

No.	AR/MR reference	Audit finding	Description of audit finding	Root cause/internal control deficiency	Recommendations	Management response	Management action plan	Action owner	Action date	Auditor's conclusion	Classification
ANNUAL FINANCIAL STATEMENTS											
1	AR-07	Restatement of corresponding figures.	As disclosed in note 53 to the annual financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at and for the year ended, 30 June 2022.	Inadequate review of the AFS to ensure accuracy and adherence to GRAP 3.	<ul style="list-style-type: none"> Management should revisit the disclosure of prior period errors/ reclassification (Note 53) to ensure that the above misstatements and inaccuracies are corrected. Management should revisit the disclosure of depreciation (Note 29) and prior year adjustment on fully depreciated assets (page 7), and the prior period error/ reclassification (Note 53) to ensure consistency of the amounts and descriptions. 	<p>Agreed.</p> <p>Prior period adjustments will be corrected.</p>	<ul style="list-style-type: none"> Early implementation of the audit readiness plan will be executed. Prepare AFS (quarterly) for management review. Allocate AFS reporting responsibility to individual personnel. 	S Msibi (Acting Chief Financial Officer)	31/12/2022 31/03/2023		Material misstatement (AFS)
2	AR-08	Material impairments - receivables from exchange transactions.	As disclosed in note 4 to the annual financial statements, the municipality increased the provision for impairment on trade receivables from exchange transactions to R138.61 million (2020-21: R115.60 million) as the recoverability of these amounts was considered to be doubtful.	High volume of doubtful debts.	Management to develop and implemented effective debtors collection strategy so that impairment of debtors at reporting period will be based on less amount of debtors at year-end.	Agreed.	<ul style="list-style-type: none"> Develop and implement operational plan for debt collection and revenue generation. Fastrack meter installation. 	S Msibi (Acting Chief Financial Officer)	19/12/2022 31/03/2023		Material misstatement (AFS)
3	AR-09	Material water losses	As disclosed in note 41 to the annual financial statements, material water losses of R 233.95 million (2020-21: R299.84 million) was incurred, which represent 77% (2020-21: 72%) of total water purified. The contributing factors to these losses were due to rural areas mainly being indigent where water is supplied through subsidised schemes as well as leaks, illegal connections and aging infrastructure.	<ul style="list-style-type: none"> The contributing factors to these losses were due to rural areas mainly being indigent where water is supplied through subsidised schemes as well as leaks, illegal connections and aging infrastructure. 	Management to put control mechanism to keep water loss within the norm range of 15% to 30% of total water purified .	Agreed.	<ul style="list-style-type: none"> Draft Business Plan to source funding for meter installation (households). Follow-up on grant application from DBSA. 	S Msibi (Acting Chief Financial Officer)	30/06/2023 20/12/2022		Material misstatement (AFS)
ANNEXURE A - EXPENDITURE MANAGEMENT											
4	AR-40	1. Unauthorised and irregular expenditure not prevented	<p>During the audit of unauthorised and irregular expenditure, it was noted the accounting officer failed to prevent the following unauthorised and irregular expenditure that was incurred in the current year:</p> <p>Unauthorised expenditure was incurred in the prior year (R 127 792 209) as well as the current year (R 127 448 321). The cause of the unauthorised expenditure in both years was due to overspending of the budget, the majority being caused by overspending on contracted services. The cause of the unauthorised expenditure could have been prevented if reasonable steps had been taken to prevent re-occurrence. Therefore, the non-compliance is material and will be reported in the audit report.</p> <p>Irregular expenditure was incurred in the prior year (R 17 918 070) as well as the current year (R 58 990 103). The cause of the irregular expenditure in both years was due to expired contracts. The cause of the irregular expenditure could have been prevented if reasonable steps had been taken to prevent the re occurrence. Therefore, the non-compliance is material and will be reported in the audit report</p>	The accounting officer did not ensure adequate controls were in place to prevent unauthorised and irregular expenditure.	<p>Unauthorised expenditure:</p> <ul style="list-style-type: none"> The CFO should monitor the budget on a regular basis. Procurement should only take place once there is confirmation that sufficient funds are available for spending under the specific vote. Consequence management should be implemented at an early stage in instances where contracts are entered into before performing the necessary checks to ensure sufficient budget is available. <p>Irregular expenditure:</p> <ul style="list-style-type: none"> The SCM unit must practice effective procurement processes by using a checklist for deviations, quotations and contracts to ensure that all SCM requirements are met before awarding a contract/quotation. Furthermore, the contract register must be monitored on a regular basis to identify contracts that are approaching expiry dates at least 6 months in advance. This will ensure that the tender process can commence at an early stage and new contracts can be awarded timeously. 	<p>Agreed.</p> <p>The recommendations will be implemented.</p>	<ul style="list-style-type: none"> The municipality is implementing its financial recovery plan. Council to adopt and implement consequence management framework. Identify possible cases relating to consequence management for submission to the Disciplinary Board. 	RN Hlongwa (Municipal Manager)	31/10/2022 31/01/2023 31/03/2023	<p>Managements response is noted.</p> <p>The finding will remain in annexure A and will be reported in the auditors report as this results in a material non-compliance with section 62(1)(d) of the MFMA.</p>	Non-compliance with legislation
ANNEXURE A - PROCUREMENT AND CONTRACT MANAGEMENT											
5	AR-28	2. Competitive bidding process not followed for the appointment of ABSA Vehicle Management Services	<p>Zululand District Municipality entered into a managed maintenance contract with ABSA Vehicle Management Services (AVMS) which was signed by the municipal manager and CFO on 11 December 2019. The contract was entered into to combat the abuse of ZDM fleet, where the municipal manager at the time had identified collusion between officials and service providers. The managed maintenance service contract resulted in a variation of scope on the existing contract with ABSA relating to petrol card administration.</p> <p>Through inspection of the forensic investigation report by NMK forensics dated 19 April 2022 on the allegations of inflated and fraudulent repair costs under the vehicle management services agreement between AVMS and ZDM, the following non-compliance was noted.</p> <p>AVMS was appointed through a deviation from normal procurement processes, however the deviation was invalid as it did not meet any of the following requirements:</p> <ul style="list-style-type: none"> Emergency – Combating the abuse of fleet was not a matter of emergency Single service provider – AVMS is not the only service provider of such services Acquisition of special work of arts – The maintenance of vehicles is not a special work of arts Any other exceptional case that made it impractical or impossible to follow official processes – There were no exceptional cases or enforceable events that were beyond human control to justify the departure from normal SCM processes. 	Processes and procedures were not in place to ensure that the requirements of the municipal SCM regulations were adhered to.	<ul style="list-style-type: none"> All levels of management involved in recommending and approving deviations should undergo training on the municipal SCM regulations to avoid such findings in future. Management should provide the auditors with a breakdown of the R15 525 238,02 detailing which year each of the payments relate to and record the irregular expenditure accordingly in the irregular expenditure note (Note 49). 	<p>Agreed.</p> <p>However, the irregular expenditure disclosure note 49 will be aadjusted by R13 995 316.95 which is supported by the expenditure from the general ledger.</p>	<ul style="list-style-type: none"> The matter has been taken to the lawyers for further pursuant to claim the money back. Provide progress reporting on legal perspective. 	S Msibi (Acting Chief Financial Officer)	31/10/2022	<p>Managements response is noted.</p> <p>The financial statements have been correctly adjusted to include the resultant irregular expenditure of R13 995 316,95.</p> <p>The finding will remain in Annexure A of this report as this results in a material non-compliance with Municipal SCM regulation 36(1)(a) and 19(a) as well as non-compliance with the SCM policy.</p>	Non-compliance with legislation

