



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

MASILONYANA LOCAL MUNICIPALITY

30 June 2014



MANAGEMENT REPORT

MASILONYANA LOCAL MUNICIPALITY

30 June 2014

CONTENT

Introduction	3
Section 1: Interactions with stakeholders responsible for oversight and governance	4
Section 2: Matters relating to the auditor's report	5
Part A: Misstatements in the financial statements	5
Part B: Matters to be brought to the attention of the users	9
Part C: Conclusions on reported information relating to the performance of the municipality against predetermined objectives	10
Part D: Findings on non-compliance with legislation	12
Part E: Internal control	15
Part F: Assessment of assurance providers	20
Section 3: Specific focus areas	22
Part A: Procurement and contract management	22
Part B: Service delivery / Governance / Monitoring / Oversight matters	23
Part C: Financial indicators	25
Part D: Consultants	28
Part E: Fraud	29
Section 4: Emerging risks	30
Section 5: Ratings of detailed audit findings	30
Section 6: Conclusion	31
Section 7: Summary of detailed audit findings	32
Detailed audit findings contained in annexures A – C	

FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE MASILONYANA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2014

INTRODUCTION

1. Our responsibility is to:

- express an opinion on the financial statements
- express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected objectives and report the material findings in the auditor's report
- report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

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

2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2014. These findings were communicated to management, and the report also details management's response to these findings. The report furthermore includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. The management report consists of an executive summary and annexures containing the detailed audit findings.

EXECUTIVE SUMMARY

SECTION 1: Interactions with stakeholders responsible for oversight and governance

4. During the audit cycle, we met with the following key stakeholders who are responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Stakeholder	Number of interactions
Mayor of Masilonyana Local Municipality 30 April 2014 1 July 2014 20 October 2014	3
Municipal manager. Wednesday's during Audit Steering Committee meeting 18&28 August 2014, 3,10&17 September 2014 1,8,15,22&29 October 2014 5,12,17,19 & 26 November 2014	15
Audit committee 10 October 2014	1

5. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving a clean audit outcome. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

6. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the MFMA.
7. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Financial statement item	Material misstatements		Impact	Impact
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year ("Yes/ "No")	R current year	R prior year
Material misstatements not corrected				
Account balances				
Property Plant and Equipment	PPE: Storm water & Road Infrastructure paved roads not positively verified (Ex.79).	No	3 012 930	
Property Plant and Equipment	PPE: Different sizes of water pipes as per asset register differs with sizes as per technicians (Ex.132)	No	21 427 569	
Property Plant and Equipment	PPE: Assets are not componentised (Ex.161)	Yes	8 292 554	
Property Plant and Equipment	PPE: Bulk Sewer and Sewerage (Sizes of pipes differed) (Ex.219)	No	7 036 841	
Property Plant and Equipment	PPE: Assessment for impairment not done (Ex.56)	Yes	39 111 053	
Account receivables	Account receivables: Scope limitation (Ex.111) Indigent debtors	No	4 206 498	
Account receivables	Account receivables: Existence of debtors could not be confirmed (Ex.162)	No	9 639 357	
Class of transactions				
Service Income	Revenue: Misstatement on AFS (Ex.181)(Occurrence and Accuracy)	No	16 136 092	
	Revenue: Refuse removal charges not billed	No	2 877 135	



Revenue	(Ex.65)			
Material misstatements corrected				
Account balances				
Property Plant and Equipment	PPE: Different sizes of valves with the same value (Ex.21)	Yes	1 401 708	2 296 560
Property Plant and Equipment	PPE: Assets are not componentised (Ex.25) (Ex.161) (Parts corrected)	Yes	21 361 272	
Property Plant and Equipment	PPE: WIP not capitalised (Prior year exception) (Ex 28)	Yes	8 054 332	8 054 332
Property Plant and Equipment	[Ex.37] PPE: Repairs and maintenance incorrectly classified (Ex.37)	No	1 218 024	
Property Plant and Equipment	[Ex.136] PPE: WIP completed project not capitalised	No	17 745 100	
Property Plant and Equipment	Balance of PPE at year end misstated (Ex.150) (Existence and Valuation)	No	212 037 621	
Property Plant and Equipment	PPE: Bulk water items not verified (Ex.166)	No	5 647 934	
Property Plant and Equipment	PPE: Difference between TB and AFS (Ex. 168)	No	941 380	
Property Plan and Equipment	PPE: Differences between asset register, GL and financial statements (Ex.185)	No	265 396	
Property Plant and Equipment	Depreciation: Difference Fixed Assets Register and Trial Balance (Ex.200)	No	571 630	
Property Plant and Equipment	PPE: Electricity items not verified (Ex.227)	No	979 283	
Account receivable	Account receivables: Financial statements amount/balance differs from the general ledger (Ex.81)	No	1 077 501	
Account	Account receivables: Scope limitation (Ex.111)			



receivables				
	Debtors with credit balance	No	8 738 732	
Allowances for debt impairments	Provision for debts impairment/Debt impairment expense/VAT input - Overstated (Ex.172)	Yes	4 239 752	6 350 904
Payables	Payables: Transactions not recorded (Ex.192)	No	162 112	
Unspent Conditional Grants	Unspent Conditional Grants: Understating of conditional grants (Ex.135)	No	2 626 222	
Provisions	Provision for landfill sites: Overstatement in the financial statements (Ex 22)	No	1 608 992	
Accumulated Surplus	Accumulated surplus/deficit: Differences between Pastel trail balance and caseware trial balance(Ex.148 &149)	No	400 002	
Class of transactions				
Service Income	Differences identified between meter readings books and the system((E.X 137) (Occurrence and Accuracy)	No	16 742 011	
Conditional Grant	Conditional grant revenue: Understatement of grant revenue and unspent portion of MIG (Ex.163)	No	6 200 000	
Revenue	Revenue: Revenue and receivable from sale of electricity disclosed on the AFS is not complete (Ex.146)	No	Not quantifiable	
Revenue	Revenue - Grant from Provincial Treasury not included in the General Ledger (Ex.51)	No	1 217 065	
Revenue	Revenue - Misstated Municipal Infrastructure Grant (MIG) revenue (Ex.52)	No	1 967 314	
Revenue	Property Rates : Difference between the	Yes	Not	Not quantifiable



	system and valuation roll (Ex.67)		quantifiable	
Revenue	Revenue (Other) - Interest charged over 90 days (Ex.140)	No	1 145 405	
Expenditure	Expenditure: Transactions recorded in the incorrect accounting period (Ex.70)	No	581 596	
Expenditure	Expenditure: Overstatement on finance charges (Ex.134)	No	118 167	
Disclosure				
Commitments	Commitments: Overstatement in the financial statements (Ex.217)	No	10 458 733	
Contingent Liabilities	Disclosure: Contingent liabilities - Documents not submitted (Ex.126)	No	3 867 783	
Irregular Expenditure	Irregular Expenditure Understated in the Annual Financial Statements (Ex.105)	No	12 952 608	
Related Parties	Related parties: Incorrect disclosure(Ex.43)	Yes		88 520
Disclosure: Audit Fees	Disclosure: Incorrect disclosure of audit fees in note 35.2 (Ex.229)	No	754 801	
Fruitless and wasteful expenditure	Fruitless and wasteful expenditure: Inaccurate and Incomplete disclosure (Ex.220)	No	253 208	
Conditional grants	Conditional grant revenue : Understatement of the Grant revenue and RBIG expenditure (Ex.189)	No	3 171 942	
Financial Statements	Corrections on AFS(Ex 12)			

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

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

Unauthorised expenditure

9. As disclosed in note 34.1 to the financial statements, material losses to the amount of R7 167 360 was incurred as a result of overspending of the budget.

Fruitless and wasteful expenditure

10. As disclosed in note 34.2 to the financial statements, material losses to the amount of R1 088 149 was incurred as a result of interest and penalties on outstanding accounts.

Irregular expenditure

11. As disclosed in note 34.3 to the financial statements, material losses to the amount of R1 299 966 as disclosed by the municipality and R12 952 608 revealed by audit was incurred as a result of supply chain processes not being adhered to.

Material losses

12. As disclosed in note 34.4 to the financial statements, material losses to the extent of 419 141(10,52%)K/l of water and 21 034 397(56,63%) Kwh was incurred as a result distribution losses.

13. As disclosed in note 14 and 15 to the financial statements a material impairment provision to the amount of R230 699 945(2013: R145 403 845) and R74 374 695 (2013: R50 494 726) respectively were recognised as a result of potential irrecoverable debtors.

Going concern

14. Note 45 to the financial statements indicates that, as at 30 June 2014, for the municipality to continue as a going concern it is dependent on many factors such as effective cash management and collection of debtors' procedures. This condition indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The municipality also incurred net deficits of R32 871 872 (2013: R16 076 482).

Restatement of corresponding figures

15. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 30 June 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

ADDITIONAL MATTER PARAGRAPHS

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

17. The supplementary information set out on pages 78 to 81 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

PART C – CONCLUSIONS ON REPORTED INFORMATION RELATING TO THE PERFORMANCE OF THE MUNICIPALITY AGAINST PREDETERMINED OBJECTIVES

18. Included below are our conclusions on the reported performance information for selected objectives presented in the annual performance report.

REPORT ON PREDETERMINED OBJECTIVES

Introduction

1. We were engaged to audit the reported performance information for selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2014.

The accounting officer's responsibilities

2. The accounting officer is responsible for the preparation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the general notice issued in terms of the PAA. This framework deals with the planning, management, monitoring and reporting of performance against predetermined objectives. The accounting officer is also responsible for internal controls determined by management as necessary to enable the preparation of an annual performance report that is useful and reliable.

Auditor-general's responsibilities

3. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, our responsibility is to express reasonable assurance conclusions on the reported performance information for selected programmes presented in the annual performance report. Because of the matter/s described in the basis for disclaimer of conclusion paragraph(s), however, we were not able to obtain sufficient appropriate evidence to provide a basis for the audit conclusions.

Summary of audit conclusions

4. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

Selected [programme/objective/development priority or objective]	Usefulness	Reliability
Programme 4: Infrastructure development	Disclaimer	Disclaimer
Programme 5: Sustainable Service delivery	Disclaimer	Disclaimer

Basis for disclaimer of conclusions on usefulness and reliability

Presentation of performance information

5. The FMPPI requires indicators/measures to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of the indicators/measures could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators/measures were considered important and relevant to the realisation of strategic goals and objectives.

Disclaimer of conclusion on usefulness and reliability

6. Because of the significance of the matters described in the basis for disclaimer of conclusion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for conclusions. Accordingly, we do not express a conclusion on the usefulness and reliability of Priority 4: Infrastructure developments and Priority 5: Sustainable service delivery.

7. I evaluated the reported performance against the overall criteria of usefulness and reliability.

8. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

9. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

10. The material findings in respect of the selected development priorities are as follows:

Infrastructure development

Usefulness of reported performance information

11. Section 41(c) of the Municipal Systems Act requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the approved IDP. This was due to the fact that management was not aware of the requirements of the FMPPI ((Ex.199)).

Reliability of reported performance information

12. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation. (Ex.133)

Sustainable service delivery

Usefulness of reported performance information

13. Section 41(c) of the MSA requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the approved IDP. This was due to the fact that management was not aware of the requirements of the FMPPI (Ex.199)).

Reliability of reported performance information

14. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation. (Ex.133)

Additional matter

15. I draw attention to the following matter:

Achievement of planned targets

16. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs XX to XX of this report.

PART D – FINDINGS ON NON-COMPLIANCE WITH LEGISLATION

19. Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

Strategic planning and performance management

20. The municipality did not give effect to its integrated development plan and, as required by section 36 of the MSA, section 21(2) (a) of the MFMA and Municipal planning and performance management regulation 6. (Ex. 68)
21. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.(Ex. 32)
22. The annual performance report for the year under review did not include the performance of the municipality and each external service provider and a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(a) / (b) / (c) of the MSA. (Ex. 88)

Budgets

23. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 69(1)(a) of the MFMA. (Ex. 78)

Annual financial statements, performance and annual reports

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion. (Ex. 12,40,43,135, 163, 165,186)
25. The 2012/13 annual report was not tabled in the municipal council within seven months after



the end of the financial year, as required by section 127(2) of the MFMA. **Ex.18)**

26. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2012/13 annual report in the council, as required by section 127(3) of the MFMA. **(Ex.18)**
27. The Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012/13 annual report was tabled, as required by section 129(1) of the MFMA. **(Ex.18)**

Audit Committee

28. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a). **(Ex.3)**
29. The audit committee did not advise the council on matters relating to internal audits, risk management performance management performance evaluation as required by section 166(2)(a) of the MFMA. **(Ex.3)**
30. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA. **(Ex.3)**
31. The audit committee did not review the annual financial statements to provide the council of municipality with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA. **(Ex.3)**
32. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA. **(Ex.3)**

Internal audit

33. The internal audit unit did not advise the accounting officer and/or report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA. **(Ex.9)**
34. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - It did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - It did not report to the audit committee on the implementation of the internal audit plan.
 - It did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit/ internal controls / accounting procedures and practices / risk and risk management / loss control. **(Ex. 9 and Ex. 10)**

Procurement and contract management

35. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2). **(Ex.157)**
36. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding , in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. **(Ex. 222)**

37. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act. **(Ex. 223)**
38. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). **(Ex. 66, Ex. 173)**
39. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18. **(Ex. 204)**
40. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. **(Ex.165)**
41. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.**(Ex.165)**

Human resource management

42. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by MSA sec 67(d).**(Ex.11)**
43. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.**(Ex.11)**

Expenditure management

44. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA. **(Ex.194)**
45. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. **(Ex.201)**

Revenue management

46. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1) (f) (iii) of Municipal Finance Management Act. **(Ex.63)**
47. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2) (e) of the MFMA. **(Ex.195)**
48. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2) (b) of the MFMA**(Ex.65)**
49. Interest was not charged on all accounts in arrears, as required by section 64(2) (g) of the MFMA.**(Ex.99)**

Asset management

50. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA **(Ex. 17, 25, 28, 39, 56, 79, 132, 136, 150, 161, 190, 209, 219).**
51. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA. **(Ex. 17, 25, 28, 39, 56, 79, 132, 136, 150, 161, 190, 209, 219)**

Consequence management






























52. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA. **(Ex. 201)**
53. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA. **(Ex. 201)**
54. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA. **(Ex. 201)**

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

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

56. When the required preventative or detective controls are in place, it is assessed with a ; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a ; while  indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions (namely financial statements, performance reporting, and compliance with legislation) under the three fundamentals of internal control (namely leadership, financial and performance management, and governance), with  (improved),  (unchanged) or  (regressed).

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						

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

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 						

57. The figure below provides the overall status of the drivers of key controls

Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the annual performance report to be materially misstated and material non-compliance with laws and regulations to occur. When the required preventative or detective controls are in place, it is assessed with a , when progress on the implementation of such controls were made but improvement is still required or where the actions taken are not or have not been sustainable, it is assessed with a , while indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a (improved), (unchanged) or a (regressed). The status of the commitments made by management is reported in part F.



LEADERSHIP

Effective leadership

58. Management did not recruit the skilled and competent personnel to reduce the vacancy rate within the municipality. Furthermore, management did not develop measures to ensure compliance with laws and regulation in all instances.

Oversight responsibility

59. The accounting officer does not review the financial statements and the annual performance report prior to their submission for audit and various matters were not identified and corrected

Human resource management

60. The municipality did not properly plan and provide training on performance information planning, management and reporting.

61. The municipality did not have sufficient capacity to plan, manage and report on its performance.

Policies and procedures

62. The municipality did not have documented and approved internal policies and procedures especially to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

63. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

Action plans to address internal control deficiencies

64. The municipality developed a plan to address internal and external audit findings, but adherence to the plan is not monitored on a timely basis to ensure that prior years finding are cleared.

Information technology governance framework

65. IT management had not formally designed an IT governance framework to govern the IT processes at the municipality. The response time on the change of server in the finance section took a long period.

FINANCIAL AND PERFORMANCE MANAGEMENT

Proper record keeping

66. The municipality did not have a proper filing system that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information. Furthermore, schedules and reconciliations of debtors, creditors, bank, expenditure and revenue supporting the financial statements were not properly filed and easily retrievable and were not made available for audit purposes.

67. The municipality did not formulate and implement a record management policy and related procedures to ensure that all documentation is properly controlled.

Daily and monthly processing and reconciling of transactions

68. A number of suspense accounts are not reconciled and cleared in a timely manner. The impact of these uncleared accounts is a potential misstatement of

- accounts receivable
- revenue
- expenditure.

Regular, accurate and complete financial and performance reports

69. As indicated in section 2, part A of this report, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.

70. As indicated in section 2, part C of this report, the annual performance report contained numerous misstatements that were not corrected. This was mainly due to staff members not fully understanding the performance information requirements.

Compliance monitoring

71. As indicated in section 2, part D of this report, non-compliance with laws and regulations have not been properly reviewed and monitored.

IT systems

72. Deficiencies relating to the key control areas for IT systems that ensure the reliability of the systems, the availability, accuracy and protection of information include:

- **Change management**

Change management policy/procedure had not been developed to provide guidance on how program changes to IT systems should be done.

- **Security management**

The current IT strategy was still in draft format and had not yet been approved. It had therefore also not been implemented and/or enforced. The network layout diagram had not been formally approved.

- **User access control**

Review of activities of the person responsible for granting and changing users access to financial systems.

Processes were not in place to ensure that reviews would periodically be undertaken to determine whether employees' current access and privileges on the system were commensurate with their job responsibilities.

- **IT service continuity**

A disaster recovery plan and a business continuity plan had not been established.

A big disruption was experienced with the crash of the financial server for the period August to October 2014.

GOVERNANCE

Risk management activities and risk strategy

73. The municipality did not conduct a risk assessment as required by the MFMA. Consequently, a number of control deficiencies were identified.

Internal audit

74. Various matters regarding the effectiveness of the internal audit unit are of concern and include:

- The internal audit function did not conduct internal audits/reviews of performance information systems and management that focused on compliance aspects as well as the usefulness and reliability of the reported performance information.
- Internal audit did not review the financial and performance reports to confirm reliability of the reports prior to its submission to the audit committee or external auditors.
- Internal audit did not follow up the implementation of internal and external audit recommendations to address audit outcomes.



Audit committee

75. An audit committee was established, however no evidence that audit committee monitored performance management.
 76. The audit committee did not have an impact on the audit outcome for the year under review consider the not monitor the implementation of recommendations made.
-

SUMMARY

77. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on non-compliance with legislation, will be summarised in the auditor's report as follows:

Leadership

78. Leadership of the municipality did not maintain good governance principles and did not exercise effective oversight to address the risks in the internal controls of the municipality. Timely and adequate action was not taken to address weaknesses, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful as well as irregular expenditure.
79. There were a number of critical vacancies that were not addressed, which had a further negative impact on the internal controls. The slow process of appointment hindered the filling of vacancies.

Financial and performance management

80. The municipality did not have a proper filing system that supports the reported financial and performance information. This includes information that relates to the collection, collation, verification, storing and reporting of actual data and reconciliations supporting the financial statements. This was mainly due to a lack of capacity and the lack of sufficient office and storage space for proper filing of documentation.

Governance

81. The internal audit unit did not function properly due to a lack of risk assessment, capacity and a risk based audit plan.
 82. An audit committee was established but due to a lack of effective communication and actions between the committee, the council and management it was not effective to contribute to the improvement of internal control.
-

PART F – ASSESSMENT OF ASSURANCE PROVIDERS

83. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance, and one of the important oversight functions of council is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report as well as on the auditee's compliance with legislation.
84. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

85. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in part E of section 2) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below

Assurance levels should be improved	
Senior management	<i>Provides assurance</i>
Municipal manager	<i>Provides assurance</i>
Mayor	<i>Provides some assurance</i>
Internal audit	<i>Provides limited/ no assurance</i>
Audit committee	<i>Provides some assurance</i>
Municipal council	<i>Provides limited/ no assurance</i>
MPAC	<i>Provides limited/ no assurance</i>

STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

86. Below is our assessment of the progress in implementing the commitments made by senior management, the accounting officer and the audit committee to address prior and current year audit findings.

No.	Commitment	Made by	Date	Status
1	Appointment for the of CFO and Director Technical Service	Mayor and MM	30 April 2014 1 July 2014 20 Oct 2014	In progress. CFO was appointed on 1 August 2014 Director Technical services was not appointed as yet
2	Actions to ensure all the strategy documents are complete and approved by council. Also ensure with the implementation of new computer equipment that controls and all procedures are addressed and applied and comply to.	Mayor and MM	30 April 2014 1 July 2014 20 Oct 2014	In progress
3	Drastic actions be implemented to ensure that the accounting server and programs been sorted out and that all the reconciliations and monthly and daily controls implemented and the review functions done to ensure proper supervision on the controls.	Mayor and MM	30 April 2014 1 July 2014 20 Oct 2014	In progress
4	Perform a risk assessment	Mayor and MM	30 April 2014	Risk assessment was done for the 2014-15 year
5	The risk assessment action plan be finalised and that the final action plan be submitted and approved by the MM.	Mayor and MM	20 Oct 2014	In progress

87. Various recommendations that were raised in the prior audit report are still in the process of being implemented and very limited progress has been made. Detail on the status of these recommendations is provided in the summary of detailed findings in this report (section 7).

SECTION 3: SPECIFIC FOCUS AREAS

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

88. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

R 12 952 608 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection are:

- Insufficient staff in the supply chain unit.
- Supply chain staff have insufficient knowledge of applicable laws and regulations relating to supply chain management.

Awards to persons in the service of the state

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

The findings were as follows (Include detail on awards and interests identified as per the table below):

Finding	Number and value of awards made	Number of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not-declare interest (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
Awards to officials municipality (Ex.55,66)	2 (R25 408)	2	2	2	0	2	0

Procurement processes

89. The following findings on procurement processes result from the testing of 22 contracts with a total value of R 134 547 769 and 49 of price quotations with a total value of R1 805 301.

List of accredited prospective providers

- The following shortcoming in administration of the list of accredited prospective providers were identified:

Listing criteria not specified for prospective providers (Ex. 89)

Procurement process – Quotations

- 14 awards to the total value of R882 329 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.(Ex.183,Ex.77)

Procurement process - Competitive bidding



- Sufficient appropriate evidence could not be obtained that public invitations for 22 competitive bids to the value of R 134 547 769 were advertised for at least 14 days. **(Ex.157)**

PART B – SERVICE DELIVERY MATTERS

Water and sanitation

90. The audit included an assessment of specific service delivery aspects relevant to water and sanitation. For the financial year under review the following findings were identified:
- The municipality did not adopt a Water Services Development Plan.
 - Access to basic water is not reported as a key performance indicator in the annual performance report.
 - Targets for providing access of basic water to households for the 2012-13 and the 2013-14 financial years were not achieved.
 - The backlog in the provision of water will not be eradicated in 2015.
 - Access to basic sanitation is not reported as a key performance indicator in the annual performance report.
 - Targets for providing access of basic sanitation to households for the 2012-13 and the 2013-14 financial years were not achieved.
 - The backlog in the provision of sanitation will not be eradicated in 2015.**(Ex. 7)**

Roads infrastructure

91. The audit included an assessment of specific aspects relevant to roads infrastructure. For the financial year under review the following findings were identified:
- The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
 - The municipality has not set a performance indicator or target for the maintenance of roads.
 - The municipality has not set a performance indicator or target for the construction of new roads.
 - The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year.
 - The municipality does not have a road asset management system. **(Ex. 211)**

Conditional grants

92. The audit included an assessment of the effectiveness of the municipality's utilisation of conditional grants received. For the financial year under review, we focused on the following grants:
- Municipal Infrastructure Grant (MIG)
 - Municipal Systems Improvement Grant (MSIG)
 - Local Government Financial Management Grant (FMG)

93. Summary of allocations and spending

	MIG	MSIG	FMG
--	------------	-------------	------------



Total available to spend	44 000 000	1 650 000	890 000
Total amount utilised/ spent in current financial year	43 282 000	1 650 000	890 000
Unspent allocation	718 000	0	0
Percentage of under/(over)spending	1.6 %	0%	(0%)

- No material under spending

94. Municipal Infrastructure Grant

Key project(s) selected	Soutpan/Ikgomotseng: Water Treatment Plant (MIG/FS/0657/W/08/09)
MIG outputs linked to selected key project	Additional poor households receiving basic water and sanitation services
Total project budget (from initiation to completion)	R15 063 590
Actual amount spent on the project - current year	R9 070 949
Total amount spent from initiation to date	R9 858 673
Planned completion date	31 October 2014
Planned project target /key milestone for the current year	Additional poor households receiving basic water and sanitation services
Project status as at year end	Per project implementation plan, the project would be 65% complete in terms of expenditure incurred on the project.

- No significant findings were identified from the key projects selected

95. Municipal Systems Improvement Grant

Key MSIG priorities output selected	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.
Amount allocated per selected priority output	R890 000
Actual amount spent per selected priority output	R890 000
Key planned target for the current year	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

- No significant findings were identified from the key priorities output selected

96. Financial Management Grant

Key FMG priorities output selected	To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA) As part of strengthening financial and asset management in municipalities, the grant provides funding for water and energy internship programme to graduates in selected water boards and municipalities.
Amount allocated per selected priority output	R1 650 000
Actual amount spent per selected priority output	R1 650 000
Key planned target for the current year	To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA) As part of strengthening financial and asset management in municipalities, the grant provides funding for water and energy internship programme to graduates in selected water boards and municipalities.

- No significant findings were identified from the key priorities output selected

PART C – FINANCIAL INDICATORS

97. Management is responsible for the sound and sustainable management of the affairs of the municipality and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.
98. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely corrective action where financial health and service delivery may be at risk. The information should be used to complement, rather than substitute, management’s own financial assessment.
99. We assessed the municipality’s financial indicators according to the following areas:
- Budget management
 - Expenditure management
 - Revenue management
 - Asset and liability management
 - Cash management
 - Grant management
100. We show our assessment of the financial indicators in the table below and give high-level comments on the risks posed by the assessment of the financial indicators.

BUDGET MANAGEMENT		



1.1	Percentage over-spending of the final approved operating expenditure budget	53.2%	13%
1.2	Percentage under-spending of the final approved capital budget	0.5%	45%
EXPENDITURE MANAGEMENT			
2.1	Creditor-payment period ¹	186.4 Days	84 Days
REVENUE MANAGEMENT			
3.1	Debtor-collection period (before impairment)	1 393.5 Days	1 208 Days
3.2	Debtor-collection period (after impairment)	50 Days	268 Days
3.3	Debtors impairment provision as a percentage of accounts receivable	96.4%	78%
3.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	368.1%	257%
3.5	Percentage water losses incurred	-10.6%	-32%
3.6	Percentage electricity losses incurred	-56.6%	-5%
ASSET AND LIABILITY MANAGEMENT			
4.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	No
4.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	No
4.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
4.4	Percentage of PPE and/or intangible assets impaired	55.5%	54%
4.5	Percentage of loan receivables (loans awarded) and/or investments impaired	N/A	N/A
CASH MANAGEMENT			
5.1	The year-end bank balance was in overdraft	No	No
5.2	Net cash flows for the year from operating activities were negative	No	No
5.3	Cash and cash equivalents as a percentage of operating expenditure	1.3%	3.5%
5.4	Creditors as a percentage of cash and cash equivalents	1120.5%	241.1%

¹ Consideration should be given to consistency between the assessment of this indicator and the need for a compliance finding on this matter. However, it should be kept in mind that the financial indicator assessment is done "as at year-end" and therefore only reflects year-end results.

5.5	Current liabilities as a percentage of net cash inflows for the year from operating activities	-125.1%	-171%
5.6	Non-current liabilities (long-term debt) as a percentage of net cash inflows for the year from operating activities	-40.8%	-63%
5.7	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	14.2%	24%
GRANT MANAGEMENT			
6.1	Percentage under-spending of conditional grants received for the year	1%	18.2%
6.2	Percentage by which unspent conditional grants received exceeded cash available at year-end	Not exceeded	13.8%
Overall the results of the above financial indicator evaluation is assessed as:		Red (Material unfavourable indicators)	Red (Material unfavourable indicators)
<i>The above assessment is based on financial statement amounts as submitted to audit.</i>			

101. The municipality experiences the financial problems due to the point that it takes longer to recover the money from the customers and this impacts the municipality's abilities to deliver the services to the community and to pay its creditors.

PART D – CONSULTANTS

The audit included an assessment of the use of consultants. In the public sector environment, the partnership between the private and public sector has become important in driving strategic goals. To optimise the value of this partnership, we identified areas that need attention to get the best value for money. (Ex. 165)

The table below shows the extent and nature of the municipality's use of consultants:

Type of consultancy services	Number of consultants	Actual expenditure		
		Current year – incurred before year-end	Incurred after year end on [financial reporting and/ or preparation of performance information] for current year	Prior year
Financial reporting services	1	R457 536	R926 251	R5 627 980
Preparation of performance information	1	R2 181 140	R195 000	R1 049 883
IT related services	4	R733 496		Not known
Other consultancy services: Valuation of employee benefits		R37 506		R2 138 936

The table below shows the consultancy contracts assessed the reasons for the appointment of the consultant and whether the audit identified any uncorrected misstatements or material findings on performance information in the areas the consultant was responsible for. We also provide our assessment of the reason for such misstatements or findings. If our audit identified any findings on the contract, the area of finding is indicated.

Name of consultant	Description of service	Value of contract	Reason for appointing consultant	Recurring appointment?	Uncorrected misstatements or material findings identified in areas of consultant's responsibilities?	Reasons for findings/ misstatements not prevented by use of consultant	Areas of finding
Nexia SAB&T	Financial reporting services	R797 980	Lack of skills and vacancies	Recurring appointment	Yes- In the area of Grants, PPE, Receivables, Payables	No measures to monitor skills transfer or skills transfer not monitored and Other auditee ineffectiveness	Internal capacity/ Transfer of skills/ Performance management and monitoring
KTP MANAGEMENT CONSULTANT	Preparation and review of performance information	R1, 3 million	Lack of skills and vacancies	New appointment	Performance reporting	No measures to monitor skills transfer or skills transfer not monitored and Consultant did not deliver satisfactory and substantiated reports	Planning and appointment process/ Internal capacity/ Transfer of skills/ Performance management and

							monitoring
--	--	--	--	--	--	--	------------

The following findings on use of consultants result from the testing the contracts listed in the table above.

Planning and appointment processes

- Consultants were appointed without a proper needs assessment being performed.
- The terms of references used in the appointment consultants were inadequate as they did not clearly define the task directive, objectives, goals, scope of the assignment, time frames linked to various tasks, frequency of monitoring actions or required experience and qualifications.

Transfer of skills

- Conditions or clauses for transfer of skills were not included in the contract.
- Measures to monitor transfer of skills according to the contract were not implemented.
- There is no evidence that skills transfer or training programmes took place.
- Employees to be trained were not identified or were not available to attend training.

Performance management & monitoring

- The work of consultants was monitored by staff members who were not sufficiently experienced to ensure effective contract management.
- The payments/expenditure under the contract exceeded the approved budgeted amount.
- Measures to monitor contract performance and delivery were not defined and/or implemented.
- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.
- No evaluation was performed to compare the consultant’s services rendered and the deliverable to the initial project objectives and needs.
- Consultants were contracted at prices or rates which are above the tendered prices.
- Uncorrected material misstatements or audit findings were identified by the auditors on the work performed by the consultant or in areas of the consultants’ responsibilities.
- Final deliverables delivered by consultants did not match those described in the terms of reference.

Internal control deficiencies

The municipality lacked a designated official who will ensure that proper planning and monitoring of supply chain process is enhanced. Proper project management was applied by management of the municipality to ensure that proper services is rendered and quality work was performed.

PART E – FRAUD



102. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit there is a risk that some material misstatements including fraud may not be detected. No specific cases came to our attention during the audit.

SECTION 4: EMERGING RISKS

Accounting, performance management / reporting and compliance matters

103. The following standards of GRAP were issued, but which were not effective for the year ended 30 June 2014:

- GRAP 18 Segment reporting
- GRAP 105 Transfers of functions between entities under common control
- GRAP 106 Transfers of functions between entities not under common control
- GRAP 107 Mergers

Subsequent events

104. No subsequent events were identified during the audit for which the financial statements have to be adjusted or that has to be disclosed.

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

105. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
 - Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation in future.
 - Calculation of the financial indicators as included in section 3 C above.
-

SECTION 6: CONCLUSION

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

Yours sincerely

A. Theron
Senior Manager: Free State

30 November 2014

Enquiries: Thabang Nkhahle
Telephone: (051) 51 409 0134
Fax: (051) 409 0180
Email: thabangn@agsa.co.za

Distribution:

Municipal Manager
CFO
Audit committee
Head of internal audit





SECTION 7: SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Accumulated surplus/deficit											
205	Accumulated surplus/deficit: Differences between Pastel trail balance and Financial statements (EX.149)	✓						✓			In progress
209	Accumulated surplus/deficit: Differences between Pastel trail balance and case ware trial balance (EX.148)				✓			✓			In progress
Borrowings & long-term loans											
210	Expenditure: Overstatement on finance charges (EX.134)	✓						✓			In progress
211	Long term liabilities: Late payments and penalty interest (EX.36)	✓						✓			In progress
212	Long term liability: Internal control - Long term liability and lease registers not reviewed (EX.26)				✓			✓			In progress



Cash and cash equivalents											
213	Cash and cash equivalents: Limitation on the scope of the audit (EX.101)				✓			✓			In progress
214	Cash and cash equivalents: Unidentified deposit register not kept (EX.186)				✓			✓			In progress
215	Cash and cash equivalents: Monthly bank reconciliations not compiled and reviewed (EX.188)				✓			✓			In progress
216	Cash and cash equivalents: Journals not correctly processed (Ex.48) (EX.48)				✓			✓			In progress
218	Cash and cash equivalents: Bank account not on Pastel system (EX.5)				✓			✓			In progress
219	Cash and cash equivalents: Irregular expenditure from goods and services below R2 000 (EX.49)			✓				✓			In progress
Commitments											
221	Commitments: Overstatement in the financial statements (EX.217)	✓						✓			In progress
Contingent liabilities											
222	Disclosure: Contingent liabilities - Documents not submitted (EX.126)	✓						✓			In progress
225	Disclosure: Contingent liabilities misstated (note 42) (EX.128)	✓						✓			In progress
Employee costs											
227	Employee related costs: Leave captured onto the	✓						✓			In progress



	system after year end (EX.155)										
234	Employee related costs: Prior year follow-up documents not submitted (EX.46)	✓						✓			In progress
236	Employee related costs: No formal overtime policy in place and overtime sheets differ with amounts paid out (EX.87)	✓						✓			In progress
240	Employee related costs: Councillors remuneration exceeded (EX.91)	✓						✓			In progress
242	Employee related costs: Authorisation of journals (EX.106)				✓			✓			In progress
244	Employee related costs: leave - Approval date and authorisation signature not on the leave application form (EX.154)				✓			✓			In progress
248	Employee related costs: leave taken exceeds maximum number of days plus accruals (EX.156)				✓			✓			In progress
251	Employee related costs: leave captured against incorrect employee (EX.158)				✓			✓			In progress
253	Employee related costs: Leave days taken different to leave days captured onto the system (EX.159)				✓			✓			In progress
257	Employee related costs: Differences identified on				✓			✓			In progress



	recalculation of pay-as-you-earn (EX.193)										
258	Employee Related costs: No letters for Acting allowances (EX.38)				✓			✓			In progress
259	Employee related costs: EMP201 not submitted on time (EX.64)				✓			✓			In progress
260	Expenditure: Travel claims in excess of R3.30 not included in taxable income (EX.69)				✓			✓			In progress
261	Employee related costs: Internal control deficiencies identified: Payroll (EX.86)				✓			✓			In progress
263	Employee related costs: Authorisation of allowances could not be obtained (EX.98)				✓			✓			In progress
265	Employee related costs: Appointments not made supporting documentation (EX.109)			✓				✓			In progress
267	Employee related costs: Leave - Information not submitted (EX.143)			✓				✓			In progress
276	Employee related costs: Leave not taken in accordance to the collective main agreement (EX.160)			✓				✓			In progress
279	Employee related costs: Payments to third parties not done timeously. (EX.80)			✓				✓			In progress



General IT controls											
280	ICT: Information Technology (IT) - Controls not in place (EX.15)				✓			✓			In progress
Compliance											
54	Procurement: The functionality criteria applied differs from the one in the bid documents (EX.222)	✓					✓				In progress
57	Procurement: Tenders awarded to incorrect suppliers (EX.223)	✓					✓				In progress
67	Audit Committee: Audit Committee not effective (EX.10)				✓		✓				In progress
68	Audit Committee: Non-compliance with laws and regulations and audit charter (EX.3)				✓		✓				In progress
72	Internal Audit : Not effective (EX.9)				✓		✓				In progress
74	Procurement: Tender advertisements may not have been advertised for the required period of time (EX.157)			✓			✓				In progress
76	Compliance: Annual report not submitted to Council (EX.18)			✓			✓				In progress
77	Non-compliance: Irregular, fruitless and wasteful and unauthorised expenditure not investigated (EX.201)			✓			✓				In progress



283	Procurement: Municipal Accounts not provided by the winning bidder (EX.224)	✓						✓			In progress
284	Procurement: BBBEE Scores awarded to suppliers without valid BBBEE Certificates. (EX.232)	✓						✓			In progress
285	Procurement: Specifications might not have been approved by the accounting officer prior to publication of the invitation (EX.226)			✓				✓			In progress
287	Procurement: Winning Bidder results not published on the municipality website (EX.228)			✓				✓			In progress
Internal control											
78	Internal control: Deficiencies identified with the control environment of the municipality (EX.11)				✓			✓			In progress
288	Internal control: High vacancy rate (Ex.1) (Copied) (EX.1)				✓			✓			In progress
290	Internal control: Monthly exceptions identified on the system after billing are not followed up (EX.29)				✓			✓			In progress
291	HR: Job descriptions have not been signed (EX.127)			✓				✓			In progress
292	Internal controls: Policies and procedures not in place (EX.24)			✓				✓			In progress
Disclosure											



294	Disclosure: Incorrect disclosure of audit fees in note 35.2 (EX.229)	✓					✓				In progress
81	Financial Statements: Errors on the Financial Statements (EX.12)	✓					✓				In progress
83	Irregular Expenditure Understated in the Annual Financial Statements (EX.105)			✓			✓				In progress
87	Fruitless and wasteful expenditure: Inaccurate and Incomplete disclosure (EX.220)			✓			✓				In progress
Immovable assets											
89	PPE: Sizes of water pipes as per asset register differs with sizes as per technicians (EX.132)	✓					✓				In progress
92	PPE: Balance of PPE at year end misstated (EX.150)	✓					✓				In progress
93	PPE: Assets not componentised (EX.161)	✓					✓				In progress
101	PPE: Storm water items have no cost/value (EX.191)	✓					✓				In progress
102	PPE: Bulk Sewer and Sewerage (Sizes of pipes differed) (EX.219)	✓					✓				In progress
105	PPE: Electricity items not verified (EX.227)	✓					✓				In progress



109	PPE: WIP completed project not capitalised (EX.136)			✓			✓				In progress
111	PPE: No movement for WIP projects (EX.209)			✓			✓				In progress
112	PPE: WIP not capitalised (Prior year exception) (EX.28)			✓			✓				In progress
114	PPE: Internal control deficiencies identified – Lack of asset lists and policies (EX.39)			✓			✓				In progress
115	PPE: Assets not assessed for impairment (EX.56)			✓			✓				In progress
135	PPE: Paved/Gravel roads not verified (Storm water & Road Infrastructure) (EX.79)			✓			✓				In progress
295	PPE: Bulk water items not verified (EX.166)	✓						✓			In progress
296	PPE: Assets not traced to asset register (EX.182)	✓						✓			In progress
298	PPE: Differences between asset register, GL and financial statements (EX.185)	✓						✓			In progress
300	Depreciation: Difference Fixed Assets Register and Trial Balance (EX.200)	✓						✓			In progress
303	PPE: Different sizes of valves with the same value (EX.21)	✓						✓			In progress



304	PPE: Repairs and maintenance incorrectly classified (EX.37)	✓					✓				In progress
306	PPE: Sizes for Land and Building identical (Churches) (EX.164)				✓		✓				In progress
308	PPE: PPE items not bar coded (EX.167)				✓		✓				In progress
Inventory											
310	Inventory: Accounts closed without an approval (EX.184)				✓		✓				In progress
Investments											
311	Investments: Monthly reconciliations not performed (EX.45)				✓		✓				In progress
Movable assets											
143	PPE: Working papers for asset verification not obtained (EX.17)			✓			✓				In progress
146	PPE: Assets are not componentised (Prior year exception) (EX.25)			✓			✓				In progress
312	PPE: Assets not barcoded (EX.20)				✓		✓				In progress
Operating expenditure											
151	Consultants: Lack of internal controls on the monitoring of consultants lead to irregular expenditure (EX.165)	✓					✓				In progress
156	Expenditure: Payments not made within 30 days.			✓			✓				In progress



	(EX.103)									
157	Procurement: Declaration of interest forms (MBD4) - R10 000 - 30 000 (EX.173)			✓			✓			In progress
158	Procurement: Construction contracts not registered on the CIDB database (EX.204)			✓			✓			In progress
159	Depreciation: Useful lives of assets not assessed at year end (EX.208)			✓			✓			In progress
161	Disclosure: Budgeted votes exceeded and not adequately monitored (EX.78)			✓			✓			In progress
314	Expenditure: Expenditure transactions not recorded in the general ledger (EX.102)	✓						✓		In progress
315	Lease agreements: Supporting documentation not provided for audit purposes (EX.153)	✓						✓		In progress
316	Procurement: Deviations not disclosed in the notes to the annual financial statements (EX.170)	✓						✓		In progress
317	Expenditure: Transactions recorded in the incorrect accounting period (EX.70)	✓						✓		In progress
319	Expenditure: Invoices and general ledger entries do not agree (EX.72)	✓						✓		In progress



320	Expenditure: Invoice amount incorrect (EX.73)	✓						✓			In progress
321	Procurement: Internal control documents not submitted for audit (EX.230)				✓			✓			In progress
323	Expenditure: No sound internal control over expenditure to ensure payments are only made for goods delivered/orders placed (Ex.6 (EX.6))				✓			✓			In progress
325	Expenditure: Payments made regardless of not yet being authorised for payment (EX.74)				✓			✓			In progress
326	Procurement: Price quotations not invited on a rotation basis (EX.100)			✓				✓			In progress
327	Resolved: Procurement: Winning bidder's account for municipal rates, tax and service charges in arrears (EX.169)			✓				✓			In progress
328	Procurement: Deviation based on procurement being an emergency (EX.171)			✓				✓			In progress
330	Procurement : Awards to supplier that are not accredited (EX.175)			✓				✓			In progress
331	Procurement: Awards not approved by an appropriate delegated official (EX.176)			✓				✓			In progress



332	Procurement: Suppliers' income tax reference numbers (EX.177)			✓				✓			In progress
333	Procurement : Minimum quotations not obtained - R2000 - R30 000 (EX.183)			✓				✓			In progress
335	Procurement : Construction bids not advertised in the CIDB website (EX.205)			✓				✓			In progress
336	Depreciation: Asset management policy not updated and useful lives of major assets not approved (EX.207)			✓				✓			In progress
337	Procurement :Poor contract management with respect to procurement of goods and services (EX.213)			✓				✓			In progress
338	Procurement: (Quotations R30 000 - R200 000) - Supporting documentation not provided for audit purposes (EX.214)			✓				✓			In progress
341	Procurement : Awards to suppliers with interest in service of the State (EX.55)			✓				✓			In progress
343	Procurement : SCM policy weaknesses (EX.59)			✓				✓			In progress
344	Procurement : Interest Declaration (EX.66)			✓				✓			In progress
345	Expenditure: Valid VAT Invoice (EX.76)			✓				✓			In progress



346	Expenditure: Three quotations not obtained for procurement below R200 000 (EX.77)			✓			✓			In progress
349	Procurement : Listing criteria not specified for prospective providers (EX.89)			✓			✓			In progress
Payable										
163	Payables: 30 day payment terms (Non-compliance) (EX.194)			✓			✓			In progress
350	Payables: Note 29 - Difference identified on the annual financial statements (EX.179)	✓					✓			In progress
351	Payables: Transactions not recorded (EX.192)	✓					✓			In progress
353	Consumer deposits: Consumer deposits debited upon disconnection cannot be verified (EX.104)				✓		✓			In progress
355	Trade payables: difference between balances on supplier reconciliations, age analysis & statements (EX.216)				✓		✓			In progress
359	Internal control: Reconciliations are not reviewed between deposit register and deposit control account. (EX.41)				✓		✓			In progress
360	Finance charges : Creditors reconciliations not done (EX.44)				✓		✓			In progress



361	Payables: Creditors Reconciliations (EX.62)				✓			✓			In progress
Predetermined objectives											
164	Predetermined objectives: Annual report does not report on the performance of the municipality (EX.145)		✓				✓				In progress
165	Predetermined objectives: No consistency between planned and reported performance (EX.199)		✓				✓				In progress
167	Predetermined objective: Indicators are not prepared using the SMART criteria (EX.203)		✓				✓				In progress
170	Predetermined objectives: No performance for staff conducted (EX.32)		✓				✓				In progress
173	Predetermined objectives: Non implementation of the IDP (EX.68)		✓				✓				In progress
174	Predetermined objectives: SDBIP not submitted to the National Treasury within ten days (EX.88)		✓				✓				In progress
362	Predetermined objectives: Limitation on the scope of the audit to determine reliability (EX.133)		✓					✓			In progress
363	Predetermined objectives: Mid-year budget and performance assessment compiled late with errors (EX.138)		✓					✓			In progress



365	Predetermined objectives: SDBIP not advertised (EX.142)		✓					✓			In progress
366	Predetermined objectives: Discrepancies in the Integrated Development Plan (EX.60)		✓					✓			In progress
367	Predetermined objectives: Errors identified on the Annual report (EX.82)		✓					✓			In progress
368	Predetermined objectives: Risk assessment not conducted (EX.92)		✓					✓			In progress
370	Performance audit integration: Monitoring of service delivery: Roads (EX.211)					✓		✓			In progress
371	Performance audit integration: Monitoring of service delivery: Water and Sewer (EX.7)					✓		✓			In progress
Provisions											
373	Provision for landfill sites: Overstatement in the financial statements (EX.22)	✓						✓			In progress
375	Provision for landfill sites: Incorrect disclosure (EX.40)	✓						✓			In progress
Receivables											
175	Account receivables: Scope limitation as documents was not submitted (EX.111)	✓						✓			In progress
183	Account receivables: Accounts not billed (EX.117)	✓						✓			In progress



184	Account receivables: Existence of debtors could not be confirmed (EX.162)	✓					✓				In progress
377	Provision for debts impairment/Debt impairment expense/VAT input - Overstated (EX.172)	✓						✓			In progress
379	Account receivables: Arrangements payments for outstanding balances not submitted - RFI 69 (EX.118)				✓			✓			In progress
381	Account receivables: Indigents forms not recorded in the register (EX.129)				✓			✓			In progress
382	Account receivables: No discontinuation of services for accounts older than 90 days (EX.131)				✓			✓			In progress
386	Account receivables: Services not charged to the correct property owners after transfers (EX.196)				✓			✓			In progress
389	Account receivables: Debtors not handed over for collection (EX.233)				✓			✓			In progress
390	Revenue: No disconnection for water/electricity upon defaulted payments (EX.63)				✓			✓			In progress
391	Account receivables: No monitoring of excessive use of water and electricity for indigents customers (EX.119)			✓				✓			In progress



Related parties											
392	Related parties: Incorrect disclosure (EX.43)	✓						✓			In progress
394	Related parties: Declaration of interest (EX.47)			✓				✓			In progress
Revenue											
188	Revenue: Misstatement on AFS (EX.181)	✓						✓			In progress
190	Revenue and receivable: Sale of sewage and refusal removal disclosed on the AFS is not complete (EX.195)	✓						✓			In progress
193	Revenue: Refuse removal charges not billed (EX.65)	✓						✓			In progress
198	Property Rates: Difference between the system and valuation roll (EX.67)	✓						✓			In progress
201	Revenue: Other - Interest on overdue accounts (EX.99)			✓				✓			In progress
400	Revenue: Basis used for billing estimated consumption is not consistent and not on the policy (EX.124)	✓						✓			In progress
402	Unspent Conditional Grants: Understating of conditional grants (EX.135)	✓						✓			In progress
403	Revenue (Other) - Incorrect rate charged (EX.139)	✓						✓			In progress



404	Revenue (Other) - Interest charged over 90 days (EX.140)	✓						✓			In progress
405	Conditional grant revenue: Understatement of grant revenue and unspent portion of MIG (EX.163)	✓						✓			In progress
407	Revenue (Other) - Supporting documents not submitted for audit (EX.180)	✓						✓			In progress
409	Conditional grant revenue : Understatement of the Grant revenue and RBIG expenditure (EX.189)	✓						✓			In progress
410	Revenue - Grant from Provincial Treasury not included in the General Ledger (EX.51)	✓						✓			In progress
411	Revenue - Misstated Municipal Infrastructure Grant (MIG) revenue (EX.52)	✓						✓			In progress
413	Revenue - MIG invoice (revenue) not included in the General Ledger (EX.54)	✓						✓			In progress
414	Property Rates: Misstated (EX.61)	✓						✓			In progress
416	Property Rates :Supplementary valuation roll not done (EX.107)				✓			✓			In progress
417	Revenue: Other - Manual receipts not submitted (EX.110)				✓			✓			In progress



418	Revenue: No tariffs to bill sewage for other user groups on the municipality's tariff list (EX.116)				✓			✓			In progress
420	Revenue: Differences identified between meter readings books and the system for water and electricity consumption (EX.137)				✓			✓			In progress
422	Revenue(distribution losses) - Distribution loss not budgeted for (EX.144)				✓			✓			In progress
423	Revenue: No list for all water and electricity meters registered with the municipality (EX.147)				✓			✓			In progress
424	Revenue(distribution losses): Differences identified between total distribution losses for water and electricity disclosed (EX.152)				✓			✓			In progress
426	Revenue (Other) : Request No. 36 – Revenue Register for Soutpan not obtained and Reconciliation deficiencies (EX.16)				✓			✓			In progress
427	Revenue: Lack of internal control on new appointments (EX.174)				✓			✓			In progress
428	Revenue (Other) - Missing receipts numbers (EX.57)				✓			✓			In progress
432	Revenue: Other - Cash not banked daily (EX.85)				✓			✓			In progress



433	Grant revenue: MSIG and LGFMG funds used for a different purpose. (EX.114)			✓				✓			In progress
435	Revenue: Other - Interest not charged on overdue account (EX.130)			✓				✓			In progress
436	Receivable and Revenue: The Municipality's debts collection procedures are not in line with the policy (EX.19)			✓				✓			In progress
437	Revenue: Application forms for new accounts not authorised and lease agreements not attached (EX.202)			✓				✓			In progress
438	Revenue: Property register is not designed as prescribed by the act and is not reviewed annually (EX.23)			✓				✓			In progress
Taxes											
440	Value added taxation: Interest and penalties (EX.121)	✓						✓			In progress
441	Value added taxation: Reconciliation not reviewed by senior management (EX.31)				✓			✓			In progress
442	Value added taxation: Review and Approval (EX.35)				✓			✓			In progress
445	Value added taxation: Record keeping (EX.122)			✓				✓			In progress



446	Value added taxation: VAT levied on exempt supplies for the past 3 financial years (EX.33)			✓				✓			In progress
448	Value added taxation: Errors on VAT 201 returns not corrected accurately. (EX.34)			✓				✓			In progress



DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Compliance

1. EX.222 - Procurement: The functionality criteria applied differs from the one in the bid documents (EX.222)

Audit finding

In terms of the Preferential Procurement Regulations paragraph (3) "when evaluating tenders on functionality, the (a) evaluation criteria for measuring functionality; (b) the weight ; (c) applicable values; (d) minimum qualifying score for functionality must be clearly specified in the invitation to submit a tender.

Based on the audit performed on procurement and contract management, it was identified that the weights of functionality criteria used by the bid committees to assess the bids was different from the ones in the actual bid documents.

Note

No	Description of Tender	Functionality scores per bid documents	Functionality Scores used by the evaluation committee	Amount of the award (R)	Amount of Total expenditure (R)	Amount of Expenditure current year (R)
1	Financial support	40 points	Calculated out of 30 points	No amount provided	982 156	982 156
2	Supply of Computer equipment and software	60 points	Calculated out of 50 points	Long term tender. No amount provided	62 750	62 750
3	Fencing of oxidation ponds Soutpan	60 points	50 points were used	Long term tender. No amount provided	1 809 645	1 809 645
4	Fencing of reservoir Theunessen	50 points	No points were included in the total point calculation	No amount provided	971 861	971 861
5	Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw	No functionality scores identified in bid documents	Calculated out of 55 points	Long term tender. No amount provided	10 336 118	10 336 118
	Totals				R 14 162 530	R14 162 530

Cause

The bid evaluations committee and the bid adjudication committee did not correctly apply functionality criteria as set out in the bid documents.

Impact

This is a non-compliance matter and results in irregular expenditure amounting to R14 162 530

Internal control deficiency

Financial and performance management

Management did not adequately regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should implement measures to ensure that the SCM policies and procedures are complied with

Management response

No	Description of Tender	Functionality scores per bid documents	Functionality Scores used by the evaluation committee	Amount of the award (R)	Amount of Total expenditure (R)	Amount of Expenditure current year (R)	Comments
1	Financial support	40 points	Calculated out of 30 points	No amount provided	982 156	982 156	The technical report was calculated at 30 and the mistakes was realised at evaluation and the marks were converted to score out of 40. The amount of the bid was R797980.48, The closing of bid register was submitted to AG to resolve this finding
2	Supply of Computer equipment and software	60 points	Calculated out of 50 points	Long term tender. No amount provided	62 750	62 750	Management is in agreement with the finding regarding functionality but disagree with the amount. The amount cannot be stated due to the fact that the supply of good/services is supplied as and when they are required. The quotation were submitted and suppliers were requested to quote items per unit, for the sake of price calculation, the municipality added all the items and used the total amount of each quotation to calculate the preference system. Therefore the prices are used, but the quantity differs due to the demand
3	Fencing of oxidation ponds Soutpan	60 points	50 points were used	Long term tender. No amount provided	1 809 645	1 809 645	Management disagrees with the finding, the evaluation criteria is 50 points and functionality in the evaluation report is calculated at 50 points. The approved

							specification and the bid document state that the evaluation is a total of 50 points. The amount is also stated at R1844504.42
4	Fencing of reservoir Theunessen	50 points	No points were included in the total point calculation	No amount provided	971 861	971 861	Management disagree with the finding, the evaluation criteria is 50 point The approved specification and the bid document state that the evaluation The amount is also stated at R955717.15
5	Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw	No functionality scores identified in bid documents	Calculated out of 55 points	Long term tender. No amount provided	10 336 118	10 336 118	Management disagree with the finding, the functionality score is provided in the specification at 50 with a breakdown. The technical report also has the functionality scores on page 8 table 6.1, 6.2, 6.3. The amount is also provided
	Totals				R 14 162 530	R14 162 530	

Auditor's conclusion

Managements comments were received and assessed as follows:

Description of Tender	Functionality scores per bid documents	Functionality Scores used by the evaluation committee	Comments	Auditor's comments	Recalculated irregular expenditure
Financial support	40 points	Calculated out of 30 points	The technical report was calculated at 30 and the mistakes was realised at evaluation and the marks were converted to score out of 40. The amount of the bid was R797980.48, The closing of bid register was submitted to AG to resolve this finding.	The issue is that was used and management did not submit any documents to the auditor to prove that conversion was applied. The matter will be reported.	982 156,00

Supply of Computer equipment and software	60 points	Calculated out of 50 points	Management is in agreement with the finding regarding functionality but disagree with the amount. The amount cannot be stated due to the fact that the supply of good/services is supplied as and when they are required. The quotation were submitted and suppliers were requested to quote items per unit, for the sake of price calculation, the municipality added all the items and used the total amount of each quotation to calculate the preference system. Therefore the prices are used, but the quantity differs due to the demand	Management agrees with the finding and the matter will be reported.	62 750,00
Fencing of oxidation ponds Soutpan	60 points	50 points were used	Management disagrees with the finding, the evaluation criteria is 50 points and functionality in the evaluation report is calculated at 50 points. The approved specification and the bid document state that the evaluation is a total of 50 points. The amount is also stated at R1844504.42	Management agrees that 50 points were used as per the finding. The finding relates to the fact that 60 should have been used.	1 809 645,00
Fencing of reservoir Theunessen	50 points	No points were included in the total point calculation	Management disagree with the finding, the evaluation criteria is 50 point The approved specification and the bid document state that the evaluation The amount is also stated at R955717.15	Through recalculated as per the evaluation, the auditor could validate management's comments.	-
Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw	No functionality scores identified in bid documents	Calculated out of 55 points	Management disagree with the finding, the functionality score is provided in the specification at 50 with a breakdown. The technical report also has the functionality scores on page 8 table 6.1, 6.2, 6.3. The amount is also provided	The bid documents were re-assessed and it was identified that the project is funded by RBIG. This implies that the municipality does not pay the contractor for the projects. As no expenditure by the municipality exists, this cannot be regarded as irregular 'expenditure'. Therefore the matter should not be regarded as such.	-
Totals					<u>R2 854 551,00</u>

The matter will be included in the audit report as non- compliance.

2. EX.223 - Procurement: Tenders awarded to incorrect suppliers (EX.223)

Audit finding

In terms of the Preferential Procurement Policy Framework Act 8(8): "Only tenders with the highest points scored may be considered."

During the audit of procurement and contract management, it was identified that the tenders below were awarded to incorrect suppliers. The municipality did not award the tender to the supplier that scored the highest points, there was further no reasonable grounds to justify why the supplier that scored the highest points was not selected, refer below for the details:

No	Description of the tender awarded	Winning Supplier as per Auditee	Winning Supplier as per Auditor	Amount of the award	Total Expenditure incurred (13/14 and 14/15)	Expenditure relating to the current period (13/14)
1	Upgrading of water treatment plant at Soutpan/Ikgomotseng	Betmor Enterprise	Ratane Construction	No amount specified. Long term contract	7 553 268	7 553 268
2	Supply of Electrical material & tools	Lafatshe La Dagne	Mulauduzi development projects.	No amount specified. Long term contract	271 630	7 970
3	Supply of Computer equipment and software	Mixlix Trading	Sanchoflo CC	No amount specified. Long term contract	62 750	62 750
4	Supply of water meters material	Lemotswa Trading	Star Traders	No amount specified. Long term contract	No expense vouchers provided	No expense vouchers provided
5	Supply of garden/park/refuse/cemetery cleaning equipment	Phuthadihaba security and cleaning	Tender should be re advertised based on the fact that there were no suitable applicants	No amount specified. Long term contract	46 592	46 592
6	Supply of road signs and marking paints	Supply of road signs and marking paints	Supply of road signs and marking paints	No amount specified. Long term contract	284 538	0
7	Rehabilitation of Landfill Sites	Maruping Plant & Civils	The tender should be re advertised	No amount specified. Long term contract	No expense vouchers provided	No expense vouchers provided
8	Soutpan/Ikgomotseng Fencing of cemeteries	Tshenolelo Business Enterprise	Tshenolelo Business Enterprise	1222 045	877 069	0
9	Fencing of reservoir Winburg	WW Civil & Construction	Mahulane & Sons Logistics	1779 733	1 481 487	1 481 487
10	Fencing of water treatment works Winburg	Rdcon & Lefatshe La Rona JV	Ditiro Tsaka Trading Seiphetho Construction	1897 814	1 008 740	1 008 740
11	Masilo/Theunesen fencing of cemeteries and ablution facilities	Sompena Trading	Maono Constuction & Properties	3483 266	1 670 632	0
Totals					R13 256 706	R10 160 807

Cause

The bid evaluations committee and the bid adjudication committee did not correctly apply supply chain regulations.

Impact

The matter will result in non-compliance with the SCM regulations and will lead to irregular expenditure amounting to R10 160 807

Internal control deficiency

Financial and performance management

Management did not adequately review and monitor compliance with applicable laws and regulations.

Recommendation

Management should implement measures to ensure compliance with the applicable supply chain management laws and regulations.

Management response

No	Description of the tender awarded	Winning Supplier as per Auditee	Winning Supplier as per Auditor	Amount of the award	Total Expenditure incurred (13/14 and 14/15)	Expenditure relating to the current period (13/14)	Management response
1	Upgrading of water treatment plant at Soutpan/Ikgomotseng	Betmor Enterprise	Ratane Construction	No amount specified. Long term contract	7 553 268	7 553 268	Disagree. The amount was specified at R13 098 774.06. The reasons for appointing Betmor Enterprise were stated and supported by the Technical report from the engineer's consultant. As their appointed experts, their opinion was considered as they were better positioned to assist with evaluation and recommendation.
2	Supply of Electrical material & tools	Lafatshe La Dagne	Mulauduzi development projects.	No amount specified. Long term contract	271 630	7 970	1. 1. Disagree. Lefatshe La Dagne scored the highest and met all the evaluation criteria that is why they were appointed. The adjudication and evaluation reports explains in details and recommended appointed according 16.1 of PPFA ACT no. 5 of 2000

							<p>that's states that the highest scoring bidder should be appointed. The total quote of Mulaudzi development projects is higher than that of Lefatshe La Dagne. The tender amount cannot be stated because the supply of goods is as and when they are required by the municipality. The quotations were submitted and service providers were requested to quote items per unit. For the sake of preference price calculation , we added all the items and used the total amount of each quotation to calculate the preference point system. Therefore the prices on the quotes submitted are used as we request the goods but quantity differs due to demand.</p>
--	--	--	--	--	--	--	---

							The price is there per item and it is fixed per item only. Total quote is R78 422.87
3	Supply of Computer equipment and software	Mixlix Trading	Sanchoflo CC	No amount specified. Long term contract	62 750	62 750	<input type="checkbox"/> 2. Disagree. The evaluation criteria bear more points on functionality and Mixlex scored highest in terms of functionality, meaning that Mixlex has more capacity than Sanchoflo and all the experiences are listed in the technical report. Therefore not only price was considered but other elements were considered and evaluated to check which bidder can meet our expectation. Mixlex satisfied our criteria, specification and his profile was impressive far more than of Sanchoflo. Total quote amount is 729 006.06.
4	Supply of water meters material	Lemontswa Trading	Star Traders	No amount specified. Long term contract	No expense vouchers provided	No expense vouchers provided	Disagree: Lemontswa has capacity and reference letters to prove his capacity. Star Traders was already recommended for a 3 year project and this project was once off, therefore for fair and equal opportunity for all, Lemontswa was recommended for appointment. Lemontswa has been appointed at R406 244.47. The bidder has not yet supplied because we do not have storage yet for the water meters. Therefore there is no expense yet.
5	Supply of garden/park/refuse/cemetery cleaning equipment	Phuthadijhaba security and cleaning	Tender should be re advertised based on the fact that there were no suitable	No amount specified. Long term contract	46 592	46 592	Disagree; the bidder quoted the specification correctly. This is noted in the evaluation report and the technical

			applicants				report. All bidders were thoroughly checked against the specifications and Phuthaditjhaba was compliant. The total quote is R 101 367.66. Contract is 3 years
6	Supply of road signs and marking paints	Supply of road signs and marking paints	Supply of road signs and marking paints	No amount specified. Long term contract	284 538	0	Disagree, the supply of road signs and marking paint is for three (3) years. This was mentioned on the advert and the evaluation and adjudication reports. We agree with AG that the supplier that scored highest was not appointed, this is addressed in PPPFA section 16.2. as attached, The municipality evaluation committee recommended that both suppliers be awarded with a tender the reasons were captured in the minutes of the adjudication committee meeting
7	Rehabilitation of Landfill Sites	Maruping Plant & Civils	The tender should be re advertised	No amount specified. Long term contract	No expense vouchers provided	No expense vouchers provided	□ 3. Disagree, the bids received were acceptable. Functionality played an important role where elements such as capacity and experience were considered. The landfill sites were not serviced for over 6 months there was an instruction from Department of Human Settlement that the Municipality must take action as the landfill sites were not in good condition. Re-advert was not necessary because the bids were acceptable. Terms of the contract and price negotiations took place after the bidder was appointed. No expense has been incurred yet.
8	Soutpan/Ikgomotseng Fencing of cemeteries	Tshenolelo Business Enterprise	Tshenolelo Business Enterprise	1 222 045	877 069	0	The bidder was correctly appointed AG also confirms it, therefore the matter should have not been included in this exception

9	Fencing of reservoir Winburg	WW Civil & Construction	Mahulane & Sons Logistics	1 779 733	1 481 487	1 481 487	<input type="checkbox"/> 4. Disagree, functionality played an important role and Mahulane and Sons did not score highest in terms of experience and capacity etc. Mahulane and Sons did not demonstrate where similar projects were done. Information submitted was limited to determine if the bidder can execute the project successfully. WW Civil submitted a list of where similar project were done with contact details as reference.
10	Fencing of water treatment works Winburg	Rdcon & Lefatshe La Rona JV	Ditiro Tsaka Trading Seiphethlo Construction	1 897 814	1 008 740	1 008 740	<input type="checkbox"/> 5. Disagree; Ditiro Tsaka Trading Seiphethlo Construction does not have the relevant experience and capacity for the project. The bidder has experience on water related project. Rdcon and Lefatshe La Rona JV had more capacity and experience and scored highest in terms of functionality.
11	Masilo/Theunesen fencing of cemeteries and ablution facilities	Sompena Trading	Maono Construction & Properties	3 483 266	1 670 632	0	<input type="checkbox"/> 6. Disagree, Maono Construction & Properties was disqualified and information regarding the disqualification is noted in the evaluation report. Three bidders were compliant and suitable to execute the project and the most affordable one was recommended for appointment.
Totals					R13 256 706,00	R 10 160 807	

AG must also take note of the supporting document which is the extract of the PPPFA paragraph 16.2 and the copies of the adverts for all the tenders that are listed above.

Name: F Mzizi
Position: CFO
Date: 28/11/2014

Auditor's conclusion

Management's comments were assessed as follows:

Description of the tender awarded	Winning Supplier as per Auditee	Winning Supplier as per Auditor	Management response	Auditor's comments	Recalculated amount
Upgrading of water treatment plant at Soutpan/Ikgomotseng	Betmor Enterprise	Ratane Construction	Disagree. The amount was specified at R13 098 774.06. The reasons for appointing Betmor Enterprise were stated and supported by the Technical report from the engineer's consultant. As their appointed experts, their opinion was considered as they were better positioned to assist with evaluation and recommendation.	The opinion expressed by the experts is in contravention with Preferential Procurement Policy Framework Act 8(8) and the matter will be reported as such.	7 553 268

Supply of Electrical material & tools	Lafatshe La Dagne	Mulaudzi development projects.	<p>1. Disagree. Lefatshe La Dagne scored the highest and met all the evaluation criteria that is why they were appointed. The adjudication and evaluation reports explains in details and recommended appointed according 16.1 of PPFA ACT no. 5 of 2000 that's states that the highest scoring bidder should be appointed. The total quote of Mulaudzi development projects is higher than that of Lefatshe La Dagne. The tender amount cannot be stated because the supply of goods is as and when they are required by the municipality. The quotations were submitted and service providers were requested to quote items per unit. For the sake of preference price calculation, we added all the items and used the total amount of each quotation to calculate the preference point system. Therefore the prices on the quotes submitted are used as we request the goods but quantity differs due to demand. The price is there per item and it is fixed per item only. Total quote is R78 422.87</p>	Management comments were received, however no additional information that was provided to change the conclusion reached by the auditor.	7 970
---------------------------------------	-------------------	--------------------------------	---	---	-------

Supply of Computer equipment and software	Mixlix Trading	Sanchoflo CC	2. Disagree. The evaluation criteria bear more points on functionality and Mixlex scored highest in terms of functionality, meaning that Mixlex has more capacity than Sanchoflo and all the experiences are listed in the technical report. Therefore not only price was considered but other elements were considered and evaluated to check which bidder can meet our expectation. Mixlex satisfied our criteria, specification and his profile was impressive far more than of Sanchoflo. Total quote amount is 729 006.06.	The auditor agrees with management.	0
Supply of water meters material	Lemontswa Trading	Star Traders	Disagree: Lemontswa has capacity and reference letters to prove his capacity. Star Traders was already recommended for a 3 year project and this project was once off, therefore for fair and equal opportunity for all, Lemontswa was recommended for appointment. Lemontswa has been appointed at R406 244.47. The bidder has not yet supplied because we do not have storage yet for the water meters. Therefore there is no expense yet.	Management comments were received, however no additional information that was provided to change the conclusion reached by the auditor.	0
Supply of garden/park/refuse/cemetery cleaning equipment	Phuthadijhaba security and cleaning	Tender should be re advertised based on the fact that there were no suitable applicants	Disagree; the bidder quoted the specification correctly. This is noted in the evaluation report and the technical report. All bidders were thoroughly checked against the specifications and Phuthadijhaba was compliant. The total quote is R 101 367.66. Contract is 3 years	The evaluations were re-assessed in light of management comments and it could be concluded that the correct supplier should have been Star Traders	46 592

Supply of road signs and marking paints	Supply of road signs and marking paints	Supply of road signs and marking paints	Disagree, the supply of road signs and marking paint is for three (3) years. This was mentioned on the advert and the evaluation and adjudication reports. We agree with AG that the supplier that scored highest was not appointed, this is addressed in PPPFA section 16.2. as attached, The municipality evaluation committee recommended that both suppliers be awarded with a tender the reasons were captured in the minutes of the adjudication committee meeting	Management agrees with the finding that the highest bidder was not selected.	0
Rehabilitation of Landfill Sites	Maruping Plant & Civils	The tender should be re advertised	3. Disagree, the bids received were acceptable. Functionality played an important role where elements such as capacity and experience were considered. The landfill sites were not serviced for over 6 months there was an instruction from Department of Human Settlement that the Municipality must take action as the landfill sites were not in good condition. Re-advert was not necessary because the bids were acceptable. Terms of the contract and price negotiations took place after the bidder was appointed. No expense has been incurred yet.	The auditor agrees with management.	0
Soutpan/Ikgomotseng Fencing of cemeteries	Tshenolelo Business Enterprise	Tshenolelo Business Enterprise	The bidder was correctly appointed AG also confirms it, therefore the matter should have not been included in this exception	The auditor agrees with management.	0

Fencing of reservoir Winburg	WW Civil & Construction	Mahulane & Sons Logistics	4. Disagree, functionality played an important role and Mahulane and Sons did not score highest in terms of experience and capacity etc. Mahulane and Sons did not demonstrate where similar projects were done. Information submitted was limited to determine if the bidder can execute the project successfully. WW Civil submitted a list of where similar project were done with contact details as reference.	Management comments were received, however no additional information that was provided to change the conclusion reached by the auditor.	1 481 487
Fencing of water treatment works Winburg	Rdcon & Lefatshe La Rona JV	Ditiro Tsaka Trading Seiphetho Construction	5. Disagree; Ditiro Tsaka Trading Seiphetho Construction does not have the relevant experience and capacity for the project. The bidder has experience on water related project. Rdcon and Lefatshe La Rona JV had more capacity and experience and scored highest in terms of functionality.	Management comments were received, however no additional information that was provided to change the conclusion reached by the auditor.	1 008 740
Masilo/Theunesen fencing of cemeteries and ablution facilities	Sompena Trading	Maono Constuction & Properties	6. Disagree, Maono Construction & Properties was disqualified and information regarding the disqualification is noted in the evaluation report. Three bidders were compliant and suitable to execute the project and the most affordable one was recommended for appointment.	Management comments were received, however no additional information that was provided to change the conclusion reached by the auditor.	0
Totals					<u>10 098 057</u>

3. EX.10 - Audit Committee: Audit Committee not effective (EX.10)

Audit finding

In terms of section 166(4) requires that an audit committee must:

- (a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be; and
- (b) meet as often as is required to perform its functions, but at least four times a year.

In terms of paragraph 6 (g) of Masilonyana Local Municipality Audit Charter states that ,a quorum for any meeting shall be three (3) members.

contrary to the above it was noted that the audit committee during these meetings did not have a quorum.:

- 1.Meeting held on 06 February 2014 only one member was present.
- 2.Meeting held on 19 March 2014 two members were present.
- 3.Meeting held on 20 June 2014 two members were present.

As results of the audit committee being unable to form a quorum ,decision taken in the above meetings are not binding making audit committee to be ineffective.

Audit committee members not attending meeting so that a quorum can be formed.

Impact

Non-compliance with section 166 (4) of the MFMA

This also rendered the internal Audit to be ineffective as no oversight was provided

Internal control deficiency

Control deficiency

Management did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Control environment: The entity's organizational structure did not address areas of responsibility and establish lines of reporting in order to support effective internal control over financial reporting.

Recommendation

Management should firstly investigate why the above findings occurred ,and implement control mechanism that will ensure that Audit committee members are committed in their responsibilities by attending effective meetings and executing their responsibilities as outline in the Audit Committee Charter

Management response

Do not agree with the finding. The Audit Charter was approved with the following amendments

- i. The quorum was reduced to two,
- ii. Where the municipality was stated as Kopanong it must be amended to Masilonyana

Therefore a quorum was reached when the meetings took place. A copy of the charter with an extract of the minutes is submitted to the Auditor General for confirmation.

Name: Mr Mutsi
Position: Manager Office of MM
Date:01/09/2014

Auditor's conclusion

Management comments is acknowledged. The audit finding is not resolved as the council minutes approving the amended audit charter (reducing a quorum from 3 to 2) were not submitted. These are requirements of section 165 of the MFMA read it together with MFMA Circular 65 of 2012

4. EX.3 - Audit Committee: Non-compliance with laws and regulations and audit charter (EX.3)

Audit finding

A. According to section 166 (2) of the MFMA:

(a) the audit committee must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to—

- (i) internal financial control and internal audits;
- (ii) risk management;
- (iii) accounting policies;
- (iv) the adequacy, reliability and accuracy of financial reporting and information;
- (v) performance management;
- (vi) effective governance;
- (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
- (viii) performance evaluation; and
- (ix) any other issues referred to it by the municipality or municipal entity;

(b) review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation

B. Regulation 14(4) of the Municipal Planning and Performance Management Regulations, 2001 states that:

(a) A performance audit committee must-

- (i) review the quarterly reports submitted to it in terms of subregulation (1)(c)(ii);
- (ii) review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and
- (iii) at least twice during a financial year submit an audit report to the municipal council concerned.

C. The following requirements were stated in the Audit Committee Charter of the municipality:

Paragraph 4(a) states that the chairperson of the Audit Committee may invite any member of the municipality or its entities and external auditors to attend the audit committee meeting. The Head: Internal Audit Unit shall be required to attend meetings. These attendees shall have no voting rights at meetings of audit committee;

Paragraph 5.3 states that the chairperson of the Audit Committee shall submit a bi-annual report to the Council in relation to the performance management of the municipality and in accordance with the Municipal Systems Act and Performance Regulations

Paragraph 6 states that the Audit Committee should assist Council in carrying out its responsibilities as they relate to:

- Internal audits;
- Financial, management and other reporting practices;
- Internal controls and management of risk;
- Compliance with laws, regulations and ethics;
- Performance management ;and

Paragraph 6.1 states that the Audit Committee should review and evaluate the effectiveness and overall efficiency of the internal audit function (staff, annual work programme, audit coverage and reports as well as co-ordination with external auditors).

Paragraph 6.5 states that the Audit Committee will be responsible for monitoring the adequacy of the assessment by internal audit of the performance management system. In terms of regulation 14(1)(b) of the Local Government: Municipal Planning and Performance Management, 2001, the review of performance management by internal audit should include an assessment of the following:-

- the functionality of the municipality's performance management system;
- the compliance of the performance management system with the Systems Act;

the extent to which the performance measurements are reliable in measuring the performance of the municipality against the Key Performance Indicators.

During our assessment of the effectiveness of the audit committee for the year under review the following issues were identified:

a) The Audit Committee did not:

- review the internal control procedures followed by management
- review the controls designed to ensure that assets are safeguarded
- review the fraud prevention plan implemented to prevent and detect fraud
- review the audit plan with the external auditors to ensure that the audit will address any concerns of the council
- review the subsequent implementation of agreed improvements

b) The Audit Committee did not review the municipality's performance management system and make recommendations in this regard to the council of the municipality during the year under review.

c) The Council did not assess the effectiveness of the audit committee on a periodic basis, by ensuring that they at least cover the following key performance areas.

	<i>Satisfactory</i>	<i>Good</i>	<i>Very good</i>
Audit mandate Applicability to entity, its circumstances and the regular review thereof			
Acceptance, support and compliance by members, executive management, internal and external auditors			
Attributes of members Dedication to and interest in committee and its activities			
Decision making and influence independent of management			
Appropriate business expertise and experience			

Familiarity with entity's business, its activities and role in its industry			
Familiarity with accounting issues and disclosure of information (GAMAP / GRAP)			
Conversance with information technology and corporate governance			
Familiarity with legal and regulatory procedures and framework			
Diligence towards duties and responsibilities Adequacy of preparation for meetings			
Appropriateness, timing and frequency of meetings			
Co-operation and consultation with internal and external audit components			
Feedback to the council / board Appropriateness and applicability of reports			
Suitability for implementation of proposals and recommendations			
Speed with which existing and potential problems are identified and addressed			
Comprehensiveness and timeliness of minutes			
Availability and promptness of reactions to the board's concerns			
Review copies of the minutes of AC meetings for any decisions taken that may impact the financial statements and ensure that the effect has been correctly accounted for and/or disclosed.			
Set out any other audit procedures relating to audit committees.			

d) The Audit committee did not respond to the council on the issues raised by the auditor-general in the audit report and further no proof could be provided how the audit committee advised the council on the matters raised by external auditors.

e) Proof could not be found that the audit committee has met as per their terms and conditions at least four (4) times.

f) The Municipality is using audit committee as a performance audit committee which would ensure that internal audit submits quarterly reports on performance measurement to the committee. However, no evidence could be obtained that one of the audit committee members is a performance management expert.

g) Proof could not be obtained that the Audit committee circulates all its minutes to councillors

h) The audit committee charter in page 7 and 19 is referring to **Kopanong Local Municipality**, we do not know if its clerical error or that is actually the case

j) The Audit Committee did not discuss and approve the extent and timing of the external auditors proposed audit coverage.

Similar issues were raised in the prior year : see paragraph 96 of the prior year management report.

Cause

The audit committee/performance audit committee did not prioritise the implementation of the compliance with laws and regulation

Impact

Non-compliance with the MFMA and the Municipal Planning and Performance Management Regulations and also negatively impacts on the governance of the municipality (lack of effective oversight).

Internal control deficiency

Governance

Management did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

Recommendation

Management should firstly investigate why the above findings occurred and inform the AGSA of any corrective action undertaken to address the audit findings. Furthermore management should implement control to ensure compliance with requirement of section 166 (2)(a) of the MFMA.

Management response

a) The objective of internal audit is to review the adequacy and effectiveness of governance, risk and internal controls. The Audit Committee then reviews and considers internal control assessment and deviations identified by IA to make recommendations to Council.

The committee therefore reviewed IA Reports (see minutes 28 June 2013 and 20 June 2014) and further reviewed and advised on internal financial controls as was presented in the meetings during the year.

The implementation of Audit Action plan was discussed in the meeting of 20 June 2014.

(b) Although the Audit Committee did not review Internal Audit Reports on AOPI, the committee did review and make inputs and recommendations on the Mid-Year Performance Assessment report and the Annual Performance Report. (See minutes of 06 February and 19 March and attached Report).

(c) See the attached audit committee performance evaluation.

(d) Disagree - The Committee did respond to issues raised in the Auditor General's Report of June 2013. (See attached report)

(e) Disagree - The Audit Committee had four meetings in the financial year.

- o 20 June 2014
- o 06 February 2014
- o 19 March 2014
- o 27 September 2013

(f) Disagree - Members of the Audit Committee possesses necessary skills to perform performance management oversight functions.

(g) Disagree - There is no requirement that the Audit Committee must circulate all its minutes of meetings to councilors

(h) Disagree – The reviewed AC Charter refers to Masilonyana Local Municipality and not Kopanong LM, it could be just a clerical error. (See attached Proof could not be obtained that the Audit committee circulates all its minutes to councilors

Auditor's conclusion

Management response was received and acknowledged

- a) The issue is not resolved as management response does not address the finding
- b) No evidence was submitted that the council approved the amended audit charter that reduced a quorum from 3 to 2 members. Therefore the issue is not resolved.
- c) The performance evaluation submitted is not clear if it was done by management or council and no council minutes were submitted to support the evaluation. Therefore the issue is not resolved
- d) No evidence could be obtained if the audit committee responded to issue raised by council. Therefore the issue is not resolved
- e) See comment on b above
- f) This part is resolved
- h) This part is resolved

5. EX.9 - Internal Audit : Not effective (EX.9)

Audit finding

According to section 165 2(a) of the MFMA, the internal audit unit must prepare a risk based audit plan and an internal audit program for each financial year, advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management,

performance management, loss control, compliance with this act, DoRA and any other applicable legislation.

