



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDIT STRATEGY

Matjhabeng Local Municipality

30 June 2018





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INTRODUCTION

1. The purpose of this strategy is to assist the auditor to:
 - set the scope, timing and direction of the audit
 - guide the development of the audit plan as the audit progresses
 - take key decisions at the commencement of the audit regarding:
 - scoping the annual audit
 - reporting objectives
 - expected audit effort and focus
 - composition of the engagement team
 - the nature, timing and extent of resources necessary to perform the engagement
 - cost and time budgets
 - nature of communications with the auditee
2. The audit strategy also provides the audit team, management and those charged with governance with an overview of the planned scope, timing and cost of the audit. The audit strategy should be considered in conjunction with the engagement letter.

SCOPE AND OBJECTIVE OF THE ANNUAL AUDIT

3. The auditee's financial statements, annual performance report and compliance with legislation form the scope of the annual audit. The objective of the annual audit is to:
 - provide an opinion on the financial statements.
 - report findings regarding reported performance information against predetermined objectives for the selected programmes/ objectives/ development priorities as presented in the annual performance report.
 - report findings on compliance with specific legislation in terms of selected subject matters.
 - report significant deficiencies in internal control.
4. Information that is more detailed and the scope of each type of audit are described in the paragraphs below.

NATURE OF COMMUNICATION WITH MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. During the course of the audit, the auditor communicates on matters concerning the audit with management and those charged with governance (TCWG). This communication is an important two-way process. It is fundamental to the planning, conducting and reporting on the audit. Communication received is also a key input to the audit process.



6. Communication takes the following forms:

Type of communication	Communication with	Timing
Engagement letter	Accounting officer	06 September 2018
Audit strategy	Management and those charged with governance	06 September 2018
Meetings	Management and those charged with governance	August, Bi – Weekly, on Thursday September – November, Weekly on Thursdays
Audit findings	Management and those charged with governance where applicable	Throughout the audit
Identified or suspected non-compliance with laws and regulations in terms of the IESBA code	Management and those charged with governance where applicable	Throughout the audit
Status of records review briefing document	Management Accounting officer	Quarterly
Final management report	Management Accounting officer Executive authority	23 November 2018
Auditor's report	Accounting officer authority and Executive authority	30 November 2018

7. Amongst other matters contained in this audit strategy there is a specific requirement to communicate the following to those charged with governance:

- Significant qualitative aspects of the accounting practices, policies, and financial statement disclosures
- Significant difficulties, if any, encountered during the audit e.g. significant delays, unavailability of personnel, unwillingness to provide information, extensive effort to obtain audit evidence, restrictions imposed by management, unreasonably brief time to complete the audit.
- Significant matters arising during the audit that were discussed or subject to correspondence with management
- Significant deficiencies in internal control identified during the audit



8. From the matters communicated to those charged with governance the auditor determines those matters that required significant auditor attention during the audit and taking into consideration:
 - Areas of higher assessed risk of material misstatement in the financial statements or significant risks identified
 - Significant auditor judgements related to areas in the financial statements that involved significant management judgement
 - The effect on the audit of significant events or transactions that occurred during the year
9. In addition to the normal audit communications listed above, the accounting officer will be engaged on the status of records review, which serves as a “system of early warning” to the accounting officer regarding challenges that may compromise good financial and performance management and compliance with legislation and possibly lead to unfavourable audit outcomes.

AUDIT OF THE FINANCIAL STATEMENTS

10. The audit of the financial statements is performed to provide reasonable assurance whether the financial statements present fairly in all material respects the auditee’s financial position, financial performance and cash flows in accordance with the financial reporting framework applied.
11. The financial reporting framework applied by management in the preparation of the financial statements is the South African Standards of Generally Recognised Accounting Practice prescribed by the South African Statements of Generally Accepted Accounting Practice.

