



## **MBIZANA LOCAL MUNICIPALITY**

### **Performance Information Review Quarter 1 2019/2020**

<b>CONTENTS</b>	<b>PAGE</b>
<b>SECTION A</b>	<b>4</b>
	<b>4</b>
<b>1. INTRODUCTION AND BACKGROUND</b>	<b>5</b>
<b>2. OBJECTIVES, SCOPE AND RISKS</b>	<b>5</b>
<b>3. APPROACH</b>	<b>5</b>
<b>4. REPORT STRUCTURE</b>	<b>6</b>
INSUFFICIENT POE SUBMITTED FOR REVIEW	ERROR! BOOKMARK NOT DEFINED
INVALID POE SUBMITTED FOR REVIEW	ERROR! BOOKMARK NOT DEFINED
REASON FOR VARIANCE IS NOT ADEQUATE	<b>7</b>
INCONSISTENCY BETWEEN PLANNED AND REPORTED PERFORMANCE	<b>7</b>
TARGET IS NOT MEASURABLE	<b>7</b>

## DISTRIBUTION LIST

Name	Designation	Take Action	Secure action	For information
Mr L Mahlaka	Municipal Manager		✓	
Mrs S Majova	Operations Manager	✓		
Mr .A Gonzalves	Audit Committee Chairperson			✓
Ms NE Mungwane CA(SA)	Audit Committee Member			✓
Mr SW Mbalekwa	Audit Committee Member			✓
Mr T Mjekevu	Audit Committee Member			✓
Mr. N. Mgxiva	Internal Audit Manager		✓	
Mr Z Zukulu	CFO	✓		
Mr L Gwala	Snr Manager Engineering	✓		
Mr Z Gwala	Snr Manager Corp Services	✓		
Ms Mafumbatha	Snr Manager Development Planning	✓		
Mr Khuzwayo	Snr Manager Community Services	✓		

**SECTION A**

**EXECUTIVE SUMMARY**

## **1. INTRODUCTION AND BACKGROUND**

In accordance with our interim annual internal audit coverage plan as approved by the Audit Committee on the **27th of September 2019**, Section 45 of the Municipal Systems Act, Act 32 of 2000 and Local Government: Municipal Planning and Performance Management Regulations of 2001 (MPPMR), the Internal Audit Unit is required to conduct an audit on the results of performance measures which includes the accuracy, validity and completeness of performance information for quarter one (1) for 2019/2020 Financial Year.

Our audit included an assessment of the following:

- The functionality of the municipality's performance management system;
- Whether the municipality's performance management system complies with the Act.

This report must be read in conjunction with the report on the review of 2019/2020 Service Delivery and Budget Implementation Plan (SDBIP)

## **2. OBJECTIVES, SCOPE AND RISKS**

### **Primary Objective**

Our primary objective for this assignment is to express an opinion on the design and effective operation of the system of internal controls established to ensure that the quarterly performance is reported in line with the performance management system.

### **Ancillary Objectives**

To ensure that:

- The performance reported in the quarter one report is supported by adequate and valid supporting documentation;
- The reporting is consistent with the planned targets
- Submitted POEs are reliable, relevant and valid reasons for non achieved targets are elaborated.
- Targets are specific, measurable, attainable, realistic and timely

### **Scope**

The scope for this assignment is limited to the period from July, August and September 2019 and 100% testing was covered. No sampling was done to the audit of performance information.

## **3. APPROACH**

Our audit approach was developed, based on the risks, processes and controls identified during the risk assessment process and through discussions with management. Our internal audit activities are conducted in accordance with the Institute of Internal Auditors ("IIA") Standards.

The review took place during October 2019 and the procedures followed in evaluating the activities covered as part of the scope, were as follows:

- Provided management and key staff with a list of all the documents that would be required in order to perform the audit;

- Prepared an audit programme to test the system of internal control around the performance management process
- Obtained supporting documents required and inspected them for validity , completeness and Accuracy
- Conducted tests on obtained portfolio of evidence for relevancy and consistency on reporting.
- Prepared working papers;
- Prepared a schedule of findings and discussed the findings with the responsible line managers and supervisor prior to finalization, with a view to establishing the root cause of the deviation and sourcing corrective measures to be implemented by management. Escalated findings which require the Municipal Manager attention.
- Discussed all findings with senior management in order to confirm the root cause of deviation from the procedures and obtain management comments; and
- Prepared an internal audit report.