According to paragraph 4.2 of the Internal Audit Charter (accountability) Internal Audit shall be accountable to the Accounting Officer and the Audit Committee to provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work, report significant issues related to the processes for controlling the activities of the organization and periodically provide information on the status and results of the annual audit plan and the sufficiency of organizations resources

Contrary to the above requirements, it was found that the internal audit unit did not execute their mandate effectively due to the following

1. The audit of the annual financial statements, performance information, finance , assets, inventory, etc. were not done , although included on their annual audit plan.
- 2.Only two reports, not dated (ICT report and management report) were issued during the financial year. However these internal audit reports were not tabled or approve by Audit committee
- 3.The internal audit plan was not risk based as the risk assessment policy and risk management strategy was approved by Audit Committee. We took cognisance that these documents were approved by the chairman of the audit committee in June 2014, however, the Audit committee meeting in June was attended by 2 members which does not form a quorum. Decisions taken in that meeting are not binding.
- 4.An audit manual has been developed but not yet approved in order to evaluate the scope of each audit, the audit approach followed and the basis of sample selection used, etc.
- 5.The internal audit unit consist of two members which make it difficult to cover all the planned audit as per internal audit plan.

A similar audit finding was raised in prior year see paragraph 10 of the prior year management report

Cause

A lack of capacity existed within the internal audit unit and the audit committee was unable to meet during the year

Impact

Non-compliance to the MFMA and the Internal Audit charter resulting in their mandate not being executed effectively.

Internal control deficiency

Governance

Management did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Risk assessment: The entity did not specify objectives with sufficient clarity to enable the identification and assessment of risks relating to the objectives

Recommendation

It should be ensured that the requirements of the Internal Audit charter and the MFMA are adhered to in order to add value to the municipality.

Management response

1. Agree with the finding. Internal Audit unit experienced capacity challenges hence it could not fulfil its mandate
2. Another report was issued on SCM and will be availed to the AG today
3. Agree with the finding. The risk documents are however approved by the Risk Management Committee. The committee consists of all heads of departments and is chaired by the chairperson of the audit committee.
4. Agree with the finding.
5. Agree with the finding.

Name: Mr Mutsi
 Position: Manager Office of MM
 Date: 01/09/2014

Auditor’s conclusion

Management agrees with the finding the issue is not resolved and it will be included in report as a compliance matter.

6. EX.157 - Procurement: Tender advertisements may not have been advertised for the required period of time (EX.157)

Audit finding

In terms of the Municipal Supply Chain Management Regulations paragraph (22)(1)(b(i)): Specifications must determine the procedure for competitive bids and must stipulate the information in a public advertisement must contain, which must include the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million(VAT included), or which are of a long term nature , or 14 days in other case , from the date on which the advertisement is placed in a newspaper.”

During the audit of procurement and contract management, it was identified that the invitation to tender was placed in the local newspaper. However, we could not obtain certainty that the tenders were advertised for the required minimum period as the only date we could see on the advert was the closing date not the actual advert date for the tenders below:

BID NUMBER	GOODS/SERVICES
RBIG/FS/002/W/12/13	Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw
2013/07/00	Installation of ICT Blade Server (tender is cancelled due to non-delivery by the supplier)
MIG/FS/0748/CF/09/10	Ugrading of Sport center at Majwemasweu
MIG/FS/0657/W/08/09	Upgrading of water treatment plant at Soutpan/lkgomotseng
2013/08/03	Financial support
2013/09/05	Supply of Tyres and patching maintenance material
2013/09/06	Supply of Electrical material & tools
2013/09/07	Supply of Computer equipment and software
2013/09/10	Supply of water meters material
2013/09/11	Provision of Legal services

2013/09/12	Contractor for the supply of sewer and water maintenance material
2013/09/13	Supply of garden/park/refuse/cemetery cleaning equipment
1001-1008/2014	Project manager
MIG/FS/0978/W/13/13	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)
2014/02/02	Supply of road signs and marking paints
2014/02/03	Rehabilitation of landfill sites
1001/2014	Fencing of oxidation ponds Soutpan
1008/2014	Fencing of reservoir Brandfort
1002/2014	Fencing of water treatment works Winburg
1003/2014	Fencing of reservoir Winburg
1006/2014	Fencing of reservoir Theunessen
MIG/FS/10078/F/14/15	Soutpan/Ikgomotseng Fencing of cemeteries
MIG/FS/1004/C/14/15	Masilo/Theunessen fencing of cemeteries and ablution facilities

Cause

The copies of the advertisement that was given to the auditors does not indicate the advert day.

Impact

The matter results in non-compliance with the SCM regulations.

Internal control deficiency

Financial and performance management

Management did not ensure through regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should put measures in place to ensure that the copy of the advert that is kept for record purposes also shows the advert date.

Management response

Management agrees with the finding and will put measures in place to ensure all tenders adverts are kept and the date and name of the newspaper reflects.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be included in the report as non-compliance.

7. EX.18 - Compliance: Annual report not submitted to Council (EX.18)

Audit finding

According to section 127(2) of the MFMA the mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control.

Section 127(3)(a) of the MFMA states that if the mayor, for whatever reason, is unable to table in the council the annual report of the municipality, or the annual report of any municipal entity under the municipality's sole or shared control, within seven months after the end of the financial year to which the report relates, the mayor must—promptly submit to the council a written explanation referred to in section 133 (1)(a) setting out the reasons for the delay, together with any components of the annual report listed in section 121 (3) or (4) that are ready.

Section 133(1)(a) of the MFMA states that if the accounting officer of a municipality or municipal entity fails to table the annual report of the municipality or a municipal entity in the council in accordance with section 127 (2)—the mayor must promptly table in the council a written explanation setting out the reasons for the failure.

The following deficiencies were identified with regards to the annual report:

(i) The 2012/13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act.

(ii) A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2012/13 annual report in the council, as required by section 127(3) and 133(1)(a) of the Municipal Finance Management Act.

Request for information number 11 dated 28 August 2014 has been issued but the information could be obtained.

Cause

The management of the Municipality did not timeously address the changes in the draft annual report to ensure it is submitted to Council.

Impact

Non-compliance with the MFMA and a lack of oversight.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

The annual report should be submitted within the prescribed time frames as required by the Municipal Finance Management Act.

Management response

(i) Agree with the finding. The Auditor General made certain findings on the annual report which were considered to be significant, the AG then advised that it would not be wise for the municipality to table the report before the identified findings are investigated and addressed. The annual report was however tabled and approved with reservations during a council sitting held on 1 October 2014.

(ii) Agree with the finding.

Auditor's conclusion

Management's comments were received and assessed as follows:

- Management agrees with the audit finding.
- It is further noted that this is non-compliance and will be reported as such.
- The matter is not resolved.

8. EX.201 - Non-compliance: Irregular, fruitless and wasteful and unauthorised expenditure not investigated (EX.201)

Audit finding

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

a) in the case of unauthorised expenditure, is—

i) authorised in an adjustments budget; or

ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and

b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

Section 32(4) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of -

a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;

b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and

c) the steps that have been taken -

i) to recover or rectify such expenditure; and

ii) to prevent a recurrence of such expenditure.

Contrary to the above, it was noted that the municipality did not inform, in writing, the MEC for local government and the Auditor-General of cases of unauthorised, irregular, fruitless and wasteful expenditure for both the 2013/14 and 2012/13 financial year.

The municipality also did not conduct an investigation to determine the person liable and thus, have not taken steps to recover the unauthorised, irregular, fruitless and wasteful expenditure. This could be confirmed through inspection of council minutes submitted for audit purposes.

The amounts of unauthorised, irregular, fruitless and wasteful expenditure, not finalized and disclosed in note 34 of the 2013/14 AFS, are as follows:

1) Unauthorised expenditure R599 039 998 (2012/13: R591 872 637);

- 2) Irregular expenditure R165 899 858 (2012/13: R164 599 892); and
- 3) Fruitless and wasteful expenditure R2 899 100 (2012/13: R1 739 851).

This matter was also reported in the prior year management report - Paragraph 8, page 54.

Cause

Lack of proper and effective monitoring by management to ensure that unauthorized, irregular, and fruitless and wasteful expenditure are investigated.

Impact

The matter will result in non-compliance with section 32 of the MFMA.

The matter could also result in continuation of the incurrence of unauthorised, irregular, irregular, and fruitless and wasteful expenditure resulting in material losses.

Internal control deficiency

Financial and performance management

Management does not in all instances review and monitor compliance with applicable laws and regulations.

Recommendation

Management should implement proper monthly controls to ensure the unauthorised, irregular, fruitless and wasteful expenditure are investigated and reported as required by laws and regulations, MFMA.

Management response

Management agrees with the finding, however a team of attorneys was appointed by Council and is currently in progress of investigating the unauthorized, irregular, irregular, and fruitless and wasteful expenditure to reduce material losses.

Name: F,MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

As management agrees with the audit finding, the exception will remain and be reported on in the audit report.

Internal Control

9. EX.11 - Internal control: Deficiencies identified with the control environment of the municipality (EX.11)

Audit finding

1. Section 62(1) of the MFMA states: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

- c) (i) that the municipality has and maintains effective, efficient and transparent systems of financial and **risk management** and internal controls;
- d) that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented;
- e) that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15."

2. Section 70 of the MSA states: "**Code of Conduct** should be provided to staff members and communicated to local community:

- a) The municipal manager of a municipality must:
 - i. provide a copy of the Code of Conduct to every member of the staff of the municipality; and
 - ii. provide every staff member with any amendment of the Code of Conduct.
- b) The municipal manager must:
 - i. ensure that the purpose, contents and consequences of the Code of Conduct are explained to staff members who cannot read; and
 - ii. communicate sections of the Code of Conduct that affect the public to the local community."

3. Section 64(2)(f) of the MFMA states: "The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed."

4. Section 78(1)(a) of the MFMA states: "Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently."

5. Section 79(1)(a) of the MFMA states: "The accounting officer of a municipality must, for the proper application of this Act in the municipality's administration, develop an appropriate system of delegation that will both maximize administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration."

6. Section 40 of the MSA states: "A municipality must establish mechanisms to monitor and review its performance management system."

7. Section 67(1)(g) of the MSA states: "A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72(1)(c), to ensure fair, efficient, **effective and transparent personnel administration** including grievance procedures."

Contrary to the above:

1. Due to inadequate internal controls in the municipality and the fact that management did not implement the performance management system in the current period under review it could not be confirmed that personnel operations have a high priority and senior executives emphasise the importance of good human capital management in the municipality.

2. The internal audit that consisted of only two officials did not have adequate capacity to perform their duties effectively.

3. Through enquiries it was confirmed that there is no human resource plan in place in the municipality for the period under review therefore the organizational structure of the municipality was not aligned to a Human resource plan.

4. No performance appraisals were performed in the current period under review and as a result promotion, compensation, rotation of employees were not based on periodic performance appraisals in the current period under review.
5. No adequate evidence could be obtained to serve as proof that management compared revenue and expenditure of the municipality against pre-determined objectives, indicators or targets, or other operating information obtained in the course of its daily activities to system-generated information and followed up on any inaccuracies or other problems that might be found.
6. No Evidence could be obtained that management conducts the necessary follow ups to ensure that the council resolutions were successfully implemented.
7. It was confirmed that formal (up to date) job descriptions or other means of identifying and defining specific tasks required for job positions have not been established and are not up-to-date.
8. No risk assessment was conducted during 2013/14 yearend

This matters was also reported in Par. B.90 of the previous year's management report.
Note

Cause

Management did not ensure that the required internal controls are in place and implemented, that a risk assessment is conducted, an HR plan developed and that monitoring controls are in place and are implemented as required by the relevant laws and regulations.

Impact

Non-compliance with the relevant laws and regulations and an unstable control environment.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

These control weaknesses identified should be subjected to an urgent investigation by the management of the municipality. Reference to the corrections implemented should then be forwarded for audit purposes.

Management response

1. Management agrees with the finding, however AG must take that Performance Management system is implemented at Senior Management level (section 56 and 57)
2. Management agrees with the finding. However for this financial year recruitment for Internal audit section is still under way and council has approved the reviewed structure which makes provision for an additional staff
3. Management agrees with the finding, however AG must that shortage of staff played a role in some of the documents of the municipality not being developed. The municipality has appointed HR Manager who will be responsible for such
4. Management agrees with the finding, however AG must take note that Performance Management system is implemented at Senior Management level (section 56 and 57), this will be further escalated to middle management and municipal staff in general

5. Management seeks more clarity on this finding as is it not clear to the reader
6. Management disagrees with the finding, AG will know that corporate services is the custodian of ensuring that council resolutions are implemented. Corporate services takes minutes of the council decisions, identifies the affected department and monitors implementation
7. Management agrees with finding however this processes was delayed due to the job evaluation from SALGA, but the municipality has taken initiative to finalize the process
8. Management agrees with the finding, the position of the Chief Risk officer was filled on the 01st April 2014.

Name: FV Mzizi
 Position: Chief Financial
 Date: 06 October 2014

Auditor's conclusion

Management response is acknowledged and assessed
 Management agrees with the findings, the issue is not resolved and it will be included in management report

Disclosure

10. EX.12 - Financial Statements: Errors on the Financial Statements (EX.12)

Audit finding

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

During the high level review of the Annual Financial Statement the following errors were noted:

The correction of error note was incorrectly disclosed in the financial statements, refer below for the classification:

Correct classification		
Page	Prior year error restatement	
63	Impact on the statement of financial performance	Amount
	(Increase) in bulk purchases	(7 617 516)
	(Increase) in employee cost	(12 409)
	(Increase) in repairs & maintenance	(17 602)
	(Increase) in general expenditure	(1 953 718)
	(Increase) in depreciation	(43 825 011)
	(Decrease) in profit	(53 426 256)
	Impact on the statement of financial position	Amount

Increase in PPE	14 526 276
(Increase) in payables	(9 066 385)
(Decrease) in inventory	(133 756)
Increase in net assets	5 326 135

The errors below were also identified from the review :

Page No.	Deficiencies Identified
11	Correction of error of R63 807 742 disclosed in statement of changes in net assets referenced to note 29 but this amount is not disclosed in note 29.
11	Net deficit for year ended 30 June 2013 is not marked "restated" as comparatives has been adjusted to correct prior period's error.
11	Correction of error for R 14 394 479 disclose after 2014 net deficit should not be there as deficit should incorporate the correction if it prior year, restated comparatives should incorporate the error.
12	Remove taxation line on cash flow statement as the line item has zero for current and prior year.
12	Finance cost is positive on cash flow statement, this amount is more than the amount in statement of financial performance.
12	Cash flow from investing activities should read as Cash flow to investing activities as cash outflow has been reported. Same applies with cash from financing activities.
12	"Increase" should be removed from line items under financing activities as figures represent cash outflow.
12	Net increase in cash and cash equivalent should read as Net (decrease)/increase in cash and cash equivalent
41	Blank page between page 41 & 42
43	Page 43 only has one line.
53	Notes to the annual financial statements have smaller fonts than other parts of AFS.
53	Note 11 incomplete disclosure MFMA section 63
54	The sentence "Investment property has been restated to full compliance with GRAP for year ended 30 June 2012" This is no longer relevant.
56	Provision should be in bracket not (reversal of provision)
56	Quoting payables but the note is on receivables from exchange transactions. Same on the next page on receivables from non-exchange transactions
56	Receivables with credit balances, seems like these have not been reclassified to payables from exchange transactions
56	Note "15"the contribution to provision/(Reversal of provision) does not tie up with line item "debt impairment" in the statement of financial performance and the accompanying disclosure note 24. Even if you add the movement from receivables from non-exchange transactions (note 16), it does not agree.R12 798 855
61	Incomplete disclosure of Note 22, nothing was disclosed if employee were paid within

	(or not within) SALGA upper limits
64	The word "restated" must be written on top of comparative column as comparative figures have been restated to correct prior year errors.
64	The is no corresponding figure for the increase in the value of PPE
64	The increase in payables on the error note was not accurately calculated resulting in a recalculated difference of (534 860). The disclosed amount is (9 066 385) and the recalculated amount is (9 601 245)
63&64	Only correction amount {(increase)/ decrease on expenditure} need to be disclosed in note, previously reported and restated figures are not required. Then the total of all corrections will be the increase / (decrease) in profit.
64	The total change in assets and liabilities should give the change in net assets. Hence increase in PPE and increase in payable should have an opposite effect in net assets.
64	Correction of error for inventory sounds as change in policy, however GRAP 12 does not provide option to expense inventory if are not material.
66&67	Reasons for variances between budget and actual figures do not state the root cause of variances.
75	Contingent liabilities note. Case one and two refers to municipal entity instead of municipality
75	Case one's proceeding date has passed but no update the likelihood of the conclusion.

Cause

The cause of this finding is that financial statements are not properly reviewed for accuracy and completeness prior to submission for audit.

Impact

The impact of this finding is that it may result in the material misstatements in the annual financial statements.

Internal control deficiency

Financial and performance management

Management did not in all instances prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that the financial statements are reviewed for accuracy and completeness prior to submission for audit.

Management response

Management comments was not received

11. EX.105 - Irregular Expenditure Understated in the Annual Financial Statements (EX.105)

Audit finding

In terms of Paragraph 122 (1) of the MFMA states that " every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality or entity , its performance against its budget, its management of revenue, expenditure, assets and

liabilities, its business activities, its financial results and its financial position as at the end of the financial year."

a. During the testing of irregular expenditure it was identified that the following transactions were disclosed at the incorrect amounts per inspection of the payment vouchers supporting the transaction. Below are the differences identified:

Name of Supplier	FILE VOLUME	EFT Number	Amount (Exclu VAT) as per auditee (R)	Value per pay	Difference (R)
Opti consulting	EFT 17541-17601	17585	138 504.16	315 789.48	177 285.32
Retrolex	EFT 23399-23424	23402	110 837.66	286 276.15	175 438.49
Phela O Pheouse		25672	0	1 400.00	1 400.00
Mbakoe Construction		15337	0	24 008.87	24 008.87
G Polson Electrical	EFT 24328-25698	25674	26 315.79	60 700.00	34 384.21
Total					412 516.89

b. The following transactions below were noted as irregular expenditure per the schedule provided by management as irregular expenditure incurred during the current financial year but have not been disclosed as such in the notes to the financial statements as at 30 June 2014.

MONTH	FILE VOLUME NUMBER	EFT NO.	Supplier	AMOUNT EX VAT (R)
August	EFT 14769-14799	14769	Spilhaus	90 000.00
August	EFT 14800-15323	14815-14816	Garden Court & Dreamfinders Trading	52 465.10
August	EFT 14800-15323	14808	The New Age	13 920.00
August	EFT 14747-14768	14757	Pjs Engineering	43 092.97
August	EFT 14747-14768	14747	Protea Hotel Samrand	9 182.76
September	EFT 15573-16130	15590	Masilonyana News	6 091.23
November	EFT 17541-17601	17585	Opti Property Consultants	138 504.16
November	EFT 17541-17601	17547	Ok Grocery	28 168.65
January	EFT 20534-20579	20563	Jackson D	3 700.00
January	EFT 20266-20532	20274	Sa Post Office	2 078.95
February	EFT 21229-21376	21376	Ok Grocery	2 797.25
March	EFT 22479-22601	22592	Pumpshop Africa	54 836.48
June	EFT 25538-25663	25657	Ok Grocery	8 156.61
Total				452 994.16

Cause

Lack of review of the financial statements before they were submitted for audit purposes.

Note

Impact

The matter results in the understatement of the irregular expenditure note in the financial statements by R865 511,05

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should implement controls to ensure that the irregular expenditure schedule and the annual financial statements are accurately and completely recorded.

Management response

MFMA Circular No 68 issued by National Treasury states that - *“Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction”.*

Therefore an expense cannot be irregular expenditure before it has been paid.

A. We disagree. Please refer to the summary of the table and the responses.

Name of Supplier	FILE VOLUME	EFT Number	Amount (Excl VAT) as per auditee (R)	Value per pay	Difference (R)	Municipality Response
Opti consulting	EFT 17541-17601	17585	138 504.16	315 789.48	177 285.32	We disagree with the difference. The payment was only R138 504.16. The whole R315 789.48 cannot be irregular as it has not been paid.
Retrolex	EFT 23399-23424	23402	110 837.66	286 276.15	175 438.49	We disagree with the difference. The payment was only R110 837.66. The whole R286 276.15 cannot be irregular as it has not been paid.
Phela O Pheouse		25672	0	1 400.00	1 400.00	We disagree. Please see the schedule per auditee. The amount included is R1 400 and not Nil.
Mbakoe Construction		15337	0	24 008.87	24 008.87	We disagree. Please see the schedule per auditee provided. The amount included is R24 008.87 and not Nil.
G Polson Electrical	EFT 24328-25698	25674	26 315.79	60 700.00	34 384.21	We disagree with the difference. The payment was only R26 315.79. The whole R60 700.00 cannot be irregular as it has not been paid.
Total					412 516.89	

B. Please see the responses to the finding below:

MONTH	FILE VOLUME NUMBER	EFT NO.	Supplier	AMOUNT EX VAT (R)	Municipality response
August	EFT 14769-	14769	Spilhaus	90 000.00	We agree with the finding. The

	14799				amount will be included in the schedule on the financial statements
August	EFT 14800-15323	14815-14816	Garden Court & Dreamfinders Trading	52 465.10	We agree with the finding. The amount will be included in the schedule on the financial statements
August	EFT 14800-15323	14808	The New Age	13 920.00	We agree with the finding. The amount will be included in the schedule on the financial statements
August	EFT 14747-14768	14757	Pjs Engineering	43 092.97	We agree with the finding. The amount will be included in the schedule on the financial statements
August	EFT 14747-14768	14747	Protea Hotel Samrand	9 182.76	We agree with the finding. The amount will be included in the schedule on the financial statements
September	EFT 15573-16130	15590	Masilonyana News	6 091.23	We agree with the finding. The amount will be included in the schedule on the financial statements
November	EFT 17541-17601	17585	Opti Property Consultants	138 504.16	We agree with the finding. The amount will be included in the schedule on the financial statements
November	EFT 17541-17601	17547	Ok Grocery	28 168.65	We agree with the finding. The amount will be included in the schedule on the financial statements
January	EFT 20534-20579	20563	Jackson D	3 700.00	We agree with the finding. The amount will be included in the schedule on the financial statements
January	EFT 20266-20532	20274	Sa Post Office	2 078.95	We agree with the finding. The amount will be included in the schedule on the financial statements
February	EFT 21229-21376	21376	Ok Grocery	2 797.25	We agree with the finding. The amount will be included in the schedule on the financial statements
March	EFT 22479-22601	22592	Pumpshop Africa	54 836.48	We agree with the finding. The amount will be included in the schedule on the financial statements
June	EFT 25538-25663	25657	Ok Grocery	8 156.61	We agree with the finding. The amount will be included in the schedule on the financial statements
Total				452 994.16	

The financial statements were adjusted for the above items to be included.

To ensure the irregular expenditure disclosed on the financial statements are 100% complete. The sample for the whole year were revisited ensure that items like the above are not omitted.

The recalculated irregular expenditure to be disclosed on the financial statements for 30 June 2014 must be R1 775 491.91. The financial statements will be adjusted accordingly.

Please refer to the attached schedule for the complete irregular expenditure balance that will be disclosed on the financial statements.

Name: F Mzizi
Position: CFO
Date: 17/11/2014

Auditor's conclusion

Managements comments for Opti Consulting, Retrolex and G Polson electrical is accepted. Management should ,however, note that any future payments made to these suppliers with regards to these Invoices should be regarded as irregular.

We do not agree with Managements comments on Phela O Pheose and Mbakoe Construction. These amounts are not included on the irregular register and must still be included in the financial statements.

Management response in Table B is accepted. the finding will only be resolved once management has made the necessary adjustments.

Management has to make an adjustment of R478 403.03 to the note.

12. EX.220 - Fruitless and wasteful expenditure: Inaccurate and Incomplete disclosure (EX.220)

Audit finding

In terms of Paragraph 122 (1) of the MFMA " every municipality must for each financial year prepare financial statements which fairly presents the state of affairs of the municipality or entity , its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results and its financial position as at the end of the financial year."

During the audit of fruitless and wasteful expenditure it was identified that the following interest payment on loans were incorrectly recorded as fruitless and wasteful:

No	Supplier	EFT Number	Amount as per Auditee	Amount as per Auditor	Differences
1	DBSA	15592	216 333	0	216 333
2	DBSA	21195	104 392	0	104 392
3	DBSA	24229	2 219	0	2219
	Total		R 322 944	0	R 322 944

During the audit of fruitless and wasteful expenditure the following differences were identified:

No	Supplier	EFT Number	Amount as per Auditee	Amount as per Auditor	Differences
1	Eskom	19970-19992	1 941	2 434	493
2	Eskom	24054-24082	2 812	1 664	1 147
3	Eskom	24328-24373	6 083	7 791	1 708
	Total		R 10 836	R 11 889	R 1 054

During the review of statement from South African Revenue Services relating to the submission of EMP 201 returns it was identified that EMP returns were submitted late. This resulted in penalty and interest payments. These payments were not recorded in the fruitless and wasteful expenditure register and the financial statements. The differences are reflected as follows:

No	Supplier	Amount as per Auditee	Amount as per Auditor	Difference
1	SARS	0	R 25 835	R 25 835

During the review of statement of accounts from South African Revenue Services relating to the submission of EMP 201 and VAT 201 returns for the period 01/07/2013 to 30/06/2014 it was identified that . penalty and interest payments were incurred for late submission of returns. These

payments were not recorded in the fruitless and wasteful expenditure register and was not disclosed in the financial statements. The differences are reflected as follows:

No	Description	Amount as per Auditee	Amount as per Auditor	Difference
1	EMP 201	0	R 25 835	R 25 835
2	VAT 201	0	R 17011.65	R17011.65
	Total	0	R42 846.65	R42 846.65

Cause

Management did not adequately review the financial statements before they were submitted for audit purposes

Impact

Fruitless and wasteful expenditure disclosed in the financial statements is misstated and not complete

Internal control deficiency

Financial and performance management

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 financial and performance reporting

Recommendation

Management should review the information recorded in the fruitless and wasteful expenditure registers to ensure accuracy and completeness of both the registers and the financial statements.

Management response

We agree with the finding and the financial statements will be adjusted.

Please also take note that the fruitless and wasteful expenditure disagreement in communication 134 were also included in the adjustment to the financial statements.

Name: F Mzizi

Position: CFO

Date:25/11/2014

Auditor's conclusion

As management agree with the finding and the correction will be made on the disclosure the aspect are reported as a corrected misstatement.

Immovable assets

13. EX.132 - PPE: Sizes of water pipes as per asset register differs with sizes as per technicians (EX.132)

Audit finding

Section 63 (1) (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

During the physical verification it was determine that sizes of water pipes as per asset register differs with sizes according to the technical officials obtained during the physical asset verification conducted at Winburg on 16 and 20 October 2014:

N o.	UNIQUE ASSET NUMBER (OLD)	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	BARCODE NUMBER	TOWN	GPS COORDINATES	Verified	Differences	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11522	Pipe	#N/A	11522	WINBURG	28.5262,27.0202	Yes	200mm	173 908,68 ¹
2	2479	Pipe	250mm uPVC Water Pipe	2479	MAKELEKE TLA	-28.53527.009	Yes	90mm	854 452,95
3	2477	Pipe	250mm uPVC Water Pipe	2477	MAKELEKE TLA	-28.54526.997	Yes	315mm	697 080,96
5	2251	Pipe	200mm uPVC Water Pipe	2251	MAKELEKE TLA	-28.53226.997	Yes	90mm	209 455,43
8	2243	Pipe	200mm uPVC Water Pipe	2243	MAKELEKE TLA	-28.52927.004	Yes	250mm	123 653,64
9	11519	Pipe	#N/A	11519	WINBURG	28.5068,27.0078	Yes	160mm	885 371,20
10	410	Pipe	150mm Asbestos Concrete Water Pipe	410	WINBURG	-28.51127.008	Yes	150mm	109 760,87
1	2246	Water	Pipe	200mm uPVC Water Pipe	MASILO	-28.41326.698	Yes	50mm	156 027,49
2	2291	Water	Pipe	200mm uPVC Water Pipe	MASILO	-28.41226.707	Yes	90mm	144 750,97
7	10427	Bulk Water	WTW	#N/A	MASILO	28.4761,26.6822	Yes	315mm	218 719,60
Total amount of error									R4 573 181,80

Extrapolation

Sample amount	11 254 239,98
---------------	---------------

Error amount	4 573 181,80
Error percentage	41%
Population of Bulk water	86 468 395,40
Extrapolated amount	35 136 596,79

Cause

The technicians (municipal officials) were not involved in the assets verification conducted by consultants responsible for compiling and updating the assets register.

Impact

Infrastructure assets (water pipes) could be misstated by the extrapolated amount of R21 427 568,52.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate asset register and ensure that the actual size of water pipes and valves are correctly recorded in the asset register. Management should also ensure that municipal officials responsible for certain asset type are involved in the asset verification to ensure that they are no differences between asset register and actual asset (e.g. size of valves).

Management response

We disagree with the finding.

The engineers (Management Experts) prepared the asset register from the master plan and the infrastructure maps of the municipality and also by physically visiting the towns and using the approach that the pipe sizes used must be sufficient to provide for the water and sanitation needs of the community.

The Auditor-General based their physical verification findings on the confirmation from the municipal officials and not the actual physical inspection of the pipes. The engineers (Management Experts) consulted with the municipal officials on various occasions, with a different outcome.

The cause that the municipal officials were not involved is also not agreed with. The municipal officials were involved on a continuous basis. In the 2012 financial year the pipe sizes were also queried by the AG and the maps were provided to the municipality (Technical Department) to indicate if they agree with the sizes of the pipes. Based on the Engineers response on the 21 October 2013 no adjustments were made to the maps from the municipal officials. Thus did the Municipal Officials agree that the pipe sizes on the maps are correct resulting in the asset register to also being correct.

The maps were provided again to the municipality (Technical Department) in June 2014 to confirm that the sizes of the pipes on the maps are correct. The response were that the sizes on the maps are correct thus indicating again that the asset register is correct.

Based on the above the maps were provided and the municipality officials agreed with the sizes confirmed that they were in agreement with the engineers who compiled the asset register.

It is our opinion that the AG cannot rely on the responses of the municipal officials during the 2014 verification:

1. - They were continuously involved in the compilation of the asset register;
2. - The municipal officials agreed that the pipe sizes on the maps are correct;

3. - The pipe sizes on the asset register were all obtained from the maps; and
4. - The Engineers (experts) visited the towns and compiled the asset register based on their assessment and also taking the master plan and infrastructure maps into consideration.

If the AG wants to place reliance on the officials of the municipality, the AG must also place reliance on the asset register because the officials were also involved in this process. In addition, the officials technical expertise needs to be assessed and compared with that of the engineers. Alternatively, the AG can obtain their own expert and include the engineer or expert as part of the audit team to prove that the maps of the municipality are inaccurate. If the AG cannot prove that the maps are inaccurate then there is no basis to state that the pipes sizes are incorrect.

The extrapolation is also incorrect, the fact that the pipe size might be incorrect and should be another pipe size does not indicate that the total value is incorrect. The misstatement should be the difference in the prices of the different pipe sizes (90mm and 200mm price difference), etc.

Auditor's conclusion

Management comments were obtained and assessed as follows:

1. Maps with different sizes of water pipes were obtained and inspected the following were noted:
 - a) In principle we agree with the map id's as compiled by the experts.
 - b) However, firstly the description of the three assets in the exception marked as not applicable will be reported on and is not regarded as resolved.
 - c) Secondly, with regard to the other seven assets it could not be specifically, according to each individual asset, traced to the map id's.
 - d) We could trace the size of the pipes but it could not be linked to the specific asset, also according to the GPS coordinates.
 - e) Maps only have reference to the types of pipes not location as per asset register.
 - f) As these maps were not provided to us during the physical verification of assets (PPE), we could not get assurance that they exist.

Discussed with Stefan du Toit (consultant manager SAB & T) on 20 and 21 November 2014 that he will provide us with the GIS map with pipe sizes and coordinates as per GIS. This will be evaluated once received. This exception is not resolved and will be reported as such.

On 27 November 2014 maps were obtained for evaluation (after the discussion of the draft audit report on 26/11/2014):

Assets with unique number 2479, 2477 and 2251 were resolved and removed from table below. We were able to link these assets on GIS map.

The assets in table below could **not be resolved** as they could not be linked to GIS map (asset id's were written in by hand on copies of the map id's).

Asset numbers 2479, 2477 and 2251 could be linked to the asset id's on a popup message on the map id and could therefore be **resolved**:

No.	UNIQUE ASSET NUMBER (OLD)	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	BARCODE NUMBER	TOWN	GPS COORDINATES	Verified	Differences	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11522	Pipe	#N/A	11522	WINBURG	28.5262,27.0202	Yes	200mm	1 173 908,68

2	2243	Pipe	200mm uPVC Water Pipe	2243	MAKELEKE TLA	-28.529 27.004	Yes	250mm	123 653,64
3	11519	Pipe	#N/A	11519	WINBURG	- 28.5068,27.0 078	Yes	160mm	885 371,20
4	410	Pipe	150mm Asbestos Concrete Water Pipe	410	WINBURG	-28.511 27.008	Yes	150mm	109 760,87
5	2246	Water	Pipe	200mm uPVC Water Pipe	MASILO	-28.413 26.698	Yes	50mm	156 027,49
6	2291	Water	Pipe	200mm uPVC Water Pipe	MASILO	-28.412 26.707	Yes	90mm	144 750,97
7	10427	Bulk Water	WTW	#N/A	MASILO	- 28.4761,26.6 822	Yes	315mm	218 719,60
Total amount of error									2 812 192,45

Extrapolated

Sample	11 348 267,00
Error amount	2 812 192,45
Error %	25%
Population	86 468 395,40
Projected amount	21 427 568,52

This matter would be included in the audit report.

14. EX.150 - PPE: Balance of PPE at year end misstated (EX.150)

Audit finding

Section 63 (1)(a) & (2)(a-c) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality; that the municipality's assets and liabilities are valued in accordance with standards of generally recognized accounting practice; and that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed."

Paragraph 33 of GRAP 17 states that after recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Through the inspection of asset register it was identified that the total accumulated depreciation amount for property, plant and equipment from 2012 to 2013 were not revised, resulting in the depreciated replacement cost of property, plant and equipment being misstated at 30 June 2014. Therefore, the following estimated values could not be verified, only the depreciated replacement cost of PPE items that are affected were taken into consideration:

1. Bulks water and water infrastructure to the value of R20 459 786,75.
2. Bulk sewer and sewerage infrastructure to the values of R92 592 627.
3. Storm water and road infrastructure to the value of R98 985 207,30.

Total amount R212 037 621,05.

Cause:

Management did not update accumulated depreciation for the 2012/13 financial year.

Impact:

Non-compliance with GRAP 17. Infrastructure assets amounting to R212 037 621 at 30 June 2014 could be misstated.

Internal control deficiency

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should follow up this matter and update the assets register and the annual financial statements.

Management response

We agree with the finding and the FAR will be corrected to resolve the finding.

Auditor's conclusion

Management comments were obtained and FAR and AFS were evaluated and it was confirmed that accumulated depreciation was updated with correct amounts. This will be reported as corrected misstatement in the management report and as non-compliance in the audit report.

15. EX.161 - PPE: Assets not componentised (EX.161)

Audit finding

Section 63 (1)(a) & (2)(a-c) of the MFMA states that the "accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets."

Section 63 (2)(a-c) of the MFMA states that "the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality; that the municipality's assets and liabilities are valued in accordance with standards of generally recognized accounting practice; and that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed."

Paragraph 9 of GRAP 17 states that this Standard does not prescribe the unit of measure for recognition, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

Contrary to the above it was identified during the physical verification that not all asset were componentised, the verification was conducted between 14 and 22 October 2014:

1. Verkeerdevlei and Tshepong (physical verification on 16 October 2014)

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	Verified	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	12320	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 1.	Various	Yes	572 223,33
2	12321	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 2	Various	Yes	572 223,33
3	12322	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 4	Various	Yes	572 223,33
4	12323	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 5	Various	Yes	572 223,33
5	12324	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 6	Various	Yes	572 223,33
6	12325	Civil Structure	Infrastructure Assets	Borehole	Borehole VBH 8	Various	Yes	572 223,33
7	10407	Civil Structure	Infrastructure Assets	Bulk Water	Reservoir	#N/A	Yes	152 000,00
Total:								3 585 340,00

Componentisation of boreholes has been addressed with exception 25, but during the execution it was verified that not all components of borehole were componentised, meters and pipes were not componentised. Total amount of borehole as per Bulk water and Water Infrastructure register R4 834 485,34.

2. We could not ascertain ourselves that the PPE items below were componentised:

UNIQUE ASSET NUMBER (OLD)	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	TOWN	REGION/ BUILDING NAME	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
10422	Bulk Water	Reservoir	WINBURG	N/A	-28.527 27.020	1 023 200,00
10399	Bulk Water	Pump Station	MASILO	N/A	#N/A	75 199,84
10403	Bulk Water	Reservoir	BRANDFORT	N/A	-28.690 26.474	152 000,00
10398	Bulk Water	Pump Station	MAKELEKETLA	N/A	#N/A	75 199,84
10400	Bulk Water	Pump Station	BRANDFORT	N/A	#N/A	75 199,84
10413	Bulk Water	Reservoir	SOUTPAN	IKGOMOTSENG	-28.733 26.116	238 400,00
Total:						1 639 199,52

During verification of pump station (10397) at Majwemasweu (-28.69094,26.46297) between 14 and 16 October 2014 it was verified that the components at pump station were not barcoded or uniquely marked so they can be traced to the asset register.

3. Through the inspection of asset register it is difficult to link PPE items that are supposed to be componentised to the actual components. It was identified that where PPE items that were componentised were valued twice, for example pump station (10393) at Makeleketla (-28.53718,27.00478) was componentised but its depreciated replacement cost R320 621 was not removed from the asset register. Refer to the below table for PPE items that were componentised but their values were not removed from the asset register:

UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTAL COST	DEPRECIATED REPLACEMENT COST - 30 JUNE 2013	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
10393	Civil Structure	Bulk Sewer	Pump Station	10393	MAKELEKETLA	28,53718,27,00478	939 998,00	338 399,28	320 621,91
10394	Civil Structure	Bulk Sewer	Pump Station	10394	MAKELEKETLA	28,53457,26,99464	939 998,00	338 399,28	320 621,91
10433	Civil Structure	Bulk Sewer	WWTW	10433	IKGOMOTSENG	-28,7303,26,1001	7 518 485,00	4 360 721,30	4 218 530,69
10395	Civil Structure	Bulk Sewer	Pump Station	10395	MAKELEKETLA	28,53958,27,00218	939 998,00	338 399,28	320 621,91
10396	Civil Structure	Bulk Sewer	Pump Station	10396	THEUNISSEN	28,43328,26,70089	939 998,00	338 399,28	320 621,91
10397	Civil Structure	Bulk Sewer	Pump Station	10397	MAJWEMASWEU	28,69094,26,46297	939 998,00	338 399,28	320 621,91
10401	Civil Structure	Sewer	Pump Station	10401	IKGOMOTSENG	-28,7353,26,1033	939 998,00	338 399,28	320 621,91
10424	Civil Structure	Bulk Sewer	Sewer Treatment Works (1MI per day)	10424	MAKELEKETLA	-28,537,26,9947	7 518 485,00	4 360 721,30	4 218 530,69
10425	Civil Structure	Bulk Sewer	Sewer Treatment Works (3.4MI)	10425	KLEINFONTEIN SMALL HOLDINGS	-28,433,26,7011	20 450 280,00	11 861 162,40	11 474 403,91

UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTAL COST	DEPRECIATED REPLACEMENT COST - 30 JUNE 2013	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
10426	Civil Structure	Bulk Sewer	Sewer Treatment Works (0.5MI per day)	10426	TSHEPONG	-28,8374,26,7652	3 759 243,00	2 180 360,94	2 109 265,62
10429	Civil Structure	Bulk Water	WTW	10429	MAKELEKETLA	-28,552,26,9924	2 733 995,00	273 399,50	218 719,60
10427	Civil Structure	Bulk Water	WTW	10427	MASILO	-28,4761,26,6822	2 733 995,00	273 399,50	218 719,60
10428	Civil Structure	Bulk Water	WTW	10428	SOUTPAN	-28,8483,26,0042	2 733 995,00	273 399,50	218 719,60
10430	Civil Structure	Bulk Water	WTW	10430	BRANDFORT	-28,6898,26,4711	2 733 995,00	273 399,50	218 719,60
Total amount							55 822 461,00	25 886 959,62	24 819 340,77

Cause

Management did not review asset register that was submitted to the auditors to ensure it complies with GRAP 17.

Impact

Non-compliance with GRAP 17. Property, plant and equipment could be misstated by an amount of R8 292 554,40.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate the asset register and verify all property, plant and equipment that should be componentised have been componentised.

Items that are supposed to be componentised should be clearly marked as such on a new sheet with their depreciated replacement costs and list all their components so they can be traced in to asset register.

Management response

1. We disagree with the finding

During componentisation the following must be considered:

- Assets will be componentised if part of an asset with a significant different useful life and significant cost in relation to the rest of the main asset exist;
- The componentisation will only effect the depreciation and the factors to consider in determining what should become a separately depreciable part (component) are:
 - Significant (material) cost; and
 - Considerable difference in useful life.

If significant assets are not componentised the only financial implication will be the depreciation that needs to be considered. Thus before doing the exercise of componentisation must the material impact be considered of the depreciation and the impact it will have on the fair presentation of the financial statements.

If there is no material impact then componentisation is done at an appropriate level.

The total carrying value of the boreholes should be considered individually and determine if they are material in relation to the total population of the bulk water network.

The carrying value of one borehole is R572 223, 33. The total population of the bulk water is R105 593 776, this borehole makes up 0.54% of the population of bulk water assets. This is not material in cost.

A borehole also does not have significant components with considerable useful lives.

Therefore the impact on the depreciation will not have a significant financial implication on the financial statements and therefore it is not required to be componentised.

All assets can be componentised but the significance of the cost and the useful life's compared to materiality should be taken into account.

It does not make economic sense to componentise borehole of R572 223.33 as there will be no significant financial impact.

These boreholes form part of Sewer Treatment Works (0.5MI per day) in Tshepong that were componentised by the Engineers to address the prior year componentised exception. They are experts in this field and therefore we believe that the level componentisation is sufficient as well.

The same explanation is applicable to the reservoir of R152 000. This amount is not significant in relation to the total bulk water assets. There will be no significant financial impact in the depreciation.

2. We disagree with the finding.

The technical aspect of when assets should be componentised as the as note 1.

The assets must have a significant cost of different useful life's that will have financial impact on the depreciation.

The pump stations with carrying values of R75 199, 84 will have no significant impact on the depreciation of the assets. Therefore the carrying amount currently disclosed will not be misstated.

For reservoirs the technical aspect significance of the cost and the useful life's are applicable. A reservoir consists of the following components:

- Concrete structure;
- Steel infrastructure
- Pvc water pipes.

None of these items have significant cost except the concrete structure and this component is the only component that will have an financial implication on the depreciation and the carrying amount. Therefore it is not necessary to componentize the reservoir.

The fact that the items are not bar coded we consider as an internal control matter as these assets were physically verified.

We agree with this finding. This finding is a repeat of communication 25. As agreed these assets will be removed from the asset register.

Auditor's conclusion

Management comments were obtained and assessed as follows:

1. Boreholes have pipes, pumps, electrical box, valves etc. with significant useful life, consultants could have considered this for boreholes as well. **Not resolved.**

2. Management disagree but irrespective of carrying value of pump station its components still need to be separately recorded in the asset register.

Components of pump station can be:

- a) Pump significant useful life
- b) Motor significant useful life
- c) Pipe work and fittings
- d) etc.

Reservoir has at least the following items which they can be componentised as per management components:

Concrete structure;

Steel infrastructure

Pvc water pipes.

Fencing

3. Management agrees, it will be resolved once asset register and AFS have been updated.

Management should also ensure that asset register is properly referenced so we can be able to trace componentised items and they agree with carrying values as per items that needs componentisation.

Not resolved.

Evaluation done on 24 November 2014:

1. Boreholes have pipes, pumps, electrical box, valves etc. with significant useful life, consultants could have considered this for boreholes as well, refer to the infrastructure methodology. **Not resolved.**

In the asset register the following were identified:

- pipes were individually recorded for other components and their expected useful life ranged between 45-100 years.
- pumps consists of motor pump, air compressor, pressure tower pump, etc, with different useful life.

Boreholes are depreciated over 3 years, closing balance of R3 769 342 as per asset register could be misstated.

Before borehole could be componentised, they are already misstated as they were depreciated over 3 years instead of 30 years.

Borehole VBH cost is R1 716 671, its expected useful life as per Masilonyana Local municipality asset maintenance plan is 30 years.

Depreciation of one borehole could be R57 222, 37 instead of R572 223, 67, we will have difference of R515 002 per year for depreciation.

Using boreholes as per table 1, total $R515\,002 \times 6 = R\,3\,090\,007,78$ was overstated by this amount every year.

Closing balance is understated by $R1\,030\,002 \times 6 = R\,6\,180\,012$.

If all boreholes (18 boreholes) as per asset register are taken into account current year depreciation could be misstated by R3 392 407,80 and carrying amount by R8 292 554, 40. This proves that we will have a significant financial impact on current year depreciation and balance.

2. Management disagree but irrespective of carrying value of pump station its components still need to be separately recorded in the asset register. The principle is for management/consultants could have componentised it when it was initially recognised as an PPE and properly reference so

it can be easy traced to the asset register. We agree that cost of pump station that is in table 2 does not have significant impact on the depreciation of the assets. It was used as an example that not all assets were componentised.

Components of pump station can be:

- a) Pump significant useful life
- b) Motor significant useful life
- c) Pipe work and fittings
- d) etc.

Reservoir has at least the following items which they can be componentised as per management components:

- Concrete structure;
- Steel infrastructure
- Pvc water pipes.
- Fencing

Considerable cost is as per asset not the entire population of bulk water, this was also stated in the infrastructure methodology.

3. Management agrees, it will be resolved once asset register and AFS have been updated.

Management should also ensure that asset register is properly referenced so we can be able to trace componentised items and they agree with carrying values as per items that needs componentisation.

16. EX.191 - PPE: Storm water items have no cost/value (EX.191)

Audit finding

Paragraph 17 of GRAP 17, states that an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Paragraph 18 of GRAP 17 states that where, an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Contrary to the above, it was identified that certain Storm water items did not have a cost or value in the asset register:

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTAL COST (R)
4568	Civil Structure	Stormwater Network	Culvert	TM005	BRANDFORT	-28.702 26.453	0,00
11517	Civil Structure	Stormwater Network	Underground Culvert	TM005	BRANDFORT	-28.699 26.464	0,00
11538	Civil Structure	Stormwater Network	Underground Culvert	TM005	VERKEERDEVLEI	-28.832 26.779	0,00
4573	Civil Structure	Stormwater	Culvert	TM005	WINBURG	-28.525 27.017	0,00
4571	Civil Structure	Stormwater	Culvert	TM005	THEUNISEN	-28.395 26.712	0,00

Cause

Management did not take steps to ensure that the asset register is reviewed and complied with GRAP 17.

Impact

Infrastructure assets (Stormwater and Roads) amounting could be understated in the assets register and the financial statements.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate asset register and ensure that the cost of Storm water and Road infrastructure items is determined.

Management response

We agree with the finding.

The values will be included in the revised fixed asset register.

Please find attached the amended part of the asset register of the culverts and also assumptions used in the determining the values.

Auditor's conclusion

Management comments were obtained and were submitted with FAR and assumption used and the methodology to determine the values of the culverts, they are assessed as follows:

We agree in principle, this will be resolved until AFS are updated.

The matter has been **resolved** and will be reported in the management report as a corrected misstatement and in the audit report as a non-compliance.

17. EX.219 - PPE: Bulk Sewer and Sewerage (Sizes of pipes differed) (EX.219)

Audit finding

Section 63 (1) (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

During the physical verification it was determined that sizes of water pipes as per asset register differs with sizes according to the technical officials during the physical asset verification conducted at Brandfort/ Majwemasweu on 14 to16 October 2014:

N o.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	TOWN	GPS COORDINATES	Size as per technician	TOTAL COST (R)	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)
1	2357	Pipe work	Bulk Sewer	Pipe	250mm Sewer Pipe	MAJWEMAS WEU	-28.697 26.445	300mm	692 878,0 0	393 263,36
2	2361	Pipe work	Pipe	Pipe	250mm Sewer Pipe	MAJWEMAS WEU	-28.689 26.445	300mm	624 898,0 0	354 679,30
Total:										747 942,66

Extrapolation:

Sample amount	10 030 714,91
Error amount	747 942,66
Error %	7%
Population	94 371 604,23
Projected amount	7 036 841,30

Cause

The technicians (municipal officials) were not involved in the assets verification conducted by consultants responsible for compiling and updating the assets register.

Impact

The matter result in a limitation to confirm the valuation of pipes amounting to an extrapolated figure of R7 036 841.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate asset register and ensure that the actual size of pipes and valves are correctly recorded in the asset register. Management should also ensure that municipal officials responsible for certain asset type are involved in the asset verifications to ensure that there are no discrepancies in the values that are recorded.

Management response

We disagree with the finding.

This finding is a similar finding of communication 132.

The engineers (Management Experts) prepared the asset register from the master plan and the infrastructure maps of the municipality and also by physically visiting the towns and using the approach that the pipe sizes used must be sufficient to provide for the water and sanitation needs of the community.

The Auditor-General based their physical verification findings on the confirmation from the municipal officials and not the actual physical inspection of the pipes. The engineers (Management Experts) consulted with the municipal officials on various occasions, with a different outcome.

The cause that the municipal officials were not involved is also not agreed with. The municipal officials were involved on a continuous basis. In the 2012 financial year the pipe sizes were also queried by the AG and the maps were provided to the municipality (Technical Department) to indicate if they agree with the sizes of the pipes. Based on the Engineers response on the 21 October 2013 no adjustments were made to the maps from the municipal officials. Thus did the Municipal Officials agree that the pipe sizes on the maps are correct resulting in the asset register to also being correct.

The maps were provided again to the municipality (Technical Department) in June 2014 to confirm that the sizes of the pipes on the maps are correct. The response were that the sizes on the maps are correct thus indicating again that the asset register is correct

Based on the above the maps were provided and the municipality officials agreed with the sizes confirmed that they were in agreement with the engineers who compiled the asset register.

It is our opinion that the AG cannot rely on the responses of the municipal officials during the 2014 verification:

- They were continuously involved in the compilation of the asset register;
- The municipal officials agreed that the pipe sizes on the maps are correct;
- The pipe sizes on the asset register were all obtained from the maps; and
- The Engineers (experts) visited the towns and compiled the asset register based on their assessment and also taking the master plan and infrastructure maps into consideration.

If the AG wants to place reliance on the officials of the municipality, the AG must also place reliance on the asset register because the officials were also involved in this process. In addition, the officials technical expertise needs to be assessed and compared with that of the engineers. Alternatively, the AG can obtain their own expert and include the engineer or expert as part of the audit team to prove that the maps of the municipality are inaccurate. If the AG cannot prove that the maps are inaccurate then there is no basis to state that the pipes sizes are incorrect.

The extrapolation is also incorrect, the fact that the pipe size might be incorrect and should be another pipe size does not indicate that the total value is incorrect. The misstatement should be the difference in the prices of the different pipe sizes (90mm and 200mm price difference), etc.

Auditor's conclusion

Similar finding as exception 132.

1. Maps with different sizes of water pipes were obtained and inspected the following were noted:

- a) In principle we agree with the map id's as compiled by the experts.
- b) However, it could not be specifically, according to each asset, traced to the map id's.
- d) We could trace the size of the pipes but it could not be linked to the specific asset, also according to the GPS coordinates.
- e) Maps only have reference to the types of pipes not location as per asset register.
- f) As these maps were not provided to us during the physical verification of assets (PPE), we could not get assurance that they exist.

Discussed with Stefan on 20 November 2014 that he will provide us with GIS map with pipe sizes and coordinates as per GIS. This will be evaluated once received.

On 27 November 2014 we obtained maps including GIS maps for evaluation of sewer pipe sizes, these maps did not show sizes of pipes, except GIS maps. Pipes that could be identified through GIS maps with specific asset ID, pipe size and coordinates location were accepted.

This exception is not resolved and will be included in the audit report.

18. EX.227 - PPE: Electricity items not verified (EX.227)

Audit finding

Section 63 (1) (a) of the MFMA states that “the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets”.

Contrary to the above the following items of electricity could not be positively verified during the physical assets verification conducted with the technical officials of the Municipality on 14 and 16 October 2014. The co-ordinates used by the auditors and the technical officials of the Municipality directed the asset to the following incorrect locations:

No	UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY	ASSET CODE	OWNER	ASSET DESCRIPTION 1	TOWN	GPS/Assets register	Verified	CARRYING VALUE - 30 JUNE 2014 (R)
1	ELEC0638	COMMUNITY ASSETS	ELEC0638	Masilonyan a Local municipality	High Mast Lights	Brandfort	28.69203,26.46199 (directed to a clinic - no high mast lights in sight)	No	96 076,54
2	ELEC0705	COMMUNITY ASSETS	ELEC0705	Masilonyan a Local municipality	Street Lights	Soutpan	28.72136,26.06532 (directed to Soutpan town - no streetlights in sight)	No	54 520,56
Total:									150 597,10

Extrapolation:

Total sample amount	3 871 558,30
Sample error	150 597,10
Population	25 175 457,00
Error %	4%
Projected amount	979 282,87

Cause

Management did not take steps to ensure that asset register is adequately reviewed and proper locations existed for all assets in the assets register.

Impact

Bulk water infrastructure assets could be misstated by R354 529.

Internal control deficiency

Financial and performance management

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate assets register and location of all property, plant and equipment items, and update asset register accordingly. Management should ensure that asset officials take ownership of asset register and verification.

Management response

We disagree with the finding.

Please find response below:

No.	UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY	OWNER	ASSET DESCRIPTION 1	TOWN	GPS/Assets register	Verified	MUNICIPALITY RESPONSE
1	ELEC0638	COMMUNITY ASSETS	Masilonyana Local municipality	High Mast Lights	Brandfort	- 28.69203,26.46199 (directed to a clinic - no high mast lights in sight)	No	We disagree. The GPS coordinates on the FAR were wrong and should be - 28.6018, 26.46204. The high mast could be verified. This matter is thus an internal control matter.
2	ELEC0705	COMMUNITY ASSETS	Masilonyana Local municipality	Street Lights	Soutpan	- 28.72136,26.06532 (directed to Soutpan town - no streetlights in sight)	No	We disagree with this finding. Please find the explanation below.

During the 30 June 2012 audit were the finding rose that no street lights and high mast lights were recorded on the electrical fixed asset register. It was agreed with the AG during that year 癩 audit that the street lights and the high mast lights must be included in the asset register.

The following changes were made to the asset register that were agreed with between the municipality and the AG and this matter were resolved in 30 June 2012 and no communications were raised regarding the existence of the completeness of the street lights and high mast lights.

The list below were the amendments made to the asset register in 30 June 2012 and these two above limitations identified were included in this list that were accepted by the AG. See them indicated in green.

We therefore disagree with the AG regarding the limitation.

Additional information will be included in the asset register for future references

				Electric		
				Cost	Accumulated Depreciation and Impairment	Depreciated replacement costs 30 June 2012
Balance as per audited FAR				8 050 158.41	3 846.08	8 046 312.34
Balance as per final submitted				28 422 250.21	3 846.08	28418404.14
Difference between audited FAR and Final submitted				(20 372 091.80)	-	(20372091.80)
Reconciling items:						
ELEC0601	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0602	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00

ELEC0603	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0604	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0605	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0606	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0607	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0608	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0609	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0610	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0611	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0612	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0613	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0614	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0615	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0616	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0617	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0618	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0619	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0620	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0621	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0622	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0623	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0624	High Mast Lights	Theunissen	Masilo	100 000.00	-	100 000.00
ELEC0625	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0626	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0627	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0628	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0629	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0630	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0631	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0632	High Mast Lights	Winburg	Makeleketla	100 000.00	-	100 000.00
ELEC0633	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0634	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00

ELEC0635	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0636	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0637	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0638	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0639	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0640	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0641	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0642	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0643	High Mast Lights	Brandfort	Majwemasweu	100 000.00	-	100 000.00
ELEC0644	High Mast Lights	Verkeerdevlei	Tshepong	100 000.00	-	100 000.00
ELEC0645	High Mast Lights	Verkeerdevlei	Tshepong	100 000.00	-	100 000.00
ELEC0646	High Mast Lights	Verkeerdevlei	Tshepong	100 000.00	-	100 000.00
ELEC0647	High Mast Lights	Soutpan	Ikgomotseng	100 000.00	-	100 000.00
ELEC0648	High Mast Lights	Soutpan	Ikgomotseng	100 000.00	-	100 000.00
ELEC0701	Street Lights	Theunissen		3 752 373.00	-	3 752 373.00
ELEC0702	Street Lights	Brandfort		3 057 227.00	-	3 057 227.00
ELEC0703	Street Lights	Winburg		7 270 667.00	-	7 270 667.00
ELEC0704	Street Lights	Verkeerdevlei		375 947.00	-	375 947.00
ELEC0705	Street Lights	Soutpan		56 747.00	-	56 747.00
ELEC0305	Mini-Subs	Brandfort		196 778.40	-	196 778.40
ELEC0306	Mini-Subs	Brandfort		196 778.40	-	196 778.40
ELEC0307	Mini-Subs	Brandfort		196 778.40	-	196 778.40
ELEC0313	Mini-Subs	Theunissen		185 203.20	-	185 203.20
ELEC0314	Mini-Subs	Theunissen		185 203.20	-	185 203.20
ELEC0403	Transformer	Brandfort		32 796.40	-	32 796.40
ELEC0404	Transformer	Brandfort		32 796.40	-	32 796.40
ELEC0405	Transformer	Brandfort		32 796.40	-	32 796.40
Total amendments made				R20 372 091.80	-	R20 372 091.80

Name: F.MZIZI
Position: CFO
Date: 28/11/2014

Auditor's conclusion

No formal response was received from the management but based on the evaluation of asset register the following were determine:

1. High mast light (ELEC0638) could have been 30 meters from where the coordinates took us. Initially this was not documented in the asset register, with the updated one it has been clearly documented. **Resolved.** Will be reported in the management letter as a corrected misstatement.
2. Street light in Soutpan (ELEC705) could not be verified, also no street lights could not be seen that are closed, this will be reported also as misstatement of R354 529. The assets register has not been updated in this regard. Management response does not address street light that could not be verified. **Not resolved.**

Total sample amount	3 871 558,30
Sample error	54 520,56
Population	25 175 457,00
Error %	1,41%
Projected amount	354 529

19. EX.136 - PPE: WIP completed project not capitalised (EX.136)

Audit finding

Section 63 (2) (a) of the MFMA states the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality.

Contrary to the above it was identified that not all projects were capitalised to infrastructure assets. The following completed project was not removed from the work in progress and capitalised to infrastructure:

1. MIG/FS/0703/W to the value of R13 058 529,97 was completed on 22 March 2013 and date of completion certificate is 14 May 2014.
2. MIG/FS/1001/F to the value of R2 097 005,40 was completed on 30 June 2014 as per completion certificate.
3. MIG/FS/1008//F to the value of R1 468 333,67 was completed on 30 June 2014 as per completion certificate.
4. M/G/FS/1006/F to the value of R1 121 231,41 was completed on 30 June 2014 as per completion certificate.

A similar matter was reported in paragraph 101 of the prior management report

Cause

Lack of review by management over the work in progress.

Impact

Infrastructure assets has been misstated by R17 745 100,45 which would subsequently also result in depreciation and accumulated depreciation being misstated.

Internal control deficiency

Leadership

Management did not Implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should ensure that completed work in progress is capitalised to infrastructure assets. This matter should be corrected and the reference thereto be submitted for audit purposes.

Management response

We agree with the finding and will adjust the financial statements.

The following projects will not impact the carrying amount on Statement of Financial Position as their completion certificates are dated 30 June 2014:

- MIG/FS/1001/F to the value of R2 097 005,40 was completed on 30 June 2014 as per completion certificate.
- MIG/FS/1008//F to the value of R1 468 333,67 was completed on 30 June 2014 as per completion certificate.
- M/G/FS/1006/F to the value of R1 121 231,41 was completed on 30 June 2014 as per completion certificate.

The following project be will transferred from WIP and depreciation will be calculated for 1.5 months.

MIG/FS/0703/W to the value of R13 058 529,97 was completed on 22 March 2013 and date of completion certificate is 14 May 2014.

Auditor's conclusion

The completion certificates of 30 June 2014 will also effect the carrying amounts on the Statement of Financial Position at 30 June 2014. Until evidence of the corrections in the financial statements has made and submitted for audit purposes this matter is regarded as not resolved and is included in the audit report.

The following projects their completion certificates were signed after year end, therefore, they are resolved.

- MIG/FS/1001/F to the value of R2 097 005,40 was completed on 30 June 2014 as per completion certificate.
- MIG/FS/1008//F to the value of R1 468 333,67 was completed on 30 June 2014 as per completion certificate.
- M/G/FS/1006/F to the value of R1 121 231,41 was completed on 30 June 2014 as per completion certificate.

According to the response received the engineers only sign off on these on 30 July 2014 and therefore it is regarded as **resolved**.

MIG/FS/0703/W to the value of R13 058 529,97 was completed on 22 March 2013 and date of completion certificate is 14 May 2014, this as regarded as **not resolved**. Will be verified when the updated FAR is received.

On 27 November 2014 fixed asset register was obtained and it was confirmed that project MIG/FS/0703/W was capitalised to the asset register.

The finding was Resolved and would be included in the management report as a corrected misstatement and reported as non-compliance in the audit report

20. EX.209 - PPE: No movement for WIP projects (EX.209)

Audit finding

Section 62 (1) (a) and (b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure, that the resources of the municipality are used effectively, efficiently and economically that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Contrary to the above it was noted that the following projects did not show movements for the last two years:

MIG Reference Nr	Description	A	B	C	
		2012/2013	2013/2014	C=A -B	C/ B
MIG/FS/0435/CF/09/10	Construction of Soutpan Community Hall & Sports Complex	5 735 067,37	5 735 067,37	-	0%
MIG/FS/0655/W/08/09	Soutpan/Ikgomotseng Provision of 1MI storage reservoir	487 658,55	487 658,55	-	0%
MIG/FS/0842/SW/11/11	Brandfort/Majwemasweu: Upgrading of the Waste Disposal Site	151 785,82	151 785,82	-	0%
MIG/FS/0858/W/11/11	Soutpan/Ikgomotseng: Installation of 1027 Water Meters, 2 Zone Meters and 5 Bulk Water Meters	1 369 401,66	1 369 401,66	-	0%
Total:		7 743 913,40	7 743 913,40		

This matter was also included in paragraph 6 of the prior year audit report.

Cause

Management did not take steps to ensure that projects are completed within timeframes. Due to lack of funds municipality was unable to complete projects within time frames that were set.

Impact

The work in progress assets could be redundant and would be costly to rehabilitate them.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should follow this matter up and submit details why these projects have not shown any progress during the past two years.

Management response

We agree that the WIP projects did not have any movement for the past two years. However these projects cannot be capitalized as there are no completion certificates and other projects may have been given priority due to other urgent matters.

We believe this is an internal control matter but steps will be implemented to ensure better WIP management during the year.

Auditor's conclusion

This matter has not been resolved. The municipality have with the assistance of the consultants not implemented measures to obtain the completion certificates and ensure they are capitalized. The matter has been included in the audit report.

21. EX.28 - PPE: WIP not capitalised (Prior year exception) (EX.28)

Audit finding

Section 62 (1) (a) and (b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure, that the resources of the municipality are used effectively, efficiently and economically that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Section 63 (2) (a) of the MFMA states the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;

During the follow up of prior year exception number 134, it was identified that the following projects were removed from the work in progress sheet but no evidence could be obtained that they were capitalised as infrastructure assets. A detail reconciliation/reference of these projects could not be obtained to verify when and where these projects were capitalised, this matter was reported in

Ledger code	Project Number	2013 AFS amounts	Date of completion as per certificate
77/3418	MIG/FS/0577/S	R840 325,06	25-Mar-09
77/3419	MIG/FS/0586/S	R2 231 900,33	03-Dec-10
77/3421	MIG/FS/0597/S	R4 818 819,10	25-Sep-08
77/3422	MIG/FS/0609/S	R161 274,05	25-Mar-09
		R8 054 331,54	

This matter was also included in paragraph 6 of the prior year report and paragraph 20, page 81 (Annexure A) of the prior management report.

Cause

Management did not follow up on prior year exceptions to be able to make necessary adjustments to their asset register.

Impact

Opening balances of infrastructure assets could be understated by R8 054 332 also resulting in accumulated depreciation and depreciation misstated.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Control environment

The entity did not hold individuals accountable for their internal control responsibilities.

Recommendation

Management should investigate this matter and update the assets register.

Control measures should be implemented to ensure that all the completed projects are capitalised in the asset register.

Management response

We disagree with the finding.

These projects were all completed before December 2010. This is the 30 June 2011 financial year and these projects were all in working condition and in use at 30 June 2011.

The fixed asset register currently in use by the municipality were compiled in June 2012 and used for the first time in the financial statement presented in 30 June 2012.

The engineers worked through all the immovable assets of the municipality to identify the WIP projects and include them on the fixed asset register, even the completed WIP projects for 30 June 2012.

The projects below are already included in the fixed asset register under immovable assets as they were identified in June 2012 as completed and included on the FAR.

These completed projects vote accounts were never removed from the trial balance and were only removed from the trial balance for the current year presented as no completion certificates could be obtained from the municipality in the previous financial years.

Therefore we disagree. The WIP projects are removed from the trial balance but not transferred to the FAR for 2013/2014 as they are already included in the FAR in the 2011/2012 financial year.

Ledger code	Project Number	2013 AFS amounts	Date of completion as per certificate	
77/3418	MIG/FS/0577/S	R840 325,06	25-Mar-09	A1
77/3419	MIG/FS/0586/S	R2 231 900,33	03-Dec-10	A2
77/3421	MIG/FS/0597/S	R4 818 819,10	25-Sep-08	A3
77/3422	MIG/FS/0609/S	R161 274,05	25-Mar-09	A4

R8 054 331,54

A1 - Based on the completion certificate received, were it determined that the projects were completed on the 18/04/2009. Therefore were the project completed before the new FAR were compiled. This will this projects expenditure not be transferred to the Property, plant and Equipment but to retained income as the assets and the capital expenditure are already recorded on the FAR under the immovable assets. Please refer to external paper file WP A14

A2 - Based on the completion certificate received, were it determined that the projects were completed on the 24/11/2010. Therefore were the project completed before the new FAR were compiled. This will this projects expenditure not be transferred to the Property, plant and

Equipment but to retained income as the assets and the capital expenditure are already recorded on the FAR under the immovable assets. Please refer to external paper file WP A6

A3 - Based on the completion certificate received, were it determined that the projects were completed on the 25/09/2009. Therefore were the project completed before the new FAR were compiled. This will this projects expenditure not be transferred to the Property, plant and Equipment but to retained income as the assets and the capital expenditure are already recorded on the FAR under the immovable assets. Please refer to external paper file WP A16

A4 - Based on the completion certificate received, were it determined that the projects were completed on the 25 March 2009. Therefore were the project completed before the new FAR were compiled. This will this projects expenditure not be transferred to the Property, plant and Equipment but to retained income as the assets and the capital expenditure are already recorded on the FAR under the immovable assets.

Name: F. Mzizi
Position: CFO
Date: 20/10/2014

Auditor's conclusion

Management comments were noted however the following inconsistencies were identified:

A1 - Project could not be traced to the asset register as there is no reference that can be used in the asset register. **Not resolved.**

A2 - Project could not be traced to the asset register as there is no reference that can be used in the asset register. **Not resolved.**

A3 - Project could not be traced to the asset register as there is no reference that can be used in the asset register. **Not resolved.**

A4 - Project could not be traced to the asset register as there is no reference that can be used in the asset register. **Not resolved.**

Asset register does not have projects references, this also could results in assets not being traced to the asset register.

Management should consider updating asset register with project references to each asset.

On 27 November 2014 obtained bill of quantities (Project MIG/FS/0577/5/07/08 Brandfort/Majwemasweu Bucket Eradication 525):

We could not traced the capitalised items in the asset register, bill of quantities did not help as well as items did not have specific identification that can be used to traced them to the asset register. **This exception is regarded as not resolved.**

On 29 November 2014 we obtained additional information from Mr. Du Toit through e-mail:

Bill of quantities does not show size of the pipes and it was identified that both water pipes and sewerage pipes were used. The asset register that was send, it only included water pipes. These water pies did not have sizes in the bill of quantities. Therefore, they cannot be positively traced to the bill of quantities. **Not resolved.**

22. EX.39 - PPE: Internal control deficiencies identified – Lack of asset lists and policies (EX.39)

Audit finding

Section 63 (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Contrary to the above, the following internal control deficiencies were identified:

1. Through the inspection of municipality's offices, it was identified that there are no asset lists in the offices.
2. The municipality does not have a Maintenance policy.
3. The municipality does not have written processes for management of Property, plant and equipment.
4. The municipality does not have an approved Fleet Management Policy.
5. The department that receives Property, plant and equipment (PPE) does not notify asset department when PPE is received.
6. The municipality does not have Safeguarding of assets policy.

This matter has also been included in exception 50 of the prior year.

Cause

Lack of oversight by management over the controls of property, plant and equipment.

Impact

Possible mismanagement of assets by municipal officials.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies

Recommendation

Management should take steps to ensure that there are sufficient controls over the management of property, plant and equipment and approved policies.

Management response

Management agrees with the finding but there is an asset maintenance plan as attached the communication that will form part of the maintenance policy.

Auditor's conclusion

Management agrees with the finding the matter will be reported as internal control.

23. EX.56 - PPE: Assets not assessed for impairment (EX.56)

Audit finding

Paragraph 19 of GRAP 26 states that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Through the inspection of asset register and physical verification at Winburg (17, 20 October 2014), Brandfort (13-16 October 2014) and Theunissen (21 October 2014) evidence could not be obtained that property, plant and equipment were assessed for impairment at year end:

1. Bulk water and water infrastructure

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	Status
1	2523	Pipe work	Infrastructure Assets	Bulk Sewer	Pipe	400mm uPVC Sewer Pipe	2523	MASILO	-28,416 26,715	498 042,19	Not working
2	565	Pipe work	Infrastructure Assets	Sewer	Pipe	160mm Asbestos Sewer Pipe	565	MASILO	-28,404 26,706	162 016,22	Not working
										660 058,41	

No.	UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	BARCODE NUMBER	SERIAL NUMBER	TOWN	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)
1	12138	Pump motor	Treated Water Booster Pump Motor (No,1 Pump set)	No barcode	No barcode	Theunissen WTW		Impaired in a prior year but in the current no evidence could be obtained that it was assessed for impairment, During execution it was identified that it was removed from the operation after year end.	140 932,50
2	00009660	Water	315 KW, 380 VOLTS, 4P FOOTMOUNT FENNER MOTOR	00009660	07778-2011	Theunissen	Waterworks	Removed from the operation after year end, not impaired.	148 329,60
3	00009687	Water	BOGS-SCT 150-48-2 KIRLOSTAR MULTI STAGE PUMP C/W BASE	00009687	HIDL016 200738-2	Theunissen	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	136 201,60

No.	UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	BARCODE NUMBER	SERIAL NUMBER	TOWN	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)
4	00009657	Water	DMZA 355 M/L4 X 380 V 315 KW 4P FOOT MOUNTED CAST IRON MOTOR	00009657	S/N3202125001	Theunissen	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	105 500,00
									530 963,70

2. Electricity

No.	UNIQUE ASSET NUMBER (OLD)	POSSIBLE MATCHES	SUB-ASSET CATEGORY 1	ASSET SUB CODE	TOWN	REGION/ BUILDING NAME	GPS COORDINATES	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	Comments
1	ELEC0602	COMMUNITY ASSETS	ELEC0602	High Mast Lights	Theunissen	Masilo	- 28.41552,26.70720	Not working	96 076.54	Lights were hanging over from the high mast light.

3. Motor vehicles

No.	UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	TOWN	REGION/ BUILDING NAME	CARRYING VALUE - 30 JUNE 2014 (R)	Status
1	00009068	Motor Vehicles	Nissan hardbody np300	00009068	fbm032fs	Soutpan	Shack Storage	132 930,00	Not in a working condition and badly damaged.
2	bjw668fs	Motor Vehicles	Toyota bakkie	bjw668fs	bjw668fs	Verkeerdevlei	Technical-Storage	51 386,67	Identified as poor in asset register. It was not impaired.

3	00009389	Motor Vehicles	Toyota hilux	00009389	bpb162fs	Theunissen	Technical - Storage	0,00	This asset was depreciated instead of impairment.
4	00009311	Motor Vehicles	Nissan np300 hardbody	00009311	fbm007fs	Theunissen	Technical - Storage	132 930,00	Badly damaged
								317 246,67	

4. Maintenance equipment

No.	UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	TOWN	REGION/ BUILDING NAME	Status	CARRYING VALUE - 30 JUNE 2014 (R)
1	00007965	MAINTENANCE EQUIPMENT	Watertank trailer	00007965	fbp119fs	Winburg	Technical - Storage	It did not have one wheel.	34 729,46
2	00009356	MAINTENANCE EQUIPMENT	sewage truck	00009356	cjx654fs	Theunissen	Technical - Storage	It did not have wheels, it looked like it has not been used for months.	224 437,67
3	00008260	MAINTENANCE EQUIPMENT	Red Massey Ferguson 398	00008260	bgm172fs	Winburg	Technical - Storage	To be write-off as per asset register, It was fully depreciated instead of being impaired.	0
								259 167,13	

5. Land and building

No.	UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY	OWNER	ASSET DESCRIPTION 1	ADDRESS/ERF NUMBER/COORDINATES	TOWN	CARRYING VALUE - 30 JUNE 2014 (R)	Status
9	F60001000000061500000	Land and Buildings	Building	Municipal Asset	MASILONYANA LOCAL MUNICIPALITY	MUNICIPAL-TOWN HALL	615	BRANDFORT	1 700 362,08	Broken windows

6. Through the inspection of asset register it was further identified that assets that are rated between 4-5 as per conditional rating table were not impaired. No evidence could be obtained that the following property, plant and equipment were assessed for impairment, the below table is a summarised table:

Asset	Conditional rating	Total amount (R)
maintenance equipment	4-5	1 320 262,84
emergency equipment	4-5	R 9 446,67
motor vehicle	4-5	R 907 453,66
bulkwater and water infrastrucure	4-5	28 244 224,47
bulksewer and sewerage infrastrucure	4-5	5 635
stormwater and road infrastrucure	4-5	7 248 042,26
computer equipment	4-5	5 444,52
emergency equipment	4-5	9 446,67
furniture and fittings	4-5	37 605,78
maintenance equipment	4-5	1 320 262,84
office equipment	4-5	R 3 227,84
Total		R 39 111 052,55

Valuation of property, plant and equipment (+ R39 111 052,52) could not be confirmed.

A similar matter was reported in paragraph 14 of the prior year management report.

Cause

Management did not ensure that PPE items are impaired as per their conditional rating.

Impact

Property, plant and equipment could be misstated by R39 111 053.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should verify assets that are rated between 4-5 as per conditional rating and ensure that they are impaired as per Masilonyana Local Municipality Maintenance Plan (Section 8).

Management response

In terms of GRAP 21, Impairment of Non-Cash Generating Units are impairment defined as follow:

"Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation."

GRAP 21, 16 "Impairment states the following:

"This Standard defines "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialised nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives."

Taking into account the above the each individual asset must be assessed individually. If an asset can no more generate cash flows from disposal or cannot provide anymore service potential then only can the asset be impaired. There should also be differentiated between permanently not in use and temporary not in use. If an asset is temporary not in use then it should not be impaired.

Temporary not in use assets can be maintained and repaired and be put back in use.

Permanently not in use or damaged should be impaired.

Refer to the below for the responses on the findings.

Bulk water and water infrastructure

UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE
2523	Pipe work	Bulk Sewer	Pipe	400mm uPVC Sewer Pipe	498 042,19	Not working	We disagree. Temporary not in use. This pipe can be repaired and put back in use to generate cash. Therefore should not be impaired
565	Pipe work	Sewer	Pipe	160mm Asbestos Sewer Pipe	162 016,22	Not working	We disagree. Temporary not in use. This pipe can be repaired and put back in use to generate cash. Therefore should not be impaired

UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/	ASSET DESCRIPTION 1	BARCODE NUMBER	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE
12138	Pump motor	Treated Water Booster Pump Motor (No,1 Pump set)	No barcode		Impaired in a prior year but in the current no evidence could be obtained that it was assessed for impairment, During execution it was identified that it was removed from the operation after year end.	140 932,50	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.
9660	Water	315 KW, 380 VOLTS, 4P FOOTMOUNT FENNER MOTOR	9660	Waterworks	Removed from the operation after year end, not impaired.	148 329,60	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be

UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/	ASSET DESCRIPTION 1	BARCODE NUMBER	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE
							repaired to maintained their production and use.
9687	Water	BOGS-SCT 150-48-2 KIRLOSTAR MULTI STAGE PUMP C/W BASE	9687	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	136 201,60	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.
9657	Water	DMZA 355 M/L4 X 380 V 315 KW 4P FOOT MOUNTED CAST IRON MOTOR	9657	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	105 500,00	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.

Electricity

UNIQUE ASSET NUMBER (OLD)	POSIBLE MATCHES	SUB-ASSET CATEGORY 1	ASSET SUB CODE	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	Comments	MUNICIPALITY RESPONSE
ELEC0602	COMMUNITY ASSETS	ELEC0602	High Mast Lights	Not working	96 076.54	Lights were hanging over from the high mast light.	We disagree. Temporary not in use. These lights can be repaired and the mast can be used again to generate income. It will be fruitless to remove the whole light mast, instead it will be repaired.

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE
9068	Motor Vehicles	Nissan hardbody np300	9068	fbm032fs	132 930,00	Not in a working condition and badly damaged.	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The nature of these assets identified can always be repaired to maintained their production and use. It will be more cost effective to repair this vehicle then to remove it from the asset register, to scrap it and obtain a new vehicle. Therefore it is temporary in use and can still be repaired and put back into use
bjw668fs	Motor Vehicles	Toyota bakkie	bjw668fs	bjw668fs	51 386,67	Identified as poor in asset register.	We disagree. The indication as 4 (poor) on the FAR does not mean the asset is not permanently in use anymore. The asset has a poor condition but still generate cash flow and service potential and should there not be impaired but repaired
9389	Motor Vehicles	Toyota hilux	9389	bpb162fs	0,00	This asset was depreciated instead of impairment.	We disagree. The fact that it is impaired or depreciated does not affect the carrying value of Nil. The FAR are therefore not misstated
9311	Motor Vehicles	Nissan np300 hardbody	9311	fbm007fs	132 930,00	Badly damaged	We disagree. Temporary not in use. The vehicle can be repaired and will still generate cash flow and service potential. Therefore will not be impaired as it can still drive.

Maintenance equipment

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	Status	CARRYING VALUE - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE
7965	MAINTENANCE EQUIPMENT	Watertank trailer	7965	It did not have one wheel.	34 729,46	We disagree. Temporary not in use. If the wheels are fitted then the tank will be in working condition. Therefore cannot be impaired as economic benefit can still be obtained from the asset if maintained and the wheels are replaced. The wheels will form a separate component on the asset on the FAR but the water tank are still in working condition.

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	Status	CARRYING VALUE - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE
9356	MAINTENANCE EQUIPMENT	sewage truck	9356	It did not have wheels, it looked like it has not been used for months.	224 437,67	We disagree. Temporary not in use. If the wheels are fitted then the tank will be in working condition. Therefore cannot be impaired as economic benefit can still be obtained from the asset if maintained and the wheels are replaced. The wheels will form a separate component on the asset on the FAR but the water tank are still in working condition.
8260	MAINTENANCE EQUIPMENT	Red Massey Ferguson 398	8260	To be write-off as per asset register, It was fully depreciated instead of being impaired.	0	We disagree. The fact that it is impaired or depreciated does not affect the carrying value of Nil. The FAR are therefore not misstated

Land and Buildings

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY	OWNER	ASSET DESCRIPTION 1	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE
F60001000000061500000	Land and Buildings	Building	Municipal Asset	MASILONYANA LOCAL MUNICIPALITY	MUNICIPAL-TOWN HALL	1 700 362,08	Broken windows	We disagree with the finding. Temporary not in use. The windows are insignificant to the building. The building itself can still provide economic benefits to the municipality if the windows are replaced. The building can only be impaired if it is demolished not when there are no windows that can be replaced.

The following statement were also included on the communication of the AG;

“6. Through the inspection of asset register it was further identified that assets that are rated between 4-5 as per conditional rating table were not impaired.”

No evidence could be obtained that the following property, plant and equipment were assessed for impairment, the below table is an summarised table:

This fact is disagreed with.

Rating 4 and 5 are provided indicates the condition of the asset.

It does not state that the asset must be impaired. It is an indication that the asset must be inspected for impairment and that it is up for repairs not that it should be impaired.

This rating is provided as indication for the municipality that its condition has weakened and that it must be schedule for maintenance.

The assumption used in the finding by the AG is incorrect that R39 111 052 of the assets are not impaired as all these assets are still in use.

The assets are still in use and still able to generate cash or service potential.

Auditor’s conclusion

Management comments were obtained and assessed as follows:

Paragraph 21 of GRAP 21 states that:

“In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.*
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.*

Internal sources of information

- (c) Evidence is available of physical damage of an asset.*
- (d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.*
- (e) A decision to halt the construction of the asset before it is complete or in a usable condition.*
- (f) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected”*

Paragraph 18 of GRAP 21 states that:

an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.

