December 2020, were not included in the approved IDP to measure the actual service delivery of the related core function prioritised. These indicators included:

Reference Number	Indicator Name
WS.3.3	Frequency of unplanned water service interruptions
WS 4.2	Percentage of wastewater samples compliant to water use license conditions
WS 5.4	Percentage of water reused

SECTION 7: Entities controlled by the municipality

185. 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
Buffalo City Metropolitan Development Agency	Unqualified	None	Yes		●➤		●➤		●➤

 Improved	 Unchanged	 Regressed
Good	Of concern	Intervention required

SECTION 8: Ratings of detailed audit findings

186. 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

187. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve clean administration. Our staff remain 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 sincerely



Vanuja Maharaj
Head of Portfolio

12 December 2022

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Distribution:

Audit committee
Head of internal audit unit
Executive authority

SECTION 10: Summary of detailed audit findings											
Page no.	Finding	Classification							Rating	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters			
	Property, plant and equipment										[In progress / Not addressed]
	Inventory										[In progress / Not addressed]
	Revenue										[In progress / Not addressed]
	Receivables										[In progress / Not addressed]

Detailed audit findings¹

Annexure A: Matters affecting the auditor's report

[Class of transaction/ account balance/ disclosure/ non-compliance/
predetermined objectives]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure B: Other important matters

[Class of transaction/ account balance/ disclosure/ non-compliance/
predetermined objectives]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure C: Administrative matters

[Class of transaction/ account balance/ disclosure/ non-compliance]

Audit finding

Internal control deficiency

Recommendation(s)

Management's response

Auditor's conclusion

Annexure D: Performance management and reporting framework

1. The performance management and reporting framework (PMRF) consists of the following:
 - Legislation applicable to performance planning, management and reporting, which includes the following:
 - Municipal Finance Management Act 56 of 2003 (MFMA)
 - Municipal Systems Act 32 of 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. This framework is applicable to all spheres of government.
 - Circulars and guidance issued by the National Treasury and the Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) 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: , Performance indicators and targets are consistent between planning and reporting documents.			
1. Reported indicators are consistent or complete when compared to planned indicators		Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to indicators are approved		Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported targets are consistent or complete compared to planned targets		Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to targets are approved		Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. 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			
6. 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.		FMPPI chapter 3.2	
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.		FMPPI chapter 3.2	
8. A target is specific when the nature and required level of performance of the target are clearly identifiable.		FMPPI chapter 3.3	
9. A target is measurable when the required performance can be measured.		FMPPI chapter 3.3	
10. A target is time bound when the timeframes for achievement of targets are indicated.		FMPPI chapter 3.3	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives			
11. The performance indicator and target relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.		FMPPI chapter 3.2	

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance		
12. 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
13. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
14. 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.		
15. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA FMPPJ chapter 5	Section 45 of the MSA FMPPJ chapter 5
16. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.		
17. 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

2. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected strategic outcomes.
3. We are independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International Code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the ethical requirements 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

4. 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




5. 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 controls relevant to the management and reporting of performance information per selected strategic outcomes 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 and their related targets for the selected strategic outcomes
 - 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




6. 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.
7. 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 have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.


































Annexure F: Assessment of internal controls

9. Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of 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.
10. 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 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.

11. 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						
• 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						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> 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						
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling transactions 						
<ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 						
<ul style="list-style-type: none"> Review and monitor compliance with applicable legislation 						
<ul style="list-style-type: none"> Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information 						
Governance						
Overall movement from previous assessment						
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud 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 						