#### **4. REPORT STRUCTURE**

The Internal Audit report is prepared and finalised per internal control objective or component thereof, as follows:

##### **4.1 Results**

The findings and conclusion are noted in Section B of this report. Detailed findings are only provided for internal control deviations and/or inadequacies and/or ineffectiveness so as to assist management in implementing appropriate corrective action and/or to facilitate business process optimisation.

##### **4.2 Risk Exposure (individual findings grading)**

To indicate the level of risk exposure per finding, we have used the following risk ratings as per the guidance stated in the risk assessment process:

<b>RATING</b>	<b>DESCRIPTION</b>
<b>High</b>	Key exposure identified. Has a potential for major impact on the Municipality and should be resolved immediately.
<b>Medium</b>	Exposure identified is unlikely to have a major impact on the Municipality, but should be resolved within three months.
<b>Low</b>	Exposure identified does not have a major impact on the Municipality, but should be resolved in due course.

---

##### **4.3 Recommendations**

We have recommended corrective action for any internal control deviations, and have further suggested improvements to existing functioning controls where adequacy, efficiency and/or effectiveness gaps were noted.

#### 4.4 Management Comments

Management were requested to provide detailed comments on the reported findings as follows:

- Comment and Action Plan – Management’s response to the results, risk exposure and recommendations as reported by Internal Audit.
- Owner – the person responsible (identified by Management) to implement the agreed upon corrective action.
- Target date – the date by which the agreed upon corrective action will be implemented.

### 5. FAVOURABLE AUDIT RESULTS

We have noted the effort that the municipality is making within the performance management and as the unit we would like to show our appreciation to the municipality. The PMS Officer has played a pivotal role in coordinating and collating the departmental reports which are constantly improving in terms of quality and presentation. The municipality has shown great commitment to improving performance management as shown by the plans to have performance agreements signed by head of departments and employees in their business units.

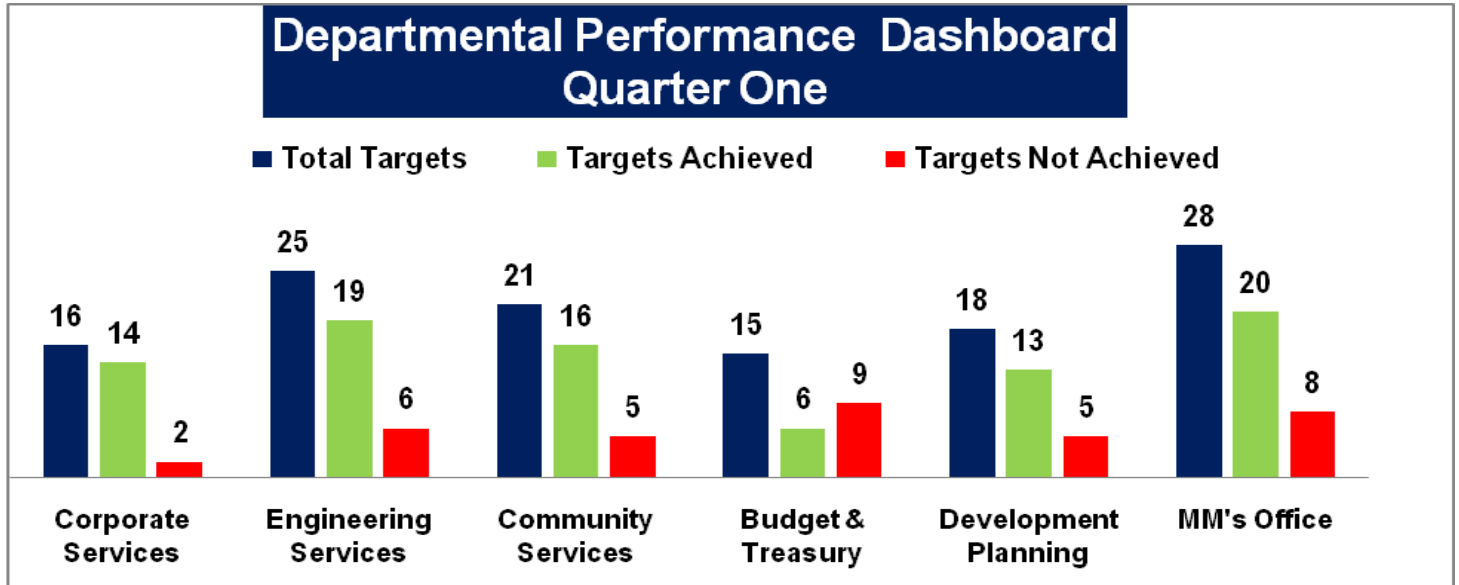
We have also noted the effort that the departments are putting in making the Portfolios of Evidence (POE’S) available; we would also like to commend the departments that have cooperated with the Internal Audit (IA) Unit in ensuring that they respond to the IA findings on time. Our aspiration as an institution is to work towards attaining a clean conclusion on the audit of predetermined objectives.