6	AR-28	3. Invalid deviations	During the audit of procurement and contract management it was noted that deviations in the table below did not meet the requirements of municipal SCM regulation 36(1) and therefore it was not valid to use the reasons in regulation 36(1). Normal municipal procurement processes should have been followed in the procurement of goods or services below (various) Consequently, irregular expenditure of R 1 198 370 has been incurred and has not been disclosed on the AFS. This results in a material non-compliance and will be included in the audit report.	Adequate processes and procedures were not in place to ensure that the requirements of the municipal SCM regulations were adhered to.	<ul style="list-style-type: none"> The acting CFO should ensure that deviations are assessed to ensure that they meet the requirements of SCM regulation 36. The payments for these deviations should be disclosed as irregular expenditure in the annual financial statements. 	Agreed. The invalid deviations amounting to R1 198 370 will be disclosed as irregular expenditure.	<ul style="list-style-type: none"> Deviations will be assessed to ensure that they meet the requirements of SCM regulation 36. Proper planning will be done to ensure that goods and services are advertised to avoid deviations. Comply with SCM requirements to the maximum extent possible. CFO to report to MANCO (weekly) of all deviations. Enforce compliance with Procurement Plans. 	S Msibi (Acting Chief Financial Officer)	Regulatory	Managements response is noted. The financial statements have been correctly adjusted to include the resultant irregular expenditure of R1 198 370. The finding will remain in Annexure A of this report as this results in a material non-compliance with Municipal SCM regulations 36(1)(a) and 19(a) as well as non-compliance with the SCM policy.	Non-compliance with legislation
7	AR-27	4. Less than three quotations obtained.	During the audit of compliance with laws and regulations, it was noted that less than three quotations were obtained for the following awards: (various) This results in material non-compliance with Municipal SCM regulation 16(1)(a) and irregular expenditure amounting to R 120 045.	Adequate processes and procedures were not in place to ensure that the requirements of municipal SCM regulations 12, 16 and 17 were adhered to.	<ul style="list-style-type: none"> The acting chief financial officer should ensure that quotations are assessed to ensure that they meet the requirements of SCM regulations 12, 16 and 17. The expenditure relating to these quotations should be disclosed as irregular expenditure in the annual financial statements. 	Agreed. The identified transactions form part of irregular expenditure incurred during 2021/22 financial year. These irregular expenditures are already disclosed in Irregular Expenditure Note 49.	<ul style="list-style-type: none"> CFO to identify and report irregular expenditure (01/07/2022 to 31/12/2022) to MANCO. Establish use of panel of service providers. 	S Msibi (Acting Chief Financial Officer)	31/01/2023 31/03/2023	Managements response is noted. The financial statements include the resultant irregular expenditure of R120 045 therefore no further adjustments are required. The finding will remain in Annexure A of this report as this results in a material non-compliance with Municipal SCM regulation 17(1)(a) and (c) as well as non-compliance with the SCM policy.	Non-compliance with legislation
8	AR-28	5. No evidence that competitive bidding was followed.	During the audit of compliance with laws and regulations, no evidence could be provided that the contract below followed a competitive bidding process as it was neither on the contract register nor on the deviation register. Consequently, this results in material non-compliance with SCM regulation 19 and irregular expenditure of R 909 328 (90035349) which has not been disclosed on the AFS.	Adequate processes and procedures were not in place to ensure that all procurement follow SCM processes.	<ul style="list-style-type: none"> The acting chief financial officer should ensure that all procurement follow SCM processes. The payments for this contract should be disclosed as irregular expenditure in the annual financial statements. 	Agree. This is the deviation where it was impractical to obtain service provider using the normal process. The investigation should be eminent since it involved deliberate bypassing of internal control by employees. This is part of risk assessment.	<ul style="list-style-type: none"> The AFS will be updated accordingly. 	S Msibi (Acting Chief Financial Officer)	11/11/2022	Management's response is noted. The financial statements have been adjusted accordingly for R909 328. The finding will remain in Annexure A of this report as this results in a material non-compliance with Municipal SCM regulations 36(1) and 19(a) as well as non-compliance with the SCM policy.	Non-compliance with legislation
9	AR-(29-38)	6. Requested documents not submitted.	The information requested below has not been provided for audit: (various) The non-submission of the above information results in a limitation of scope on the audit of procurement and contract management. Consequently, the requirements in the table below could not be audited.	Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support compliance with laws and regulations.	<ul style="list-style-type: none"> Management should implement proper record keeping to ensure that records are complete, relevant and accurate and information is accessible and available to support compliance with laws and regulations. 	Agreed. However, the management has taken all reasonable steps to ensure that full and proper records are properly kept. The system breaks when the people entrusted with those controls compromise them intentionally. It is our conviction that this was a sabotage since the employee assigned has resigned, hence the case was opened with SAPS for lost documents.	<ul style="list-style-type: none"> Case opened with SAPS. Enforce implementation for scanning of all tender documents to supplier database system. 	RN Hlongwa (Municipal Manager)	10/11/2022 31/01/2023	Managements response is noted. The finding will remain in Annexure A of this report as this results in a material limitation of scope on the audit of the following SCM laws and regulations: <ul style="list-style-type: none"> SCM regulations 22(1) and 22(2) SCM regulations 21(1)b and 28(1)(a)(i) and preferential procurement regulations SCM regulations 29(1)(a) and (b) and preferential procurement regulations SCM Regulation 29(5)(b). SCM Regulation 43 Section 2(1)(a) of the Preferential Procurement Policy Framework Act Section 2(1)(f) of Preferential Procurement Policy Framework Act and regulation 11 of Preferential Procurement, 2017 Section 2(1)(a) Preferential Procurement Policy Framework Act and its regulations. Preferential Procurement Regulation 5(6) Preferential Procurement Regulation 5(7) 	Non-compliance with legislation
10	AR-35	7. Bidder with highest preferential points not awarded contract	During the audit of compliance with the PPPF Act, it was noted that tenders were awarded to suppliers who did not score highest preferential procurement points however no objective criteria was included as part of the tender documents. 1.1 ZDM 001/2021 - Reticulation: Upgrade Ward 14 Nongoma For ZDM001/2021 it was noted that after all bids were assessed for responsiveness and functionality, the following suppliers remained and were ranked as follows after calculation of preferential procurement points: The contract was awarded to Nsakans Pty Ltd despite Nsakans Pty Ltd scoring ranking third in the above assessment. On inspection of the tender evaluation report, management made the following comment on the tender: "The contractor's rates for excavation is extremely low and his rates for fittings are extremely high. Should this contractor be considered for appointment, it must be agreed with the contractor in advance before his appointment that his rates should be balanced." On inspection of tender documents for the project, the criteria above was not included in the tender documents as required by PPR 11(1) & (2) as well as section 2(1)(f) of the PPPF Act. Furthermore, although Qambothi Development rates were low for excavation and high for fittings, the overall bid price for Qambothi Development was 1% more than the pre-tender estimate and	Adequate processes and procedures were not in place to ensure that the requirements of the preferential procurement policy framework act were adhered to.	<ul style="list-style-type: none"> The acting CFO should ensure that the evaluation and adjudication of tenders is fair and equitable as envisaged in the municipal SCM policy. The acting CFO should ensure that tender documents specify all requirements and considerations to be made when evaluating tenders to ensure that they are transparent as envisaged in the municipality's SCM policy. The payments relating to these tenders should be disclosed as irregular expenditure in the annual financial statements 	Agreed. The recommendations will be implemented.	<ul style="list-style-type: none"> The irregular expenditure will be recalculated and disclosed in the AFS. Request training of Bid Committee members from Provincial Treasury. 	S Msibi (Acting Chief Financial Officer)	31/10/2022	Managements response is noted. The financial statements have been correctly adjusted to include the resultant irregular expenditure of R2 921 459,09. The finding will remain in Annexure A of this report as this results in a material non-compliance with section 2(1)(f) of Preferential procurement policy framework act and regulation 11 of the preferential procurement regulation.	Non-compliance with legislation
11	AR-39	8. Suppliers without suitable CIDB grading awarded contracts	During the audit of compliance with the CIDB Act and its regulations, it was noted that the following suppliers did not have the suitable grading for the relevant contracts: (ZDM015/2022; irreg exp R 27 094 493,36 and ZDM003/2021; irreg exp R 0) Consequently, irregular expenditure of R 27 094 493,36 has been incurred and has not been disclosed on the AFS. This results in a material non-compliance and will be included in the audit report.	Adequate processes and procedures were not in place to ensure that the requirements of CIDB regulation 25(1) was adhered to.	<ul style="list-style-type: none"> The acting CFO should ensure that CIDB grading is calculated using the latest values as published by the minister of public works and infrastructure. The payments for these contracts should be disclosed as irregular expenditure in the annual financial statements. 	Agreed. Irregular expenditure note will be updated with R27 094 493,96	<ul style="list-style-type: none"> The checklist is being implemented to ensure that this is not repeated. Develop and implement compliance checklist for all various bid committees. 	S Msibi (Acting Chief Financial Officer)	04/11/2022 31/01/2023	Managements response is noted. The financial statements have been correctly adjusted to include the resultant irregular expenditure of R27 094 493,36. The finding will remain in Annexure A of this report as this results in a material non-compliance with section 18(1) of the CIDB act and CIDB regulation 17 and 25(7A).	Non-compliance with legislation