1. Bulk water and water infrastructure

Not identified as not working in the asset register, **this part of exception is not resolved.**

2. Table two of the as per management comments PPE items were removed

UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/	ASSET DESCRIPTION 1	BARCODE NUMBER	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE	Auditor's response
12138	Pump motor	Treated Water Booster Pump Motor (No,1 Pump set)	No barcode		Impaired in a prior year but in the current no evidence could be obtained that it was assessed for impairment. During execution it was identified that it was removed from the operation after year end.	140 932,50	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.	Management comments were assessed but this pump motor was removed to be replaced with new pump motor.
9660	Water	315 KW, 380 VOLTS, 4P FOOTMOUNT FENNER MOTOR	9660	Waterworks	Removed from the operation after year end, not impaired.	148 329,60	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset	Management comments were assessed but this pump motor was removed to be replaced with new pump motor.

UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/	ASSET DESCRIPTION 1	BARCODE NUMBER	REGION/ BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE	Auditor's response
							register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.	
9687	Water	BOGS-SCT 150-48-2 KIRLOSTAR MULTI STAGE PUMP C/W BASE	9687	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	136 201,60	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.	Management comments were assessed but this pump motor was removed to be replaced with new pump motor.

UNIQUE ASSET NUMBER (NEW)	SUB-ASSET CATEGORY 1/	ASSET DESCRIPTION 1	BARCODE NUMBER	REGION/BUILDING NAME	Status	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	MUNICIPALITY RESPONSE	Auditor's response
9657	Water	DMZA 355 M/L4 X 380 V 315 KW 4P FOOT MOUNTED CAST IRON MOTOR	9657	Waterworks	Not assessed for impairment, it was removed from the operations after year end.	105 500,00	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The asset was only removed from operation after the asset register were submitted for audit purposes. The nature of these assets identified can always be repaired to maintained their production and use.	Management comments were assessed but this pump motor was removed to be replaced with new pump motor.

3. Electricity

Not identified as not in use in the asset register, this matter will be reported.

4. Motor vehicle not resolved:

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE	Auditors response
---------------------------	-------------	---------------------	-----------------	---------------	-----------------------------------	--------	-----------------------	-------------------

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE	Auditors response
9068	Motor Vehicles	Nissan hardbody np300	9068	fbm032fs	132 930,00	Not in a working condition and badly damaged.	We disagree. At year end the asset were only temporary not in use. The municipality still had the intention to repair the asset and to put back in use 30 June 2014. The nature of these assets identified can always be repaired to maintained their production and use. It will be more cost effective to repair this vehicle then to remove it from the asset register, to scrap it and obtain an new vehicle. Therefore it is temporary in use and can still be repaired and put back into use	Management did not determine recoverable amount of this vehicle at year end.

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE	Auditors response
bjw668fs	Motor Vehicles	Toyota bakkie	bjw668fs	bjw668fs	51 386,67	Identified as poor in asset register.	We disagree. The indication as 4 (poor) on the FAR does not mean the asset is not permanently in use anymore. The asset has a poor condition but still generate cash flow and service potential and should there not be impaired but repaired	This vehicle was identified as poor, its recoverable value could have been determine at year end in order to determine that it has been impaired. Also as per Local Government Capital Asset Management Guideline assets rated on 4 they require impairment or upgrade, on 5 they require replacement or reconstruction. In the close out report it was indicated that grading scale was used also.
9389	Motor Vehicles	Toyota hilux	9389	bpb162fs	0,00	This asset was depreciated instead of impairment.	We disagree. The fact that it is impaired or depreciated does not affect the carrying value of Nil. The FAR are therefore not misstated	Before write-off consultant should have assessed the asset for depreciation until when it was identified for write-off. Depreciation should have been less. Recalculation of depreciation shows that R51 040 should be expense every year, but for current R200 712.48 was recognised as depreciation for 2013/2014.

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	CARRYING VALUE - 30 JUNE 2014 (R)	Status	MUNICIPALITY RESPONSE	Auditors response
9311	Motor Vehicles	Nissan np300 hardbody	9311	fbm007fs	132 930,00	Badly damaged	We disagree. Temporary not in use. The vehicle can be repaired and will still generate cash flow and service potential. Therefore will not be impaired as it can still drive.	This vehicle is a write-off as per municipal official that responsible for storage of vehicles.

5. Maintenance

- a) Water tank trailer not indicated as "not in use" in the asset register, it could have been assessed for impairment.
- b) Sewage truck not indicated as "not in use" in the asset register, it could have been assessed for impairment.
- c) Red Massey Ferguson 398 was fully depreciated, depreciation is affected as it will be less, this asset was supposed to be de-recognised at carrying amount.

6. Land and building

We disagree the hall is still in use, its recoverable amount could have been determine by management or consultants.

7. Conclusion

No evidence could be obtained that impairment was done on PPE items, recoverable amount of PPE items could have been determine for assets rated between 4-5.

The findings as per findings are indication that PPE items could have been assessed for impairment.

Therefore this exception will stand.

26 November 2014 assessment

On 26 November 2014 an a letter from engineers was obtained, engineers just stated that assessed "WWTW, WTW and Raw Water Transfer Pump Stations for the conditions and useful lives.

In the asset register items that were in poor in conditions were identified, this is an indication that an assets should be impaired. Paragraph 18 of GRAP 21 states "*an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset*".

This letter does not also address the basis used for assessment conditions and useful lives, detailed assets that were assessed for conditions, useful lives and impairment, and there was no conclusion what was impact after assessment.

This exception is not resolved.

24. EX.79 - PPE: Paved/Gravel roads not verified (Stormwater & Road Infrastructure) (EX.79)

Audit finding

Section 63 (1) (a) of the MFMA states that "the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets".

Contrary to the above the following paved roads could not be positively verified during the physical assets verification conducted with the technical officials of the Municipality on 17 and 20 October 2014. The

coordinates (used by both the auditors and the technical officials of the Municipality) directed the asset to the following in incorrect locations:

1. Winburg and Makeleketla

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	GPS COORDINATES	Verified	Gravel/tar road	Differences	TOWN	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11150	Civil Structure	Paved Road	11150	-28,527 27,015	No	Municipal official showed us the pave road done for winburg	28,534 26,989 as per paved road identified,	WINBURG	381 601,94
2	11075	Civil Structure	Paved Road	11075	-28,534 26,992	No	No paving, gravel road	N/A	MAKELEKETLA	372 200,88
3	11198	Civil Structure	Paved Road	11198	-28,514 27,004	No	Tar road	Paved road coordinates are 28,527	WINBURG	324 198,22
4	11420	Civil Structure	Paved Road	11420	-28,516 27,016	No	Tar road		WINBURG	255 932,55
5	11051	Civil Structure	Paved Road	11051	-28,528 27,005	No	Tar road		MAKELEKETLA	224 858,76
6	11229	Civil Structure	Paved Road	11229	-28,525 27,013	No	Tar road		WINBURG	207 325,48
7	11014	Civil Structure	Paved Road	11014	-28,506 27,008	No	Tar road		WINBURG	202 311,15
8	11282	Civil Structure	Paved Road	11282	-28,515 27,007	No	Tar road		WINBURG	196 159,97
9	11373	Civil Structure	Paved Road	11373	-28,524 27,009	No	Tar road		WINBURG	184 992,07
10	11027	Civil Structure	Paved Road	11027	-28,526 27,008	No	Tar road		MAKELEKETLA	244 130,57
2 593 711,59										

2. Theunissen and Masilo

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	ASSET DESCRIPTION 1	BAR CODE NUMBER	TOWN	GPS COORDINATES	Verified	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11356	Civil Structure	Paved Road	11356	MASILO	-28.412 26.698	Gravel road	206 763,71
2	11496	Civil Structure	Paved Road	11496	MASILO	-28.414 26.697	Gravel road	204 330,05

4	11314	Civil Structure	Paved Road	11314	MASILO	-28.409 26.699	Gravel road	141 160,92
5	10994	Civil Structure	Paved Road	10994	MASILO	-28.411 26.698	Gravel road	140 074,55
6	10997	Civil Structure	Paved Road	10997	MASILO	-28.409 26.707	Tar road	139 410,11
7	11247	Civil Structure	Paved Road	11247	THEUNISSEN	-28.402 26.714	Tar road	133 439,71
8	11411	Civil Structure	Paved Road	11411	THEUNISSEN	-28.399 26.715	Tar road	115 437,98
9	11182	Civil Structure	Paved Road	11182	THEUNISSEN	-28.403 26.712	Gravel road	112 733,64
10	11351	Civil Structure	Paved Road	11351	THEUNISSEN	-28.402 26.713	Tar road	112 569,33
								1 305 920.00

3. Extrapolation

Sample amount	8 684 088,19
Error amount	3 899 631,58
Error percentage	45%
Population	49 948 800,83
Extrapolated amount	22 429 749,34

Cause

Management place too much reliance on consultants.

Impact

Infrastructure assets could be misstated by R3 012 930.

Internal control deficiency

Financial and performance management

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate assets register and ensure that coordinates as per asset register agrees with the actual location paved roads, and update asset register.

Management should ensure that asset officials take ownership of asset register and verification.

Management response

Disagree with finding.

The definition of a paved road that was used in the compilation of the fixed asset register:

“A paved road is any road that has a paved (Concrete, tar, etc.) surface. In roads terminology a pavement is the surface of the road (as opposed to a side-walk which is next to the road. Road surface or pavement ([American English](#)) is the durable surface material laid down on an area intended to sustain vehicular or foot [traffic](#), such as a [road](#) or [walkway](#). In the past, [gravel road](#) surfaces, [cobblestone](#) and [granite setts](#) were extensively used, but these surfaces have mostly been replaced by [asphalt](#) or [concrete](#) laid on a compacted [base course](#). Road surfaces are frequently [marked to guide traffic](#). Today, [permeable paving](#) methods are beginning to be used for low-impact roadways and walkways.)”

During the compilation of the assets register the definition was taken into account and therefore gravel road, tar road, etc were all included under the description of “paved road”.

If the definition is applied correctly for paved road to include tar road and gravel road then all the items listed above are verified and there are no limitations.

Taken the definition for paved road into consideration and also considering the fact that the paved roads could be verified, although the GPS coordinates did not take the officials verifying the roads to the exact location. We therefore consider it to be a control matter.

The finding should thus be resolved. (re-issue)

Auditor's conclusion

Management comments were noted but is not accepted. The explanation that all the roads included under paved roads cannot be accepted as true and correct as there are numerous other roads in the assets register with the specific description of gravel, tar, paved and concrete roads. The fact remains that the assets as described in the assets register could be based on its co-ordinates not be physically verified and would therefore be included in the audit report. The three important issues are: (i) the location is wrong (2) the description of the asset is wrong and (3) the asset could not be physically verified.

The definition of gravel road is a "is a type of unpaved road surfaced with gravel that has been brought to the site from a quarry or stream bed" as per Wikipedia. This does not form part of paved road as per management definition, gravel road and is to be included in the audit report.

Table 1 as the nature we will not accept management comments:

1. We could not verify the asset, as the coordinates took the team outside Makeleketla.
2. Definition of paved road does not include gravel road.

Table 2

1. Tar road will be accepted as type of paved roads. **Resolved**
2. Gravel road will be reported as such not as an internal control as a gravel road is regarded as an unpaved road.

This exception is not resolved.

Extrapolation

Table 1

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	TOWN	GPS COORDINATES	Verified	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11356	Civil Structure	Road	Paved Road	11356	MASILO	-28.412 26.698	Gravel road	206 763,71
2	11496	Civil Structure	Road	Paved Road	11496	MASILO	-28.414 26.697	Gravel road	204 330,05
4	11314	Civil Structure	Road	Paved Road	11314	MASILO	-28.409 26.699	Gravel road	141 160,92
5	10994	Civil Structure	Road	Paved Road	10994	MASILO	-28.411 26.698	Gravel road	140 074,55
6	10997	Civil Structure	Road	Paved Road	10997	MASILO	-28.409 26.707	Tar road	139 410,11
7	11247	Civil Structure	Road	Paved Road	11247	THEUNISSEN	-28.402 26.714	Tar road	133 439,71
8	11411	Civil Structure	Road	Paved Road	11411	THEUNISSEN	-28.399 26.715	Tar road	115 437,98
9	11182	Civil Structure	Road	Paved Road	11182	THEUNISSEN	-28.403 26.712	Gravel road	112 733,64
10	11351	Civil Structure	Road	Paved Road	11351	THEUNISSEN	-28.402 26.713	Tar road	112 569,33
Total:									1 305 920,00

Table 2

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	MAIN ASSET CATEGORY	ASSET DESCRIPTION 1	BAR CODE NUMBER	GPS COORDINATES	Verified	Gravel/Tar road	Differences	TOWN	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11150	Civil Structure	Infrastructure Assets	Paved Road	11 150.00	-28.527 27.015	No	Municipal official showed us the pave road done for winburg	28.534 26.989 as per paved road identified.	WINBURG	381 601,94

2	11075	Civil Structure	Infrastructure Assets	Paved Road	11 075.00	-28.534 26.992	No	No paving, gravel road	N/A	MAKELEKETLA	372 200,88
3	11198	Civil Structure	Infrastructure Assets	Paved Road	11 198.00	-28.514 27.004	No	Tar road	Paved road coordinates are 28.527	WINBURG	324 198,22
4	11420	Civil Structure	Infrastructure Assets	Paved Road	11 420.00	-28.516 27.016	No	Tar road		WINBURG	255 932,55
5	11051	Civil Structure	Infrastructure Assets	Paved Road	11 051.00	-28.528 27.005	No	Tar road		MAKELEKETLA	224 858,76
6	11229	Civil Structure	Infrastructure Assets	Paved Road	11 229.00	-28.525 27.013	No	Tar road		WINBURG	207 325,48
7	11014	Civil Structure	Infrastructure Assets	Paved Road	11 014.00	-28.506 27.008	No	Tar road		WINBURG	202 311,15
8	11282	Civil Structure	Infrastructure Assets	Paved Road	11 282.00	-28.515 27.007	No	Tar road		WINBURG	196 159,97
9	11373	Civil Structure	Infrastructure Assets	Paved Road	11 373.00	-28.524 27.009	No	Tar road		WINBURG	184 992,07
10	11027	Civil Structure	Infrastructure Assets	Paved Road	11 027.00	-28.526 27.008	No	Tar road		MAKELEKETLA	244 130,57
Total:										2 593 711,59	

Sample amount	8 684 088,19
Error amount	3 398 774,45
Error percentage	39%
Population	49 948 800,83
Extrapolated amount	19 548 938,78

Infrastructure assets could therefore be misstated by R19 548 939.

On 27 November 2014

Table 1

1. GPS coordinates in the asset register are wrong for this paved road, management should ensure that they update asset register with the correct GPS coordinates and detail description (not just paved road_structural).
6. GPS coordinates in the asset register are wrong for this paved road, management should ensure that they update asset register with the correct GPS coordinates and detail description (not just paved road_structural)
10. GPS coordinates in the asset register are wrong for this paved road, management should ensure that they update asset register with the correct GPS coordinates and detail description (not just paved road_structural)

Table 2 (assets no. 1, 2 and 9):

Descriptions of the paved roads did not agree with the description as per physical verification that was conducted, gravel road were verified instead of paved road as per asset register.

Management should update asset register with more details in order to match actual road. We did not verify paved roads, therefore, we will report on the following items

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	TOWN	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	11356	Civil Structure	Road	Paved Road	11356	MASILO	-28.412 26.698	206 763,71
2	11496	Civil Structure	Road	Paved Road	11496	MASILO	-28.414 26.697	204 330,05
9	11182	Civil Structure	Road	Paved Road	11182	THEUNISSEN	-28.403 26.712	112 733,64
Total								523 827,40

Error amount	523 827,4
Sample amount	8 684 088,19
Error %	6%
Population	49 948 800,83
Projected amount	3 012 930,07

Conclusion

Management should update:

- asset register with correct GPS coordinates
- asset register with more details on types of paved roads

Movable assets

25. EX.17 - PPE: Working papers for asset verification not obtained (EX.17)

Audit finding

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

Paragraph 10.2 of the Fixed Asset Management Policy states that management must ensure that assets are physically verified on a regular basis.

Contrary to the above, the following information was requested with Request for information number 6 dated 25 August 2014 but could not be obtained:

- Approved annual assets verification plan and reports;
- Verification working papers for movable assets, immovable assets and investment property.

Cause

Lack of commitment to submit the documents on the agreed timelines to enable the auditor to form a conclusion on what was done

Impact

Assets that might not be physically verified which could result in loss of assets and inaccurate asset register/financial statements.

Internal control deficiency

Internal control deficiency

Financial and performance management: 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 financial and performance reporting.

Monitoring: The entity did not select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Recommendation

Management should

- submit the verification report and verification working papers as matter of urgency.
- indicate what measures are in place to update the asset register on a regular basis.

Management response

1. VERIFICATION OF THE INVESTMENT PROPERTY.

In the prior year were a reconciliation done between the erven registers and the land & buildings register and the investment property register of the municipality and no differences were noted.

The Auditor-General raised the finding regarding incomplete land and buildings register (Prior year Ex.55) however this finding were subsequently resolved and no matters were noted. For the current year were discussion held with the Acting CFO, Nthabeleng Mekana and Ansie van Niekerk and confirmed that there were no changes to the erven registers with regard to the properties in the name of the Municipality.

Due to the fact that there were no change are the prior year reconciliation still applicable and the findings of the Auditor-General is resolved. Thus is the verification of the Investment property verified. It should also be noted that investment property cannot be moved. The risk is also highly unlikely for this asset to disappear or be stolen. Thus we therefore believe that there is sufficient control over this asset to ensure their existence.

2. VERIFICATION OF THE IMMOVABLE ASSETS:

The immovable fixed asset register were compiled in the 2011/2012 financial year based on the close out report provided in that financial year.

For the 2013/2014 financial year were discussions held with the manager in the technical department, Pule Tshabala. A request was made to review the Immovable fixed asset register and to confirm the existence of the assets at the different locations. The response was that the sites are visited regularly and compared to the fixed asset register. Based on the comparison and the sites visit are all the assets continuously verified were the fixed asset register updated.

Also note that during September & October 2013 were the following sites visited to unbundle the immovable assets. During this visit were these assets all verified. The site details are as follow:

- Soutpan WWTW;
- Soutpan Water Treatment Works;
- Verkeerdevlei Wastewater Treatment Works;
- Verkeerdevlei Water Treatment Works;
- Brandfort Wastewater Treatment Works;
- Brandfort Spare Pumps and Motors;
- Brandfort Water Treatment Works;
- Winburg Wastewater Pumpstation No 1;
- Winburg Wastewater Pumpstation No 2;
- Winburg Wastewater Treatment Works;
- Winburg Wastewater Treatment Works;
- Winburg Borehole PS1;
- Winburg Borehole PS2;
- Winburg Borehole PS3;
- Winburg Water Treatment Works;
- Winburg Treated Water PS;
- Theunissen Wastewater Treatment Works; and
- Theunissen Water Treatment Works.

Refer to the attached working paper "Sites visited" for the verification of the site during the unbundling.

Since 2012 were no significant matters raised by the Auditor-General regarding immovable assets that could not be verified except for Ex.129 of the prior year. However based on the follow up procedures performed the finding is cleared. This also provided assurance that all the assets does exist and are continuously verified.

3. VERIFICATION OF MOVABLE ASSETS.

All newly acquired assets were physically inspected and barcoded and simultaneously were the conditions of the assets assessed.

Training was provided to municipal official, Monica that works in the finance department on 8th May 2014.

The training consisted of the workings of the fixed asset register and GRAP 17 training and also how to assess the conditions of the assets and the remaining useful life's.

The following verification plan was agreed with Monica and the Acting CFO, Nthabeleng Mekana:

- Motor vehicles: All models make and kilometres travelled must be obtained to update the residual value on the fixed asset register. By obtaining these details all the motor vehicles will be verified and their conditions assessed.

- For all the other movable assets will the additions for the prior year and the current year be physically verified and barcoded if they are not barcoded and their conditions will be assessed as well.

While the current and prior year additions are barcoded will spot checks be done on the other assets in the proximity to obtain additional comfort over the other assets on the asset register.

The verification of the movable assets is done by:

- Geoffrey Odora (Nexia SAB & T)
- Paula Wesi (Nexia SAB & T)
- Monica (Masilonyana Local Municipality)
- Vuyisela (Masilonyana Local Municipality)

This process was agreed with the Acting CFO, Nthabeleng Mekana on the 17 July 2014.

Based on the above was there a proper plan to verify all the assets for the 2013/2014 financial year. Note must be taken that not all assets can be verified due to the high number of these assets but a process and a plan were followed to obtain assurance over the existence of the assets continuously throughout the financial year.

Refer to the attached working paper" Asset register – Verified assets" for the movable assets

Auditor's conclusion

Management comments are noted and the following conclusions were reached as per management comments:

1. Merely by discussing the existence of investment property with the Acting CFO, Nthabeleng Mekana and Ansie van Niekerk it does not give an assurance over existence of investment property, verification still needs to be done regardless that the investment property is an immovable assets.

2. Close out report only makes an reference to the sites visited, this does not serve as an verification working paper. **Not resolved.**

3. Management addresses only verification plan only, verification working paper is still not submitted. **Not resolved.**

Conclusion:

Verification plan as per close out report is not detailed and verification working papers were not submitted for audit purpose, this exception is not resolved.

It will be reported as internal control deficiencies in the management report.

26. EX.25 - PPE: Assets are not componentised (Prior year exception) (EX.25)

Audit finding

Section 63 (1)(a) & (2)(a-c) of the MFMA states that the “accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.”

Section 63 (2)(a-c) of the MFMA states that “the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality; that the municipality’s assets and liabilities are valued in accordance with standards of generally recognized accounting practice; and that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.”

Paragraph 9 of GRAP 17 states that this Standard does not prescribe the unit of measure for recognition, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity’s specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

Paragraph 15 of GRAP 17 states that parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph .07, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard”

Through the inspection of asset register it was identified that certain assets were not de-componentised. These assets are individually insignificant items, but were not separately recognized and valued in the asset register:

ASSET DESCRIPTION 1	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTALCOST(R)	DEPRECIATED REPLACEMENT COST-30 JUNE 2014 (R)
Pump Station	10393	MAKELEKETLA	-28.53718,27.00478	939 998,00	320 621,91
Pump Station	10394	MAKELEKETLA	-28.53457,26.99464	939 998,00	320 621,91
Pump Station	10395	MAKELEKETLA	-28.53958,27.00218	939 998,00	320 621,91
Pump Station	10396	THEUNISSEN	-28.43328,26.70089	939 998,00	320 621,91
Pump Station	10397	MAJWEMASWEU	-28.69094,26.46297	939 998,00	320 621,91
Pump Station	10401	IKGOMOTSENG	-28.7353,26.1033	939 998,00	320 621,91
Sewer Treatment Works (1MI per day)	10424	MAKELEKETLA	-28.537,26.9947	7 518 485,00	4 218 530,69
Sewer Treatment Works (3.4MI)	10425	KLEINFONTEIN SMALL HOLDINGS	-28.433,26.7011	20 450 280,00	11 474 403,91

Sewer Treatment Works (0.5MI per day)	10426	TSHEPONG	-28.8374,26.7652	3 759 243,00	2 109 265,62
WWTW	10433	IKGOMOTSENG	-28.7303,26.1001	7 518 485,00	4 218 530,69
WTW	10427	MASILO	-28.4761,26.6822	2 733 995,00	2 515 275,40
WTW	10428	SOUTPAN	-28.8483,26.0042	2 733 995,00	2 515 275,40
WTW	10429	MAKELEKETLA	-28.552,26.9924	2 733 995,00	2 515 275,40
WTW	10430	BRANDFORT	-28.6898,26.4711	2 733 995,00	2 515 275,40
				R55 822 461,00	R34 005 564,00

This matter was included in paragraph 6 of the prior year audit report and paragraph 15 of the management report.

Cause

Management did not review asset register to ensure that it complies with GRAP 17.

Impact

Depreciation, accumulated depreciation and impairment of asset might not be written off over correct period as individual components might have different useful lives.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Risk assessment

The entity did not identify risks to the achievement of its objectives and identifies the risk as a basis for determining how the risks should be managed.

Recommendation

Management should scrutinize the asset register and ensure it componentise its property, plant and equipment. The assets register should also be reviewed on a regular basis to ensure it complies with GRAP and measures implemented to implement the annual action plan.

Management response

We disagree with the finding.

Please find attached the supporting working paper from the finding raised by the Auditor-General to the actual assets where they have been componentized.

The only error was that the items identified by the Auditor-General in the finding were not removed from the assets register. Therefore are the assets identified by the Auditor-General duplicated.

To resolve the finding the following assets should be removed as line items from the asset register to ensure there are no duplication:

ASSET DESCRIPTION 1	BAR CODE NUMBER	AREA	GPS COORDINATES	TOTAL COST (R)	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)
Pump Station	10393	MAKELEKETLA	-28.53718,27.00478	939 998,00	320 621,91
Pump Station	10394	MAKELEKETLA	-28.53457,26.99464	939 998,00	320 621,91
Pump Station	10395	MAKELEKETLA	-28.53958,27.00218	939 998,00	320 621,91
Pump Station	10396	THEUNISSEN	-28.43328,26.70089	939 998,00	320 621,91
Pump Station	10397	MAJWEMASWEU	-28.69094,26.46297	939 998,00	320 621,91
Pump Station	10401	IKGOMOTSENG	-28.7353,26.1033	939 998,00	320 621,91
Sewer Treatment Works (1MI per day)	10424	MAKELEKETLA	-28.537,26.9947	7 518 485,00	4 218 530,69
Sewer Treatment Works (3.4MI)	10425	KLEINFONTEIN SMALL HOLDINGS	-28.433,26.7011	20 450 280,00	11 474 403,91
Sewer Treatment Works (0.5MI per day)	10426	TSHEPONG	-28.8374,26.7652	3 759 243,00	2 109 265,62
WWTW	10433	IKGOMOTSENG	-28.7303,26.1001	7 518 485,00	4 218 530,69
WTW	10427	MASILO	-28.4761,26.6822	2 733 995,00	2 515 275,40
WTW	10428	SOUTPAN	-28.8483,26.0042	2 733 995,00	2 515 275,40
WTW	10429	MAKELEKETLA	-28.552,26.9924	2 733 995,00	2 515 275,40
WTW	10430	BRANDFORT	-28.6898,26.4711	2 733 995,00	2 515 275,40
				55 822 461	34 005 564

Auditor's conclusion

Management comments were noted, however we used asset register for 2013/2014 financial year which does not agree with depreciated replacement costs as per management response amounts (the consultants used 2012/13 asset register).

Total amount of componentised items as per asset register were not removed from the 2013/14 asset register, which could result in misstatement of property, plant and equipment to the value of R24 819 341:

UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTAL COST	DEPRECIATED REPLACEMENT COST - 30 JUNE 2013	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
10393	Civil Structure	Bulk Sewer	Pump Station	10393	MAKELEKETLA	28,53718,27,00478	939 998,00	338 399,28	320 621,91
10394	Civil Structure	Bulk Sewer	Pump Station	10394	MAKELEKETLA	28,53457,26,99464	939 998,00	338 399,28	320 621,91
10433	Civil Structure	Bulk Sewer	WWTW	10433	IKGOMOTSENG	-28,7303,26,1001	7 518 485,00	4 360 721,30	4 218 530,69
10395	Civil Structure	Bulk Sewer	Pump Station	10395	MAKELEKETLA	28,53958,27,00218	939 998,00	338 399,28	320 621,91
10396	Civil Structure	Bulk Sewer	Pump Station	10396	THEUNISSEN	28,43328,26,70089	939 998,00	338 399,28	320 621,91
10397	Civil Structure	Bulk Sewer	Pump Station	10397	MAJWEMASWEU	28,69094,26,46297	939 998,00	338 399,28	320 621,91
10401	Civil Structure	Sewer	Pump Station	10401	IKGOMOTSENG	-28,7353,26,1033	939 998,00	338 399,28	320 621,91
10424	Civil Structure	Bulk Sewer	Sewer Treatment Works (1Ml per day)	10424	MAKELEKETLA	-28,537,26,9947	7 518 485,00	4 360 721,30	4 218 530,69

UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	TOTAL COST	DEPRECIATED REPLACEMENT COST - 30 JUNE 2013	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
10425	Civil Structure	Bulk Sewer	Sewer Treatment Works (3.4MI)	10425	KLEINFONTEIN SMALL HOLDINGS	-28,433,26,7011	20 450 280,00	11 861 162,40	11 474 403,91
10426	Civil Structure	Bulk Sewer	Sewer Treatment Works (0.5MI per day)	10426	TSHEPONG	-28,8374,26,7652	3 759 243,00	2 180 360,94	2 109 265,62
10429	Civil Structure	Bulk Water	WTW	10429	MAKELEKETLA	-28,552,26,9924	2 733 995,00	273 399,50	218 719,60
10427	Civil Structure	Bulk Water	WTW	10427	MASILO	-28,4761,26,6822	2 733 995,00	273 399,50	218 719,60
10428	Civil Structure	Bulk Water	WTW	10428	SOUTPAN	-28,8483,26,0042	2 733 995,00	273 399,50	218 719,60
10430	Civil Structure	Bulk Water	WTW	10430	BRANDFORT	-28,6898,26,4711	2 733 995,00	273 399,50	218 719,60
Total amount							55 822 461,00	25 886 959,62	24 819 340,77

Evidence could not be obtained to ensure that all the components were componentised, for example

1. Pump station could consists of at least:

- Valves
- Switchboard
- Motor
- Impeller
- Discharge pipe work
- Suction pipe work
- Motor

This matter is not resolved and will included in the audit report.

The asset register has been updated and this matter has been **resolved**. It will be reported in the management report as a corrected misstatement.

Operating expenditure

27. EX.165 - Consultants: Lack of internal controls on the monitoring of consultants lead to irregular expenditure (EX.165)

Audit finding

Section 62 (1) (c) (i) of MFMA states that the accounting officer of a municipality is responsible for the financial administration of the municipality, and must for this purpose take reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Furthermore, section 65 (2) (j) states that the accounting officer must take all reasonable steps to ensure that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

Section 74(1) of the MFMA states that the accounting officer of a municipality must submit to the National Treasury, the provincial treasury, the department for local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

Section 116(2)(a-c) of the MFMA states that the accounting officer of a municipality or municipal entity must- Take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced; monitor on a monthly basis the performance of the contractor under the contract or agreement; establish capacity in the administration of the municipality.

1) Payments amounting to R5 027 152 were made to consultants for financial support, IT support and strategic performance management but evidence could not be obtained of the basis of skills transferred by consultants. This stipulation were not included in the service level agreements and no report could be obtained from the municipality to determine the level of, if any, skills that were transferred. Evidence of the basis of skills transferred to the officials of the municipality was requested with request for information number 53 dated 09 October 2014 but could not be obtained.

Note 28 to the financial statements payments to consultants for professional services to the amount of R12 489 904 (R9 352 116 for 2013), included the following payments made to consultants for financial and strategic performance management services delivered:

Consultant	Service rendered	Service level agreement obtained	Amount paid for the 2013-14 year
SAB&T Chartered Accountants Incorporated	Financial support and financial statements	Yes	R1 945 010
KTP Management Consultants	Strategic support	Yes	R2 311 140
Softline Pastel	Accounting IT Software	No	R235 260
Camelsa Consulting group	Accounting IT Training and support	No	R164 468
Payday	Payroll and HR software and services (Sept 2013 – June 2014)	Yes	R241 511
CPI	Payroll and HR services (Jul – Aug 2013)	No. Service level agreement submitted signed but not dated and period ending indicated as 31 December 2010.	R92 257
AECOM	Valuation of the rehabilitation of landfill sites	No	R37 506
Total:			R5 027 152

2) Management did not implemented action plans to address weaknesses on the use and management of consultants which were reported by external audit in prior year management report paragraph 112,116 and 121

3) Management did not prepare the analyses of the extent of the use of consultants and the impact on the municipality.

4) The contract performance measures and the methods whereby it is monitored are insufficient to ensure effective contract management.

5) Due to the lack of the contract monitoring the following was identified on the following 2 contracts:

Nexia SAB&T

a) A contract was entered into between the municipality and the service provider for financial service and preparations of financial statements for the 2013-14 financial year. The contract was to render service for a year starting 2 December 2013. The contract amount for the services was R797 980.48. For the period January 2014 till end of September 2014 in total an amount of R1 101 450 was invoiced. On request no addendums to the contract could be provided,

as the contract amounts are exceeded it constitute in Irregular expenditure that amount to R303 470 to date. As indicated below payments was only made after year end the irregular expenditure can only be reported in the 2014-15 financial year.

Invoice Month	Invoice reference	Amount	Description	EFT	Date of approval
January and Feb 2014	48956	148 298.95	Financial Support for Jan and Feb 2014	27 370	20-Aug-14
Feb-14	48955	22 701.05	Meeting on the FAR and the interem AFS	24 253	8-May-14
Mar-14	49597	121 351.01	Financial Support for March 2014	24 254	8-May-14
Apr-14	50006	148 416.25	Financial Support for April 2014	26 528	11-Jul-14
May-14	50769	12 855.78	Financial Support for May 2014	25 680	18-Jun-14
Jun-14	51423	3 912.48	Financial Support for June 2014	29 315	21-Oct-14
Jul-14	53415	299 215.43	Financial Support for Jul 2014	29 315	21-Oct-14
Aug-14	54473	62 364.62	Financial Support for Aug 2014	29 315	21-Oct-14
Sep-14	54139	282 335.40	Financial Support for Sept 2014	29 315	21-Oct-14
		R1 101 450.97			

b) No evidence could be obtained of the addendum to the contract.

c) Several instances was identified that the financial statements materially misstated for example grant revenue, work in progress, receivables, payables, depreciation and property plant and equipment

KTP management consultants

a) A contract was entered in between the municipality and the service provider for the amount of R1 300 000 for rendering strategic support for the period of 3 years. The total cost that was paid to the consultant for the 2013-14 financial year amounted to R 2 311 140 according to the trade creditor account KTP001. As the contract amount are exceeded it constitute in Irregular expenditure that amount to R1 011 140 for the 2013-14 financial year as no addendum to the contract could be submitted. Furthermore was payments to the value of R195 500 also made for the preparing the 2013-14 draft annual report that was only paid in the 2014-15 financial year. All the expenditure in the 2014-15 financial year should also be classified for irregular expenditure as no addendum to the contract to date could be submitted

b) According to the par. 10 of the contract entered into, the municipality is supposed to withhold a retention of 10% of each payment and 50% should release with the practical completion and the rest on final completion of the work. No evidence could be obtained that this clause in the contract was complied with by the municipality.

c) Evidence of the evaluation of the quality of the work performed by the consultant could be obtained. Example of services that was rendered that is of big concern for the auditor is the following:

Service	Invoice	Date	Amount R	Reason of concern
---------	---------	------	----------	-------------------

Develop and compile performance agreements Develop and compile performance plans	Payment 15537&15343 Invoice no. 20130709	04&11/09/2013	334 900	With reference to communication 32 of 2014 no contract of the section 56 managers could be obtained
Submission of second draft annual report	Payment 17345 on for Invoice no. 20131009	31/10/2013	150 000	The pre-determined objective audit opinion for 2012-13 was a disclaimer.
Compile mid-year budget and performance assessment Conduct performance assessment Compile non-financial performance data Present annual report to councillors Present both assessment report and annual report to audit committee Update annual report to incorporate AG's report and prepare it	Payment 21443 Invoice no. 20140211	25/02/2014	163 900	The pre-determined objective audit opinion for 2012-13 was a disclaimer. No evidence that a performance assessment was performed on the section 56 managers.
Consolidated third quarter performance report Conducted performance assessments Compile assessment template Compiled performance reports	Payment 25496 on for Invoice no. 20140519	29/05/2014	165 500	On the response on request for information No. 1 of 2014 it was indicated that no quarterly reports can be submitted. No evidence that a performance assessment was performed on the section 56 managers.
Performance audit committee module 2013-14 draft annual report	Payment 27391 Invoice no. 20140812	21/08/2014	193 600	It was confirmed CFO, Chairperson of the audit committee and the internal auditor that they are not aware of the Performance audit committee module. In respect of the 2013-14 draft annual report a portfolio of evidence file on the measuring of the indicators in the performance report could not be obtained from the municipality.

d) No measure on the detail for the transfer of skill to employees of the municipality by the consultant in the contract.

e) No indicator on the reporting requirements of the progress of the work performed in the contract with the consultant.

f) No penalty clauses in contract of sub-standard work performance

Cause

Management did not take responsibility on the assessing the work of the consultants and did not ensure that all the services were in line with the contract and that proper contract management was applied

Impact

- 1) Limitation on the scope of the audit to verify if the services rendered by the consultants as no controls was implemented by management as well as the lack of documentation to verify the services were rendered for all the services of the consultants.
- 2) Possible Irregular expenditure for the 2013-14 to the amount of R1 011 140 on the overspending of the KTP contract. Irregular expenditure to an unknown amount for the overspending on the different contracts identified for the 2014-15 financial year.
- 3) Possible fruitless and wasteful expenditure of services that might not be rendered.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

- 1) Management should implement controls to ensure that the work of the consultants is monitored and that the services rendered, is of good quality and according to the agreement.
- 2) Action plans should be compiled to ensure that the controls are implemented to ensure quality services is rendered and that the necessary skill transfer take place to ensure that the services can be performed in future by own employees.
- 3) These analysis will assist management to identify instances of over reliance on consultants and possibly form the basis for the consultancy reduction plan.
- 4) Management should as a matter of urgency implement controls to ensure that a consultant that is appointed is monitored and services should be rendered according to the agreements.
- 5) Management should conduct a detail investigation on all payments made to consultants to identify all the irregular and fruitless and wasteful expenditure on the exceeding of contract amounts and evaluation of services rendered by the consultants. All the irregular expenditure and fruitless and wasteful expenditure should be recorded and disclosed in the financial statements. Feedback on the investigation should be submitted to the AGSA.

Management response

Management partially agrees with the finding that SAB&T was over, furthermore the reconciliation will be submitted to the consultant and arrangement will be made to recover the excess amount paid to them, and the process of recovering will not be difficult as the consultant is still on site.

However, KTP performed other projects that were out of the scope of the initial contract and the excess payment cannot be classified as irregular. Find the attached documents to support.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management comments were noted. However if it was not form part of the scope of the contract evidence that quotations or deviation from the SCM was not part of the payment mentioned. Our view is that this matter should be investigated in detail and the outcome should be communicated as evidence that the services for KTP was delivered, was not submitted. The issue is therefor not be resolved and will be reported as such.

28. EX.103 - Expenditure: Payments not made within 30 days. (EX.103)

Audit finding

Section 65(2)(e) of the MFMA prescribes that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The following payments were made 30 days after receipt of invoice :

Invoice Date	EFT Number	GRV number	Payment date	Amount (R)
06/02/2014	23524	GRV6040	15/04/2014	1 745.6
13/12/2013	24248	GRV6117	06/05/2014	39 666.8
20/02/2014	24248	GRV6118	06/05/2014	21 249.6
31/08/2013	17180	GRV4839	29/10/2013	4 832
16/10/2013	27394	GRV4760	22/08/2014	2 500
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
01/05/2014	25644	GRV6124	18/06/2014	7 250.14
28/08/2013	17953	GRV 4470	19/11/2014	90 072.00
22/01/2014	22799	GRV 5904	26/03/2014	52 080.00
Total				R118 999.38

Cause

The finding is caused by lack of financial resources to pay suppliers.

Impact

The finding could result in interest being charged on late payments.
The finding could further result in fruitless and wasteful expenditure.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure that payments are made within 30 days as required by MFMA.

Management response

Management agrees to the finding, however paying creditors within 30 days is established by the Municipal cash flow.

Auditor's conclusion

Management agrees with the audit finding and the matter will be included in the management report.

29. EX.173 - Procurement: Declaration of interest forms (MBD4) - 10 000 - 30 000 (EX.173)

Audit finding

SCM regulations 13(c) – A supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid – (c)has indicated –

- (i) whether he or she is in service of the state, or has been in service of the state in the previous 12 months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in service of the state, or has been in service of the state in the previous 12 months; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in service of the state, or has been in service of the state in the previous 12 months.

During the testing of the procurement process for the transactions between R10 000 and R30 000, it was identified that there were no declaration of interest forms submitted/completed by the suppliers for the transactions below :

No	Supplier and Item description	EFT number	Amount (R)
1	Mosenohi Transportation : Transportation of staff from Theunissen to Bloemfontein to attend memorial service of Dr Nelson Mandela	20514	19 520
2	Mosenohi Transportation: Transportation of community members from Theunissen, Winburg Brandfort to Welkom to attend district memorial service Dr Nelson Mandela	20513	18 200
3	Tshehang Trading 537 CC : Purchase of oil for motor vehicles	23436	16 500
4	PJS Engineering: Repairs to Machinery	14803	17 226
5	Masilonyana News : Printing of Budget Speech booklets	13832	29 090
6	Amanzi Game reserve	15344	13 200
7	Freddy's Electrical: Repairs and Maintenance	15482	18 171
8	Voltex Telcom: Electrical equipment	16565	19 945
9	Safety Equipment warehouse : Safety Equipment	17133	13 998
10	Mulaudzi's Development Projects : T shirts for womens day celebrations	17132	28 500
11	PJS Engineering : Overhaul cylinder	16620	14 286
12	Protea Hotel Samrand: Accomadation For MR S.S. Mtakati; MR M Mutsi ; MR D. Nthau	17129	10 588
13	Flamingo Stationers: Photocopy Papers	17219	11 150
14	PJS Engineering : Hydrauling Pump	17600	18 240
15	Safety equipment warehouse: Cleaning Materials	20633	26 415
			R275 029

Further enquiry with the supply chain management personnel, it was established that the municipality does not require suppliers to complete the declaration of interest forms (MBD4) for the procurement of goods and services below R30 000 nor are they completed as part of the prospective supplier registration process.

This matter results in all the procurement of goods and/or service below R30 000 being irregular expenditure.

Cause

Management was not aware that the MBD 4 form is required for quotations below R30 000.

Impact

The matter results in irregular expenditure amounting to R275 029.

Furthermore all the other transactions between R10 000 - R30 000 constitute irregular expenditure.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with all the applicable supply chain management laws and regulations.

Management should further investigate the population for the awards between R10 000 and R30 000 to determine the exact value of the irregular expenditure.

Management response

Management agrees with the finding and will investigate the whole population of 2014, but will ensure that 2014/2015 financial year AG's recommendation is implemented for compliance.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management agrees with the finding and the matter will be reported in the audit report as non-compliance.

30. EX.204 - Procurement: Construction contracts not registered on the CIDB database (EX.204)

Audit finding

In terms of *part 3, paragraph 18.1 (A) of CIDB Regulations*, every project consisting of a single construction works contract, must be registered in the Register of Projects on the CIDB website.

Furthermore, *subsection (1)* requires that such registration and submission to the CIDB must be made within 21 working days from the date on which a contractor's offer to perform a construction works contract is accepted in writing.

The following are constructions bids awarded by the municipality in the financial year ended 30 June 2014 that could not be found on the CIDB website's database, and appears to not have been registered at all:

Bid number	Descriptions
RBIG/FS/002/W/12/13	Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw
MIG/FS/0748/CF/09/10	Ugrading of Sport center at Majwemasweu

MIG/FS/0657/W/08/09	Upgrading of water treatment plant at Soutpan/Ikgomotseng
MIG/FS/0978/W/13/13	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)
2014/02/03	Rehabilitation of landfill sites
1001/2014	Fencing of oxidation ponds Soutpan
1008/2014	Fencing of reservoir Brandfort
1002/2014	Fencing of water treatment works Winburg
1003/2014	Fencing of reservoir Winburg
1006/2014	Fencing of reservoir Theunessen
MIG/FS/10078/F/14/15	Soutpan/Ikgomotseng Fencing of cemeteries
MIG/FS/1004/C/14/15	Masilo/Theunessen fencing of cemeteries and ablution facilities

Cause

Management was not aware that all construction bids need to be registered on the CIDB website

Impact

This is non-compliance with the requirements of the CIDB Act and CIDB Regulation.

Internal control deficiency

Financial and performance management

Inadequate review and monitoring of management controls to ensure that, laws and regulations are adhered to.

Recommendation

Management should enforce compliance with the requirements of the CIDB Regulation and ensure that all construction contracts are register on the CIDB website.

Management response

Management agree with the finding, and will ensure that measures are put into place to comply with CIDB act.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management agrees with the finding and the matter will be included in the management report.

31. EX.208 - Depreciation: Useful lives of assets not assessed at year end (EX.208)

Audit finding

Paragraph .56 of GRAP 17 states the following:

"The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors"

Contrary to the requirements as set out in GRAP 3, the remaining useful lives of assets were not reviewed at 30 June 2014.

Cause

Management did not ensure that the useful lives of assets were re-assessed at year end.

Impact

Non-compliance with GRAP 17 and a resultant possible incorrect use of depreciation rates used.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should develop and implement processes to assess the remaining useful lives of assets at each period end.

Management response

We disagree with the finding.

1. Assessment of the immovable assets:

For the 2013/2014 financial year were discussions held with the staff in the technical department to inquire about any specific assets on the infrastructure that needs to be impaired or for any indications that will result in the change in the useful lives and the remaining useful lives of the assets. None were identified and therefore were the remaining useful lives adjusted with one year's use as these assets were in use for 12 months in the current year.

Also note that the engineers physically visited that site to componentize the asset during October 2013 to January 2014. During the componentization the useful lives of the assets were also assessed. During this process the newly asset register were submitted to the Auditor General in January but were not accepted due to the late submission.

The useful lives of the assets were also compared to the "*Guidelines for infrastructure asset management in local government 2006 – 2009*" issued by the Department of Provincial and Local Government that are widely used in the industry to ensure the current useful lives used are in line with the industry.

Based on the above we are confident that the useful lives and the remaining useful lives are correct.

2. Assessment of movable assets.

Training was provided to municipal officials that work in the finance department on 8th May 2014. The training consisted of the workings of the fixed asset register and GRAP 17 training.

The following verification plan was agreed with the municipal officials:

- Motor vehicles: All models make and kilometres travelled must be obtained to update the residual value on the fixed asset register. By obtaining these details all the motor vehicles will be verified and their conditions assessed and also will the useful lives be assessed;
- For all the other movable assets will the additions for the prior year and the current year be physically verified and barcoded and their conditions will be assessed as well. During this exercise were the assets useful lives assessed; and

- While the current and prior year additions are barcoded was spot checks done on the other assets in the proximity to obtain additional comfort over the other assets on the asset register. The spot checks also provided information to assess the useful lives of the assets.

Discussions were also had with the municipality officials of any specific assets that's useful lives needs to be re-assessed or if there are any indications that exist that will have a significant impact on the useful lives of the assets. None were noted.

Thus were the remaining useful lives adjusted with the use over the 12 months.

This can be clearly seen compared to the prior year asset register that the useful life's and the remaining useful lives were assessed in the current year and that there are change in the useful life's from the previous asset register to the current year asset register.

Auditor's conclusion

Management comments were obtained and evaluated as follows:

1. and 2. Management did not attach an evidence that shows each assets was assessed for useful life, impairment and residual value.

In an audit steering committee meeting that was held on 19 November 2014 it was agreed that management will provide us with an evidence that asset were assessed for impairment, useful life and residual values. It was agreed with the manager consultants SAB&T on 20 November 2014 that he would provide a report from the engineers on this matter.

This finding is not resolved.

32. EX.78 - Disclosure: Budgeted votes exceeded and not adequately monitored (EX.78)

Audit finding

Section 69(1)(a) of the MFMA, states the accounting officer of a municipality is responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery and budget implementation plan.

Section 70(1) states that the accounting officer of a municipality must report in writing to the municipal council *a*) any impending (i) shortfalls in budgeted revenue; and (ii) overspending of the municipality's budget; and *b*) any steps taken to prevent or rectify such shortfalls or overspending.

Section 52(d) states that the mayor of a municipality must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.

Contrary to the above it was noted that:

- i. The accounting officer did not take all reasonable steps to ensure that the spending of funds was reduced when revenue was less than projected in the budget. According to note 32.1 to the annual financial statements an total overall overspending to the amount of R90 463 779 was identified.
- ii. The accounting officer did not report to the council overspending of the municipality's budget and steps taken to prevent or rectify such overspending (adjustment budget, etc.).
- iii. Within 30 days after the end of each quarter, the mayor did not submit the report to the council on the implementation of the budget and the financial state of affairs of the municipality.

(iv) The budgeted expenditure expenditure for certain votes were exceeded as disclosed in note 32.2 in the annual financial statements. The exceeding of financial services amounting to 113.8m were excluded from the calculation as it included the increase in the provision for doubtful debts amounting to R91.5m and the actual depreciation recognised for the year amounting to 27.9m. The municipality does not consider significant non-cash flow expenditure during the preparation of their budget for the year as their budget is prepared on a cash basis:

Note 32.2 Expenditure by Vote	(Actual) (R)	(Budget) (R)	(Variance) (R)	(%)
Corporate Services	21 258 240	12 634 628	8 623 612	68%
Council General	9 028 554	6 597 258	2 431 296	37%
Housing	1 721 496	1 217 468	504 029	41%
Libraries	1 229 120	1 200 145	28 975	2%
Office of the Speaker	2 500 434	2 314 319	186 115	8%
Remuneration of councillors	2 312 614	-	2 312 614	100%
Water	22 946 157	20 812 739	2 133 418	10%
Totals:	60 996 615	44 776 557	16 220 059	

Cause

Lack of reporting and related internal control procedures on the reporting on the budget spending.

Impact

The exceeding of the budgeted expenditure could result in the reporting of unauthorized expenditure in terms of the requirements of the MFMA.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should develop and implement procedures to ensure that the annual overspending is prevented. Furthermore, in cases where overspending has occurred procedures should be in place to report it to the council. Unauthorized expenditure will have to be investigated by the Council in order to be cleared and steps be put in place to prevent unauthorised expenditure.

It is hereby also recommended that the Municipality follow up and investigate the exceeding of all voted accounts and confirmed the cases that should be reported as possible unauthorized expenditure.

Management response

Management agrees with the finding and will develop and implement procedures with regard to budget monitoring in the next financial year.

Although over expenditure to the amount of R90 463 779 is identified, AG should take note that this was not entirely cash, but includes debt impairment which is a non-cash item as a result of that this will be treated differently as it is determined only at year-end if it's overspent or not. The

expenditure on the items that has been selected above did not exceed the budget except that one of debt impairment which is Non-cash.

Auditor's conclusion

Management comments has been noted. As the budget of the municipality is prepared on a cash basis the non cash items like the provision for doubtful debts amounting to R91.5m and the actual depreciation recognised for the year of 27.9m has been excluded from the calculation. According to paragraph (iv) the voted accounts as disclosed in note 32.2 has been exceeded for Corporate Services (8.6m), Council (2.4m), Housing (504R), Library (28R), Speaker (186R), Councillors (2.3m) and Water (2.1m). The unauthorized expenditure on the votes therefore amounted to R16.2m as would be included in the audit report.

Payable

33. EX.194 - Payables: 30 day payment terms (Non-compliance) (EX.194)

Audit finding

Section 65(e) of the MFMA on expenditure management functions states that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

Contrary to the above the following was identified:

The municipality did not pay the following creditors within 30 days after receiving an invoice:

No.	Supplier name	Invoice date	Payment authorisation days	Number of days lapsed	Complied?	Invoice number/ Cashbook reference	EFT number
1	OVK	02-Jul-13	13-Aug-13	42	NO	9167595	14739
2	Alpha/Amco	01-Jul-13	15-Aug-13	45	NO	07769	14749
3	OXD Motors	01-Jul-13	20-Aug-13	50	NO	4283	14819
4	College SA	21-Oct-13	29-Apr-14	190	NO	383553	24204
5	AAS Operations	03-Jan-14	20-Mar-14	76	NO	010262	22745
6	Telkom	30-Apr-13	15-Nov-13	199	NO	92343814	17587
7	AAS Operations	29-Apr-14	08-Jul-14	70	NO	010771	26351-263512
8	Fintech	22-Apr-14	03-Jun-14	42	NO	11062039	N/A
9	Camelsa Consulting Group	18-Sep-13	25-Feb-14	160	NO	1143	N/A
10	Nexia SAB&T	30-Sep-13	18-Mar-14	169	NO	44950	25679
11	Data M	09-Feb-13	13-Jun-14	489	NO	6050	25667
12	Nkaiseng Attorneys	14-Nov-13	19-Dec-13	35	NO	#0359	19996
13	Nkaiseng Attorneys	05-Dec-13	18-Feb-14	75	NO	#0369	21396
14	Tirisedi Project Management	24-Mar-14	30-Apr-14	37	NO	MSPH3-02	24219
15	AAS Operations	26-Mar-14	06-Jun-14	72	NO	010625	25627
16	Dagne Trading & Projects	21-Oct-13	21-Jan-14	92	NO	101	20639

Cause

The municipality experienced serious cash flow problems.

Impact

Non-compliance with creditors payment terms as a result interest will continue to accrue which will result in fruitless and waste full expenditure.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Recommendation

Management should develop and implement controls to ensure that the suppliers are paid within 30 days as set out in the MFMA.

Management response

Management agrees with the finding and this was due to financial constraints the Municipality is experiencing.

Name: F.MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

As management agrees with the audit finding, the exception will remain and be reported on in the audit report.

Predetermined objectives

34. EX.145 - Predetermined objectives: Annual report does not report on the performance of the municipality (EX.145)

Audit finding

Section 41 (1)(ci) - (cii) of the MSA states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b) monitor performance and measure and review performance at least once per year.

Through inspection of the annual report (2013/14), IDP and the SDBIP, it could be confirmed that the annual report does not report on the performance of the municipality for the 2013/14 financial year against its predetermined objectives.

The above limitation results in the auditor being unable to perform the following:

- Evaluating whether the reported indicators/measures are verifiable.
- Evaluating whether there is a logical link between the IDP/SDBIP and the annual report.
- Evaluating whether the annual report is reliable.

Alternative procedures could not be performed as no other information is available to the auditor.

This matter was included in paragraph 45, Annexure A, of the prior year management report.

Cause

Management did not review the annual report to ensure that it reports on the predetermined objectives.

Impact

Limitation on the scope of the audit. The annual report is not useful.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should amend the annual report to reflect performance against predetermined objectives.

Management response

Disagree with the finding. The performance report with measurable indicators is part of the draft annual report. The Auditor General will however be engaged to determine what informed its view and based on the discussions appropriate amendments to the draft annual report will be effected.

Name: M.MUTSI

Position: STRATEGIC MANAGER

Date: 28/11/2014

Auditor's conclusion

Management comments were assessed as follows:

- The draft annual report as submitted for audit does not contain a report on the municipal performance, as exemplified by table T3.1.6 of the Annual report template (Annexure A).
- Furthermore, no performance report could be obtained.

The matter will be included in the audit report.

35. EX.199 - Predetermined objectives: No consistency between planned and reported performance (EX.199)

Audit finding

Section 121 (2)(a) - (c) of the MFMA states that the purpose of an annual report is to provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates, to provide a report on performance against the budget of the municipality or municipal entity for that financial year and to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

Through inspection of the SDBIP and the annual report, it could be confirmed that the annual report did not include the municipal performance against the set targets as per the SDBIP on the

11 identified development priorities. The details of the identified development priorities are as follows:

Performance measure/indicator	Related target/s for the financial year under review
<u>Increase access to sanitation:</u> Ensure 100% of households in formal settlements in Masilonyana area have access to basic level of sanitation by 2014.	Increase % of formal households.
<u>Increase access to clean drinking water:</u> Ensure 100% of households in all formal settlement(s) around Masilonyana have access to (basic level) of water by July 2014.	11%
<u>Increase access to basic level of sanitation:</u> Ensure 100% of households in formal settlements in Masilonyana area have access to basic level of sanitation by 2014.	Increase % of formal households.
<u>Increase access to electricity:</u> % of informal settlements with access.	50%
<u>Improve access to basic to refuse removal and collection:</u> All formal and informal households receiving refuse removal and collection.	100%
<u>Reduce water demand and loss:</u> % reduction in constrained water demand.	35%
<u>Sustainable water supply:</u> Ensure drinking water compliance.	90%
<u>Manage waste:</u> Minimise waste	% of waste diverted from landfilled sites.
<u>Increase access to sanitation:</u> % of formal households	Increase % of formal households.
<u>Increase access to clean drinking water:</u> RDP STD	Green - Blue drop
<u>Improve municipal roads and storm-water maintenance:</u> Ensure that identified internal roads in Masilonyana area are maintained/upgraded.	All identified municipal roads.

This matter was also included in paragraph 45 (Annexure A) of the prior year's management report.

Cause

Management did not properly review the annual report after compilation by the consultants.

Impact

The annual report is not useful as it does not report on performance against the predetermined objectives.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should amend the annual report to reflect the performance of the municipality against predetermined objectives on all development priorities.

Management response

Management comments was not received

36. EX.203 - Predetermined objective: Indicators are not prepared using the SMART criteria (EX.203)

Audit finding

Section 49 (1)(e) of the MSA states that the Minister may for the purposes of this Chapter make regulations or issue guidelines in terms of section 120 to provide for or regulate the setting of a framework for performance targets by municipalities consistent with their development priorities, objectives and strategies set out in their integrated development plans.

Paragraph 3.3 of the Framework for managing programme performance information states a useful set of criteria for selecting performance targets is the "SMART" criteria:

- Specific: the nature and the required level of performance can be clearly identified
- Measurable: the required performance can be measured
- Achievable: the target is realistic given existing capacity
- Relevant: the required performance is linked to the achievement of a goal
- Time-bound: the time period or deadline for delivery is specified.

Through inspection of the SDBIP that forms part of the IDP, it was confirmed that the performance targets set by the municipality were not set following the SMART criteria. The targets per quarter are not specific and measurable so that the nature and the required level of performance can be clearly identified and the required performance can be measured and the deadline for delivery is specified.

The extract of the SDBIP table is as follows:

SFA's	Strategic Planning Objective	Indicator	Target 2013/14 Baseline	Q1	Q2	Q3	
SUSTANABLE SERVICE DELIVERY & INFRASTRUCTURE DEVELOPMENT	Increase access to sanitation	% of formal household	Increase % of formal household	Identify all households	40%	70%	90%
	Increase access to clean drinking water	RDP STD	Green - Blue drop	Green drop	Blue drop	Blue drop	Blue

Increase access to electricity	% of informal settlements with access	50%	Identify all settlements	30%	40%	50%
Improve access to basic refuse removal & collection	All formal & informal households receiving refuse removal & collection	100%	Identify gaps & develop a plan	50%	75%	100%
Reduce water demand & lose	% reduction in constrained water demand	35%	Identify all grey areas			35%
Sustainable water supply	Ensure Drinking water compliance	90%	Improve water infrastructure	70%	80%	90%
Increase subsidised housing subsidies opportunities	No of housing subsidies per annum	% increase	Facilitate a % increase			
Manage waste	Minimise waste	% of waste diverted from landfilled sites	Develop EMP & WMP	Conduct awareness compaigns	Clean yard competition	Com Ann Was Mar Rep
Improve maintenance of infrastructure	Reduce maintenance costs	% decrease	Monitor	Assess & compile a report		
	Reduce electricity outages	Reduce load-shedding				
	complete incomplete projects	Improve project management	Identify all incomplete projects & compile a report	Compile assessment report	Submit report to management then council	
	Reduce energy consumption	% reduction in use of electricity	Maintain reduction of 10%	10%	10%	

	Improve maintenance of municipality facilities	Maintain all community halls	All	All	All	All	
		Fence sporting facilities	All	All	All	All	
		Number of libraries opened according to scheduled times	All	All	All	All	
		Number of erven upgraded	Incrementally serviced erven	Identify all ervens	Submit application for township establishment	Monitor progress & compile a report	
		Reduction in accidents	Ensure reduction	Ensure traffic control	Capacitate traffic officials		
	Infrastructure development	Implement all registered & approved projects	Stick to budget allocations Identify new projects in line with community needs as contained in the 2013/14 IDP	Compile progress report	Compile midyear report	Compile progress report	

This matter was also included on paragraph 44 (Annexure A) of the prior year's management report.

Cause

Action plans to correct the prior year's findings relating to predetermined objectives were not implemented.

Impact

The SDBIP is considered to not be useful as the targets are not specific, measurable and time-bound.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should take into consideration all applicable laws and regulations when compiling the SDBIP. It is further recommended that training on the processing and reporting of performance information should be provided to the responsible officials of the municipality.

Management response

Management agrees with the finding and will take into consideration all applicable laws and regulations when compiling the SDBIP, furthermore the municipality will provide training on the processing and reporting of performance information should be provided to the responsible officials

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management agrees with the finding and the matter will be included in the audit report.

37. EX.32 - Predetermined objectives: No performance for staff conducted (EX.32)

Audit finding

Section 38 (a) of the MSA states that a municipality must establish a performance management system that is:

- i. Commensurate with its resources;
- ii. Best suited to its circumstances; and
- iii. In line with the priorities, objectives, indicators and targets contained in its integrated development plan;

Section 38 (b) of the MSA states that a municipality must promote a culture of performance management among its political structures, political office bearers and councillors and in its administration;

Section 38 (c) of the MSA states that a municipality must administer its affairs in an economical, effective, efficient and accountable manner.

Section 39 of the MSA states that the executive committee or executive mayor of a municipality or, if the municipality does not have an executive committee or executive mayor, a committee of councillors appointed by the municipal council must:

- a) manage the development of the municipality's performance management system;
- b) assign responsibilities in this regard to the municipal manager, and
- c) submit the proposed system to the municipal council for adoption.

Section 41 (c) of the MSA states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b):

- i. monitor performance; and
- ii. measure and review performance at least once per year;

Section 41 (d) states that the Municipality may take steps to improve performance with regard to those development priorities and objectives where performance targets are not met; and

Section 41 (d) states that the Municipality may establish a process of regular reporting to:

- i. the council, other political structures, political office bearers and staff of the municipality; and
- ii. the public and appropriate organs of state.

Section 41 (2) of MSA states that the system applied by a municipality in compliance with subsection (1) (c) must be devised in such a way that it may serve as an early warning indicator of under-performance.

Regulation 7 of the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) states that:

1) A municipality's performance management system entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role-players.

2) In developing its performance management system, a municipality must ensure that the system:

- a) complies with all the requirements set out in the Act;
- b) demonstrates how it is to operate and be managed from the planning stage up to the stages of performance and reporting;
- c) clarifies the roles and responsibilities of each role-player, including the local community, in the functioning of the system;
- d) clarifies the processes of implementing the system within the framework of the integrated development planning process;
- e) determines the frequency of reporting and the lines of accountability for performance;
- f) relates to the municipality's employee performance management processes; and
- g) provides for the procedure by which the system is linked to the municipality's integrated development planning processes.

Contrary to the above it could not be ascertained that the municipality had adopted a performance management system (PMS) and the setting of key performance indicators and targets in accordance with its integrated development plan. It could thus not be determined:

- a) Whether the municipality established a PMS that is commensurate with its resources and best suited to its circumstances;
- b) In line with the priorities, objectives, indicators, and targets contained in its integrated development plan;
- c) Promote a culture of performance management among its political structures, political office bearers and councillors and in its administration; and
- d) Administer its affairs in an economical, effective, efficient and accountable manner.
- e) Whether the PMS of the municipality provides for the monitoring of performance; and
- f) Measurement and review of performance at least once per year with regard to each of the development priorities and objectives and against the key performance indicators and targets set in the IDP.

- g) If the PMS of the municipality provides for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met.
- h) Whether the PMS established a process of regular reporting to the council, other political structures, political office bearers and staff of the municipality;
- i) Whether the PMS applied by the municipality was devised in such a way that it serves as an early warning indicator of under-performance.
- j) Manage the development of the municipality's PMS;
- k)) Assign responsibilities in this regard to the municipal manager; and submit the proposed system to the council for adoption;
- l) Whether the PMS of the municipality entailed a framework (i.e. policies and procedures) that describes how the system is to operate and be managed from the planning stage up to the stages of performance review and reporting, clarify the role and responsibilities of each role-player (including the local community) in the functioning of the system, clarify the processes of implementing the system within the framework of the IDP process, determine the frequency of reporting and the lines of accountability for performance, and relate to the municipality's employee performance management processes link to performance contracts.

This matter was also included in paragraph 42 of the management report (Ex 36) of the prior year. In response to request for information number 5 dated 20 August 2014, management confirmed that there was no performance for all staff except for section 57 managers

Cause

Lack of oversight and monitoring on development, implementation and the monitoring of the performance information system.

Impact

The progress on achieving the strategic and operational goals will not be monitored on time. Also proper service delivery cannot be monitored.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that there is an performance management system that guides the setting up the indicators, do regular monitoring, administrating of evidence, reporting on a regular basis and detailed review been performed on the reporting.

Management response

Agree with the finding. PMS is currently applied at senior management level (Municipal Manager and Section 56 Managers). Management is however in the process of ensuring that PMS is implemented at all staff levels.

Auditor's conclusion

Management comments has been noted agrees with the matter. As the matter has not been resolved it would be included in the audit report.

38. EX.68 - Predetermined objectives: Non implementation of the IDP (EX.68)

Audit finding

Section 21 (2)(a) of the MFMA states that when preparing the annual budget, the mayor of a municipality must take into account the municipality's integrated development plan.

Section 36 of the MSA states that a municipality must give effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.

Evidence that the municipality gave effect to the IDP could not be obtained as requested by request 60 of 2014 as the municipality failed to submit an annual budget that is based on the development priorities of the IDP.

The auditor subsequently inspected the annual budget submitted for audit with the financial statements and the following were observed:

1. Local economic development: No specific budget has been included.
2. Sustainable good governance: No specific budget has been included.
3. Sustainable financial management: A budget for finance department has been prepared, however the allocation is not in line with the amount (R1 179 000) disclosed in the IDP.
4. Infrastructure development: The disclosure for projects has been made, however there is no distinction between Infrastructure development and Sustainable service delivery.
5. Sustainable service delivery: The disclosure for projects has been made, however there is no distinction between Infrastructure development and Sustainable service delivery.

The above matter was also reported in paragraph 140 (Annexure A - exception 100) of the prior year's management report.

Cause

Lack of coordination in the preparation of the IDP, SDBIP and the annual budget amongst different departments and oversight/review to ensure that the information that is being compiled and submitted is credible.

Lack of effective review to ensure that budget and financial planning relates to the priorities, objectives and mandate of the municipality.

Impact

The municipality does not conduct its affairs in line with the priorities as set in the IDP.

The municipality further cannot assess if the priorities are sufficiently met with all the available resources.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should compile an annual budget that is in line with the development priorities for the 2014/15 to better place the municipality in the position to assess how the development priorities are met with the financial resources available.

Management response

Management agrees with the finding and will ensure that the budget is in line with development priorities of the Municipality

Name: F.MZIZI
Position: CFO
Date: 27/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be reported in the audit report.

39. EX.88 - Predetermined objectives: SDBIP not submitted to the National Treasury within ten days (EX.88)

Audit finding

Section 72 (1)(b) of the MFMA states that the accounting officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year, taking

into account the monthly statements referred to in section 71 for the first half of the financial year; the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan; the past year's annual report, and progress on resolving problems identified in the annual report; and the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and submit a report on such assessment to the mayor of the municipality, the National Treasury and the relevant provincial treasury.

Paragraph 20 (2)(b) of the Municipal Budget and Reporting regulations state that the municipal manager must submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form the approved service delivery and budget implementation plan within ten working days after the Mayor has approved the plan.

Note

Contrary to the above it was noted that according to a confirmation letter from National Treasury, the municipality submitted the mid-year budget and performance assessment on 09 July 2014. From a confirmation letter of the National Treasury, it was confirmed that the municipality submitted the SDBIP on 02 July 2014.

As the Mayor approved the SDBIP on 10 June 2013, it was not submitted to the National Treasury and the relevant provincial treasury within ten days after it has been approved by the Mayor, as required.

Cause

Management did not exercise oversight responsibility to ensure compliance with applicable laws and regulations.

Impact

Non-compliance with paragraph 20 (2)(b) of the Municipal Budget and Reporting regulations and the MFMA.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that the requirements of the MFMA and the Municipal Budget and Reporting regulations are adhered to at all times.

Management response

Management agrees with the finding and will ensure that the requirements of the MFMA and the Municipal Budget and Reporting regulations are adhered to.

Name: F. MZIZI

Position: CFO

Date: 11/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be reported in the audit report as it is NOT RESOLVED.

Receivables

40. EX.111 - Account receivables: Scope limitation as documents was not submitted (EX.111)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems -

(i) of financial and risk management and internal control

The following information was requested on the 10-Oct-2014 and still outstanding/not submitted.

1. Indigent application forms for the debtors in the table below:

No	Customer	Name	ID Number	Physical Address 1	Indigent	Postal Address 1	Balance (R)
1	730532000	VAN STRAATE	3002255014089	28 BUITEKANT STRAAT	TRUE	BUITEKANTSTRAAT 28	151 303,01
4	730139001	ADENDORFF	9210025041084	54 VAN ZYLSTRAAT	TRUE	VAN ZYLSTRAAT 54	87 308,68
14	739318001	TROLLIP	5604270057080	45 KIGHTLEY	TRUE	KIGHTLEYSTRA	44 825,35
15	40365002	LE GRANGE	5710055057086	HV 28 ANDRIES PRET & 29 V/D MERWE	TRUE	PO BOX 120	39 500,49
25	739430000	VAN ROOYEN	4608010011084	24 MARK STRAAT	TRUE	Markstraat 24	32 900,99
27	160256006	MAJORO	6104125345086	MASILO THEUNISSEN	TRUE	MASILO NR 256	32 826,78
							388 665,30

Total gross debtors(Indigents): R17 985 879,17

Total error: R388 665,30

Total sample size: R1 661 830,43

Extrapolated error: $R388\ 665,30 / R1\ 661\ 830,43 * R17\ 985\ 879,17 = R4\ 206\ 498,45$

2. Supporting documents for debtors with credit balances in the table below:

No	Row Labels	Customer Name	Group1	Area_Desc	Sum of Total (R)
1	100937007	SPRINGBOKPLEIN	BUSINESS	THEUNISSEN	-2 477 869,97
2	739615002	STREEKHOOFBESTUURDER TELK	HOUSEHOLD	BRANDFORT	-584 823,88
3	680679007	DIR-GENL, DOW & GRONDSAKE	Government Accounts National	WINBURG	-258 194,31
4	680729002	VAN ZYL	BUSINESS	WINBURG	-159 679,69
5	750578182	BRANDFORT PRIMARY SCHOOL	SCHOOL	BRANDFORT	-146 719,47
6	242422000	RSA MASILO SKOOL	Provincial PWD Schools	MASILO	-113 772,56
7	700000040	MTN	BUSINESS	WINBURG	-52 202,78
8	742472007	KOJOANE	Indigent Customers	BRANDFORT TOWNSHIP	-45 682,26
9	690463000	MOEKETSI	Indigent Customers	WINBURG TOWNSHIP	-44 772,63
10	730528008	SNYMAN	HOUSEHOLD	BRANDFORT	-39 897,21
					-3 923 614,76

This error can be extrapolated as follows:

Total sample selected - R6 506 207,37

Total scope limitation - R3 923 614,76

Total balance of debtors with credit balances - R8 738 732,50

Extrapolated error = $R3\ 923\ 614,76 / R6\ 506\ 207,37 * R8\ 738\ 732,50 = R5\ 269\ 954,96$

3. The tax clearance certificates, account numbers of the new and old owners and the ID numbers of the new owners were not received for the following list of the properties selected from the title deed listing received by the municipality on monthly basis.

No	Town Name	Erf Number	Buyers Name	Buyers ID	Buyer's account no
1	Brandfort	684	Els Johanna Maria and Els Jan Christoffel	3405185013081	012451313
2	Brandfort	0729	Vermeulen Ockert Corneluis	5604135093080	730729006
			Vermeulen Ockert Corneluis	5604135093080	031383053
3	Brandfort	0646 No1	D. J. Maree(Schalk Gouws Trust)	!	730646000
4	Brandfort	0646 No 4	Y. D. Taddesse(Schalk Gouws Trust)	!	730646003
5	Brandfort	0112	Jacobs Martha Alletha Maria	7702010053084	730112009
6	Theunissen	042	Coetsee Arthur William	5008085003083	*
7	Theunissen	931	Meintjies Lienkhe Helena Maria	1003010302084	*
8	#	#	Ntloko Gladys	7605230365081	*
9	#	#	Shomolekae Lehlohonolo Floyd	8307095980083	*
10	Makeleketa	418	Ramorobi Lebusa Goodwill	7307065367080	*
11	#	#	Nyembezi Family Trust	!	*
12	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
13	#	#	Hestony holdings (PTY) LTD	199400148307	*
14	#	#	Hestony holdings (PTY) LTD	199400148307	*
15	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
16	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
17	#	#	Barnie Human Landgoed Trust	!	*
18	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
19	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
20	#	#	Orcom Trading 285 (PTY) LTD	200700826107	*
21	#	#	Smit Hendrik Bernardus	9104305188089	*
22	#	#	E M B Trust	!	*
23	#	#	E M B Trust	!	*
24	#	#	Slabbert Johannes Hendrik	5507175127082	*
25	#	#	Human Daniel Cornelius Francois	7603045070087	*
26	#	#	Sanctus Regis (PTY) LTD	201318633207	*
27	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
28	#	#	Sanctus Regis (PTY) LTD	201318633207	*
29	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
30	#	#	Corpclo 2173 (PTY) LTD	200700826107	*
31	#	#	Staden Maria Magdalena Magrietha Van	4907080088083	*

Explanation of legends:

#	Property not found in the valuation roll
*	Account number not found in the system
!	ID not indicated in the title deed listing

Cause

The cause of the above is that there is lack of effective controls to ensure that amounts disclosed in the financial statements are supported by reliable information, and this information can be provided when requested.

Impact

The impact of the finding is that it will result in scope limitation in confirming valuation and rights account receivables, receivables from exchanged transactions and receivables from non-exchange transactions of the value amounting to R230 838 928,00 and R74 402 676,00 respectively, as disclosed in note number 15 and 16 to the financial statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that proper supporting documentation is kept for all amounts disclosed in the annual financial statements.

Management response

The management responses are as follows:

1. The management submitted the information for the suspense account above as in the table below.

No	Date	Description 1	Description 2	Further description	cReference2	cReference2	Amount (R)
8	15-Nov-13	EFT 17585	WRONG ENTRY CORRECTION	Sebina Mogoerane	OPT001	APBR025	360 000,01
27	7/5/2013	ANC LEVIES	INSURANCE	Jenny Motho	77/3030	CBR00735	314,96
28	7/5/2013	BEST FUNIRALS	FUNIRALS	Jenny Motho	77/3030	CBR00735	19 256,60
32	7/11/2013	FREE STATE PROV	PROVIDENT FUND	Jenny Motho	77/3030	CBR00738	8 592,17
33	7/11/2013	SFPP SERVICE SF	PENSION	Jenny Motho	77/3030	CBR00738	130,15
34	7/11/2013	SAMWU PENSION	PROVIDENT FUND	Jenny Motho	77/3030	CBR00738	172 042,65
							560 336,54

2. Management agrees with the finding, although the information requested regarding indigent, was not submitted we submit the indigent forms for the new financial year as the renewal information. We request that AG assess this information.

From the initial query raised, the management submitted the indigent application forms and supporting documents highlighted in yellow below:

No	Customer	Name	ID Number	Physical Address 1	Indigent	Postal Address 1	Balance (R)
1	730532000	VAN STRAATE	3002255014089	28 BUI TEKANT STRAAT	TRUE	BUI TEKANT STRAAT 28	151 303,01
2	730110001	TROLLIP	5706025038081	67 VAN ZYL STRAAT	TRUE	VAN ZYL STRAAT 67	103 374,16
4	730139001	ADENDORFF	9210025041084	54 VAN ZYL STRAAT	TRUE	VAN ZYL STRAAT 54	87 308,68
6	730405001	LOMBARD	5411045216102	93 VOORTREKKER STRAAT	TRUE	POSBUS 267	73 358,88
8	730026008	SMAL	4705115080087	98 KIGHTLEY STRAAT	TRUE	KIGHTLEY STRAAT 98	59 982,00
9	730514008	BESTER	4710265076083	1 WATERVOOR STRAAT	TRUE	WATERVOOR STRAAT 1	57 988,25
14	739318001	TROLLIP	5604270057080	45 KIGHTLEY	TRUE	KIGHTLEY STRA	44 825,35

15	040365002	LE GRANGE	5710055057086	HV 28 ANDRIES PRET & 29 V/D MERWE	TRUE	PO BOX 120	39 500,49
18	743811007	TLHABATLHABA	5708900649087	STAND 811	TRUE	STAND 811	36 836,10
21	691199007	MPHOSI	6611185412085	1199 PHAHAMENG STREET	TRUE	NR 1199	34 348,23
23	742249007	TAOLE	6601140364083	MAJWEMASWEU- BRANDFORT	TRUE	STAND 2249	33 670,94
25	739430000	VAN ROOYEN	4608010011084	24 MARK STRAAT	TRUE	Markstraat 24	32 900,99
27	160256006	MAJORO	6104125345086	MASILO THEUNISSEN	TRUE	MASILO NR 256	32 826,78
28	030382001	FANA	7711210447087	58 KESTELSTRAAT	TRUE	KESTELSTRAAT NR 58	32 750,77
30	743593007	KHANTSI	4612220163081	MAJWEMASWEU- BRANDFORT	TRUE	STAND 593	31 932,08
31	692097000	KOLOBE	4906245380088	2097 NEW LOCATION STREET	TRUE	2097 NEW LOCATION STREET	31 538,28
33	690994007	MOTETE	3912250311084	994 BOITUMELO STREET	TRUE	NR 994	31 274,85
							915 719,84

3. Management agrees with the finding for not submitting supporting documents of debtors with credit balance, some transactions has been matched to the bank statement please find attached supporting document.

From the initial query raised, the management submitted the supporting documents for debtors with credit balances highlighted in yellow below.

No	Row Labels	Customer Name	Group1	Area_Desc	Sum of Total (R)
1	100937007	SPRINGBOKPLEIN	BUSINESS	THEUNISSEN	-2 477 869,97
2	739615002	STREEKHOOFBESTUURDER TELK	HOUSEHOLD	BRANDFORT	-584 823,88
3	750105795	MONAMODI	Provincial PWD Services	BRANDFORT	-526 149,66
4	293534000	RSA MASILO SKOOL	Provincial PWD Schools	MASILO	-410 316,15
5	103688007	RESEAMOHETSE SKOOL	Provincial PWD Rates	THEUNISSEN	-340 502,92
6	680730017	DIR-GENL , DOW	ACCOUNT HANDED OVER	WINBURG	-283 638,01
7	680679007	DIR-GENL, DOW & GRONDSAKE	Government Accounts National	WINBURG	-258 194,31
8	680729002	VAN ZYL	BUSINESS	WINBURG	-159 679,69
9	750578182	BRANDFORT PRIMARY SCHOOL	SCHOOL	BRANDFORT	-146 719,47
10	100088006	PROV GOV FREE STATE	Provincial PWD Schools	THEUNISSEN	-114 286,91
11	242422000	RSA MASILO SKOOL	Provincial PWD Schools	MASILO	-113 772,56
12	120093000	PROVINCIAL GOV OF THE F S	Provincial PWD Rates	THEUNISSEN FARMS	-82 898,09

No	Row Labels	Customer Name	Group1	Area_Desc	Sum of Total (R)
13	680809007	ABSA BANK LTD	ACCOUNT HANDED OVER	WINBURG	-64 807,98
14	760283000	PROV.GOV. OF FREE STATE	Provincial PWD Rates	BRANDFORT FARMS	-58 158,18
15	730754000	207 TRUST	HOUSEHOLD	BRANDFORT	-54 790,11
16	071410007	SENWES BEPERK/LIMITED	ACCOUNT HANDED OVER	THEUNISSEN	-54 344,23
17	760606001	REP.VAN SA	Provincial PWD Rates	BRANDFORT FARMS	-53 965,16
18	120029000	REPUBLIEK VAN SUID AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-52 722,53
19	700000040	MTN	BUSINESS	WINBURG	-52 202,78
20	090670000	LOBONENG SKOOL	SCHOOL	THEUNISSEN	-50 865,62
21	680506007	DIR-GENL, DOW & GRONDSAKE	Government Accounts National	WINBURG	-49 531,84
22	120531000	REPUBLIEK VAN SUID AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-46 921,99
23	060137007	RSA LANDDROSKANTORE	Government Accounts National	THEUNISSEN	-45 987,31
24	742472007	KOJOANE	Indigent Customers	BRANDFORT TOWNSHIP	-45 682,26
25	690463000	MOEKETSI	Indigent Customers	WINBURG TOWNSHIP	-44 772,63
26	750126707	MATSHEDISO SEC SCHOOL	SCHOOL	BRANDFORT	-41 437,99
27	710236000	PROV. GOVERNMENT OF F/S	Provincial PWD Rates	WINBURG FARMS	-41 431,56
28	730528008	SNYMAN	HOUSEHOLD	BRANDFORT	-39 897,21
29	120195000	REPUBLIEK VAN SUID AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-39 834,63
30	120567000	REPUBLIEK VAN SUID-AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-35 330,40
31	120090000	KISMET TRUST	FARMS	THEUNISSEN FARMS	-34 938,41
32	120028000	REPUBLIEK VAN SUID AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-34 553,82
33	120087100	REPUBLIEK VAN SUID AFRIKA	Provincial PWD Rates	THEUNISSEN FARMS	-33 859,91
34	070702003	OVS SAAD KOMMODITEITE BK (OE du PREEZ)	BUSINESS	THEUNISSEN	-31 319,20
					-6 506 207,37

4. Management will respond on the remaining balance to resolve this finding.

Auditor's conclusion

Information requested was partly received.

