



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

KAROO HOOGLAND LOCAL MUNICIPALITY

30 June 2015





MANAGEMENT REPORT

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE KAROO HOOGLAND LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2015

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 development 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).

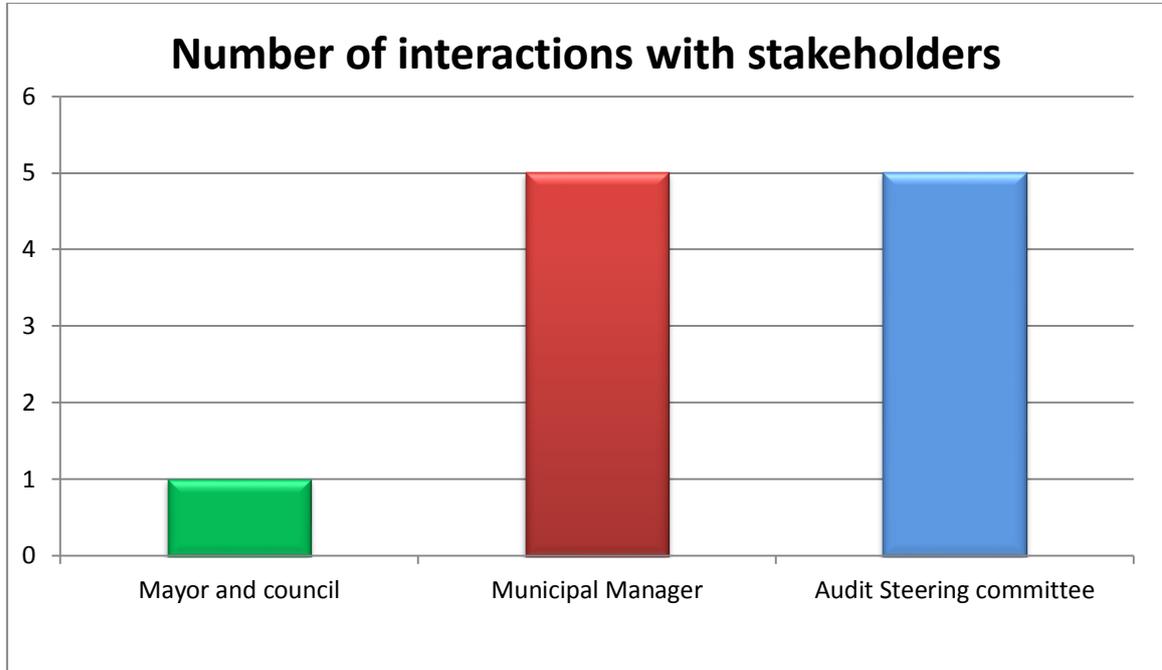
Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

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 2015. 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

1. 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:



2. At these interactions, we discussed the engagement letter, audit strategy, fraud and other discussion points relating to the audit. All of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2, which deals with the assessment of assurance providers.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

1. 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.
2. The misstatements that were not corrected form the basis of the disclaimer of opinion on the financial statements.

Material Misstatements			Impact	Impact
Financial statement item	<u>Finding</u>	Occurred in prior year	R Current year	R Prior year
Material misstatements not corrected				
Property Plant and equipment	Fixed asset register inconsistencies Part A assets not specifically identifiable	Yes	11,453,533.79	
Property Plant and equipment	Fixed asset register inconsistencies Part B assets not specifically identifiable	Yes	500,297.57	
Property Plant and equipment	Fixed asset register inconsistencies Part C assets not in working condition - should be impaired	Yes	6,770,549.57	
Property Plant and equipment	Fixed asset register inconsistencies Part E assets could not be traced to the asset register.	Yes	3,826,828.00	



Property Plant and equipment	Fixed asset register inconsistencies Part F existence of assets could not be confirmed	Yes	1,195,627.64	
Property Plant and equipment	Fixed asset register inconsistencies Part G existence of assets could not be confirmed	Yes	745,519.32	
Property Plant and equipment	Fixed asset register inconsistencies Part J	Yes	1,623,969.36	
Property Plant and equipment	Infrastructure not unbundled	Yes	55,188,576.32	
Cash Flow Statement	Cash Flow Statement	Yes	240,947.04	
Trade receivables	Receivables Age Analysis	Yes	211,021.79	
Unauthorised expenditure disclosure note	Unauthorised expenditure disclosed	No	277,707.00	
Fruitless and wasteful expenditure	Fruitless and wasteful expenditure	No	12,286.59	
Revenue	Journal discrepancies	No	50,000.00	
Revenue	Incorrect classification	No	59,479.55	
Expenditure	Incorrect classification	No	59,479.55	
Trade payables	Supplier balances	No	20,620.74	
Expenditure	Supplier balances	No	20,620.74	
Material misstatements corrected				
Irregular expenditure disclosure note	Tax clearance not obtained - irregular	Yes	84,589.74	
Contingent liability	Landfill site permits	Yes	(10,000,000.00)	
Overall financial statements	MFMFA Financial statement disclosures	Yes	Disclosure	
Property Plant and equipment	Investment property accounting policy deficiencies	Yes	Disclosure	
Overall financial statements	Casting of the Financial statements	Yes	Disclosure	