12	AR-33	9. Contracts awarded to suppliers whose tax matters are not in order	During the audit of compliance with laws and regulations, it was noted that the following suppliers were not tax compliant and therefore should not have been awarded the contracts. (ZDM 039/2020) This results in non-compliance with Municipal SCM regulation 43(1), and irregular expenditure amounting to R3 232 943.	Adequate processes and procedures were not in place to ensure that awards were not made to suppliers whose tax matters are not in order.	<ul style="list-style-type: none"> The acting chief financial officer should ensure that prospective supplier's tax history is checked and suppliers who are not tax compliant should not be awarded contracts. The payments for the contract should be disclosed as irregular expenditure in the 2022-23 financial statements when expenditure is incurred. 	Agree. Contract number ZDM 039/2020 was awarded irregularly. This was identified by internal processes that it was awarded on an incorrect CIDB tender value. Total expenditure of R 3 232 943 (2021/22) was already recorded as irregular expenditure in Note 49. Future expenditure to this contract will be treated as such.	<ul style="list-style-type: none"> Irregular expenditure Note 49 will not be adjusted hence this has already accounted for. Develop and implement compliance checklist for all various bid committees. 	S Msibi (Acting Chief Financial Officer)	18/11/2022	Management's response is noted. The amount of R3 232 943 has already been included as irregular expenditure in the AFS therefore no further adjustments are required. The finding will remain in annexure A of this report as it results in a material non-compliance with by SCM Regulation 43.	Non-compliance with legislation
13	ANNEXURE B - PROCUREMENT AND CONTRACT MANAGEMENT										

14		1. Bidders inappropriately or inconsistently disqualified or taken through the next stage of evaluation	During the audit of compliance with PPR requirements, it was noted that some bids were not appropriately disqualified or taken through to the next phase of evaluation. 1.1 ZDM040/2020: Construction of Mngamunde domestic reticulation network for zones C1 & D1 Setshabelo Trading 647 Pty Ltd On inspection of the tender document for Setshabelo Trading 647 Pty Ltd, it was noted that the test for responsiveness in F2.23 listed the documents required to be submitted together with tender documents in order for the bid to be acceptable and therefore proceed to the next stage. The documents listed in F2.23 included among others Workmen's Compensation certificate or letter of good standing (LOGS) from the Department of Labour. The following was noted regarding LOGS submitted by Setshabelo Trading 647 Pty Ltd: • The address on the LOGS submitted is not the same as that used on other documents included on the tender document such as the lease agreement, B-BBEE, CSD and annual financial statements. • The copy was not certified by a Commissioner of oaths as a true copy of the original letter. • On verification of the certificate on LOGS website using the certificate number 2020085492 (See the link Verify LOGS (labour.gov.za), the following was further noted:	Proper evaluation of tenders were not adequately performed to ensure that information submitted by bidders is accurate and valid and that bids are accurately evaluated.	<ul style="list-style-type: none"> Investigation should be done to confirm whether the letter of good standing was legitimate and necessary steps should be taken against the supplier if the letter of good standing is found not to be legitimate. Ensure that LOGS are verified on LOGS website to confirm their accuracy and validity. Bids must be properly and consistently evaluated to ensure fairness as required by the municipality's SCM policy. 	Agreed. The discrepancy is noted. The recommendations will be implemented.	<ul style="list-style-type: none"> The AFS will be corrected with the amount added to irregular expenditure. The investigation will be done with a purpose of consequence management. Develop and implement compliance checklist for all various bid committees. 	S Msibi (Acting Chief Financial Officer)	11/11/2022	Management response acknowledged. Finding will remain in Annexure B of this report as it results in a non-compliance with the Preferential Procurement Regulation (PPR) (4)(1) and (4)(2)	Non-compliance with legislation
15	AR-39	2. Incorrect minimum grading included in tender invitations	During the audit of compliance with CIDB regulations, it was noted that the following invitations to tender included incorrect minimum grading for the contracts: (various contracts). Consequently, this results in non-compliance with regulation 25(1) of the CIDB act. This will be included in the management report.	Adequate processes and procedures were not in place to ensure that the requirements of the CIDB regulations 25 with the relevant government gazettes were adhered to	<ul style="list-style-type: none"> The acting chief financial officer should ensure that CIDB grading is calculated using latest values as published by the minister of public works and infrastructure. 	Agreed. The discrepancy is noted.	<ul style="list-style-type: none"> The checklist is being implemented to ensure that this is not repeated. Develop and implement compliance checklist for all various bid committees. Request training of Bid Committee members from Provincial Treasury. 	S Msibi (Acting Chief Financial Officer)	04/11/2022	Management response is acknowledged. Finding will remain in Annexure B of this report and management's implementation plan will be followed up in the next financial year.	Non-compliance with legislation
16	AR-40	3. Payments on expired contracts	During the audit of compliance with laws and regulations, it was noted that payments were made for the following contract despite the contract having reached its end date. (ZDM076/2018). The payments made after expiry date results in non-compliance with section (62)(1)(a) of the MFMA and irregular expenditure amounting to R 947 986,04.	Adequate processes and procedures were not in place to ensure that the requirements of the section 62(1)(a) of the MFMA was adhered to.	<ul style="list-style-type: none"> The acting chief financial officer should ensure that for contracts relating to the continued needs of the municipality, the SCM processes commence six months before the contract expires. The payments for this contract should be disclosed as irregular expenditure in the annual financial statements. 	Agreed. A month-to-month extension of the contract until the finalization of the SCM processes was signed for Khetha Cleaning. The process is at evaluation stage.	<ul style="list-style-type: none"> A report is prepared for all contracts monthly which includes the contracts that will expire. User departments are alerted timeously of the contracts that will expire. Irregular expenditure Note 49 will be adjusted by R 947 986.04. Implement Contract Management (Solar) system for all existing contracts. 	S Msibi (Acting Chief Financial Officer)	11/11/2022 31/03/2022	Management response acknowledged. The financial statements have been amended to include R 947 986,04. Finding will remain in Annexure B of this report as it results in a non-compliance with section (62)(1)(a) of the MFMA.	Non-compliance with legislation
17	MR-04	4. Incorrect minimum local content threshold included in the advert and tender invitation	(1) The following invitations to tender stipulated minimum local content that was not consistent with the minimum requirement per the circular: (various contracts). (2) The minimum local content stipulated in the following invitations to tender were not consistent with the actual items required for the projects: (various contracts). Consequently, expenditure incurred in respect of the above contracts results in irregular expenditure amounting to R 16 581 091 which must be disclosed in the financial statements.	Management did not ensure that items making up the minimum threshold were documented in the tender invitation.	<ul style="list-style-type: none"> Invitations to tender for local content should be properly reviewed to ensure that the minimum threshold advertised is consistent with the circular and with the requirements of the related projects. Tenders must be properly evaluated to ensure that the successful suppliers meet the stipulated minimum threshold. Irregular expenditure of R16 581 091 should be disclosed in the financial statements. 	Agreed. However, this does not warrant an irregular expenditure disclosure since the bidders on the tenders responded with the correct local content and the award was based on the correct local content. This was a typing error when the invite was placed on the media.	<ul style="list-style-type: none"> Develop and implement compliance checklist for all various bid committees. 	TG Soko (General Manager: Planning and Development)	31/12/2023	Managements response is noted. Since the awards were made to service providers who responded with the correct local content, there is no resultant irregular expenditure. The finding will remain in Annexure B of this report as this results in non-compliance with the preferential procurement regulation 8(2).	Non-compliance with legislation
ANNEXURE B - GOING CONCERN											