1. Information submitted.
2. Information partly submitted, matter is not resolved.
3. Supporting documents for this accounts is submitted. The management submitted information supporting debtors with credit balances, however no investigations were not made to establish reasons for overpayments of accounts at year end. The municipality did not refund the excess payments account holders. This finding is therefore not resolved and the matter will be reported.
4. No information is received, matter is not resolved.

41. EX.117 - Account receivables: Accounts not billed (EX.117)

Audit finding

Section 62(1)(c) of the MFMA requires that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standard

The number of the occupied sites does not agree to the number of the accounts as per the age analysis.

AGE ANALYSIS	Amount
Total number of accounts as per system:	26 697
Total number of occupied stands	- 24 628
Add total missing numbers	- 38 541
Total differences	36 472

It was further noted that when we compare the current balance and balance payable within 30 days in the age analysis, that attached accounts were not billed resulting(refer to Ex.117 - Annexure 1) in revenue and receivable being misstated by unquantifiable amount .

Cause

The cause of the above is that the finance department did not review the property values in the valuation roll and did not review the accounts in the system when performing the pre-billing.

Impact

The impact of the above is that the revenue income from all categories of service charges and the account receivables as disclosed in the annual financial statements at the end of the period will be understated.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

The municipality management should agree the debtors accounts opened with the list of the number stands/sites/ERF numbers in the valuation roll and confirm that all accounts are opened.

Management response

The municipality disagree with the finding, Number of stands occupied cannot be used as a basis for billing, reason being that the said stands could be the new township establishment, meaning they are not registered at DEEDS and on the property valuation roll The number of accounts that are billed on the system are more than even what we have on the valuation roll for many reasons, one property or stand that could have more or less ten tenants in one property, a government property(schools) which could have more than one account one account for property rates, and

the other account for services, empty stands where the municipality charges basic services and erven etc.

Furthermore, the municipality performed 100% revenue testing and we believe that this information is sufficient and that AG can rely on to resolve this finding, and also the billing report for the month of July for the year under review which shows how many customers are connected in each service, please find support to resolve this finding.

Auditor's conclusion

The management responses were received as documented above and considered. Management did not address the reasons for the differences between the valuation roll and the age analysis/debtors accounts in the system. The issue of the new properties not being in the valuation roll was not our audit finding but rather the properties in the valuation roll that are not billed in the system. Furthermore the management did not address the reasons as to why there are missing ERF numbers in the valuation roll as reported above. This exception is therefore not resolved.

42. EX.162 - Account receivables: Existence of debtors could not be confirmed (EX.162)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure -

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control

Contrary to the requirements of MFMA, it could not be confirmed that the following debtors existed at the balance sheet date.

1. The following account holders(debtors) whom are farmers, could not be verified:

No	ContraAccount	Owner	Physical address of the property	Amount - debtors not verified (R).	Property reference number
1	760276000	C VAN DEN BERG	UITKYK FARM BRANDFORT	8 086.01	0276
2	760286000	ALBERTS EIENDOMS TRUST	LOUVAIN FARM BRANDFORT	8 934.06	0286
3	120115000	GFT MINING S.A PTY LTD	LEEUVLEI THEUNISSEN	53 319.83	0115
4	120176000	ARDYNE PARK TRUST	SMALDEEL FARM THEUNISSEN	13 980.48	0176
5	120024000	Jan Pernaar Boerdery PTY	Salom Farm Theunissen	227.18	0024
6	120305000	E VAN HEERDEN	VALENCIA FARM PO BOX 158 THEUNISSEN	3 992.02	0305
7	120434000	BESTE HOOP BOERDERY TRUST	BESTE HOOP THEUNISSEN POSBUS 158 THEUNISSEN	8 598.54	0434
				97 138.12	

2. The following account holders(debtors) are deceased however their still billed:

No	Contra Account	Owner	Physical address of the property	Amount owing as at 30-Jun-2014	Property reference number
1	742638000	K KRAAL	STAND 2638 MAJWEMASWEU BRANDFORT	8 199,64	2638
2	742671000	MI POHO	STAND 2671 MAJWEMASWEU BRANDFORT	21 706,49	2671
3	640502007	MA MOSHOELELI	IKGOMOTSENG NR 502 SOUTPAN	8 177,31	0502
4	640506007	MJ&SM SESIANE	MBEKI LOCATION NO 506 SOUTPAN	26 733,82	0506
5	640522007	A THEBEAGAE	MBEKI LOCATION NO 522 SOUTPAN	27 709,40	0522
6	741127000	SD MAKONYANE	1127 STAND MAJWEMASWEU BRANDFORT	22 163,82	1127
7	741130000	CH MOHOLO	MJ SESHOPA	28 172,52	1130
				142 863,00	

3. The following properties are being billed but are vacant:

No	Contra Account	Owner	Physical address of the property	Amount owing as at 30-Jun-2014	Property reference number
1	600122007	RT DE PESTEL	VERKEEDEVLEI	36 126,80	0122
2	600130007	AM HOFFMAN	Not indicated	36 194,96	0130
				72 321,76	

The error can be extrapolated as follows:

Total error - R97 138,12

Total sample size in value - R2 905 310,43

Total population - R288 304 165

Total extrapolated error - R97 138,12 / R2 905 310,43 * R288 304 165 = R9 639 357,05

Cause

Lack of proper record keeping by the municipality.

Impact:

This may result in the gross account receivables from exchange and non-exchange transactions amounting to R230 838 928,00 and R75 451 116,00 respectively, being overstated as disclosed in note 15 and 16 of AFS, page 56 to 57, due to inability to confirm the existence of the debtors.

This may also result in revenue income from exchange and non-exchange transactions amounting to R67 237 164,00 and R15 629 795,00 respectively, being overstated as disclosed in note 20 of AFS, page 60, due to inability to confirm the existence of the debtors.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

The management should:

1. Follow up on the debtors who do not pay/settle their debts to ensure that for all accounts which are billed in the system can actually be recovered.
2. Write-off the debts of the deceased persons because this outstanding balance will not be recovered.

Management response

1. Management would delegate an official to complete the verification process regarding farmers. We request that this arrangement be made from tomorrow 25th November 2014 if it suits the AG.

2. Management disagree with the matter raised for the following reasons:

The discontinuation of municipal services does not stop when the property owner dies. We bill the services attached to the property owner, the municipality has a right to bill any property that is connected to municipal services, especially if there's consumption of municipal services. The municipality does not have authority to change ownership of any property, unless if the magistrate court instructs the municipality to do so. If such instructions has not been received by the municipality as to who should be the person responsible for the estate of the deceased, the system will still carry the information of the deceased.

3. Management disagrees with the finding on the following basis

Section 75A of the Municipal System Act gives the municipality the authority to levy and recover fees, charged or tariffs in respect of any function or service of the municipality.

For the sake of addressing this finding, any empty stand that is within the municipality whether developed or not, it has got access of municipal services. For this process there has to be a council resolution that approves all these tariffs. For the purpose of addressing this finding , whether the site is developed or not developed, the municipality will charge basic charge (availability charge) meaning that the availability of infrastructure upon the development of the site, the property will have access to municipal services, there won't be a process where the municipality will start from scratch with a project digging trenches for sewer pipe lines, water and electricity connection, the infrastructure has already been prepared in such a way that when the empty site is developed, it is easy for the property owner to be connected to the municipal services hence the municipality charges basic charge.

Auditor's conclusion

1. Management responses are not accepted. No further physical verification will be done. It was resolved in the meeting where the draft management report was presented(19-Nov-2014), that the best possible solution is that the municipality should provide us with the contact details of the farmers to do telephonic verification. Requested the management to provide us with the contact

details of the debtors. Some contacts were received and telephonically verified as in the table below.

No	ContraAccount	Owner	Physical address of the property	Amount owing as at 30-Jun-2014	Property reference number
1	120563000	J.A Smith	Hendriena, Theunissen farms	27 333,10	0563
2	760276000	C VAN DEN BERG	UITKYK FARM BRANDFORT	8 086,01	0276
3	760286000	ALBERTS EIENDOMS TRUST	LOUVAIN FARM BRANDFORT	8 934,06	0286
4	711425000	PC GUTTER	PC GUTTER DE BUYSRUST FARM P O BOX 206	3 273,51	1425
5	711469000	EC KRUGER	BELLA DONNA FARM WINBURG	2 809,19	1469
6	711498000	CANDY TRUST	CANDY TRUST P O BOX 25303 CANDY FARM WINBURG FARMS	7 195,87	1498
7	711730000	CANDY TRUST	RANDFONTEIN WINBURG FARMS	2 014,00	5088
8	120115000	GFT MINING S.A PTY LTD	LEEUWVLEI THEUNISSEN	53 319,83	0115
9	120148000	MIDDLEVLEY TRUST	LANGPUNT 148 KEEROM FARM 148 THEUNISSEN	2 575,05	0148
10	120176000	ARDYNE PARK TRUST	SMALDEEL FARM THEUNISSEN	13 980,48	0176
11	120024000	Jan Pernaar Boerdery PTY	Salom Farm Theunissen	227,18	0024
12	120305000	E VAN HEERDEN	VALENCIA FARM PO BOX 158 THEUNISSEN	3 992,02	0305
13	711063002	FV NEL TRUST	FV NEL TRUST WINBURG FARM EMS P O BOX 157	3 134,19	1063
14	120434000	BESTE HOOP BOERDERY TRUST	BESTE HOOP THEUNISSEN POSBUS 158 THEUNISSEN	8 598,54	0434
				145 473,03	

2. The management comments are accepted.
3. The management comments are accepted.

This exception is therefore not resolved.

Revenue

43. EX.181 - Revenue: Misstatement on AFS (EX.181)

Audit finding

Section 64(1) of the MFMA states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality.

Section 64(2) of the MFMA states that The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

- (a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
- (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;

Request of information request 82 of 2014 was issued on the 27 October 2014 to request supporting documents for new accounts(new connections and re-connections) for the following new accounts as it appears from the system(Pastel evolution) but instead management representation letter was submitted which states that when the municipality implemented a flat rate tariff for water, all closed accounts were affected and appeared as if the accounts were reopened. Two or more accounts(depending on number of accounts were opened under the erf number) were billed for water at flat rate of R56.50 per month concurrently for the whole year. Below is the sample of the accounts that were identified:

ACCOUNT NUMBER	NAME	FIRST MONTH OF LEVY	WATER @ FLAT RATE	YEARLY AMOUNT
150193000	NTHOLENG	Jul-13	R 56,50	678,00
190887001	MACUACUA	Jul-13	56,50	678,00
314415000	MOHOTLANE	Jul-13	56,50	678,00
381257007	MILTONS	Jul-13	56,50	678,00
502010430	(KHOABANE	Jul-13	56,50	678,00
503347300	PHOFI	Jul-13	56,50	678,00
512525410	KOTSAMERE)	Jul-13	56,50	678,00
522934480	BASING	Jul-13	56,50	678,00
692030000	MASILONYANA LOCAL MUNICIPALITY	Jul-13	56,50	678,00
743120000	MAKGISAID	Jul-13	56,50	678,00
742999007	NYAPOTSA	Jul-13	56,50	678,00
742914007	VOORTUIN	Jul-13	56,50	678,00

742075001	MODISE	Jul-13	56,50	678,00
730666012	WHITELEY	Jul-13	56,50	678,00
730714004	BEKER	Jul-13	56,50	678,00
523349450	KATU	Jul-13	56,50	678,00
520800510	SUCCESS HAIR DESIGNERS	Jul-13	56,50	678,00
512421080	GELDENHUIS	Jul-13	56,50	678,00
502526670	BOB	Jul-13	56,50	678,00
501908880	NONE	Jul-13	56,50	678,00
381376007	NEDKOR BANK	Jul-13	56,50	678,00
324667000	TOGO	Jul-13	56,50	678,00
TOTAL				14 916.00

The extrapolated error is calculated as follows:

Extrapolation for misstatement

Description	Amount
Error	14 916.00
Tested Population	23 420.00
Amount as per AFS	25 335 698.00
Extrapolated Error	16 136 091.86

Cause

Management did not verify and review number active accounts which were going to be affected before implementing flat rate charge for unmetered consumption.

Impact

Revenue and receivable from exchange transaction might be overstated R16 136 091.86.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should investigate the error and adjust the annual financial statements accordingly and further communicate the details of the correction with the Auditor General.

Management response

Management agrees with the finding, the matter will be investigated further and adjustments be made accordingly.

Name: F.MZIZI
Position: CFO
Date: 27/11/2014

Auditor's conclusion

Management agrees to the finding and the matter will be reported on the audit report.

44. EX.195 - Revenue and receivable: Sale of sewage and refusal removal disclosed on the AFS is not complete (EX.195)

Audit finding

Section 64(1) states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2)(c)The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that accounts for municipal tax and charges of municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
(e) that the municipality has and maintains a management, accounting and information system which-

- (i) recognises revenue when it is earned
- (ii) accounts for debtors
- (iii) accounts for receipts of revenue

Contrary to the above, the following erf numbers were not billed for sewage and refuse removal or not found on the system.

SGCODE	TOWN EXTENSION	OWNER NAME	ACCOUNT NR	REMAKS
F00600010000064800000	SS MARZEL	SWART ZJ	730648003	Account not billed
F00600030000098000000	MAJWEMASWEU	JACKSON NB & LP	Not found	Erf not on the system
F00600030000252000000	MAJWEMASWEU EXT 2	MASILONYANA	Not found	Erf not on the system
F0060006 0000001100000	VERKEERDEVLEI	BRITS SJG	Not found	Erf not on the system
F0060006 0000052000000	VERKEERDEVLEI	HUMAN DC	Not found	Erf not on the system
F03300030000009800001	THEUNISSEN	PANFRED PTY LTD	70098017	Account not billed
F03300030000070200000	THEUNISSEN EXT 2	SENWES LTD	70702007	Account not billed
F00600020000068800000	IKGOMOTSENG	MOSIME SW	640688007	Account not billed
F04200050000058400000	WINBURG	RENDEALS TWELVE CC	680584007	Account not billed
F00600010000049500000	SS VILLA FORT	BRITZ PJ	730495081/2	Account not billed
F03300030000015900000	SS FRAAI UITSIG	PIENAAR ACE	Not found	Erf not on the system
F03300030000080500000	THEUNISSEN	DU TOIT JP	Not found	Erf not on the system
F03300030000053000000	THEUNISSEN	VAN NIEKERK ACJ	010530007/01053004 2	Account not billed
F04200050000080800000	WINBURG	COETZER WH & AJ	680808007	Account not billed
F00600020000058500094	IKGOMOTSENG	MOLELENGWANE SS	640585947	Account not billed
F00600020000068600000	IKGOMOTSENG	APRIL TE	Not found	Erf not on the system
F0060006 0000024000000	VERKEERDEVLEI	SWART JJ & SN	Not found	Erf not on the system

Cause

Management did not reconcile the valuation roll of the municipality to the accounts opened on the system(Pastel evolution).

Impact

Revenue and receivable from exchange transactions disclosed on the annual financial statements is not complete.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should provide reasons why these accounts are not billed nor on the system
Management should further reconcile the valuation roll to the system(Pastel evolution) to ensure that all accounts that should have been opened are opened and billed monthly for all the services rendered by the municipality.

Management should report on the corrective measures implemented/taken to resolve the completeness matter.

Management response

SGCODE	TOWN EXTENSION	OWNER NAME	ACCOUNT NR	REMAKS	RESPONSE
F00600010000064800000	SS MARZEL	SWART ZJ	730648003	Account not billed	Disagree, this is the lessor and is only liable for property rates, find the attached statements for both the lessee and lessor
F00600030000098000000	MAJWEMASWEU	JACKSON NB & LP	Not found	Erf not on the system	Management agrees with the finding
F006000300000252000000	MAJWEMASWEU EXT 2	MASILONYANA	Not found	Erf not on the system	Management agrees with the finding
F0060006 0000001100000	VERKEERDEVLEI	BRITS SJG	Not found	Erf not on the system	Management agrees with the finding
F0060006 0000052000000	VERKEERDEVLEI	HUMAN DC	Not found	Erf not on the system	Management agrees with the finding
F03300030000009800001	THEUNISSEN	PANFRED PTY LTD	70098017	Account not billed	Disagree, this is the lessor and is only liable for property rates, find the attached statements for both the lessee and lessor
F03300030000070200000	THEUNISSEN EXT 2	SENWES LTD	70702007	Account not billed	Management agrees with the finding
F00600020000068800000	IKGOMOTSENG	MOSIME SW	640688007	Account not billed	Management agrees with the finding
F04200050000058400000	WINBURG	RENDEALS TWELVE CC	680584007	Account not billed	Disagree, this is the lessor and is only liable for property rates, find the attached statements for both the lessee and lessor
F00600010000049500000	SS VILLA FORT	BRITZ PJ	730495081/2	Account not billed	Disagree, this is the lessor and is only liable for property rates, find the attached statements for both the lessee and lessor
F03300030000015900000	SS FRAAI UITSIG	PIENAAR ACE	Not found	Erf not on the system	Management agrees with the finding
F03300030000080500000	THEUNISSEN	DU TOIT JP	Not found	Erf not on the system	Management agrees with the finding
F03300030000053000000	THEUNISSEN	VAN NIEKERK ACJ	010530007/010530042	Account not billed	Disagree, this is the lessor and is only liable for property rates, find the attached statements for both the lessee and lessor
F04200050000080800000	WINBURG	COETZER WH & AJ	680808007	Account not billed	Management agrees with the finding
F00600020000058500094	IKGOMOTSENG	MOLELENGWANE SS	640585947	Account not billed	Management agrees with the finding
F00600020000068600000	IKGOMOTSENG	APRIL TE	Not found	Erf not on the system	Management agrees with the finding
F0060006 0000024000000	VERKEERDEVLEI	SWART JJ & SN	Not found	Erf not on the system	Management agrees with the finding

Auditor's conclusion

Management disagree with 5/17 findings because on those findings, the owner has leased the property and the lessor is liable for the refuse removal and sewage. Lessee's statements were inspected and the account numbers were successfully linked to the lessor's account number. The stand numbers are the same as the lessee's stand number.

Account nr	Lessor's name	Account nr	Lessee's name	Town
Swartz ZJ	730648003	Van der Sandt	730648006	Brandfort
Panfred	70098017	Pitso TJ	70098055	Theunissen
Rendeals	680584007	Mecca resta	680584002	Winburg
Britz PJ	730495081	Rewu JM	730495031	Brandfort
Van Niekerk	10530007	Motho EM	10530047	Theunissen

The finding still stands as the as there are still 11 instances where refuse removal and sewage were not billed.

45. EX.65 - Revenue: Refuse removal charges not billed (EX.65)

Audit finding

Paragraph 64(1) of the Municipal Financial Management Act states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure:

(a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;

Contrary to the above it was identified that the following consumers were not billed for July and August 2013.

Date	Revenue Description	Category of a property	Account	Owner	Amount Exclusive of vat	VAT	Amount Inclusive of vat
31/07/2013	Refuse	Business	120563000	J.A Smith	66,30	9,28	75,58
31/07/2013	Refuse	Business	80033007	SD Badenhorst	66,30	9,28	75,58
31/08/2013	Refuse	Government	730346000	Public works & rural development	66,30	9,28	75,58
31/08/2013	Refuse	Government	730597000	Public works & rural development	66,30	9,28	75,58
31/08/2013	Refuse	Government	60063007	Public works & rural development	66,30	9,28	75,58
31/08/2013	Refuse	Business	81386007	Hurwitz	66,30	9,28	75,58
31/08/2013	Refuse	Government	691096000	Dir - Gen Dow	66,30	9,28	75,58
31/08/2013	Refuse	Schools	103688007	Reamohetse school	66,30	9,28	75,58
TOTAL					1449,30	74,24	604,64

The extrapolated error is calculated as follows:

Extrapolation	
Description	Amount
Error	604,64
Tested Population	2 060,34
Amount as per AFS	9 803 998,00
Extrapolated Error	R2 877 134,62

Cause

Monthly billing reports were not reviewed

Impact

Revenue and receivable from exchanged transactions could be misstated by R2 877 134,62.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should put measures in place to ensure that the revenue section reviews the monthly billing reports and ensure that all accounts are billed for the services rendered by the municipality.

Management response

Management responses is as follows

<u>Date</u>	<u>Revenue Description</u>	<u>Category of a property</u>	<u>Account</u>	<u>Owner</u>	<u>Amount Exclusive of vat</u>	<u>VAT</u>	<u>Amount Inclusive of vat</u>	<u>Responses</u>
31/07/2013	Refuse	Business	120563000	J.A Smith	66,30	9,28	75,58	Management disagrees with the finding this is a farm property but was incorrectly classified on the system as business and therefore municipal services are not billed, only property rates is billed.
31/07/2013	Refuse	Business	80033007	SD Badenhorst	66,30	9,28	75,58	Management agrees with the finding and will ensure that services are billed accordingly
31/08/2013	Refuse	Government	730346000	Public works & rural development	66,30	9,28	75,58	Management disagrees with, there are two accounts billed on government properties. Please find attached supporting document
31/08/2013	Refuse	Government	730597000	Public works & rural development	66,30	9,28	75,58	Management agrees with the finding
31/08/2013	Refuse	Government	60063007	Public works & rural development	66,30	9,28	75,58	Management agrees with the finding,
31/08/2013	Refuse	Business	81386007	Hurwitz	66,30	9,28	75,58	Management agrees with the finding
31/08/2013	Refuse	Government	691096000	Dir - Gen Dow	66,30	9,28	75,58	Management disagrees with the finding, refused has been billed , please find attached supporting document
31/08/2013	Refuse	Schools	103688007	Reamohetse school	66,30	9,28	75,58	Management disagrees with the finding, please see attached supporting document to resolve this finding
TOTAL					1449,30	74,24	604,64	

Please find attached accounts as proof

Name: F Mzizi

Position: CFO

Date: 25/11/2014

Auditor's conclusion

Date	Revenue Description	Category of a property	Account	Owner	Amount Exclusive of vat	VAT	Amount Inclusive of vat	Responses	Auditors response
31/07/2013	Refuse	Business	120563000	J.A Smith	66,30	9,28	75,58	Management disagrees with the finding this is a farm property but was incorrectly classified on the system as business and therefore municipal services are not billed, only property rates is billed.	Inspected the debtor's statement and confirmed that the property is a farm which was incorrectly classified on the system as a business however this incorrect classification will result in understatement of revenue from non-exchange transaction as incorrect tariffs were used. There is no financial impact as the property was not billed refuse.
31/07/2013	Refuse	Business	80033007	SD Badenhorst	66,30	9,28	75,58	Management agrees with the finding and will ensure that services are billed accordingly	Management agree to the finding and therefore will be included on the management report
31/08/2013	Refuse	Government	730346000	Public works & rural development	66,30	9,28	75,58	Management disagrees with, there are two accounts billed on government properties. Please find attached supporting document	Refuse is billed on account number 730346001. Debtors statement was inspected to confirm if the account has the same stand numbers.
31/08/2013	Refuse	Government	730597000	Public works & rural development	66,30	9,28	75,58	Management agrees with the finding	Management agree to the finding and therefore will be included on the management report
31/08/2013	Refuse	Government	60063007	Public works & rural development	66,30	9,28	75,58	Management agrees with the finding,	Management agree to the finding and therefore will be included on the management report

31/08/2013	Refuse	Business	81386007	Hurwitz	66,30	9,28	75,58	Management agrees with the finding	Management agree to the finding and therefore will be included on the management report
31/08/2013	Refuse	Government	691096000	Dir - Gen Dow	66,30	9,28	75,58	Management disagrees with the finding, refused has been billed , please find attached supporting document	Refuse is billed on account number 691096001. Debtors statement was inspected to confirm if the account has the same stand numbers.
31/08/2013	Refuse	Schools	103688007	Reamohetse school	66,30	9,28	75,58	Management disagrees with the finding, please see attached supporting document to resolve this finding	Refuse is billed on account number 691096001. Debtors statement was inspected to confirm if the account has the same stand numbers.
TOTAL					1449,30	74,24	604,64		

Extrapolation

Description	Amount
Error	302.32
Tested Population	2 060.34
Amount as per AFS	9 803 998.00
Extrapolated Error	1 438 567.31

The misstatement will be reported on the management report.

46. EX.67 - Property Rates: Difference between the system and valuation roll (EX.67)

Audit finding

Section 7(1) of the municipal property rates act states that when levying rates, a municipality must, subject to subsection (2), levy rates on all rateable property in its area or, in the case of a district municipality, on all rateable property in the district management area.

Section 7(2)(a) of the municipal rates act states that subsection (1) does not oblige a municipality to levy rates on-

- (i) properties of which that municipality is the owner;
- (ii) public service infrastructure;
- (iv) properties in respect of which it is impossible or unreasonably difficult to establish a market value because of legally insecure tenure resulting from past racially discriminatory laws or practices;

Contrary to the above difference between Pastel Evolution and valuation roll resulting in property rates revenue being misstated with an unquantifiable amount. Refer to a below table for differences noted.

INFORMATION AS PER VALUATION ROLL			INFORMATION AS PER PASTEL EVOLUTION		
Account No	Person Name	Market Value	Market Value	Difference	Property rate lost
80024007	WZ BETONWERKE CC	2 360 000	16 000	2 344 000	7 454
80017008	TOIT JACOBUS PETRUS DU	1 790 000	38 000	1 752 000	5 571
741233000	MOKOENA THABO ZACHARIA AND MOKOENA MALESHANE PATRICIA	570 000	4 300	565 700	7 196
680212108	32 LEZUL TRUST	190 000	93 600	96 400	1 226
680287007	32 LEZUL TRUST	280 000	250 000	30 000	382
691094000	PROVINCIAL GOVERNMENT OF THE FREE STATE	3 310 000	2 555 000	755 000	2 401
691096001	PROVINCIAL GOVERNMENT OF THE FREE STATE	3 360 000	-	3 360 000	10 685
680701017	NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA	1 200 000		1 200 000	15 264
680791007	NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA	1 200 000		1 200 000	3 816
680529008	ZYL CORNELIA JOHANNA VAN	400 000	239 000	161 000	2 048
80049007	KOTZE CATHARINA JOHANNA	670 000	-	670 000	2 131
730359001	NEDERDUITSE GEREFORMEERDE KERK-THEUNISSEN	667 000	2 500 000	-1 833 000	(5 829)
10605007	RAND CHARL DU	650 000	324 000	326 000	1 037
680510007	STANDARD BANK OF SOUTH AFRICA LTD AND SB GUARANTEE CO PTY LTD	1 050 000	446 000	604 000	1 921
680462007	CLOETE NICOLEEN	1 030 000	389 000	641 000	2 038
680239007	RENDEALS TWELVE CC	1 030 000	350 000	680 000	2 162
730196008	GLADSTONE VERHURINGS TRUST	890 000	-	890 000	11 321
730680000	JO-JO TRUST	820 000	580 000	240 000	3 053
730660000	PIENAAR TRUST	790 000	600 000	190 000	2 417
	ERKAMKA NA ADONAI TRUST	720 000	-	720 000	9 158
730092003	PIETERS FAMILIE TRUST	660 000	-	660 000	8 395

730274000	LOCHNER TRUST	650 000	220 000	430 000	5 470
730188007	KIGHTLEY TRUST	620 000		620 000	7 886
730267007	FGA TRUST	610 000		610 000	7 759
730404000	JORDAAN FAMILIETRUST	550 000	480 000	70 000	890
730714007	ISF TRUST	510 000	750 000	(240 000)	(3 053)
TOTAL					112 799,05

Subsequent to the submission of the current valuation roll the following difference were identified

Account Nr on the system	Town	Name of the owner	Extent	Market value as per valuation roll	Market value on the system	Differences
080024007	THEUNISSEN	WZ BETONWERKE CC	800	250 000,00	16 000,00	234 000,00
080017008	THEUNISSEN	TOIT JACOBUS PETRUS DU	492	100 000,00	38 000,00	62 000,00
691096001	MAKELEKETLA	PROVINCIAL GOVERNMENT OF FREE STATE	5.8265-H	1 377 000,00	-	1 377 000,00
600407007	VERKEERDEVLEI	NEDERDUITSE GEREFORMEERDE KERK	4370	87 000,00	350 000,00	(263 000,00)
600408007	VERKEERDEVLEI	NEDERDUITSE GEREFORMEERDE KERK	4776	87 000,00	800 000,00	(713 000,00)
080049007	THEUNISSEN	KOTZE CATHARINA JOHANNA		Not known	Not known	Not known
730092003	BRANDFORT	BANK DESMOND VAN DER	1983	1 100 000,00	-	1 100 000,00
730188007	BRANDFORT	NOT ON THE VALUATION ROLL		Not known	Not known	Not known

Cause

The cause of the finding is that the information on the valuation roll and pastel evolution were not reconciled.

Impact

The property rates revenue is misstated by an unquantifiable amount as we are unable to determine the extent of the differences.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations Note

Recommendation

Management should investigate the valuation roll and pastel evolution for differences and inform Auditor General of the corrections made.

Management should further design and implement controls to ensure that the system and the valuation roll agree.

Management response

Management agrees with the finding and will investigate the matter, correct and going forward ensure that controls are in place to verify if the system and the valuation roll are in agreement.

General The Valuation Roll used by Auditor was the new valuation instead of the old one which supplied incorrect values, furthermore find the attached correct General Valuation to verify the correctness of the values on the system.

Auditor's conclusion

Management agrees with the finding and therefore the matter will be reported on the audit report.

The new response was assed and the work was re-performed and still differences were identified between the valuation roll and the system. The finding still stands and will be reported on the audit report.

47. EX.99 - Revenue: Other - Interest on overdue accounts (EX.99)

Audit finding

In terms of section 64(1)(2)(f)-(g) —"(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality, (2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;

g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and"

Contrary to the above, differences were identified between the amount of interest charged by the municipality and our recalculation, we therefore cannot confirm that the interest is collected in respect of all amounts in arrears due and payable to the Municipality:

No.	A/c	Date	Reference	Interest per GL	180 Days	Rate used by the Municipality	Prime rate	Rate to be used	Difference	Recalculation	
										Amount	Difference
1	145/1500/26	31-Jul-13	10262117	658.97	45 274.99	9.50%	8.50%	9.50%	0.00%	358.43	300.54
2	145/1500/26	31-Jul-13	10567008	222.46	7 685.52	9.50%	8.50%	9.50%	0.00%	60.84	161.62
3	145/1500/26	31-Jul-13	345155007	49.82	3 214.49	9.50%	8.50%	9.50%	0.00%	25.45	24.37
4	145/1500/26	31-Aug-13	242301000	134.97	8 148.57	9.50%	8.50%	9.50%	0.00%	64.51	70.46
5	145/1500/26	31-Aug-13	345536007	49.99	3 382.59	9.50%	8.50%	9.50%	0.00%	26.78	23.21
6	145/1500/26	30-Sep-13	640137007	141.74	9 493.88	9.50%	8.50%	9.50%	0.00%	75.16	66.58
7	145/1500/26	30-Sep-13	640598007	126.31	8 450.51	9.50%	8.50%	9.50%	0.00%	66.90	59.41
8	145/1500/26	31-Oct-13	640859007	49.00	2 481.79	9.50%	8.50%	9.50%	0.00%	19.65	29.35
9	145/1500/26	31-Oct-13	680018007	218.33	13 921.56	9.50%	8.50%	9.50%	0.00%	110.21	108.12
10	145/1500/26	31-Dec-13	20459013	2 215.19	144 897.49	9.50%	8.50%	9.50%	0.00%	1 147.11	1 068.08
11	145/1500/26	31-Dec-13	30523007	127.68	6 408.37	9.50%	8.50%	9.50%	0.00%	50.73	76.95
12	145/1500/26	31-Dec-13	80027004	2 623.32	172 149.58	9.50%	8.50%	9.50%	0.00%	1 362.85	1 260.47
13	145/1500/26	31-Jan-14	221828000	281.87	18 375.91	9.50%	8.50%	9.50%	0.00%	145.48	136.39
14	145/1500/26	31-Jan-14	231888001	352.76	23 442.80	9.50%	8.50%	9.50%	0.00%	185.59	167.17
15	145/1500/26	31-Jan-14	231971000	287.63	18 787.20	9.50%	8.50%	9.50%	0.00%	148.73	138.90
16	145/1500/26	28-Feb-14	120161000	21.43	999.62	9.50%	9.25%	10.25%	0.75%	8.54	12.89
17	145/1500/26	28-Feb-14	303661007	189.39	12 314.40	9.50%	9.25%	10.25%	0.75%	105.19	84.20
18	145/1500/26	28-Feb-14	750001358	5 712.77	382 589.58	9.50%	9.25%	10.25%	0.75%	3 267.95	2 444.82
19	145/1500/26	31-Mar-14	30358003	85.19	6 617.18	9.50%	9.25%	10.25%	0.75%	56.52	28.67
20	145/1500/26	31-Mar-14	40287007	28.98	3 119.64	9.50%	9.25%	10.25%	0.75%	26.65	2.33
21	145/1500/26	31-Mar-14	60134061	41.74	3 242.48	9.50%	9.25%	10.25%	0.75%	27.70	14.04
22	145/1500/26	30-Apr-14	262860000	15.40	1 977.00	9.50%	9.25%	10.25%	0.75%	16.89	-1.49
23	145/1500/26	30-Apr-14	283317000	78.35	10 097.19	9.50%	9.25%	10.25%	0.75%	86.25	-7.90
24	145/1500/26	30-Apr-14	303737007	92.32	12 060.94	9.50%	9.25%	10.25%	0.75%	103.02	-10.70

25	145/1500/26	31-May-14	120304000	70.39	8 705.82	9.50%	9.25%	10.25%	0.75%	74.36	-3.97
26	145/1500/26	31-May-14	303655007	105.91	13 023.14	9.50%	9.25%	10.25%	0.75%	111.24	-5.33
27	145/1500/26	31-May-14	355672000	24.51	3 186.58	9.50%	9.25%	10.25%	0.75%	27.22	-2.71
28	145/1500/26	30-Jun-14	691096000	1 717.42	394 357.49	9.50%	9.25%	10.25%	0.75%	3 368.47	-1 651.05
29	145/1500/26	30-Jun-14	790789000	124.19	15 515.56	9.50%	9.25%	10.25%	0.75%	132.53	-8.34
				15 848.03	1 353 921.87					11 260.93	4 587.10

Cause

No reviews performed by management over the calculation of interest on overdue accounts.

Impact

Note

Interest on overdue accounts and account receivables could be overstated.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should establish and implement controls to ensure accurate calculation of interest on overdue accounts, furthermore the entire population should be revisited.

ANNEXURE B: OTHER IMPORTANT MATTERS

Accumulated Surplus/deficit

48. EX.149 - Accumulated surplus/deficit: Differences between Pastel trail balance and Financial statements (EX.149)

Audit finding

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

The following differences in balances were identified between the accounting system trial balance (Pastel Evolution) and the financial statements at 30 June 2014:

Current year					
Details		Amounts per General ledger/ Trial balance	Amounts per financial statements submitted for audit	Difference	
	Net Profit (Accumulated)	373 519 992.57	-	373 519 992.57	
77/9169	Balance Sheet/Prior Year Adjustments	(957 982 669.62)	571 047 837.00	(1 529 030 506.62)	
77/9170	Accumulated Surplus Conversion	(596 882.01)	-	(596 882.01)	
77/9171	Appropriations Account	17 252.07		17 252.07	
	Correction of error - note 29	-	(14 394 479)	(14 394 479)	
	Deficit for the year	(44 311 045.27)	(44 311 026.00)	-3 424.02	
		(629 349 908.97)	541 131 290	(1 170 481 198.97)	

Prior year			
Details	Final amounts per prior year financial statements	Corresponding amounts per current year financial statements submitted for audit	Difference (R)

	Net Profit (Accumulated)	526 623 394.76	590 431 137.00	(63 807 742.24)
77/9170	Accumulated Surplus Conversion	5 056 359.00	0.00	5 056 359.00
	Deficit for the year	34 042 897.00	(19 383 300.00)	53 426 197.00
		565 722 650.76	571 047 837.00	(5 325 186.24)

Cause

Lack of adequate review of the financial statements before it was submitted for audit purposes and the consultants that prepared the financial statements used Caseware software and the municipality Pastel for accounting purposes.

Impact

The Accumulated Surplus could be misstated in the financial statements.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should reconcile the difference and ensure that the financial statements are rectified.

Management response

1. We disagree with this matters, please see the response below:

Current year				MUNICIPALITY COMMENTS	
Details	Amounts per General ledger/ Trial balance	Amounts per financial statements submitted for audit	Difference		
	Net Profit (Accumulated)	373 519 992.57	-	373 519 992.57	R373 519 992.57 is the opening balance of the accumulated surplus. Therefore should the opening balance of Statement of Changes in Net Asset also be included in the AFS column. We disagree with this difference.
77/9169	Balance Sheet/Prior Year Adjustments	(957 982 669.62)	571 047 837.00	(1 529 030 506.62)	This is incorrect. This should be in credit not in debit!!! Also note that these amounts in this column are obtained from the AFS. This AFS balances include all the trial balance accounts of accumulated surplus. Therefore the reconciliation should be done on totals and not per account.
77/9170	Accumulated Surplus Conversion	(596 882.01)	-	(596 882.01)	The balance of the accumulated surplus on the Statement of Changes in Net Assets is a combination of the trial balance accounts. This trial balance account will be included in the balance disclosed of R541 131 270. The reconciliation should be performed on a totals basis and not on an account basis
77/9171	Appropriations Account	17 252.07	-	17 252.07	The balance of the accumulated surplus on the Statement of Changes in Net Assets is a combination of the trial balance accounts. This trial balance account will be included in the balance disclosed of R541 131 270. The reconciliation should be performed on a totals basis and not on an account basis
	Correction of error - note 29	-	(14 394 479)	(14 394 479)	This should not be listed as a difference. There is no specific account for this amount on the AFS. This amount is included in the 77/9169 account on the trial balance.
	Deficit for the year	(44 311 045.27)	(44 311 026.00)	-3 424.02	
		(629 349 908.97)	541 131 290	(1 170 481 198.97)	

2. We disagree with this finding. Please see response below:

		Prior year			
Details		Final amounts per prior year financial statements	Corresponding amounts per current year financial statements submitted for audit	Difference (R)	MUNICIPALITY'S COMMENTS
	Net Profit (Accumulated)	526 623 394.76	590 431 137.00	(63 807 742.24)	We disagree. This is the prior period error disclosure adjustments that were recorded on the financial statements and that were disclosed in note 29. If the prior period error disclosure are done in note 29 then there should be no misstatements
77/9170	Accumulated Surplus Conversion	5 056 359.00	0.00	5 056 359.00	The balance of the accumulated surplus on the Statement of Changes in Net Assets is a combination of the trial balance accounts. This trial balance account will be included in the balance disclosed of R541 131 270. The reconciliation should be performed on a totals basis and not on an account basis
	Deficit for the year	34 042 897.00	(19 383 300.00)	53 426 197.00	We disagree. Please refer to note 29. This is the prior period error adjustment made in the income statements. It is disclosed in note 29
		565 722 650.76	571 047 837.00		(5 325 186.24)

Please also find attached on excel a reconciliation of the accumulated surplus disclosed on the financial statements and the trial balance. The difference is only R400 006.57 that will be corrected on the financial statements.

Auditor's conclusion

The exception is regarded as partly resolved:

Current year, see reconciliation provided on working paper J.15.9. According to row E30 on working paper J.15.9 and work sheet "Reconciliation AFS" a difference of R400 006.59 must be corrected (agreed with the manager of SAB&T consultants S du Toit on 20/11/14) . Once the corrected financial statements has been received this matter will be cleared. This part is therefore **not resolved**.

Prior year: The restated balance of R571 047 837 has been reconciled and agreed. See row L25 of "Reconciliation TB" on working paper J.15.9. **Resolved**.

49. EX.148 - Accumulated surplus/deficit: Differences between Pastel trail balance and case ware trial balance (EX.148)

Audit finding

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

The following differences were identified between the accounting system trial balance (Pastel Evolution) and the trail balance used (Caseware) to compile the financial statements:

Account		Amount		
		Per caseware	Per pastel	Difference
	Net Profit (Accumulated)	373 519 992,57	427 045 470,09	(53 525 477,52)
77/9169	Balance Sheet/Prior Year Adjustments	(957 982 669,62)	(1 002 207 686,49)	44 225 016,87
77/9170	Accumulated Surplus Conversion	(596 882,01)	(9 314 815,41)	8 717 933,40
77/9171	Appropriations Account	17 252,07	17 252,07	-
	Deficit for the year	(44 307 601,98)	(44 311 045,27)	3 443,29
		(629 349 908,97)	(628 770 825,01)	(579 083,96)

Cause

Lack of adequate review of the financial statements that were submitted for audit purposes and the consultants that prepared the financial statements used the Case ware software while the municipality uses pastel for accounting purposes.

Impact

The balance of Accumulated Surplus could be misstated by R579 084 in the annual financial statements at 30 June 2014 as a result of the difference between the two trial balances.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should reconcile the two trial balances and ensure that the correct figures are disclosed in the financial statements.

Management response

Please refer to the attached excel document for the reconciliation of the accumulated surplus and the difference reported. Please note that significant portion of the differences reported above due to different accounts used for recording the journals. Therefore the differences are not misstatements but reclassification.

Auditor's conclusion

The comments have been acknowledged. This difference in exception 149 would be resolved once the difference has been corrected in the financial statements. This case therefore is merely a classification issue between the different accounts used for the accumulated surplus and would be reported as a internal control issue.

Borrowings & long-term loans

50. EX.134 - Expenditure: Overstatement on finance charges (EX.134)

Audit finding

In terms of MFMA (62) (b) The Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

1. In accordance with the 3rd party creditor statement, the interest is reflected as R399 841 and penalty interest as R13 502,89. It was however identified that as per the trial balance (535/5405/48) finance charge is R576 491,05, there is thus a difference between the statement and the trial balance of R163 146,93.

2. It was further identified that the fruitless and wasteful expenditure in Note34.2 of the AFS 2014 was reported as R326 109, there is however a penalty interest paid to DBSA amounting to R176 649,82 and finance lease penalty interest amounting to R31 292,69. The total fruitless and wasteful expenditure should thus be R207 942,51, fruitless and wasteful expenditure in the AFS is overstated by R118 166,49.

Cause

Lack of oversight by management over the calculation of interest on accounts.

Impact

Fruitless and wasteful expenditure reported on in Note 34.2 overstated with R118 166.49.

The finance cost of the long term liability is being overstated with R163 146.93.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should establish and implement controls to ensure that the interest is disclosed in line with the applicable creditor statements.

Furthermore, management should investigate the identified differences and make corrections to the financial statements.

Management response

1. We disagree with the finding. The balance recorded on the financial statements and the Statement from the Supplier agrees with R3 168 162 (2013: R3 503 640). If the interest will be adjusted it will result in the outstanding balances not being in reconciliation with the supplier statement.

2. We agree with the finding and the overstatement will be corrected. The fruitless and wasteful expenditure will be decreased with R118 166.49

Auditor's conclusion

We agree that finance change on the loan cannot change as the balance agree to the 3rd party statement. We refer to exception 220 where fruitless and wasteful expenditure is reported on.

51. EX.36 - Long term liabilities: Late payments and penalty interest (EX.36)

Audit finding

Section 62 (1)(a&b) of the MFMA states : "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure - that the resources of the municipality are used effectively, efficiently and economically; that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

Section 65(2)(e) of the MFMA prescribes that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

According to the Development Bank of Southern Africa (DBSA) statements, penalty interest of R4 562 was capitalised against the loan 61001050 for the year under review.

The municipality made a payment of R183 773.32, PROJECT NO. 103882/1, GRV4495. APBR048 on the 23 September 2013.

The matter was also reported in paragraph 56 of the prior year management report.

Cause

Monitoring controls were not implemented to ensure that all instalments on loans are paid on time and that penalty interest is avoided.

Impact

The late payment results in fruitless and wasteful expenditure.
Furthermore fruitless and wasteful expenditure is understated by R4 562

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Control environment

The accounting authority/office did not demonstrate independence of management and exercises oversight for the development and performance of internal controls.

Recommendation

Develop measures to ensure that all transactions are recorded in the financial records and these should be regularly monitored and reviewed.

Management response

Management agrees with the finding and will develop measures to record transactions correctly, and monitor regularly.

Auditor's conclusion

Management agrees with the finding and should adjust the financial statements to indicate the fruitless and wasteful expenditure identified.

52. EX.26 - Long term liability: Internal control - Long term liability and lease registers not reviewed (EX.26)

Audit finding

Section 62(1)(c)(i) of the MFMA states the following: The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

There is no evidence that the long term liabilities and lease registers are reviewed by senior officials.

A similar matter was reported in Part E, paragraph 64 of the prior year management report.

Note

Cause

Proper written delegations of review functions for the long term liability register is not in place.

Impact

Possible errors in calculations and recording on the long term liabilities will not be detected.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Control Environment

The accounting officer does not understand and exercise oversight responsibility with regard to financial reporting and related internal control.

Recommendation

Management should implement Internal controls to ensure that the long term liabilities and lease registers are reviewed at least on a monthly basis.

Management response

Management agrees to the finding, however the control has been put in place to ensure that long-term liabilities and lease register are reviewed.

Name: F. Mzizi

Position: Chief Financial Officer

Date: 30/09/2014

Auditor's conclusion

Management agree with the finding. The lack of control will be reported.

Cash and cash equivalents

53. EX.101 - Cash and cash equivalents: Limitation on the scope of the audit (EX.101)

Audit finding

Section 74(1) of the MFMA states that the accounting officer of a municipality must submit to the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

Section 15(1) of the Public Audit Act, 2004 (Act no. 25 of 2004) states that when performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee; any of the assets of or under the control of the auditee; or (c) any staff member or representative of the auditee.

Through inspection of journals JBR00527 and JBR00539, it could be confirmed that the journals only contain excel calculations and a pastel report, and no additional information to relating why the journal should have been processed is included.

Cause

Supporting documentation not verified and over reliance on the work performed by the consultants.

Impact

Limitation on the scope of the audit.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should submit the supporting documentation for the journals.

Management response

Management agrees with the finding. This finding was discussed at length with an Auditor Please herewith find attached supporting as expected

Name: Fikile Mzizi

Position: CFO

Date: 07/11/2014

Auditor's conclusion

Management's comments were received and assessed as follows:

1. JBR00527
 - Supporting documents submitted could justify the processing of the first transaction adjustment at the amount as in the journal.
 - No support was submitted for the third adjustment on the journal.
2. JBR00539
 - No support was submitted as per the additional finding.

The matter is not resolved and will be reported in the management report.

54. EX.186 - Cash and cash equivalents: Unidentified deposit register not kept (EX.186)

Audit finding

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

Contrary to the above evidence could not be obtained that the municipality maintains a separate register for unidentified deposit. This information was requested with a request for information number 22 dated 18 September 2014 but could not be submitted.

Contrary to the above evidence could not be obtained that the municipality maintains a separate register for unidentified deposit. This information was requested with a request for information number 22 dated 18 September 2014 but could not be submitted.

Impact

The matter could result in the suspense accounts not being cleared.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that an "Unidentified deposit register" is maintained and updated on a regular basis.

A senior official should be delegated to review the register against the amounts recorded on the cash suspense accounts on a monthly basis.

Management response

Management disagrees with the finding as this was not requested, however find the attached spreadsheet.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management comments were received and assessed as follows:

- Attention is drawn to request for information number 22 dated 18 September 2014, which no documentation could be received.
- The auditor acknowledges the register and would like to highlight the following:
 1. The processing seems to not be done regularly.
 2. There is no control total for the identified deposits for the year.
 3. The level of detail contained in the report does not permit the auditor to conclude on whether "Processed" entails that it has been identified.

The matter is regarded as not resolved and will be included in the management report.

55. EX.188 - Cash and cash equivalents: Monthly bank reconciliations not compiled and reviewed (EX.188)

Audit finding

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

Evidence could not be obtained that the monthly bank reconciliations are prepared as requested on request for information number 22 of 2014, dated 18 September 2014.

Cause

Note

The Pastel system reconciliation is loaded with unexplained differences from the prior years, it will thus not add value to do the recons on pastel

Impact

The municipality is not in the position to timeously detect and clear un-reconciling items.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

The pastel system should be cleared of all the un- reconciling items from prior years as recommended in communication 120 of 2014. It is further recommended that the monthly reconciliations should be prepared and reviewed.

Management response

Management comment was not received.

Auditor's conclusion

Management comments were not received and the matter will be included in the management report.

56. EX.48 - Cash and cash equivalents: Journals not correctly processed (Ex.48)

Audit finding

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

Through inspection of a sample of 4 system journals (JBR00451, JBR00452, JBR00454 and JBR00507), the following could be identified:

- Validity of the journal - All items.

Through inspection of the "Point of sale till cashup" or "General Ledger Journal Batch" sheet, it could NOT be confirmed that the journal was valid.

- Approval of the journal - All items.

Through inspection of the "General Ledger Journal Batch" sheet, no evidence of approval could be obtained.

- Appropriateness of the recorded amounts - Three items.

No support for the amounts recorded could be obtained from the journal voucher sheets and the attachments. The details of the journals and amounts are as follows:

No.	Date	Reference	Batch Ref	Description	Amount	Recalculated amount	Difference
1	05/08/2013	TO2/8684	JBR00452	REVERSAL OF BANKING	23 866,25	-	23 866,25
2	05/08/2013	POS BANKING REV	JBR00454	POS REVERSAL ON 05 AUGUST 2013	23 868,25	-	23 868,25
3	09/05/2014	JB 513	JBR00507	POS BANKING REVERSAL	29 842,30	-	29 842,30
					<u>77 576,80</u>		<u>77 576,80</u>

The identified error has not been extrapolated over the population as the financial statement amounts could be supported by bank confirmations.

- Appropriateness of the ledger accounts - All items.

Through inspection of the general ledger accounts (77/3030 and 77/3044) and observation of the validity of the transaction(s), it could not be confirmed that the amount was allocated to the correct ledger account.

Cause

System journals relating to revenue are prepared, authorised and approved by one individual. There is no formal review of the system journals after being processed on the system to ensure that they are valid, accurate and recorded appropriately.

Impact

The integrity of financial information recorded specifically relating to cash and cash equivalents on the Pastel system cannot be verified.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should capacitate the revenue division and create different levels of preparation, authorisation and approval on the system for journals relating to revenue.

Management response

Management agrees to the finding and will capacitate the division in order to enable segregation of duties.

Name: F.MZIZI
Position: CFO
Date: 12/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be reported in the audit report as it is **NOT RESOLVED**.

57. EX.5 - Cash and cash equivalents: Bank account not on Pastel system (EX.5)

Audit finding

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

Through inspection of the accounts on Pastel system and the bank confirmation, it could be confirmed that there are two bank accounts that are not included in the Pastel system. The details of the accounts are as follows:

Account type	Account number.	Amount R
Fixed	2046404292	12 248,94
Fixed	2049004718	21 242,41
		33 491,35

Cause

Lack of oversight as management does not transact with those accounts.

Impact

The matter could result in the information on Pastel not agreeing with the information on the system.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should add the above accounts on the Pastel system.

Management response

Management agrees to the finding and has already created the accounts as per the Auditor General recommendation.

Name: F.MZIZI
Position: CFO
Date: 13/11/2014

Auditor's conclusion

Management's comments were received and the auditor subsequently inspected the Pastel system, vote 77/0160 (Acc. no. 2049004718) and 77/0160/26 (Acc. no. 2046404292), it could be confirmed that the bank accounts have been included in the system. The matter is regarded as resolved, however since the matter existed as at year-end, the matter will be reported in the management report as an internal control deficiency.

58. EX.49 - Cash and cash equivalents: Irregular expenditure from goods and services below R2 000 (EX.49)

Audit finding

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

Section 1(a) of paragraph 12 of the Supply Chain Management Policy states that the procurement of goods and services through this policy is provided by way of petty cash purchases, up to a transaction value of R2 000 (VAT included).Note

Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law.

Through the management representation letter dated 30 September 2014, and request for information 22 of 2014, it was confirmed that management does not make use of petty cash for procurement of goods and services to the value of below R2 000.

Any goods or services that were not procured by means of petty cash and have a transaction value below R2 000 represents irregular expenditure.

The cashbook was filtered for all payments made to suppliers below R2 000, totaling R373 598,23. The irregular expenditure schedule reflects only two payments amounting to R2 643,43. One of these transaction did not have VAT. The details are as follows:

MONTH	FILE VOLUME NUMBER	EFT NO.	PAYEE	AMOUNT VAT Inclusive
November	EFT 17541-17601	17598	MATSHAVELA TRANSPORT	1 500,00

Cause

Management decided not to use petty cash to mitigate the risk of misappropriation funds.

Impact

An amount of R370 954,80 (R373 598,23 - R2 643,43) should be disclosed as irregular expenditure. All the transactions should be investigated to identify the VAT included and disclose the irregular expenditure exclusive of VAT.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should :

Consider to amend the policy on petty cash purchases.

Management response

Management disagree with the audit finding for the following reason

As the AG correctly puts that there was a management representation letter that has been sent to AG that the municipality does not keep Petty Cash due to the challenges in controlling it,

MFMA section 81 (d) gives the CFO an authority to advice senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79, section 78 (1) states that each senior manager of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure

- a) That the system of financial management and internal control established for the municipality is carried out diligently
- b) That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparent.
- c) That any unauthorised, irregular or fruitless and wasteful expenditure and any losses are prevented

This was the challenge detected by management and in trying to prevent the irregularities from occurring, management saw it necessary to stop the usage of Petty Cash due to many challenges of internal controls it was posing. We disagree that the all expenditures below R2000 are irregular because even though there were no documented procedures , at least there were a controls put into place to manage procurement of goods below R2000

Name: F Mzizi

Position: CFO

Date: 24/11/2014

Auditor's conclusion

Management comments were received and assessed as follows:

- The auditor is in agreement that not using petty cash is a control measure to prevent the previously identify irregularities that resulted and would further encourage it.
- The issue raised by the auditor is that by not using petty cash to procure goods and services below R2 000 is in contradiction of the municipal SCM policy paragraph 12 of Section 1(a).
- The matter is regarded as **not resolved** and will be reported as internal control in the management report.

Commitments

59. EX.217 - Commitments: Overstatement in the financial statements (EX.217)

Audit finding

Section 122 (1)(a) of the MFMA states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Through inspection of the contract files of the municipality, and the Council minutes dated 30 May 2014, it could be confirmed that there are commitments that are disclosed in the financial statements (note 38) that are not approved and/or contracted for. The details of the said commitments are as follows:

MIG Reference Nr	Project Description	MIG Value (R)	Contract amount as per contract/ Council approval (R)	Difference (R)
	Verkeerdevelei upgrading of oxidation ponds	7 250 000,00	7 200 000,00	50 000,00
	Winburg/Makeleketla: Construction of sewage pumpstation and sewer main in Makeleketla	3 589 112,50	-	3 589 112,50
	Theunissen/Masilo: Construction of waste disposal site	3 323 784,00	-	3 323 784,00
	Winburg/Makeleketla: Construction of waste disposal site	3 323 784,00	-	3 323 784,00
		17 486 680,50		10 286 680,50

Through inspection of project reconciliation and the cashbook, it could be confirmed that a payment on 26 June 2014 was made to Theunissen/Masilo: Fencing of Phahameng cemetery and building of ablution facilities project (MIG/FS/1004/C/14/15). Subsequent inspection of the commitment register, it could be confirmed that this payment was not considered for the disclosure of commitments. The details of this are as follows:

Approved Council amount (A)	2 338 979,00
Expenditure as at 30 June 2014 (B)	172 053,00
Recalculated commitment (A-B)	<u>2 166 926,00</u>
Disclosed commitments	<u>2 338 979,00</u>

Overstatement 172 053,00

Therefore total overstatement is R10 458 733,50 (R10 286 680,50 + R172 053,00).

Cause

Lack of proper review of the financial statements by the municipality after compilation by the consultants.

Impact

Commitments (Note 38) are overstated by R10 458 734 in the financial statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should investigate the matter and further consider decreasing the commitments disclosure in note 38 by R10 458 733,50.

Management response

The finding is agreed with.

The financial statements will be adjusted to disclose the correct commitments amount.

Name: F Mzizi

Position: CFO

Date: 17/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be resolved once the adjusted financial statements are received. The matter will still be reported as a corrected misstatement in the Management report.

Through inspection of the adjusted financial statement, received on 27 November 2014, it could be confirmed that the adjustment has been made. Therefore the matter is resolved and will be reported as a corrected misstatement in the management report.

Contingent liabilities

60. EX.126 - Disclosure: Contingent liabilities - Documents not submitted (EX.126)

Audit finding

Section 62(1)(b) of the MFMA on General financial management functions states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure -

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

1. Contrary to the above, no correspondence with the legal counsel was obtained to determine or confirm the status regarding the following matters:

Name of entity	Description of matter	Estimate of financial exposure R	Remarks	Amount per summons R
SA Local Authority P.Fund	Masilonyana (737/2014)			50 255.07
N Coetzee & E van Dyk	Order against municipality to supply water on a 24 hour basis - Brandfort	Claim withdrawn	Matter finalised.	
GVP Maarman	Travel allowance and pension not paid to Me. Maarman	284 268.72	Judgement rescinded.	284 268.72
BCB Bezuidenhoudt	Case No.1721/2014	586 537.37	This covers all the matters from case 1721/2014 to 1728/2014 Pleadings are closed and the matters are at the discovery stage	586 537.37
WJ Goodyear	Case No.1722/2014	242 720.90		242 720.90
G Pretorius (Junior)	Case No.1723/2013	54 162.96		54 162.96
G Pretorius (Senior)	Case No.1724/2014	586 537.37		126 186.72
HP Oosthuizen	Case No.1725/2014	138 476.98		138 476.98

PR Van Standen	Case No.1726/2014	550 149.93	550 149.93
JG Roux	Case No 1727/2014	732 735.36	732 735.36
HJ De Wet Smith	Case No.1728/2014	2 602 986.08	2 602 986.08
			R5 368 480.09

Cause

Files not released by the legal consultants due to outstanding fees.

Impact

Possible limitation of scope to the value of R5 368 480.09

Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Recommendation

Management should implement controls to ensure proper register and record keeping of all contingent liabilities.

Management response

Management agrees with the finding after further consultation with Corporate Services. We also attached the supporting document that confirms that the case still continues on the 27th November 2014

The AFS will there be adjusted.

Name: F Mzizi

Position: CFO

Date: 24/11/2014

Auditor's conclusion

The corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

61. EX.128 - Disclosure: Contingent liabilities misstated (note 42) (EX.128)

Audit finding

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

Contrary to the above the following differences were identified:

1. Obtained a combined summons dated 20 February 2014, no amount was however documented on the listing submitted to substantiate the contingent liabilities, therefore contingent liabilities could be understated with R50 255.07 as it was not included in note 42.

Name of entity	Description of matter	Estimate of financial exposure	Remarks	Amount per summons	Difference
SA Local Authority P.Fund	Masilonyana (737/2014)	-		50 255.07	(50 255.07)

2. The following items were Included twice in the listing, therefore overstatement of note 42 with R3 000 000:

BJ Moshweledi	3 000 000.00
Total	R3 000 000.00

3. The following cases has been inactive for a period of four years and therefore should not form part of contingent liabilities, therefore could be overstated with R2 622 687.34:

Name of entity	Description of matter	Estimate of financial exposure	Remarks
Naledi Construction	Alleged money owed i.t.o an agreement.	455 015.00	Plaintiff has not proceeded since 2010.
	Counter claim filed for money owing to the	1 200 000.00	Plaintiff has not proceeded since 2010.

	municipality		
SAMWU National provident fund	Alleged non payment	967 672.34	Plaintiff has not proceeded since 2010.

4. Included in the R1 700 000 claims of the various farmers as disclosed in note 42 to the financial statements the claim of G Pretorius (Senior) difference R460 350.65 was identified to the amount disclosed on the financial statements.

Name of entity	Description of matter	Estimate of financial exposure	Remarks	Amount per summons	Difference
G Pretorius (Senior)	Case No.1724/2014	586 537.37		126 186.72	460 350.65

Cause

Proper review of the schedule and the amount disclosed in the financial statements was not been performed.

Impact

The possible overall overstatement of contingent liabilities could be R6 133 293

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should investigate the difference and correct the contingent liability note accordingly.

Management response

1. We agree and the items will be included in the disclosure of the AFS
2. This matter is agreed with and will be corrected on the financial statements. The amount disclosed will be R3 000 000 as indicated in the legal presentation letter from Heweton Attorneys
3. Refer to the responses below:

Name of entity	Description of matter	Estimate of financial exposure	Remarks	Municipality response
Naledi Construction	Alleged money owed i.t.o an agreement.	455 015.00	Plaintiff has not proceeded since 2010.	This matter is agreed with and will be removed from the financial statements in note 42.
	Counter claim filed for money owing to the municipality	1 200 000.00	Plaintiff has not proceeded since 2010.	

SAMWU National provident fund	Alleged non payment	967 672.34	Plaintiff has not proceeded since 2010.	We disagree. This matter is not disclosed on the financial statements as contingent liability in note 42.
-------------------------------	---------------------	------------	---	---

4. We disagree. Please find attached the legal confirmation received from Hewetson Attorneys. This amount to be disclosed are R1 700 000. There is no misstatement. Please refer to the response from the attorney.

Name: F Mzizi

Position: CFO

Date: 17/11/2014

Auditor’s conclusion

1-3. As management agree with the finding the corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

3. Management comments on the SAMWU National provident fund was accepted as it was not disclosed in note 42.

4. Management response accepted as the full amount of R1.7 mil was disclosed as recommended by the legal council.

Employee costs

62. EX.155 - Employee related costs: Leave captured onto the system after year end (EX.155)

Audit finding

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

Contrary to the above the following was identified:

1.1) The leave for the following employees was captured onto the HR system after the financial year ended 30 June 2014:

Leave captured onto the system after year ended - Annual Leave

Error Population

No	Employee Code	Employee Name	Leave start date	Leave end date	Date leave captured	Total days captured onto the system	Rate per day	Total Amount
1	250	LZ Mafereka	04/03/2014	06/03/2014	07/2014	3	277.93	833.79
			01/04/2014	17/04/2014	07/2014	13	277.93	3 613.09
			03/06/2014	06/06/2014	07/2014	4	277.93	1 111.72
2	404	KM Maine	22/04/2014	25/04/2014	23/07/2014	4	252.67	1 010.68
			28/03/2014	28/03/2014	07/2014	1	252.67	252.67
			03/03/2014	04/03/2014	07/2014	2	252.67	505.34
			21/02/2014	21/02/2014	07/2014	1	252.67	252.67
			20/06/2014	20/06/2014	08/2014	1	252.67	252.67
3	865	MC Motsai	09/05/2014	09/05/2014	22/07/2014	1	277.93	277.93
			24/02/2014	24/02/2014	22/07/2014	1	277.93	277.93
			29/04/2014	29/04/2014	23/07/2014	1	277.93	277.93
			02/06/2014	04/07/2014	23/07/2014	24	277.93	6 670.32
4	1092	TP Tsasanyana	14/03/2014	17/03/2014	07/2014	2	277.93	555.86
			11/04/2014	11/04/2014	07/2014	1	277.93	277.93
			06/05/2014	09/05/2014	08/2014	3	277.93	833.79
			19/06/2014	20/06/2014	08/2014	2	277.93	555.86
5	1095	GI Tlhabatau	15/05/2014	16/05/2014	08/2014	2	277.93	555.86
			04/06/2014	04/06/2014	08/2014	1	277.93	277.93
			04/03/2014	07/03/2014	07/2014	4	277.93	1 111.72
6	1176	DM Kobi	16/05/2013	16/05/2013	07/2013	1	277.93	277.93
			11/03/2014	11/04/2014	07/2014	22	277.93	6 114.46
7	1310	MZ Mokhutle	29/04/2014	09/05/2014	07/2014	7	270.53	1 893.71
			02/06/2014	02/06/2014	24/07/2014	1	270.53	270.53
8	619	P Mofokeng	14/05/2014	14/05/2014	07/2014	1	856.61	856.61
9	10016	BR Maekiso	25/04/2014	25/04/2014	24/07/2014	1	394.60	394.60
10	10022	TP Lebeko	04/03/2014	07/03/2014	24/07/2014	4	277.93	1 111.72
			17/03/2014	19/03/2014	24/07/2014	3	277.93	833.79
			25/03/2014	28/03/2014	24/07/2014	4	277.93	1 111.72
			22/04/2014	30/05/2014	24/07/2014	26	277.93	7 226.18
			25/06/2014	26/06/2014	08/2014	2	277.93	555.86
11	10023	RJ Mabote	03/03/2014	03/03/2014	07/2014	1	394.60	394.60
			29/04/2014	02/05/2014	07/2014	3	394.60	1 183.80
12	10024	DB Ntaopane	04/03/2014	14/03/2014	07/2014	9	277.93	2 501.37
13	158	DC Swarts	19/05/2014	20/05/2014	24/07/2014	2	289.69	579.38
14	160	MS Boleme	09/05/2014	09/05/2014	23/07/2014	1	353.28	353.28
			18/03/2014	18/03/2014	07/2014	1	353.28	353.28
			03/04/2014	03/04/2014	24/07/2014	1	353.28	353.28
			10/06/2014	10/06/2014	08/2014	1	353.28	353.28
15	231	LO Sekobile	03/03/2014	31/03/2014	07/2014	20	277.93	5 558.60
			01/04/2014	02/05/2014	07/2014	20	277.93	5 558.60
16	402	NB Boo	29/04/2014	29/04/2014	23/07/2014	1	252.67	252.67

			31/03/2014	31/03/2014	07/2014	1	252.67	252.67
			24/02/2014	28/02/2014	07/2014	5	252.67	1 263.35
			30/06/2014	04/07/2014	08/2014	5	252.67	1 263.35
			23/05/2014	29/05/2014	08/2014	5	252.67	1 263.35
17	403	LA Makgalemela	28/02/2014	03/03/2014	07/2014	2	252.67	505.34
			31/03/2014	01/04/2014	07/2014	2	252.67	505.34
			27/06/2014	27/06/2014	08/2014	1	252.67	252.67
			28/05/2014	28/05/2014	08/2014	1	252.67	252.67
18	971	LD Mota	27/03/2014	28/03/2014	07/2014	2	688.09	1 376.18
			30/04/2014	02/05/2014	07/2014	2	688.09	1 376.18
			14/03/2014	14/03/2014	07/2014	1	688.09	688.09
19	972	TS Maloka	09/06/2014	09/06/2014	07/2014	1	688.09	688.09
			02/06/2014	03/06/2014	07/2014	2	688.09	1 376.18
			11/04/2014	11/04/2014	07/2014	1	688.09	688.09
			02/05/2014	05/05/2014	07/2014	2	688.09	1 376.18
			01/04/2014	01/04/2014	07/2014	1	688.09	688.09
20	1030	D Geldenhuis	30/05/2014	30/05/2014	07/2014	1	277.93	277.93
			14/04/2014	14/04/2014	07/2014	1	277.93	277.93
			30/04/2014	30/04/2014	07/2014	1	277.93	277.93
			30/06/2014	30/06/2014	08/2014	1	277.93	277.93
21	1088	VM Ntsoabole	30/04/2014	02/05/2014	07/2014	2	277.93	555.86
			04/03/2014	07/03/2014	24/07/2014	4	277.93	1 111.72
			17/04/2014	18/04/2014	24/07/2014	1	277.93	277.93
			17/03/2014	18/03/2014	24/07/2014	2	277.93	555.86
22	1102	MP Maeane	28/03/2014	29/03/2014	07/2014	1	277.93	277.93
			06/05/2014	12/05/2014	07/2014	4	277.93	1 111.72
			08/04/2014	11/04/2014	24/07/2014	4	277.93	1 111.72
			22/05/2014	26/05/2014	07/2014	3	277.93	833.79
			20/05/2014	20/05/2014	24/07/2014	1	277.93	277.93
			09/06/2014	12/06/2014	08/2014	4	277.93	1 111.72
			03/06/2014	06/06/2014	08/2014	4	277.93	1 111.72
23	1106	MAW Nkwadipo	14/03/2014	14/03/2014	07/2014	1	277.93	277.93
			09/04/2014	11/04/2014	07/2014	3	277.93	833.79
			01/04/2014	01/04/2014	07/2014	1	277.93	277.93
			06/03/2014	11/03/2014	24/07/2014	4	277.93	1 111.72
24	1109	D Kebautloile	12/05/2014	12/05/2014	07/2014	1	277.93	277.93
			30/04/2014	05/05/2014	07/2014	3	277.93	833.79
			22/05/2014	23/05/2014	24/07/2014	2	277.93	555.86
25	1142	SJ Molete	03/03/2014	05/03/2014	07/2014	3	277.93	833.79
			16/05/2014	16/05/2014	07/2014	1	277.93	277.93
26	1161	PJ Harmse	23/05/2014	25/05/2014	07/2014	3	277.93	833.79
27	1181	MA Rampine	04/03/2014	04/03/2014	07/2014	1	277.93	277.93
			04/04/2014	04/04/2014	21/07/2014	1	277.93	277.93
			03/06/2014	03/06/2014	22/07/2014	1	277.93	277.93
			30/06/2014	18/07/2014	22/07/2014	15	277.93	4 168.95
28	1321	PM Daniels	31/03/2014	04/04/2014	23/07/2014	5	277.93	1 389.65
			05/05/2014	05/05/2014	23/07/2014	1	277.93	277.93

			14/03/2014	14/03/2014	07/2014	1	277.93	277.93
			07/03/2014	07/03/2014	07/2014	1	277.93	277.93
			31/03/2014	04/04/2014	24/07/2014	5	277.93	1 389.65
			06/05/2014	09/05/2014	08/2014	3	277.93	833.79
29	1358	PJ Mbele	12/05/2014	12/05/2014	23/07/2014	1	252.67	252.67
			29/04/2014	02/05/2014	22/07/2014	3	252.67	758.01
			01/04/2014	02/04/2014	23/07/2014	2	252.67	505.34
			17/03/2014	17/03/2014	22/07/2014	1	252.67	252.67

30 734.93 98 193.15

EXTRAPOLATION OF ERROR	
Error	98 193.15
Sample Population	238 966.24
%	0.41
Population	1 549 860.00
Extrapolated Error	636 849.94

The leave provision amount has been overstated by R 636 849.94 which is the figure calculated above as an extrapolated error.

Leave captured onto system after year end - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date	Date leave captured	Total Days Captured onto system
1003	BJ Ntsane	08/05/2014	09/05/2014	09/2014	2
135	A Meyer	19/03/2014	20/03/2014	07/2014	2
		12/05/2014	14/05/2014	07/2014	3
		06/05/2014	06/05/2014	07/2014	1
		03/03/2014	07/03/2014	07/2014	5
166	KA Klaas	13/05/2014	15/05/2014	23/07/2014	3
218	SD Lenkoe	05/03/2014	06/03/2014	07/2014	2
247	R Thagane	12/05/2014	16/05/2014	22/07/2014	5
		15/04/2014	17/04/2014	21/07/2014	3
		10/03/2014	12/03/2014	07/2014	3
260	ME Kgabale	05/05/2014	09/05/2014	07/2014	4
		23/06/2014	24/06/2014	07/2014	2
262	MJ Rakhomeng	08/04/2014	08/04/2014	21/07/2014	1
		26/03/2014	27/03/2014	21/07/2014	2
		26/06/2014	27/06/2014	22/07/2014	2
270	EL De Wit	25/03/2014	25/03/2014	24/07/2014	1
		26/05/2014	27/05/2014	07/2014	2
404	KM Maine	29/05/2014	30/05/2014	08/2014	2
		09/06/2014	09/06/2014	08/2014	1
426	PS Matsoso	19/03/2014	19/03/2014	07/2014	1

		15/04/2014	18/04/2014	07/2014	3
		07/04/2014	10/04/2014	07/2014	4
431	D Kote	27/03/2014	02/04/2014	07/2014	5
972	TS Maloka	19/05/2014	21/05/2014	07/2014	3
		10/03/2014	11/03/2014	07/2014	2
		07/04/2014	10/04/2014	24/07/2014	4
977	LF Mosikare	10/03/2014	14/03/2014	07/2014	5
1088	VM Ntsoabole	05/05/2014	09/05/2014	24/07/2014	4
1106	MAW Nkwadipo	23/04/2014	25/04/2014	24/07/2014	3
		29/04/2014	02/05/2014	24/07/2014	3
		22/05/2014	23/05/2014	07/2014	2
1176	DM Kobi	30/09/2013	01/10/2013	07/2014	2
		08/05/2014	09/05/2014	07/2014	2
1187	TG Lekauta	13/03/2014	14/03/2014	22/07/2014	2
1296	WT Radebe	10/03/2014	12/03/2014	07/2014	3
		12/05/2014	15/05/2014	07/2014	4
		05/03/2014	07/03/2014	07/2014	3
1322	LE Semela	23/05/2014	23/05/2014	22/07/2014	1
1324	SM Nomandla	14/04/2014	22/04/2014	22/07/2014	5
		10/04/2014	13/04/2014	22/07/2014	2
		29/04/2014	12/05/2014	22/07/2014	8
		01/03/2014	21/03/2014	23/07/2014	14
1337	NA Mochana	26/03/2014	28/03/2014	07/2014	3
		29/04/2014	09/05/2014	07/2014	7
		24/06/2014	27/06/2014	07/2014	4
1339	ND Khoza	24/04/2014	25/04/2014	07/2014	2
		08/05/2014	16/05/2014	07/2014	7
		27/01/2014	29/01/2014	07/2014	3
		01/04/2014	02/04/2014	07/2014	2
1344	MG Phakoe	06/03/2014	23/03/2014	07/2014	18
		27/03/2014	28/03/2014	07/2014	2
		05/04/2014	06/04/2014	07/2014	2
		01/04/2014	04/04/2014	07/2014	4
		07/05/2014	09/05/2014	07/2014	3
1345	ED Bolara	05/05/2014	07/05/2014	22/07/2014	2
1349	PH Khupiso	19/03/2014	20/03/2014	22/07/2014	2
		11/02/2014	14/02/2014	22/07/2014	4
1352	MJ Makatsi	05/05/2014	06/05/2014	22/07/2014	2
		24/03/2014	25/03/2014	22/07/2014	2
		02/06/2014	03/06/2014	23/07/2014	2
1367	J Magashule	04/05/2014	05/05/2014	07/2014	2
		02/05/2014	03/05/2014	07/2014	2
1423	S ME Maoke	14/04/2014	15/04/2014	24/07/2014	2
1110	MS Moroosese	18/03/2014	20/03/2014	07/2014	3

Leave captured onto the system after year end - Other Leave

Employee Code	Employee Name	Leave start date	Leave end date	Date leave captured	Total Days Captured onto system
247	R Thagane	19/05/2014	23/05/2014	21/07/2014	5
260	ME Kgabale	25/04/2014	02/05/2014	07/2014	4
1339	ND Khoza	04/03/2014	05/03/2014	07/2014	2
		14/04/2014	15/04/2014	07/2014	2
1352	MJ Makatsi	03/04/2014	04/04/2014	22/07/2014	2
		17/02/2014	17/02/2014	22/07/2014	1
		25/02/2014	25/02/2014	22/07/2014	1

1.2) The capture date was not documented on the leave form:

Capture date not on leave form - Annual Leave

Employee Code	Employee Name	Leave start date	Leave end date
972	TS Maloka	02/07/2013	03/07/2013
		13/11/2013	13/11/2013
		02/05/2014	05/05/2014
		03/03/2014	04/03/2014
		13/02/2014	13/02/2014
1030	D Geldenhuis	12/02/2014	12/02/2014

Capture date not on leave form - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date
972	TS Maloka	18/02/2014	20/02/2014

Cause

Pay day system crashed and therefore HR personnel could not capture the leave onto the system on time.

Impact

The leave provision amount has been overstated by R636 849,94
The leave balances of the employees might be misstated.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should implement controls to ensure that leave is capture on to the system in time and within the correct accounting periods

Management response

We agree with the finding.

We have explained to the auditor that the municipality was faced with serious server and connectivity challenges between HR offices and Finance offices and therefore could not captured leave forms on the system as from March 2014 until July 2014. In addition to this the leave modules to capture leave on the Pay Day system was only activated during July 2014 and thus the HR Officer only got access to work on the leave system from July 2014. All leave forms received by HR was therefore documented and kept safe by a specific HR Officer at the HR offices until such time that we could manage to make alternative arrangements with Pay Day to assist us to capture the leave forms on the system. The capturing only happened 14 and 25 July 2014.

We were however with the assistance of Pay Day in a position to create necessary leave (transaction) reports for the 2013/14 financial year that could be used to calculate leave provisions and audit purposes, etc.

We are confident that once our server and connectivity challenges have been resolved that this situation will not reoccur in future.

It is important to note that the Pay Day system is an integrated system that is operated from a central point and cannot be activated at HR for a certain period in a month and at Finance for a certain period per month as was previously the case with CPI.

Leave captured onto the system after year ended:

Leave captured onto system after year end – sick leave

Leave captured onto the system after year end- Other Leave

We agree with the finding that the leave was indeed captured onto the system after year ended.

We are however of the opinion that although the leave was not captured on time (on/or before 30 June 2014) due to challenges that could not have been attended by us on time that it might not necessarily overstated the leave provision as indicated on the exception.

It is our view that although the leaves referred to on the exception was captured after 30 June 2014 (in July 2014) but transaction and leave balance reports was created for the year under review for purposes of calculation of leave balances as well as audit purposes that it does not automatically means that leave provision is overstated with the amount indicated on the exception.

This should never happen should we have not experience the challenges indicated above. Another concern for us is also the fact that employees leave cycle was not necessarily used in calculated the leave provision as indicated on the exception.

We would therefore like to engage with you on the matter as we are really felt that this finding can be resolved.

Capture date not on leave form – Annual Leave

Capture date not on leave form – Sick Leave

We agree with the finding.

We want to inform you that we will put special emphases on this matter. It is normal practice that we put the capturing dates on leave forms but we might have slipped with some forms due to challenges as explained above that was beyond our control.

We trust that you will find this response in order.

H de Wit
Acting Assistant Manager Corporate Services: HR

Auditor's conclusion

Management response obtained and to be evaluated:

1. Late capturing of leave - after year end: As per discussions held with Me F Mzizi (CFO) and Corporate Services, it was ascertained that this was in fact an over provision, as the recalculated leave balances (as per the municipality's calculations provided), were compared to the balances given to Mr J S du Toit (SAB&T Consultant) for the leave provision calculation, and the balances did not agree, therefore, based on this fact, we can conclude with confidence that the leave provision was in fact overstated as reported on.

This matter will remain and be reported on in the management report.

2. Capturing date not on leave forms: As management agrees with the finding, the matter will remain and be reported on in the management report.

63. EX.46 - Employee related costs: Prior year follow-up documents not submitted (EX.46)

Audit finding

Section 74(1) of the MFMA states that the accounting officer of a municipality must submit to the National Treasury, the provincial treasury, the department for local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

The following deficiencies were identified in performing the follow up of the prior year findings:

1. Supporting documentation for the journal below were still not submitted for audit purposes. A request of information number 19 dated 15 September 2014 issued and not attended to in this regard.

Date	Details	Description	Transaction Nr.	Account Nr.	Amount (R)
16/07/2012	E7	Travel Allow.	JBR00186	500/5020/16/503	27 746,25
27/07/2012	Allocation July	Travel Allow.	JBR00265	500/5020/16/503	29 500,00
30/09/2012	30092012	30092012	JBR00372	500/5030/46/503	5 502,43
30/11/2012	30112012	30112012	JBR00376	500/5030/46/503	11 064,91
30/09/2012	30092012	30092012	JBR00372	500/5040/16/501	5 502,43
18/07/2012	C2	U.I.F.	JBR00193	505/5130/12/502	124,78
31/01/2013	31012013	31012013	JBR00374	500/5040/16/501	20 512,83

28/02/2013	28022013	28022013	JBR00375	500/5040/16/501	12 368,57
31/03/2013	31032013	31032013	JBR00378	500/5040/16/501	17 334,18
30/04/2013	30042013	30042013	JBR00379	500/5040/16/501	13 417,39
29/05/2013	31122012	31122012	JBR00377	500/5040/16/501	23 032,56
Total:					R166 106,33

2. Supporting documentation regarding the approval for the following allowance payments: Note

Travel Allowance						
Employee Name	Employee Number	Annual allowance R	Monthly allowance R	Month of allowance R	Monthly limit	Variance
Mr ZT Ntjwabule	1340	162 720	13 560	31/05/2013	5 000	-8 560.00
Cell Phone Allowances						
Mr ZT Ntjwabule	1340	19 524	1 627	31/05/2013	300	-1 327.00

A similar matter was reported in paragraph 2 of the prior year management report.

Cause

Lack of monitoring control from management to ensure that the documentation requested are submitted for audit purposes.

Impact

- 1) The auditor could not verify the validity of employee cost journals of R166 106. Furthermore the matter could also affect the audit opinion as the prior year uncorrected misstatement are accumulated.
- 2) The approval of the overpayment on the allowances of R9 887 could not be confirm.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should develop monitoring measures to ensure that the requested information is submitted before the turnaround time lapses.