### 6. SUMMARY OF FINDINGS

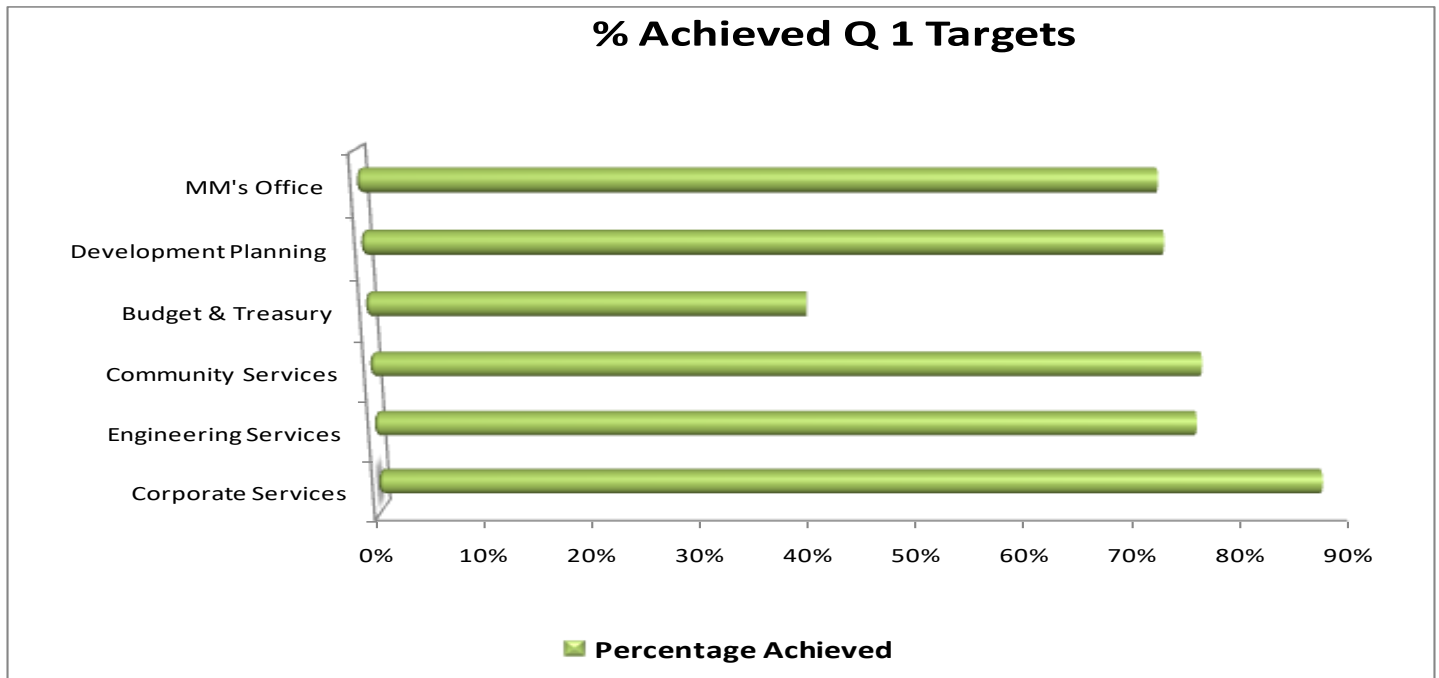
The table below shows a summary of the issues raised that are categorised on usefulness and reliability.

ASSERTION	RATING	FINDINGS	DEPARTMENT	REF.
RELIABILITY	⚠️	Reason for variance is not adequate	Municipal Managers Office Engineering Service	1
USEFULNESS	⚠️	Inconsistency between planned and reported performance	Development Planning	2
	⚠️	Target is not measurable	Community Services	3