18	MR-05	5. Unfunded budget	During the audit of the going concern the following internal control deficiency was noted: The municipality received a final warning 10 September 2021 from National Treasury (NT) –intention to invoke section 216(2) of the constitution for serious and persistent breach and financial misconduct (section 171 of MFMA) for not preparing a budget appropriately. National Treasury declared the municipality's 2021-22 budget to be unfunded. Consequently, the purpose of the first unfunded budget letter was to serve as a warning that NT is considering withholding the equitable share transfer from a non-conforming municipality if its budget is not adjusted or if it did not adopt a funding plan/ strategy that shows a gradual improvement towards attaining a funded position. An unfunded budget may prevent the municipality from achieving its objectives for that budget year.	There were inadequate controls in place by the accounting officer to ensure that the budget prepared was only funded from realistic anticipated revenues to be collected, cash-backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds.	<ul style="list-style-type: none"> The accounting officer must ensure there are adequate controls to prepare a budget from realistic anticipated revenues to be collected, cash-backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds, thereby avoiding National Treasury from stopping funds to the municipality in terms of section 216(2) of the Constitution. 	Agreed. However, the municipality performed an adjusted budget adopted a funding plan/ strategy that showed a gradual improvement towards attaining a funded position in the following financial year.	<ul style="list-style-type: none"> The municipality continue with monitoring the budget performance. CFO to submit Budget Performance Report to the Budget Steering Committee. 	S Msibi (Acting Chief Financial Officer)	30/06/2023 31/03/2023	Management response acknowledged. Finding will remain in Annexure B of this report as it results in a non-compliance with sections 5(2) and 18(1) of the MFMA.	Non-compliance with legislation
ANNEXURE B - USE OF CONSULTANTS											

19	AR-40	6. VAT consultants appointed on a contingency fee basis.	<p>On 16 August 2019, PK Consultants was appointed to provide VAT review services to Zululand District Municipality at the rate of 9.5% of the VAT refund from SARS or of the VAT credit inclusive of VAT commencing from the 2019-20 financial year. Through inspection of the service level agreement (SLA) between ZDM and PK Consultants signed on 28 August 2019 the following was noted:</p> <ul style="list-style-type: none"> Paragraph 3.1.7 of the SLA defines vat recovery/review as follows: the vat review/recovery of the previously incorrectly submitted returns and the update of the current returns for the next three years. Paragraph 6 of the SLA states that the agreement will commence from 22 August 2019 until 31 July 2022. Paragraph 9.2 of the SLA states that the parties agree that the service provider is entitled to a commission fee of 9.5% of the total Vat refund/credit recovered. <p>The total payments made to PK consultants from 2019-20 to 30 June 2022 are as follows R 7 478 823,35.</p> <p>An exercise was performed by the auditors to calculate the estimated cost of the VAT consultant based on sub regulation 2 of the cost containment regulations using the following assumptions:</p> <p>SARS requires VAT 201 returns to be submitted 25 days after the month, therefore each cycle is determined to last 25 days (as the law requires this timeframe to submit). It is therefore assumed that it will take 20 working days for the consultant to do the work, clear any review notes from reviews and submit to SARS website, 3 days for</p>	<p>There were inadequate controls in place by the accounting officer to ensure that the cost containment regulations were understood and applied by the SCM unit as well as the bid specification, bid evaluation and bid adjudication committees during the appointment of consultants.</p>	<ul style="list-style-type: none"> The accounting officer must ensure that adequate controls are in place to ensure that the cost containment regulations are understood and applied by the SCM unit as well as the bid specification, bid evaluation and bid adjudication committees during the appointment of consultants. 	<p>Disagreed.</p> <p>The Regulations were promulgated for the 1st of July 2019 after the tender closing date of the 14th of June 2019 has elapsed. The tender awarded was undergoing the SCM processes by then.</p> <p>The Regulations states that the municipality must develop the Cost containment policy for implementation of the regulation. The said policy was developed and adopted for implementation starting from the 1st July 2020. The opportunity for negotiations was not in place as per the requirement of the regulation at the time</p>	<ul style="list-style-type: none"> Monitor Service Level Agreement (SLA) deliverables for skills transfer. 	S Msibi (Acting Chief Financial Officer)	31/03/2023	<p>Management comments are noted that the procurement processes for the consultant commenced prior to the effective date of the cost containment (Advert was from 28 May 2019 to 24 June 2019).</p> <p>However, the municipality was recovering VAT refunds from SARS prior to the appointment of the consultant and there was no material improvement in the refunds after the consultants were appointed. Furthermore, the increase in the VAT refund does not justify the cost of appointing a consultant. This process was adequately performed by an internally employed official who had the necessary skills and capabilities as evidenced by the regular and accurate VAT returns submitted by the municipality and subsequent refunds received from SARS for the prior years.</p> <ul style="list-style-type: none"> 2018-19 (internally) - R96 451 981,99 2019-20 (internally) - R 106 999 370,02 2020-21 (internally) - R 111 303 064,98 2021-22 (PK consultants) - R 116 859 698,09. <p>Consequently, the non-compliance with Section 62(1)(a) of the MFMA remains, as funds were not used effectively, efficiently and economically. The municipality appointed a consultant to provide Vat recovery services for which it already had internal resources for such services. The internal resource used to perform these services from 2018-19 to 2020-21 (at no additional cost to the municipality) is still currently employed at the municipality.</p>	Non-compliance with legislation
ANNEXURE B - EXPENDITURE MANAGEMENT											
20	MR-07	7. Fruitless and wasteful expenditure not prevented	<p>During the audit of expenditure management, it was noted the accounting officer failed to prevent fruitless and wasteful expenditure that was incurred in the current year:</p> <p>Fruitless and wasteful expenditure was incurred in the prior year (R 363 040) as well as the current year (R 303 721). The major cause of the fruitless and wasteful expenditure in the current year was due to interest on overdue accounts. In the prior year, the major cause was due to penalties on licences. The cause could have been prevented if reasonable steps had been taken to ensure that payments are made timeously.</p> <p>Consequently, the accounting officer is in contravention of section 62(1)(d) of the MFMA.</p>	<p>The accounting officer did not ensure adequate controls were in place to prevent unauthorised, irregular and fruitless and wasteful expenditure.</p>	<ul style="list-style-type: none"> Fruitless and wasteful expenditure: The records unit must maintain a register of invoices received as a tracking tool to monitor the date of receipt and date submitted for payment to ensure the invoices are submitted for payment within the legislated timeframes. Consequence management should be implemented at an early stage in instances where invoices are submitted late for payment. 	<p>Agreed.</p> <p>The recommendations will be implemented.</p>	<ul style="list-style-type: none"> Improve on 30 days compliance payment plan. 	RN Hlongwa (Municipal Manager)	On-going	<p>Managements response is noted.</p> <p>The finding will remain in annexure A and will be reported in the auditors report as this results in a material non-compliance with section 62(1)(d) of the MFMA.</p>	Non-compliance with legislation
21	MR-08	8. Payments not made within 30 days	<p>During the audit of expenditure, it was noted that the following payments were not made within 30 days of receipt of the respective invoices: (various)</p> <p>Payments not made within 30 results in non-compliance as well as the risk of interest being charged on the overdue amounts resulting in fruitless and wasteful expenditure.</p>	<p>Management did not exercise due care in ensuring that all payments were made within the stipulated 30-day time period.</p>	<ul style="list-style-type: none"> Management should ensure that when invoices are received from suppliers, adequate steps are taken to ensure that payments are made promptly. 	<p>Agreed.</p> <p>The discrepancy is noted. However, improved communication has been put in place for the submission of documents. A dedicated email for invoices was created and services providers were advised.</p>	<ul style="list-style-type: none"> Further communication will be circulated to service providers again. 	S Msibi (Acting Chief Financial Officer)	31/12/2022	<p>Managements response is noted.</p> <p>The finding will remain in annexure A and will be reported in the auditors report as this results in a material non-compliance with section 62(1)(d) of the MFMA.</p>	Non-compliance with legislation
ANNEXURE B - CASH AND CASH EQUIVALENTS											