AUDIT OF REPORTED PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

12. The audit of predetermined objectives for selected programmes/ objectives/ development priorities as presented in the annual performance report i.e. subject matters is performed to determine whether the performance information per subject matter is useful and reliable, in accordance with the criteria as developed from the performance management and reporting framework set out below.
13. The performance management and reporting framework used by the auditee when preparing and presenting information about its performance against predetermined objectives in the annual performance report consists of the following:
 - Legislation applicable to performance planning, management and reporting which includes the following:
 - Local Government: Municipal Finance Management Act of South Africa, 2003 (MFMA)
 - Local Government: Municipal Systems Act (MSA)
 - Local Government: Regulations for planning and performance management, 2001, issued in terms of the MSA.



- Local Government: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for the managing of programme performance information (FMPPI), issued by the National Treasury.
- Circulars and guidance issued by the National Treasury, Department of Public Service and Administration (DPSA) and supported by Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

14. The criteria applicable to the audit as developed from the PMRF are as follows:

CRITERIA	REFERENCE TO PMRF
<i>Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents</i>	
Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Sec 121(3)(f) of the MFMA Sec 41 (a) - (c) & 46 of the MSA
Changes to strategic or development objectives are approved	Sec 25(2) of the MSA
Reported measures or indicators are consistent or complete when compared to planned measures or indicators	Sec 121(3)(f) of the MFMA Sec 41 (a) - (c) & sec 46 of the MSA
Changes to measures or indicators are approved	Sec 25(2) of the MSA
Reported targets are consistent or complete compared to planned targets	Sec 121(3)(f) of the MFMA Sec 41 (a) - (c) & sec 46 of the MSA
Changes to targets are approved	Sec 25(2) of the MSA
Reported achievement is consistent with the planned and reported indicator and target	Sec 121(3)(f) of the MFMA
<i>Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound.</i>	
A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2
A performance measure/indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.
A target is specific when the nature and required level of performance of the target is clearly identifiable.	FMPPI chapter 3.3
A target is measurable when the required performance can be measured.	FMPPI chapter 3.3



A target is time bound when the timeframes for achievement of targets are indicated.	FMPPPI chapter 3.3
Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.	
The performance measure/ indicator and target relates logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.	FMPPPI chapter 3.2
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.	
Reasons for variances between planned and actual performance are disclosed.	Criteria not applicable
Reasons for variances are supported by corroborating source documentation.	Criteria not applicable
Changes to objectives, performance measures/ indicators and performance targets are disclosed.	Criteria not applicable
Actual performance compared to planned targets and prior year performance is disclosed.	Sec 46 of the MSA
Measures taken to improve performance are disclosed.	Sec 46 of the MSA
Measures taken to improve performance are supported by corroborating source documentation.	Sec 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements is valid, accurate and complete.	
Reported performance occurred and pertains to the reporting entity (valid).	Sec 45 of the MSA Chapter 5 of the FMPPPI
Reported performance is recorded and reported accurately (accurate).	Sec 45 of the MSA Chapter 5 of the FMPPPI
All actual performance is recorded and included in the reported performance information (complete).	Sec 45 of the MSA Chapter 5 of the FMPPPI

15. In addition, the criteria below will be tested but any material findings identified will only be reported in the annexure to the management report and will not impact the audit opinion of the selected programme. The criteria are as follows:

- **Relevance:**
Indicators and targets arising from the entity's mandate, applicable legislation and strategic goals and objectives are all included in the approved planning documents.
- **Presentation and disclosure:**
 - The overall presentation of the performance information in the annual performance report is comparable and understandable.



16. The following programme has been scoped into the audit:

Programme
KPA 1 - Basic Service Delivery and infrastructure investments

17. A reasonable assurance opinion will be provided on the above-mentioned programme in the management report and all material findings reported therein will be included under the heading Report on audit of the annual performance report in the auditor's report.

AUDIT OF COMPLIANCE

18. During the course of the audit, the subject matters listed below will be subject to auditing against key legislation. .

- Strategic planning and performance management
- Financial statements, performance and annual reports
- Procurement and contract management
- Human resource management
- Expenditure management
- Utilisation of conditional grants
- Revenue management
- Assets management
- Liability management
- Consequence management

19. The key legislation applicable is:

- Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003) and regulations issued in terms of the act
- Annual Division of Revenue Act (DoRA)
- Companies Act, 2008 (Act No. 71 of 2008) and regulations issued in terms of the act
- Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations and instructions issued in terms of the act
- Municipal Systems Act, 2000 (Act No. 32 of 2000) and regulations and instructions issued in terms of the act
- Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and regulations and instructions issued in terms of the act
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations issued in terms of the act
- Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the act
- Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)
- Auditee-specific enabling legislation.