PERFORMANCE MANAGEMENT DASHBOARD

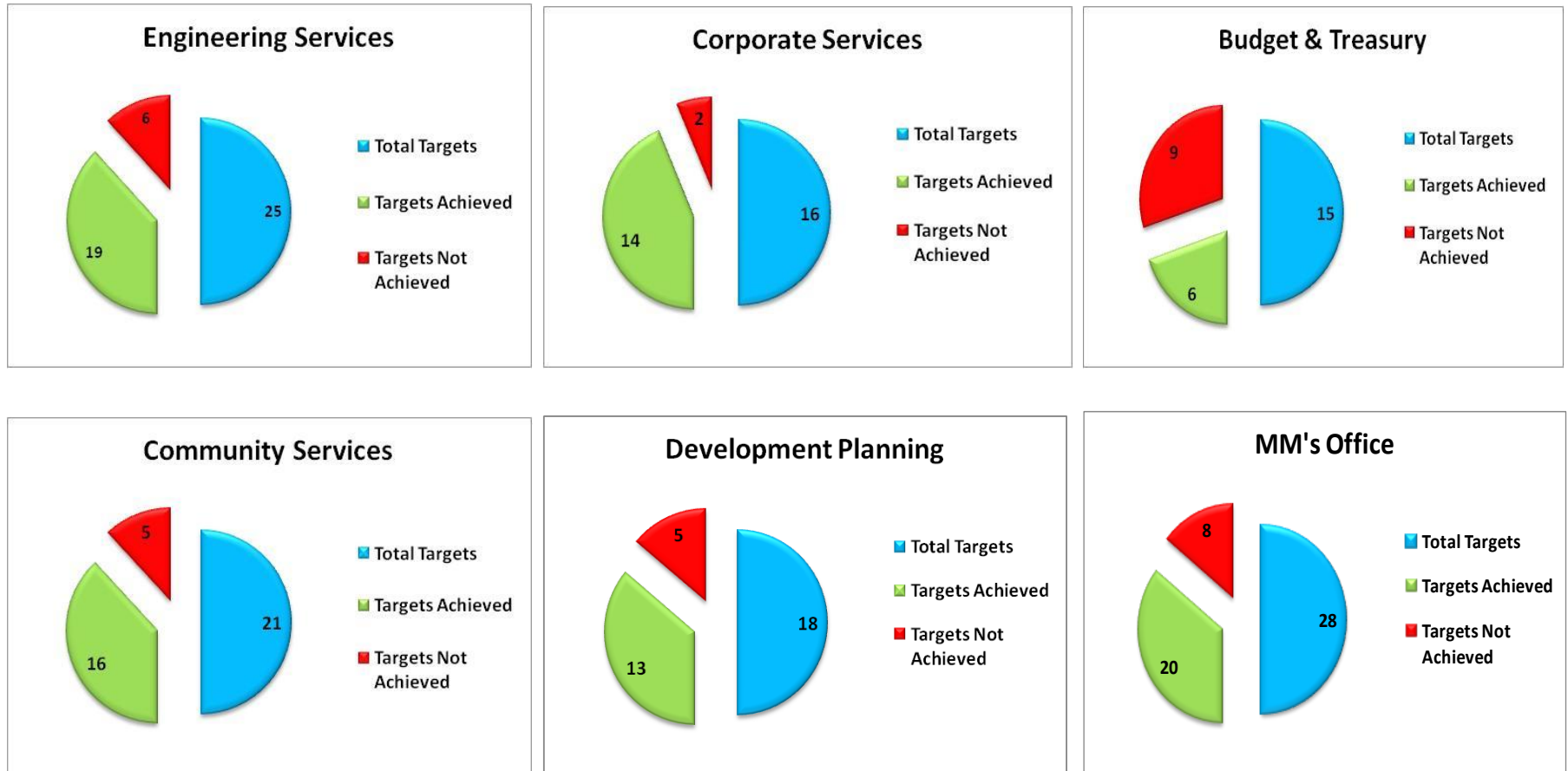


Below is a summary of the achieved targets. The analysis of these targets cannot be done between departments in terms of percentages since total targets are not similar. A qualitative analysis of the actual departmental report is pertinent to attain a global overview.





PERFORMANCE MANAGEMENT DASHBOARD







## 7. FRAUD AND INTERNAL CONTROL

It is the responsibility of management to develop and maintain an adequate system of internal control. Such a system can only give reasonable, not absolute, assurance that errors and irregularities will not occur. Reasonable assurance presupposes that the system will be maintained by proficient staff, there will not be collusion and that management will not circumvent the system intentionally. While we have identified certain areas of departure from the key controls, internal audit procedures alone, even when carried out with due professional care, do not guarantee that all fraud and errors will be detected. We have ensured that all internal audit work conducted is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, our reviews and investigations as internal auditors should not be relied upon to disclose all matters of fraud, defalcation or other irregularities, which may exist. Management's attention is drawn to the inherent limitations in the reliance on internal controls and procedures mentioned above.