Other income	Other income - support for transaction not obtained	No	195,227.00	
Irregular expenditure disclosure note	Persons not declaring their interests	Yes	545,574.76	
Unauthorised expenditure disclosure note	Unauthorised expenditure disclosed	Yes	18,083,692.00	
Irregular expenditure disclosure note	Three Quotations not obtained	Yes	108,843.42	
Property Plant and equipment	Expenditure not capitalised	Yes	233,918.98	
Expenditure	Expenditure not capitalised	Yes	(233,918.98)	
Deviation disclosure note	Deviation disclosures	No	2,464,863.00	
Contingent asset	Contingent asset disclosure	No	6,465,942.00	
Irregular expenditure disclosure note	Preference point system	Yes	511,416.39	
Irregular expenditure disclosure note	Deviation register deficiencies	Yes	76,294.74	
Irregular expenditure disclosure note	Irregular expenditure discrepancies (Specific selected)	Yes	(2,692,352.30)	
Irregular expenditure disclosure note	Irregular expenditure discrepancies (sampling)	Yes	(273,467.00)	
Vat control account	Provision discrepancies	Yes	(1,162,421.67)	
Accumulated surplus	Provision discrepancies	Yes	1,162,421.67	



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

EMPHASIS OF MATTER PARAGRAPH

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

Restatement of corresponding figures

4. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014

Material losses

5. As disclosed in note 36.5 to the financial statements, a material loss of R677 838 (10.45%) was incurred as a result of the distribution of electricity.

Material impairments

6. As disclosed in note 15 and 16 to the financial statements, a significant provision for the impairment of receivables from exchange transactions and non-exchange transactions was recognised which constitutes 54% of the total receivables from exchange transactions and non-exchange transactions balance respectively.

Contingent liabilities

7. With reference to note 46 to the financial statements, the municipality was summoned for the unlawful suspension of senior officials. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

ADDITIONAL MATTER PARAGRAPHS

8. 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:

Unaudited supplementary schedules

9. The supplementary information set out on appendixes A and B does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements 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

11. Included below are our conclusions on the reported performance information for selected development objectives presented in the annual performance report.
12. We were unable to report on the usefulness and reliability of the reported performance information, as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA

PART D – FINDINGS ON NON-COMPLIANCE WITH LEGISLATION

13. Included below are material findings on non-compliance with specific requirements in key applicable legislation:

Strategic planning and performance management

14. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA sec 67(d).

Financial statements, performance and annual reports

15. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
16. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Audit committees

17. An audit committee was not in place, as required by section 166(1) of the MFMA.
18. 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).

Internal audit

19. An internal audit unit was not established, as required by section 165(1) of the MFMA.

Procurement and contract management

20. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM Regulation 17(a) & (c).
21. Bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality as required by SCM Regulation 28(2).
22. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
23. Bid adjudication was not always done by committees which were composed in accordance with SCM Regulation 29(2).
24. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM Regulation 28(1)(a).
25. Contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its Regulations.

26. Contracts and 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).
27. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
28. Contracts were extended without the approval of a properly delegated official, as required by SCM Regulation 5.

Human resource management and compensation

29. The competencies of financial officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels Regulation 13.
30. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels Regulation 14(2)(b).

Expenditure management

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset and liability management

33. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

34. Unauthorised, Irregular and 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.
35. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.
36. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

37. 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 and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements or the annual report to be materially misstated and material instances of non-compliance with legislation to occur.