20. Audit of compliance is performed in accordance with the principles of ISAE 3000. Material findings on the above-mentioned subject matters will be included under the heading *Compliance with Legislation* in the auditor's report.
21. Additionally, in accordance with Section 225 of the IESBA code, where we discover non-compliance or suspected non-compliance, we will seek to obtain an understanding of the matter and where appropriate will discuss the matter with management and those charged with governance. This will allow for management and those charged with governance to take appropriate action to rectify, remediate or mitigate the consequences of the non-compliance, deter the commission of non-compliance where it has not yet occurred or disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.
22. We will also consider whether the response of management and those charged with governance to the instance of non-compliance or suspected non-compliance is adequate and may determine that further action is necessary. Such further action may include amongst other things the disclosure of the matter to an appropriate authority which may include the executive authority and/or appropriate oversight authorities. Depending on the severity of the matter, the matter may be reported in the auditor's report.
23. In exceptional circumstances, we may be required to immediately disclose the matter to an appropriate authority where we have become aware of actual or intended conduct that we have reason to believe would constitute an imminent breach of law or regulation that would cause substantial financial loss or harm to employees or the public. In such circumstances, we will discuss the matter with management and those charged with governance where it is appropriate to do so.

SPECIFIC FOCUS AREAS

24. The AGSA focus on the areas listed below as these areas have a significant impact on the auditee's ability to achieve clean administration and to provide effective and efficient service delivery. The AGSA's general reports include the audit outcomes on these focus areas and regular interactions take place with the relevant stakeholders to ensure that commitments are made to take corrective action where necessary.

Area
Human resource management
Procurement and contract management
Financial indicator reporting
Consultants
Consequences management
Management of conditional grants

INFORMATION TECHNOLOGY SYSTEMS AUDIT

25. Based on the classification of the different levels of sophistication of the IT systems they will be subject to audit as follows:



Application system	Type of audit
Payday	General and application control
Syntell	General and application control
Cash drawer	General and application control
Solar system	General and application control

ASSESSMENT OF INTERNAL CONTROL

26. During the audit, the internal controls relevant to all three types of audits will be assessed and the significant deficiencies will be communicated to management and those charged with governance. The discussions will focus on the role of the accounting officer to improve internal controls.

OTHER INFORMATION TO BE INCLUDED IN THE ANNUAL REPORT

27. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
28. In connection with the audit, our responsibility is to read the other information, and in so doing, to consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or our knowledge obtained during the course of the audit.
29. The responsibilities relating to other information do not constitute an assurance engagement and accordingly we do not express an audit opinion or any form of assurance thereon.

INFORMATION REQUIRED FOR AUDIT

30. Management and where appropriate those charged with governance are responsible for providing the auditor with access to all information of which they are aware that is relevant to the preparation of the subject matter information, to provide any additional information that the auditor may request for the purpose of the engagement, and to provide the auditor with unrestricted access to persons from whom the auditor determines it necessary to obtain evidence. Management and personnel should also be available during the period of the audit.
31. The annual performance report should be submitted concurrently with the financial statements.
32. The other information to be included in the annual report should be made available on or before 31 August 2018. If the other information is not provided before the date of the auditor's report, management will be requested to provide written representation that the information will be provided as soon as possible and before the annual report is published. The fact that the other information is not provided before the date of the auditor's report does not preclude the issuing of the auditor's report. The other information will be read and considered when it becomes available, if material



inconsistencies or misstatements are identified this may require amendments to the auditor's report. Guidance on subsequent events should be followed in this regard.