22	MR-09	9. Misappropriation of cash	<p>During the audit of cash and cash equivalents, it was noted that funds to the value (R 863 188,69 (over/under banking) plus R 321 000,00 (unbanked tender deposits)) R1 184 188,69 was misappropriated by an official at Zululand District Municipality. The misappropriated amount is broken down as follows:</p> <p>ZDM was able to recover R129 225,02 via a salary adjustment journal against the official's leave payout at year end, and the unrecovered amount to the value of R1 054 963,67 has been included in the AFS within receivables from non-exchange transactions (Note 6).</p> <p>On further investigation of how the funds were misappropriated it was noted that the controls for the safeguarding of cash were inadequate as one official was responsible for processing system generated journals for banking and the same official was also responsible for the preparation of bank reconciliations (No segregation of duties).</p> <p>Consequently, there is a non-compliance with section 63(1)(a), 63(2)(c) and section 10 of the MFMA, as the accounting officer did not ensure that the municipality has and maintains an adequate system of internal control for the safeguarding of its cash, which therefore resulted funds to the value of R1 184 188,69 being misappropriated.</p>	<p>The system of internal controls for the purpose of safeguarding cash at ZDM were inadequate as detailed above.</p>	<ul style="list-style-type: none"> The accounting officer must ensure that adequate controls are in place for the safeguarding of cash at ZDM. Furthermore, the accounting officer is required to provide the auditors with the necessary detail of the circumstances that led to the non-compliance and the resultant financial loss as well as the steps that will be taken to rectify the matter in future. 	<p>Agreed.</p> <p>The recommendation will be implemented. However, the pension of the individual will be claimed to recover the monies. A detailed circumstances will be given to the Auditor General.</p>	<ul style="list-style-type: none"> Pension of the individual will be claimed to recover the monies. A detailed circumstances will be given to the Auditor General. 	S Msibi (Acting Chief Financial Officer)	31/03/2023	<p>Management response acknowledged.</p> <p>The finding will remain in Annexure B of this report as it results in a non-compliance with sections 63(1)(a), 63(2)(c) and 10(1) of the MFMA.</p> <p>A follow up on the action plan will be performed in the next audit cycle.</p>	Non-compliance with legislation
ANNEXURE B - VALUE ADD AUDIT ON WATER INFRASTRUCTURE											
23	MR-10	10. Approval of inaccurate extension of time claimed	<p>On 3 August 2022, the contractor submitted a letter to the municipality citing the non-payment of invoices 10 and 11. The contractor's letter states that invoices 10 and 11 were submitted on 19 May 2022 and 13 June 2022 respectively. Contrary to this, the payment certificates 10 and 11 received for audit were both dated 4 July 2022 and were received by the municipality on 3 August 2022. On 14 September 2022, management approved Extension of Time no. 4. The claim was for the late payment of the contractor's invoice 10, for which the contractor states payment was due on 17 June 2022 but was only paid on 17 August 2022. Despite the contradicting dates in the contractor's claim and the dates on the payment certificates, management approved the extension of time application. Payments for invoices 10 and 11 were made on 15 August 2022 and 13 September 2022, respectively.</p> <p>The contractor's claim for a delay in the payment resulted in an extension of time (EOT 4) extending the contract period by 60 days. The due date for practical completion moved from 20 August 2022 to 19 October 2022 with additional costs for contractor's standing costs and preliminary and general costs amounting to R614 162 (Excl. VAT), ...</p> <p>Based on this information, the contractor's claim for extension of time 4 is invalid and should not have been approved by the municipality. The additional costs of R614 162 (Excl. VAT) resulting from EOT 4 are also invalid. Therefore, R614 162 should be reported as fruitless and wasteful expenditure. This is in view that had reasonable care and compliance with respective legislations and practices been followed, fruitless and wasteful expenditure could have been avoided.</p>	<p>Management processes were not effective in ensuring that evaluation of the contractor's extension of time claims are adequately validated for accuracy and monitored in accordance with legislated and contractual obligations.</p>	<ul style="list-style-type: none"> Management should improve its project processes and monitoring controls on extensions of time in order to avoid incurring unnecessary costs and prevent delays on project completion. Management should disclose R614 162 (Excl. VAT) as a fruitless and wasteful expenditure in the financial statements. Management should further investigate these deficiencies including the validity of the extension of time claims, and apply appropriate consequence management where such deficiencies occur. 	<p>Agree.</p> <p>Upon discussion with the audit team, we have agreed that this said amount (R 614 162) doesn't constitute actual expenditure hence it has not been paid or accrued for in the current financial year. The Fruitless and Wasteful expenditure note 48 will not be adjusted for the 2021-22 financial year in this regard.</p>	<p>The municipality will further engage the respective service provider to discuss future billing in this regard. However, possibility of this amount to become fruitless and wasteful expenditure will be followed-up during 2022-23 financial year.</p>	TG Soko (General Manager: Planning and Development)	30/06/2023	<p>Management's response is acknowledged.</p> <p>A follow up will be performed in the 2022-23 financial year regarding the disclosure of the fruitless and wasteful expenditure.</p>	Service delivery

24	MR-11	11. Ineffective and uneconomical implementation of Kwankulu stand-alone water supply scheme standtaps	<p>During the prior year audit (2020-21) of the Kwankulu stand-alone water supply scheme, it was found that two of the eight standtaps inspected continued to release water even though they were not in use. Performance deficiencies within certain components of the standtap were not attended to in an efficient manner to prevent the continued water losses. This resulted in the replacement of 252 water saving standtaps by the municipality.</p> <p>On the 3 December 2021, DLV Engineers (DLV) produced a field survey report on the condition and functionality of the water saving standtaps installed in the Kwankulu Phase 2 projects. The DLV report found that 96% of the water savings taps were not functional and recommended the removal and replacement of 252 water saving standtaps. These were to be replaced with the normal standtaps which were originally part of the scope.</p> <p>In management's response to the prior year's audit findings, management indicated that the municipality conducted a pilot project in the Kwankulu stand-alone water supply scheme to test the efficiency of these standtaps. As part of the follow up audit for this project, a site visit was conducted on 20 September 2022 to confirm whether water wastage from the leaking standtaps was effectively addressed. From the site visit, it was noted that the pilot standtaps had been replaced as indicated in the photos below.</p> <p>The initial design for the yard connections was to comprise of ¾ "Cobra" bibtaps, this was revised to the "Water saving standtaps" of the pilot project. Subsequently, variation orders to use "Water saving standtaps" were introduced for the three contracts as indicated in their final payment certificates.</p>	<ul style="list-style-type: none"> Management processes were not effective in exercising due care when revising the initial design of the yard connections and performing a pilot project at such a large scale; Management processes were not efficient and economical in attending to the remedial corrective actions within the defects liability period; Inadequate safeguarding of documentation for ease of retrieval when required for audit purpose 	<ul style="list-style-type: none"> Management should ensure that adequate feasibility studies are in place when changing designs. Management should monitor contractors' work and enforce strict contract management to address defective work within the defects liability period. Management should investigate the reasons informing the deviation in scope to use water saving standtaps instead of the normal standtaps specified as part of the initial scope. Management should further investigate expenditure incurred in the removal and replacement of the water saving standtaps including the difference between the 252 and 245 standtaps. Results of this investigation should be submitted to the audit team along with supporting documentation. Management should further establish an effective records management system/ processes for the efficient storage, retrieval and provide requested information for audit purposes. 	<p>Please note that management has done the assessment and the result of that assessment was communicated to AG, the decision to replace water saving standpipes was informed by recommendation by ZDM professional service provider which was also sent to AG, instruction to rectify this matter is attached and the confirmation of replacement is also attached from contractors. No further investigation is required on this matter.</p>	Develop and implement snag list checking before project is closed-off.	TG Soko (General Manager: Planning and Development)	On-going	<p>Management's response is noted with the following reservations:</p> <ul style="list-style-type: none"> It is important for management to interrogate the circumstances that resulted in the deviation from the initial design of the standpipes which was specified by the professional service provider. It is this deviation that resulted in water losses from the defective water saving standpipes and the subsequent need to replace all 252 of them. Management did not investigate the feasibility of using the water saving standpipes and the lack of controls resulted in an unsubstantiated deviation from the professional service provider's recommendation. Management should put in place controls that prevent unsubstantiated deviations in current and future projects. Management should include in its action plan corrective actions to prevent re-occurrence of such deviation for follow up in the next financial year audit. 	Service delivery