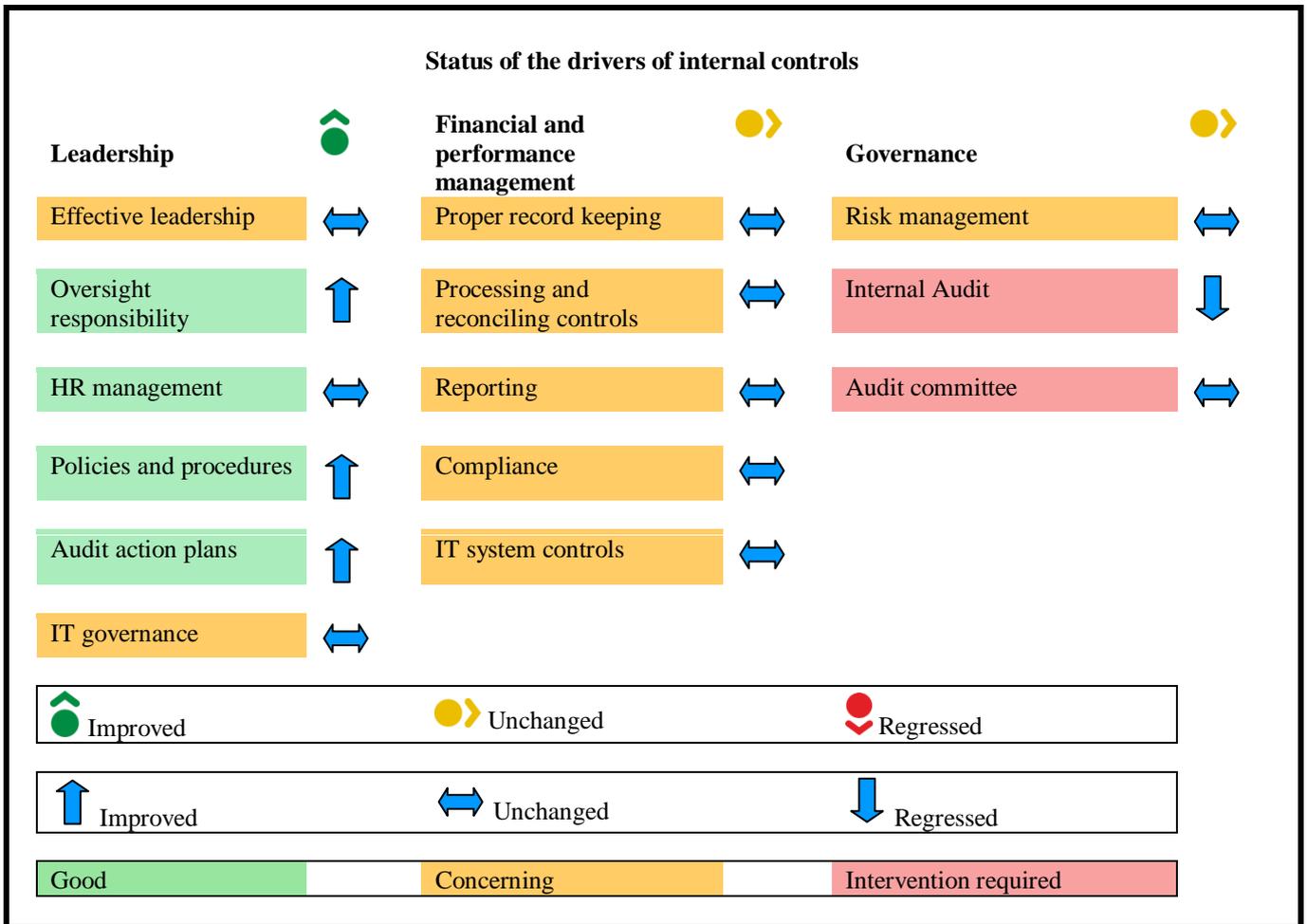
38. When the required preventative or detective controls are in place, it is assessed with a 😊; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a 😐; while 😞 indicates that internal controls 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	😊	😐	😞	😞	😊	😐
• 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 statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
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			N/A	N/A	N/A	N/A
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						
• 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						

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



LEADERSHIP

Effective leadership

40. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff and staff was not trained to properly understand and implement the code. Instances of management override and numerous cases of fraud and theft are being investigated.

Oversight responsibility

41. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting.

42. The unavailability of key personnel during the course of the audit has an impact on the effectiveness of the audit.

Policies and procedures

43. The municipality did not exercise oversight over the implementation of policies and procedures, resulting in numerous instances of non-compliance with the MFMA as well as other legislation applicable to the municipality, as detailed under the 'reporting on compliance with laws and regulations section' of this report.
44. The municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

Information technology governance framework

45. The municipality did not have an IT security policy in place during the period under review.
46. There is no IT manager or IT personnel to oversee IT matters and implementation of IT controls.
47. There is a lack of IT policies and procedures such as user access, disaster recovery.
48. The Review of user access did not take place on regularly.

FINANCIAL AND PERFORMANCE MANAGEMENT

Proper record keeping

49. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.
50. Documents and records of the municipality were not numbered consecutively to facilitate control over documents.