Management response

1. Management agrees with finding and has since enhanced proper record keeping within Municipality to ensure accessibility of information.
2. Management agrees with the finding, however it was explained that the allowances in question were influenced by the previous occupant of the position as the salary scale and allowances were the same with those of the previous occupant of that position.

Name: F. MZIZI
Position: CFO
Date: 13/11/2014

Auditor's conclusion

As management agree with the finding the aspect of lack of supporting documentation are reported.

64. EX.87 - Employee related costs: No formal overtime policy in place and overtime sheets differ with amounts paid out (EX.87)

Audit finding

Section (62) (b) of the MFMA stipulate that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Section 67(1) of the MSA states that "A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems & procedures to ensure fair, efficient, effective and transparent personnel administration"

1. Contrary to the above, no formal approved overtime policy has been developed and implemented. Note

2. Further audit procedures were performed and the following calculation differences between overtime payments and recalculated amounts paid were identified:

Employee number	Name	Month (overtime period)	Recalculation of overtime			Amount according to 12 month report	Difference
			Annual salary per 12 month report	Overtime hours Worked	Recalculated amount (per formula)		
10021	Mr MJ Moleufi	July 2013	69 482.76	24.00	1 667.59	1 579.15	88.44
133	Mr DC Human	July 2013	101 473.68	12.00	1 217.68	1 153.11	64.57
143	Mr ET Mokhoai	July 2013	69 972.84	See point 3 below	-	685.83	(685.83)
10024	Mr DB Ntaopane	August 2013	69 482.76	24.00	1 667.59	1 579.15	88.44
158	Mr DC Swarts	August 2013	72 423.24	16.00	1 158.77	1 097.32	61.45
10021	Mr MJ Moleufi	September 2013	69 482.76	16.00	1 111.72	921.20	190.52
10024	Mr D B Ntaopane	September 2013	69 482.76	24.00	1 667.59	1 579.20	88.39
133	Mr DC Human	September 2013	101 473.68	12.00	1 217.68	1 153.20	64.48
143	Mr ET Mokhoai	October 2013	69 972.84	15.00	1 049.59	1 028.70	20.89
158	Mr DC Swarts	October 2013	72 423.24	16.00	1 158.77	685.80	472.97
172	Mr MP Moshodi	November 2013	98 649.72	2.00	197.30	186.84	10.46
218	Mr SD Lenkoe	November 2013	72 423.24	5.00	362.12	342.90	19.22
219	Mr LH Mahula	November 2013	69 482.76	8.00	555.86	526.40	29.46
220	Mr MP Moleko	December 2013	69 482.76	27.00	1 876.03	263.20	1 612.83
221	Mr PM Fortuin	December 2013	82 062.24	16.00	1 313.00	1 165.80	147.20
232	Mr NK Nongabe	January 2014	69 482.76	24.00	1 667.59	1 579.20	88.39
259	Mr FM Makwele	January 2014	69 482.76	18.00	1 250.69	1 184.40	66.29
264	Mr BD Mothupi	January 2014	69 482.76	3.00	208.45	394.80	(186.35)
402	Mr NB Boo	February 2014	63 145.18	5.00	315.73	418.74	(103.01)
650	Mr SJ Masukela	February 2014	72 423.24	15.00	1 086.35	925.84	160.51
996	Mr A Modise	March 2014	69 482.76	24.00	1 667.59	1 579.20	88.39
1031	Mr JV Peter	March 2014	69 482.76	11.00	764.31	723.80	40.51

1070	Mr TJ Sentso	March 2014	69 482.76	20.00	1 389.66	1 250.20	139.46
1081	Mr LS Tsosane	April 2014	69 482.76	See point 3 below	-	263.20	(263.20)
1083	Mr MJK Tlhaleroe	April 2014	69 482.76	See point 3 below	-	394.80	(394.80)
1088	Mr VM Ntsoabole	May 2014	69 482.76	24.00	1 667.59	1 052.80	614.79
1092	Mr TP Tsasanyana	May 2014	69 482.76	See point 4 below	-	1 842.40	(1 842.40)
1096	Mr ME Motsapi	May 2014	69 482.76	10.00	694.83	789.60	(94.77)
1105	Me DA Moleufi	June 2014	69 482.76	32.00	2 223.45	921.20	1 302.25
1107	Mr MI Makole	June 2014	69 482.76	24.00	1 667.59	1 052.80	614.79
					29 157.51	27 267.98	2 504.31

The error of R2 504,31 was furthermore extrapolated over the entire population:

EXTRAPOLATION OF ERROR	
Error	2 504.31
Sample Population	27 267.98
%	0.09
Population	2 715 277.00
Extrapolated Error	249 373.35

3. The following overtime claim forms could not be obtained for audit purposes, accordingly no audit procedures could be performed in this regard:

Employee number	Name	Months	Type of overtime	Amount paid (R)
143	Mr ET Mokhoai	July 2013	Normal & Sunday time	685,83
1081	Mr LS Tsosane	April 2014	Normal & Sunday time	263,20
1083	Mr MJK Tlhaleroe	April 2014	Normal & Sunday time	394,80

4. It was identified that the following employee was paid for Sunday time worked during the month of April, through further inspection of the overtime claim form it was identified that no such overtime was worked:

Employee number	Name	Months	Amount according to 12 month report (R)
1092	Mr TP Tsasanyana	May 2014	1 842.40

Cause

1. Management failed to ensure that an overtime policy is developed and implemented.
2. Management failed to review calculations of overtime pay-outs.
3. Management failed to ensure that overtime claim forms are submitted timeously for audit purposes.

Impact

1. Failure to develop and implement an overtime policy will result in overtime payments without proper internal control over the expenditure
2. Incorrect overtime calculations could result in incorrect overtime payments.
3. No audit procedures could be performed due to the fact that management failed to ensure that supporting documentation is submitted.

Internal control deficiency

Leadership

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

1. Management should ensure that a formal overtime policy is developed and implemented.
2. Management should review overtime claim forms as well as overtime calculations to ensure that such calculations are done correctly.
3. Management should ensure that overtime claim forms are submitted as a matter urgency.

Management response

Management response was not received.

65. EX.91 - Employee related costs: Councillors remuneration exceeded (EX.91)

Audit finding

According to section 1 of the Government Gazette notice number R.1032 dated 7 December 2012 on the Determination of upper limits of salaries, allowances and benefits of different members of municipal councils "total remuneration package" is the total cost to a municipality of a basic salary component, a travelling allowance as provided in terms of 6(a) and 9(a), a housing allowance as provided in terms of 6(b) and 9(b), the municipal contribution to a pension fund as provided in item 12(a) and the municipal contribution to a medical aid scheme as provided in item 12(b) to a councillor in a municipal financial year.

Contrary to the above it was noted that the limits of salaries and allowances of the councillors listed below were exceeded by R204 484,37 at 30 June 2014:

Employee Number	Councillor	Actual amounts paid per 12 month salary report							Limit per Government Gazette (B)	Amount exceeded (A - B)
		Salary	Travel Allowance	Cell phone allowance	3g All	Medical CC	SDL	Total cost (A)		
86	KS Koalane (Mayor)	493 948.27	164 749.48	20 287.00	3 600.00	-	7 042.04	689 626.79	677 826.00	11 800.79
1259	S J Mabitla (Speaker)	358 043.26	131 799.55	20 287.00	3 600.00	39 552.00	5 169.36	558 451.17	542 261.00	16 190.17
1263	Me SL Kgoe (Councillor)	138 438.30	49 424.93	15 926.00	3 600.00	-	1 986.07	219 211.67	207 221.00	11 990.67
2003	Z P Thuthani (Council)	148 574.67	49 424.93	15 926.00	1 800.00	-	2 185.77	217 911.37	207 221.00	10 690.37
2004	L M Molelele (Council)	138 530.12	28 242.83	15 926.00	5 700.00	31 135.98	2 062.05	221 596.98	207 221.00	14 375.98
2005	V M Lekale (Council)	148 274.67	49 424.93	15 926.00	3 600.00	-	2 182.77	219 408.37	207 221.00	12 187.37
2006	K A Sekharume (Council)	164 812.77	28 242.83	15 926.00	3 600.00	3 118.60	2 190.99	217 891.19	207 221.00	10 670.19
2007	X Nqwiliso (Council)	138 438.29	49 424.93	15 926.00	3 600.00	-	1 948.38	219 173.98	207 221.00	11 952.98
2008	S C Mangoejane (Council)	138 438.29	49 424.93	15 926.00	3 600.00	17 175.96	1 948.38	236 349.94	207 221.00	29 128.94
2009	T P Ramongalo (Council)	169 456.77	28 242.83	15 926.00	3 600.00	-	2 225.12	219 450.72	207 221.00	12 229.72
2010	T J Chele (Council)	147 974.67	49 424.93	15 926.00	3 600.00	-	2 179.77	219 105.37	207 221.00	11 884.37
2011	MM Kholumo (Council)	121 378.09	49 424.93	15 926.00	3 600.00	20 149.87	1 788.35	222 102.48	207 221.00	14 881.48
2012	K P Dichakane (Council)	148 274.67	49 424.93	15 926.00	3 600.00	-	2 137.09	219 362.69	207 221.00	12 141.69
2013	J A Pienaar (Council)	148 274.67	49 424.93	15 926.00	3 600.00	-	2 182.77	219 408.37	207 221.00	12 187.37
2014	I I Majara (Council)	148 274.67	49 424.93	15 926.00	3 600.00	-	2 167.68	219 393.28	207 221.00	12 172.28
		2 751 132.18	875 526.82	247 612.00	54 300.00	111 132.41	39 396.59	4 118 444.37	3 913 960.00	204 484.37

A similar matter was reported on in paragraph B.75 of the prior year's management report, a debtor was raised in the prior year amounting to R628 326 for the upper limits of councillors that were exceeded, through inspection of note 16 to the current year's annual financial statements, it could be confirmed that the full amount is still receivable and that no steps have been taken to recover these amounts.

Cause

- a) The above resulted due to the incorrect Government Gazette being used by the municipality. Non implementation of the recommendations of the auditor of the previous year
- b) Steps to recover the overpayments of the previous years were not implemented.

Impact

Overstatement of councillors' remuneration with R202 484 in note 23 to the annual financial statements at 30 June 2014.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

- 1) Management should ensure that the correct and updated Government Gazette is used in determining salaries and allowances to be paid to councillors.
- 2) Proper review on the council allowances should be performed by a senior official.
- 3) Drastic actions should be implemented to ensure the recovery of the overpayments that was made.
- 4) The correction to the disclosure in note 23 should be done.

Management response

Management response was not received.

66. EX.106 - Employee related costs: Authorisation of journals (EX.106)

Audit finding

Section (62) (b) of the MFMA stipulate that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

- 1. Contrary to the above, the following journals were not duly authorised (no signature could be identified on the journal as proof that a senior official reviewed and authorised as such):

Date	Journal No.	Amount (R)
12/09/2013	JBR406	5 268 061.61
22/05/2014	JBR471	4 560 989.49

2. The previous CFO, Me ME Mokoena, officially left the employ of the municipality at the end of February 2014, however through inspection of the following journals (that were compiled after February 2014), it was confirmed that they were still authorised by previous CFO (who is no longer in the employ of the municipality):

Date	Journal No.	Amount (R)
15/07/2014	JBR509	5 122 752.60
22/04/2014	JBR460	40 905.00
22/04/2014	JBR458	118 983.64
22/04/2014	JBR460	40 905.00
22/04/2014	JBR461	51 974.69
22/04/2014	JBR463	443 322.58
22/04/2014	JBR464	349 062.00
15/07/2014	JBR512	477 518.81
22/05/2014	JBR472	324 990.13
22/05/2014	JBR473	137 954.97
22/05/2014	JBR474	441 189.22
22/05/2014	JBR475	42 499.95
30/04/2013	JBR476	48 985.00
29/05/2013	JBR477	51 712.50

Cause

Lack of oversight from management to ensure that journals are duly authorised by senior officials.

Impact

1. The impact of journals not being reviewed and signed as proof of such could lead to journals being passed without management's knowledge.

2. Internal control deficiency due to the fact that there is a clear indication that journals are not properly reviewed.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

1. It is strongly recommended that management reviews and authorises all journal transactions.
2. Management should provide the Auditor-General with reasons why the above journals that were passed after Me M E Mokoena (previous CFO) left the employ of the municipality, was still authorised by said person.

Management response

Management agrees with the finding, the reasons that the previous CFO had resigned and left before signing some journals, and she was requested to sign those that she didn't sign, but mistakenly signed the whole file instead of only those selected one.

Name: F. Mzizi

Position: CFO

Date: 11/11/2014

Auditor's conclusion

Management response noted and as management agrees with the finding, the exception will remain and be reported on.

67. EX.154 - Employee related costs: leave - Approval date and authorisation signature not on the leave application form (EX.154)

Audit finding

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

Contrary to the above it was identified that the following information did not appear on the leave forms submitted by the employees below:

Approval date not on leave form - Annual Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
250	LZ Mafereka	12/08/2013	16/08/2013	40	Parks
1092	TP Tsasanyana	01/08/2013	05/08/2013	46	Public Works
1095	GI Tlhabatau	03/09/2013	05/09/2013	46	Public Works
1310	MZ Mokhutle	02/10/2013	04/10/2013	26	Finance

619	P Mofokeng	14/05/2014	14/05/2014	18	Corporate
10022	TP Lebeko	17/07/2013	15/08/2013	52	Technical Services
160	MS Boleme	19/07/2013	19/07/2013	26	Finance
231	LO Sekobile	13/08/2013	14/08/2013	30	Cemetries
971	LD Mota	26/07/2013	26/07/2013	18	Corporate
		17/09/2013	30/09/2013		
		28/01/2014	28/01/2014		
		27/03/2014	28/03/2014		
		30/04/2014	02/05/2014		
		14/03/2014	14/03/2014		
972	TS Maloka	02/07/2013	03/07/2013	26	Finance
		04/11/2013	05/11/2013		
		02/01/2014	15/01/2014		
		13/11/2013	13/11/2013		
		02/12/2013	03/12/2013		
		13/02/2014	13/02/2014		
1030	D Geldenhuis	30/05/2014	30/05/2014	50	Electricity
		14/04/2014	14/04/2014		
		30/04/2014	30/04/2014		
1088	VM Ntsoabole	22/07/2013	29/07/2013	46	Public Works
		09/12/2013	09/12/2013		
		30/04/2014	02/05/2014		
1102	MP Maeane	10/07/2013	10/07/2013	44	Sewerage
1106	MAW Nkwadipo	10/07/2013	15/07/2013	46	Public Works
		20/08/2013	22/08/2013		
		20/12/2013	03/01/2014		
1109	D Kebautloile	09/12/2013	03/01/2014	42	Refuse
1142	SJ Molete	28/06/2013	25/07/2013	44	Driver
1181	MA Rampine	04/03/2014	04/03/2014	48	Water
		04/04/2014	04/04/2014		
		03/06/2014	03/06/2014		
		30/06/2014	18/07/2014		
1358	PJ Mbele	21/10/2013	21/10/2013	46	Public Works
		12/05/2014	12/05/2014		
		29/04/2014	02/05/2014		
		01/04/2014	02/04/2014		
		17/03/2014	17/03/2014		

Approval date not on leave form - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
---------------	---------------	------------------	----------------	---------------	-----------------

135	A Meyer	06/05/2014	06/05/2014	26	Finance
		04/09/2013	06/09/2013		
218	SD Lenkoe	05/03/2014	06/03/2014	48	Water
247	R Thagane	12/05/2014	16/05/2014	18	Corporate
		15/04/2014	17/04/2014		
		10/03/2014	12/03/2014		
		29/10/2013	30/10/2013		
		29/07/2013	02/08/2013		
262	MJ Rakhoromeng	06/01/2014	07/01/2014	34	Housing
270	EL De Wit	25/03/2014	25/03/2014	46	Public Works
		12/09/2013	18/09/2013		
		27/09/2013	27/09/2013		
972	TS Maloka	07/08/2013	08/08/2013	26	Finance
977	LF Mosikare	10/03/2014	14/03/2014	18	Corporate
		23/09/2013	27/09/2013		
		22/10/2013	25/10/2013		
		21/08/2013	23/08/2013		
1106	MAW Nkwadipo	05/09/2013	06/09/2013	46	Public Works
		05/08/2013	08/08/2013		
		30/09/2013	03/10/2013		
1187	TG Lekauta	15/10/2013	18/10/2013	46	Public Works
1322	LE Semela	02/08/2013	02/08/2013	26	Finance
		11/12/2013	13/12/2013		
		13/01/2014	15/01/2014		
		23/05/2014	23/05/2014		
1339	ND Khoza	12/09/2013	12/09/2013	16	Municipal Manager
		29/10/2013	30/10/2013		
		24/04/2014	25/04/2014		
		08/05/2014	16/05/2014		
		27/01/2014	29/01/2014		
		01/04/2014	02/04/2014		
1423	S ME Maoke	18/07/2013	19/07/2013	26	Finance

Approval date not on leave form - Other Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
247	R Thagane	19/05/2014	23/05/2014	18	Corporate
		09/09/2013	10/09/2013		
1339	ND Khoza	04/03/2014	05/03/2014	16	Municipal Manager
		14/04/2014	15/04/2014		

b) The leave taken by the employee was approved after the leave had already been taken:

Attendance register not submitted - Annual Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
865	MC Motsai	17/10/2013	18/10/2013	30	Cemetries
		24/02/2014	24/02/2014		
		29/04/2014	29/04/2014		
1092	TP Tsasanyana	13/09/2013	20/09/2013	46	Public Works
		03/10/2013	04/10/2013		
		19/06/2014	20/06/2014		
1095	GI Tlhabatau	04/06/2014	04/06/2014	46	Public Works
1176	DM Kobi	12/08/2013	12/08/2013	44	Sewerage
1310	MZ Mokhutle	29/07/2013	05/08/2013	26	Finance
		18/07/2013	18/07/2013		
10022	TP Lebeko	25/06/2014	26/06/2014	52	Technical Services
10023	RJ Mabote	03/10/2013	04/10/2013	52	Technical Services
		20/12/2013	03/01/2014		
403	LA Makgalemela	19/12/2013	19/12/2013	44	Sewerage
972	TS Maloka	01/08/2013	02/08/2013	26	Finance
		02/10/2013	04/10/2013		
		09/06/2014	09/06/2014		
1088	VM Ntsoabole	26/02/2014	27/02/2014	46	Public Works
		19/12/2013	19/12/2013		
		30/10/2013	31/10/2013		
		17/03/2014	18/03/2014		
1102	MP Maeane	21/10/2013	21/10/2013	44	Sewerage
		06/05/2014	12/05/2014		
		20/05/2014	20/05/2014		
		09/06/2014	12/06/2014		
		03/06/2014	06/06/2014		
1109	D Kebautloile	21/10/2013	21/10/2013	42	Refuse
		12/05/2014	12/05/2014		
		22/05/2014	23/05/2014		
1161	PJ Harmse	23/05/2014	25/05/2014	44	Driver
1321	PM Daniels	17/07/2013	17/07/2013	24	Town hall offices

Cause

The leave forms were not submitted to the Municipal Manager for authorisation purposes.

Impact

The impact of the above finding is the fact that employees may take leave which has not been approved.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that the leave is first approved by the municipal manager before it can actually be taken.

Management response

Management response was not received.

68. EX.156 - Employee related costs: leave taken exceeds maximum number of days plus accruals (EX.156)

Audit finding

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

Contrary to the above it was identified that the following employees took leave days which exceeded the maximum number of days plus accruals:

Employee Code	Employee Name	Maximum	Prior year	Total	Total Leave taken	Excess
250	LZ Mafereka	24	10	34	46	-12
1092	TP Tsasanyana	24	11.06	35.06	39	-3.94
1176	DM Kobi	24	11	35	36	-1
1310	MZ Mokhutle	24	6	30	40	-10
1698	MTF Moremi	27	2	29	52	-23
10022	TP Lebeko	27	6	33	62	-29
231	LO Sekobile	24	12	36	45	-9

Cause

The above is caused by the fact that the employee leave database is not reconciled on the HR system on a regular basis.

Impact

The matter may lead to inaccurate calculations of leave provisions.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

The municipality should ensure that each employees leave days are captured onto the system on a regular basis whenever they take leave.

Management response

Response to exception 156: Employee related costs: Leave taken exceeds the maximum number of days plus accruals

We disagree with the audit function because accumulated leave as on 30 June 2014 was not included in the calculation.

Our submission is that the correct calculation should have been as follows:

Employee Code	Employee Name	Entitlement	Prior year Leave Annual)	Accumulated Leave	Long Service Entitlement	Overtime Leave	Balance at 30 June 2014 excluding entitlement	Leave Taken	Excess as per Auditor Calculation	Leave balance as per Our Calculation
250	LZ Mafereka	24	10	22	10	6.25	48.25	46	- 12	2.25
1092	TP Tsasanyana	24	11,06	- 4.5	5	0	11.56	39	- 3.94	- 27.44
1176	DM Kobi	24	11	22	5	0	38	36	- 1	2
1310	MZ Mokhutle	24	6				6	40	- 10	- 34
1698	MTF Moremi	27	2	25	0	0	27	27	- 23	0
10022	TP Lebeko	27	6	51	13	77.5	147.5	62	- 29	85.5
231	LO Sekobile	24	12	41.25	13	0	66.25	45	- 9	21.25

Further to the above we could not establish how the auditor has calculated the leave taken by 1698, MTF Moremi, amounted to 52 days. According to our records it must be 27.

Instruction was given to the Unit Manager that employees who exceeded their leave balances not be granted leave until a positive balance is available.

We will closely monitor those employees with excess balances and should their services be terminated for whatever reason the value of the excess leave days will be deducted from their final salary.

This challenge was caused due to connectivity problems as well as access to the new Payday system that only allow as starting working in July 2014.

We trust that you will find this response in order.

H de Wit
Acting Assistant Manager Corporate Services: HR

Auditor's conclusion

Management response obtained and to be evaluated:

1. We have recalculated the leave balance for Mr L Z Mafereka (Employee no. 250), based on the information given by management, and our recalculated balance is then 26.25 days, not 2.25 days per management's recalculation, another reason for these differences is that we did not take into account overtime leave or long service entitlement due to the following reasons:

- Per discussions held with Me R Coetzee (Corporate Services), it was identified that for each 8 hours in excess of 40 overtime hours worked, are converted into 1 leave day for every 8 hours, however, based on detailed audit work performed on overtime, it was identified that employees were in fact remunerated for in excess of 40 hours overtime worked, and there is also no formal overtime policy in place to confirm this, no council resolution could be obtained for decision taken either, therefore, based on the above, we did not include overtime leave in our calculations, overtime leave was also not included in the leave reports obtained from the auditee.
- Long service entitlement: A separate actuarial assessment was performed for the long service entitlement, furthermore, the leave reports obtained from the auditee did not include such long service entitlement leave balances, these were therefore not included in our calculations.

2. Employee MTF Moremi (1698): the leave days taken were incorrectly calculated and we agree with the 27 leave days taken per management's response, therefore this employee will be removed from the exception

The above matter will remain (with the exception of point 2 above) and be reported on in the management report.

69. EX.158 - Employee related costs: leave captured against incorrect employee (EX.158)

Audit finding

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

Contrary to the above it was identified that the leave for Mr TP Tsasanyana (Employee number 1092) was incorrectly captured against the leave of Mr GI Tihabatau (Employee number: 1095)Note

Employee Code	Employee Name	Leave start date	Leave end date	Date Leave Approved	Date leave captured	Total Days as per leave form	Total Days Recalculated	Difference
1095	GI Tihabatau	14/02/2014	14/02/2014	13/02/2014	06/03/2014	1	0	1
		04/03/2014	07/03/2014	04/03/2014	07/2014	4	0	4

Cause

The above is caused by the fact that the leave details on the system are not reviewed after they are captured.

Impact

The matter might result in leave balance of the employees being misstated.

Internal control deficiency

Financial Performance

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 financial and performance reporting

Recommendation

Management should further ensure that the leave balances of the affected employees is corrected.

Management response

Response to exception 158: Employee related costs: Leave captured against incorrect employee

We do not agree with the finding as the finding has not been factually corrected stated. However we do understand the content of the exception

We confirm that we have already request Pay Day to assist us to credit the leave of Mr. TP Tsasanyana, employee number 1092 with 5 leave days that was in correctly captured to his leave record.. We have already debit 1095, Mr. GI Tihabatau with 5 leave days to correct the situation.

We are busy engaging Pay Day to assist us with the proper correction procedures as this system is new to us and we want to ensure that all proper controls and paper work is done correctly.

We hope and trust that you will find this response in order.

Best regards

H de Wit

Acting Assistant Manager Corporate Services: HR

Auditor's conclusion

Management response obtained and to be evaluated:

The incorrect capturing will have no effect on the leave provision, however this error was identified during the 2013/14 financial period, Me R Coetzee (Corporate Services), confirmed that the credits have not yet been transferred to the correct employee, therefore this matter will remain and be reported on in the management report as an internal control deficiency.

70. EX.159 - Employee related costs: Leave days taken different to leave days captured onto the system (EX.159)

Audit finding

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

Contrary to the above it was identified that the leave which was taken by the following employees as per the leave form and as per the leave recalculation was different to the leave which was captured onto the system: Note

Leave days taken different to leave days calculated on the payday leave system - Annual Leave

No	Employee Code	Employee Name	Leave start date	Leave end date	Total Days as per leave form	Total days captured onto the system	Difference in days	Rate per day	Amount
1	1092	TP Tsasanyana	06/05/2014	09/05/2014	4	3	1	277.93	277.93
2	1095	GI Tlhabatau	14/02/2014	14/02/2014	1	0	1	277.93	277.93
	1095	GI Tlhabatau	04/03/2014	07/03/2014	4	0	4	277.93	1 111.72
3	1176	DM Kobi	11/03/2014	11/04/2014	23	22	1	277.93	277.93
4	1310	MZ Mokhutle	29/04/2014	09/05/2014	8	7	1	270.53	270.53
5	10022	TP Lebeko	22/04/2014	30/05/2014	27	26	1	277.93	277.93
6	1030	D Geldenhuis	03/03/2014	24/03/2014	15	16	-1	277.93	-277.93
7	1088	VM Ntsoabole	17/04/2014	18/04/2014	2	1	1	277.93	277.93
					84	75	9	2 216.04	2 493.97

EXTRAPOLATION OF ERROR	
Error	2 493.97
Sample Population	238 966.24
%	1%
Population	1 549 860.00
Extrapolated Error	16 175.11

The leave provision amount has been understated by R 16 175.11 which is the figure calculated above as an extrapolated error. (This amount is trivial)

Leave days taken different to leave days calculated on the payday leave system - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date	Total Days as per leave form	Total days calculated as per the leave system	Difference
1088	VM Ntsoabole	05/05/2014	09/05/2014	5	4	1
1324	SM Nomandla	17/12/2013	28/02/2014	51	52	-1
1337	NA Mochana	29/04/2014	09/05/2014	8	7	1
1344	MG Phakoe	06/03/2014	23/03/2014	14	18	-4
1344	MG Phakoe	25/10/2013	28/10/2013	3	2	1
				81	83	-2

Cause

The leave forms are not reviewed correctly to confirm that they are correct.

Impact

The balances of the employees leave days might be misstated

Internal control deficiency

Financial and performance management

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 financial and performance reporting

Recommendation

Management should develop and implement measures to ensure that the leave captured on the system is reviewed by an independent person.

Management response

Response to Exception 159: Employee related costs: Leave days taken different to leave days captured onto the system

We disagree with the audit finding because public holidays were not taken into account by the auditor.

Our submission is that the correct calculation must be as follows:

No	Employee Code	Employee Name	Leave Start Date	Leave End Date	Total Leave Days as per Leave Forms	Total Leave Days Captured on the System	Difference in Days	Reason for Difference

1	1092	TP Tsasanyana	06/05/2014	09/05/2014	4	3	1	7 May was public holiday due to elections
2	1095	GI Tlhabatau	14/02/2014	14/02/2014	1	0	1	See response on exception 158. (Busy to correct)
	1095	GI Tlhabatau	04/03/2014	07/03/2014	14	0	4	See response on exception 158. (Busy to correct)
3	1176	DM Kobi	11/03/2014	11/04/2014	23	22	1	21 March was a public holiday
4	1310	MZ Mokhutle	29/04/2014	09/05/2014	8	7		7 May was public holiday due to elections
5	10022	TP Lebeko	22/04/2014	30/05/2014	27	26	1	7 May was public holiday due to elections
6	1030	D Geldenhuis	03/03/2014	24/03/2014	15	16	- 1	We have checked this difference. It seems that the system have calculated this leave in correctly because the 21 March that was a public holiday was not deducted. We will take the matter up with Pay Day for correction.
7	1088	VM Ntsoabole	17/04/2014	18/04/2014	2	1	1	18 April was a Public Holiday: Good Friday

Therefore we disagree with the populated understatement amount.

Leave days taken different to leave days calculated on the Pay Day leave system

Employee Code	Employee Name	Leave start date	Leave end date	Total Days as per leave form	Total days calculated as per the leave system	Difference	Reason
1088	V M Ntsoabole	05/05/2014	09/05/2014	5	4	1	7 May was not calculated: Public Holiday-elections 2014
1324	S M Nomandla	17/12/2014	28/02/2014	51	52	1	The system calculated the 1 January 2014 as a working day and not a public holiday. This error will be correct with the assistance

1377	N A Mochana	29/04/2014	09/05/2014	8	7	1	of Payday. 7 May was not calculated: Public Holiday: elections 2014
1344	M G Phakoe	06/03/2014	23/03/2014	14	18	-4	We check the Auditor calculations and agree with the findings. However we picked up that the PayDay system calculated Saturdays and Sundays as workdays for 6 day workers. This is not correct and we will ask Pay Day to correct the system.
1344	M G Phakoe	25/10/2014	28/10/2014	3	2	1	27/10/2014 was a Sunday.

We hope and trust that you will find this response in order.

Best regards

H de Wit
Acting Assistant Manager Corporate Services: HR

Auditor's conclusion

Management response received and to be evaluated:

1. Leave days taken different to leave days captured onto the system:

We agree with management regarding the following employees, it was an oversight on our behalf not taking weekends and public holidays into account in our calculations:

Employee code	Employee name	Applicable date in dispute
1092	T P Tsasanyana	07 May 2014
1176	D M Kobi	21 March 2014
1310	M Z Mokhutle	07 May 2014
10022	T P Lebeko	07 May 2014
1088	V M Ntsoabole	18 April 2014
1088	V M Ntsoabole	07 May 2014
1377	N A Mochana	07 May 2014
1344	M G Phakoe	27 October 2013

The following employees on which management agreed, will remain in the exception and be reported on in the management report:

Employee code	Employee name
1095	G I Tlhabatau
1095	G I Tlhabatau
1030	D Geldenhuis
1324	S M Nomandla
1344	M G Phakoe

71. EX.193 - Employee related costs: Differences identified on recalculation of pay-as-you-earn (EX.193)

Audit finding

Section (62) (b) of the MFMA stipulate that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Contrary to the above, the following differences were identified between the recalculation of pay-as-you-earn and the pay-as-you-earn per the IRP5's that were submitted for the period 01 March 2013 - 28 February 2014 (tax year end):

No	Employee number	Surname and Initials	Tax as per IRP5/IT3 (recalculated)	PAYE per IRP5	Difference
1	74	Mr WJ Olivier	53 932.50	74 646.41	(20 713.91)
2	10015	Me DL Seshoba	-	124.25	(124.25)
3	10022	Mr TP Lebeko	3 464.80	3 548.77	(83.97)
4	10034	Me MJ Lekau	1 152.88	1 232.57	(79.69)
5	10040	Mr Z.S Kotoyi	677.68	757.24	(79.56)
6	10049	Mr XJ Mkhombeni	(0.00)	22 129.08	(22 129.08)
7	133	Mr DC Human	4 461.70	19 676.52	(15 214.82)
8	135	Mr A Meyer	78 897.45	64 882.20	14 015.25
9	152	Mr I Swarts	3 733.90	3 802.78	(68.88)
10	154	Me KS Speelman	-	5 961.23	(5 961.23)
11	158	Mr DC Swarts	-	2 490.92	(2 490.92)
12	163	Mr SP Meraj	918.16	987.03	(68.87)
13	169	Me DM Masithela	5 300.44	6 777.75	(1 477.31)
14	179	Me KEE Molaoa	5 518.84	11 821.02	(6 302.18)
15	199	Mr JM Litabe	27 523.00	21 566.11	5 956.89
16	204	Me T Smith	48 099.30	40 918.46	7 180.84
17	215	Mr SA Moholo	153.16	1 193.72	(1 040.56)
18	219	Mr LH Mahula	4 021.54	5 061.96	(1 040.42)
19	221	Mr PM Fortuin	5 607.16	6 835.86	(1 228.70)
20	232	Mr NK Nongabe	4 051.96	5 092.42	(1 040.46)
21	249	Me SS Khanya (Lesole)	-	542.62	(542.62)
22	259	Mr FM Makwele	5 263.18	6 303.63	(1 040.45)
23	267	Mr MI Moremedi	-	20 248.64	(20 248.64)
24	276	Me MC Molete	-	3 030.60	(3 030.60)
25	282	Mr PW Molete	2 497.30	3 537.73	(1 040.43)
26	1328	Mrs I A Moloto	3 261.76	3 331.06	(69.30)
27	1046	Mr MS Kemme	5 029.66	8 383.25	(3 353.59)
28	1050	Mr TA Mpholo	-	367.26	(367.26)
29	1065	Mr MJ Motsatse	26.08	117.52	(91.44)
			263 592.45	345 368.61	(81 776.16)

Specific reference is made to employee no. 8 (Mr A Meyer), the amount due should be recovered from the employees, as for the remainder of the employees, the tax returns should be submitted accordingly to recover these amounts refundable from the South African Revenue Services.

Cause

Lack of reviewing of the calculations of payroll taxes before IRP5's are submitted.
The medical aid tax credits are also not deducted from PAYE.

Impact

Tax not deducted as prescribed in the tax legislation and not correctly paid over to SARS.
The matter could further lead to employees paying insufficient tax as required.

Internal control deficiency

Financial and performance management
Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should adjust the system to ensure that taxes calculated as prescribed by the Income Tax Act

Management response

Management response was not received.

72. EX.38 - Employee Related costs: No letters for Acting allowances (EX.38)

Audit finding

Section 62(1) of the MFMA states: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- c) (i) that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls;
- d) that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented;

That disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15."

It was noted that an letter of approval for the acting allowance paid was not be submitted for audit purposes: Note

Name	Employee Number	2012/13 Financial Year	2013/14 Financial Year	Amount of Acting
Mr NW Ntswabule	1091	R1 461,99	R18 743,88	The approval letter for the period of acting could not be submitted for audit purposes.

A similar matter was reported in paragraph 80 of the prior year management report.

Cause

This resulted as an oversight from management of the municipality. Furthermore, this resulted due to lack of monitoring and review from management.

Impact

Payments could be made to official who is not eligible to receive it.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Control Environment

The accounting officer does not understand and exercise oversight responsibility with regard to financial reporting and related internal control.

Recommendation

Management should develop controls to ensure that payments are supported by the approved appointment letter to act on a position.

The matter should be corrected to prevent further findings

Management response

Management disagrees with the finding as an acting letter for Mr. NW Ntswabule was submitted.

Auditor's conclusion

The matter remains and therefore will be reported in the management report, because the acting letter submitted by the auditee does not pertain to the period stated above.

73. EX.64 - Employee related costs: EMP201 not submitted on time (EX.64)

Audit finding

Chapter 10 of the Tax Administration Act, par 2(1), 5(1) and 14(2) of the 4th Schedule states the following:

"The Employee's Tax and UIF contributions as well as SDL must be paid over to the South African Revenue Services within seven days after the end of the month during which the amount was deducted or due or such longer period as the Commissioner determines."

Contrary to the above, the EMP201 return was not submitted timeously:

Submission period	Date submitted (per EMP SOA)	Comment
August 2013	01/10/2013	Not submitted on/before the 07/09/2013

Cause

The municipality's contract with CPI ended in August 2013, they failed to submit the EMP201 return for August 2013 which the municipality was not aware of, the municipality was informed by the South African Revenue Services that no return had been submitted for this period.

Impact

The matter could result in fruitless and wasteful expenditure should SARS charge interest/penalties on these late submissions.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should design and implement controls to ensure that the EMP201 returns are submitted on/before 7th of every month.

Management response

Management agrees with the finding, however controls are in place to ensure timeous submission of EMP201 monthly.

Name: F. Mzizi

Position: CFO

Date: 06/11/2014

Auditor's conclusion

Management response noted, however this control deficiency was identified during the 2013/14 financial period and will be reported on as such in the current year.

74. EX.69 - Expenditure: Travel claims in excess of R3.30 not included in taxable income (EX.69)

Audit finding

The *Income Tax Act 58 of 1962 section 8(1)(a)(ii)* states there shall be included in the taxable income of any person (hereinafter referred to as the "recipient") for any year of assessment any amount which has been paid or granted during that year by his or her principal as an allowance or advance, excluding any portion of any allowance or advance actually expended by that recipient—
(aa) on travelling on business, as contemplated in paragraph (b), unless an allowance or advance has been granted by an employer in respect of the use of a motor vehicle as contemplated in paragraph 7 of the Seventh Schedule;

During the testing of expenditure transactions it was noted that claims (claims for kilometers travelled on official duties) for travel on business made by employees are paid as part of normal expenses and classified as such and not included as part of the respective employees taxable

earnings in their payroll system and the appropriate amount of Pay-As-You-Earn (PAYE) held back by the municipality and paid over to the South African Revenue Service. Please note this is only applicable to staff where the rate per kilometer exceeds the prescribed rate (R3.30) by the Minister of Finance.

Note

Cause

All travel claims for business purposes by employees are paid as part of payables and not via the payroll system.

Impact

The matter results in non-compliance with the Income Tax Act

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure the correct treatment of travel claims as this might negatively affect employees when they do their returns

Management response

Management agrees with the finding and will ensure that controls are implemented to ensure the correct treatment of travel claims to comply with Income tax act.

Name: F. Mzizi

Position: CFO

Date: 27/11/2014

Auditor's conclusion

As management agrees with the audit finding, the exception will remain and be reported on in the management report.

75. EX.86 - Employee related costs: Internal control deficiencies identified: Payroll (EX.86)

Audit finding

In terms of MFMA (62) (b) The Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

1. No salary reconciliations are performed between the salary system (Payday) and the financial system (Pastel).
2. No salary master file changes report is generated from Payday on a monthly basis to identify and review changes made (a similar matter was reported on in the prior year in paragraph 74 of the prior year management report).
3. The salary run for the month of February 2014 was obtained and inspected, and evidence that monthly salary runs are reviewed by a senior official could not be confirm as no indication of a

signature was on the printouts of the salary run. By scrutinise the other salary run for the other months no evidence was obtained that any of the salary runs was reviewed.

Cause

Lack of delegation to review of supporting schedules and reports by senior officials and the lack of mid-management in the finance section.

Impact

The above could result in no-compliance with policies and procedures and control to detect and prevent irregular and unapproved changes to the employee data on the Payday payroll system.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should develop and implement controls regarding internal control deficiencies identified and ensure that the salary runs been reviewed by a senior official.

Management response

Management partially agrees with the finding

1. The reconciliation on payroll were submitted to AG
2. Master files were submitted however AG reported that they could not open the file, we will seek alternative way of generating a report that could resolve the matter
3. The February 2014, however monthly salary reports are reviewed and this could have not been signed as evidence that it was reviewed.

Name: F. MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management response obtained and to be evaluated:

1. Subsequent to exception being raised, the salary reconciliations for the 2013/14 period could be obtained, therefore this part of the exception will be cleared, however through inspection of these reconciliations it was identified that the reconciliations were not duly authorised, therefore this will be reported on as an internal control deficiency.
2. A salary Masterfile was obtained, however, a "*salary master file changes report*" could not be obtained, as it was confirmed with Me E Motho (Payroll Intern), that no such report is generated on a monthly basis, therefore this matter will remain and be reported on in the management report.
3. The salary run obtained from Me E Motho (Payroll Intern), was a printout provided, and no signature could be identified as proof that it was reviewed, Me E Motho furthermore confirmed that this function is not performed, therefore this matter will remain and be reported on in the management report.

76. EX.98 - Employee related costs: Authorisation of allowances could not be obtained (EX.98)

Audit finding

Section (62) (b) of the MFMA stipulate that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Section 67(1) of the MSA states that "A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems & procedures to ensure fair, efficient, effective and transparent personnel administration"

The following employee's files were inspected and no authorisation could be obtained for allowances:

NO	EMPLOYEE CODE	NAME & INTIALS	ID NR	DEPARTMENT	OCCUPATION	ALLOWANCE	AMOUNT
							ANNUAL
5	1324	Me SM Nomandla	7909101255086	24	CLEANER	Standby	R505.30
8	199	Mr JM Litabe	5809205399081	44	SUPERVISOR	Standby & cell phone	R9 874.76 & R1 440.00
13	1328	Mr IA Moloto	5912126093088	26	CASHIER	Standby	R5 628.75
28	1317	Mr L P Mothabeng	5806075268081	44	LABOURER	Acting	R4 302.00

Cause

Lack of monitoring controls from the management of the municipality to ensure all allowances paid are filed on the employee file and the employee was notified of the allowance.

Impact

The matter results in a limitation of scope to test the occurrence of travel allowances.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should develop implement processes to ensure that employee files are complete and that requested information is submitted as a matter of urgency to the Auditor-General.

Management response

NO	EMPLOYEE CODE	NAME & INTIALS	ID NR	DEPARTMENT	OCCUPATION	ALLOWANCE	AMOUNT	
							ANNUAL	
5	1324	Me SM Nomandla	7909101255086	24	CLEANER	Standby	R505.30	Disagree, the allowance was paid to empl. No 01324 as per the allowance form instead of 1324.

								however the matter was picked up and the arrangement made to refund the Municipality so that it can be paid to the correct employee
8	199.	Mr JM Litabe	5809205399081	44	SUPERVISOR	Standby & cell phone	R9 874.76 & R1 440.00	Agree, the allowance goes prior to the financial year in question and has no supporting document
13	1328	Mr IA Moloto	5912126093088	26	CASHIER	Standby	R5 628.75	Agree, the allowance goes prior to the financial year in question and has no supporting document
28	1317	Mr L P Mothabeng	5806075268081	44	LABOURER	Acting	R4 302.00	Agree, the allowance goes prior to the financial year in question and has no supporting document but the allowance however stopped in February 2014

Name: F.MZIZI
Position: CFO
Date: 27/11/2014

Auditor's conclusion

Mr LL Mokoena is a Coordinator and as per Travelling allowance policy inspected, coordinators are entitled to a monthly travelling allowance. Allowance thus tested satisfactory for Mr LL Mokoena.

Based on the supporting documentation obtained 26 November 2014 and management response obtained on 28 November 2014, the following was determined:

1. Employee S M Nomandla (no. 1324): It could be confirmed that the standby allowance was wrongfully paid to said employee, instead of employee Lebona Thabang Lawrence (no. 1324), and that arrangements were made for the repayment of the allowance paid. This error occurred due to the fact that both employees have the same employee numbers, this will therefore be reported on in the management report as an internal control deficiency.
2. Employee J M Litabe (no. 199), sufficient authorisation could be obtained for the standby allowance paid, however a printout of the 12 month salary data, indicating that the employee received a cell phone allowance, is not sufficient proof that the allowance was authorised, therefore this part of the exception will be reported on in the management report.
3. Employee L P Mothabeng (no. 1328): Sufficient authorisation could be obtained for the standby allowance paid therefore this part of the exception will be cleared.
4. Employee L P Mothabeng (no 1317): Mr LL Mokoena is a Coordinator and as per Travelling allowance policy inspected, coordinators are entitled to a monthly travelling allowance. Allowance thus tested satisfactory for Mr LL Mokoena.

77. EX.109 - Employee related costs: Appointments not made supporting documentation (EX.109)

Audit finding

Section 66 (1)(a) of the MSA states that a municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must develop a staff establishment for the municipality, and submit the staff establishment to the municipal council for approval;

Section 67 (1)(a) of the MSA states that A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members;

1. Contrary to the above, the following employee was appointed on a level 16, which was not established on the salary scales submitted (highest salary level indicated on the salary scale listing is a level 14):

Note

Employee Name	Employee Number	Appointment Date	Department
Kaise EM	645	2014/05/01	Corporate Services

2. Contrary to the above, no proof of qualifications or proof of driver's license could be identified in the employee's file:Note

Employee Name	Employee Number	Appointment Date	Department
Mofokeng L	646	2014/06/02	Finance Department

3. Contrary to the above, no letters / attendance registers could be obtained as proof that employees did actually start work on said date (to prevent from overpayment of employees) for the following employees:

Employee Name	Employee Number	Appointment Date	Department
Mofokeng P	619	2014/03/01	Corporate Services
Cabela MS	626	2014/04/01	Secutiry officer
Kaise EM	645	2014/05/01	Corporate Services

Cause

Lack of management control on the appointment process of employees

Impact

Possible overstatement of employee related costs due to the fact that the employee was appointed on an incorrect level (which does not exist).

Non-compliance with applicable laws and regulations.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

1. Management should provide that Auditor-General with reasons as to why employee was appointed on this level, management should furthermore ensure that employees are appointed on correct salary levels.
2. Management should ensure that all relevant documentation is kept in the employee files for easy access.
3. Management should provide that Auditor-General with requested documentation.

Management response

With regards to Mr. EM Khaise, employee no. 645 it can be reported that Mr. Khaise was indeed appointed on a higher scale than a level 14 of the established salary scale that was submitted to you, the reason being that the position of Assistant manager: Legal Services, was evaluated by the national job evaluation committee during 2006 as post level 16.

When we advertised the position of the assistant manager legal services which was identified as a critical position (also by the AG in 2013), we realised that the highest post level on our current salary structure is a post level 14.

To then determine what salary scale of a level 16 should be used, we followed a process to benchmark this position with other municipalities of the same grade. An average of the results of the benchmarking was then used to determine an appropriate salary level for this post.

Response received from: Mr MD Nthau: Manager Corporate Services

Auditor's conclusion

Subsequent to exception being raised the following employees' attendance registers were obtained on 05 November 2014:

1. Mofokeng P (employee no. 619)
2. Cabela MS (employee no. 626)
3. Khaise E M (employee no. 645)

However, the attendance register obtained for Mr M S Cabela (employee no. 626) was not for the correct period, the appointment date is 01 April 2014 and the attendance register obtained is for June 2014, this part of the exception will therefore remain.

Contrary to the above, no letters / attendance registers could be obtained as proof that employees did actually start work on said date (to prevent from overpayment of employees) for the following employees:

Employee Name	Employee Number	Appointment Date	Department
Mofokeng L	646	2014/06/02	Finance Department

Management response obtained and to be evaluated:

We take note of management's response, however due to the fact that this salary level is not on the approved salary scale, it could not be confirmed that the salary was in fact in line with said scale, this matter will remain and be reported on, it is also recommended that the salary scale be revised and updated in this regard to make provision for all salary scales applicable to the municipality.

78. EX.143 - Employee related costs: Leave - Information not submitted (EX.143)

Audit finding

Section 62(1)(b) of the MFMA on General financial management functions states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure -
 (b) that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

Contrary to the above it was established that the following documentation was not submitted for audit purposes:

1.1) Attendance registers for the following leave days taken by the following employees:

Attendance register not submitted - Annual Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
250	LZ Mafereka	12/09/2013	13/09/2013	40	Parks
		09/10/2013	09/10/2013		
		10/12/2013	12/12/2013		
		02/01/2014	03/01/2014		
		29/01/2014	31/01/2014		
		05/02/2014	05/02/2014		
		12/02/2014	12/02/2014		
		04/03/2014	06/03/2014		
		01/04/2014	17/04/2014		
		28/10/2013	31/10/2013		
404	KM Maine	09/07/2013	15/07/2013	44	Sewerage
		02/09/2013	02/09/2013		
		20/09/2013	23/09/2013		
		28/10/2013	28/10/2013		
		04/12/2013	04/12/2013		
		08/01/2014	09/01/2014		
		13/01/2014	13/01/2014		
		22/04/2014	25/04/2014		
		28/03/2014	28/03/2014		
		03/03/2014	04/03/2014		
		21/02/2014	21/02/2014		
		20/06/2014	20/06/2014		
		01/11/2013	21/11/2013		
865	MC Motsai	30/10/2013	01/11/2013	30	Cemeteries
		17/10/2013	18/10/2013		
		09/05/2014	09/05/2014		
		24/02/2014	24/02/2014		
		29/04/2014	29/04/2014		

		02/06/2014	04/07/2014		
1092	TP Tsasanyana	01/08/2013	05/08/2013	46	Public Works
		13/09/2013	20/09/2013		
		03/10/2013	04/10/2013		
		30/01/2014	'31/01/2014		
		18/02/2014	21/02/2014		
		23/12/2013	07/01/2014		
		14/03/2014	17/03/2014		
		11/04/2014	11/04/2014		
		06/05/2014	09/05/2014		
		19/06/2014	20/06/2014		
		04/03/2014	07/03/2014		
		14/02/2014	14/02/2014		
1095	GI Tlhabatau	03/09/2013	05/09/2013	46	Public Works
		08/01/2014	10/01/2014		
		14/02/2014	14/02/2014		
		30/01/2014	31/01/2014		
		03/12/2013	04/12/2013		
		15/05/2014	16/05/2014		
		04/06/2014	04/06/2014		
		04/03/2014	07/03/2014		
1176	DM Kobi	16/05/2013	16/05/2013	44	Sewerage
		12/08/2013	12/08/2013		
		25/09/2013	27/09/2013		
		13/11/2013	13/11/2013		
		09/12/2013	09/12/2013		
		15/01/2014	15/01/2014		
		03/02/2014	07/02/2014		
		11/03/2014	11/04/2014		
		11/04/2014	11/04/2014		
1310	MZ Mokhutle	01/07/2013	02/07/2013	26	Finance
		29/07/2013	05/08/2013		
		18/07/2013	18/07/2013		
		02/10/2013	04/10/2013		
		03/02/2014	28/02/2014		
		29/04/2014	09/05/2014		
		02/06/2014	02/06/2014		
1698	MTF Moremi	04/07/2013	08/08/2013	48	Water
		26/06/2014	30/07/2014		
619	P Mofokeng	14/05/2014	14/05/2014	18	Corporate
		05/05/2014	05/05/2014		
		30/05/2014	30/05/2014		
10016	BR Maekiso	28/01/2014	28/01/2014	18	Corporate

		25/04/2014	25/04/2014		
10022	TP Lebeko	17/07/2013	15/08/2013	52	Technical Services
		03/02/2014	04/02/2014		
		04/03/2014	07/03/2014		
		17/03/2014	19/03/2014		
		25/03/2014	28/03/2014		
		22/04/2014	30/05/2014		
		25/06/2014	26/06/2014		
10023	RJ Mabote	03/10/2013	04/10/2013	52	Technical Services
		20/02/2014	21/02/2014		
		10/02/2014	14/02/2014		
		20/12/2013	03/01/2014		
		03/03/2014	03/03/2014		
		29/04/2014	02/05/2014		
		28/02/2014	28/02/2014		
10024	DB Ntaopane	04/03/2014	14/03/2014	52	Technical Services
158	DC Swarts	15/07/2013	16/07/2013	48	Water
		03/09/2013	04/09/2013		
		25/11/2013	29/11/2013		
		17/02/2014	18/02/2014		
		19/05/2014	20/05/2014		
160	MS Boleme	19/07/2013	19/07/2013	26	Finance
		28/08/2013	29/08/2013		
		29/01/2014	29/01/2014		
		08/11/2013	08/11/2013		
		09/05/2014	09/05/2014		
		18/03/2014	18/03/2014		
		03/04/2014	03/04/2014		
		10/06/2014	10/06/2014		
231	LO Sekobile	23/07/2013	23/07/2013	30	Cemeteries
		13/08/2013	14/08/2013		
		02/09/2013	03/09/2013		
		03/03/2014	31/03/2014		
		01/04/2014	02/05/2014		
402	NB Booi	29/08/2013	02/09/2013	44	Sewerage
		29/04/2014	29/04/2014		
		31/03/2014	31/03/2014		
		24/02/2014	28/02/2014		
		30/06/2014	04/07/2014		
		23/05/2014	29/05/2014		
403	LA Makgalemela	04/07/2013	08/07/2013	44	Sewerage
		19/12/2013	19/12/2013		
		02/12/2013	06/12/2013		
		20/01/2014	20/01/2014		
		09/05/2014	09/05/2014		

		28/02/2014	03/03/2014		
		31/03/2014	01/04/2014		
		27/06/2014	27/06/2014		
		28/05/2014	28/05/2014		
971	LD Mota	26/07/2013	26/07/2013	18	Corporate
		17/09/2013	30/09/2013		
		28/01/2014	28/01/2014		
		27/03/2014	28/03/2014		
		30/04/2014	02/05/2014		
		14/03/2014	14/03/2014		
972	TS Maloka	02/07/2013	03/07/2013	26	Finance
		01/08/2013	02/08/2013		
		02/10/2013	04/10/2013		
		04/11/2013	05/11/2013		
		02/01/2014	15/01/2014		
		13/11/2013	13/11/2013		
		03/02/2014	03/02/2014		
		06/02/2014	06/02/2014		
		02/12/2013	03/12/2013		
		09/06/2014	09/06/2014		
		02/06/2014	03/06/2014		
		11/04/2014	11/04/2014		
		02/05/2014	05/05/2014		
		01/04/2014	01/04/2014		
		02/05/2014	05/05/2014		
		03/03/2014	04/03/2014		
		13/02/2014	13/02/2014		
1088	VM Ntsoabole	22/07/2013	29/07/2013	46	Public Works
		09/12/2013	09/12/2013		
		23/01/2014	27/01/2014		
		26/02/2014	27/02/2014		
		19/12/2013	19/12/2013		
		31/12/2013	01/01/2014		
		30/10/2013	31/10/2013		
		30/04/2014	02/05/2014		
		04/03/2014	07/03/2014		
		17/04/2014	18/04/2014		
		17/03/2014	18/03/2014		
1102	MP Maeane	10/07/2013	10/07/2013	44	Sewerage
		27/01/2014	28/01/2014		
		21/10/2013	21/10/2013		
		28/03/2014	29/03/2014		
		06/05/2014	12/05/2014		
		08/04/2014	11/04/2014		
		22/05/2014	26/05/2014		

		20/05/2014	20/05/2014		
		09/06/2014	12/06/2014		
		03/06/2014	06/06/2014		
		25/02/2014	25/02/2014		
1106	MAW Nkwadipo	10/07/2013	15/07/2013	46	Public Works
		20/08/2013	22/08/2013		
		20/12/2013	03/01/2014		
		14/03/2014	14/03/2014		
		09/04/2014	11/04/2014		
		01/04/2014	01/04/2014		
		06/03/2014	11/03/2014		
1109	D Kebautoile	09/12/2013	03/01/2014	42	Refuse
		21/10/2013	21/10/2013		
		06/02/2014	07/02/2014		
		12/05/2014	12/05/2014		
		30/04/2014	05/05/2014		
		22/05/2014	23/05/2014		
1142	SJ Molete	28/06/2013	25/07/2013	44	Driver
		27/09/2013	27/09/2013		
		14/01/2014	16/01/2014		
		03/03/2014	05/03/2014		
		16/05/2014	16/05/2014		
1161	PJ Harmse	18/01/2014	18/01/2014	44	Driver
		23/05/2014	25/05/2014		
1181	MA Rampine	04/03/2014	04/03/2014	48	Water
		04/04/2014	04/04/2014		
		03/06/2014	03/06/2014		
		30/06/2014	18/07/2014		
1321	PM Daniels	17/07/2013	17/07/2013	24	Town hall offices
		15/07/2013	15/07/2013		
		16/08/2013	16/08/2013		
		12/09/2013	13/09/2013		
		17/09/2013	18/09/2013		
		23/10/2013	23/10/2013		
		06/11/2013	26/11/2013		
		15/01/2014	15/01/2014		
		31/01/2014	31/01/2014		
		30/10/2013	31/10/2013		
		31/03/2014	04/04/2014		
		05/05/2014	05/05/2014		
		14/03/2014	14/03/2014		

		07/03/2014	07/03/2014		
		31/03/2014	04/04/2014		
		06/05/2014	09/05/2014		
1358	PJ Mbele	21/10/2013	21/10/2013	46	Public Works
		12/05/2014	12/05/2014		
		29/04/2014	02/05/2014		
		01/04/2014	02/04/2014		
		17/03/2014	17/03/2014		

Attendance register not submitted - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
1003	BJ Ntsane	08/05/2014	09/05/2014	28	Social Communications
135	A Meyer	19/03/2014	20/03/2014	26	Finance
		12/05/2014	14/05/2014		
		06/05/2014	06/05/2014		
		03/03/2014	07/03/2014		
		04/09/2013	06/09/2013		
218	SD Lenkoe	05/03/2014	06/03/2014	48	Water
247	R Thagane	12/05/2014	16/05/2014	18	Corporate
		15/04/2014	17/04/2014		
		10/03/2014	12/03/2014		
		29/10/2013	30/10/2013		
		29/07/2013	02/08/2013		
260	ME Kgabale	08/07/2013	10/07/2013	24	Town Hall & Offices
		05/05/2014	09/05/2014		
404	KM Maine	30/09/2013	02/10/2013	44	Driver
		29/05/2014	30/05/2014		
		11/02/2014	11/02/2014		
		09/06/2014	09/06/2014		
		28/01/2014	30/01/2014		
426	PS Matsoso	07/04/2014	10/04/2014	48	Water
972	TS Maloka	07/08/2013	08/08/2013	26	Finance
		18/07/2013	19/07/2013		
		10/10/2013	10/10/2013		
		20/01/2014	21/01/2014		
		18/02/2014	20/02/2014		
		19/05/2014	21/05/2014		
		10/03/2014	11/03/2014		
		18/02/2014	20/02/2014		
		07/04/2014	10/04/2014		
977	LF Mosikare	10/03/2014	14/03/2014	18	Corporate
		23/09/2013	27/09/2013		
		22/10/2013	25/10/2013		

		21/08/2013	23/08/2013		
1088	VM Ntsoabole	02/10/2013	03/10/2013	46	Public Works
		05/05/2014	09/05/2014		
1106	MAW Nkwadipo	05/09/2013	06/09/2013	46	Public Works
		05/08/2013	08/08/2013		
		04/02/2014	07/02/2014		
		05/11/2013	08/11/2013		
		30/09/2013	03/10/2013		
		23/04/2014	25/04/2014		
		29/04/2014	02/05/2014		
		22/05/2014	23/05/2014		
1176	DM Kobi	03/07/2013	03/07/2013	44	Sewerage
		14/08/2013	16/08/2013		
		30/09/2013	01/10/2013		
		17/10/2013	18/10/2013		
		18/11/2013	19/11/2013		
		03/01/2014	07/01/2014		
		08/05/2014	09/05/2014		
1187	TG Lekauta	15/10/2013	18/10/2013	46	Public Works
1296	WT Radebe	12/05/2014	15/05/2014		
1317	MA Chabana	22/07/2013	24/07/2013	46	Public Works
1322	LE Semela	02/08/2013	02/08/2013	26	Finance
		11/12/2013	13/12/2013		
		13/01/2014	15/01/2014		
		23/05/2014	23/05/2014		
1324	SM Nomandla	17/12/2013	28/02/2014	24	Town Hall & Offices
		05/11/2013	08/11/2013		
1337	NA Mochana	26/03/2014	28/03/2014	16	Municipal Manager
		29/04/2014	09/05/2014		
		24/06/2014	27/06/2014		
1339	ND Khoza	12/09/2013	12/09/2013	16	Municipal Manager
		29/10/2013	30/10/2013		
		24/04/2014	25/04/2014		
		08/05/2014	16/05/2014		
		27/01/2014	29/01/2014		
		01/04/2014	02/04/2014		
1344	MG Phakoe	06/03/2014	23/03/2014	48	Water
		01/08/2013	04/08/2013		
		25/10/2013	28/10/2013		
		19/11/2013	19/11/2013		
		30/12/2013	02/01/2014		
		14/01/2014	16/01/2014		
		27/03/2014	28/03/2014		
		05/04/2014	06/04/2014		
		01/04/2014	04/04/2014		
		31/05/2014	02/06/2014		
		07/05/2014	09/05/2014		

1345	ED Bolara	06/01/2014	10/01/2014	42	Refuse
1352	MJ Makatsi	07/10/2013	10/10/2013	42	Refuse
		25/11/2013	28/11/2013		
1367	J Magashule	31/07/2013	01/08/2013	48	Water
1423	S ME Maoke	18/07/2013	19/07/2013	26	Finance
		14/04/2014	15/04/2014		
1110	MS Moroosole	10/07/2013	11/07/2013	44	Sewerage
		01/10/2013	02/10/2013		
		18/03/2014	20/03/2014		
		13/02/2014	14/02/2014		

Attendance register not submitted - Other Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
247	R Thagane	19/05/2014	23/05/2014	18	Corporate
		09/09/2013	10/09/2013		
260	ME Kgabale	25/04/2014	02/05/2014	24	Town hall & offices
426	PS Matsoso	27/05/2014	30/05/2014	48	Water
1339	ND Khoza	04/03/2014	05/03/2014	16	Municipal Manager
		14/04/2014	15/04/2014		
1352	MJ Makatsi	03/04/2014	04/04/2014	42	Refuse
		17/02/2014	17/02/2014		
		25/02/2014	25/02/2014		

1.2) Complete and correct leave report.

1.3) Leave forms:

Leave form not found - Annual Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
1092	TP Tsasanyana	04/03/2014	07/03/2014	46	Public Works
		14/02/2014	14/02/2014		
1176	DM Kobi	11/04/2014	11/04/2014	44	Sewerage
619	P Mofokeng	05/05/2014	05/05/2014	18	
		30/05/2014	30/05/2014		
10023	RJ Mabote	28/02/2014	28/02/2014	52	Technical Services

Leave form not found - Other Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
426	PS Matsoso	27/05/2014	30/05/2014	48	Water

1.4) Medical Certificates:

Medical Certificates not found - Sick Leave

Employee Code	Employee Name	Leave start date	Leave end date	Department No	Department Name
135	A Meyer	19/03/2014	20/03/2014	26	Finance
		06/05/2014	06/05/2014		
270	EL De Wit	26/05/2014	27/05/2014	46	Public Works
		27/09/2013	27/09/2013		
		10/07/2013	11/07/2013		

Cause

Management did not specify for which periods the attendance registers were required when he requested them from the different departments.

Impact

The correctness of the leave provisions could not be verified as the completeness leave could not be verified.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

The municipality should ensure that all documentation relating to leave is filed and it must be readily available on request.

Management response

Management responses was not received

79. EX.160 - Employee related costs: Leave not taken in accordance to the collective main agreement (EX.160)

Audit finding

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

Contrary to the above it was identified that the following employees did not take leave in accordance to the collective main agreement which states as per paragraph 3.1 that a 5 day worker should at least take 16 days annual leave and a 6 day worker should at least take 19 days annual leave per leave cycle.Note

Employee Code	Employee Name	Total Leave taken
1095	GI Tlhabatau	13
619	P Mofokeng	3
10016	BR Maekiso	2
10024	DB Ntaopane	9
158	DC Swarts	13
160	MS Boleme	9
1161	PJ Harmse	4
1358	PJ Mbele	8

Cause

The above is caused by the fact that the union which supports the municipal workers (SAMWU) has stated that the employees may not be forced to go on leave due to the fact that they are essential workers and the municipality has confirmed that they are unable to pay out the leave accrued due to lack of funds.

Impact

The impact in non-compliance collective main agreement.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should put controls in place to ensure compliance with the applicable human resource policies and procedures and related legislation.

Management response

We do not agree with all the audit findings and respond as follows:

Employee Code	Employee Name	Total Leave Taken	Comments
1095	GI Tlhabatau	13	Refer to comments on exception 158. Once the incorrect leave capturing has been corrected, the system will show that he indeed take his 16 leave days as per the collective agreement.
0619	P Mofokeng	3	Mr. Mofokeng only starts working for the municipality in March 2014. Therefore he still has time until February 2015 to take his 16 days leave.
10016	BR Maekiso	2	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.
10024	DB Ntaopane	9	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.
158	DC Swarts	13	His leave cycle indicate that he still has time until November 2014 to take his 16 days leave.
160	MS Boleme	9	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.
1161	PJ Harmse	4	Due to shortage of staff and the fact that he is performing an essential service (sewer process controller) he could not take all his leave. Agreement that he will not forfeit his leave.
1358	PJ Mbele	8	We are investigating why he has not taken all his leave as per the collective agreement.

Please be informed that in order to determine whether a employee has taken his leave according to the Conditions of Service one has to use the appointment dates which will determine your leave cycle.

H de Wit
Acting Assistant Manager Corporate Services: HR

Auditor's conclusion

Management response obtained and to be evaluated:

The following employees will remain in the finding and be reported on in the management report:

Employee Code	Employee Name	Total Leave Taken	Comments (from management)
1095	GI Tlhabatau	13	Refer to comments on exception 158. Once the incorrect leave capturing has been corrected, the system will show that he indeed take his 16 leave days as per the collective agreement.
1161	PJ Harmse	4	Due to shortage of staff and the fact that he is performing an essential service (sewer process controller) he could not take all his leave. Agreement that he will not forfeit his leave.
1358	PJ Mbele	8	We are investigating why he has not taken all his leave as per the collective agreement.

The following employees will be removed from the exception, as we agree with management, this occurred due to the fact that we did our calculations based on the financial year and not according to appointment dates:

Employee Code	Employee Name	Total Leave Taken	Comments (obtained from management)
0619	P Mofokeng	3	Mr. Mofokeng only starts working for the municipality in March 2014. Therefore he still has time until February 2015 to take his 16 days leave.
10016	BR Maekiso	2	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.
10024	DB Ntaopane	9	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.
158	DC Swarts	13	His leave cycle indicate that he still has time until November 2014 to

			take his 16 days leave.
160	MS Boleme	9	His leave cycle indicate that he still has time until March 2015 to take his 16 days leave.

80. EX.80 - Employee related costs: Payments to third parties not done timeously. (EX.80)

Audit finding

Section (62)(b) of the MFMA state that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Chapter 10 of the Tax Administration Act, par 2(1), 5(1) and 14(2) of the 4th Schedule states that the Employee's Tax and UIF contributions as well as SDL must be paid over to the South African Revenue Services within seven days after the end of the month during which the amount was deducted or due or such longer period as the Commissioner determines."

Through inspection of the printed audit trail from Absa Bank Limited, the payment made to third parties for the month of December 2013, amounting to R165 512 730,00 was only affected on the 08 January 2014 and not on/before the 7th day of January as prescribed.

Note

A similar matter was reported on in paragraph 70 of the prior year management report.

Cause

Lack of monitoring controls from the management of the municipality to ensure that payments made to third parties are done so timeously.

Impact

The above could result in penalties and interest being levied on late payments which could lead to fruitless and wasteful expenditure.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should ensure that payments are made to third parties on/before the 7th day of each month.

Management response

Management agrees with the finding, however the incident occurred once as one of the signatories was not available to effect the payment for 3rd parties for December 2013. And for point of correction the 3rd party amount for December 2013 amounted to R 1 655 127.30 not R 165 512 730.00 as stated by AG.

Name: F.MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management response obtained and to be evaluated:

It was an oversight by us by adding the decimal in the incorrect place, however the dispute was not about the amount, rather about the late payment made to third parties, therefore, as management agrees with the audit finding, the exception will remain and be reported on in the management report.

General IT controls

81. EX.15 - ICT: Information Technology (IT) - Controls not in place (EX.15)

Audit finding

Section 62(1) (c) (i) of the MFMA, stipulates that the accounting officer for a municipal is responsible for managing the financial administration and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

FOCUS AREA: INFORMATION TECHNOLOGY GOVERNANCE

1) No written delegation of functions of the information security officer

Information security responsibilities for the Payday system had not been delegated to an information security officer. Furthermore, information security tasks had not been allocated and performed by the municipality.

The entity did not have a security officer. However, the functions of a security officer for the Pastel accounting system were performed by the IT coordinator.

2) No service level agreement for support services on the Pastel accounting system

There was a lack of approved service level agreements with all vendors to whom the entity has outsourced services. (Pastel accounting system)

3) Management not monitoring service level agreements on the Payday system

Evidence that services delivered by the service providers were not monitored against the services agreed in the service level agreement (SLA) to ensure optimal service delivery could not be obtained. (Payday)

FOCUS AREA: SECURITY MANAGEMENT

4) An approved information technology (IT) security policy had not been established.

A formally approved information technology (IT) security policy had not been established by IT management. The informal processes implemented were inadequately designed to ensure data confidentiality, integrity and availability.

It was observed that on the Payday system a Financial Intern is the administrator on the system and no senior officials have even access on the system.

FOCUS AREA: USER ACCESS CONTROL

5) No review on the granting of access by the system coordinator

No processes were in place to ensure that the activities of the systems administrator/(IT Coordinator) who granted user access to the pastel and payday system would be reviewed.

FOCUS AREA: INFORMATION TECHNOLOGY SERVICE CONTINUITY

6) Backup and retention strategy not implemented on Payday system information

A backup and retention strategy that determines the types of information to be backed-up, backup cycles and methods for backing up data and systems, together with the period it should be retained, has not been implemented for the Payday system.

7) Pastel backups not daily performed and backups not verified for successful completion

Although financial information was backed up periodically for the Payday system, backups were not verified for completeness to ensure that all the data could be restored in the event of a disaster.

8) Backups are not stored at a secured off-site facility

Formal off-site backup arrangements for the Payday system had not been documented and approved by management. Consequently, backups were not taken to the off-site backup location periodically.

Cause

The lack of a dedicated IT security officer/system administrator to ensure the implementation of controls measures over financial IT systems.

Impact

1) The lack of a dedicated IT security officer to ensure the implementation of security measures over financial data could result in the data and information being compromised. If information security is not formally assigned to a designated officer/employee, information assets might not be adequately protected and accountability could not be established for all aspects of information and technology security within the entity.

2) Lack of control measures to ensure proper service delivery by service providers

3) The lack of monitoring of the services rendered to the entity by external service providers might result in sub-standard services being provided to the entity.

4) Without an IT security policy, users do not have any rules and procedures to follow to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

5) The lack of reviews of system controllers' activities could lead to unauthorised access being gained to the system as inappropriate access granted might not be detected.

6) In the event of restoration of data/systems the organisation might not be able to recover the correct data and systems for specific periods.

7) All the data could be not restored in the event of a disaster.

8) This could have the effect that it would not be possible to recover all the data on the Payday system and to resume processing in the event of a disaster.

Internal control deficiency

- 1) Leadership – Human resource management
 - The entity did not have the required skills to develop the IT security policy due to vacancies with the IT department.
 - The IT staff did not have the appropriate skills to develop IT security policies.
 - 2) Leadership - Policies and procedures
 - Lack of a signed SLA with Pastel or Camelsa due to the business agreement not yet being signed off
 - The lack of adequate controls could be ascribed to management oversight not being exercised over the design and implementation of controls.
 - 3) Leadership - Policies and procedures
 - The responsibility for the monitoring of services provided was not delegated to a specific individual due to the lack of capacity and expertise to perform IT-related functions
 - 4) Leadership – Human resource management
 - The IT staff did not have the appropriate skills to develop IT security policies.
 - 5) Leadership – Policies and procedures
 - No formalised policies and procedures to provide guidance on the processes to be followed
 - 6) Leadership – Policies and procedures
 - A backup and retention strategy had not been established to ensure that backups of the correct data, systems and the frequency thereof are made.
 - 7) Leadership – Policies and procedures
 - Backup and restoration policies and procedures had not been established for the Payday system to ensure that sufficient IT internal controls would be implemented.
 - 8) Leadership – Policies and procedures
- Management had not implemented adequate preventative controls to ensure that adequate off-site backup arrangements would be established.

Recommendation

- 1) Management should consider increasing the IT staff capacity to allow roles and responsibilities to be allocated to different staff members to ensure the provision and maintenance of effective IT security that is in line with business requirements and good practices. The entity should obtain the skills needed to implement the policies, e.g. via training.
- 2) Management is encouraged to expedite the finalisation and approval of the service level agreements (SLA) with external vendors. The SLA should then be reviewed, amended if required, and signed to ensure that signed SLAs are in place with the entity's IT service providers.
- 3.a) Service performance reviews should regularly be conducted for all external service providers and timeous corrective action should be taken to remedy any deficiencies identified.
b) Management is encouraged to implement a service level management process to ensure that the levels of service rendered by external service providers are continually identified, monitored and reviewed against those specified in the SLAs.
- 4.a) In the absence of a government-wide IT security framework, assistance should be sought from "parent departments" for the development of IT security policies.
b) Management should ensure that IT vacancies are filled with appropriately skilled staff. Where necessary, the skills of staff should be developed through appropriate training interventions.
- 5) IT management should develop and implement an IT strategic plan to govern IT goals and activities and ensure that key processes are established to ensure that system controller activities are periodically reviewed.
- 6) Management should develop and implement a backup and retention strategy in line with contractual, legal/regulatory and business requirements.

- 7) Management should ensure that backups and restoration processes are established to ensure IT service continuity.
- 8) Off-site backup arrangements for data files should be formally documented and regularly tested.

Management response

- 1) The municipality approved the organogram and the function of information security officer will be performed by ICT Officer.
- 2) The SLA between Municipality and pastel expired in 2012, however the municipality is planning to procure the financial system.
- 3) Service delivery for PAYDAY (SLA) will be monitored after PAYDAY conducted training to ICT section.
- 4) The training for Councilors, Section 56 Managers and Unions on information Security policy should be conducted before the approval of policy. The administrator of the system are still the officials of Payday system and the Payday consultants will conduct training for ICT section during their visit to the municipality this month.
- 5) The review on user access control were made during May 2014 but only on Pastel.
- 6) The draft backup plan and strategic plan were developed, and will therefore be approved in the next council sitting
- 7) Pastel backup is made automatically on Server hard drive at 19h00 on daily basis and we only transferred back up on external hard-drive in the following day.
- 8) The offsite backups are stored in a secured small steel safe in cashier's office.

Name: J. Tshwene
Position: ICT Coordinator
Date: 13/10/2014

Auditor's conclusion

Management comments are noted and the responses do not address the finding to resolve the finding.

- 1) No written delegations to the ICT Officer exist.
- 2) Service level agreements do not exist for pastel.
- 3) Management response is not specific and do not indicate the how and when?
- 4) The management response confirm the on the for the Payday the municipality did not appoint/ allocate the functions of the administrator of the Payday system to a senior official within the municipality.
- 5) Evidence that the reviews of granting of access on the systems were performed was submitted for audit purposes.
- 6) Management confirm the backup plan and strategic plan was not approved.
- 7) No evidence that the Payday backups were made, could be confirmed as no register exist or log that backups was made and tested on a regular basis.
- 8) No evidence the payday backups was not submitted as the management respond that the backups are kept in the cashiers save that is on the same premises and the Payday server.

Non-Compliance

82. EX.224 - Procurement: Municipal Accounts not provided by the winning bidder (EX.224)

Audit finding

In terms of the Municipal Supply Chain Management Regulations paragraph (28) (1) (c):“ A bid evaluations committee must check in respect of the recommended bidder whether the municipal rates and taxes and municipal service charges are not arrears.”

Paragraph 38(1)(d)(i)of the Municipal Supply Chain Management Regulations further states that “a supply chain management policy must provide measures for combating of abuse of supply chain management system and must enable the accounting officer to reject any bid from a bidder if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality or municipal entity or any other municipality or municipal entity are in arrears for more than three months.”

During the audit of procurement and contract management, it was identified that the following suppliers were awarded tenders however they did not submit their municipal accounts:

Number	Description of tender awarded	Name of supplier	Amount of Award	Total Expenditure incurred	Expenditure relating to current period
1	Supply of garden/park/refuse/cemetery cleaning equipment	Phuthaditjaba security and cleaning	Not indicated. Long term contract	R 46 592	R 46 592

Cause

The supply chain management regulations were not correctly applied..

Impact

The matter results in non-compliance with the supply chain management regulations and will lead to irregular expenditure amounting to R46 592.

Internal control deficiency

Financial and performance management

Management did not adequately review and monitor compliance with applicable laws and regulations.

Recommendation

Management should put measures in place to ensure compliance with the supply chain management regulations.

Management response

Management response was not received.

83. EX.232 - Procurement: BBBEE Scores awarded to suppliers without valid BBBEE Certificates. (EX.232)

Audit finding

In terms of the Preferential Procurement Policy Framework Act 10(2) Tenders other than Exempted Micro Enterprises should submit their original and valid B-BBEE status levels verification certificate or a certified copy thereof, substantiating their B-BBEE ratings.”

During the audit of supply chain management it was identified that some of the bidders did not submit any B-BBEE certificates or submitted certificates that were not certified. These bidders were however, awarded points during the preferential point calculations.

Number	Description of the tender awarded	Bidders that was awarded scores incorrectly
1	Supply of garden/park/refuse/cemetery cleaning equipment	<ul style="list-style-type: none"> • Moremaphofu & Lafatshe LA Rona Trading and projects • MKP garden service • Phuthadijhaba security and cleaning
2	Fencing of oxidation ponds Soutpan	<ul style="list-style-type: none"> • Mahulane & Sons logic & Civil Works
3	Fencing of reservoir Winburg	<ul style="list-style-type: none"> • WW Civil & Construction • Mahula & Sons Logistics • Cintopoint & Climavision JV • Betheseda Fencing IT.

Cause

The bid evaluations committee and the bid adjudication committee did not correctly apply supply chain regulations.

Impact

The matter results in non-compliance with the applicable laws and regulations

Internal control deficiency

Financial and performance management

Management did not adequately review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with the applicable laws and regulations.

Management response

Management response was not received.

84. EX.226 - Procurement: Specifications might not have been approved by the accounting officer prior to publication of the invitation (EX.226)

Audit finding

In terms of the Municipal Supply Chain Management Regulations paragraph (27)(2)(g): Specifications must be approved by the accounting officer prior to publication of the invitation to bid in terms of regulation 22.”

During the audit of supply chain management it was identified that the specifications were signed by the municipal manager. However, there were no dates indicated and therefore, we could not conclude if the specifications were approved prior to the publication of the bid for the period under audit 01/07/2013 to 30/06/2014, refer below.

Tender Description	Bid Reference
Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw	RBIG/FS/002/W/12/13
Installation of ICT Blade Server (tender is cancelled due to non delivery by the supplier)	2013/07/00
Ugrading of Sport center at Majwemasweu	MIG/FS/0748/CF/09/10
Upgrading of water treatment plant at Soutpan/Ikgomotseng	MIG/FS/0657/W/08/09
Financial support	2013/08/03
Supply of Tyres and patching maintenance material	2013/09/05
Supply of Electrical material & tools	2013/09/06
Supply of Computer equipment and software	2013/09/07
Supply of water meters material	2013/09/10
Provision of Legal services	2013/09/11
Contractor for the supply of sewer and water maintenance material	2013/09/12
Supply of garden/park/refuse/cemetery cleaning equipment	2013/09/13
Project manager	1001-1008/2014
Upgrading of water treatment works and ground storage reservoir (pump station phase 1)	MIG/FS/0978/W/13/13
Supply of road signs and marking paints	2014/02/02
Rehabilitation of landfill sites	2014/02/03
Fencing of oxidation ponds Soutpan	1001/2014
Fencing of reservoir Brandfort	1008/2014
Fencing of water treatment works Winburg	1002/2014
Fencing of reservoir Winburg	1003/2014
Fencing of reservoir Theunessen	1006/2014
Soutpan/Ikgomotseng Fencing of cemeteries	MIG/FS/10078/F/14/15
Masilo/Theunesen fencing of cemeteries and ablution facilities	MIG/FS/1004/C/14/15

Cause

The supply chain management regulations were not adequately applied.

Impact

The matter results in non-compliance with SCM regulations

Internal control deficiency

Financial and performance management

Management did not adequately review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure adequate compliance with the applicable supply chain management laws and regulations.

Management response

Management response was not received.

85. EX.228 - Procurement: Winning Bidder results not published on the municipality website (EX.228)

Audit finding

In terms of the Municipal Supply Chain Management Regulations paragraph (23)(c)(iii): "A supply chain management policy must determine the procedure for handling, opening and recording of bids and must require the accounting officer to publish the entries in the register and the bid results on the website of the municipality or municipal entity."

During the audit of procurement and contract management it was identified that the winning bidders were not published on the municipality's website for the following tenders:

Number	Description of the tender	Tender /Bid Number
1	Project manager	1001-1008/2014
2	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)	MIG/FS/0657/W/08/09
3	Supply of road signs and marking paints	2014/02/02
4	Rehabilitation of landfill sites	2014/02/03
5	Fencing of oxidation ponds Soutpan	1001/2014
6	Fencing of reservoir Brandfort	1008/2014
7	Fencing of water treatment works Winburg	1002/2014
8	Fencing of reservoir Winburg	1003/2014
9	Fencing of reservoir Theunessen	1006/2014
10	Soutpan/Ikgomotseng Fencing of cemeteries	MIG/FS/10078/F/14/15
11	Masilo/Theunessen fencing of cemeteries and ablution facilities	MIG/FS/1004/C/14/15

Cause

The supply chain management regulations were not adequately applied.