## 8. APPRECIATION

We would like to express our appreciation to the various members of staff who have assisted us in conducting this review. Our unit appreciates the unwavering commitment from all Senior Managers in making sure information is availed timeous for review.

## 9. Conclusion

We would like to commend the management for the endless effort in making sure that POEs submitted for reviews are both relevant and adequate. During the review we noted that there were inconsistencies between reported and planned performance. There was one instance where the target not measurable. There were also instances where reasons for variances were not adequate. Quality reviews of POEs is crucial to ensure relevancy, adequacy and reliability. However, management should strive to institutionalise performance management to all employees in order to achieve a clean audit conclusion. Further, the effective implementation of the PMS Policy and strict monitoring and evaluation initiatives on a monthly basis is the right direction towards a clean audit conclusion.

---

**MANAGER: INTERNAL AUDIT  
MR N MGXIVA**

**NOVEMBER 2019  
DATE**

**APPENDIX B  
DETAILED FINDINGS**

## 1. Reason for variance is not adequate

### Audit Finding

In terms of section 62(1) (b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards

In terms of Municipal Planning and Performance Management Regulations, 2001 paragraph 9(1):

a) A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act.

b) A key performance indicator must be measurable, relevant, objective and precise.

During our audit of predetermined objectives the we noted that reason for variances were not satisfactory. Please refer to the attached table below;

Department	KPI No.	Q1 Target	Reported Actual Performance	Reason for Variance	IA Comment
MM's Office	5.7.1	2 Programmes to be conducted (Youth summit and career exhibition)		The Career Exhibition due to inconsistency with Dept Plans and summit were not conducted due to unpreparedness of Mbizana SAYC to host	The reason for variance is not sufficient, the set target was planned for the municipality to conduct and there was no reference was made to external stakeholders during the planning period
MM's Office	5.13.1	Conduct 1 programme on review of the HIV/AIDS plan	Session was attend with the Department of Health on the 09th September 2019	Only Consultations were done	Not satisfactory

Department	KPI No.	Q1 Target	Reported Actual Performance	Reason for Variance	Remedial Action	IA Comment
Engineering Services	1.4.1	Construction of the main building structure and spectator ablutions	Contractor still busy with layer works.	Contractors slow progress on site.	Contractor's representative and Consultant have been engaged on	Reason for variance is not adequate, Institutional Monitoring mechanisms

					<p>this issue. It has been resolved that the decision maker of the company be engaged as the representative could not respond to some issues.</p>	<p>are not effective and the remedial action did not indicate whether the progress will improve since the engagement process is not yet done with the relevant stakeholder</p>
--	--	--	--	--	---	--

**Root Cause**

It is due to a lack of adequate reviews by management to ensure that the reported information and the portfolio of evidence both complete and valid.

**Impact**

Information reported to management might not be fairly presented.

**Internal control deficiency**

Financial and performance management

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.

**Recommendation**

Management should ensure that the reasons for variance are reasonable and ensure that remedial actions are also attainable

**Management Response**

**Position: Senior Manager Engineering Services**

**Date: 12/11/2019**

**KPI 1.4.1** Reason for variance at the time of reporting was slow progress by contractor. Contractors was put to terms regarding slow and meeting to resolve the slow progress issue was held. The matter was to be escalated to the Municipal Senior Management in Quarter 2 for intervention.

**KPI 5.7.1**

**Position: Manager Mayoralty & Executive Support**

**Date: 12/11/2019**

The program will be implemented in the 3rd quarter as it is the beginning of the schooling season. The program might not have been effective as learners prepare and right final exams in the 2nd quarter.

**Auditor’s Conclusion**

Management comments have been noted adequate monitoring and evaluation mechanisms should be implemented.

**2. Inconsistency between planned and reported performance**

**Audit Finding**

In terms of section 62(1) (b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards

In terms of Municipal Planning and Performance Management Regulations, 2001 paragraph 9(1):

- a) A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act.
- b) A key performance indicator must be measurable, relevant, objective and precise.