ANNEXURE B - INFORMATION TECHNOLOGY GENERAL CONTROLS - IT GOVERNANCE											
25	MR-12	12. Business cases not developed for IT projects undertaken by the municipality	<p>It was previously reported that the ICT Return on Investment Policy page 6, section 6.3 Responsibilities of ICT Steering, MANCO, Relevant Portfolio and Executive Committees stated that:</p> <ul style="list-style-type: none"> "The ICT Steering committee reviews and approves technical scope of ICT components of the proposed project. MANCO committee reviews and approves the entire project and recommends the business case document inclusive of the ROI Assessment to the relevant portfolio committee. The Portfolio committee reviews and approves the business case document and recommends it to the Executive committee for final approval. Executive committee approves the business case document for the procurement process to begin." <p>In the 2021-22 financial year, the municipality was still undergoing a process to refresh the ZDM network infrastructure as well as implementing new tools to assist in the management of the overall ZDM ICT environment.</p> <p>The following projects were noted as being still in progress and no business cases had been documented:</p> <ul style="list-style-type: none"> Network infrastructure upgrades Cloud based server infrastructure Office 365 Mimecast mail security Endpoint protection Printers tender 	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Due to the ICT Manager position being filled late within the 2021-22 financial year on 30 May 2022, the municipality was unable to ensure that business cases were documented for ICT projects undertaken as required by the ZDM ICT Return on Investment Policy.</p>	<ul style="list-style-type: none"> The HoD: Corporate Services and ICT manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The ICT manager should ensure compliance with the business case requirements stipulated in the ICT Return on Investment Policy. All ICT projects undertaken should be supported by a comprehensively documented business case that sets out the risks, benefits and costs relating to the proposed spend. The business case should be approved prior to a project commencing and be utilised throughout the lifecycle of the project as a measure to determine return on investment. 	<p>Management disagrees to the finding.</p> <p>All these projects listed were undergoing implementation. New projects will follow the Return-on-Investment Policy.</p>	New projects will follow the Return-on-Investment Policy.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	On-going	<p>Management response is noted.</p> <p>The finding will however remain and be included in Annexure B of the management report as a business case is not a once off document and can be retrospectively prepared. Business cases should ideally be initiated and approved prior to a project being undertaken in order to ensure that management has been made aware of the costs, benefits and risks of the project. Furthermore, the business case should be continuously updated throughout the lifecycle of a project to cater for changes and allow for evaluation of whether the expected benefits were realised at project completion.</p>	Internal control deficiency
26	MR-13	13. Information communication technology inventory listing inadequately maintained	<p>It was previously reported that the ICT inventory on the ZDM asset register did not make provision for ICT technical information including the technical specifications, software licensing details, information stored and location of ICT inventory.</p> <p>In the 2021-22 financial year, a new ICT Asset Register has been developed to include some of the previously omitted information. It was however noted that the ICT register still did not make provision for the following technical information:</p> <ul style="list-style-type: none"> Technical specifications Software licensing details Information stored <p>The lack of an adequately maintained ICT inventory list may result in the ICT services unit not being able to plan for and acquire the correct resources to adequately support the current and future ICT hardware as well as software needs of the municipality.</p>	<p>The ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Furthermore, the municipality relied only on the asset register to account for ICT inventory.</p>	<ul style="list-style-type: none"> The ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. Furthermore, management should ensure that an ICT inventory listing is established outside of the municipal asset register. Alternatively, ICT management in conjunction with ZDM asset management should update the current asset register to make provisions for all required ICT technical information. The ICT inventory listing should be utilised to record all ICT inventory supported by the municipality and ensure that it is consistently and appropriately updated. 	<p>Management disagrees to the finding.</p>	ICT has a database/ inventory and all assets allocated to users are recorded. ICT keeps all records.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	On-going	<p>Management response is noted.</p> <p>The finding will however remain and be included in Annexure B of the management report. The new ICT asset register that had been developed by the municipality was inadequate as it did not make provision for technical specifications, software licensing details and information stored on the device to be captured.</p>	Internal control deficiency
ANNEXURE B - INFORMATION TECHNOLOGY (IT) SECURITY MANAGEMENT											
27	MR-14	14. Windows Server 2008 R2 and Windows SQL Server R2 no longer supported by Microsoft	<p>As previously reported, the Windows Server 2008 R2 and Windows SQL Server R2 operating systems on which the Implementation and Management of Project Information (IMPI) system, Project Management System (PMS) and Local Suppliers' Database operate are no longer supported by Microsoft.</p> <p>Operating systems that are no longer supported do not receive security updates and this may result in them being susceptible to new vulnerabilities and threats. An attacker may be able to exploit known operating system vulnerabilities to gain access to IT systems, view sensitive information and cause malicious damage or take complete control of network and devices. The lack of updates may also cause these devices to become unstable and inoperable.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Budget restrictions and the reprioritisation of the ICT expenditure have delayed the completion of the server refresh. The refresh initiative will seek to decommission the unsupported Windows and SQL servers by moving them onto the cloud.</p>	<ul style="list-style-type: none"> The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The necessary financing should be obtained to replace the outdated operating systems. Furthermore, ICT management should ensure that the municipality makes advance arrangements for the prompt replacement of software and hardware that has reached the end of its support life. 	<p>Management agrees to the finding.</p>	The server refresh project will be implemented.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2023	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	Internal control deficiency

28	MR-15	15. Guidelines for the management of default accounts not included in the ICT Security Controls Policy	<p>It was previously reported, the ICT Security Controls Policy omitted information relating to default accounts and passwords.</p> <p>In the 2021-22 financial year, it was noted that the ICT Security Controls Policy had since been updated to include some previously omitted details relating to default passwords. The policy however still did not include information relating to default accounts to be renamed and changed before implementation on the Zululand District Municipality (ZDM) network.</p> <p>The absence of guidance relating to the management of default accounts may result in required security controls not being implemented. Default accounts have significant privileges assigned to them and can be easily identified. If these accounts are compromised they could be utilised to perform unauthorised transactions, which may negatively affect the confidentiality, integrity and availability of the municipality's IT systems and activities.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were adequately and timeously actioned. The ICT Security Control Policy was only due for an update on 05 July 2022, thus management did not see a need to amend the document until the review date which was after the 2021-22 financial period.</p>	<ul style="list-style-type: none"> The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The required procedures and controls for the management of default accounts should be included in the upcoming ICT Security Controls Policy update. Once updated the policy should be approved and distributed to the relevant stakeholders for implementation purposes 	<p>Management disagrees to the finding.</p> <p>Procedures and controls for the management of default accounts and passwords are included in the ICT User Management Procedure and have been distributed to the relevant stakeholders for information and implementation purposes</p>	None.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	N/A	<p>Management response is noted.</p> <p>The finding will however remain and be included in Annexure B of the management report as although the process for the management of default passwords has been made in the ICT User Management Procedure, provision for the management of default system accounts has not been documented. Additionally, the ICT User Management Procedure referred to in managements response had also not been in effect during the 2021-22 financial period as it was still to be submitted to Council for approval thus noted to be in draft.</p>	Internal control deficiency