Impact

This is non-compliance with SCM regulations

Internal control deficiency

Financial and performance management

Management did not adequately review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure adequate compliance with the applicable supply chain management regulations

Management response

Management agrees with the finding and will ensure that controls are implemented to comply with SCM regulation

Name: F Mzizi

Position: CFO

Date: 26/11/2014

Auditor's conclusion

As management agrees with the finding, the exception will remain and be reported on in the management report.

Internal Control

86. EX.1 - Internal control: High vacancy rate (Ex.1)

Audit finding

According to section 68 of the MSA a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way, and for this purpose must comply with the Skills Development Act, 1998 (Act No. 81 of 1998), and the Skills Development Levies Act, 1999 (Act No. 28 of 1999).

It was noted that the Municipality did not fill 474 posts. The vacancy rate slightly decreased to 58,30% as compared to 59,90% of the prior financial year:

Description	Numbers in the current and prior financial years	
	2013-14	2012-13
Number of the posts as per the organisational structure	813	835
Number of posts that are filled as per VIP as at 30 June 2014	339	335
Number of the vacant posts	474	500
% Vacancy rate	58,30	59,90

The following are examples of vacancies of key personnel at 30 June 2014:

Section	Post	Post Level	Vacant
Municipal Manager's Office - Admin	Office Manager	14	1
	Unit Manager	14	3

	Assistant Unit Manager	13	2
LED	Manager: Town Planning	14	1
	Assistant Manager: IDP/LED	14	1
	Assistant Manager Corporate Services: HR	14	1
	Health & Safety Coordinator	12	1
Financial Management	Assistant Manager Financial Services: Expenditure	14	1
	Senior Finance Officer: Supervisor Reporting Units	12	1
	Senior Salary Officer	12	1
Supply Chain Management	Procurement officer	12	1
Infrastructure	Assistant Manager Infrastructure/Coordinator (all towns in Masilonyana)	14	1
	Disaster Management Officer	12	1
	Supervisor Sewer plant	12	2
	Supervisor Night Soil/Septic Tank	12	2
Mechanical Workshop	Workshop Supervisor/Senior Mechanic	13	1
Total vacancies of key personnel			21

This matter was also reported in exception 25 of the prior year.

Cause

Budgetary constraints

Impact

The high vacancy rate hampers the effectiveness of the municipality to deliver essential services to the community.

Internal control deficiency

Leadership

Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Recommendation

Management should take steps to ensure that all key posts are filled in order to deliver the services effectively

Management response

Agree with the finding AG should take note of the following:

- A Manager in the office of the MM was appointed as from 1 August 2014;
- Unit Manager positions have been advertised. Shortlisting was done and interviews with subsequent appointments is expected in due course;
- An official has been placed in the position of Assistant Manager:
IDP/LED after the year under review;
- The position of Assistant Manager: HR has been advertised;
- A person has already been placed as Health and Safety Coordinator after the year under review;
- Positions of Supervisor Sewer Plant and Night Soil/Septic tank has mostly also be addressed with the placement of employees during the placement process after the year under review.
- Other initiatives such as the absorption of Interns in the structure of the municipality is also under consideration that might also address certain positions indicated in your report.

Note must further be taken that certain positions indicated in your report is currently under review as we are currently busy with a review of the current approved structure (organogram) of the municipality. An example of positions where possible changes will be made is Assistant Manager Infrastructure (all towns in Masilonyana) that will be changed to Manager Infrastructure and Technical Services.

It is expected that the current proposed changes (review of current approved organogram) will be tabled during September 2014 Council meeting. Once the revised organogram has been approved by Council and other initiatives alluded to above has been finalised the vacancies of key personnel as indicated in your report will be resolved.

Name: H. De Wit
Position: Assistant Manager HR
Date: 26/08/2014

Auditor's conclusion

We take note of the comments from management. The high vacancy rate are reported in the management report and is also maybe an indicator of part of the service delivery challenge that the municipality face.

87. EX.29 - Internal control: Monthly exceptions identified on the system after billing are not followed up (EX.29)

Audit finding

Section 62(1) of the Municipal Finance Management Act states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- (a) that the resources of the municipality are used effectively, efficiently and economically;
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- (c) that the municipality has and maintains effective efficient and transparent systems-
 - (i) of financial and risk management and internal control; and
 - (ii) of internal audit operating in accordance with any prescribed norms and standards.

Through inspection of exception reports for water and electricity it was discovered that the exceptions which were on the report printed on the 03 August 2013 also appeared on the report which was printed on the 28 May 2014. Amongst other items the following were identified:

Account Nr.	Name	Aug-13				May-14			
		Previous readings	Current readings	Consumption	Failure reason	Previous readings	Current readings	Consumption	Failure reason
730410006	Kaths	3801	3813	12	Not stated	3866	3866	0	No current readings
730414015	Botha	474	481	7	Not stated	532	532	0	No current reading
730450047	Fick	95322	95895	573	Not stated	100639	101441	802	Not stated
730449002	Visser	78404	79174	770	Not stated	85398	86348	950	Not stated
730414032	Lubbe	25589	26029	440	Not stated	17720	19275	1555	Not stated

Cause

Lack of staff under finance department

Impact

Revenue amount in the financial statements could be misstated.

Internal control deficiency

Leadership

Management did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

Recommendation

Management should design and implement controls to ensure that the exception reports identified are timely followed up and reviewed by senior officials.

Management response

Management agrees with the finding, however AG needs to take note that a report identifying non-working meters is compiled and relevant measures are to be implemented. .i.e. development of procedure manuals or systems description.

Name: F.Mzizi

Position: CFO

Date: 28/10/2014

Auditor's conclusion

Management agrees with the finding and therefore the matter will be reported on the management report.

88. EX.127 - HR: Job descriptions have not been signed (EX.127)

Audit finding

Section 51(h) of the MSA stipulate that a municipality must within its administration and financial capacity establish and organise its administration in a manner that would enable the municipality to assign clear responsibilities for the management and co-ordinate of these administrative units and mechanisms.

Contrary to the legislation it was established that the roles and responsibilities have not been clearly assigned for the management and co-ordination of the supply chain management unit as the job descriptions are not signed by the employees.

Cause

Management did not implement procedures that determine and assign responsibility

Impact

Non-compliance with the legislation mentioned. Lack of consequence management for those who do not comply.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls

Recommendation

Management should ensure that employees are aware of their roles and responsibilities by making sure that they all sign their job descriptions, thereby making it easy to apply the consequence management procedures.

Management response

Management response was not received.

89. EX.24 - Internal controls: Policies and procedures not in place (EX.24)

Audit finding

Section 13(2) of the MFMA states that "A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection."

Section 62 (c) (i) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Section 67(1) of the MSA states that "A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems & procedures to ensure fair, efficient, effective and transparent personnel administration"

Contrary to the provisions of these sections, through inspection of the policy file and enquiry from management, it was found that the municipality did not have the following policies and procedures in place for the period under review:

- a) Inventory Management Policy
- b) Policy and procedure to identify transactions subsequent to reporting dates that can have influence on reporting on financial statements (should be assigned to a senior official)
- c) Policy and procedure on the processes to follow with the valuation of the employee benefits as disclosed in note 3 to the financial statements.
- d) Long term liability policy and procedure
- e) Related party policy and procedures
- f) Contingent liabilities (identification and procedures)
- g) Termination policy
- h) Leave policy
- i) Deduction policy

Similar matters were raised in paragraph 93 of the prior year management letter.
Note

Cause

Management does not see the urgency to prioritise policies and procedures to ensure proper governance.

Impact

- a) Non-compliance with the MFMA and MSA and lack of adequate guidance to employees on which procedures to follow, leading to possible improper financial accounting.
- b) Incomplete reporting on subsequent event transactions in the financial statements.
- c) Lack of guidance on the valuation of the employee benefits.
- d) Lack in the guidance on the controls on related parties and liabilities.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Policies and procedures

Policies related to reliable financial reporting were not established and communicated throughout the entity, and have corresponding procedures that result in management directives being carried out.

Recommendation

Management should ensure that the policies are developed and enforce their implementation. Management should further develop measures ensuring that the staff is aware of the policies.
Note

Management response

Management agrees to the finding and will implement the recommendation by the Auditor General.

Name: F. Mzizi
Position: CFO
Date: 13/10/2014

Auditor's conclusion

As management agree with the finding the internal controls are reported, as the policies mentioned was not been compiled and implemented as yet and the finding are not resolved.

Disclosure

90. EX.229 - Disclosure: Incorrect disclosure of audit fees in note 35.2 (EX.229)

Audit finding

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

The audit cost for the financial year disclosed in note 35.2 as R3 331 847 while the expenditure as disclosed in Note 28 for audit fees amounted to R2 577 046 (Ledger account 560/5600/26 Other Expenditure/OGE: Audit-External/Financial Services). The difference in the allocation of the remaining R754 801 could not be explained.

Cause

The lack of proper review on the financial statements by management.

Impact

The audit costs as disclosed in the financial statements has been misstated.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should implement proper review controls to ensure the disclosure notes in the financial statement are accurate and correct.

Management response

Management agrees with the finding, however the adjustment was submitted with the adjusted AFS.

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

Management comments were accepted and the correction was done on the financial statements. The error are reported as a corrected misstatement.

Immovable assets

91. EX.166 - PPE: Bulk water items not verified (EX.166)

Audit finding

Section 63 (1) (a) of the MFMA states that “the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets”.

Contrary to the above the following bulk water items could not be verified during the physical verification conducted with the technical officials of the Municipality between 14 and 22 October 2014. The technical officials of the municipality that assisted during the physical verification were consulted but could also not identify where these assets could be located as no location existed in the assets register:

Bulk water

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	TOWN	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
1	WAT032	Meters	Infrastructure Assets	Meters	Water meters	N/A	BRANDFORT	298 620,00
2	WAT032	Meters	Meters	Water meters	N/A	WAT032	WINBURG	204 592,50
3	WAT032	Meters	Infrastructure Assets	Meters	Water meters	N/A	THEUNISSEN	295 548,75
Total								798 761,25

Extrapolation

Sample amount	14 933 607.48
Error amount	798 761.25
Population amount	105 593 536.00
Error %	5%
Projected amount	5 647 933.69

Cause

Management did not take steps to ensure that asset register is adequately reviewed and proper locations existed for all assets in the assets register.

Impact

Bulk water infrastructure assets could be misstated by R5 647 934.

Internal control deficiency

Financial and performance management

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate assets register and location of all property, plant and equipment items, and update asset register accordingly. Management should ensure that asset officials take ownership of asset register and verification.

Management response

We disagree with this finding.

This was a finding raised in the 2012 audit of all the household meters that were not included in the fixed asset register of the municipality.

A list of all these meters and their locations can be obtained from the exception reports on the Pastel Evolution.

These are the meters installed at each household what the municipality uses to read the consumption of the water each month.

We disagree with the finding as all these meters do exist, how can the municipality take meter readings if there are no meters installed or they cannot be located? We request the AG to revisit their sample and inspect the meters installed at each household.

The meters were all included as one liner item on the asset register as these assets:

1. - All similar in nature;
2. - All have the same cost; and
3. - All have the same useful life and therefore will the depreciation not be significantly impacted

We will include additional information on the asset register for future reference.

Auditor's conclusion

No formal response from the management was received but asset register was inspected and the following were identified:

Water meters that are used for readings by municipality were grouped together in the asset register for each town and this was not documented in the initial asset register. This will be reported in the management report as corrected misstatement and also will be reported as internal control to be followed up next year to ensure that household meters are properly linked to the asset register.

92. EX.182 - PPE: Assets not traced to asset register (EX.182)

Audit finding

Section 63 (1) (a) of MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Contrary to the above, the following assets (PPE) were selected from the floor but could not be traced to the asset register:

BAR CODE NUMBER	SERIAL NUMBER	TOWN	Type	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 (R)	Comment
9880	3CBMQZ1	Brandfort	Dell	N/A	Not available	N/A
9711	VNH5B06613	Brandfort	HP PINTER	N/A	Not available	N/A
9715	NA	Winburg	Water Trailer	N/A	Not available	N/A
9805	N/A	Winburg	Water Trailer	N/A	Not available	N/A
9911	N/A	THEUNISSEN	Valve	-28.391 26.711	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9911 could be traced.
9883	N/A	MAJWEMASWEU	Valve	-28.688 26.455	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9883 could be traced.
9974	N/A	MASILO	Valve	-28.422 26.709	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9974 could be traced.

Cause

Management did not take steps to ensure that controls over the accuracy and correctness of the assets register.

Impact

The matter results in a limitation of scope to determine the completeness of the asset register.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate the PPE items that could not be traced to asset register and provide evidence that they were recorded or removed from the asset register.

Management should further implement controls to ensure that all its assets are recorded in the asset register

Management response

We agree with the finding.

However we believe that these items monetary value is trivial and will not have an significant impact on the financial statements.

These items will be added to the asset register

Name: F Mzizi

Position: CFO

Date:19/11/2014

Auditor's conclusion

Management agrees with the finding and it will be reported as such.

We identified additional items that could also not be traced to the asset register:

BARCODE NUMBER	TOWN	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014	Comment
9790	THEUNISSEN	-28.400 26.703	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9911 could be traced
9829	BRANDFORT	-28.700 26.453	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9911 could be traced
9898	THEUNISSEN	-28.393 26.711	1 108,06	Pump was selected from the floor but could not be traced to the asset register, only valve with bar code 9911 could be traced

93. EX.185 - PPE: Differences between asset register, GL and financial statements (EX.185)

Audit finding

Section 63 (1) (a) of MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Contrary to the above it was identified that the asset register does not reconcile with the annual financial statements. The reconciliation between the assets register and the financial statements were not submitted with the working papers to the financial statements and were requested from the consultants of the municipality who were responsible for the compiling of the financial statements, but could not be obtained, the differences below were identified :

Description	General Ledger (R)	Asset register (R)	AFS (R)	Differences as between GL/Asset register (R)	Differences as between AFS/Asset register (R)	Differences as between AFS/GL (R)
Other assets						
Office Equipment	401 558,07	118 874,80	118 875	282 683,27	(0,64)	282 682,63
Furniture & Fittings	1 229 830,90	1 226 921,30	1 226 656	2 909,60	265,44	3 175,04

Plant and Equipment	3 114 897,49	3 114 758,82	3 114 899	138,67	(140,45)	(1,78)
Motor vehicles	5 340 127,53	5 340 126,88	5 340 128	0,65	(0,78)	(0,13)
Emergency equipment	246 644,20	246 375,47	246 374	268,73	1,56	270,29
Computer equipment	-	282 684,11	282 682	(282 684,11)	2,55	(282 681,56)
Total other assets:	10 333 058	10 329 741	10 329 614	3 317	128	3 444
Infrastructure	327 085 497,41	327 094 796,65	327 085 497	(9 299)	9 300	0
Infrastructure Assets Electricity	25 175 456,80	25 183 679,68	25 175 457	(8 222,88)	8 222,90	0,02
Infrastructure Assets Roads	101 919 325,17	101 919 962,63	101 919 325	(637,46)	637,46	(0,00)
Infrastructure Assets Sewerage	94 371 604,19	94 371 802,72	94 371 604	(198,53)	198,49	(0,04)
INFRASTRUCTURE ASSETS WATER	105 593 536,07	105 593 776,33	105 593 536	(240,26)	240,26	0,00
INFRASTRUCTURE ASSETS REFUSE	25 575,18	25 575,29	25 575	(0,11)	0,58	0,47
Land and building	57 122 693,02	57 122 693,02	57 122 693	0,00	0,33	0,33
Work in progress	144 546 073,92	144 546 094,72	144 814 914,97	(20,80)	(268 820,25)	(268 841,05)
Lease Assets	1 763 950,99	1 763 951,05	1 763 951,00	(0,06)	0,05	(0,01)
Total:	540 851 273,53	540 857 276,82	541 116 669	(6 003,29)	(259 392,50)	(265 395,79)

Cause

Management did not reconcile the assets register with the annual financial statements.

Impact

Property, plant and equipment could be misstated by R265 396.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should investigate the matter and adjust the financials accordingly

Management should further put measures in place and ensure that there is a reconciliation performed between the asset register, GL and the financial statements before they are submitted for audit.

Management response

We disagree with the finding.

Please find attached the reconciliation between the financial statements and the asset register.

All variances are reconciling items with regard to WIP.

Please see attached the reconciliation of the FAR to the trial balance.

The variance of the R268 820.25 is due to the WIP register being on the cash basis and the financial statements being prepared on the accrual basis. The financial statements will include unrecorded liabilities that are not recorded on the WIP register. This is thus a reconciling item, however the unrecorded liabilities will be included in the WIP register to provide Rnil differences.

The difference of R282 681.56 is reclassifications between the computer equipment and the office equipment. There are separate asset register for these assets but they share a trial balance account on the pastel evolution. Therefore this is not misstatements but only reclassifications on the Pastel Evolution as the balances are combined on the Pastel but still report the same value on the financial statements.

The recommendation will be accepted to create a separate account for each on the trial balance.

The rest of the misstatements is rounding and trivial but will be corrected on the trial balance.

The differences will be corrected on the financial statements and revised asset register.

Auditor's conclusion

Management comments were obtained and assessed as follows:

1. Other assets

Office equipment includes computer equipment in TB, difference of R282 682 it is because of computer equipment.

TB does not have an account for computer equipment, it is therefore concluded that TB account should be created for computer equipment. Not resolved, this will be reported as internal control.

2. Work in progress

Work in progress is recorded based on cash basis, difference of R268 820 is due to unrecorded liabilities on TB. Difference is due to the work done but not paid yet.

Resolved. It will be included in the management report as a corrected misstatement.

94. EX.200 - Depreciation: Difference Fixed Assets Register and Trial Balance (EX.200)

Audit finding

In terms of MFMA (62) (b) The Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Contrary to the above in the financial statements (note 25 and the statement of financial performance) depreciation was disclosed as R28 790 069. During a comparison of depreciation in the fixed asset register with the trial balance a difference of R571 629.55 was noted:

Description	Depreciation per FAR (R)	Depreciation per TB (R)	Difference (R)
Stormwater and Road Infrastructure	7 226 936.16	28 786 625.86	571 629.55
Bulksewer and sewer Infrastructure	5 011 880.15		
Bulkwater and water infrastructure	1 1720 739.00		
Electricity Infrastructure	376 827.65		
Solid waste infrastructure	1 900.29		
Land and buildings	706 198.31		
Computer Equipment	126 078.44		
Office Equipment	126 362.46		
Motor vehicles	623 524.34		
Furniture and fittings	446 742.57		
Maintenance equipment	1 008 040.73		
Emergency Equipment	35 286.69		
Leased Assets	1 097 247.62		
Investment property	850 491.00		
	29 358 255.41		

Cause

The depreciation in the fixed assets register was not reconciled to the trial balance and the financial statements.

Impact

Possible understatement of the depreciation charge per the statement of financial performance amounting to R571 629,55

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

It is recommended that the annual financials be revised and reasons be given for differences noted.

Management response

We agree that there is a variance but this is not a misstatement. This is a matter of disclosure that needs to be corrected and guidance is required for the correct disclosure from the Auditor-General.

Please note that there is no material uncorrected difference between the fixed asset register and the trial balance with regard to the carrying amounts except the increase in the landfill site rehabilitation for 2014 to be added to the land and buildings on 30 June 2014 and this is treated as a reconciling item.

Thus are there no significant difference between the carrying values of the asset register and the trial balance.

In the current year the residual values of the assets was assessed and noted that some of the assets was depreciated to a carrying amount less than the residual value. This resulted in the non-

compliance with GRAP and the depreciation on the trial balance were decreased with R568 687 but in note 11 were the depreciated kept at R29 358 256 to agree to the asset register but a correction were disclosed on note 11 of R567 686 to increase the carrying value to ensure note 11 agrees to the asset register. The correction of R567 686 is the total balance of the carrying amounts that are less than the residual values that was corrected.

Refer to the reconciliation below:

Description	FAR	Note 11	Difference	Residual value
DEPRECIATION				
Stormwater and Road Infrastructure	7 226 936.16	7 226 936.00	0.16	-
Bulksewer and sewer Infrastructure	5 011 880.15	5 011 880.00	0.15	53 351.95
Bulkwater and water infrastructure	11 720 739.43	11 720 739.00	0.43	2.30
Electricity Infrastructure	376 827.65	376 828.00	-0.35	14 016.81
Solid waste infrastructure	1 900.29	1 900.00	0.29	-
Land and buildings	706 198.31	706 198.00	0.31	-
Computer Equipment	126 078.44	126 078.00	0.44	27 536.50
Office Equipment	126 362.46	126 362.00	0.46	46 014.55
Motor vehicles	623 524.34	623 524.00	0.34	386 072.90
Furniture and fittings	446 742.57	446 743.00	-0.43	3 675.40
Maintenance equipment	1 008 040.73	1 008 041.00	-0.27	-
Emergency Equipment	35 286.69	35 287.00	-0.31	37 017.21
Leased Assets	1 097 247.62	1 097 248.00	-0.38	-
Investment property	850 491.29	850 491.00	0.29	-
	29 358 256.12	29 358 255.00	1.12	567 687.63
Balance per Statement of Financial Performance	28 790 069.00	28 790 069.00		
Difference	568 187.12	568 186.00		
Residual value adjustment	567 687.63	567 687.63		
Difference	499.50	498.37		

Auditor's conclusion

Management comments were obtained and assessed as follows:

Management agrees with the finding, this matter once adjusted AFS are adjusted this exception will be resolved.

Management agrees with the audit finding and the matter will be reported in the management report. It is further emphasised that the matter is a misstatement as no depreciation can be charged on an item that has exceeded its useful life.

The annual financial statements were obtained on the 27 November 2014, and through inspection of the annual financial statements the correction was made accordingly, however this matter will still be reported on in the management report as corrected misstatement.

95. EX.21 - PPE: Different sizes of valves with the same value (EX.21)

Audit finding

Section 63(2) of the MFMA states: "The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality".

In the prior year it was reported that in total there were 2 100 valves which differ in sizes between 32mm and 76mm. It was observed that they had the same book value and they were depreciated at the same rate. Therefore, the correctness of the valuation could not be verified because the asset register does not reflect the different sizes. During a follow up and with inspection of the asset register it was confirmed that different sizes of valves still had the same values:

UNIQUE ASSET NUMBER (OLD)	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	TOWN	GPS COORDINATES	TOTAL COST	DEPRECIATED REPLACEMENT COST - 30 JUNE 2013	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014
9466	Valve	Diameter: 90mm	BRANDFORT	-28.707 26.455	8202	1367,00	1108,06
10111	Valve	Diameter: 160mm	BRANDFORT	-28.705 26.459	8202	1367,00	1108,06
10157	Valve	Diameter: 63mm	VERKEERDEVLEI	-28.832 26.775	8202	1367,00	1108,06

2. From the following summary in the assets register it was noted that all of these valves had different sizes with the same values:

ASSET DESCRIPTION 1	SUB-ASSET CATEGORY 1/ Component Type	Size between	Number of valves	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014 each(R)	TOTAL DEPRECIATED REPLACEMENT COST - 30 JUNE 2014(R)
Valves	Water	63mm to 350mm	2100	1 108,06	2 326 926,00

The valuation (R2 326 926) of valves as per asset register could not be confirmed.

These matters were also reported in exception 128, audit report paragraph 6 and management letter paragraph 18. In its response to the prior exception management committed to revise asset register according to the action plan but this has not been properly corrected.

Cause

Management did not adequately review the asset register to ensure that the prior year findings were corrected.

Impact

Limitation of scope to verify the value of the infrastructure assets (valves) to the value of R2 326 926. The prior year uncorrected matters could affect the audit opinion should they be material when they are aggregated.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Risk assessment

The entity did not identify risks to the achievement of its objectives and identifies the risk as a basis for determining how the risks should be managed.

Recommendation

Management, including the asset manager and the consultants responsible for the assets register, should follow up this matter up to ensure that it is updated with credible information. The different sizes of the valves should have values according to their sizes. Evidence how it was determined should then also be forwarded for audit purposes. Physical verifications of the assets should be performed and the updated master plans should correlate with the asset register.

Management response

We disagree with the misstated amount in the finding.

The extrapolation must be reconsidered due to the assumption that all the valves are valued at the incorrect value.

Quotations were obtained for all the different sizes of the valves on the municipality asset register. The carrying value at 30 June 2014 and 30 June 2013 were recalculated based on the quotation per valve and the current condition of the valve and the year in use.

Based on our recalculations are the valves overstatement with R1 401 707.74 (2013: R1 768 897.56) the asset register will be adjusted to reflect the correct values of the valves to resolve the finding.

Please find attached the quotations and the recalculation of the valves values.

Auditor's conclusion

Management comments were noted but managements should also be aware that we did not use extrapolation, we took values of valves as they are from the asset register.

Through the inspection of quotations and re-calculation of valves carrying values it was determine that management calculations were reasonable.

This exception **is not resolved** until we received an adjusted AFS and updated asset register.

Received an updated asset register on 27 November 2014. Through the inspection of asset register it was confirmed that valves with different sizes had different values.

This exception is resolved and will be reported in the management report as a corrected misstatement.

96. EX.37 - PPE: Repairs and maintenance incorrectly classified (EX.37)

Audit finding

Section 63 (1) (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Paragraph 15 of GRAP 17 prescribes that parts of some items of property, plant and equipment may require replacement at regular intervals. A road may need resurfacing every few years, items of property, plant and equipment may also be required to make a less frequently recurring

replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement.

Under the recognition principle in paragraph .07, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions of this Standard (paragraphs .72 to .78).

Contrary to the above it was identified that certain PPE items were not correctly classified as repairs and maintenance:

N O,	Date	Reference	Description	UserName	Reference2	ContraAccount	Debit (R)	Description as per invoice
1	18-Sep-13	8610	Purchase Order	Sebina Mogoerane	GRV4897	PJS001	16 000,00	Main hydraulic pump
								Pump
								97527968 GTH100 PN 10G1 V
								Control Panel
								97929712 Customer material press MBS 3000-1811-3AB08 0-6 BAR4-20MA
2	21/08/2013	INV00032	Purchase Order	Sebina Mogoerane	GRV4068	LTA001	150 600,00	
3	15/11/2013	42079	Purchase Order	Sebina Mogoerane	GRV5236	IMP002	111 118,40	3127 X 400V 5,9KW FLYGT Pumps C/W 10M Cable, SN 1320466 & 1320468
4	10/02/2014	IN1003	Goods Received Voucher	Sebina Mogoerane	GRV5789	SOM001	38 500,00	Installation of pump 1 and motor, installation of steel pipes
								Supply KSB Extanorm pump 125-100-25, SN 01490107
								Pump no,2: Installation of a KSB Extanorm 125-100-250
5	10/02/2014	IN1003	Goods Received Voucher	Sebina Mogoerane	GRV5789	SOM001	155 500,00	Pump and motor on site, fabrication and installation of steel pipes
6	10/02/2014	IN1003	Goods Received Voucher	Sebina Mogoerane	GRV5789	SOM001	56 000,00	Supply BMG 90Kw 380-400 volts 2 pole motor 2900 rpm, SN 08100122
7	28/11/2013	PAY28NOV13	LEFATSHE LA RONA	Sebina Mogoerane	CBR01024	77/3030	19 400,00	Office equipment: High Back Chair With Arm, Visitors chair, Office desk
8	10/02/2014	10/02/2014	Purchase Order	Sebina Mogoerane	GRV6221	LEF002	196 500,00	315 KVA Transformer Voltage 11000/400V Vector
9	8/21/2013	INV33634	Purchase Order	Sebina Mogoerane	GRV4048	BKB001	94 489,92	5 000 and 10 000 litre Jojo Vertical Water Tanks
Total:							838 108,32	

Extrapolation:

Sample amount	5 314 185,46
Error amount	838 108,32
Error %	16%
Population	7 723 108,00
Projected amount	1 218 023,80

Cause

Management did not implement controls to ensure that transactions are correctly classified.

Impact

Property, plant and equipment could be misstated.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should follow up this matter and ensure that repairs and maintenance are correctly classified, and update asset register where necessary.

Management response

Management agrees with the finding, however the classification was according to the budget vote numbers.

Auditor's conclusion

Management responses were obtained and assessed, it was determine that capital assets incorrectly classified as repairs and maintenance were correctly classified with the updated asset register.

The aspect will be reported as a corrected misstatements in the management report.

97. EX.164 - PPE: Sizes for Land and Building identical (Churches) (EX.164)

Audit finding

Section 63 (1) (a) of the MFMA states that “the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets”.

I was identified that the size for land and that of the related building were indicated as the same on the asset register, refer below for the identified instances:

Note

Land and buildings

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	MAIN ASSET CATEGORY	ASSET DESCRIPTION 1	ADDRESS/ERF /COORDINATES	TOWN	WIDTH/
						LENGTH/
						HEIGHT/
						DIAMETER/
						QUANTITY
F00600030000106400000	Land and Buildings	Land	CHURCH	1064	MAJWEMASWEU	1 635
F00600030000106400000	Land and Buildings	Building	CHURCH	1064	MAJWEMASWEU	1 635
F00600030000106700000	Land and Buildings	Land	CHURCH	1067	MAJWEMASWEU	2 149
F00600030000106700000	Land and Buildings	Building	CHURCH	1067	MAJWEMASWEU	2 149
F00600030000106600000	Land and Buildings	Land	CHURCH	1066	MAJWEMASWEU	3 155
F00600030000106600000	Land and Buildings	Building	CHURCH	1066	MAJWEMASWEU	3 155

Cause

Management did not take reasonable steps to ensure that the information on the asset register is accurate.

Impact

The impact of the finding is that the municipality does not have an accurate asset register

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should evaluate the entire asset register to ensure that the information therein is accurate and correct.

Management should further correct the asset register and communicate corrective controls to the Auditor General.

Management response

We agree with the finding.

This matter is an internal control matter. The sizes of the land and buildings will be corrected on the asset register.

Auditor's conclusion

Matter has not yet been corrected in the assets register. It will be reported as an internal control matter.

98. EX.167 - PPE: PPE items not bar coded (EX.167)

Audit finding

Section 63 (1) (a) of MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Paragraph 10.1 of the Fixed Asset Management Policy states that "all fixed assets will be identified with a unique bar coded fixed asset number and recorded on an asset inventory sheet".

Contrary to the above it was identified that not all property, plant and equipment items were bar coded. Certain pipes, aerators and pumps at Brandford water treatment works were found to not be bar coded. Not all of the components of the water treatment works in this regard has therefore been componentised in the asset register. This is evident from the schedule that was provided by management for componentisation of water treatment works at Brandford water treatment works which did not include pipes, aerators:

1. Bulk Sewerage

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	MAIN ASSET CATEGORY	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	BAR CODE NUMBER	TOWN	GPS COORDINATES	DEPRECIATED REPLACEMENT COST - 30 JUNE 2014	Status
1	12084	Mechanical Plant	Infrastructure Assets	Bulk Sewer Network	Aerator	Theunissen WWTW	12084	Theunissen WWTW	-28.433 26.701	303 059,62	Not bar coded.

2. Bulk water

No.	UNIQUE ASSET NUMBER (OLD)	ASSET GROUP	SUB-ASSET CATEGORY 1/ Component Type	ASSET DESCRIPTION 1	ASSET DESCRIPTION 2	BARCODE NUMBER	TOWN	GPS COORDINATES	Differences
7	12237	Electrical Plant	Pump motor	Treated Water Booster Pump Motor No.1	Various	N/A	Winburg Treated Water Pump Station	-28.552 26.992	Not barcoded

3. Motor vehicles

	Unique no.	ASSET GROUP	ASSET CODE	ASSET DESCRIPTION 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	TOWN	FLOOR / ROOM NAME
8	00003645	N/A	N/A	N/A	N/A	NA	NON CASH	Verkeerdevelei	00003631

Cause

Management did not verify each and every asset during the financial year under review and took effective steps to ensure that all assets are bar coded.

Impact

Not all assets may be included in the asset register and it is difficult to determine if the assets belong to the municipality.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should investigate and ensure that all the assets are bar coded.

Management response

1. We disagree with the finding

During componentisation the following must be considered:

- Assets will be componentised if part of an asset with a significant different useful life and significant cost in relation to the rest of the main asset exist;
- The componentisation will only effect the depreciation and the factors to consider in determining what should become a separately depreciable part (component) are:
 - Significant (material) cost; and
 - Considerable difference in useful life.

If significant assets are not componentised the only financial implication will be the depreciation that needs to be considered. Thus before doing the exercise of componentisation must the material impact be considered of the depreciation and the impact it will have on the fair presentation of the financial statements.

If there is no material impact then componentisation is done at an appropriate level.

An aerator is one gearbox machine; it does not make economic sense to be componentised like a water treatment plant that consists of Building (Face brick), booster pumps, pump motors, air compressors, etc.

The same for the water pump reported in finding two, it does not make economic sense to be componentised any further.

We believe that these items are only internal control matters. These assets were physically verified and they do exist including the motor vehicle

These assets will be bar coded updated on the asset register.

Auditor's conclusion

Management comments were obtained and evaluated as follows:

Items that are reported under nature were identified during physical verification of PPE items, they were selected from the asset register. This exception will be reported as an internal control in the management report.

Inventory

99. EX.184 - Inventory: Accounts closed without an approval (EX.184)

Audit finding

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

Through inspection of the financial statements (note 29.06) and the GL, it could be confirmed that the general ledger vote numbers 77/3025 and 77/3026 have been removed from the Pastel system in line with the narrative on the note (The municipality does not have an internal system to record and issue inventory. As the inventory are not significant the municipality opted to expense all inventory purchased during the year. The effect if the decrease in inventory and increase in general expenses with R133 756).

During a subsequent inquiry with the CFO on 31 October 2014 it was confirmed that no approval for the removal of the accounts could be obtained. It has therefore been concluded that the accounts were removed from the system without obtaining the required approval. The reasons contained in the financial statements are accepted as valid, however the process followed in achieving the said outcomes is deemed to be conducted without approval.

Cause

Lack of oversight in assessing changes to the system.

Impact

Transactions and accounts on the Pastel system could be altered without adequate approval.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should assign powers to a limited individuals to alter the account numbers on Pastel and ensure that any alteration is reviewed for approval.

Management response

Management response was not received.

Auditor's conclusion

Management comments were not received and the matter will be included in the management report.

Investments

100. EX.45 - Investments: Monthly reconciliations not performed (EX.45)

Audit finding

Paragraph 17 of GRAP 1 "Presentation of Financial Statements" states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

Contrary to the above it was established that the municipality does not perform monthly reconciliations of their Investments.

Cause

Lack of oversight to ensure that reconciliations are performed.

Note

Impact

The possibility of errors with regards to investment accounts not being identified and corrected on a timely basis and therefore the investment balance may be materially misstated in the annual financial statements for the 2013/14 financial year.

Internal control deficiency

Financial and performance management:

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should design and implement controls to ensure that monthly reconciliations on investments are performed.

Management response

Management agrees with the finding and will implement controls to ensure that reconciliations are performed.

Auditor's conclusion

Management agrees with the finding and will be included in the management reported.

Movable assets

101. EX.20 - PPE: Assets not barcoded (EX.20)

Audit finding

Section 6(1) (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Paragraph 10.1 of the Fixed Asset Management Policy states that "all fixed assets will be identified with a unique bar coded fixed asset number and recorded on an asset inventory sheet".

It was identified that the assets below which were included in the asset register did not have bar codes and serial numbers:

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	SERIAL NUMBER	REGION/BUILDING NAME
00009836	Computer Equipment	Dell	Lap Top	N/A	N/A	Theunissen HR office
00009867	Computer Equipment	Dell	Lap Top	N/A	N/A	Theunissen -Internal Audit
00009858	Computer Equipment	HP CPU	HP CPU 3500	N/A	N/A	Theunissen
00009685	Computer Equipment	HP MONITOR	HP LCD MONITOR W19762a	N/A	N/A	Theunissen
00009832	Computer Equipment	HP CPU	HP CPU 3500	N/A	N/A	Theunissen
00009799	Computer Equipment	HP MONITOR	HP LCD MONITOR W19762a	N/A	N/A	Theunissen

Cause

Management did not take necessary steps to review the assets register to ensure that there are no deficiencies

Impact

The finding could result in limitations to verify the existence of assets.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Monitoring

The entity did not select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Recommendation

Management should investigate the asset register to ensure that all the assets in the register have bar codes and serial numbers.

Management response

We disagree with the finding.

These assets identified are bar coded with unique bar codes and the location of the specific assets can be provided as well.

The bar code number is the "Unique Asset Number" indicated on the left hand side of the FAR

The column "bar code" are indicated as not applicable because there is a unique asset number indicated on the assets register that are the same as the tag on the specific asset.

We also disagree with the impact of the Auditor-General. This finding is a generic finding of a search of the assets with N/A bar codes that is incorrect as the "Unique Asset Number" is the bar code number.

The fact that the assets is bar coded are there no reason to provide the serial number as the assets bar code number and the description of the assets are included in the FAR.

These assets were also not physically verified by the Auditor-General, thus the limitation can not be substantiated.

Please see the location of the assets to verify the existence of the assets:

UNIQUE ASSET NUMBER (NEW)	ASSET GROUP	SUB-ASSET CATEGORY 1	ASSET DESCRIPTION 1	BAR CODE NUMBER	REGION/ BUILDING NAME	Location
00009836	Computer Equipment	Dell	Lap Top	N/A	Theunissen HR office	This LAP TOP WAS GIVEN TO AN HR PERSONNEL FORGOT THE NAME
00009867	Computer Equipment	Dell	Lap Top	N/A	Theunissen - Internal Audit	THIS IS DANIEL'S LAP TOP
00009858	Computer Equipment	HP CPU	HP CPU 3500	N/A	Theunissen	THIS CPU IS IN THE FINANCE OFFICE
00009685	Computer Equipment	HP MONITOR	HP LCD MONITOR W19762a	N/A	Theunissen	THIS CPU IS IN THE FINANCE OFFICE LEBAKENG'S TABLE
00009832	Computer Equipment	HP CPU	HP CPU 3500	N/A	Theunissen	THIS CPU ITS WAS GIVEN TO Mrs SUZAN IN WINBURG
00009799	Computer Equipment	HP MONITOR	HP LCD MONITOR W19762a	N/A	Theunissen	THIS MONITOR ITS WAS GIVEN TO Mrs SUZAN IN WINBURG

Name: F. Mzizi
 Position: CFO
 Date: 14/10/2014

Auditor's conclusion

Management comments were noted;

Management should take a note that we cannot assume that unique asset number is the same as bar code.

If physical verification is done we might not be able to verify the asset as there were no bar codes as per asset register, hence the impact states that "The finding could result in limitations to verify the existence of assets".

In the asset register management should clearly state that unique asset number serves as an bar code as well.

Impact it shows that PPE will not be positively verified if bar code or serial number is not known.

This matter will be reported as an internal control deficiency in the management letter.

Operating expenditure

102. EX.102 - Expenditure: Expenditure transactions not recorded in the general ledger (EX.102)

Audit finding

The Framework for preparation and presentation of financial statements, states that under the accrual basis of accounting, the effects of transactions and other events are recognised when they occur (and not when cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

It was noted that the following expenditure transactions were not recorded in the general ledger for the financial year ended 30 June 2014 the details are as follows:

Invoice date	Invoice number	Voucher number	Supplier name	Amount
01/07/2014	93261295	27307	Nashua Mobile	R41 349,72

Cause

Management did not enforce controls to ensure that the invoices are timeously recorded in the general ledger.

Impact

This will lead to the understatement of expenditure and payables by R41 349,72.

Internal control deficiency

Financial and performance management

Management did not Implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should enforce controls to ensure that invoices are timeously recorded in the general ledger.

Management response

Management response was not received.

103. EX.153 - Lease agreements: Supporting documentation not provided for audit purposes (EX.153)

Audit finding

Section 62(1)(b) of the MFMA on General financial management functions states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure - (b) that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

In terms of paragraph 40 of GRAP 13, lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

We requested the all effective lease agreements for all buildings that Masilonyana Local Municipality is renting where the municipality is the lessee to the agreement as at 30 June 2014. The request was furnished to management on the 22 October 2014, request for information 77.

The information submitted was for old lease agreements that have expired and not applicable for the financial year under audit, thus we were unable to determine the amount of the lease payments on a straight line method over the lease period that should be recognised in the statement of financial performance in terms of GRAP 13.

Operating lease payments are disclosed under note 28, General expenses, in the financial statements.

Cause

Lack of internal controls to ensure that all supporting documentation requested are submitted.

Impact

The matter results in a scope limitation to determine the occurrence and accuracy of the lease payment as disclosed in the financial statements.

The total amount of the operating lease payments disclosed in the financial statements is R1 533 972

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should submit the lease contract relating to the amount disclosed in the financial statements to the Auditor General.

Management response

Please find attached the supporting documentation for the assessment of the leases as finance leases or operating leases.

Also find attached the contracts that were used and are effective by the municipality.

Name: F Mzizi

Position: CFO

Date:17/11/2014

Auditor's conclusion

Management's comments were received as follows:

- The lease agreement do not relate to the requested agreements as per request 77 of 2014.
- Therefore the matter is not resolved and will be reported in the management letter.

104. EX.170 - Procurement: Deviations not disclosed in the notes to the annual financial statements (EX.170)

Audit finding

SCM regulations 36(2), the accounting officer must record the reasons for any deviations in terms of sub-regulation (1) (a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements.

1. Per inspection of the annual financial statements for the financial year ended 30 June 2014, it was confirmed that no disclosure was made in respect of deviations from supply chain management regulations as required by SCM regulations 36(2). Below are a sample of deviations that occurred during the current financial year but have not been disclosed in the annual financial statements.

Name of supplier	Description	Value of award (R)
Camelsa Consulting Group (Pty) Ltd	Upgrade and support on pastel evolution	122 606.40
Tri-Lectro	Powerfailure to pump house and repair cable to pump house	50 879.34
Sompema Trading	Overflowing manholes in Winburg	133 748.05
AECOM	Rendering of environmnetal auditing services as various landfill sites	37 506
Imperial Developments (Pty) Ltd	Repairs to faulty pump station at Winburg	126 674.98
L.Tap Solutions	Repairs to booster pum station supplying water to the reservoirs in Soutpan	171 684
LKGA Construction & Projects cc	Operation of water treatment plant Brandford and Theunissen	72 013.80

PJS Engineering	Repairs to Machinery	17 226
Masilonyana News	Printing of Budget Speech booklets	29 090
Amanzi Game reserve	Amanzi Game reserve	13 200
PJS Engineering	Overhaul cylinder	14 285.88
Total		788 914.45

2. We could also not get evidence that the deviations identified were reported to council as required by section 36(2) of the supply chain management regulations.

Cause

Management was not aware that the list of deviations for the year is required to be disclosed in the annual financial statements.

Impact

Misstatement of the annual financial statements (Disclosure)

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations

Recommendation

Management should amend the notes to the financial statements to ensure that all the deviations identified are disclosed in the notes to the financial statements as required.

Management response

Management response was not received.

105. EX.70 - Expenditure: Transactions recorded in the incorrect accounting period (EX.70)

Audit finding

The Framework for preparation and presentation of financial statements, states that under the accrual basis of accounting, the effects of transactions and other events are recognised when they occur (and not when cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The following expenditure transactions which relate to the 2012/13 financial year were incorrectly recorded in the current financial year paid for in the current year:

Note

Supplier	Voucher	Invoice number	Invoice date	Amount
Servolution (Pty) Ltd	CBR01024	INA10008	11/06/2013	R21 280
Oranje Toyota	13632	74331455	13/05/2013	R1 755
Theunissen Bande	13616	194	29/04/2013	R5 442
Swans water Treatment	13734	004327	09/04/2013	R74 312
Interactive Systems Designs	13791	201231799	30/06/2013	R120
Nashua Mobile	13759	13790	01/06/2013	R50 792

Total				R 153 701
--------------	--	--	--	------------------

Cause

Expenditure transactions are recorded when payment is made not when the transaction occurred.

Impact

Current year expenditure is overstated and accumulated surplus is understated - R 153 701.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should enforce controls to ensure that the transactions are recorded in the correct accounting period.

Corrective actions should be communicated to the Auditor General

Management response

Management agrees with the finding and transactions will be corrected, and AFS will be adjusted as such.

Supplier	Voucher	Invoice number	Invoice date	Amount	Masilonyana Comments
Vermeulen Forms	13587	IN45222	04/07/2013	2 688	We agree and will adjust
Servolution (Pty) Ltd	CBR01024	INA10008	11/06/2013	21 279,97	We agree and will adjust
Oranje Toyota	13632	74331455	13/05/2013	1 755,43	We agree and will adjust
Theunissen Bande	13616	194	29/04/2013	R5 442,1	We agree and will adjust
Swans water Treatment	13734	004327	09/04/2013	74 312.56	We agree and will adjust
Interactive Systems Designs	13791	201231799	30/06/2013	R120	We agree and will adjust
Nashua Mobile	13759	13790	01/06/2013	50 791,93	We agree and will adjust
Eskom	16604-16610	8573449855	29/07/2013	163 943,05	We will not adjust. The Eskom supplier balance agrees to the supplier statements and will therefore not be adjusted. The corrections were made with journals earlier. Recording this journal will result in the misstatements of the supplier balance. Please see attached.
SWANS Water Treatment (PROP .SWANSA (Pty) Ltd	13734	004327	09/04/2013	74 312,56	Duplication in the finding and will not be adjusted.
Heweston Inc.	13732	GRV5035	12/03/13	261 263	The balance on the supplier age analysis agrees to the supplier statement. These misstatements were corrected with journals. Recording this amount will

					result in the balance being misstated as the invoice were corrected with journals
Total				581 596,04	

Name: F. MZIZI
Position: CFO
Date: 14/11/2014

Auditor's conclusion

Management response received and to be evaluated.

1. The agreements will be assessed upon receipt of the final AFS.
2. All disagreements have been resolved, therefore this part of the exception will be cleared.

106. EX.72 - Expenditure: Invoices and general ledger entries do not agree (EX.72)

Audit finding

In terms of paragraph 62 of part 1 of chapter 8 of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that -

- (b) full and proper records of the financial affairs of the municipality are kept

On comparison of invoice amounts to their related General Ledger entry amounts, the following differences were detected:

Date	Voucher	Supplier	Reference	Amount as per		Difference
				General ledger	Invoice	
12/07/2013	13786	Eskom	GRV4082	R1 917 766	R2 443 813	(R526 047)
25/07/2013	14794	Eskom	GRV4644	R877 193	R2 748 332	(R1 861 139)
12/12/2013	20535-20548	Eskom	GRV5481	R235 454	R129 578	105 875.84
13/12/2013	19970-19992	Eskom	GRV5411	R289 181	R141 426	R147,755
30/01/2014	21183-21187	Eskom	GRV5595	R121 573	R142 858	(R21 285)
08/04/2014	24295	Sand Vet	CBR01096	R200 000	R181 111	R18 889
24/07/2013	13732	Heweston	GRV5035	R87 719	R261 263	(R173 544)
24/07/2013	13821	Heweston	GRV5045	R87 719	R261 263	(R173 544)
14/11/2013	19275	Heweston	GRV5383	R250 000	R572 306	(R322 306)
Total				R4 066 605	R6 881 950	(R2 953 100)

Cause

Transactions are recorded based on amount paid and not on amount as per invoice.

Impact

Expenditure and payables might have understated

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should enforce implementation of controls through regular review and monitoring to ensure that transactions recorded in the general ledger agree with the invoice from the supplier. Management should visit the entire population to ensure that expenditure transactions are captured at correct values

Corrective actions should be communicated to the Auditor General

Management response

Management disagrees with the finding for the following reasons:

1. ESKOM – all payments were inclusive of arrears as the Municipality had a cash flow problem. Furthermore, the VAT and interest on the account were combined and reflected as VAT which is why the invoices had to be recaptured.
2. SAN-VET – VAT and interest were combined and rectified later as the VAT was misstated.
3. HEWETSON – Invoices were incorrectly captured as per the part-payment instead of the whole invoice amount, however there was a process to rectify the misstatement of creditors and somehow these invoices were missed to be corrected when the process unfolded.

Auditor's conclusion

The management response is acknowledge and assessed, the issue is resolved.

107. EX.73 - Expenditure: Invoice amount incorrect (EX.73)

Audit finding

In terms of paragraph 62 of chapter 8 of the MFMA No 56 of 2003, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that -

(d) unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented

During recalculation of invoices paid for the period under review, the following invoice was found to be mathematically incorrect. The sum of the individual transactions per the invoice did not agree to the total displayed on the invoice. Please refer below for detail used:

Date of payment	EFT reference	Invoice number	GRV Number	Total per invoice (R)	Recalculated total (R)	Difference (R)
06/08/2013	14470	INV:20130806	GRV4852	150 000	47 000	103 000

This constitutes (1/30) 3% of the transactions selected for testing.

Cause

Lack of review if invoices before payments are made.

Impact

The finding will result in possible fruitless and wasteful expenditure amounting to R103 000.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should develop and implement controls to ensure that invoices are reviewed before payments are made.

Management response

Management agrees with the finding, however find the attached correct invoice to resolve this was submitted together with the acting letter of Me. N Mekana to resolve the finding.

Name: F,Mzizi

Position: CFO

Date: 07/11/2014

Auditor’s conclusion

Management agrees with the audit finding and the matter will be reported in the management report as an internal control matter.

108. EX.230 - Procurement: Internal control documents not submitted for audit (EX.230)

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act 56 of 2003 "62. General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;"

Contrary to the above, the following supporting documents were not prepared, we therefore could not audit compliance with procurement and contract management internal controls:

Details	Requirement
1. A register kept by the accounting officer for the declaration of interests by SCM officials and role players.	MFMA sec 116(2)(b)

2. A register for the declaration of interests by the accounting officer are made to the Mayor of the municipality or board of directors of municipal entity.	Code of conduct for staff members
3. An official or bid evaluation committee to which the power to make final awards has been sub delegated during the month, within 5 days after month end, submits a written report containing particulars of each final award made by including:	SCM reg 5(3) & (4)
a) the amount of the award,	
b) the name of the person to whom the award was made and	
c) the reason why the award was made to that person.	
4. In the case of a municipality, the accounting officer has, within 30 days after financial year end, submitted a report on the implementation of the SCM policy of the municipality to the council of the municipality.	SCM reg 6(2)(a)(i) & (ii)
5. Reports to the CFO by an official delegated by the CFO to approve less than three quotations obtained for awards between R2 000 and R10 000.	SCM reg 17(2)
6. Notifications in writing of all written and verbal quotations and formal written price quotations accepted by an official acting in terms of a sub delegation, reported to the accounting officer or the CFO on a monthly basis.	SCM reg 18(d)
7. Report on the implementation of the SCM policy to the mayor of the municipality by the accounting officer within 10 days after the end of each quarter.	SCM reg 6(3)
8. An independent and impartial person not involved in SCM appointed by the accounting officer to assist in dispute resolution and to deal with objections, complaints and queries regarding controls.	SCM reg 22(3)
9. Monthly reports to the accounting officer on all disputes, objections, complaints or queries received, attended to or resolved by the person appointed to deal with SCM disputes, objections, complaints and queries.	SCM reg 50(1)

Cause

Lack of management review and proper record keeping of internal control reports.

Impact

Limitation of scope on procurement and contract management in establishing the internal controls.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should implement controls to ensure that all the necessary procurement and contract management internal control reports are maintained.

Management response

Management response was not received.

109. EX.6 - Expenditure: No sound internal control over expenditure to ensure payments are only made for goods delivered/orders placed (Ex.6 (EX.6))

Audit finding

Section 65 (1) of MFMA states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

Section 65 (2) of the MFMA states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure:

a. that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds.

b. that the municipality has and maintains a management, accounting and information system which:

- i. recognizes expenditure when it is incurred;
- ii. accounts for creditors of the municipality; and
- iii. accounts for payments made by the municipality.

c. that the municipality has and maintains a system of internal control in respect of creditors and payments.

1. No system or processes were in place to ensure that payments are only done for goods that have been actually received in correct quantities and in good quality. Follow-ups are not done on outstanding orders. The items listed below serve as examples of orders not delivered by suppliers as at 22 August 2014:

	Order No	Supplier	Amount (R)	Order date
1	PO13758	Carrep	1 825,49	20/09/2013
2	PO13905	Nandina Trading	1 087,00	21/11/2013
3	PO14022	Furnwin Trading	10 052,84	26/11/2013
4	PO13907	Neltri	1 589,33	21/11/2013
5	PO13978	Theunissen Bande	1 799,99	20/11/2013

6	PO13955	Theunissen Bande	1 185,60	05/07/2013
7	PO13937	Theunissen Bande	10 400,00	28/11/2013

2. Invoices which have been paid are not stamped paid. Invoice dated 14/08/13 from Tlotli Trading for the amount of R21 639,00 has been paid on 05 September 2013 but is not stamped paid to prevent resubmission.

Cause

Sound internal controls over procurement and payment have been not designed and implemented due to the

Impact

Payments may be made for goods that were not delivered, or for damaged goods.
 Creditor may not be raised due to invoice for delivered goods not reaching finance department.
 Municipality may be unable to fulfil its duties of providing service delivery.
 Invoices may be presented more than once for payment.

Internal control deficiency

Financial management and performance

The Accounting officer did not implement effective supply chain management and finance system that enables municipality to comply with relevant laws and regulations.

Recommendation

The Accounting officer should implement proper receiving of goods procedures and ensure systems are in place that officials responsible for receiving of goods signs invoice or good received note to acknowledge that goods have been received in good condition.

The Accounting officer must ensure through review that outstanding orders are follow-up by SCM department.

Invoices and other supporting documents must be stamped as paid immediate after release of payment.

Management response

Management agrees with the findings AG Should take note of the following:

The issue of internal control will be addressed as procedure manual has been developed for 2014/2015, and that the CFO has been appointed to monitor the process

Name: Fikile Mzizi
 Position: Chief financial Officer
 Date: 01/09/2014

Auditor's conclusion

Management comment has been acknowledged and evaluated, the finding will be reported as an internal control deficiency in the management report.

110. EX.74 - Expenditure: Payments made regardless of not yet being authorised for payment (EX.74)

Audit finding

In terms of paragraph 65(2) of chapter 8 of the MFMA No 56 of 2003, the accounting officer must take all reasonable steps to ensure -

(a) that the municipality has and maintains an effective system of expenditure control , including procedures for the approval, authorisation, withdrawal and payment of funds

On review of the following payments selected for audit purposes, it was found that they were not approved for payment by either the accounting officer or delegated official:

Date of payment	EFT reference	In-house GRV reference	Name of supplier	Amount (R)
30/09/2013	25679	GRV6356	SAB&T	R172 099.00
03/04/2014	24266	GRV5961	Heweston Inc	R100 000.00
19/06/2014	25713	GRV6389	FB Coetzer	R405 608.00
Total				R677 707.00

Cause

Payments are made without inspecting and reviewing documents supporting the payments.

Impact

The finding might result in possible irregularities not being detected.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should develop and implement controls to ensure that payments are only made once there is authorisation by a delegated official.

Management response

Management agrees with the finding, however the delegated officials approves on the system and on the hard copy voucher, the system was approved.

Name: F.MZIZI
Position: CFO
Date: 11/11/2014

Auditor's conclusion

Management's comments were noted and the matter will be reported in the management report as an internal control issue.

111. EX.100 - Procurement: Price quotations not invited on a rotation basis (EX.100)

Audit finding

In terms of paragraph 18 of the Municipal Supply Chain Management Regulations, a Supply Chain Management policy must determine the procedure for the procurement of goods or services through written or verbal quotations or formal written quotations and must stipulate - (b) that when using the list of accredited prospective providers, the accounting officer must promote ongoing competition amongst providers, including by inviting providers to submit quotations on a rotational basis

In an attempt to determine whether price quotations were invited on a rotational basis, a specific service and related suppliers were selected for review to this effect:

Service according to current supplier database	Available suppliers according to current supplier database	Amount of bids requested from supplier according to monthly SCM reports
Civil Engineering Services	PJS Engineering	110
Civil Engineering Services	Carrep	63
Civil Engineering Services	Makhaotse Narsimulu and Ass	0

The rotation of suppliers did not occur as prescribed

Cause

The municipality does not have an accredited list of provider per commodity/service

Impact

The matter could result in irregularities during the supply chain management processes

Internal control deficiency

Leadership

The accounting officer did not exercise oversight responsibility regarding compliance with the Municipal Supply Chain Management Regulations

Recommendation

Management should ensure that the municipality has a list of providers/suppliers which clearly indicates the different types of goods/services provided by specific suppliers.

Management response

Management disagree with the finding as PJS and Carrep are both Repairs & Maintenance service providers and are rotated, and Makhaotse is for Civil Engineering Services and cannot be utilized to procure R&M services. Find the attached system print out to confirm the description.

Name: F.MZIZI
Position: CFO
Date: 18/11/2014

Auditor's conclusion

Managements response is noted, however in terms of the Municipal Supply Chain Management Regulations, the accounting officer must promote ongoing competition and rotate the use of its suppliers. This finding was therefor not resolved and will be reported as a non-compliance.

112. EX.169 - Resolved: Procurement: Winning bidder's account for municipal rates, tax and service charges in arrears (EX.169)

Audit finding

SCM regulations 38(1)(d)(i) – A supply chain management policy must provide measures for the combating of abuse of the supply chain management system, and must enable the accounting officer -

(d) reject any bid from a bidder– (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months.

The winning bidder's account for municipal rates and taxes and municipal service charges were in arrears for more than 3 months at the time of awarding the contract. Please refer table below for details:

Tender number	Supplier name	Description	Value of award (R)
2013/06/00	Lefatshe La Rona Trading and Projects 421	Supply of pothole patch material	197 500
2013/10/01	Tlotli & Boka Trading CC	Supply of stationery	43 205
2013/10/02	Vumba Trading	Installation of the signage/directions to the municipal offices	75 924
Total			316 629

Cause

Oversight by SCM practitioner where it was only checked that a letter for rates and taxes is attached rather than how long were they outstanding.

Impact

The matter results in irregular expenditure amounting to R316 629

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations

Recommendation

Management should develop controls to ensure that the bid documents together with the supporting documentation are reviewed to ensure compliance with their SCM policy and the supply chain regulations.

Management response

Management agrees with the finding and will develop a control to ensure that the bid documents together with the supporting documentation are reviewed to ensure compliance with their SCM policy and the supply chain regulations.

Name: F.MZIZI

Position: CFO

Date:28/11/2014

Auditor's conclusion

Management agrees with the audit finding and measures will be put in place to address the matter. The matter is regarded as resolved.

113. EX.171 - Procurement: Deviation based on procurement being an emergency (EX.171)

Audit finding

SCM regulations 36(1)(a) – A supply chain management policy may allow the accounting officer – (a) to dispense with the official procurement process established by the policy and to procure any required goods and services through any convenient process, which may include direct negotiations, but only – (i) in an emergency

The deviations listed below were noted as an emergency by management but through further inspection of the documents provided, sufficient time was available for the municipality to comply with the supply chain management regulations.

Name of supplier	Description	EFT number	Note	Value of deviation
Camelsa Consulting Group (Pty) Ltd	Upgrade and support on pastel evolution	21449	A	122 606,40
AECOM	Rendering of environmental auditing services at various landfill sites	19997	B	37 506
Total				160 112,4

Note A

Management reason for deviation

The service Level Agreement (SLA) between the Municipality and Pastel had expired. Camelsa was subcontracted by Pastel to do the SLA support as per the contract.

The municipality had to continue with the service of Camelsa because of the following challenges:

- 1.The staff at the expenditure and supply chain were all suspended and ultimately dismissed. Five new interns were appointed who needed training urgently in order to keep these units operational. Perform the staff the staff members who needed training.
- 2.The finance unit needed the monthly support due to several system problems experienced with the system as a result of the server.
- 3.The version of Pastel used was very old and needed to be upgraded as a matter of urgency to eliminate errors and also to accommodate new requirements as per Treasury prescripts.
- 4.Several requests for information/reports from the system were received for audit purposes, which could not be generated internally.
5. Due to the change in the personnel system, this had to be linked to Pastel for accounting purposes.

Auditor's response

It was noted that the invoices that formed part of the deviation (EFT payment 21449) was for a number of months (August 2013 to January 2014). Management had sufficient time after the initial month the contract for Pastel had expired to source a new supplier and ensuring the SCM regulations are complied with. As at 30 June 2014 is still using the services of Camelsa and no contract has been entered into between Camelsa and the municipality. The matter does not constitute an emergency.

Note B

Management reason for deviation

Due to the timeframe required to submit annual financial statements by the end of August 2013, it was not possible to still comply with the 7 days advert requirement in accordance with SCM policy reg 12(c).

The valuing off the land fill sites required to clear the AGSA (Auditor General SA) query because it will assist in improving the audit opinion of the municipality. This value is an important requirement for disclosure in the financial statement.

Due to the fact that only one quotation was received (as attached) it is therefore recommended that AECOM be considered for appointment as there is no sufficient time to obtain quotations from alternative service providers.

Due to the timeframe required to submit annual financial statements by the end of August 2013, it was not possible to still comply with the 7 days advert requirement in accordance with SCM policy reg 12(c)

Auditor's response

It should however be noted that the audit opinion for the financial year ended 30 June 2012 was signed on the 28 March 2013 and provided to management, thereby giving the municipality sufficient time to comply with the requirements of SCM policy reg 12(c) for 7 days advertisement. The route followed on requesting a deviation shows bad planning on the part of the municipality and not an emergency.

Cause

The municipality did not plan efficiently.

Impact

This is non-compliance with SCM regulations 36(1)(a) and constitutes irregular expenditure amounting to R160 112,40

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations

Recommendation

Management must review all cases of deviations from supply chain management regulations and instances that were classified as emergency/urgent but constitute bad/lack planning are disclosed in the annual financial statement as irregular expenditure.

Management response

Management response was not received.

114. EX.175 - Procurement : Awards to supplier that are not accredited (EX.175)

Audit finding

In terms of paragraph 17(1)(b) of the "Municipal Supply Chain Regulations a supply Chain Management Policy must stipulate the conditions for the procurement of goods and services through formal written price quotations which must include conditions stating that quotations may be obtained from providers who are not listed providing that such providers meet the listing criteria in the supply chain management policy".

Transactions were entered into with the supplier's listed below which were not on the accredited supplier database/supplier list and there was no evidence attached to the payment voucher that the supplier meet the listing criteria required by the SCM policy of the municipality.

Number	Name of Supplier	EFT Number	Amount (R)
1	Voltex Telcom	16565	19 945.20
2	H & L Building Supplies	17364	5 689
3	Ntlebe Transport	26495	3 750
4	Westgate Transport and general services	20633	7 200
Total			36 584.20

Cause

Policy allows the use of suppliers that are not on the database that meets the listing criteria. However, the process of assessing suppliers for listing criteria is not documented.

Impact

This will result in irregular expenditure amounting to R36 584.20

Internal control deficiency

Financial and performance management:

Management did not ensure through regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with the applicable supply chain regulations.

Management response

Management agrees with the finding, we will review the SCM policy to agree with PPFA that states that quotation can be requested from service provider registered on the municipality database or from any supplier as long that supplier can prove that their tax matter are clear.

Name: F Mzizi
Position: CFO
Date: 26/11/2014

Auditor's conclusion

As management agrees with the finding, the exception will remain and be reported on in the management report.

115. EX.176 - Procurement: Awards not approved by an appropriate delegated official (EX.176)

Audit finding

In terms of paragraph 5(2) (c) of the Municipal Supply Chain Regulations: "the power to make the final award not exceeding R 2 million rand (including vat) may be sub delegated only to (i) the chief financial officer (ii) a senior manager (iii) a manager directly accountable to the chief financial officer or a senior manager or a (iv) bid adjudication committee."

Paragraph 5(3) of the Municipal Supply Chain regulations further states that: " an official or bid adjudication committee to which the power to make final awards has been sub delegated in accordance with sub regulation (2) must within five days of the end of each month submit to the official referred to in subsection(4) a written report containing particulars of each final award made by such official or committee during that month including (a) the amount of the award ;(b) the name of the person to whom the award was made and the reason why the award was made to that person."

During the testing of awards below R30 000, it was identified that quotations are sourced by the SCM interns and the SCM practitioner selects one for procurement based on the documentation provided. No audit trail/document is completed/signed to corroborate the above. No written report containing particulars of each final award made by such official/SCM practitioner is prepared and submitted to the CFO detailing (a) the amount of the award ;(b) the name of the person to whom the award was made and the reason why the award was made to that person.

Number	Name of supplier	EFT Number	Amount (R)
1	Menlyn Guest House	15489	3 378,00
2	Glasfit	22760-22761	4 473,13
3	H & L building supplies	17364	5 689,00
4	Ntlebe Transport	26495	3 750,00
5	Game Stores	14809	9 598,00
6	Flo Ben	14797	5 960,00
7	Thepa Trading	135652	9 148,50
8	Waltons	19276	9 325,20
9	Menlyn Boutiue Hotel	16434	3 339,00

10	Cash Build(Pty) (Ltd)	17368	5 399,70
11	Westgate Transport & General Services	20565	7 200,00
12	Mosenohi Transportation	20514	19 520,00
13	Mosenohi Transportation	20513	18 200,00
14	Tshehang Trading 537 CC	23436	16 500,00
15	PJS Engineering	14803	17 226,20
16	Masliyona News	13832	29 090,00
17	Amanzi Game Reserve	15344	13 200,00
18	Freddy's Electrical	15482	18 171,12
19	Voltex Telcom	16565	19 945,20
20	Safety Equipment Warehouse	17133	13 997,50
21	Mulaudzi's Development Projects	17132	28 500,00
22	PJS Engineering	16620	14 285,88
23	Protea Hotel Samrand	17129	10 588,35
24	Vermulen Forms Trust	17219	11 150,00
25	PJS Engineering	17600	18 240,00
26	Safety Equipment Warehouse	20633	26 414,61
	Total		342 289,39

Cause

The SCM Department did not follow SCM processes and procedures.

Impact

The matter results irregular expenditure amounting to R342 289,39

Internal control deficiency

Financial and performance management

Management did not ensure regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should through the process of regular review and monitoring ensure that supply chain management regulations are complied with.

Management response

Management response was not received.

116. EX.177 - Procurement: Suppliers' income tax reference numbers (EX.177)

Audit finding

In terms of *paragraph 13(a)* of the Municipal Supply Chain Regulations: “a supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid has furnished the municipality or municipal entity with that providers (i) full name; (ii) identification or company or other registration number and (iii) tax reference number and VAT registration number, if any.”

The following suppliers who did business with municipality did not furnish the municipality with their income tax number as required by paragraph 13(a) of the Municipal Supply Chain Regulations.

Number	Name of supplier	EFT Number	Amount (R)
1	Mosenohi Transportation	20514	19 520,00
2	Mosenohi Transportation	20513	18 200,00
3	PJS Engineering	14803	17 226,20
4	Amanzi Game Reserve	15344	13 200,00
5	Freddy's Electrical	15482	18 171,12
6	Voltex Telcom	16565	19 945,20
7	PJS Enjineering	16620	14 285,88
8	Protea Hotel Samrand	17129	10 588,35
9	Vermulen Forms Trust	17219	11 150,00
10	PJS Engineering	17600	18 240,00

Cause

The income tax number was not captured at the time of inputting supplier information on the database.

Impact

The matter will be reported as non-compliance with the the supply chain management regulations.

Internal control deficiency

Financial and performance management

Management did not ensure regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and enforce controls to ensure compliance with the applicable supply chain management regulations

Management response

Management response was not received.

117. EX.183 - Procurement : Minimum quotations not obtained - R2000 - R30 000 (EX.183)

Audit finding

Paragraph 17(a) of SCM regulation states that "quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality".

A. No quotations were obtained for the transactions nor a request for a deviation for SCM procedures. Goods and services were procured from Dreyville Electrical CC and no other quotations were obtained with exception of an letter requesting the temporary appointment of

Dreyville for electrical faults in Theunissen. The letter was signed by the municipal manager and was dated 20 October 2011. The appointment of Dreyville was only temporary in 2011, however the municipality was still using their services without requesting quotations from other suppliers in the 2013/14 financial year.

Invoice date	Supplier	Reference	EFT number	Amount (R)
14/09/2013	Dreyville Electrical CC	GRV5292	20637	6 261
14/09/2013	Dreyville Electrical CC	GRV5293	20637	7 650
Total				13 911

B. For the transactions listed below, only one (1) quotation was obtained for the procurement of goods below R200 000. There is no evidence that other quotations were obtained. Furthermore, there was no evidence provided that a motivation for not using the minimum number of quotes was obtained:

Supplier	EFT Number	Amount (R)
PJS Engineering	14803	17 226
Masilonyana News	13832	29 090
Amanzi Game Reserve	15344	13 200
PJS Engineering	16620	14 285.88
Total		73 802

Cause

Supply chain management policies and regulations were not implemented.

Impact

The impact of the finding is as follows:

For transactions between R2000 and R10 000, the matter will be reported as a non-compliance matter.

For transactions between R10 000 and R30 000, the matter will be reported as irregular expenditure.

Internal control deficiency

Financial and performance management:

Management did not ensure through regular review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with all the applicable supply chain management laws and regulations.

Management should further investigate the population of awards to determine the extent of irregular expenditure.

Management response

Management agrees with the finding and will implement the recommendation as such.

Name: F.MZIZI

Position: CFO

Date: 11/11/2014

Auditor's conclusion

Management agrees with the audit finding and controls to ensure compliance with the applicable requirements. The auditor also assessed the matter for qualitative and quantitative factors and regard the matter as resolved.

118. EX.205 - Procurement : Construction bids not advertised in the CIDB website (EX.205)

Audit finding

CIDB regulation para.24 requires that the invitation to tender or for calls of expression (in the case of a 2 stage bidding process) should be advertised in the CIDB website.

The following construction bids were not advertised in the CIDB website:

Bid number	Descriptions
RBIG/FS/002/W/12/13	Construction of the raw water bulk pipe line from sanvet canal to brandfort wtw
MIG/FS/0748/CF/09/10	Ugrading of Sport center at Majwemasweu
MIG/FS/0657/W/08/09	Upgrading of water treatment plant at Soutpan/Ikgomotseng
MIG/FS/0978/W/13/13	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)
2014/02/03	Rehabilitation of landfill sites
1001/2014	Fencing of oxidation ponds Soutpan
1008/2014	Fencing of reservoir Brandfort
1002/2014	Fencing of water treatment works Winburg
1003/2014	Fencing of reservoir Winburg
1006/2014	Fencing of reservoir Theunessen
MIG/FS/10078/F/14/15	Soutpan/Ikgomotseng Fencing of cemeteries
MIG/FS/1004/C/14/15	Masilo/Theunessen fencing of cemeteries and ablution facilities

Cause

Management was not aware that all construction bids need to be advertised on the CIDB website

Impact

The above results in non-compliance with paragraph 24 of the CIDB regulations in respect of advertising in the CIDB website

Internal control deficiency

Financial and performance management

Inadequate review and monitoring of management controls to ensure that, laws and regulations are adhered to.

Recommendation

Management should conduct regular reviews and monitoring controls around supply chain to ensure that laws and regulations are complied with.

Management response

Management response was not received.

119. EX.207 - Depreciation: Asset management policy not updated and useful lives of major assets not approved (EX.207)

Audit finding

Section 63 (2)(a–c) of the MFMA indicates that the accounting officer of a municipality must take all reasonable steps to ensure, that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality, that the municipality's assets are valued in accordance to with the standards of generally recognised accounting practice; and that the municipality has and maintains a system of internal control of assets, including asset register as may be prescribed.

It was identified that the depreciation rates in the fixed asset policy are not inclusive of all major assets that the municipality has and that the rates that are used in the fixed asset register are not compatible to those in the fixed asset policy of the municipality:

Item of PPE	Useful life in Fixed assets Management and Maintenance Policy	Useful life in Accounting Policy as in the AFS.	Useful lives as per Asset Register.
Stormwater and roads	Not specified	15-100	15-120
Solid waste (refuse)	Not specified	15	13
Electricity	Not specified	40-75	11-65
Water	Not specified	10-100	1-54
Sewerage	Not specified	45-60	1-33
Other plant and equipment	Not specified	1-40	1-18
Emergency equipment	Not specified	5-7	1-5
Other vehicles	5	4-15	1-12
Office equipment	5	3-10	1-5
Furniture and fittings	4	6-7	1-5
Computer Equipment	3	3	1-3

A similar matter was reported on in paragraph 255 of the prior year management report.

Cause

The assets management policy of the municipality was not reviewed to ensure that it is still relevant and applicable.

Impact

Management did not perform proper review of the financial statements before they were submitted for audit purposes.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should ensure that the fixed asset policy is in line with the operational and infrastructure assets of the municipality.

Management response

Management response was not received.

120. EX.213 - Procurement :Poor contract management with respect to procurement of goods and services (EX.213)

Audit finding

In terms of sections 116 of the MFMA, contracts and contract management.—(1) A contract or agreement procured through the supply chain management system of a municipality or municipal entity must—

- a) be in writing;
- b) stipulate the terms and conditions of the contract or agreement, which must include provisions providing for—
 - I. the termination of the contract or agreement in the case of non- or under- performance;
 - II. dispute resolution mechanisms to settle disputes between the parties;
 - III. a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and
 - IV. any other matters that may be prescribed.

1. A. It was noted that the contracts awarded to the contractors listed below were only initialled by the contractor (winning bidder/their representative) and the Municipal Manager; there was no evidence that the two parties signed the contract. In addition, the form of offer and acceptance was not signed by the tenderer and the Municipal Manager.

Bid number	Descriptions
1003/2014	Fencing of reservoir Winburg
1006/2014	Fencing of reservoir Theunessen
MIG/FS/0978/W/13/13	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)
1001/2014	Soutpan/Ikgomotseng: Fencing of oxidation ponds
1002/2014	Fencing of water treatment works Winburg

2. B. No contract has been attached in the winning bidders documents, only the offer and acceptance form, which was also not signed by the Municipal Manager.

Bid number	Descriptions
MIG/FS/0978/W/13/13	Upgrading of water treatment works and ground storage reservoir (pump station phase 1)

Cause

Management did not enforce compliance with the requirements of the MFMA through regular review and monitoring to ensure that all contracts are signed.

Impact

This is non-compliance with the requirements of the MFMA.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations

Recommendation

The Accounting Officer must enforce compliance with the requirements of the MFMA through regular review and monitoring to ensure that all contracts are completed.

Management response

Management response was not received.

121. EX.214 - Procurement: (Quotations R30 000 - R200 000) - Supporting documentation not provided for audit purposes (EX.214)

Audit finding

Section 62(1)(b) of the MFMA on General financial management functions states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure - (b) that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

The request was furnished to management on the 03 November 2014, request for information 87.

We requested the following:

1. Evidence that all instances where three written price quotations were not obtained (Deviations) for procurement, the reasons:-

a. were reported to the next council/ board meeting

2. Evidence that the quotations between R30 000 and R200 000 as listed below were advertised on the website of the municipality.

Tender number	Name of winning bidder	Description	Value of award (R)
2013/06/00	Lefatshe la rona trading & projects 421	APPOINTMENT FOR THE SUPPLY OF POT HOLE PATCHING MATERIAL	197 500
2013/08/00	Practicon Trading Enterprises CC	APPOINTMENT FOR THE SUPPLY OF WEED POISON FOR BOARDWALKS AND CEMETERIES	72 250
2013/09/08	Jika Training & Communication	TRAINING OF COUNCILLORS	39 999.75
2013/10/01	Tlotli & Boka Trading CC	SUPPLY OF STATIONERY	43 205

2013/10/02	Vumba Trading	INSTALLATION OF THE SIGNAGE/DIRECTIONS TO THE MUNICIPAL OFFICES	75 924
2014/06/030029	Classic Human Capital Solutions	SUPPLY AND DELIVERY OF TOOLS FOR SECURITY PERSONNEL	99 750
Total			528 628.75

3. Payment vouchers for the transactions below

Tender number	Name of winning bidder	Description	Value of award (R)
2013/06/00	Lefatshe la rona trading & projects 421	APPOINTMENT FOR THE SUPPLY OF POTHOLE PATCHING MATERIAL	197 500
2013/08/00	Practicon Trading Enterprises CC	APPOINTMENT FOR THE SUPPLY OF WEED POISON FOR BOARDWALKS AND CEMETERIES	72 250
2013/09/08	Jika Training & Communication	TRAINING OF COUNCILLORS	39 999.75
2013/10/01	Tlotli & Boka Trading CC	SUPPLY OF STATIONERY	43 205
2013/10/02	Vumba Trading	INSTALLATION OF THE SIGNAGE/DIRECTIONS TO THE MUNICIPAL OFFICES	75 924
2014/06/03	Classic Human Capital Solutions	SUPPLY AND DELIVERY OF TOOLS FOR SECURITY PERSONNEL	99 750
2013/09/02	Kgethogolo Trading and Projects	Supply of tools for EPWP	187 576.25
Total			716 205

4. Gift register for the financial year ended 30 June 2014.

Cause

Lack of internal controls to ensure that all supporting documentation requested are submitted.

Impact

This is non-compliance with the requirements of the MFMA and Engagement letter and it is also a limitation of scope.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should submit information to the Auditor General to avoid limitation of scope.

Management response

- 1.
2. Evidence that the quotations between R30 000 and R200 000 as listed below were advertised on the website of the municipality.

Tender number	Name of winning bidder	Description	Value of award (R)	RESPONSE
2013/06/00	Lefatshe la rona trading & projects 421	APPOINTMENT FOR THE SUPPLY OF POTHOLE PATCHING MATERIAL	197 500	Agree with the finding
2013/08/00	Practicon Trading Enterprises CC	APPOINTMENT FOR THE SUPPLY OF WEED POISON FOR BOARDWALKS AND CEMETERIES	72 250	Agree with the finding
2013/09/08	Jika Training & Communication	TRAINING OF COUNCILLORS	39 999.75	Disagree, the advert was on website
2013/10/01	Tlotli & Boka Trading CC	SUPPLY OF STATIONERY	43 205	Agree with the finding
2013/10/02	Vumba Trading	INSTALLATION OF THE SIGNAGE/DIRECTIONS TO THE MUNICIPAL OFFICES	75 924	Agree with the finding
2014/06/030029	Classic Human Capital Solutions	SUPPLY AND DELIVERY OF TOOLS FOR SECURITY PERSONNEL	99 750	Agree with the finding
Total			528 628.75	

3. Payment vouchers for the transactions below

Tender number	Name of winning bidder	Description	Value of award (R)	RESPONSE
2013/06/00	Lefatshe la rona trading & projects 421	APPOINTMENT FOR THE SUPPLY OF POTHOLE PATCHING MATERIAL	197 500	Find the attached vouchers
2013/08/00	Practicon Trading Enterprises CC	APPOINTMENT FOR THE SUPPLY OF WEED POISON FOR BOARDWALKS AND CEMETERIES	72 250	Find the attached vouchers
2013/09/08	Jika Training & Communication	TRAINING OF COUNCILLORS	39 999.75	Find the attached vouchers
2013/10/01	Tlotli & Boka Trading CC	SUPPLY OF STATIONERY	43 205	Find the attached vouchers
2013/10/02	Vumba Trading	INSTALLATION OF THE SIGNAGE/DIRECTIONS TO THE MUNICIPAL OFFICES	75 924	Find the attached vouchers
2014/06/03	Classic Human Capital Solutions	SUPPLY AND DELIVERY OF TOOLS FOR SECURITY PERSONNEL	99 750	Find the attached vouchers
2013/09/02	Kgethogolo Trading and Projects	Supply of tools for EPWP	187 576.25	Find the attached vouchers
Total			716 205	

Name: F,MZIZI
 Position: CFO
 Date: 28/11/2014

Auditor's conclusion

Management's comments were received and assessed as follows:

1. Comments were not received and the identified non-compliance will be reported in the management report.

2.

Tender number	Name of winning bidder	Description	Value of award (R)	RESPONSE	Auditor's comment
2013/06/00	Lefatshe la rona trading & projects 421	APPOINTMENT FOR THE SUPPLY OF POTHOLE PATCHING MATERIAL	197 500	Agree with the finding	The non-compliance will be reported in the management

					report.
2013/08/00	Practicon Trading Enterprises CC	APPOINTMENT FOR THE SUPPLY OF WEED POISON FOR BOARDWALKS AND CEMETERIES	72 250	Agree with the finding	The non-compliance will be reported in the management report.
2013/09/08	Jika Training & Communication	TRAINING OF COUNCILLORS	39 999.75	Disagree, the advert was on website	The website was inspected and the auditor agrees.
2013/10/01	Tlotli & Boka Trading CC	SUPPLY OF STATIONERY	43 205	Agree with the finding	The non-compliance will be reported in the management report.
2013/10/02	Vumba Trading	INSTALLATION OF THE SIGNAGE/DIRECTIONS TO THE MUNICIPAL OFFICES	75 924	Agree with the finding	The non-compliance will be reported in the management report.
2014/06/030029	Classic Human Capital Solutions	SUPPLY AND DELIVERY OF TOOLS FOR SECURITY PERSONNEL	99 750	Agree with the finding	The non-compliance will be reported in the management report.
Total			528 628.75		

3. This point of the exception is resolved.

The client went back to the system to trace these awards.

The actual amounts paid were traced to the system using the references provided.

The matter will be reported in the management report.

122. EX.55 - Procurement : Awards to suppliers with interest in service of the State (EX.55)

Audit finding

In terms of paragraph 44(1) of part II of chapter 2 of the municipal Supply Chain Management policy, the accounting officer must ensure that irrespective of the procurement process followed, no award may be given to a person if that person is not a natural person, of which any shareholder or stakeholder is a person in the service of the state.