During our audit of predetermined objectives the we noted that there were inconsistency between planned and reported performance. Please refer to the attached table below;

<b>Department</b>	<b>KPI No.</b>	<b>Q1 Target</b>	<b>Reported Actual Performance</b>	<b>POE Submitted</b>	<b>IA Comment</b>
Development Planning	2.14.1	Call for proposal of small & large scale farmers development programme, 1 AWG Meeting, 1 Red Hub PSC Meeting and 1 Meeting with Izambane labantu Coop	Call for proposal of small & large scale farmers’ development programme has been advertised. 1 AWG Meeting has been conducted. Held 1 Red Hub PSC Meeting. Conducted 1 meeting with Izambane labantu Coop	Re-Advert for Supply, delivery and labour of Agricultural inputs for funded Projects dated 24-07-2019 Attendance Register for the Agricultural Working Group Meeting dated 30-08-2019 Attendance Register for Red Hub project steering committee meeting dated 16-07-2019 Attendance	The notice of call for proposal of small & large scale farmers development programme was not achieved as per planned performance instead there was a readvertisement for supply, delivery and labour of Agricultural inputs for funded Projects

				Izambane Labantu Operational Meeting dated 19-10-2019	
--	--	--	--	---	--

Department	KPI No.	Q1 Target	Reported Actual Performance	POE Submitted	IA Comment
Corporate Services	3.1.2	15 employees referred for Medical Check-ups	Medical checkups were done on the 11/09/2019 to 140 employees	(i) Letter from UMUSA Occupational Health and wellness dated 02/10/19	As per SDBIP Q1 target, medical checkups is 15 employees and Actual performance is 140 employees and Letter from UMUSA confirms 185 employees.

Department	KPI No.	Q1 Target	Reported Actual Performance	Reason for Variance	IA Comment
MM's Office	5.7.1	2 Programmes to be conducted (Youth summit and career exhibition)		The Career Exhibition due to inconsistency with Dept Plans and summit were not conducted due to unpreparedness of Mbizana SAYC to host	No actual performance reported

#### Root Cause

It is due to a lack of adequate reviews by management to ensure that the reported information and the portfolio of evidence both complete and valid.

#### Impact

Information reported to management might not be fairly presented.

#### Internal control deficiency

Financial and performance management  
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.

#### Recommendation



Management should ensure that a reporting culture is cultivated to enhance accountability.

### Management Response

#### KPI 2.14.1

**Name: Ms N. Mafumbatha**

**Position: Senior Manager Development Planning**

**Date: 12/11/2019**

Management agrees with the finding, the target was not achieved the funds that were budgeted will be used to procure inputs for the 2018/2019 funded projects.

#### KPI 3.1.2

**Name: Mr Gwala**

**Position: Senior Manager Corporate Services**

**Date: 12/11/2019**

The unit has indeed targeted to cover in quarter one about 15 people. Our primary target was permanent employees but leadership made a special request for the department to include EPWP employees which shot our numbers to 185 far beyond the target. We are pleased nonetheless that our target was achieved without compromising funding for the subsequent quarter targets.

#### KPI 5.7.1

**Name: Mr Noconjo**

**Position: Manager Mayoralty & Executive Support**

**Date: 12/11/2019**

The program will be implemented in the 3rd quarter as it is the beginning of the schooling season. The program might not have been effective as learners prepare and right final exams in the 2nd quarter

### Auditor's Conclusion

## 3. Target is not measurable

### Audit Finding

In terms of section 62(1) (b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards

In terms of Municipal Planning and Performance Management Regulations, 2001 paragraph 9(1):

- a) A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act.
- b) A key performance indicator must be measurable, relevant, objective and precise.

During our audit of predetermined objectives we noted that the target is not measurable. Please refer to the attached table below;

<b>Department</b>	<b>KPI No.</b>	<b>Annual Target</b>	<b>Q1 Target</b>	<b>Measurable</b>	<b>IA Comment</b>
Community Services	1.22.2	300 feed bales and 25litres of remedies purchased by June 2020	Acquisition of feed bales and remedies	No	The target cannot be measured

**Root Cause**

It is due to a lack of adequate reviews by management to ensure that the reported information and the portfolio of evidence both complete and valid.

**Impact**

Information reported to management might not be fairly presented.

**Internal control deficiency**

Financial and performance management  
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.

**Recommendation**

Management should ensure that targets set are measurable, time bound and realistic.

**Management Response**

Management agrees with the finding and will adjust and correct the target during the adjustment of the SDBIP.

**Name: Mr. Khuzwayo**  
**Position: Senior Manager Development Planning**  
**Date: 12/11/2019**

**Auditor's Conclusion**

Management comment has been noted, Internal Audit recommends management to make an overall smartness assessment of targets and indicators in December to ensure that all targets are SMART and that there will be no issues that can be raised pertaining to consistency.