29	MR-16	16. No review of logon violations	<p>As previously reported, logon violations/failed logon attempts for the Windows Active Directory which provides single sign onto the IMPI, Local Suppliers' Database and Performance Management Systems (PMS) as well as Solar and Payday, were not periodically reviewed to ensure that suspicious/failed logon attempts were identified and investigated.</p> <p>Not periodically generating and reviewing security management reports relating to logon violations could result in unauthorised logons going undetected for extended periods. This may lead to an attacker being able to exploit known vulnerabilities to gain access to the network, view sensitive information, cause damage or take complete control of the municipality's network.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. The server infrastructure used by the municipality had capacity limitations which prevented logon violation logs from being stored and generated. These infrastructure limitations will be addressed by the server refresh project which is still currently underway.</p>	<ul style="list-style-type: none"> The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The server infrastructure project should be finalised and once completed the required logs should be generated and logon violations/failed logon attempts reviewed on a regular basis. Evidence of such reviews should be retained. 	<p>Management agrees to the finding.</p>	<p>The server infrastructure project (Cloud server) will be finalised by March 2023. The service provider has been appointed and once completed the required logs will be generated and a logon violations/ failed logon attempts will be reviewed on a regular basis.</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2023	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle</p>	Internal control deficiency
30	MR-17	17. Patch management status reports not reviewed	<p>As previously reported, the ICT Security Controls Policy page 51, section 13.17 Patch Management stated that, "The following are the patch management tasks that the ICT Officer must perform:</p> <ul style="list-style-type: none"> Assessment - determine what the current patching level is, identifying which patches are installed and which are missing. Monitoring - watch out for alerts and new patch releases by the application or system vendors and trusted third parties. Review and Evaluation - determine whether a patch applies to any of the municipality's systems, review its associated documentation, and determine its level of priority or criticality." <p>It was however noted that no evidence could be provided to confirm that patch management status reports had been formally monitored, reviewed and exceptions followed up on for the 2021-22 financial period.</p> <p>If patch management status reports are not regularly generated and reviewed this may result in management not being able to identify workstations that have not been successfully updated with the latest network security patches. Outdated patches may allow an attacker to exploit security vulnerabilities and gain access to the municipality's systems to view sensitive information or cause malicious damage which could lead to the unavailability of IT systems.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Patch management requirements stipulated in the ZDM ICT Security Controls Policy were not complied with as a consequence of limitations on the server infrastructure utilised by the municipality, which hindered the generation of patch management status reports. These infrastructure limitations will be addressed by the server refresh project which is still currently underway and will migrate some servers to the cloud allowing for generation of patch management reports for review.</p>	<ul style="list-style-type: none"> The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The ICT Manager should also ensure that patch management status reports are assessed in accordance with the ICT Security Policy Patch Management standards. The server refresh project should be prioritised and completed with the generation of patch management reports being regularly performed. Evidence of reviews and actions taken to resolve deficiencies identified should be retained. 	<p>Management agrees with the finding.</p>	<p>The server refresh project will be implemented.</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2023	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	Internal control deficiency
31	MR-18	18. Inadequate management of the firewall	<p>As previously reported, the firewall information below was omitted in the ICT Security Policy:</p> <ul style="list-style-type: none"> Rule descriptors (meta-data accompanying each rule) The frequency at which the ruleset is reviewed. Firewall change management processes. Firewall backup/ redundancy and recovery process. Authorisations: who is authorised to access the firewall and what level access they are authorised to have. Logical access from where can one access the firewall, and over which channels. Updating/ upgrading requirements. Firewall configuration settings: specific minimum security configurations such as blocking of unnecessary services, spoofing, illegal and bogus addresses. <p>Furthermore, the following deficiencies were noted with regard to the administration and management of the firewall:</p> <ul style="list-style-type: none"> A firewall ruleset had not been defined. The following data with regard to the firewall rulesets was not being tracked: <ul style="list-style-type: none"> The purpose of each firewall rule The users and devices it affects The date the rule was added When the rule should expire (if it is temporary) The name of the person who added the rule There was no established process to proactively and regularly review firewall rules. A change management process had not been formalised for the 	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Due to the municipality's ongoing efforts to secure funding and invest in a new firewall, the implementation of firewall controls was deferred until a viable firewall solution was identified.</p>	<p>The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. The necessary financing should be acquired to replace the current firewall, which is no longer supported by the service provider and a project to implement and establish adequate firewall controls should be initiated.</p>	<p>Management agrees to the finding.</p>	<p>The server refresh project will be implemented.</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2023	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	Internal control deficiency
ANNEXURE B - USER ACCESS MANAGEMENT											

32	MR-19	19. ICT User Management Policy omits required information	<p>As previously reported, the ICT User Management Policy updated and approved on 28 October 2020 did not include information relating to the following management of user access controls:</p> <ul style="list-style-type: none"> • Turnaround time to complete activities. • User account termination. • Monitoring of system controller actions on application security level (creation of IDs, user ID maintenance, allocating functions to users (etc.)) • Monitoring of users activities on operating system level. • Restriction of administrator accounts (to not have access to internet or email). <p>Furthermore, the Zululand District Municipality (ZDM) ICT User Management Policy, page 20, section 21, Policy Review stated that: "This policy will be reviewed annually to ensure applicability and relevance." It was however noted that the policy was not assessed during the 2021-22 financial period.</p> <p>If required user access controls are not formalised and documented this could result in municipal staff not being aware of the correct procedures to be performed when user account management activities are required. This may lead to user account management activities not being consistently performed, resulting in unauthorised user access being granted to information stored on the network and application systems. Furthermore, failing to consistently update IT policies may prevent the implementation of mitigation procedures against new IT risks identified.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. The municipality did not update the ICT User Management Policy as stipulated in the ICT User Management Policy to ensure that all required user access controls and leading best practice requirements were included in the document.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. • Furthermore, ICT management should ensure that the ICT User Management Policy is updated to include all required user access controls information and is distributed to the relevant stakeholders for implementation. • Policies should be regularly and thoroughly reviewed to ensure that leading best practice requirements of information systems environments have been adequately incorporated into the document. 	Management agrees with the finding.	<p>ICT Manager will update the policy and submit it to Council. ICT Manager will be submit the policy annually as per policy Page 20.</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle</p>	Internal control deficiency