33. The trial balance and general ledger that agree to the financial statements, together with the supporting asset register, inventory register and subsidiary ledgers for receivables and payables, must be submitted with the financial statements. This documentation and information is also relevant to disclosures in the financial statements and could include information outside the general and subsidiary ledgers. If this information is not provided in the time agreed, it will be regarded as a limitation on the audit, which could result in a modification of the audit opinion.
34. All the approved planning documents and all other documentation and information in support of the annual performance report must be submitted at the latest with the annual performance report. If this information is not provided it will be regarded as a limitation on the audit, which could result in a modification of the audit opinion.
35. All documentation and information in support of the financial statements, the annual performance report and compliance with legislation must be available on request and be retrievable within a reasonable time, which should **not exceed 3(three)** working days. This documentation and information are also relevant to disclosures in the financial statements and could include information outside the general and subsidiary ledgers. If this information is not provided in the time agreed, it will result in a limitation on the audit, which could result in a modification of the audit opinion.

RISKS IDENTIFIED

36. The following significant risks have been identified to date on the audit and our initial overall response to each of these has been determined based on the knowledge of the audit and our prior experience. The controls to mitigate these risks and how to best respond to these risks will be determined as part of our detailed risk assessment procedures for the reasonable assurance engagements.

Risk identified	Overall response
ISA 240 – presumed risk of fraud on revenue recognition as well as the use of significant estimates.	1) Emphasising to the audit team the need to maintain professional scepticism. 2) Assigning more experienced staff to the audit of the component. 3) Obtaining audit evidence from substantive tests of details
ISSAI 1240 - presumed risk of fraud under procurement and compliance with procurement prescripts.	1) Emphasising to the audit team the need to maintain professional scepticism. 2) Assigning more experienced staff to the audit of the component. 3) Obtaining audit evidence from substantive tests of details



	4) Incorporate elements of unpredictability within the audit programme.
The risks relating to material misstatements identified in the prior year on payables and assets.	1) Emphasising to the audit team the need to maintain professional scepticism. 2) Assigning more experienced staff to the audit of the component. 3) Obtaining audit evidence from substantive tests of details

MATERIALITY

37. The concept of materiality is applied when the audit is planned and performed, as well as in evaluating the effect of identified misstatements in the financial statements and reported performance information, as well as identified instances of non-compliance with legislation.
38. The auditor's determination of materiality is a matter of professional judgement and is affected by the auditor's perception and understanding of the financial information needs of intended users. I.e. the quantitative and qualitative factors that determine the level at which relevant decisions taken by users would be affected by a misstatement or an instance of non-compliance.
39. In terms of the audit of predetermined objectives and compliance, materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the auditor's professional judgement.

USE OF THE WORK OF INTERNAL AUDIT

40. The reliance on work performed by internal auditors requires the external auditors to evaluate the internal audit function, which consists of an assessment of the extent to which the organisations status, relevant policies and procedures support the objectivity of the internal auditors; the level of competence of the internal audit function; and whether the internal audit function applies a systematic and disciplined approach including quality control.
41. We have determined that the work performed by the internal auditors will be used for risk identification. However, it will not be possible to use their work for the purposes of modifying the nature and timing or reducing the extent of our audit procedures as the internal audit plan does not include any matters of relevance to the external audit. Furthermore the internal audit plan was not approved and there was also no audit committee to oversee the work of internal audit.



VISITS TO OPERATIONAL SITES

42. The auditee operates in different locations, to obtain the necessary audit evidence for the audits of financial statements, predetermined objectives and compliance, it will be necessary to visit a selection of these locations, which will be determined after a detailed understanding of the functions/ responsibilities at the locations has been obtained.

VERIFICATIONS/ CONFIRMATIONS

43. In order to obtain the required audit evidence we will request confirmation from different parties and conduct certain verifications as follows:

Item	Locations/3 rd party
Physical asset count	Selected locations during audit
Physical inventory count	Warehouse facilities
Cash counts	Selected locations during audit
Bank confirmations	ABSA and FNB
Legal confirmations	Attorneys
Investment confirmations	ABSA and FNB

EXPECTED USE OF PRIOR YEAR AUDIT EVIDENCE

44. To reduce the nature, timing and extent of the audit, the prior year's documentation of our pre-engagement activities, understanding, documentation of business processes and other planning will be used and updated with current year changes based on enquiries, inspection and observation as necessary.