In terms of paragraph 5A of the Municipal Systems Act 32 of 2000, a person appointed in terms of section 56 must within 60 days after his/her appointment declare in writing to the chairperson of the municipal council the following interest held by that person:

- (a) Shares and securities in any company
- (b) membership of any close corporation
- (c) interest in any trust
- (d) directorships
- (e) partnerships

SCM regulations 13(c) – A supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid –

(c)has indicated –

(i) whether he or she is in service of the state, or has been in service of the state in the previous 12 months;

(ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in service of the state, or has been in service of the state in the previous 12 months; or

(iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in service of the state, or has been in service of the state in the previous 12 months.

On comparison of the employee database to that of CIPC for the period under review, it was detected that the employee in service of the Municipality was related to the supplier that received awards from the municipality, refer below :

Employee details	Supplier related to	Relationship	Date relationship commenced	Nature of award	EFT reference	Value of award
Labourer with employee no 1344	Mbakoe Construction and General Trading	Member	31-May-11	Cleaning material and stationery	15337	24 008.87

The employee did not declare the interest interest to the municipality.

Cause

Management only considered the declaration of interest forms for transactions above R30 000.

Impact

The matter results in irregular expenditure incurred to the amount of R25 408,87

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with the applicable laws and regulations

Management response

Management agrees with the finding, however this official is a general worker and did not have any influence in any of the award of this tender.

Name: F. MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

As management agrees with the audit finding, the finding will remain and be reported on in the management report.

123. EX.59 - Procurement : SCM policy weaknesses (EX.59)

Audit finding

In terms of paragraph 65(2)(a) of the MFMA, the accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds

In terms of paragraph 17(1) of the Supply Chain Management Regulations dated 30 May 2005, a Supply Chain Management policy must stipulate the conditions for the procurement of goods/services through formal written price quotations which must include the condition that quotations may be obtained from providers who are not listed provided that such providers meet the listing criteria in the Supply Chain Management policy.

In terms of paragraph 43(1) of the same regulations, the Supply Chain Management policy of a municipality must irrespective of the procurement process followed, state that the municipality may not make any award above R15 000 to a person whose tax matters have not been declared by SARS to be in order.

On review of the municipal Supply Chain Management policy received for audit purposes, the following weaknesses were noted:

a) Policy only approved on 30 May 2014 - thus for 11 of the 12 months of the financial year, no approved policy existed to guide Supply Chain Management.

b) Policy contradicts the Municipal Supply Chain Management Regulations in terms of the following:

1. Suppliers not registered on the Supplier Database is turned away whilst they should be considered, refer to chapter 2 part 2 paragraph 17(1)(b) of the municipal Supply Chain Management policy.

2. Award limit on condition of tax matters being in order is set at R30 000 whilst R15 000 is the prescribed amount, refer to chapter 2, part 2 paragraph 43(1) of the municipal Supply Chain Management policy.

Cause

Management did not review the SCM policy to ensure that it is in line with the legislation before it was submitted to council for approval.

Impact

The deficiencies between the SCM policy and the SCM legislation could result in irregular expenditure.

Internal control deficiency

Leadership

The Council did not ensure that only policies that are in line with legislation are timeously approved and implemented

Recommendation

Management should implement controls to ensure that policies are approved within the reasonable time and they are in line with the prescribed legislation

Management response

a) Management disagrees with the finding and have submitted a Council resolution of May 2013 to motivate that there was a policy in place for the financial year in question.

b.1) Management agrees with the finding and the Policy will be reviewed and amended to ensure that it corresponds with the Regulation.

b.2) Management disagrees with the finding as paragraph on the SCM Policy states what is in Circular 29 of the MFMA. Find the attached copies of the documents in hard copies.

Name: F. Mzizi

Position: CFO

Date: 28/10/2014

Auditor's conclusion

Management comments are noted and will be reported as internal control issue on the update of policies.

124. EX.66 - Procurement : Interest Declaration (EX.66)

Audit finding

In terms of paragraph 13 of part II of chapter 2 of the municipal Supply Chain Management policy, the municipality may not consider a written quote unless the provider who submitted the quote has indicated that any of its directors/managers/shareholders/stakeholders is in the service of the State and

In terms of paragraph 44(1) of part II of chapter 2 of the same policy, the accounting officer must ensure that irrespective of the procurement process followed, no award may be given to a person if that person is not a natural person, of which any shareholder or stakeholder is a person in the service of the state.

During CAATS testing, it was established that Matlhoko Lucas Moloele is both employed as council member at the municipality since 6 January 2011 and appointed as founding member of Phela O Phedise since 22 July 2010.

On review of the General Ledger for the period under review, the following transaction was entered nonetheless and the supplier did not declare the interest:

EFT number	Invoice reference	Invoice amount R	Nature of goods
25672	5	1 400.00	Refreshments / lunch

Cause

Municipality controls related to ethical requirements mostly speaks to transactions above R30 000

Impact

Finding results in irregular expenditure amounting to R1400.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with the applicable laws and regulations.

Management response

Management agrees with the finding, however it must be noted that the said employee is a general worker therefore had no influence in any of the award of the tender. The municipality has since developed a system where employees declares their interest to avoid the matter above

Name: F. MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

As management agrees with the audit finding, the finding will remain and be reported on in the management report.

125. EX.76 - Expenditure: Valid VAT Invoice (EX.76)

Audit finding

In terms of section 20(4) of the Value Added Tax Act 89 of 1991, a tax invoice (full tax invoice) shall be in the currency of the Republic and shall contain the following particular:

(c) where the recipient is a registered vendor, the VAT registration number of the recipient.

On inspection of invoices paid by the municipality during the period under review, the following invoice included VAT without displaying its VAT registration number on the invoice:

EFT reference	Supplier name	Invoice date	GRV Number	VAT amount	Amount paid(R)
23499	Albertse Staal en Betonwerke	3 April 2014	GRV5969	5 880	47 880.00

Cause

The responsible official did not ensure that VAT inputs are paid only in cases where valid tax invoices are obtained.

Impact

The finding results in non-compliance with the VAT Act

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should enforce controls through regular review and monitoring to ensure that the VAT Act is complied with.

Management response

Management agrees with the finding, as the invoice attached is the only original invoice submitted by the supplier.

Name: F. Mzizi

Position: CFO

Date: 03/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be reported in the management report as a non-compliance matter.

126. EX.77 - Expenditure: Three quotations not obtained for procurement below R200 000 (EX.77)

Audit finding

In terms of paragraph 16 of the Supply Chain Management regulations, a Supply Chain Management policy must stipulate the conditions for the procurement of goods and services through written/verbal quotations, which must include conditions such as

(a) that quotations must be obtained from at least 3 different providers and

(c) that if not possible to obtain such, reasons must be recorded and reported to the accounting officer

In terms paragraph 17 per the Municipal SCM policy, the following:

(1)(a) quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality.

(1)(c) if it is not possible to obtain at least 3 quotations, the reasons must be recorded and approved by the CFO or an official designated by the CFO

On review of the following payments included under expenditure for the period under review, it was found that only one quotation per payment made is available for audit purposes. Note that no endorsed entries to explain the deviations could also be seen from these source documents inspected:

Date of	Supplier	In-house	EFT number	Amount (R)
---------	----------	----------	------------	------------

payment	code	GRV reference		
26/08/2013	LEF001	GRV4471	16564	150 000.00
26/11/2013	BOP001	GRV5357	19267	131 578.00
10/02/2014	SOM001	GRV5789	23404	118 000.00
09/10/2013	LTA001	GRV5451	20532	177 858.00
31/05/2014	SPA002	GRV6447	26587	45 500.00
27/11/2013	AQU001	GRV5276	20000	58 980.00
28/01/2014	AQU001	GRV5751	22745	47 700.00
29/11/2013	MUL001	GRV5287	20031	65 000.00
Total				794 616.00

Cause

Supply chain management policies and regulations were not implemented.

Impact

The matter results in irregular expenditure amounting to R794 616

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should develop and implement controls to ensure compliance with the applicable supply chain management regulations.

Management response

Management disagrees with the finding for the following reasons:

Date of payment	Supplier code	In-house GRV reference	EFT number	Amount (R)	Reasons
26/08/2013	LEF001	GRV4471	16564	150 000.00	7 days advert
26/11/2013	BOP001	GRV5357	19267	131 578.00	Contract attached
10/02/2014	SOM001	GRV5789	23404	118 000.00	Deviation attached
09/10/2013	LTA001	GRV5451	20532	177 858.00	Deviation attached
31/05/2014	SPA002	GRV6447	26587	45 500.00	Contract attached
27/11/2013	AQU001	GRV5276	20000	58 980.00	Contract attached
28/01/2014	AQU001	GRV5751	22745	47 700.00	Contract attached
29/11/2013	MUL001	GRV5287	20031	65 000.00	Contract attached
Total				794 616.00	

Name: F.MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management comments were received and assessed as follows:

Date of payment	EFT number	Amount (R)	Reasons	Auditor's comments	Recalculated Irregular expenditure
26/08/2013	16564	150 000,00	7 days advert	Through inspection of the advert, bid register and the SLA, it could be confirmed that proper SCM procedures were followed.	-
26/11/2013	19267	131 578,00	Contract attached	Through inspection the correspondence attached, with the MM, it could be confirmed that the supplier was appointed in 2010 for the construction of a community hall. This appointment was audited by the prior auditors and fall outside the scope of testing.	-
10/02/2014	23404	118 000,00	Deviation attached	Through inspection of the deviation letter, it could be confirmed that the was an emergency and the deviation was approved by the MM.	-
09/10/2013	20532	177 858,00	Deviation attached	Through inspection of the attached deviation, the following were noted: - HOD's (Preparer) signature is dated 12/12/13, Previous CFO's (Recommender) is on 10/01/2013 and MM's (Approver) signature 10/01/2013. Thus the deviation was approved prior to the signature of the preparer unless the auditor accepts that it was an error on the side of the MM and CFO. - The deviation motivates an emergency that resulted on 5 October 2013 and this is before the approval date. - Invoice date is on 09/10/2013 and the report of the October interruptions states that the services were rendered on Thursday 10 October 2014. - Consideration is also given to the fact that there is 3 month lapse between service date and payment. Based on the above, the auditor is satisfied that this was an emergency situation and the deviation was approved. It should however be noted that the time lapse and the	-

				inconsistencies/ errors in the attached documents implicates that there is an internal control weakness in the initiating and processing of payments. This internal control deficiency will be reported in the management report.	
31/05/2014	26587	45 500,00	Contract attached	Through inspection of the SLA, it could be confirmed that there is a contract for the payment in question.	-
27/11/2013	20000	58 980,00	Contract attached	Through inspection of the SLA, it could be confirmed that there is a contract for the payment in question.	-
28/01/2014	22745	47 700,00	Contract attached	Through inspection of the SLA, it could be confirmed that there is a contract for the payment in question.	-
29/11/2013	20031	65 000,00	Contract attached	Through inspection of the termination letter of the contract, it could be confirmed that there was a contract entered into on 1 August 2011.	-
Total		794 616,00			-

Based from the above assessment, it is concluded that there is no irregular expenditure in relation to the expenditure as subsequent support could be obtained. Furthermore, the internal control deficiencies identified will be reported in the management report.

127. EX.89 - Procurement : Listing criteria not specified for prospective providers (EX.89)

Audit finding

In terms of paragraph 14(1) of the Municipal Supply Chain Management Regulations, (b) specify the listing criteria for accredited prospective providers

On review of the approved Supply Chain Management policy in use by the Municipality on 14 October 2014, it was found that no listing criteria are specified for accredited prospective providers.

Cause

The accounting officer did not ensure that only policies in line with the applicable legislation are submitted for approval.

Impact

Possible irregular expenditure incurred when adding suppliers that do not meet the listing criteria

Internal control deficiency

Leadership

The accounting officer did not ensure that only policies in line with the applicable legislation are submitted for approval.

Recommendation

Management should update the SCM policy to include listing criteria

Management response

Management agrees with the finding that it is a control issues and the Municipal SCM policy will be adjusted to include the criteria.

Name: F. MZIZI

Position: CFO

Date: 14/11/2014

Auditor's conclusion

Management's comments were received and assessed as followed:

- Section (2)(1)(ci) of the Municipal Supply Chain Management Regulations states that each municipality must in terms of section 111 of the Act have and implement a supply chain management policy that complies with the regulatory framework prescribed in Chapter 2 of these Regulations.
- Based from the above, it is concluded that the matter is non-compliance and not an internal control deficiency.

The matter is not resolved and will be reported as a compliance matter in the management report.

Payable

128. EX.179 - Payables: Note 29 - Difference identified on the annual financial statements (EX.179)

Audit finding

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

Contrary to the above the following errors were identified with regards to the payables note 29 - Correction of error in terms of Grap 3:

A difference of R536 860 was identified when comparing note 29.07 (Payables from exchange transactions) with and the narrative in the note. The difference was calculated as follows:

Description	Amount R
29.01 - Bulk Purchases	7 617 516.00
29.02 - Employee related costs	12 409.00
29.03 - Repairs and maintenance	17 602.00
29.04 - General expenses	1 953 718.00
Total according to the narrative	9 601 245.00

Less: Payables from exchange transactions	-9 066 385.00
Difference	R534 860.00

Cause

Management did not properly review the financial statements before they were submitted for audit.

Impact

The matter might result in the misstatement of the payables note in the financial statement.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

- 1) Management should put measures in place to ensure that they have sufficient time to review the financial statements before they are submitted for audit.
- 2) The municipality should further ensure that all documentation relating to journal entries is filed in the journal files and replacement documents should be put on the file if the documents are removed.

Management response

1. This matter is agreed with and will be corrected on the financial statements. This amount are expenditure that were corrected in the year before the prior year against the accumulated surplus in the current year AFS

Name: F Mzizi
 Position: CFO
 Date: 17/11/2014

Auditor's conclusion

1. Final financial statements were obtained and inspected and the note was adjusted accordingly, therefore the matter has been resolved but reported as a corrected misstatement in the management report.

129. EX.192 - Payables: Transactions not recorded (EX.192)

Audit finding

Section (62)(b)of the MFMA state that the Accounting Officer is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable step to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Contrary to the above, the following payments that pertained to the 2013/14 financial year, were not recorded:

No	Supplier	Service/invoice date	Payment Date	Voucher number	Amount of goods/service
1	H & L Building Supplies	18/06/2014	11/07/2014	26470	420.00
2	Taunyane Transport	28/04/2014	11/07/2014	26480	7 000.00
3	Makekema Transport	30/05/2014	11/07/2014	26479	1 200.00
4	Matlabe Transport	04/03/2014	11/07/2014	26478	3 750.00
5	Post Office	25/06/2014	08/07/2014	26358	61 440.00
6	Theunissen Commando Trust	01/03/2014	08/07/2014	26359	79 894.13
7	Wilger Motors	Various (25/06/2014 - 30/06/2014)	08/07/2014	26360	8 020.62
8	H & L Building Supplies	25/06/2014	11/07/2014	26469	387.00

162 111,75

Cause

This resulted due to the system failure, after which transactions were not subsequently recorded again.

Impact

The matter may result in the understatement of payables by R162 111,75

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should implement proper review over the processing of transactions, management should furthermore ensure that all transactions are recorded.

Management response

We disagree with the misstatement. The misstatement according to our calculation is R12 757 which we will adjust on the financial statements.

Please see attached the unrecorded liabilities working paper with the items highlighted in green as proof that were recorded on the AFS.

Supplier	Voucher number	Amount of goods/service	MUNICIPALITY RESPONSE
H & L Building Supplies	26470	420,00	We agree and will be adjusted on the AFS
Taunyane Transport	26480	7 000,00	We agree and will be adjusted on the AFS
Makekema Transport	26479	1 200,00	We agree and will be adjusted on the AFS
Matlabe Transport	26478	3 750,00	We agree and will be adjusted on the AFS
Post Office	26358	61 440,00	We disagree. These expenses are recorded in the unrecorded liabilities account of R477 554.95 Please see the working paper for items highlighted in green in the unrecorded liabilities working paper attached.
Theunissen Commando Trust	26359	79 894,13	We disagree. These expenses are recorded in the unrecorded liabilities account of R477 554.95 Please see the

			working paper for items highlighted in green in the unrecorded liabilities working paper attached.
Wilger Motors	26360	8 020,62	We disagree. These expenses are recorded in the unrecorded liabilities account of R477 554.95 Please see the working paper for items highlighted in green in the unrecorded liabilities working paper attached.
H & L Building Supplies	26469	387,00	We agree and will be adjusted on the AFS
162 111,75			

Auditor's conclusion

1. The disagreed items on the list on the management comments was confirmed and the issue was resolved

2. The corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

The amended financial statements obtained 27 November 2014 were inspected, and it was confirmed that the agreed upon correction have been made accordingly, therefore this matter will be reported on as a corrected misstatement in the management report.

130. EX.104 - Consumer deposits: Consumer deposits debited upon disconnection cannot be verified (EX.104)

Audit finding

Section 64(2)(e) of the MFMA Revenue management stipulate that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which—

- (i) recognises revenue when it is earned;
- (ii) accounts for debtors; and
- (iii) accounts for receipts of revenue; Note

The following disconnections were made during the year. The accounts were inspected and no confirmation could be obtained that the amount of consumer deposit that had to be reversed upon the disconnection service has been reversed or applied against any debts.

Below are the instances that were identified:

Date	Account no	Name	Address	Amount outstanding on disconnection date R	Amount outstanding at year end R
04/07/2013	04-0300-00-3	GN.PRETORIUS	PRES STEYNSTR 87	7 248.75	-0.01
05/08/2013	06-0134-10-7	A.MAREE	ULANDIHOFF 10	1 109.00	3 395.25

08/08/2013	03-0453-00-1	JG SMIT	KESTELSTRAAT 71	18 887.17	19 674.94
27/09/2013	07-0079-00-6	S. VAN STADEN	VAN HEERDENSTR 21	9 186.96	748.03
21/10/2013	01-0671-01-1	G WEYERS	LEDERLESTR 61	185.68	410.49
25/10/2013	09-0931-03-0	D VAN NIEKERK	SMALDEELSTR 30	7 739.35	11 057.89
22/11/2013	09-0732-00-2	C VAN WYK	SKOOLSTR 4	5 531.93	7 480.35
29/11/2013	03-1383-00-6	MC SETAI	BABETTES VILLA 4	5 137.48	313.19
13/12/2013	02-0459-01-3	OE ADENDORFF	SAREL CILLIERSTR 6	150 917.70	162 533.04
09/06/2014	04-0284-00-1	DJA MEYER	PRES STEYNSTR 72	-904.20	0.00
31/05/2014	02-0428-03-7	M SHUPING	TAMMBOTIE 3	7 684.48	7 994.75
				R212 724.30	R215 079.62

Cause

Lack of monitoring controls from the management of the municipality to ensure rendering of service is stopped on failing of payment.

Impact

Consumer deposits can be overstated as the consumer deposit was not utilised against the consumer account upon failure of payment.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should develop and implement processes to ensure that consumer deposits are correctly allocated.

Management response

Management partially agrees with the finding for the below reasons:

Date	Account no	Name	Address	Amount outstanding on disconnection date R	Amount outstanding at year end R	Municipality comment
04/07/2013	04-0300-00-3	GN.PRETORIUS	PRES STEYNSTR 87	7 248.75	-0.01	Disagree, Account still active
05/08/2013	06-0134-10-7	A.MAREE	ULANDIHOF 10	1 109.00	3 395.25	Disagree, Account active

08/08/2013	03-0453-00-1	JG SMIT	KESTELSTRAAT 71	18 887.17	19 674.94	Agree with AG
27/09/2013	07-0079-00-6	S. VAN STADEN	VAN HEERDENSTR 21	9 186.96	748.03	Agree with AG
21/10/2013	01-0671-01-1	G WEYERS	LEDERLESTR 61	185.68	410.49	Agree with AG
25/10/2013	09-0931-03-0	D VAN NIEKERK	SMALDEELSTR 30	7 739.35	11 057.89	Agree with AG
22/11/2013	09-0732-00-2	C VAN WYK	SKOOLSTR 4	5 531.93	7 480.35	Agree with AG
29/11/2013	03-1383-00-6	MC SETAI	BABETTES VILLA 4	5 137.48	313.19	Deposit transfer reflecting on account
13/12/2013	02-0459-01-3	OE ADENDORFF	SAREL CILLIERSTR 6	150 917.70	162 533.04	Agree with AG
09/06/2014	04-0284-00-1	DJA MEYER	PRES STEYNSTR 72	-904.20	0.00	Agree with AG
31/05/2014	02-0428-03-7	M SHUPING	TAMMBOTIE 3	7 684.48	7 994.75	Agree with AG
				R212 724.30	R215 079.62	

Therefore the amount outstanding at year end must be reduced by R652.43

Auditor's conclusion

Management comments are notes and as management only disagree with the first two on the list, this finding on the lack of control is still valid and are reported as such.

131. EX.216 - Trade payables: difference between balances on supplier reconciliations, age analysis & statements (EX.216)

Audit finding

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

Contrary to the above the following errors were identified with regards to the payables balances as at 30 June 2014:

1) A comparison of the supplier reconciliations to the supplier age analysis was done and the following differences were identified

Supplier name	Balance as per reconciliation R	Balance as per Age Analysis (General Ledger) R	Difference R
A+ Learnership Academy	6 400.00	8 000.00	(1 600.00)
Atcomm/Ntelecom	1 100.00	11 253.44	(10 153.44)
Caltex THN	(30 585.73)	A1	(30 585.73)
Dreyville Electrical CC	31 019.72	33 325.95	(2 306.23)

Eskom Bulk -9731899662	15 229 290.13	15 553 290.13	(324 000.00)
Eskom - 8476734294	3 414.48	1 700.94	1 713.54
Freddy's Electrical	65 425.08	(0.02)	65 425.10
Hewetson Attorneys (Civil Matter)	4 892 433.48	4 696 953.48	195 480.00
KPA Private Accomodation	12 474.94	34 630.00	(22 155.06)
Lawnmower Sales and Services	19 597.80	9 627.86	9 969.94
Telkom Business	292 915.61	338 580.49	(45 664.88)
Wilger Motors	(9 830.15)	(2 441.83)	(7 388.32)
	R20 513 655.36	R20 684 920.44	R-171 265.08

A1 - The above balances did not appear on the age analysis therefore the comparison could not be done to confirm that the balance as per the suppliers

2) A comparison of the supplier reconciliations to the supplier statements was done and the following differences were identified:

Supplier name	Balance as per reconciliation R	Balance as per Suppliers Statements R	Difference R
Betmor	413 203.55	N1	413 203.55
Caltex THN	-30 585.73	-30 565.47	-20.26
Dreyville Electrical CC	31 019.72	33 325.95	-2 306.23
Eskom Bulk -9731899662	15 229 290.13	15 553 290.13	-324 000.00
Eskom - 6729600525	9 386.97	N1	9 386.97
Freddy's Electrical	65 425.08	N1	65 425.08
Hewetson Attorneys (Civil Matter)	4 892 433.48	4 696 953.48	195 480.00
KPA Private Accomodation	12 474.94	N1	12 474.94
KTP Management Consultancy	329 840.00	N1	329 840.00
Mosaic Projects	220 000.00	N1	220 000.00
Mixlex Trading Enterprises	503 132.16	N1	503 132.16
Multitech	222 300.00	N1	222 300.00
Nexia SAB&T	409 836.18	N1	409 836.18
OK Grocery	12 292.84	11 232.02	1 060.82
Spatial Solutions Inc	122 790.64	N1	122 790.64
Telkom Business	292 915.61	N1	292 915.61
Wilger Motors	-9 830.15	-984.33	-8 845.82
	R22 725 925.42	R20 263 251.78	R2 462 673.64

N1 - The above statement was not included in the summary of all creditors statements therefore the comparison to the creditors reconciliation could not be done to confirm the balance as at 30 June 2014 is correct.

Cause

Proper review of supporting documentation (e.g., creditors statements, creditors reconciliations and creditors age analysis) was not done management.

Impact

Internal control on the filing and the recording of the payables is incomplete.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should put measures in place to ensure monthly reconciliations of creditors statements and the age analysis

Management response

1. Please see response to finding one below:

Supplier name	Balance as per reconciliation R	Balance as per Age Analysis (General Ledger) R	Difference R	MUNICIPALITY RESPONSE
A+ Learnership Academy	6 400.00	8 000.00	(1 600.00)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Atcomm/Ntelecom	1 100.00	11 253.44	(10 153.44)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Caltex THN	(30 585.73)	A1	(30 585.73)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Dreyville Electrical CC	31 019.72	33 325.95	(2 306.23)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Eskom Bulk -9731899662	15 229 290.13	15 553 290.13	(324 000.00)	We disagree. Please find attached the Eskom Statement for 30 June 2014. The balance on the statement is R15 553 290.10. Thus is there no misstatement as the age analysis and the Eskom statement agrees and the balance are correctly stated on the financial statements
Eskom - 8476734294	3 414.48	1 700.94	1 713.54	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Freddy's Electrical	65 425.08	(0.02)	65 425.10	We agree with the finding and will be corrected on the financial statements
Hewetson Attorneys (Civil Matter)	4 892 433.48	4 696 953.48	195 480.00	We disagree. Please find attached the statement from Hewetson. The balance on the statement agrees to the age analysis therefore are there no misstatement on the financial statements.
KPA Private Accomodation	12 474.94	34 630.00	(22 155.06)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Lawnmower Sales and Services	19 597.80	9 627.86	9 969.94	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the

				correct balance is disclosed.
Telkom Business	292 915.61	338 580.49	(45 664.88)	We agree with the finding and will be corrected on the financial statements and the supplier age analysis to ensure the correct balance is disclosed.
Wilger Motors	(9 830.15)	(2 441.83)	(7 388.32)	This is an internal control matter. The supplier reconciliation were not updated after the supplier age analysis were updated.
	R20 513 655.36	R20 684 920.44	R-171 265.08	

2. Please see response to finding two below

Supplier name	Balance as per reconciliation R	Balance as per Suppliers Statements R	Difference R	MUNICIPALITY RESPONSE
Betmor	413 203.55	N1	413 203.55	Tax Invoice
Caltex THN	-30 585.73	-30 565.47	-20.26	We agree with the finding and the financial statements will be adjusted with the R20.26 balance to disclose the correct amount.
Dreyville Electrical CC	31 019.72	33 325.95	-2 306.23	We agree with the finding and will be corrected on the financial statements to disclose the correct amount.
Eskom Bulk -9731899662	15 229 290.13	15 553 290.13	-324 000.00	We disagree. Please find attached the Eskom Statement for 30 June 2014. The balance on the statement and the supplier age analysis is R15 553 290.10. Thus is there no misstatement as the age analysis and the Eskom statement agrees and the balance are correctly stated on the financial statements. This is an internal control matter
Eskom - 6729600525	9 386.97	N1	9 386.97	We disagree with this finding. Please see that the balance on the supplier statement agrees with the reconciliation and the supplier age analysis. There is no misstatement.
Freddy's Electrical	65 425.08	N1	65 425.08	Tax Invoices
Hewetson Attorneys (Civil Matter)	4 892 433.48	4 696 953.48	195 480.00	We disagree. Please find attached the statement from Hewetson. The balance on the statement agrees to the age analysis therefore are there no misstatement on the financial statements.
KPA Private Accomodation	12 474.94	N1	12 474.94	Statement Submitted
KTP Management Consultancy	329 840.00	N1	329 840.00	Tax Invoices
Mosaic Projects	220 000.00	N1	220 000.00	Statement Submitted
Mixlex Trading Enterprises	503 132.16	N1	503 132.16	Tax Invoice
Multitech	222 300.00	N1	222 300.00	Statement Submitted
Nexia SAB&T	409 836.18	N1	409 836.18	We disagree. Please find attached the supplier statement. This balance agrees to the balance on the supplier age analysis. No misstatements noted.
OK Grocery	12 292.84	11 232.02	1 060.82	We agree with the finding and the difference will be adjusted on the financial statements.
Spatial Solutions Inc	122 790.64	N1	122 790.64	Statement Submitted
Telkom Business	292 915.61	N1	292 915.61	We disagree. Please find attached the statements. The difference will be adjusted on the financial statements of R45 664.88 to ensure the AFS is correct.
Wilger Motors	-9 830.15	-984.33	-8 845.82	We agree with the finding and will be corrected on the financial statements

Supplier name	Balance as per reconciliation R	Balance as per Suppliers Statements R	Difference R	MUNICIPALITY RESPONSE
	R22 725 925.42	R20 263 251.78	R2 462 673.64	

Auditor's conclusion

1) The corrected financial statements were not received. If the correction is made the finding will be reported as a corrected misstatement (please refer below for assessment done)
 2) The response is incomplete and the supporting documents for the disagreements was not submitted. The supporting documents to verify the payables in the list that was not responded was submitted. The evidence was inspected and the rest of the finding was resolved. If the correction as indicated are corrected on the financial statements the matter will be report as a correction of misstatements.

1. The annual financial statements were obtained on the 27 November 2014, all agreements were corrected satisfactorily with the exception of the following:

Supplier name	Balance per reconciliation	Balance per age analysis (general ledger)	Difference
Dreyville Electrical CC	31 019,72	33 325,95	(2 306,23)

All other agreements have been satisfactorily corrected and will therefore be reported on as corrected misstatements.

132. EX.41 - Internal control: Reconciliations are not reviewed between deposit register and deposit control account. (EX.41)

Audit finding

Section 63 (a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Contrary to the above, it was noted that the connection register reconciliation is not reviewed.

Cause

Management did not ensure that the required internal controls are in place for implementation of reviews of reconciliations.

Impact

The deposit control account might not be accurate and complete.

Internal control deficiency

Leadership

The entity did not select and develop general control activities over technology to support the achievement of objectives.

Recommendation

Management should ensure that the reconciliations of the consumer deposit register are reviewed on a timely basis.

Management response

Management agrees with the finding and will ensure that recons between consumer deposit register are reviewed monthly.

Name: F.MZIZI
Position: CFO
Date: 27/11/2014

Auditor's conclusion

As management agrees with the finding and will remain and be reported on in the management report.

133. EX.44 - Finance charges : Creditors reconciliations not done (EX.44)

Audit finding

Paragraph 17 of GRAP 1 "Presentation of Financial Statements" states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

Contrary to the above it was established that the municipality does not perform monthly reconciliations of their long outstanding creditors.

The following is a sample of 10 Suppliers selected from the suppliers age analysis on which only yearend reconciliations were performed by Nexia SAB&T Consultants for the financial year ended 30 June 2014:

	Account No	Description	Amount R
1	AUD002	Auditor General	1 559 240,78
2	BOP001	Bopa Lesedi Development	1 446 243,61
3	ESK001	Eskom - 9131899662	15 553 290,13
4	FSP001	Fleet Management	3 247 845,41
5	MAH001	Mahungra Const and Projects	635 851,27
6	MOS003	Mosaic Projects and Services	220 000,00
7	OPT001	Opti Property Consultants	540 000,00
8	PHE002	Phetogo Consulting	754 341,52
9	SAN002	Sand Vet	2 790 456,79
10	TIR001	Tirisedi Project Management	4 387 614,79

R31 134 884.30

Cause

Lack of capacity to do proper preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information (e.g. the preparation of monthly creditors reconciliations). Creditors reconciliations are only performed on the 30 June 2014 by Nexia SAB & Consultants.

Impact

The possibility of interest calculated on long outstanding creditors being misstated and understatement of fruitless and wasteful expenditure in the annual financial statements for the 2013/14 financial year and the validity of the creditors as disclosed in the financial statement

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that they perform monthly reconciliations of long outstanding creditors to ensure that the correct interest is charged ensuring that they supply the auditors with complete and accurate information for audit purposes.

Management response

Management agrees with the finding, however some of the suppliers reconciliations listed on the finding were performed and are attached, and those that were not performed was due to not acquiring monthly statements from suppliers. Find the attached reconciliations that were performed.

Auditor's conclusion

Management response has been recorded but the following audit finding could still not be cleared due to the fact that some of the supporting documentation was not submitted for audit purposes:

134. EX.62 - Payables: Creditors Reconciliations (EX.62)

Audit finding

Section 62(1) (a) (b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically and that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the system description phase of the audit for the 2013/14 financial year it was identified that the municipality doesn't perform monthly reconciliations of the creditors statement.

Cause

Lack of proper preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information (e.g. the preparation of monthly creditors reconciliations).

Impact

Due to the fact that reconciliations are not performed on a monthly basis this could result in the incomplete payables at year end.

Internal control deficiency

Financial and performance management:

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that they follow up on outstanding creditors statements to ensure that they are able to perform monthly reconciliations in order to supply the auditors with complete and accurate information for audit purposes.

Management response

The municipality disagrees with the finding with the fact that the suppliers will be paid incorrectly.

At each month are payments made to the suppliers. Before payments are made through the bank accounts, does the expenditure personnel review the detailed ledger to ensure all invoices are processed on the Pastel Evolution system and prints the supplier invoices from the pastel system. Payments are not made if invoices are not captured. This control are performed on a monthly basis.

During the compilation of the financial statements at each year end are supplier statements at 30 June 2014 compared to the supplier detailed ledgers and differences are corrected.

Also are a test performed for the unrecorded liabilities (Payments after year end with invoice dated before year end) and they are adjusted on the financial statements if found.

Please find attached the supplier reconciliations performed during the year.

Name: Fikile Mzizi

Position: CFO

Date: 4 November 2014

Auditor's conclusion

Management comments are noted. The completeness of the outstanding supplies on the Pastel system is not ensured for all the suppliers. The lack in the control on the reconciliations on a monthly basis are reported.

Predetermined objectives

135. EX.133 - Predetermined objectives: Limitation on the scope of the audit to determine reliability (EX.133)

Audit finding

Section 62 (1)(c)(i) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 15(1) of the Public Audit Act, 2004 (Act no. 25 of 2004) states that when performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee; any of the assets of or under the control of the auditee; or (c) any staff member or representative of the auditee.

Cause

Management did not take ownership of the process involved in the reporting on predetermined objectives.

Impact

Limitation on the scope of the audit relating to assessing the validity, completeness and accuracy of the reported performance information.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should supply the auditor with the description of the input processes and related control activities and the source documents and person responsible for the inputting, processing and reporting involved on the 11 performance measures or indicators identified.

Management response

Management response was not received.

Auditor's conclusion

Subsequent to the finding, a meeting with the consultant who prepared the annual report was held on 17 November 2014. It was noted that the consultant uses budget to report on the municipal performance. This approach is deemed to not be adequate to address the auditor's description of the process flow. A risk that the municipality may not report accurately, completely and validly on performance was identified due to this. It was further communicated to management that there is no performance management system, with related controls and procedures, in place as in communication 32 of 2014.

Therefore the auditor concludes that the reported performance information is not reliable.

136. EX.138 - Predetermined objectives: Mid-year budget and performance assessment compiled late with errors (EX.138)

Audit finding

Section 72 (1)(ii) of the MFMA states that the accounting officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan delivery and budget implementation plan.

Section 33 of the Municipal budget and reporting regulations states that a mid-year budget and performance assessment of a municipality referred to in section 72 of the Act must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168 (1) of the Act.

Through inspection of a summary of payments made to KTP management consulting firm, it could be confirmed that an invoice for the compilation of the mid-year budget and performance assessment was made on 11 February 2014. It is therefore concluded that the municipality did not compile the mid-year budget and performance assessment by 25 January 2014.

Through inspection of the mid-year budget and performance assessment, submitted as per request 60 of 2014 issued on 14 October 2014, it could not be confirmed that all the required tables, charts and explanatory information were submitted. The details are as follows:

- Debtors' analysis is not included in the report.
- Paragraph 6.5.3 does not have any explanation of material variances.
- Paragraph 10.1 does not contain cash position as at December 2013.
- Paragraph 17 does not have any information.
- The footer of the entire report makes reference to the 2012/13 financial year.

Cause

Management did not exercise due care when reviewing the report after compilation from consultants.

Impact

Non-compliance with the Section 33 of the Municipal Budget and Reporting regulations.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that the budgets comply with the Municipal Budget and Reporting regulations

Management response

Management partially agrees with the finding on the completeness of the report and will ensure that this report complies with the Municipal Budget & Reporting regulations.

However, Management disagrees that the report was compiled late as the Mid-year assessment was completed timeously and tabled before Council on the 24/01/2014 as per as required by the MFMA to be tabled to Council by the 25/01 every financial year, find the attached abstract of the resolution.

Name: F. Mzizi

Position: CFO

Date: 10/11/2014

Auditor's conclusion

Management comments were received and assessed as follows:

- Through inspection of Council minutes (Paragraph 12.2.1(B)), held on 24 January 2014, it could be confirmed that the matter addressed under the heading "MASILONYANA LOCAL MUNICIPALITY MID-YEAR BUDGET ASSESSMENT REPORT" only relates to a reminder that the municipality should be able to monitor performance of the municipality and section 56 managers, as per the Amanzi strategic workshop. A consideration is also given to the fact that these are the only minutes with that heading, however in light of the invoices inspected coupled with the evidence contained in the minutes, the auditor does not gain any confidence that the mid-year report was presented. Paragraph 12.1.1, of the same minutes, is used as an example for sufficient appropriate audit evidence that a report was discussed.
- Management comments, on the completeness of performance and budget information, partially agrees with the auditor's findings, however no additional information was submitted as evidence to substantiate the the partial agreement.
- Based from the above assessment, the matters as communicated to management are considered as **NOT RESOLVED**.

The matter will be reported in the management report.

137. EX.142 - Predetermined objectives: SDBIP not advertised (EX.142)

Audit finding

Paragraph 19 of the Municipal budget and reporting regulations states that the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan in terms of section 53 (1) (c) (ii) of the Act.

Paragraph 26 (1) of the Municipal budget and reporting regulations states that within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25 (3).

Contrary to the above supporting evidence could not be obtained that the municipality advertised the SDBIP after approval by the Mayor on 10 June 2013. Evidence could also not be obtained for the publication of the adjustment budget after it was approved on 14 March 2014.

Cause

Lack of oversight and proper follow up procedures according to the regulations by management.

Impact

Non-compliance with paragraph 19 of the Municipal budget and reporting regulations.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that the requirements of the relevant act are adhered to at all times.

Management response

Management agrees with the finding and will ensure that all requirements are adhered to.

Auditor's conclusion

Management agrees with the audit finding and it is thus **NOT RESOLVED**.

The matter will be included in the management report.

138. EX.60 - Predetermined objectives: Discrepancies in the Integrated Development Plan (EX.60)

Audit finding

Section 26 (h) of the MSA states that an integrated development plan must reflect a financial plan, which must include a budget projection for at least the next three years.

Section 32 (1)(a) of the MSA states that the municipal manager of a municipality must submit a copy of the integrated development plan as adopted by the council of the municipality, and any subsequent amendment to the plan, to the MEC for local government in the province within 10 days of the adoption or amendment of the plan.

Through inspection of the Integrated Development Plan (IDP), the following deficiencies were observed:

1. Through inspection of the adopted IDP (Section I - Page 148 - 153), it could be confirmed that the financial plan does not contain a budget projection for the next three financial years. The financial plan as included in the IDP only has a projection till 2014/15.
2. Through inspection of a confirmation letter from the Department of Co-operate Governance and Traditional Affairs, it could be confirmed that the IDP was submitted on 21 June 2013. This is after 10 after the IDP was adopted on 30 May 2013.

The above matter was also included in paragraph 138 (Annexure A) of the prior year's management report.

Cause

Information from finance was not scrutinised to ensure that it complies with the requirements of the section 26 (h) of the MSA.

Lack of oversight from management in keeping to deadlines as legislated.

Impact

This results in non-compliance with section 26 (h) and 32 (1)(a) of the MSA.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should put measures in place to ensure that the IDP reflects the financial projections for the next three years. It is further recommended that a list of all dates that information relating to predetermined objectives is compiled and compliance is ensured for future reference.

Management response

Management response was not received.

Auditor's conclusion

Management comments were not received, therefore the matter will be reported in the management report.

139. EX.82 - Predetermined objectives: Errors identified on the Annual report (EX.82)

Audit finding

Section 46 (1)(a) - (c) of the MSA states that a municipality must prepare for each financial year a performance report reflecting the performance of the municipality and of each external service provider during that financial year, a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year and measures taken to improve performance.

Through inspection of Chapter 3 of the annual report, the following could be confirmed:

a) The performance of the municipality against each external service provider is not included in the report.

b) A comparison of performances with the prior year is included. It is however noted that the tables included in the report (page 42 - 105) are not all filled and that some have missing information. Some of the examples of the are as follows:

Page number	Table title	Comments
42	Total use of water by sector	The information relating to 2013/14 is not included.
42	Water service delivery levels	The column that should relate to 2012/13 is labelled 2013/14.
43	Water service objectives taken from IDP/SDBIP	Corrective measures for the last two rows are not included.
44	Employees - Water services	The column for 2012/13 does not have any information, furthermore not all cells in the table are filled.
49	Capital expenditure - Sanitation service	The table is not filled.

The tables referred to above can be found on pages 42, 43, 44, 46, 47, 48, 49, 52, 53, 54, 56, 59, 61, 62, 64, 65, 66, 71, 72, 73, 77, 78, 79, 80, 81, 82, 83, 85, 87, 88, 90, 91, 92, 93, 94, 99, 100, 102, 103, 104 and 105.

c) Measures taken to improve performance are included on some tables. However as stated above, it's not all tables filled.

d) It is further noted that pages 57 and 101 are blank. Page 74 could be merged with page 75 as only one line is included.

The above issue was also included in paragraph 41 (Annexure A) of the prior year's management letter.

Cause

Lack of proper monitoring of data collection and reporting requirements.

Note

Impact

Non compliance with MSA section 46 (1)(a) - (c) that result in the annual report not properly compiled.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should make the adjustments to the annual performance report to comply with section 46 (1) of the MSA.

Management response

Management agrees with the finding and adjustments will be made to the annual performance report to comply with section 46 (1) of the MSA.

Name: F. MZIZI

Position: CFO

Date: 12/11/2014

Auditor's conclusion

Management agrees with the audit finding and the matter will be resolved when the adjusted Annual report is received.

140. EX.92 - Predetermined objectives: Risk assessment not conducted (EX.92)

Audit finding

Section 62 (1)(c)(i) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Evidence of the risk assessment conducted on predetermined objectives could not be obtained as requested by request 9 (second last bullet) of 2014 issued to management on 25 August 2014.

This matter was also included in paragraph 90 (Annexure A) of the prior year's management report.

Cause

There was a vacancy in the risk management section.

Impact

The Municipality cannot identify the risk related to predetermined objectives and then take corrective action where there are weaknesses.

Internal control deficiency

Governance

Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Risk assessment

The entity did not identify risks to the achievement of its objectives and identifies the risk as a basis for determining how the risks should be managed.

Recommendation

Management should conduct risk assessment on predetermined objectives as part of its overall risk assessment for the 2014/15 financial year.

Management response

Management disagrees with the finding. During the Strategic Planning Session held from 20-22 May 2014, the municipality underwent a process of identifying risks to the achievement of its objectives and also identified ways in which those risks could be addressed. Reference may be made to paragraph 7 of the Draft Strategic Planning document dated 20-22 May 2014.

Name: Mutsi Mutsi

Position: Strategic Manager in office of the MM

Date:04/11/2014

Auditor's conclusion

Management comments were received and assessed as follows:

- Management should not that the provided document was not provided upon request as per request 9 of 2014.
- Through inspection of the Strategic Planning Draft report (20 - 22 May 2014), paragraph 2.3, no evidence could be obtained that the risk assessment on predetermined objectives would be conducted. Furthermore, no evidence of risks identified, rating of the risks, corrective measures with target dates and the responsible individual and/or unit responsible for taking those corrective actions could be identified, specifically for predetermined objectives.
- It is accepted that this strategy document identified risks only applicable to the municipal strategy as a whole and no risks pertaining to predetermined objectives was included.
- The strategy document is therefore rejected as evidence that the risk assessment was conducted and the matter is **NOT RESOLVED**.

The matter will be included in the management report.

141. EX.211 - Performance audit integration: Monitoring of service delivery: Roads (EX.211)

Audit finding

Section 63(2)(a) of the MFMA stipulate that the accounting officer must for the purposes of subsection(1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;

Road infrastructure

- a) The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
- b) The municipality has not set a measurable performance indicator or target for the maintenance of roads.
- c) The municipality has not set a measurable performance indicator or target for the maintenance of roads.
- d) The municipality has not set a measurable performance indicator or target for the upgrading of roads.
- e) The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year. The roads maintenance plan that was submitted do not have detail roads the need to be maintained and upgrades.
- f) The municipality does not have a road asset management system in place

Cause

The indicators as set in the IDP and SDBIP is not measurable and the maintenance of the roads was not measured.

Impact

Increase in the deterioration of the road infrastructure and no approved plan to address the deterioration of the road infrastructure. €

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should ensure that the indicators set in the SDBIP is measurable and in line with the regulations.

The actual output on the core business should be measured on the demand and the actual services rendered.

Management response

Agree with the finding. The municipality does not yet have approved a policy on the planning, management and reporting of road infrastructure. The maintenance of roads was budgeted and funded under the Extended Public Works Program (EPWP) during the 2013/14 financial year and the distance maintained could not be quantified in the form of

distance. Management will further ensure that the municipality approves its road maintenance plan in the 2014/15 financial year.

Name: F.MZIZI
Position: CFO
Date: 28/11/2014

Auditor's conclusion

Management agree with the finding and the aspect will be reported as service delivery issue.

142. EX.7 - Performance audit integration: Monitoring of service delivery: Water and Sewer (EX.7)

Audit finding

a) The following general key performance indicator is prescribed in terms of section 43 of the Municipal Systems Act, 2000 (Act No. 32 of 2000): Regulation 10 (a) LOCAL GOVERNMENT: MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS, 2001 as published in GN R796 in GG 22605 of 24 August 2001

- The percentage of households with access to basic level of water
- The percentage of households with access to basic level of sanitation

b) Section 12(1) (a) and (b) of the Water Services Act, 1997 (Act No. 108 of 1997) stipulates that every water services authority must, within one year after the commencement of this Act as part of the process of preparing any integrated development plan in terms of the Local Government Transition Act, 1993 (Act No. 209 of 1993); or separately, if no process contemplated in paragraph (a) has been initiated, prepare a draft water services development plan for its area of jurisdiction; and a summary of that plan.

Water and Sewer infrastructure

a) -The following indicators were listed in the SDBIP for the water service and it does not address the indicators as set out in the guidance .

- The municipality did not report on these indicators in their 2013/14 annual performance report.
- The indicators were not included in the SDBIP for the 2014/15 financial year

Indicator in SDBIP 2013-14

- 1) Increase to clean drinking water - RDP STD -Blue drop
- 2) Reduce water demand & loss - % reduce in constrain water demand - 35%
- 3 Sustainable water supply - Ensure drinking water - 90%

Indicator in SDBIP 2014-15

- 1) Increase to clean drinking water - RDP STD -Blue drop
- 2) Reduce water demand & loss - % reduce in constrain water demand - 35%
- 3 Sustainable water supply - Ensure drinking water - 90%

b) - The following indicators were listed in the SDBIP for the sanitation service and it does address the indicators as set out in the guidance.

- The municipality however did not measure these indicators as they were not reported upon in the 2013/14 annual performance report submitted for audit.
- Furthermore, the municipality did not set its target for 2015 to achieve 100% access to basic level of sanitation.

Indicator in SDBIP 2013-14

1.1 Access to Sanitation

1) Winburg Waste Water Treatment Works - Final planning and designs of the WWTW to be upgraded

2) Theunissen Eradication of 2265 toilets - 2265 Flushing toilets

3) Soutpan Eradication of 400 toilets - 400 Flushing toilets

Indicator in SDBIP 2014-15

Increase access to sanitation

- % of formal households
- Increase % of formal household
- Target = 90%

c) The municipality does not have an approved water services development plan as required by the Water Services Act

Cause

The indicators as set in the IDP and SDBIP are not measurable.
 The indicators were not set in accordance with the requirements as per LOCAL GOVERNMENT: MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS.

Impact

The municipality has not set a performance objective and indicator for the percentage of households with access to basic level of water and sanitation.
 The municipality has not achieved its targets for the provisioning of access of basic water and sanitation to households for the 2013-14 financial years.
 The backlog in the provision of water and sanitation will not be eradicated in 2014.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should ensure that the indicators set in the SDBIP is measurable and in line with the regulations.
 The actual output on the core business should be measured on the demand and the actual services rendered.

Management response

Management disagree with the finding. The requirements as outlined in the LOCAL GOVERNMENT: MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS were thoroughly considered when the indicators were set. Targets were set (in the form of percentages) which could be used to measure the indicators.

Management however agrees that the municipality does not have an approved water services development plan as indicated by the Auditor General.

Name: M. MUTSI
Position: STRATEGIC MANAGER
Date: 28/11/2014

Auditor's conclusion

Management response was noted and the matter that the water service delivery plan not approved. The eradication of the buckets did not meet the 100% as prescribed and will be reported as such.

Furthermore was the indicators as set in the SDBIP was not measured in the annual performance plan.

Provisions

143. EX.22 - Provision for landfill sites: Overstatement in the financial statements (EX.22)

Audit finding

Section 122 (1)(a) of the MFMA states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Paragraph 46 of GRAP 19 states that the provision is measured before tax or tax equivalents (where applicable).

VAT act, paragraph 9 states: "For the purposes of this Act a supply of goods or services shall, except as otherwise provided in this Act, be deemed to take place at the time an invoice is issued by the supplier or the recipient in respect of that supply or the time any payment of consideration is received by the supplier in respect of that supply, whichever time is earlier."

Through inspection of Annexure B and section 8 of the report from AECOM on the rehabilitation of landfill sites, it could be confirmed that the amounts calculated are inclusive of VAT. This is contradictory to section 8 of the report which explicitly states that the amounts are exclusive of VAT. The recalculated amount below is the provision amount after deducting VAT which was incorrectly added.

No.	Name	Provision amount (R)	Re-calculated amount (R)	Difference (R)
1	Theunissen	3 126 336	2 742 400	383 936
2	Brandfort	3 404 040	2 986 000	418 040
3	Windburg	3 049 956	2 675 400	374 556
4	Verkeerdevlei	1 887 612	1 655 800	231 812
5	Soutpan	1 633 848	1 433 200	200 648

13 101 792

11 492 800

1 608 992

Therefore the provision is overstated by R1 608 992.

Cause

There was no formal review of the report focusing on the valuation of the provision and the methodology.

Impact

Note 4 (Total provision 30 June 2014) of the the financial statements is overstated by R1 608 992.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Monitoring

The entity did not select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

Recommendation

Management must investigate the matter and make necessary corrections to Note 4 of the 2013/14 financial statements.

Note

Management response

We agree with the finding.

Section 8 of the report indicates that the amounts are exclusive of VAT but according to the appendixes the amounts are inclusive of the VAT.

The provision are therefore overstated with R1 608 992.

The landfill sites engineers will be requested to correct the report

The following correcting journal will be proposed to correct the misstatements on the financial statements:

Dr (77/8010) Provision for landfill sites R1 608 992

Cr (77/3063) Other Assets – Land

R1 608 992

(Correcting journal to correct the overstatement of the landfill site provision)

Auditor's conclusion

Management comment were received and assessed as follows:

- A correcting journal was prepared and has been submitted for audit purposes.

- The corrected financial statements were received and the matter will be resolved once the corrected financial statements are received.

The matter will be reported as a corrected misstatements .

144. EX.40 - Provision for landfill sites: Incorrect disclosure (EX.40)

Audit finding

Section 122 (1)(a) of the MFMA states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Through inspection of the current year and the comparatives, it was noted that there has been an increase in the provision. Subsequent inspection of the narrative, in Note 4, contradicts this fact as it states that there was a reduction.

Through inspection of the narrative and the report from AECOM, it could be confirmed that the cost estimates are representative of the total amount to be provided as at 30 June 2014 and no interest charge based on the applicable interest rate was used. Therefore it is not required to show the split between the current and long-term portion as the experts have already calculated the value. Based on this assessment, there should not be a disclosure for current portion (Note 7).

Cause

In preparation of the financial statements, the figures as per the experts compiling the financials was not used.

Impact

The disclosure of the provision for landfill sites in not accurate.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should disclose the provision for landfill sites by the carrying amount at the beginning and the end of the financial year, additional provisions made in the current year including increases to the current provision. An example of the proposed disclosure is as follows, both for the current year and comparatives:

Reconciliation of the provision-2014

	Opening balance	Additions(Adjustment)	Closing balance
Provision for the rehabilitation of landfill sites	1,00	1,00	2,00
	1,00	1,00	2,00

Opening balance : Figure disclosed as per last year's financials

Closing balance : Figure as per the experts evaluation

Additions (Adjustment) : Difference between the above

Management response

Part one of the finding:

We agree with the finding of the Auditor General and the narration will be removed that states the following:

"There were reductions in the carrying amounts of provisions resulting from re-measurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity"

Part 2 of the finding:

We disagree with the statement.

GRAP 1.59 states that "an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement financial position in accordance with paragraphs .65 to .75 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity."

The current portion in note 7 is the expected increase in the provision for the landfill site for the 2013/2014 therefore is the current portion disclosure made. The expected increase will incur within 12 months and therefore should it be disclosed as current on the financial statements.

Name: Fikile Mzizi
Position: CFO
Date: 4 November 2014

Auditor's conclusion

Management comments were received and assessed as follows:

Part 1:

Management agrees with the finding and the matter will be resolved once the adjusted financial statements are received.

Part 2:

GRAP 1, paragraph 68 (a) - (d):

"A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date (see paragraph .72). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current."

Based from the above, management comments are rejected as none of the above criteria's are met by the provision for landfill sites.

The matter is **NOT resolved**.

The matter will be included in the audit report.

Subsequently, the auditor inspected the adjusted financial statements, received on 27 November 2014, and could confirm that the disclosure has been amended. Therefore the matter is regarded as resolved and will be reported as a corrected misstatements in the management report.

Receivables

145. EX.172 - Provision for debts impairment/Debt impairment expense/VAT input - Overstated (EX.172)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure -

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control

Contrary to the requirements of the MFMA, there were differences identified between the management estimates of impairment losses(including the related VAT amount) and the recalculated estimate mount.

No	Description	Recalculated impairments - residential	Recalculated impairments - Business	Total impairment provision recalculated = (A + B)	Impairment provision as per AFS/GL	Differences = (D - C)
		A	B	C	D	E
1	Provision before VAT	62 476 284,18	12 634 397,42	75 110 681,60	104 360 052,22	(29 249 370,62)
2	VAT input amount (!)	7 672 526,13	1 551 592,67	9 224 118,79	12 816 146,76	(3 592 027,97)
3	Provision net of VAT(#)	54 803 758,05	11 082 804,76	65 886 562,80	91 543 905,46	(25 657 342,65)

Legends:

! = Gross provision * 14/114

= Gross provision * 100/114

This was also reported in the prior year, refer to paragraph 147 of the management report.

Cause

Lack of review of work performed by the consultants.

Impact

This may result in overstatement of the following:

Provision for debt impairment balance, note 24 and 15 -16: R29 249 370,62

VAT input: R3 592 027,97

Provision for debt impairment expense, note 24: R25 657 342,65

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

The management should review and investigate the impairment losses' calculations performed by the consultants and make necessary adjustments to the financial records and financial statements.

Management response

We disagree with the finding.

This finding does not state the actual cause of the error therefore we believe that the recalculation of the auditor general is incorrect.

Please see both the prior year and the current year calculation attached. Both years calculation was performed the same, there were no change in the methodology and the mathematical formulas.

This thus request that the AG provide their working paper and discuss their calculation with the consultants to ensure both parties agree on the calculation and the amount.

We are aware that this matter was reported in the prior year however it were resolved in the prior financial year.

Please see below our recalculation of the movement (Inclusive of VAT):

	2014	2013	Movement
Business	14 889 118,92	6 714 320,82	8 174 798,10
Government	-	-	-
Municipality	-	-	-
Residential	279 401 628,88	188 619 898,36	90 781 730,52
Write Off	5 967 875,20	564 351,60	5 403 523,60
	300 258 623,00	195 898 570,78	104 360 052,22

The AG's misstatement above also does not include the accounts "Write off", therefore we believe the AGs calculation is incorrect.

Name: F Mzizi

Position: CFO

Date: 17/11/2014

Auditor's conclusion

Management responses are noted. We agree with the management. The same calculations (mathematical formulas) and methodology was use from the prior year to the current year and the above differences were found to the value of R4 833 317,9. The issue is partially resolved. Below are the final calculations reached and agreed upon:

Description:	Amount (R)
Total error reported	29 249 370.62
Total error resolved	-24 416 052.71
Total error to be adjusted in the AFS – SoFP (R29 249 370,62 - R24 416	4 833 317.91

052,71)	
VAT portion – SoFP (R4 833 317,91 *14/114)	593 565.36
Net amount – SoCI R4 833 317,91 - R593 565,36)	4 239 752.55

The correction to the AFS was made and the finding will be reported as a corrected misstatement.

146. EX.118 - Account receivables: Arrangements payments for outstanding balances not submitted - RFI 69 (EX.118)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control

Contrary to the above, it was noted that letters for arrangements for payments of arrear account in the table below were not submitted for audit:

No	Account Numbers as per the debtors list	Name of customer	Description	Amount due (R)
1	750001358	ELS	Residential	419 660,76
2	730277007	ENGELBRECHT	Residential	37 491,72
3	680467001	MAIZE	Residential	27 040,61
4	150077001	MOTHOB	Residential	26 000,55
5	030783009	MATLABE	Residential	22 547,70
6	730100007	SNYMAN	Residential	25 381,45
				558 122,79

It could also be noted that the following arrangements were not duly signed by both parties before year end.

No	Account Numbers as per the debtors list	Name of customer	Description	Amount due at the date of arrangement	Date of arrangement	Year-end /reporting date
1	090063000	CONCORDIA H	Residential	214 032,74	18-Sep-14	30-Jun-14
2	150197001	MOKGAUDI	Residential	22 766,74	07-Aug-14	30-Jun-14
				236 799,48		

The following debtors defaulted their conditions of arrangements and there is no evidence that services were discontinued due to this matter:

No	Account Numbers as per the debtors list	Name of customer	Description	Amount due at the date of arrangement	Date of arrangement	Conditions/provisions made in the arrangement/agreement?	Date defaulted.
1	680752001	DEMPSEY	Residential	25 183,77	16-Apr-13	Monthly instalment of R2500,00 and 100% of the current account, 15th day of each month from May.	15-May-13
2	730131000	VAN WYK	Residential	52 518,83	03-Apr-14	Monthly instalment of R500,00 electricity was already cut-ff.	30-Apr-14
3	680186007	MOKHATI	Residential	49 038,53	09-Apr-13	Monthly instalment of R1500,00 and 100% of the current account, 15th day of each month from May.	15-Apr-13
4	040365002	LE GRANGE	Residential	46 419,04	24-Mar-14	Monthly instalment of R4000,00 and 100% of the current account, fifteenth day of each month from April 2014.	15-Apr-14
5	730257002	DE NYSSCHEN	Residential	36 560,02	14-Apr-14	Monthly instalment of R400,00 and 100% of the current account, 30th day of each month from May 2014.	30-Apr-14
6	680312006	MOTHIBI	Residential	34 561,91	08-Apr-13	Monthly instalment of R1000,00 and 100% of the current account, seventh day of each month.	07-May-13
7	010520008	THIANYE	Residential	32 453,21	22-Oct-13	Monthly instalment of R2000,00 and 100% of the current account, first day of each month from November.	01-Nov-13
8	680225007	SEMPE	Residential	15 056,66	04-Apr-13	Monthly instalment of R4200,00 and 100% of the current account, seventh day of each month, May 2013.	07-May-13
9	680432002	MOKHADI	Residential	16 144,89	08-Apr-14	Monthly instalment of R2000,00 and 100% of the current account, seventh day of each month, May 2013.	07-May-14
10	201085007	MOKOBO	Residential	22 944,92	17-Mar-14	Monthly instalment of R200,00 and R300.00 of the current account, 15th day of each month.	15-Apr-14
11	324459000	MANUNDU	Residential	21 760,62	30-May-14	Monthly instalment of R200,00 and 100% of the current account, twenty-eight day of each month.	28-Jun-14
12	690130000	THETHELE	Residential	17 123,95	08-Mar-13	Monthly instalment of R400,00 and 100% of the current account, any day of the month	30-Mar-13
13	680726005	ONDERDELE	Residential	12 376,83	15-Apr-13	Monthly instalment of R1 032.00 and 100% of the current account, 07th day of each month from May 2013.	07-May-13
				382 143,18			

Cause

The cause of the above is that there is lack of effective controls to ensure that:

- 1.Information is available when requested; and
- 2. Adherence with the internal control policies is achieved.

Impact

The matter will result in scope limitation in confirming receivables from exchanged and from non-exchange transactions; and

The matter could further result in financial losses when no disconnections are made for debtors who defaulted payments.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that proper supporting documentation is kept for all information used in the preparations of AFS and that adherence with internal control policies is met(disconnection of services when debtors default payments).

Management response

Management agrees with finding that 6/26 arrangements letters were not submitted to AG for audit, and will enhance systems of record keeping.

Auditor’s conclusion

Management agreed with the finding and therefore this matter will be reported as an internal control deficiency.

147. EX.129 - Account receivables: Indigents forms not recorded in the register (EX.129)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control

The following indigents debtors were not recorded in the indigent register.

Details as per the supporting documents, application form	Procedure (c)
---	-----------------

No	Customer	Name	ID Number	Physical Address 1	Reason for unaffordability	Recorded in the indigent register?
1	170480000	MOLISE	3109150180087	16 KERK STRAAT	Pensioner	No
2	293411000	MATLOLANE	6110295375084	43 KIGHTLEYSTRAAT	Unemployed	No
3	252673007	MOSHODI	5304125818089		Unemployed	No
4	242090007	MAGOSI	6011095713088	VA ZYLSTRAAT 20	Unemployed	No
5	242206001	MOTIPE	7410010690083	45 KIGHTLEY	Unemployed	No
6	345167000	MORAULE	791110333088	HV 28 ANDRIES PRET & 29 V/D MERWE	Unemployed	No
7	345343000	KHITSANE	750115786089	23 SAS HUIS NO	Unemployed	No
8	345530007	MAREMA	5206040886085	STAND 811	Disability grant	No
9	293436008	LEPHEAME	5212130402080	MASILO THEUNISSEN	Pensioner	No
10	190930000	MOKHACHANE	1202285075082	1199 PHAHAMENG STREET	Pensioner	No
11	610231007	TSULO	3001135073083	24 MARK STRAAT	Pensioner	No
12	610130007	BANYANE	4305105372089	MASILO THEUNISSEN	Pensioner	No
13	610018007	METOA	4708120352087	MASILO THEUNISSEN	Pensioner	No

A similar matter was recorded in paragraph 47 of the prior year management report.

Cause

The management did not take reasonable steps to review the records, to ensure that the indigents debtors are all recorded in the register.

Impact

This will result in indigent debtors recorded in financial records not complete and accurate.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies

Recommendation

The management should record the indigents debtors in the register of indigents as soon as they were approved by councillor.

Management response

Management agrees with the finding and will ensure that all indigents application forms are captured and included in the indigent register.

Auditor's conclusion

Management responses were received and assessed, the auditor noted the response and the issue will be reported as it can not be confirm if the applicants qualified for the indigent grant.

148. EX.131 - Account receivables: No discontinuation of services for accounts older than 90 days (EX.131)

Audit finding

Section 96(a) & (b) of municipal systems act states that the municipalities a municipality

- a) must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and
- b) for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act.

Paragraph 19(2)a & b of the credit control and debt collection policy approved for implementation on 01-Jul-2013 states that if the customer fails to pay any account within a period of fourteen (14) days after the expiry of the due date, then -

- a) without further notice, the municipality may limit, disconnect or discontinue the supply of electricity or water to the immovable property in question; and
- b) the chief financial officer or any duly authorised person may instruct attorneys to recover the outstanding amounts owed.

Contrary to the requirements of the Municipal systems Act and credit control and debt collection policy, and considering the the best practice of allowing 90 days no letters of discontinuation were issued for the following customers, after 90 days of outstanding balances.

No	Account Numbers as per the debtors list	Description	Balance outstanding for or older than 90 days (R)
1	760930000	(HUMAN DANIEL)	1 021.40
2	760481000	(BIESIEBULT BOERDERY CC)	1 115.64
3	761086000	(CHRIS BOTHA TRUST)	2 887.91
4	760882002	(DU PLESSIS)	3 004.29
5	761243000	(BONNET)	4 751.08
6	761124000	(ERASMUS)	6 307.08
7	761091000	(DU TOIT)	7 642.88
8	761034000	(LINDE)	8 302.75
9	710104001	(BOSCHPOORT ONDERNEMINGS)	8 328.70
10	760492000	(ELS)	8 359.83
11	760833000	(DAMSPRUIT TRUST)	8 989.75
12	710109001	(DE KLERK)	9 770.97
13	761159000	(GUTTER)	10 189.14
14	742120000	(LEMOEN)	10 250.48
15	760929000	(FOURIE)	10 352.20
16	743375001	(MADIMANE)	11 632.60
17	730164082	(GRAY)	12 560.17
18	743355000	(BARTMAN)	16 783.72
19	680541007	(LODGE UNITY)	21 578.40
20	742137000	(MAKAU)	22 448.89
21	692135000	(BOEDEL HUIS (MOKHELE))	23 292.92
22	741040000	(MALIMANE)	24 150.87
23	743759000	(JODO)	24 621.03
24	743376000	(MALOTLE)	25 483.90
25	730578007	(AURICH)	26 486.02
26	691225000	(BOEDEL HUIS(MOHLOKOANE))	27 610.69
27	741030000	(LEETO)	28 058.48
28	730164032	(BOTHA)	31 396.92

No	Account Numbers as per the debtors list	Description	Balance outstanding for or older than 90 days (R)
29	750001358	(ELS)	419 660.76
30	750002183	(ITERELENG KLEUTERSKOOL)	90 391.71
31	060074001	(DIE STADSKLERK)	75 110.42
32	041348008	(BADENHORST)	70 226.04
33	010665004	(DE BEER)	63 217.14
34	060216009	(DREYER)	53 908.52
35	750000323	(GHOLFklub BRANDFORT)	51 997.53
36	040343007	(BOEDEL WYLE JT BOUWER)	33 961.82
37	746622007	(BOTHAM)	32 961.16
38	051343002	(HAMMOND)	30 196.22
39	020475008	(DE VILLIERS)	29 996.66
40	743960000	(MALORANE)	28 613.74
41	743946000	(MAGAGALA)	28 605.86
42	760383000	(GOEIE HOOP TRUST)	28 428.77
43	030521008	(MAKAMA FAMILY TRUST)	28 427.22
44	690899000	(MAHLOMOLA)	28 116.87
45	743949000	(LEPHALO)	28 098.26
46	690900000	(LETANTA)	28 026.82
47	750001260	(DIOP)	27 789.79
48	692494000	(KHOLO TSA)	27 718.70
49	743944000	(DINOKE)	27 223.84
50	743964000	(LEPILE)	25 634.35
51	030907008	(ERASMUS)	25 185.34
52	760452000	(COETZER FAMILIE TRUST)	22 739.72
53	040292009	(DAMANE)	22 678.65
			1 726 294.62

The similar finding was reported in the prior year management report paragraph 143.

Cause

The management did not take reasonable steps to ensure that letters of discontinuation were issued for the following customers, after 14 days of expiry of the due date relating to the outstanding balances.

Impact

This will result in non adherence with the credit control and debt collection policy which may cause the provision for doubtful debts as disclosed in the note to the AFS note 24 being understated.

Internal control deficiency

Financial and performance management

Management did not develop and monitor the implementation of action plans to address internal control deficiencies

Recommendation

The management should issue letters of discontinuance when the customers default payments as required by the credit control and debt collection policy.

Management response

Management responded to the above query as follows:

"Management agrees that 8/77 were not submitted to AG for audit, and will ensure letters of discontinuance are issued when the customers default payments as required by the credit control and debt collection policy."

"Management disagrees with the finding on the basis that discontinuation of municipality services even if it was implemented, it will not have a financial impact on the AFS, but rather a non-compliance issue. However will ensure that strict controls are put into place to implement debt collection and credit control effectively and consistently"

Name: Fikile Mzizi

Position: CFO

Date: 20/11/2014

Auditor's conclusion

Management submitted part of the information and agreed with the finding for the pending information. We disagree with the management response because only 25 of the 77 letters of discontinuance were received still 53 was not submitted. The documents received were inspected and they could be tested satisfactory. This exception is therefore not resolved and the matter will be reported as a control deficiency.

149. EX.196 - Account receivables: Services not charged to the correct property owners after transfers (EX.196)

Audit finding

Contrary to the requirements of section 62(1) of MFMA, the management did not correctly charge rates to the owners of the properties. It could not be confirmed that the correct owner was charged before and after the property transfer date.

No.	Buyers Name	Flat No: If provided	Buyers ID	Buyer's account no.	Purchase Date	Date the seller ceased to be billed	Date the buyer started to be billed	Results - Previous owner	Results - New owner
1	Els Johanna Maria and Els Jan Christoffel	08	3405185013081	7300586008	2014/04/11	c	2014/06/30	aa	ab
2	Vermeulen Ockert Corneluis	30	5604135093080	730729006	Not indicated	2013/05/31	2014/04/30	aaa	b
3	Vermeulen Ockert Corneluis	05	5604135093080	031383053	2013/12/16	c	cc	ax	ab
4	D. J. Maree(Schalk Gouws Trust)	#	Not indicated in the deed listing	730646000	22/08/2014	c	cc	po	no
5	Y. D. Taddesse(Schalk Gouws Trust)	#	Not indicated in the deed listing	730646003	22/08/2014	c	cc	po	no
6	Jacobs Martha Alletha Maria	06	7702010053084	730112009	2014/04/10	2014/06/30	2014/06/30	aaa	b
7	Coetzee Arthur William	#	5008085003083	Not in the system	2014/01/27	c	cc	po	no
8	Meintjies Lienkhe Helena Maria	#	1003010302084	Not in the system	2014/04/29	c	cc	po	bc
9	Ntloko Gladys	#	7605230365081	Not in the system	2013/11/20	c	cc	po	bc
10	Shomolekae Lehlohonolo Floyd	5224	8307095980083	345224008	2014/04/17	c	2014/07/31	po	b
11	Ramorobi Lebusa Goodwill	#	7307065367080	Not in the system	2013/07/25	c	cc	po	bc
12	Nyembezi Family Trust	#	Not indicated in the deed listing	Not in the system	2013/08/15	c	cc	po	bc
13	Corpco 2173 (PTY) LTD	#	200700826107	Not in the system	2013/11/14	c	cc	po	bc
14	Hestony holdings (PTY) LTD	#	199400148307	Not in the system	2014/03/19	c	cc	po	bc
15	Hestony holdings (PTY) LTD	#	199400148307	Not in the system	2013/11/01	c	cc	po	bc
16	Corpco 2173 (PTY) LTD	#	200700826107	Not in the system	2014/03/13	c	cc	po	bc
17	Corpco 2173 (PTY) LTD	#	200700826107	Not in the system	2014/03/13	c	cc	po	bc
18	Barnie Human Landgoed Trust	#	Not indicated in the deed listing	Not in the system	2013/08/08	c	cc	po	bc
19	Corpco 2173 (PTY) LTD	#	200700826107	Not in the system	2013/07/22	c	cc	po	bc
20	Corpco 2173 (PTY) LTD	#	200700826107	Not in the system	2013/12/03	c	cc	po	bc
21	Orcom Trading 285 (PTY) LTD	#	200700826107	Not in the system	2013/12/03	c	cc	po	bc

No.	Buyers Name	Flat No: If provided	Buyers ID	Buyer's account no.	Purchase Date	Date the seller ceased to be billed	Date the buyer started to be billed	Results - Previous owner	Results - New owner
22	Smit Hendrik Bernardus	#	9104305188089	Not in the system	2013/10/25	c	cc	po	bc
23	E M B Trust	#	Not indicated in the deed listing	Not in the system	2014/02/28	c	cc	po	bc
24	E M B Trust	#	Not indicated in the deed listing	Not in the system	2014/02/28	c	cc	po	bc
25	Slabbert Johannes Hendrik	0242	5507175127082	Not in the system	2014/03/17	c	2010/08/01	po	no
26	Human Daniel Cornelius Francois	#	7603045070087	Not in the system	2013/11/12	c	cc	po	no
27	Sanctus Regis (PTY) LTD	#	201318633207	Not in the system	2014/01/12	c	cc	po	no
28	Corpclo 2173 (PTY) LTD	#	200700826107	Not in the system	2013/11/14	c	cc	po	no
29	Sanctus Regis (PTY) LTD	#	201318633207	Not in the system	2014/01/12	c	cc	po	no
30	Corpclo 2173 (PTY) LTD	#	200700826107	Not in the system	2013/07/22	c	cc	po	no
31	Corpclo 2173 (PTY) LTD	#	200700826107	Not in the system	2013/07/22	c	cc	po	no
32	Van Staden Maria Magdalena Magrietha	#	4907080088083	Not in the system	2013/10/09	c	cc	po	no

Legends for previous(old)

a - Through inspection of the system, it could be confirmed that the previous owner was charged before and upto the date of transfer of property.

aa - Through inspection of the system, the previous owner could not be identified. The system does not indicate any account under ERF number 0586, except the new account.

aaa - Through inspection of the system, it could be confirmed that the previous owner was not charged services from 31-May-2013 to 30-Apr-2014.

ax - Through inspection of the system, it could be confirmed that the previous owner is still charged services up to today's date.

po - Through inspection of the system the previous owner could not be traced.

c - The date on which the seller ceased to be billed could not be confirmed.

- The flat number could not be confirmed as the name, ID number and account number of the owner could not be traced to the system.

Legends for new owner

b - Through inspection of the system, it could be confirmed that the new owner(buyer) was charged after the date of transfer of property.

bb - Through inspection of the system, the it could be confirmed that the new account is opened for this owner but nothing was billed. There were no transactions identified under this account number/name.

no - Through inspection of the system, it could be confirmed that the new owner was charged for services from previous years, extracted from 01-Jan-2011, thus it could not be confirmed that the property was transferred only in the current year.

bc - Through inspection of the system, it could be not be confirmed that the account of the new owner is opened after the transfer of property.

cc - The date on which the buyer started to be charged for services rendered could not be confirmed.

- The flat number could not be confirmed as the name, ID number and account number of the owner could not be traced to the system.

Cause

The management did not update the system with the new information received on monthly basis on the date the property was transferred by:

- 1.Removing the previous owners from the system and cease charging rates
- 2.Adding the new owners in the system and begin charging rates from the date.

Impact

The impact of the above is that the debtors may be misstated if the incorrect consumer is billed in the system resulting in the municipality incurring financial losses due to customers being reluctant to settle the incorrectly recognised debt.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

The management should update the system with the new information received on monthly basis on the date the property was transferred by:

- 1.Removing the previous owners from the system and cease charging rates.
- 2.Adding the new owners in the system and begin charging rates from the date.

Management response

Management response was not received.

150. EX.233 - Account receivables: Debtors not handed over for collection (EX.233)

Audit finding

Paragraph 21(1)a&b of credit control and debt collection policy approved for implementation on 1 July 2013 states the following:

(a) Debts which have been outstanding for more than 60 days from due date shall be handed over to debt collectors appointed by the municipality for the purposes of collecting such debt.

(b) If the debt collectors are unsuccessful in collecting the debt within 90 days of same being handed over, the debt may be handed over to attorneys for legal action.

Contrary to the above, it could not be confirmed that the following debtors were handed over to the debt collectors and attorneys(legal services). The information supporting this matter was requested on the 10-Oct-2014 and still outstanding/not submitted.

No	Row Labels	Customer Name	Area_Desc	Sum of Total (R)
1	730128007	VAN ZYL ((M	BRANDFORT	654 456,87
2	730453002	JANSEN VAN RENSBURG	BRANDFORT	587 202,97
3	610249007	MOKHOSI	TSHEPONG	581 049,89
4	730614003	DU TOIT	BRANDFORT	401 611,08
5	80043068	VAN STRAATEN FAMILIETRUST	THEUNISSEN	350 195,86
6	730872007	SENWES BPK	BRANDFORT	346 987,33
7	201164000	CLINIC	MASILO	283 837,28
8	120256000	HARMGOLD/HARMONY FREEJOIN	THEUNISSEN FARMS	266 599,24
9	120580000	HARMGOLD FREEGOLD JOINT	THEUNISSEN FARMS	266 599,24
10	610256000	LEDIMO	TSHEPONG	266 569,76
11	730357002	DAGBREEK BO	BRANDFORT	255 333,65
12	680374008	NG WELSYN VRYSTAAT	WINBURG	237 354,95
13	730424000	JACKHARD LO	BRANDFORT	232 138,16
14	10262110	JACOBS	THEUNISSEN	215 487,45
15	730009000	LOOTS	BRANDFORT	205 945,42
16	730324008	COHEN	BRANDFORT	202 823,42
17	730627000	T S C	BRANDFORT	187 753,97
18	680458003	SAM KOTZE BPK	WINBURG	185 929,24

19	600518007	DU PLESSIS	VERKEEDEVLEI	174 521,70
20	680507003	WINBURG HOTEL	WINBURG	167 787,49
21	692286000	MAKELEKETLA CLINIC	WINBURG TOWNSHIP	165 017,19
22	730213006	VAN RHYN	BRANDFORT	164 065,26
23	680484005	LOTTER	WINBURG	160 718,50
24	730748007	THABULA TRADE & INVEST.	BRANDFORT	155 883,14
25	680458002	SAM KOTZE (EDMS) BPK (MUT	WINBURG	147 483,62
26	600320000	MATLAKOTSI	VERKEEDEVLEI	139 527,53
27	100151000	MEISIESKOSHUIS	THEUNISSEN	137 675,62
28	10600009	MCASLIN	THEUNISSEN	136 964,77
29	730138009	KWOOTZ	BRANDFORT	136 817,21
30	680378008	FREDDY'S ELECKTRICAL	WINBURG	135 873,87
				10 862 904,27

Cause

The matter is caused by the deficiencies in the filling system.

Impact

The impact of the finding is that it will result in scope limitation in confirming compliance with the municipality's policy.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that proper supporting documentation is for all the financial affairs of the municipality.

Management response

Management response was not received.

151. EX.63 - Revenue: No disconnection for water/electricity upon defaulted payments (EX.63)

Audit finding

Paragraph 19 (1) and (2) of the credit control and debt collection policy approved on 01 July 2013 states that:

1. An account rendered to a customer by the municipality in respect of rates or municipal services, including sanitation and the collection and disposal of refuse, shall be paid by the due date.
2. If the customer fails to pay any account within a period of fourteen (14) days after the expiry of the due date, then -

(a) without further notice, the municipality may limit, disconnect or discontinue the supply of electricity or water to the immovable property in question; and (b) the chief financial officer or any duly authorised person may instruct attorneys to recover the outstanding amounts owed.

Contrary to the above, it was noted that the Auditee did not disconnect electricity and water for the consumers who defaulted payments within 14 days after the expiry of the due date(30 days after receiving the statement). The following serves as an example of the debtors whose services(electricity and water) were not disconnected.

No	Type	Name	Account No	Amount due	Reason
1	Individual	P. M. Basson	73-000-35-4	R16 717,12	Not indicated
2	Business	Brandfory Hardware	73-0000-20-0	R36 337,70	Arrangement

Note: For the customer that has an arrangement in place, the services were not disconnected 14 days after the due date.

Cause

The management did not take reasonable steps to disconnect electricity and water for all customers who defaulted payments of the outstanding amount.

Impact

This will result in non-adherence with the credit control and debt collection policy and will cause financial losses.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

The management should disconnect electricity and water when the consumers default payments.

Management response

Management agrees with the finding and have already implemented measures on disconnection of services.

Auditor's conclusion

Management agrees with the finding the issue is not resolved it will be included in management report

152. EX.119 - Account receivables: No monitoring of excessive use of water and electricity for indigents customers (EX.119)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

(c) that the municipality has and maintains effective, efficient and transparent systems-

(i) of financial and risk management and internal control

It was noted that the municipality does not have measures in place and did not take steps monitor or to limit the usage of water and electricity by indigents to the quota of water allocated to them to ensure consumption is not higher than subsidies granted.

In the prior year, the similar matter was reported - Refer to paragraph 161 of the management report.

Cause

The management did not take reasonable steps to ensure that there is proper monitoring of usage of water and electricity by the indigents customers.

Impact

This will results in increases in the debtors account(account receivables) which will result in financial losses to the audittee.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies

Recommendation

Management should monitor usage of water and electricity by the indigents customers to ensure that is does not exceed the maximum subsidised value.

Management response

Management agrees with the finding and will develop and implement methods of monitoring and restricting usage of water & electricity by the indigents to ensure that do not exceed the maximum subsidized.

Auditor's conclusion

Management agreed to the finding, this will be recorded as an internal control deficiency.