33	MR-20	20. User access rights, administrator activities and password reset logs not reviewed	<p>As previously reported, the Windows Active Directory provides single sign on, onto the implementation and Management of Project Information (IMPI), Local Suppliers Database and Performance Management System (PMS). It was however noted that user access rights, administrator activities and password reset logs were still not being reviewed for the Windows Active Directory, Solar and Payday systems.</p> <p>If periodic reviews of user access rights are not performed, management may not be able to identify users who have been granted excessive access rights or access rights no longer required to perform the roles and responsibilities associated with their job functions. Users with administrator privileges have full control over a system and if their activities are not adequately reviewed and monitored, this may result in unauthorised activities performed not being detected in a timely manner. Furthermore, if password reset logs are not regularly reviewed, this could result in management not being able to identify passwords that have been changed without the appropriate</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. The server infrastructure used by the municipality had functionality limitations which prevented user account management logs from being generated in a format that is usable. These infrastructure limitations will be addressed by the server refresh project which is still currently underway as the project seeks to migrate some servers to the cloud and allow for the generation of user access rights, administrator activities and password reset logs in a format that is usable.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. • The server refresh project should be prioritised and completed with the generation of user access rights, administrator activities and password reset logs being regularly performed. • Evidence of reviews and actions taken to resolve deficiencies identified should be retained. 	Management agrees with the finding.	The server refresh project will be prioritised	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	Internal control deficiency
34	MR-21	21. Generic and dormant accounts identified on the Windows Active Directory	<p>It was previously reported that generic and dormant accounts had not been disabled on the Windows Active Directory.</p> <p>In the 2021-22 financial year, the following twelve (12) generic accounts that were not linked to a specific individual were noted on the Windows Active Directory: (various).</p> <p>Furthermore, a user activity log report to confirm activities performed was not available on the Windows Active Directory.</p> <p>Generic and dormant accounts may be used to perform unauthorised activities that cannot be traced back to a specific individual. Management will therefore not be able to hold anyone accountable for unauthorised activities performed using these accounts. Furthermore, in the absence of user activity log reports, ICT will not be able to monitor and timeously detect unauthorised activities performed.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Guidelines for the management of default and generic accounts has not been included in the ICT Security Controls Policy. ICT management thus had no premise on which to identify generic and dormant accounts on the Windows Active Directory.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. • The required procedures and controls for the management of generic and default accounts should be documented and included in the ICT Security Control Policy. • Once documented and approved the policy should be distributed to the relevant stakeholders for information and implementation purposes. • Furthermore, the generic and dormant accounts identified should be investigated and corrective action taken to ensure that those no longer required are disabled and each account can be associated with a specific individual. 	Management agrees with the finding.	The server refresh project will be prioritised.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle</p>	Internal control deficiency
ANNEXURE B - INFORMATION TECHNOLOGY (IT) SERVICE CONTINUITY											
35	MR-22	22. Disaster recovery plan testing not performed	<p>As previously reported, the ICT DRP page 15, section 7.2 Recovery Site Test Procedures states: "ICT schedules one annual test, with sufficient time to test the DR recovery procedures." It was however noted that DRP testing had not been performed by the municipality for the 2021-22 financial year.</p> <p>In the absence of disaster recovery plan (DRP) testing, management may not be able to objectively assess the effectiveness of the municipality's DRP and ensure that it can be relied upon to adequately and timeously restore IT systems in the event of a disruption.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. There have been delays in the municipal server refresh project. DRP testing could therefore not be performed in line with the frequency stipulated in the municipality's ICT DRP Recovery Site Test Procedures.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. • The ICT Manager should ensure that the infrastructure changes are successfully completed and DRP testing performed in line with the requirements stipulated in the ICT DRP. • DRP testing results should be formally documented, analysed and utilised to improve the municipality's DRP 	Management agrees with the finding.	The ICT Manager will ensure that the infrastructure changes are successfully completed and DRP testing performed in line with the requirements stipulated in the ICT DRP.	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/01/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	

36	MR-23	23. Restoration testing of backups not performed	<p>As previously reported, the ZDM ICT Operations Policy, page 33, section 14.1 Key Principles and Guidelines Pertaining to Data Backup & Restore stated that:</p> <ul style="list-style-type: none"> • Testing of backup restore shall be performed at least once in two months. • Backup restore testing schedules shall be kept, reviewed and signed-off by the Network Administrator each time they are carried out. • Backup restore testing schedules shall be reviewed and signed-off by the Manager: ICT every three months. • Requests for backup restore should be authorised by the Manager: ICT and ICT System Owner where a system is involved. <p>It was however noted that for the 2021-22 financial year no backup restoration testing was performed by the municipality.</p> <p>Scheduled restoration testing is critical to determine the readability and integrity of backed up data. If restoration testing is not periodically performed and reported on this may result in management not being aware if the available backups are sufficiently readable and can be used to effectively restore data in the event of a disruption.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. Non-compliance with the ZDM ICT Security Controls Policy requirements relating to Data Backup & Restore as the server infrastructure used by the municipality had capacity limitations which prevented backup restoration testing from being performed. These infrastructure limitations will be addressed by the server refresh project which is still currently underway. The project seeks to migrate some servers to the cloud and allow for the performance of backups and restoration testing.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that management commitments made to resolve audit findings are adequately and timeously actioned. • The server refresh project should be completed and scheduled backup restoration testing regularly performed in compliance with the Key Principles and Guidelines Pertaining to Data Backup & Restore requirements stipulated in the ZDM ICT Operations Policy. • Evidence of the restoration testing performed should be maintained and formally reported on. 	Management agrees with the finding.	<p>The server refresh project will be completed and scheduled backup restoration testing will be regularly performed in compliance with the Key Principles and Guidelines Pertaining to Data Backup & Restore requirements stipulated in the ZDM ICT Operations Policy. Evidence of the restoration testing performed will be maintained and formally reported on.</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	Internal control deficiency
ANNEXURE B - PROGRAM CHANGE MANAGEMENT											
37	MR-24	24. Change logs not available	<p>As previously reported, the Windows Active Directory provides single sign on, onto the Implementation and Management of Project Information (IMPI), Local Suppliers Database and Performance Management System (PMS). It was however noted that change management logs were still not available for the Windows Active Directory.</p> <p>In the absence of system generated change logs, management may not be able to identify unauthorised or untested changes that have been implemented in the production environment. This could lead to applications not operating as intended and the confidentiality, integrity and availability of data stored on the system being compromised.</p>	<p>The HoD: Corporate Services and ICT Manager did not ensure that management commitments made to resolve audit findings were actioned. System functionality limitations prevented change logs from being generated on the Windows Active Directory, IMPI, Local Suppliers' Database and PMS systems. There have been delays in the municipal server refresh project which will migrate some servers to the cloud and allow for the generation of program change logs for review.</p>	<ul style="list-style-type: none"> • The HoD: Corporate Services and ICT Manager should ensure that agreed upon action plans to resolve audit findings are adequately and timeously implemented. • The server refresh project should be completed and program change logs regularly generated and reviewed to ensure that no unauthorised changes have been implemented. • Evidence of reviews performed and corrective actions taken should be retained. 	Management agrees with the finding.	<p>The server refresh project will be completed and program change logs regularly generated and reviewed to ensure that no unauthorised changes have been implemented</p>	ST Mthimkhulu (Manager: Information Communication Technology (ICT))	31/03/2022	<p>Management response is noted.</p> <p>The progress made in implementing the agreed upon action to address the finding will be assessed in the next audit review cycle.</p>	