AUDIT TEAM

45. The audit team will consist of the following members, who have been selected to ensure that the appropriate competencies and capabilities are available to conduct the audit:

Name	Designation	Qualification/experience
Odwa Duda	Business Executive	RGA/24 years
Luthando Mbandazayo	Deputy Business Executive	CA (SA)/14 years
Dineo Masheane	Senior Manager	RGA/13 years
Robert Khangale	Manager	CA(SA)/12 years
Nngwake Motloung	Manager	CA(SA)/7 years
Wian Oosthuizen	Senior Manager	CA (SA)/13 years
Conrad de Wee	Technical Manager	CA (SA)/13 years
Motshidisana Masiu	Assistant Manager	CA(SA)/7 years
Lehlohonolo Mohorosi	Assistant Manager	ACCA/6 years
Henk Vasagie	Assistant Manager	RGA/27 years
Xolile Mbebe	Assistant Manager	RGA/34 years
Lwandile Magoda	Assistant Manager	RGA/5 years



Tshepo Tladi	Audit Senior	ITC/4 years
Dimakatso Mofokeng	Trainee Auditor	CTA/3 years
Sello Mohabe	Trainee Auditor	ITC/3 years
Thamisanga Dubase	Trainee Auditor	B.com(Hons)/2 years
Lindiwe Sondach	Trainee Auditor	ITC/1 years year
Yanga Valishiya	Trainee Auditor	B.com(Hons)/1 year
Marlon James	Trainee Auditor	Currently studying B.acc/2 years
Phano Khalema	Trainee Auditor	Currently studying B.com/1 year
Karabo Modipane	Senior Manager – ISA	CISA/10 years
Relebohile Mahoa	Manager – ISA	CISA/ 6 years
Phathutshedzo Mutheiwana	Assistant Manager – ISA	BSc Chemistry and Informatics/ 4 years
Lufuno Rabakali	IT Auditor – ISA	BCom Accounting/ 2 years

46. The audit team will apply professional judgement and professional scepticism throughout the engagement.

TIME TABLE OF KEY EVENTS

47. The key events during this annual audit are timed as follows:

No.	Event	Responsibility	Planned date
1	Initial meeting with management and determination of specific officials with whom to communicate throughout the audit	AGSA	23 August 2018
2	Initial meeting with accounting officer, audit committee	AGSA	TBC
3	Formal meeting among the engagement team	AGSA	TBC
4	Steering committee meeting to discuss audit strategy	AGSA	06 September 2018
5	Status of records reviews	AGSA	12 September 2018
6	Attend count of physical assets and inventory	AGSA	June to October 2018
7	Send confirmation letters	AGSA	3 September 2018
8	Audit steering committee meeting	AGSA	Weekly, every Thursday and as agreed with management
9	Receive financial statements, annual performance report and other information to be included in annual report from auditee for audit	Municipal Manager	31 August 2018



10	Issue draft management letter	AGSA	16 November 2018
11	Prepare audit report	AGSA	16 November 2018
12	Finalise audit report	AGSA	26 November 2018
13s	Audit committee meeting	AGSA	29 November 2018
14	Receive printer's proof of annual report for review	Municipal Manager	To be confirmed
15	Sign off printer's proof of annual report	Municipal Manager	To be confirmed

AUDIT FEE

48. The budgeted audit fee for 2017/18 amounts to **R9 606 572**.

	Current Year	Audit Hours	Prior year actual	Audit Hours	Variance
Total annual audit fees	R9 919 140	11 899	R8 427 944	10 635	R1 491 196

49. The variance from the previous year is the result of an annual average tariff increase as approved by the oversight committee of the Auditor-General of South Africa. The ISA team will test the application controls on the SOLAR system and also run CAATs reports which will be followed-up by the audit team. Performance audit will be performed on selected key projects and the investigations unit will also be utilised during the audit process.

50. The budget only allows for all audit procedures to be executed once and is based on the required documentation being received within the agreed time frame. Any impact on the audit fee caused by delays in the submission of information, or re-performance due to amendments to the financial statements or annual performance report, or by additional information being submitted will be discussed.