Related parties

153. EX.43 - Related parties: Incorrect disclosure (EX.43)

Audit finding

In terms of paragraph .27 (a) of GRAP 20 (June 2011) "Subject to the exemptions in paragraph .32, if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary

for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph .35 to disclose remuneration of management. At a minimum, disclosures shall include:
(a) the amount of the transactions;”

Contrary to the above, note 44 of the annual financial statements was inspected and it was identified that the following prior year related parties transactions (as disclosed in note 44.01 of prior year) are not disclosed:

Details	Rates - Levied 1 Jul 11 - 30 Jun 13	Service Charges - Levied 1 Jul 11 - 30 Jun 13	Other - Levied 1 Jul 11 - 30 Jun 13	Outstanding Balances 30 June 2013
Councillors	2 309	30 401	14 018	70 529
Councillor K S Koalane			-	(7)
Councillor S J Mabitla	-	11 464	267	12 136
Councillor S C Mangoejane	623	3 908	5 299	9 830
Councillor D E Modise	-	1 220	6	1 227
Councillor F B Posthumus	-	-	-	(120)
Councillor I I Majara			-	-
Councillor J A Pienaar			-	-
Councillor K A Sekharume	380	2 426	509	3 314
Councillor K P Dichakane	-	3 101	953	4 054
Councillor L M Moloele	-	3 446	1 042	4 487
Councillor V M Lekale	-	-	101	101
Councillor M B Tsoaela	-	-	-	(102)
Councillor M M Kholumo				-
Councillor M G Mafa	1 112	3 861	4 246	9 218
Councillor P T Botha	-	-	1 592	1 149
Councillor S L Kgoe	195	977	2	1 174
Councillor T P Ramongalo	-	-	-	-2 597
Councillor T J Chele	-	-	-	-
Councillor X Nqwiliso	-	-	-	-
Councillor Z P Thuthani	-	-	-	-
Councillor M M Kholumo		5 224	260	5 483
Councillor J A Pienaar	1 084	-	34	1 119
Councillor Z P Thuthani	-	6 133	13 930	20 063
Municipal Manager and Section 57 Employees	-	16 741	1 250	17 991
Previous Municipal Manager - Mr Mpakane	-	16 741	641	17 382

Chief Financial Officer - Mr L I Tlatsi	-	-	-	-
Corporate Services Manager - Mr S J Lehloenya	-	-	-	-
Acting Municipal Manager - Me M E Maphobole	-	-	609	609

Cause

Lack of oversight by management in respect of correct disclosure of related parties of the annual financial statements.

Impact

Incomplete disclosure of the related party note as comparatives are not disclosed. Comparative figures are thus understated by R88 519,94

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should establish and implement controls to ensure that financial statements disclosures on related parties are reported in terms of the relevant standards.

Management response

Management agrees with the finding and that the 30 June 2013 related parties disclosure are not included in the financial statements.

The disclosure note for the current year financial statements will be amended to include the prior year disclosure as indicated by the Auditor-General in the finding above.

Name: F Mzizi

Position: CFO

Date: 17/11/2014

Auditor's conclusion

The corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

154. EX.47 - Related parties: Declaration of interest (EX.47)

Audit finding

Municipal System Act 32 (a) of 200 schedule 1 paragraph 7 declaration of interests states that when elected or appointed, a councillor must within 60 days declare in writing to the municipal manager the following financial interests held by that councillor: shares and securities in any company; membership of any close corporation; interest in any trust; directorships; partnerships;

other financial interests in any business undertaking; employment and remuneration; interest in property; pension; and subsidies, grants and sponsorships by any organisation.

Municipal System Act 32 of 2000 schedule 1 paragraph 5A declaration of interests states that a person appointed in terms of section 56 or a municipal manager must within 60 days after his or her appointment declare in writing to the chairperson of the municipal council the following interests held by that person or municipal manager: Shares and securities in any company; membership of any close corporation; interest in any trust; directorships; partnerships; other financial interests in any business undertaking; interest in property; and subsidies, grants and sponsorships by any organisation.

Note

1. Contrary to the above a request number 23 of 2014 was issued for the declarations of interest and none were submitted for the following officials:Note

Name	Designation	Detail	Date in terms of the Financial Disclosure Framework
CLR KS Koalane	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
CLR M Venter	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Me SL Kgoe	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
CLR PT Botha	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Clr M G Mafa	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.

CLR MB Tsoaela	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Clr L M Moloeele	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Clr T J Chele	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Clr K P Dichakane	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Clr J A Pienaar	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
CLR I I Majara	Councillor	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Mr LM Maja	Infrastructure Director	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Ms ME Mokoena	Chief Financial Officer	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.

Mr L I Tlatsi	Chief Financial Officer	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Mr S J Lehloenyana	Corporate service manager	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Mr J Vermeulen	Acting CFO	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Mr Mpakane	Previous Municipal Manager	No declaration obtained.	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.

2. Declarations obtained and inspected and it was identified that no date of declaration were documented regarding the declarations of the following officials, we therefore cannot confirm that the declaration pertains to the year under review:

Name	Designation	Date in terms of the Financial Disclosure Framework
Mr SJ Mabitla	Councillor - Speaker	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.
Miss C.B Nthutang	Finance Intern	Employees appointed in the supply chain division must file their declarations not later than 30 June of each year.

M J Molehe	Finance Intern	Employees appointed in the supply chain division must file their declarations not later than 30 June of each year.
------------	----------------	--

3. Declaration obtained and inspected, and it was identified that the declarations were only signed after year-end, we therefore cannot confirm the declaration on interest for the year under review (2013/2014) regarding the following officials:

Name	Designation	Detail	Date in terms of the Financial Disclosure Framework	Declaration signature date
Clr V M Lekale	Councillor	Declaration obtained and inspected, and it was identified that the declaration was only signed on 31/07/2014, we therefore cannot confirm the declaration on interest for the year under review (2013/2014)	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.	31/07/2014
Clr K A Sekharume	Councillor	Declaration obtained and inspected, and it was identified that the declaration was only signed on 22/08/2014, we therefore cannot confirm the declaration on interest for the year under review (2013/2014)	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.	22/08/2014
Clr X Nqwiliso	Councillor	Declaration obtained and inspected, and it was identified that the declaration was only signed on 31/07/2014, we therefore	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.	31/07/2014

		cannot confirm the declaration on interest for the year under review (2013/2014)		
Cir S C Mangoejane	Councillor	Declaration obtained and inspected, and it was identified that the declaration was only signed on 25/08/2014, we therefore cannot confirm the declaration on interest for the year under review (2013/2014)	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.	22/08/2014
Mr SS Mtakati	Municipal Manger	Declaration obtained and inspected, and it was identified that the declaration was only signed on 26/08/2014, we therefore cannot confirm the declaration on interest for the year under review (2013/2014)	The Municipal councillors and senior managers must file their declarations not later than 30 June of each year.	26/08/2014

A similar matter was reported in paragraph 148 of the prior year management letter.

Cause

Management did not establish a list of related parties or a register of related parties.

Impact

All related parties might not be disclosed (completeness) in the annual financial statements at 30 June 2014 or adequately identified.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Control environment

The entity did not hold individuals accountable for their internal control responsibilities.

Recommendation

Management should establish and implement controls for declarations to ensure that officials required to declare their interests are identified and declarations are completed as per the applicable requirements.

Management response

Management response was not received.

Revenue

155. EX.124 - Revenue: Basis used for billing estimated consumption is not consistent and not on the policy (EX.124)

Audit finding

Section 62(1)(b) of the MFMA on General financial management functions states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent ant transparent system-

- (i) of financial and risk risk management and internal control; and
- (ii) of internal audit operating in accordance with any prescribed norms and standards;

It was identified that the municipality does not have a consistent method for estimating consumption where actual readings could not be obtained. It was confirmed that the previous three months average of actual consumption is used to bill estimated consumption but when corroborating management's explanations it was discovered that estimated consumption for water and electricity in April 2014 for account number 090607616(Ms. P.A Leimecke)(P/A K. Snyders) was not based on three months average of the readings.

Readings as per meter card/book

Month	WATER				ELECTRICITY			
	Readings	Consumption	Estimated consumption	Three months average	Readings	Consumption	Estimated consumption	Three months average
June	436	N/A	N/A	N/A	4473	N/A	N/A	N/A
July	443	7	N/A	N/A	4924	451	N/A	N/A
August	452	9	N/A	N/A	5231	307	N/A	N/A
September	464	12	N/A	N/A	5630	399	N/A	N/A
October	975	511	N/A	N/A	5923	293	N/A	N/A
November	479	-496	N/A	N/A	6197	274	N/A	N/A
December	483	4	N/A	N/A	6495	298	N/A	N/A
January	484	1	N/A	N/A	6508	0	N/A	N/A
February	538	54	N/A	N/A	7050	542	N/A	N/A
March	538	0	N/A	N/A	7050	0	N/A	N/A
April	543	5	5	19.67	7300	250	250	371.33

Similar exception was raised in the previous year, paragraph 154 of prior year management report.

Cause

The municipality does not have a procedure or policy to follow regarding estimating consumption, different employees have their own different method to estimate consumption.

Impact

The matter could result in over/underestimation of consumption which would also result in the misstatement of revenue and receivable in the financial statements.

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should determine and adopt the method to be used to estimate consumption in instances where readings could not be obtained.

Management response

Management response was not received.

Auditor's conclusion

Isolated case therefor not extrapolated

156. EX.135 - Unspent Conditional Grants: Understating of conditional grants (EX.135)

Audit finding

Section 16(1) of the DoRA state that despite anything to the contrary in any other legislation, an allocation referred to in Schedule 4 to 7 may only be utilised for the purpose stipulated in the Schedule concerned and in accordance with the applicable framework.

The *Framework for preparation and presentation of financial statements*, states that under the accrual basis of accounting, the effects of transactions and other events are recognised when they occur (and not when cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The unspent conditional grants as disclosed in note 9 to the financial statements had a balance of R2 626 223 as at 30 June 2014. Regional Bulk Infrastructure Grants (RBIG) transfers from the Department of Water and Sanitation (DWS) are paid over to the municipality upon presentation of an invoice for completion of work and not paid to the municipality in advance.

The Unspent RBIG as disclosed in note 9 comprises of three claims made with DWS in the current financial year for work already completed and should be recognised as revenue from non-exchange transactions and a corresponding addition to infrastructure assets or work in progress. This should not be disclosed as unspent conditional grants, below are the three claims made.

Reference	Description	Amount per bank statement (R)
RBIG	Srbfntc 133100029//Schedule 7	1 477 271.41
Basa52Nat	Water000607190	365 894.40

Basa52Nat	Water000608823	783 056.84
Total		2 626 222.65

2) The disclosure of the RBIG grant conditions met in note 19.6 to the financial statements is also incorrectly disclosed as the amount of the conditions that was met should be R14 845 605 and not the R12 219 383.

Cause

Management did not review the disclosure of unspent conditional grants after preparation of the AFS and make corrections where errors are noted.

Impact

This results in an understatement of revenue from non-exchange transactions, infrastructure assets/work in progress and an overstatement of liabilities (Unspent conditional grants).

Internal control deficiency

Financial and performance management

Management did not Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

1) Monitoring controls should be implemented to ensure that all grant money received and where conditions have been met is recognised as revenue from non-exchange transactions in the period to which they relate.

2) Correction to the financial statements should be made in note 9 and 19 to the financial statements.

Management response

The finding is agreed with and the required adjustments will be made on the financial statements to reflect the correct grant income and unpaid portion

Name: F. MZIZI

Position: CFO

Date: 11/11/2014

Auditor's conclusion

The corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

157. EX.139 - Revenue (Other) - Incorrect rate charged (EX.139)

Audit finding

The definition of interest in terms of the credit control and debt management policy is as follows: "Interest" means the charge levied on arrears, calculated as the prime rate, charged by the bank which holds the municipality's primary bank account, plus one percent or such other percentage as may be determined by Council from time to time."

Inspected the interest rate used per system(Pastel Evolution) and it was identified that even though the prime rate increased to 9.25 percent in February 2014, therefore the interest rate that the municipality was to have charged from February 2014 to June 2014 was supposed to have been 10.25 percent instead of 9.5 percent as per the system.

Based on our calculation, the interest charged on overdue accounts was understated and debtors understatement with R193 422.43

More details can be obtained from the auditor in this regard.

Cause

Interest rates not changed on the system with the changes in prime rate due to lack of system review by management to ensure that the system is updated per municipality's policy on debt collection.

Impact

Interest charged on overdue accounts could be understated and debtors understatement with R193 422,43

Internal control deficiency

Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should establish and implement controls to ensure that the interest rate used to calculated interest on overdue accounts is in line with the applicable policy and legislation, furthermore the entire population should be revisited.

Management response

Management agrees to the finding and the necessary adjustment has been done to the AFS.

Auditor's conclusion

No adjustment was identified in the final adjusted financial statements, therefore the matter remains unresolved and will be reported in the management's report.

158. EX.140 - Revenue (Other) - Interest charged over 90 days (EX.140)

Audit finding

In terms of paragraph 9. (4) of the credit control and debt management policy " Account balances which remain unpaid 30 days after the due date shall attract interest on arrears, irrespective of the reasons for non-payment."

We identified that the municipality charges interest on accounts outstanding for over 90 days instead of 30 days as prescribed in the policy.

Interest was calculated on accounts overdue for 30 days and was R577 784,34 and 60 days was R 567 620,80, therefore interest was understated with R1 145 405 .14

Cause

Incorrect inputs (number of days) on the system for levying interest and lack of review by management to ensure that interest is calculated correctly.

Impact

Interest could be understated with estimated amount of R1 145 405 .14

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should establish and implement controls to ensure that the interest is calculated on accounts which remain unpaid 30 days after the due date as prescribed by the applicable policy, furthermore the entire population should be revisited.

Management response

Management agrees with the finding, on the basis that interest was only charged for account outstanding more than 90 days, but disagree with the calculation of AG.

if the interest calculated on accounts overdue for 30 days and was R577 784, 34 and 60 days was R 567 620,80, and this calculation is based on the entire financial year meaning if AG used this principle to calculate interest for 30 and 60 days from July 2013 to 30 June 2014, the amount would be incorrect as the municipality has since picked up the error and corrected it in January 2014 and charged on 30 days overdue accounts.

The recalculation should only be based on the first six month of the financial year 2013/2014 as the municipality has corrected the error,

Auditor's conclusion

Management concurs with the finding except for the error being corrected in January 2014 to charge interest on 30 days overdue accounts, inspected the system as at 27 November 2014 to ensure that the correct days are used and no weaknesses were identified, we however could not obtain evidence to ensure that the system was corrected in January 2014, therefore the matter remains and will be reported.

159. EX.163 - Conditional grant revenue: Understatement of grant revenue and unspent portion of MIG (EX.163)

Audit finding

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

In terms of the *Framework for the presentation and preparation of financial statements*: In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or

deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government.

As disclosed in Note 19.2 an amount of R7 888 682 of the Municipal infrastructure grant (MIG) was surrendered. The disclosure is incorrect, as only an amount of R970 000 was surrendered. (According to a letter with Reference FS 181/9n dated 21 November 2014 National treasury approved the rollover of R6.2 mil of the MIG funds to the 2013-14 financial year and that the amount of R970 000 to be deducted from the first equitable share grant for the 2013-14 financial year). Evidences to substantiate the spending of the reminding R718 682 could not be submitted.

1) The disclosure of the MIG in note 19.2 should be as follow:

Description	Amount R
Opening Balance	7 888 682
Grants received	34 921 000
Conditions met	(41 121 000)
Surrendered	(970 000)
Conditions still to be met/ Unspent portion	718 682

2) The disclosure of the Equitable share revenue as disclosed in Note 19.1 is understated with the amount of R970 000. This is also confirmed that the amount of the allocation as per DORA is the amount of the equitable share R82 581 000 while only an amount of R81 611 000 was disclosed in the note.

Cause

Lack of management controls to ensure the grant are properly managed and that the amounts as disclosed in the financial statements are properly reviewed

Impact

Understatements Unspent MIG grants with R718 682
 Understatement of MIG grants with R6.2 million
 Understatement of the Equitable share grant with R970 000
 Overstatement of the funds to be surrendered with R6 918 682

Internal control deficiency

Financial and performance management

Management did not in all instances prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should implement controls to ensure proper reconciliation on the different grants is performed and the grant disclosure in the financial statements is correctly disclosed.

Management response

The municipality agrees with the finding.

The required adjustments and the disclosure will be made on the financial statements to ensure the fair presentation of the financial statements.

Auditor’s conclusion

The corrected financial statements were received and the matter will be resolved and be reported in the management report as a corrected misstatement.

160. EX.180 - Revenue (Other) - Supporting documents not submitted for audit (EX.180)

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act 56 of 2003 "62. General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;"

Supporting documentation was not obtained for the audit of the following transactions:

Account	Date	Reference	Description	User name	Reference	Amount per GL
175/1153/20 (Other Revenue/Commonage/Properties)	31-Jul-13	2013/08/03 RT-VODA	Rent Vodacom Jan Maree	SDK	700000039	1 380.00
175/1153/20 (Other Revenue/Commonage/Properties)	31-Oct-13	Consolidated	Billing Run 2013/10/31	Lebakeng Tsoai	700000039	1 462.80
175/1153/20 (Other Revenue/Commonage/Properties)	31-May-14	Consolidated	Billing Run 2014/05/31	Lebakeng Tsoai	700000039	1 462.80

130/1170/34 (Service Charges-Other/Rent:Houses/Housing)	31-Jul-13	2013/08/03 RT-HOUSIN	Housing Rentals	SDK	730048124	464.91
130/1170/34 (Service Charges-Other/Rent:Houses/Housing)	8/31/2013	2013/08/19 RT-HOUSIN	Housing Rentals	SDK	730048124	464.91

5 235.42

The error was estimated over the whole population as follows:

Actual error	5 235,42
Sample Population	33 344,18
Percentage error	16%
Population	680 360,26
Extrapolated error	106 824,39

Cause

The documents are not kept at a centralised location.

Impact

Possible limitation to the value of R106 824

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should establish and maintain controls to ensure that documents are properly kept and submitted for audit purposes in time.

Management response

Management disagrees with the finding, find the attached contracts to substantiate. Furthermore the account 730048124 was to be disconnected in June 2013 for renovations, however it was mistakenly disconnected in May 2014.

Auditor's conclusion

1. Obtained and inspected the contract between the municipality and Vodacom (Pty) Ltd (Account number:700000039), the matter is therefore resolved.

2. Management's response regarding account number: 730048214 is acceptable because no evidence was submitted regarding the disconnection and we furthermore could not obtain and evidence to ensure that the charges levied to this account after an initial disconnection date (June 2013) were reversed. The matter therefore remains and should be reported in the management report.

161. EX.189 - Conditional grant revenue : Understatement of the Grant revenue and RBIG expenditure (EX.189)

Audit finding

Section 122 (1)(a) of the MFMA states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. Section 16(1) of the DoRA state that despite anything to the contrary in any other legislation, an allocation referred to in Schedule 4 to 7 may only be utilised for the purpose stipulated in the Schedule concerned and in accordance with the applicable framework.

The *Framework for preparation and presentation of financial statements*, states that under the accrual basis of accounting, the effects of transactions and other events are recognised when they occur (and not when cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

The total of the Regional Bulk Infrastructure Grant (RBIG) as disclosed in note 19.6 to the financial statements are understated with an amount of R2 505 117.50 plus retention of R665 825.09 for a claim on the Construction of the raw water bulk pipe from Santvet canal to Brandfort Water treatment works - Payment certificate no.5 to Ruwacon for work performed in April and May 2014. The certificate was obtained but no evidence could be obtained that the grant was paid or that the supplier did receive a payment. The claim documents were signed by the PMU technician on 18 June 2014. The invoice date was 31 May 2014 for services rendered on the pipeline for April and May 2014

The following accounting transactions were not recorded:

Description	Amount Debited R	Amount Credited R
WIP Expenditure (RBIG FS/002/w/12/13)	3 170 942.59	
Trade payables : Ruwacon		2 505 117.50
Trade Payables: Ruwacon Retention		665 825.09
Receivables : Dept. Water Affairs	3 170 942.59	
RBIG Grant Revenue		3 170 942.59

Cause

Proper project management files are not kept but there is no review by management to ensure completeness of transactions recorded on the accounting system.

Impact

Understatement of Grant revenue, Work in Progress, Trade Payables and receivables by R3 171 942

Internal control deficiency

Financial and performance management

Management did not in all instances prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

1) Managements should implement a proper filing system to ensure that all documentation is recorded and kept at a centralised filing registry.

2) Managements should investigate the claim, submit the detail of the receipt and the payment reference for audit purposes and the corrections to the financial statements to record the transactions in the correct financial years should be done.

Management response

The municipality agrees with the finding.

The financial statements will be adjusted to correct the misstatement to ensure the fair presentation of the grants on the financial statements.

Auditor's conclusion

The corrected financial statements were received and the matter will be resolved and be reported in the management report as a corrected misstatement.

162. EX.51 - Revenue - Grant from Provincial Treasury not included in the General Ledger (EX.51)

Audit finding

In terms of the following paragraphs per the Framework for the presentation and preparation of financial statements:

52: If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

105: Revenue may also result from the settlement of liabilities. For example, a lending entity may receive goods or services in settlement of a present obligation to repay an outstanding loan.

On receipt of the payment from Provincial Treasury dated 4/1/2014 indicating the settlement of the audit fees due by Masilonyana Local Municipality amounting to R1 217 065,79 on their behalf, an attempt was made to trace this amount of revenue received from non-exchange transactions and corresponding decrease to the payables from exchange transactions back to the General Ledger. Neither one of the two movements could be found.

Cause

There was a lapse in controls to ensure that the payment is accounted for by the municipality.

Impact

This will lead to an understatement of revenue and overstatement of payables by R1 217 065,79

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should develop and implement controls to ensure that the payments made on their behalf are updated on the system.

Management response

Management agrees with the finding will ensure that strict internal controls are adhered to. The adjustment on the AFS will be made

Name: Fikile Mzizi

Position: CFO

Date: 28/10/2014

Auditor's conclusion

Management agree with the finding. The corrected financial statements were received and the matter will be resolved and be reported in the management report as a corrected misstatement.

163. EX.52 - Revenue - Misstated Municipal Infrastructure Grant (MIG) revenue (EX.52)

Audit finding

In terms of the *Framework for the presentation and preparation of financial statements*: In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government.

The Municipal Infrastructure Grant complements the equitable share grant for local government, however, it is provided conditionally to municipalities fully to subsidise the capital costs of providing basic services to poor households: this implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services.

The conditional grant is released to the statement of financial performance (revenue from non-exchange transactions) as the capital project progresses and based on invoices received from the contractor. It was noted that some retention fees are withheld by the municipality on the total work completed per the progress payment certificate. The progress payment certificate represents the total work completed at that particular point in time and should be capitalised to the project.

The Municipality only recognises revenue based on the value of the invoice submitted by the contractor which is net of the retention fees. This treatment is incorrect, the total work completed per the progress payment certificate represents in substance the total work completed to date and should be capitalised to the applicable capital project and corresponding revenue inclusive of the retention fees recognised in the statement of financial performance. A separate liability account should be maintained where the retention fees are recorded and monitored and paid back to the contractor based on the agreement between the two parties (Municipality and appointed contractor).

Below is a **sample** of invoices where retention fees were noted on the progress payment certificate but these were not recognised as revenue nor a corresponding debit made to work in progress (WIP) applicable to the specific project. Note

Invoice date	Invoice number	Name of supplier	Invoice value (Inc VAT)	Retention fees (Inc VAT)
25/04/2014	INV0065	Stewart Scott Mafuri JV (PTY) Ltd	R1 940 726.20	R215 636.24
27/01/2014	BT/SSWTW 004/14	Betmor	R564 922.98	R62 769.22
27/05/2014	BT/SSWTW 006/0214	Betmor	R761 464.00	R210 192.49
20/03/2014	INV0054	Stewart Scott Mafuri JV (PTY) Ltd	R1 126 068.66	R125 118.74
24/02/2014	BT/SSWTW 005/0214	Betmor	R1 149 667.87	R127 738.82
25/11/2013	BT/SSWTW 025/11	Betmor	R1 633 574.76	R181 508.31
28/05/2014	INV0082	Stewart Scott Mafuri JV (PTY) Ltd	R1 711 345.47	R178 838.16
25/06/2013	006	Skhokho Civils and Construction	R548 169.23	R60 907.69
25/07/2013	007	Skhokho Civils and Construction	R533 985.37	R59 331.71
01/11/2013	010	Skhokho Civils and Construction	R323 188.05	R35 909.78
27/11/2013	011	Skhokho Civils and Construction	R122 709.67	R13 634.41
27/02/2014	12	Skhokho Civils and Construction	R227 496.25	R25 277.36
Total				R1 296 862.93

Error rate: 56%

Total MIG grant revenue for the year: R34 921 000

Estimated error at 10% retention percentage (R34 921 000*56%*10%) = R1 967 314

Cause

Communication with the project managers it was noted that there were no retention fees for the current financial year and non were accounted for in the statement of financial position.

Impact

Revenue from non exchange transactions, payables and work in progress has been understated with R1 967 314 (extrapolated).

Note

Internal control deficiency

Financial and performance management

Management did not Implement controls over daily and monthly processing and reconciling of transactions

Information and communication

The entity did not internally communicate information, including objectives and responsibilities for internal controls necessary to support the functioning of the other component of internal control.

Note

Recommendation

Management should put controls in place to ensure that revenue from grants is recognised once the conditions are met.

Management response

Management agrees with the finding and the financial statements will be adjusted

Name: F.MZIZI

Position: CFO

Date: 28/11/2014

Auditor's conclusion

The correction was made to the final financial statement. The finding will be report as a corrected misstatement in the management report.

164. EX.54 - Revenue - MIG invoice (revenue) not included in the General Ledger (EX.54)

Audit finding

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

During completeness-testing of Revenue, invoice referenced NHL0043/03 dated 28 January 2014 and amounting to R229 558.94 could not be traced back to the General Ledger. This payment from Nhlengani relates to the upgrading of water treatment plant at Soutpan / Ikgomotseng.

Cause

There was a lapse in controls to ensure that invoices are captured in the general ledger.

Impact

The finding results in the misstatement of revenue and infrastructure assets.

Internal control deficiency

Financial and performance management

Management did not Implement controls over daily and monthly processing and reconciling of transactions

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should develop and implement controls to ensure that invoices are captured within reasonable time in the general ledger.

Management response

Management agrees with the finding and the AFS will be adjusted as such to record the understated MIG expenditure.

Name: F.MZIZI

Position: CFO

Date: 12/11/2014

Auditor's conclusion

The amount was included in the disclosure and the supporting document was submitted to substantiate the inclusion. The matter is therefor resolved.

165. EX.61 - Property Rates: Misstated (EX.61)

Audit finding

Section 62(1)(f)(ii) of the MFMA requires that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standard

Contrary to the above ,it was noted that the property rates are incorrectly calculated resulting in revenue from property rates being misstated. Refer to a below table for differences.

Date	Code	Owner	Property rates as per ledger	Property value as per monthly statement	Property tariff as per tariff list	Property value as per valuation roll	Recalculations	Recalculation differences
31/07/2013	BUS	J.A Smith	1 182.96	558 000	0.02544	Not found	0.00	1182.96
31/07/2013	BUS	Tsips store	11.66	50 500	0.02544	270000	572.4	-560.74
31/07/2013	BUS	P. Matlabe	16.54	7 800	0.02544	Not found	0	16.54
31/07/2013	AGR	P.G Teron	0.27	1 000	0.00318	Not found	0	0.27
31/07/2013	AGR	Henque 99CC	238.24	899 000	0.00318	Not found	0	238.24
31/08/2013	AGR	JD Bezuidenout	112.63	425 000	0.00318	Not found	0	112.63
31/08/2013	AGR	CC Vermak	186.30	703 000	0.00318	50000	13.25	173.05
31/07/2013	GOV	RSA	1 155.40	545 000	0.02544	290000	614.8	540.60

31/07/2013	RES	G.P Nel	371.00	350 000	0.0127200	350 000	339.2	31.80
Total			3 275.00				1 539.65	1735.35

Cause

The finding is caused by late capturing of property transfers, lack of monitoring and tracking of property transfers information.

The finding will result in projected misstatements as follows:

Property rates being overstated by R 678 367

Receivable being overstated by R 678 367

Description	Amount
Error	(1 735.35)
Tested Population	39 983.02
Amount as per AFS	15 629 795.00
Extrapolated Error	(678 367.09)

Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Recommendation

Management should implement controls to ensure proper monitoring and recording of property transfers.

Management should also implement controls to ensure that the capturing of property values and tariffs is reviewed.

Management response

Date	Code	Owner	Property rates as per ledger	Property value as per monthly statement	Property tariff as per tariff list	Property value as per valuation roll	MUNICIPALITY RECALCULATION	
31/07/2013	BUS	J.A Smith	1 182.96	558 000	0.02544	Not found	1 182.96	-
31/07/2013	BUS	Tsips store	11.66	50 500	0.02544	270000	107.06	-
31/07/2013	BUS	P. Matlabe	16.54	7 800	0.02544	Not found	16.54	95.40
31/07/2013	AGR	P.G Teron	0.27	1 000	0.00318	Not found	0.27	0.00
31/07/2013	AGR	Henque 99CC	238.24	899 000	0.00318	Not found	238.24	0.01
31/08/2013	AGR	JD Bezuidenout	112.63	425 000	0.00318	Not found	112.63	0.00
31/08/2013	AGR	CC Vermak	186.3	703 000	0.00318	50000	186.30	0.01
31/07/2013	GOV	RSA	1 155.40	545 000	0.02544	290000	1 155.40	-
31/07/2013	RES	G.P Nel	371	350 000	0.01272	350 000	371.00	-
Total			3 275.00				3 370.38	-
								95.38

A total difference in the recalculation is noted of R95.38 and not R1 735.35.

The fact that the property value is not on the valuation roll is an internal control matter and cannot be used to justify that the revenue on the financial statements are misstated. Based on the recalculation of the municipality are there no error in the calculation except for the R95.40 thus is the revenue correct on the financial statements.

The property rates are calculated based on the property value that are loaded on the Pastel Evolution system and that are printed on the statements that are send to the consumers. Consumers receive their statements with the property value on monthly basis and when there are misstatements on the value on the statements the consumers will come and correct the value. Therefore is there a mitigating control in place to ensure the accuracy of the property rates by the use of the public.

The municipality is of the opinion that the revenue is correct that are disclosed on the financial statements.

The fact that the property value is not transferred to the valuation roll cannot result in misstatements in the financial statements but only an internal control deficiency that will result in the update of the valuation roll.

Name: F. Mzizi
Position: CFO
Date:28/10/2014

Auditor's conclusion

Management response is acknowledged, however the audit finding is not resolved as management did not explain how did they come to their calculation. The issue is not resolved and it will be included in management report

166. EX.107 - Property Rates :Supplementary valuation roll not done (EX.107)

Audit finding

According to s77 of the Municipal Property Rates Act 6 of 2004
General.—A municipality must regularly, but at least once a year, update its valuation roll by
a) a supplementary valuation roll to be prepared , if section 78 applies; or
b) the valuation roll to be amended, if section 79 applies

s78 is applicable in these amendments as it reads as follows:

78. Supplementary valuations.—(1) A municipality must, whenever necessary, cause a supplementary valuation to be made in respect of any rateable property—

- a) incorrectly omitted from the valuation roll;*
- b) included in a municipality after the last general valuation;*
- c) subdivided or consolidated after the last general valuation;*
- d)of which the market value has substantially increased or decreased for any reason after the last general valuation;***
- e) substantially incorrectly valued during the last general valuation; that must be revalue for any other exceptional reason; or*
- f) of which the category has changed*

Contrary to the above it was noted that a supplementary valuation roll was not done for 2013\14, resulting in an unexplained decrease in rateable valuations of land and building by R282 587 000

Description	2014	2013	Differences
Total property values	2 460 617 000	2 743 204 000	282 587 000

A similar audit finding was raised in a prior year, see paragraph 156 of the prior year management

Cause

Management did not properly review the work done by the consultant

Impact

The matter could result in loss of revenue from improved\completed buildings.

Internal control deficiency

Financial and performance management

Management did not properly review and monitor compliance with applicable laws and regulations

Recommendation

Management should update part B of the valuation roll annually and it should be signed by the senior personnel as an evidence that it is reviewed and updated annually

Management response

Management agrees with the finding that there was no supplementary valuation roll for the year under audit, and will ensure that the supplementary is in place and signed by the senior official.

Name: F.MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management agrees with the finding and therefore the finding will be reported on the management report.

167. EX.110 - Revenue: Other - Manual receipts not submitted (EX.110)

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act 56 of 2003 "62. General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;"

Contrary to the above, manual receipt books for Windburg were not submitted for audit purposes. Information request number 49 of 2014 was issued and a followed up with management during the audit.

Cause

The municipality is experiencing challenges to obtain the receipt books from other towns.

Impact

Possible limitation of scope to confirm the completeness of manual receipts.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

Management should establish and implement controls to ensure proper records regarding cash received are kept and submitted in time for audit purpose.

Management response

Management agrees with the finding and will enhance measures of record keeping in all units of the Municipality. It must be noted that the 100% of revenue reconciliation for all receipts relating to services charged and other has been performance. We request AG to also test the information provided as a possible way of resolving the finding.

Name: F. Mzizi

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management response obtained and to be evaluated:

As management agrees with the audit finding, the exception will remain and be reported on in the management report, furthermore, due to the time constraints and the deadline for the submission of management responses being the 26 November 2014, we are not able to conduct any further audit procedures, therefore this matter will remain.

168. EX.116 - Revenue: No tariffs to bill sewage for other user groups on the municipality's tariff list (EX.116)

Audit finding

Section 62(1)(c) of the MFMA requires that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards;

Paragraph 6.7.2 of the municipality's principles and policy on tariffs and free basic services states that continuous effort should be made to group together those users who have more or less the same access to a specific service.

Paragraph 8.1 of the municipality's principles and policy on tariffs and free basic services states that with the determination of a tariff structure, it is essential that a compromise be reached between the following needs:-

8.1.2 The need to ensure equality and fairness between user groups;

8.1.6 The user's ability to pay.

During sewage testing it was identified that the tariff list does not have or describe tariffs to bill sewage for other user groups such as churches, clinics and other government departments which are not listed on the tariff list and therefore accuracy of the following accounts could not be confirmed

Date	Account Nr	Property category	Property Owner	Amount as per General ledger	SAPS	Hospitals	Difference
31/08/2013	0692286000	2013/08/19 SW-GOV5	MAKELEKETLA CLINIC	91,20	0	16306.10	16214,90
31/07/2013	0680716001	2013/08/03 SW-GOV5	HOOFDIR	91,20	1 109,10	0	1017,90
TOTAL				182,40	1 109,10	16306,10	17232,80

Error is calculated as follows

Item	Total nr within the municipality	Rate/month	Amount	Yearly amount
Clinics	6	16 306,10	97 836,60	1 174 039,20
Courts	3	1 109,10	3 327,30	39 927,60
Total			101 163,90	1 213 966,80

Cause

Finance department did not review the process of determining tariffs and an effort was not made to group together those users who have more or less the same access to a specific service. This year's rate was just increased with 6% inflation rate.

Impact

User groups who are consuming more services might be charged less for the service and revenue and receivable might be understated by R1 213 966.80.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should ensure that the process for determining rates is reviewed and make an effort to group together those users who have more or less the same access to a specific service.

Management response

Management agrees to the finding however the municipality does not necessarily have to have a tariff that classifies each user group as it said in the finding, there are user groups being categorized as government institutions meaning that any government property will be billed based on that tariff, the only difference will be on how each of these government properties consumes services,

Municipality will ensure that the correct tariffs are implemented to ensure that all user groups are billed correctly.

Auditor's conclusion

Management agrees with the finding and therefore the matter will be reported as a internal control issue as the levy did take place. The issue is more a spesific tariff of billing.

169. EX.137 - Revenue: Differences identified between meter readings books and the system for water and electricity consumption (EX.137)

Audit finding

Section 64(1) states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2)(c)The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that accounts for municipal tax and charges of municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
(e) that the municipality has and maintains a management, accounting and information system which-

- (i) recognises revenue when it is earned
- (ii) accounts for debtors
- (iii) accounts for receipts of revenue

The following differences were identified between the meter readings books and the reading captured on the system during the month of July and August 2014 when water and electricity were tested

1. Water

					0-10 KL	10-12 KL	12+ KL		
Account Nr	Property category	Readings captured on the system	Amount billed as per general ledger	Meter readings as per meter reading book	R5,65	R7,50	R8,20	Total	Difference
680504907	Business	205 KL (Start:345 End:550)	1654,10	550	56,50	15,00	4 411,60	4 483,10	2 829,00
730035001	Government	22 KL (Start:4028 End:4050)	153,50	0	0,00	0,00	0,00	-	(153,50)
070099000	Business	0 KL (Start:1172 End:1172)	0,00	26	56,50	15,00	114,80	186,30	186,30
								4669,40	2861,80

2. Electricity

Details from the GL					Rate per kwh				
Account Nr	Readings	Property Category	Amount as per general ledger	Readings as per meter readings book/card	R1,28	R1,35	Amount inclusive of vat	Difference	Difference without vat
0680504907	14223 KW (Start:66100 End:80323)	Business	21 889,20	80323		108 436,05	123 617,10	101 727,90	89 235,00
0750001260	2379 KW (Start:83734 End:86113)	Residential	3 471,44	1191	1 524,48		1 737,91	- 1 733,53	(1 520,64)
TOTAL			25 360,64		1 524,48	108 436,05	125 355,00	99 994,36	87 714,35

Cause

Monthly billing reports are not reviewed and monthly exception reports are not followed up, cleared and reviewed

Impact

Revenue and receivable disclosed on AFS could be understated by R5 681 662.66 for water and R11 060 348.77 for electricity

Internal control deficiency

Leadership

Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should ensure that the Finance department(billing section) reviews monthly billing reports and follow up all exceptions identified on a monthly basis.

Management response

Management disagree with the finding only on account number 0680504907 for both water and electricity we agree with the rest of the finding.

The finding was discussed with an auditor and we agreed

Auditor's conclusion

Differences identified for water consumptions are resolved.

Differences identified for electricity are partially resolved thereby changing the finding from being an audit report matter to being a management report matter. It was only one isolated case as it is more a control issue on the meter carts that need to be addressed.

170. EX.144 - Revenue(distribution losses) - Distribution loss not budgeted for (EX.144)

Audit finding

Section 62(1) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (c) that the municipality has and maintains effective, efficient and transparent systems-
- (i) of financial and risk management and internal control

Management did not take into account the distribution losses when preparing the initial and adjustment budget to be able monitor them on month to month basis.

A similar matter was reported in paragraph 161 of the prior year management report.

Cause:

The management did not take into account the distribution losses when preparing initial and adjustment budget for the current year.

Impact

This will result in weak internal controls in identifying distribution losses and may cause financial losses to the municipality.

Internal control deficiency

Financial management

Management did not develop and monitor the implementation of action plans to address internal control deficiencies

Recommendation

Management should take into account the distribution losses when preparing the initial and adjustment budget to be able monitor them on month to month basis.

Management response

Management agrees with the finding and will take into account the distribution losses when preparing the initial and adjustment budget.

Name: F.MZIZI

Position: CFO

Date: 27/11/2014

Auditor's conclusion

Management agrees with the finding and therefore the matter will reported on the management report.

171. EX.147 - Revenue: No list for all water and electricity meters registered with the municipality (EX.147)

Audit finding

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

A list of all water and electricity metres registered with the municipality was requested from finance department of the municipality but could not be provided.

The municipality does not have a list of all the registered water and electricity meters.

Cause

Finance department together with the technical department of the municipality did not take reasonable steps to ensure that a list of all water and electricity meters registered with the municipality is compiled.

Impact

Illegal connections of water and electricity may not be identified by the municipality.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should put measures in place to ensure that there list of all water and electricity meters is compiled.

Management response

Management agrees with the finding and will put measures in place to ensure that lists of all water and electricity meters are in place and credible.

Name: F.MZIZI

Position: CFO

Date: 14/11/2014

Auditor's conclusion

Management agrees with the finding and therefore the matter will be reported on the management report.

172. EX.152 - Revenue(distribution losses): Differences identified between total distribution losses for water and electricity disclosed (EX.152)

Audit finding

Section 125(2)(d)(i) of MFMA states that the notes to the annual financial statements of a municipality or municipal entity must disclose the following information:
particulars of—

(i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;

MFMA Circular No:71 states that:

- The purpose of calculating electricity distribution losses ratio is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold as a result of losses incurred through theft (illegal connections), non or inaccurate metering or wastage. It is expected that implementation of the free basic service policy is included in the calculation for sale of electricity.
- The purpose of calculating water distribution losses ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold as a result of losses incurred through theft (illegal connections), non- or incorrect metering or wastage as a result of deteriorating water infrastructure. It is expected that implementation of the free basic service policy is included in the calculation for sale of water.

Contrary to the requirements of the MFMA the following were identified:

1. The management did not calculate distribution losses for water and electricity in accordance with the requirements of MFMA circular 71. Differences were identified when recalculating the distribution losses.

DESCRIPTION	Auditee's calculations of losses	Recalculated losses	Differences
	A	B	(A - B)
ELECTRICITY	56.63%	60.71%	-4.07%
WATER	-10.58%	82.06%	-92.65%

2. The water and electricity distribution losses were disclosed in note 34.4 to the financial statements. The municipality's electricity and water distribution losses for the year are 56,63% and -10,58% respectively , this is significantly more than the norm communicated in MFMA circular 71, which is 7% - 10% for electricity losses and 10% to 15% for water losses. This indicates that there may have been various challenges and no investigations/follow ups were made material losses identified.

Similar matter was reported in the prior year management report paragraph 161.

Cause

Management did not prioritised controls and actions that would reduce electricity and water losses.

Impact

The municipality is sustaining financial losses which reduces its revenue and increases its bulk purchases and the losses would negatively impact on the financial viability of the municipality.

Internal control deficiency

Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should, on monthly basis, monitor electricity and water losses and identify the nature of the losses, namely unmetered consumption and distribution network losses. Appropriate actions should then be defined for short-term implementation to reduce the losses to an acceptable level and to ensure that financial losses are minimised. They should also investigate areas with large distribution losses.

Management response

We disagree with the finding.

Is it realistic and possible for the municipality to lose 60.71% of electricity and 82.06% of water during the year?

For example water, if there were a loss of 82.06% for water purchase, the total income per trial balance should have been R710 313 but on the trial balance are R26 990 360 revenue recorded.

The above matter is the same for electricity.

Please look the recalculation again and discuss the calculation by the municipality. Due to the fact that the reports for the consumption varies significantly from the trial balance we adjusted the units on the consumption report pro rate to the total sales on the trial balance. This will provide a more realistic amount of distribution loss to be disclosed on the financial statements.

Name: F.MZIZI

Position: CFO

Date: 11/11/2014

Auditor's conclusion

Management responses were received and assessed.

The management's response does not address the find but rather it pose questions with regard to the above matter. Based on our calculations/workings of the reported finding it could be confirmed that the total distribution losses for water and electricity are 60,71% and 82,06 respectively.

This was calculated based on the requirements of the section 125(2)(d)(i) of MFMA read with circular No:71. The method used by the municipality does not correlate with the requirements of the circular 71. Furthermore the total amount of income used as per the trial balance be R26 990 360,as disclosed in the general ledger. The amount of 710 313 is the total number of units consumed, not the income generated from consumption. We therefore do not agree with the management response and therefore the exception is not resolved.

173. EX.16 - Revenue (Other) : Request No. 36 – Revenue Register for Soutpan not obtained and Reconciliation deficiencies (EX.16)

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act 56 of 2003 "62. General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;"

Paragraph 64(2)(h) of the Municipal Finance Management Act states that The accounting officer must for the purposes of subsection (1) take all reasonable steps ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

1. Contrary to the above, Request number 36 was issued on the 02 October 2014 however only the registers for Theunissen, Winburg, Verkeerdevlei and Brandfort were obtained.

The income registers for Soutpan regarding rental of facilities, valuation certificates, graves and change of ownership/clearance certificates were not submitted for audit purposes.

2. There is no evidence that the registers for income submitted for audit are reviewed on a regular basis by senior management.

3. There is no evidence that the reconciliations between the general ledger and the income registers for rental and rental deposits were reviewed senior management.

4. The reconciliations kept for rental deposits do not take into account the deposits paid back to customers.

5. Information request number 49 was issued requesting a register for all the receipt books issued and all reserve receipts books for the year under review and none were submitted for audit.

6. The registers submitted for audit were not pre-numbered, we therefore could not determine if they are complete.

Lack of management oversight over record keeping.

The municipality does not keep its own formal monthly reconciliations between the registers and general ledger

Impact

The finding results in a limitation to test the completeness of revenue received from other locations.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should establish and maintain controls to ensure that registers are prepared and submitted for audit purposes in time.

Management should establish and maintain controls to ensure that monthly reconciliations between other revenue registers and the general ledger are prepared and reviewed by senior managers.

Management response

Management agrees with the finding and will establish controls to ensure that registers are prepared and monitored.

Auditor's conclusion

Management agrees with the finding, the matter stands and will therefore be included in the management report.

174. EX.174 - Revenue: Lack of internal control on new appointments (EX.174)

Audit finding

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

(c) that the municipality has and maintains effective, efficient and transparent systems -

(i) of financial and risk management and internal control

Request of information number 82 of 2014 was issued on the 27 October 2014 to request supporting documents for new accounts(new connections and re-connections) and the supporting documents for the following accounts were not submitted. Note

1. Accounts

Account nr and Name	First month of levy
010570009 (Coetzee)	December 2013
7604070001(Foster)	September 2013

Cause

Lack of proper record keeping to ensure that amounts disclosed on the financial statements are supported by reliable information which must be provided when requested.

Impact

The matter results in a lack in internal control to ensure that all now connections are activated on the financial system.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should ensure that proper supporting documentation to amounts disclosed on the annual financial statements are kept and submitted when requested by auditors.

Management response

Management disagrees with the finding for the following reasons:

1. 010570009(Coetzee) - Find the attached connection form.
2. 7604070001(Foster) - the debtor is a farmer and there will not be account opened at the municipality as farmers only pay for property rates.

Auditor's conclusion

- 1.Coetzee(010570009): Supporting documentation was submitted but due to the fact that the account was billed from April 2014 without the completing the application form and payment of the deposit and the connection fee for the services.(The finding will change to non - compliance as the municipality did not comply with its credit control and debt collection policy).
2. Foster(7604070001): The account was billed property rates agriculture only from September 2013 until year end. The account belongs to a farmer and the municipality does not bill services to the farmers, only property rates are billed to farmers.(Finding resolved).

175. EX.57 - Revenue (Other) - Missing receipts numbers (EX.57)

Audit finding

In terms of section 64 (1),(2)(d) of the Municipal Financial Management Act 56 of 2003 "(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—(d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;"

Contrary to the above a sequence testing was performed and the following receipts were missing from the population:

Date	Receipt number
05/07/2013	39427
	39428
11/09/2013	41173
16/09/2013	41270
20/09/2013	41365
	41449
	41450
	41451
30/09/2013	41452
15/10/2013	41869
	42649
	42650
13/11/2013	42747
	42748
	42750
	42751
	42752
20/11/2013	43111
10/12/2013	43200
	43201
	43202
	43203
13/12/2013	43602
15/01/2014	43609
	43610
	43618
	43619
	43620
	43621
	43622
	43626
	43627
	43633
	43634
43636	
43638	
43640	
43643	
43644	
43645	
43646	
20/01/2014	43647
30/01/2014	43792
28/02/2014	44322

03/03/2014	44375
06/03/2014	44493
	44584
	44585
12/03/2014	44586
	45408
16/04/2014	45409
22/04/2014	45435
	45480
	45481
29/04/2014	45482
30/04/2014	45532
	45934
	45937
15/05/2014	45938
20/05/2014	46001
04/06/2014	46369
11/06/2014	46524
30/06/2014	46783
	46785
	46787
	46788
	46789
	46790
	46791
	46797
	46799
	46803
	46804
	46807
	46808
	46809
	46810
	46812
	46816
	46817
	46821
	46822
	46832
	46834
	46835
	46851
	46987
	46999

Cause

Lack of review by management to ensure that all receipts are recorded.

Impact

Non recording of receipt may affect the valuation of account receivables and a possible fraud risk that cash is not being banked.

Internal control deficiency

Financial and performance management:

Implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should establish and implement controls to ensure that all the revenue that should have been recorded is recorded.

Management should further provide reasons why these receipt numbers are not on the system.

Management response

Management agrees with the finding and is investigating the matter further with the experts assistance, however the below 12 receipts were confirmed to be on the system and supporting documentation was provided to AG:

11/09/2013 - 41173

17/01/2014 - 43621, 43622

30/01/2014 - 43792

06/03/2014 - 44493

16/04/2014 - 45408,45409

22/04/2014 - 45435

29/04/2014 - 45480,45481,45482

30/04/2014 - 45532

Auditor's conclusion

Management concurs with the finding and the below 12 stated receipts only appears on the billing system and not on the general ledger, therefore the matter remains and will be reported in the management report:

11/09/2013 - 41173

17/01/2014 - 43621, 43622

30/01/2014 - 43792

06/03/2014 - 44493

16/04/2014 - 45408,45409

22/04/2014 - 45435

29/04/2014 - 45480,45481,45482

30/04/2014 - 45532

176. EX.85 - Revenue: Other - Cash not banked daily (EX.85)

Audit finding

In terms of section 64 (1),(2)(d) of the Municipal Financial Management Act 56 of 2003 "(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—(d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;"

In terms of paragraph 4.2.1 of the cash management and investment of funds policy "4.2.1 All monies due to the Municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for the larger amounts received, to make sure that these are banked on the same day they are received."

Contrary to the above, during our test of receipting it was identified that the following receipts were not banked on the day the money was received:

Per Manual receipt book						Per General ledger/ Point of sale transaction Analysis and deposit slip/bank statement	
Date	Location	Manual receipt number	Details	Amount	Date captured and banked	Electronic receipt/Invoice	Amount
25/07/2013	Theunissen	9297	Cash	200.00	26/07/2013	39959	200.00
23/08/2013	Theunissen	9305	Cash	350.50	26/08/2013	Inv004791	350.50
20/09/2013	Theunissen	9310	Cash	47.00	26/09/2013	inv004977	47.00
18/10/2013	Theunissen	9320	Cash	233.20	27/10/2013	inv004987	233.20
19/12/2013	Theunissen	9360	Cheque	1 961.00	20/12/2013	43240	1 961.00
28/01/2014	Theunissen	9373	Cash	350.00	29/01/2014	inv005579	350.00
18/02/2014	Theunissen	9426	Cash	420.00	19/02/2014	inv005707	420.00
22/05/2014	Theunissen	9542	Cash	500.00	23/05/2014	inv006197	500.00
23/06/2014	Theunissen	9558	Cash	500.00	24/06/2014	46744	500.00
20/02/2014	Brandfort	11948	Cash	24.09	25/02/2014	REC44284	24.09
02/04/2014	Brandfort	12000	Cash	418.00	03/04/2014	INV005973	418.00
18/10/2013	Soutpan	10163	Cash	310.00	12/11/2013	42774	310.00
23/01/2014	Soutpan	10219	Cash	170.00	27/03/2014	INV005940	170.00
22/05/2014	Soutpan	10290	Cash	135.00	25/06/2014	INV00618	135.00
23/08/2013	Verkeerdevlei	11029	Cash	4.50	03/09/2013	4813	4.50
24/01/2014	Verkeerdevlei	106	Cash	499.26	24/01/2014	43928	499.26
20/03/2014	Verkeerdevlei	10	Cash	360.00	27/03/2014	5930	360.00
22/05/2014	Verkeerdevlei	92	Cash	47.00	27/05/2014	6267	47.00

Total

6 529.55

Cause

Small amounts are received on a daily, therefore, waits for cash to accumulate before banking.

Impact

Cash might be lost due to robberies resulting in financial loss.

Internal control deficiency

Control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Recommendation

Management should implement maintain available controls to ensure that cash received is banked timeously.

Management response

Management agrees with the finding, however there are different reasons for all towns why money would not be banked same day.

1. Theunissen & Brandfort = Cashiers need transport to take money to the bank and if there is any transport available then it is banked.
2. Verkeerdevlei & Soutpan = There are no banks in those towns and they can only bank in the next town which can be done the next day.

Auditor's conclusion

Management agrees with the finding and there this will be reported on the management report.

177. EX.114 - Grant revenue: MSIG and LGFMG funds used for a different purpose. (EX.114)

Audit finding

Section 16(1) of the Division of Revenue Act prescribes that despite anything to the contrary in any other legislation, an allocation referred to in Schedules 4 to 7 may only be utilised for the purpose stipulated in the Schedule concerned and in accordance with the applicable framework.

Municipal Systems Improvement Grant (MSIG)

Expenditure actually incurred and detailed in the table below does not correlate with the activities as noted for the Municipal Systems Improvement Grant for the financial year ended 30 June 2014.

Activity plan

1. *Data purification*
2. *Revenue Enhancement*
3. *Operation Patala*
4. *Asset register*
5. *Annual financial statement*
6. *Community participation*
7. *IFS support and training*

Invoice Date	Invoice Number	EFT Number	Description	Amount
13/12/2013	15	20512	Transportation of staff to	R2 100

13/12/2013	17	20512	memorial service of the late former state president of the Republic of South Africa Dr Rolihlahla Nelson Mandela.	R2 100
13/12/2013	19	20512		R2 520
13/12/2013	18	20512		R1 120
13/12/2013	21	20512		R1 820
17/12/2013	147	20513		R18 200
Total				R27 860

Local Government Financial Management Grant (LGFMG)

Expenditure actually incurred and detailed in the table below does not correlate with the activities as noted for the Local Government Financial Management Grant for the financial year ended 30 June 2014.

Activity plan

1. Interns stipend/Salary and training Revenue Enhancement
2. Training in support of minimum competency regulations Asset register
3. Towards budget and Treasury office capacity Community participation
4. Towards SCM/Internal Audit/Audit committee capacity
5. Acquisition, upgrading and maintenance of financial systems
6. Preparation and compilation of financial statements
7. Towards implementation corrective actions to address audit findings
8. Preparation and implementation of financial recovery plans

Invoice Date	Invoice Number	EFT Number	Description	Amount
2013/12/01	N/A - S&T Claim	20478	Transportation of employees from Soutpan and back for finance department staff party	R1 203.81

Cause

Misinterpretation of activities as detailed in the activity pan for specific grant.

Impact

This is a non-compliance with the requirements of section 16(1) of the DoRA. The above transaction constitutes unauthorized expenditure.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations

Control activities

The entity did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should develop and implement controls to ensure that expenditure on grants is in accordance with the conditions of that specific grant.

Management response

Management agrees with the finding and necessary adjustment will be made to ensure that expenditure on grants is in accordance with the conditions of that specific grant.

Name: F. Mzizi
Position: CFO
Date: 31/10/2014

Auditor's conclusion

As management agree the corrective action was described in the management comments but no evidence of the actions was submitted. The aspect are reported as non-compliance in the management report as the amount is not material.

178. EX.130 - Revenue: Other - Interest not charged on overdue account (EX.130)

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act 56 of 2003 "62. General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;"

Nature

Note Contrary to the above, No interest was charged on the following overdue account, this was due to debtor being incorrectly listed as indigent on the system:

Customer and account	<u>Interest per statement</u>	<u>Interest calculated</u>	<u>Interest per general ledger</u>	<u>Difference</u>
691670000 (PLAATJIE (3 ANDER))	No interest for the period per customer statement	775,67	-	775,67

The error is estimated as follows:

Actual error	775,67
Sample Population	54 158,82
Percentage error	1%
Population	7 187 179,95
Extrapolated error	102 935,77

Cause

Lack of management review over levying interest on outstanding debtors accounts.

Impact

The interest on outstanding debtors (Revenue) and receivables might be understated by R102 935.77

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should establish and maintain controls to ensure that interest is charged on all outstanding debtors accounts, all the overdue accounts should be investigated and corrected.

Management response

Management agrees with the finding as the debtor in question was incorrectly grouped as an indigent, however the mistake has since been corrected.

Auditor's conclusion

Management concurs with the finding, however auditor recommended that all the overdue accounts should be investigated and no evidence was submitted in this regard, therefore the matter remains unresolved and will therefore be reported.

179. EX.19 - Receivable and Revenue: The Municipality's debts collection procedures are not in line with the policy (EX.19)

Audit finding

Paragraph 19(1) of the credit control and debt management policy states that an account rendered to a customer by the municipality in respect of rates or municipal services, including sanitation and the collection and disposal of refuse, shall be paid by the due date.

(2) If the customer fails to pay any account within a period of fourteen (14) days after the expiry of the due date, then-

(a) without further notice, the municipality may limit, disconnect or discontinue the supply of electricity or water to the immovable property in question; and (b) the chief financial officer or any duly authorised person may instruct attorneys to recover the outstanding amounts owed.

(b) The chief financial officer or any duly authorised person may instruct attorneys to recover the outstanding amounts owed.

Contrary to the above, it was confirmed that customer's accounts are not disconnected within 14 days after due date of the account but instead are disconnected when the customer's account balance is more than R10 000.00. Final demands for payments list for Theunissen May 2014 was inspected and the following accounts were outstanding for more than 14 days after due date but the services were not disconnected:

Customer account nr	Name of applicant	Address	Outstanding balance as at 28/02/2014.
20390008	Thejane	2Sarel Cilliers	58 401,68
20402007	Bolara	14Paul Kruger	59 063,64

20459013	Adendorff	6Sarel Cilliers	159 068,73
20472009	Lartz	18Van Riebeck	92 627,90

Similar exception was raised in the prior year, paragraph 48 of the management report.

Cause

Lack of staff within the municipality and resources to disconnect electricity.

Impact

Non-adherence with the credit control and debts collection policy and an increased receivable which might be impaired in the future

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should make necessary arrangements to get required resources and ensure that credit control and debt collection policy is complied with.

Management response

Management agrees with the finding and will enforce necessary measures to ensure that credit control and debt collection policy are complied with.

Auditor's conclusion

Management agrees with the finding the issue is not resolved it will be included in management report

180. EX.202 - Revenue: Application forms for new accounts not authorised and lease agreements not attached (EX.202)

Audit finding

Section 64(1) of the MFMA states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality.

Section 64(2)(f) of the MFMA states that The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure— that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;

Paragraph7(2) of the credit control and debt collection policy of the municipality states that the application for the provision of municipal services must be made by the registered owner of an immovable property.

(3) The municipality will not entertain an application for the provision of municipal services from a tenant of a property, or any other person who is not the owner of the property.

(4) The only exception to (3) above is that individuals and businesses with lease agreements to lease properties from the municipality and government departments will be allowed to open an account in the name of the lessee of the property.

Contrary to the above, application forms for new connections(new accounts) were not authorised and a lease agreement was not attached where applicable

Account number	Surname	First month of levy	Application form authorised	Authorised by:	Registered owner opened the account /Lease agreement attached
50261004	NA FERREIRA de FREITAS	May-14	No	Not authorised	Yes
730661029	KLOPPER	Feb-14	Yes	L.G Tsoai	No
730403003	REINECKE	Feb-14	No	Not authorised	Yes

Similar exception was raised last year: paragraph 153 of management report

Cause

Lack of oversight by the municipal official

Impact

The matter results in non - compliance with the Municipal Finance Management Act and non-adherence to the credit control and debt collection policy

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should put measures and implement controls to ensure compliance with applicable regulations.

Management response

Management comment was not received.

181. EX.23 - Revenue: Property register is not designed as prescribed by the act and is not reviewed annually (EX.23)

Audit finding

Section 23(1) of the Municipal property rates act No. 6 of 2004 states that a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a Part A and a Part B.

(2) Part A of the register consists of the current valuation roll of the municipality, including any supplementary valuation rolls of the municipality prepared in terms of section 78.

(3) Part B of the register must specify which properties on the valuation roll or any supplementary valuation rolls are subject to:

- (a) an exemption from the rate in terms of section 15;
- (b) a rebate on or a reduction in the rate in terms of section 15;
- (c) a phasing-in of the rate in terms of section 21; or
- (d) an exclusion referred to in section 17 (1) (a), (e), (g), (h) and (i).

(4) The register must be open for inspection by the public during office hours. If the municipality has an official website or another website available to it, the register must be displayed on that website.

(5) A municipality must at regular intervals, but at least annually, update Part B of the register. Part A of the register must be updated in accordance with the provisions of this Act relating to the updating and supplementing of valuation rolls.

A property register for 2013/14 financial year was requested but instead an old list of properties (compiled from an old valuation roll) was submitted. The register is not designed in the format prescribed by the act (Part A - being the current valuation roll including any supplementary valuation rolls of the municipality and Part B - which must specify which properties on the valuation roll or any supplementary valuation rolls are subject to exemptions, rebates, phasing in of the rate and exclusions).

Property values reflected on the list/register submitted did not correspond with the valuation roll submitted for audit. It was also confirmed that the submitted document was not reviewed and had no information on any properties subject to exemptions, rebates, phasing in of the rate and exclusions.

A similar audit finding was raised last year see paragraph 156 of the prior year management report.

Cause

Management did not exercise oversight responsibility ensuring that employees perform their duties accordingly

Impact

Non-compliance with the Municipal property rates act .

Furthermore the consumers could either be under/over charged with regards to their rates.

Internal control deficiency

Leadership

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Note Management should exercise oversight responsibility and ensure that a property register, which has Part A - (being the current valuation roll including any supplementary valuation rolls of the municipality) and Part B - (which must specify which properties on the valuation roll or any supplementary valuation rolls which are subject to exemptions, rebates, phasing in of the rate and exclusions), is implemented as required by the Municipal property rates act.

Management response

Management agrees with the finding and will ensure that a property register which has Part A and Part B is designed and implemented as required by the municipal property rates act. However seeks clarity on what is raised by AG as an impact, how does non-compliance with the MPRA result in a municipality paying fines or penalties.

Auditor's conclusion

Management agrees with the finding and therefore the matter will be reported on the management report.
The impact was amended.

Taxes

182. EX.121 - Value added taxation: Interest and penalties (EX.121)

Audit finding

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

Contrary to the above, interest and penalties amounting to R17 011,65 was identified on the VAT201 statement of account for the period 01 July 2013 - 30 June 2014 and the following deficiencies were noted:

1. These amounts were not recorded in the general ledger (26/11/2013: R2 886,70; 01/04/2014: R1 021,90; 06/04/2014: R13 103,05)
2. Interest and penalties levied by the South African Revenue Services were not included in the fruitless and wasteful expenditure register and has therefore been omitted from the financial statements.

Cause

The above was an oversight by management as these amounts did not reflect as payable on the SARS statement account, the amounts were reduced against the balance that was due to the municipality.

Impact

Possible understatement of interest and penalties amounting to R17 011,65
Possible understatement of fruitless and wasteful expenditure amounting to R17 011,65

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should develop and implement controls over the identification and recording of interest and penalties levied.

Management should ensure that interest and penalties are included in the fruitless and wasteful register.

The necessary adjustments should be made to the annual financial statements before the final draft is submitted for authorisation.

The statement of account should be scrutinised regularly to prevent interest and levies being omitted from the financial records.

Management response

We disagree with the finding.

According to the SARS Statement of Accounts for VAT are there no interest and penalties levied.

Therefore we disagree that there are understatement on the fruitless and wasteful expenditure and the completeness of the detailed ledgers

Please note that the municipality's VAT input exceeded the VAT output on all the returns and therefore can there be no interest and penalties be levied by SARS.

Please find attached the SARS Statement of Accounts as proof of our disagreement.

Name:

Position:

Date:

Auditor's conclusion

Management response noted, however the VAT statement of account obtained on 17 September 2014, clearly indicates that interest and penalties were charged, this was also discussed subsequent to management response obtained, and management was in agreement.

Based on the above, this matter will remain and be reported on in the management report.

183. EX.31 - Value added taxation: Reconciliation not reviewed by senior management (EX.31)

Audit finding

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

No proof could be obtained that the VAT reconciliation for October 2013 was reviewed by a senior official.

Note

Cause

The cause of this finding is lack of oversight by management

Impact

The impact of this findings is weaknesses in internal controls which might result in inaccurate financial reporting.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should ensure that VAT reconciliations are reviewed on a monthly basis.

Management response

Management agrees to the finding, however it was just an error that the month in question was overlooked and not signed.

Name: F. Mzizi
Position: Chief Financial Officer
Date: 01/10/2014

Auditor's conclusion

Management agrees with the finding and it will be recorded as an internal control issue in the management report.

184. EX.35 - Value added taxation: Review and Approval (EX.35)

Audit finding

Section 28 (1) of the Value Added Tax Act, 1991 (Act No. 89 of 1991) states that every vendor shall, within the period ending on the twenty-fifth day of the first month commencing after the end of a tax period relating to such vendor or, where such tax period end on or after the first day and before the twenty-fifth day of a month, within the period ending on such twenty-fifth day-

(a) furnish the Commissioner with a return reflecting such information as may be required for the purpose of the calculation of tax in terms of section 16; and

(b) calculate the amounts of such tax in accordance with the said section and pay the tax payable to the Commissioner or calculate the amount of any refund due to the vendor.

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

Based on audit work performed the following deficiencies were identified:

a) The following deficiencies were identified:

Number	Month	Reconciliation and supporting journals approved
201307	Jul-13	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: Me M J Mokalake) could be identified.

201308	Aug-13	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: Me M J Mokalake) could be identified.
201310	Oct-13	No signatures could be identified on the journals and reconciliation performed, therefore no proof could be obtained that these documents were reviewed.
201311	Nov-13	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: p.p Wesi) could be identified.
201403	Mar-14	No signatures could be identified on the journals and reconciliation performed, therefore no proof could be obtained that these documents were reviewed.
201404	Apr-14	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: Me M J Mokalake) could be identified.
201405	May-14	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: Me M J Mokalake) could be identified.
201406	Jun-14	No proof could be obtained that the reconciliation was reviewed and journals approved as no signatures (except for the compiler thereof: Me M J Mokalake) could be identified.

b) The VAT reconciliations for the following periods were not performed timeously:

Number	Month	Date on which reconciliation was performed:
201309	Sep-13	24/03/2014
201310	Oct-13	25/03/2014
201311	Nov-13	No date could be identified on the journals and reconciliation that was performed
201312	Dec-13	No date could be identified on the journals and reconciliation that was performed
201401	Jan-14	28/03/2014

c) The following VAT 201 returns were not submitted to the South African Revenue Services within the prescribed timeframe:

Number	Month	Date VAT 201 submitted	Date VAT 201 should have been submitted (on/before the 25th of each month)
201307	Jul-13	03/09/2013	22/08/2013
201308	Aug-13	09/12/2013	25/09/2013
201309	Sep-13	01/04/2014	24/10/2014
201310	Oct-13	01/04/2014	25/11/2014
201311	Nov-13	03/04/2014	25/12/2014
201312	Dec-13	03/04/2014	24/01/2014
201401	Jan-14	01/04/2014	25/02/2014
201402	Feb-14	01/04/2014	25/03/2014
201403	Mar-14	08/05/2014	25/04/2014
201404	Apr-14	26/05/2014	23/05/2014
201406	Jun-14	31/07/2014	25/07/2014

Cause

Management was under the impression that the returns had to be submitted on the last day of each month.

Impact

- a) The matter could result in non-compliance with the VAT act.
- b) The calculation errors which are not identified could result in fines and penalties being levied by the South African Revenue Services.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should implement and maintain Internal control processes to ensure that reconciliations are prepared, reviewed and approved on a monthly basis and also ensure that VAT201 returns are submitted within the prescribed timeframe.

Management response

- a) Management agrees to the finding, however the reconciliations will be signed as proof that they were reviewed.
- b) Management agrees to the finding, and has since rectified the control of submitting VAT201's timeously.
- c) Management agrees to the finding, however the control has since been rectified as such.

Name: F. Mzizi
Position: CFO
Date: 14/10/2014

Auditor's conclusion

As management agree with the finding the aspect on the internal control deficiencies are reported.

185. EX.122 - Value added taxation: Record keeping (EX.122)

Audit finding

1. Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

2. Section 55 of the VAT Act states the following:

Records.—(1) Every vendor shall keep such books of account (which books of account, where generated by means of a computer, shall be retained in the form of a computer print-out) or other records as may enable him to observe the requirements of this Act and enable the Commissioner to satisfy himself that the vendor has observed such requirements, and every vendor shall, in particular, keep the following records and documents—

(a) a record of all goods and services supplied by or to the vendor showing the goods and services, the rate of tax applicable to the supply and the suppliers or their agents, in sufficient detail to enable the goods and services, the rate of tax, the suppliers or the agents to be readily identified by the Commissioner, and all invoices, tax invoices, credit notes, debit notes, bank statements, deposit slips, stock lists and paid cheques relating thereto: **Provided that a vendor's records do not have to show the rate of tax where the vendor has been authorised by the Commissioner to calculate the tax payable by him in accordance with a method prescribed by regulation, as contemplated in section 16 (1);**

Contrary to the above, it could not be confirmed that the municipality has retained information for 5 years as prescribed due to a lack of proper record keeping, therefore it could not be confirmed whether the municipality complied with or is in contradiction with the applicable laws and regulations.

A similar matter was reported on in paragraphs 145 & 162 respectively of the prior year management reports.

Cause

The above occurred due to lack of controls relating to record keeping.

Impact

The above could result in the municipality being in contradiction with the applicable laws and regulations governing proper record keeping.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should develop and implement controls over record keeping and storage of information to ensure that information is easily accessible and that the municipality complies with applicable laws and regulations.

Management response

We disagree with the finding.

All VAT returns submitted in the previous 5 financial years can be obtained from the SARS efilling profile

2011 to 2014 VAT information and detailed ledgers are processed on the Pastel Evolution system.

This information can be provided when requested as they have been submitted to the Auditor-General every year since 2011/2012 financial year

The information from 2009 to 2010 is recorded on the previous system called DATA-M. Print out can be provided if requested.

Name: F.MZIZI

Position: CFO

Date: 11/11/2014

Auditor's conclusion

Management response noted, however proper record keeping does not only refer to VAT returns being retained but also reconciliations and any other corroborating supporting documentation, which is not obtainable from SARS e-filing, to be kept in an easily accessible manner.

The fact that the information could be obtained during previous audits conducted does not give comfort that the documentation has been retained as this information could not be retained upon request during the 2013/14 financial period.

Due to the fact that we do not agree with management, this finding remain and will be reported on in the management report.

186. EX.33 - Value added taxation: VAT levied on exempt supplies for the past 3 financial years (EX.33)

Audit finding

Section 12 paragraph (g) of the Value Added Tax Act, 1991 (Act No.89 of 1991) states that the supply of any of the following goods or services shall be exempt from the tax imposed under section 7 (1) (a):

The supply by any person in the course of a transport business of any service comprising the transport by that person in a vehicle (other than a game viewing vehicle contemplated.

In paragraph (e) of the definition of "motor car" in section 1) operated by him of fare paying passengers and their personal effects by road or railway (excluding a funicular railway)

Paragraph 1.13.5 (a) (1) of GRAP Implementation Guide for Municipalities Accounting for Output VAT, obtained from National Treasury dated 25 September 2008, states that out of scope supplies are supplies that do not fall within the ambit of the VAT Act. Accordingly, the supply is not subject to VAT at either the standard rate (14%), the zero rate (0%), nor is it exempt in terms of section 12 of the VAT Act.

"Examples of Out of Scope Supplies are":

"Statutory fines and penalties"

"The imposition of statutory fines or penalties by the municipality falls outside the scope of VAT. Examples are speeding and parking fines, library fines for the late return of books, and building control and other fines. Any grants paid by public authorities to make out of scope supplies"

It was identified that the following receipts on traffic fines were determined to have VAT levied on them :Note

Date	Account No	Receipt No/ Reference	Amount on the receipts		
			Amount	VAT	VAT Incl.
			(R)	(R)	(R)
02/01/2014	155/1555/38	INV5489	263,16	36,84	300,00
30/04/2014	155/1555/38	INV6068	263,16	36,84	300,00
04/02/2014	155/1555/38	INV5634	1 403,51	196,49	1 600,00
27/06/2014	155/1555/38	INV6402	1 228,07	171,93	1 400,00
28/03/2014	155/1555/38	INV5956	263,16	36,84	300,00
31/03/2014	155/1555/38	INV5959	877,19	122,81	1 000,00
29/05/2014	155/1555/38	INV6278	2 368,48	331,58	2 700,00
30/05/2014	155/1555/38	INV6308	438,60	61,40	500,00
Total			7 105,26	994,74	8 100,00

This matter was also included in paragraph B.163 of the prior year management report.

Cause

This is the result of oversight of management to ensure that prior year errors are corrected.

Impact

The matter results in non-compliance with the VAT act.

Furthermore the revenue and VAT accounts in the general ledger and financial statements could be misstated

Internal control deficiency

Financial and performance management

The municipality did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should put controls in place to ensure the compliance with the VAT act.

Management response

We agree with the finding.

The total fines recorded on the financial statement are R16 005 (2013: R49 126). The assumption is that 100% of the transactions were incorrectly treated to ensure that the entire population is corrected.

The total VAT output incorrectly recognized on the fines is R2 240.07 (2013: R6 877.64).

We believe this is not a material misstatement on the financial statements. However the misstatements will be corrected on the financial statements by recorded the following journal entries:

Journal to be recorded on the comparatives:

	Acc Num	Acc Description	R	R
Dr	77/5001	VAT Output Levies	6 877.64	
Cr	155/1555/38	Fines		6 877.64
(Correction of the prior year fines - R49 126 x 14%)				

Journal to be recorded in the current year:

	Acc Num	Acc Description	R	R
Dr	77/5001	VAT Output Levies	2 240.70	
Cr	155/1555/38	Fines		2 240.70
(Correction of the prior year fines - R16 005 x 14%)				

Name: F Mzizi
Position: CFO
Date: 17/11/2014

Auditor's conclusion

The corrected financial statements were not received and the matter will be resolved once the corrected financial statements are received and be reported in the management report as a corrected misstatement.

187. EX.34 - Value added taxation: Errors on VAT 201 returns not corrected accurately. (EX.34)

Audit finding

Section 62(1)(b) of the MFMA on general financial management functions states that: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

1. Through comparison of the VAT 201 return for July 2013 that was submitted to the South African Revenue Services and the VAT reconciliation that was performed for the month of July the following was identified:

Per VAT 201 submitted to SARS				
Number	Month	Output charged	Input Vat claimed	Vat payable (receivable)
201307	Jul-13	R330 974,86	R913 321,69	R(582 346,83)

Per reconciliation performed for the month of July 2013				
Number	Month	Output charged	Input Vat claimed	Vat payable (receivable)

201307	Jul-13	R1 956 604,12	R1 120 443,40	R836 160,72
--------	--------	---------------	---------------	-------------

The correction made per the July 2014 VAT reconciliation is as follows:

Actual amount:	R836 160,72	
Initial amount claimed:	R582 346,83	
Actual correction made:	R253 813,89	A

The above correction was in fact not done accurately as the Output VAT exceeded the Input VAT, therefore an amount of R836 160,72 should have been paid over to the South African Revenue Services, instead an amount of R582 346,83 was refunded from the South African Revenue Services for the month of July 2013.

The municipality should have first taken the difference between the input VAT as per VAT 201 and the reconciliation and then compared it to the difference between VAT output per VAT 201 and the reconciliations

The correction should have been as follows:

	Output VAT	Input VAT	Amount Payable
Reconciliation	1 956 604.12	1 120 443.40	
VAT 201	330 974.86	913 321.69	
Difference	1 625 629.26	207 121.71	1 418 507.55

Amount as per correction (A)		-253 813.89
------------------------------	--	-------------

Amount Payable to SARS		<u>1 164 693.66</u>
------------------------	--	---------------------

The amount of R1 164 693,66 should be paid over to the South African Revenue Services when submitting the next VAT 201 return.

Cause

The above was as a result of incorrect calculations that were performed.
The above resulted due to the VAT reconciliation not being reviewed.

Impact

The impact of this finding is furthermore non-compliance with section 62(1)(b) of the MFMA on general financial management functions.

Internal control deficiency

Financial and performance management

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 financial and performance reporting.

Recommendation

Management should review the VAT reconciliations to ensure that errors are identified within reasonable time.

Management response

Management agrees to finding and will ensure that the errors are identified and rectified within reasonable time.

Name: F. Mzizi

Position: CFO

Date: 15/10/2014

Auditor's conclusion

As management agree with the finding the error will be reported.

ANNEXURE C: FINANCIAL INDICATOR ANALYSES

The analyses on which the financial indicators and discussion in *PART C – FINANCIAL INDICATORS* under *SECTION 3: SPECIFIC FOCUS AREAS* are based are set out below.

BUDGET MANAGEMENT		Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
			R	R	R
		Final approved operating expenditure budget	177 296 902		177 296 902
		Under/(over) spending of the final approved operating expenditure budget <i>Note: Over-spending must be captured as a negative</i>	-94 354 242		-94 354 242
		Final approved capital budget	67 245 735		67 245 735
		Under/(over) spending of the final approved capital budget <i>Note: Over-spending must be captured as a negative</i>	305 352		305 352
					%
		Percentage over spending of the final approved operating expenditure budget	1.1		53.2%
		Percentage under spending of the final approved capital budget	1.2		0.5%

EXPENDITURE MANAGEMENT

Indicator reference

	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	R	R	R
Accounts payable from goods and services purchased on credit	40 092 568		40 092 568
Total purchases from goods and services purchased on credit for the year	78 518 117		78 518 117
Creditor-payment period (Accounts payable ÷ Total purchases x 365)			Days 186.4

2.1

REVENUE MANAGEMENT

Accounts receivable from goods and services rendered on credit (before impairment)

Debtors impairment provision at year-end (In respect of accounts receivable from goods and services rendered on credit)

Total revenue from goods and services rendered on credit for the year

Debtor-collection period - before impairment (Days)

(Accounts receivable [before impairment] ÷ Total revenue x 365)

Debtor-collection period - after impairment (Days)

(Accounts receivable [after impairment] ÷ Total revenue x 365)

Debtors impairment provision at year-end as a percentage of accounts receivable from goods and services rendered on credit

Debtors impairment provision at year-end as a percentage of revenue from goods and services rendered on credit

Indicator reference	Financial statement amounts R	Adjustments for material uncorrected misstatements R	Financial statement amounts after adjustments for material uncorrected misstatements R
	316 376 666		316 376 666
	305 074 640		305 074 640
	82 866 959		82 866 959
			Days
3.1			1 393.5
3.2			49.8
			%
3.3			96.4%
3.4			368.1%

%

Material water losses

([Number of kilolitres water purchased or purified - Number of kilolitres water sold] ÷ Number of kilolitres water purchased or purified × 100)

3.5

Material electricity losses

([Number of electricity units purchased and/or generated - Number of electricity units sold] ÷ Number of electricity units purchased and/or generated) × 100)

3.6

10.58%
56.6%

ASSET AND LIABILITY MANAGEMENT		Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
			R	R	R
Total revenue for the year			238 779 272	698 135	239 477 407
Less: Total expenditure for the year			271 651 144		271 651 144
Surplus / (deficit) for the year	4.1		-32 871 872	698 135	-32 173 737
Total current assets			18 065 518		18 065 518
Less: Total current liabilities			66 578 424	636 850	67 215 274
Net current assets / (liabilities)	4.2		-48 512 906	-636 850	-49 149 756
Total non-current assets			590 075 343		590 075 343
Less: Total non-current liabilities			21 941 056		21 941 056
Net non-current assets / (liabilities)			568 134 287	0	568 134 287
Total assets			608 140 861	0	608 140 861
Less: Total liabilities			88 519 480	636 850	89 156 330
Net assets / (liabilities)	4.3		519 621 381	-636 850	518 984 531
Year-end carrying amount of the category(ies) of PPE that were subject to impairment			1 070 833 959	-79 235 475	991 598 484
Plus: Year-end carrying amount of the category(ies) intangible assets that were subject to impairment			0		0
			1 070 833 959	-79 235 475	991 598 484
PPE impairment provision at year-end			550 734 183		550 734 183
Plus: Intangible assets impairment provision at year-end					0

550 734 183	0	550 734 183
-------------	---	-------------

PPE and intangible assets impairment provisions at year-end as a percentage of the carrying amount of the category(ies) of PPE and intangible assets subject to impairment

4.4

%
55.5%

Year-end carrying amount of investments, if subject to impairment

Plus: Year-end carrying amount of loan receivables (loans awarded), if subject to impairment

None		
69 884 773		69 884 773
0		0
69 884 773	0	69 884 773

Investments impairment provision at year-end

Plus: Loan receivables (loans awarded) impairment provision at year-end

None		
0		0
0		0
0	0	0

Loan receivables (loans awarded) and investments impairment provisions at year-end as a percentage of the carrying amount of investments and loans subject to impairment

4.5

%
0.0%

CASH MANAGEMENT

Cash and cash equivalents / (bank overdraft) at year-end

Note: Bank overdraft must be captured as a negative

Net cash flows for the year from operating activities

Note: Negative cash flows must be captured as a negative

Operating expenditure

Long term employee benefit obligations

Cash and cash equivalents as a percentage of operating expenditure

Creditors as a percentage of cash and cash equivalents

Current liabilities as a percentage of net cash inflows for the year from operating activities

Long-term debt as a percentage of net cash inflows for the year from operating activities

Employee benefit obligation as a percentage of net cash inflows for the year from operating activities

5.1

5.2

5.3

5.4

5.5

5.6

5.7

	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	R	R	R
	3 578 197		3 578 197
	53 746 882		53 746 882
	271 651 144		271 651 144
	7 635 577		7 635 577
			%
			1.3%
			1120.5%
			125.1%
			40.8%
			14.2%

GRANT MANAGEMENT

Indicator reference

	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	R	R	R
Conditional grants received	68 790 727		68 790 727
Under/(over) spending of conditional grants received			
Note: Over-spending must be captured as a negative			
	718 682		718 682
Unspent conditional grants received at year-end	718 682	0	718 682
Cash and cash equivalents / (bank overdraft) at year-end	3 578 197	0	3 578 197
			%
Percentage under-spending of conditional grants received	6.1		1.0%
Percentage by which unspent conditional grants received exceeds cash available at year-end	6.2		Not exceeded