Daily and monthly processing and reconciling of transactions

51. Management did not implement the following daily and monthly controls as designed for the entity's business processes:
 - Monthly reconciliations were not performed between debtor's loan agreements and money received.
 - Timeously update of the fixed asset register was not performed to ensure proper asset management.

Regular, accurate and complete financial and performance reports

52. 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.

Compliance monitoring

53. Non-compliance with laws and regulations, as listed in Section 2 Part C, could have been prevented had compliance been properly reviewed and monitored.

GOVERNANCE

Risk management activities and risk strategy

54. The municipality did not perform any risk assessment and did not have any processes in place to identify risks.

Internal audit

55. The municipality did not establish an internal audit unit as to ensure the compliance with the Municipal Finance Management Act section 165.

Audit committee

56. The municipality did not ensure that an audit committee function throughout the year.

57. A performance audit committee was not in place to fulfil to performance audit committee function.

SUMMARY

58. 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

59. The accounting officer did not exercise oversight responsibility over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not implement processes to ensure that reviews took place before information was submitted. This was evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

60. Senior management did not adhere to internal controls, which resulted in various instances of irregular and unauthorised expenditure being incurred and other material misstatements in the financial statements, not detected by management.

61. Management is in to process to establish, update and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes, and responsibilities within the municipality.

62. Management did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

63. Material misstatements were made in the financial statements as these were not accurate and complete, because senior management did not detect misstatements during the review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements. Furthermore, the financial statements were not sufficiently reviewed for completeness and accuracy prior to submission for auditing.

64. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

65. The supply chain management unit of the municipality did not always function effectively. The necessary procedures were not always followed.

66. Specific training interventions are needed in the municipality to enable finance staff members to understand and implement the GRAP Financial Reporting Framework effectively in order to fully meet the disclosure requirements of these standards.

67. Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- 68. Appropriate a risk management activity was not implemented 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.
- 69. The accounting officer did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
- 70. The audit committee did not promote 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.

PART F – ASSESSMENT OF ASSURANCE PROVIDERS

- 71. 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 councils 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.
- 72. 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.
- 73. 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	
Senior management	<i>Provides some assurance</i>
Municipal manager	<i>Provides some assurance</i>
Mayor	<i>Provides some assurance</i>
Internal audit	<i>Not Established</i>
Audit committee	<i>Not Established</i>
Municipal council	<i>Provides some assurance</i>

Senior Management

A lot of progress was made during the year under review; the auditee will most likely improve from a disclaimer of audit opinion to a qualified audit opinion. Therefore senior management is making progress, and comfort could be obtained from management.

Municipal manager

A lot of progress was made during the year under review; the auditee will most likely improve from a disclaimer of audit opinion to a qualified opinion. The municipal manager initiated the improvement, therefore the municipal manager contributed to the progress made, and comfort could be obtained from management.

Mayor of municipality

The mayor is holding the accounting officer responsible for actions to be implemented, however, not everything the accounting officer do is oversighted by the mayor. There was no current court cases against the mayor which came to our attention and the mayor was available for meetings, therefore some assurance was obtained from the mayor.

STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

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

1	Monthly reconciliation between loan amortization, accounting records, and payments. Perform overall reconciliation at year-end and recording adjusting journals to correctly classify interest to SFP and capital to SoFP	CFO - Sarel Myburgh	30-Jun-15	Completed
2	Reconcile the amortisation schedule with the journals to record the current portion. Journal to be reviewed and authorised before processing.	Koot Van Schalkwyk (Deputy CFO)	17-Jul-15	Completed
3	Disclosure of securities to be included during preparation of the financial statements.	Koot Van Schalkwyk (Deputy CFO)	21-Aug-15	Completed
4	Monthly reconciliation between loan amortization, accounting records, and payments. Perform overall reconciliation at year-end and recording adjusting journals to correctly classify interest to SFP and capital to SoFP	Koot Van Schalkwyk (Deputy CFO)	17-Jul-15	Completed
5	All leases will be scrutinised to ensure proper classification. Working papers to be compiled and leases to be measured in accordance with GRAP. Journals to recognise capital and interest to be reviewed for accurate allocation.	CFO - Sarel Myburgh	31-Jul-15	Completed
6	All leases will be scrutinised to ensure proper classification. Working papers to be compiled and leases to be measured in accordance with GRAP. Expired leases to be derecognised.	CFO - Sarel Myburgh	31-Jul-15	Completed
7	Disclosure of long term liabilities to be reconciled with supporting working papers during preparation of the financial statements. Disclosure will be compared to the GRAP disclosure checklist to ensure compliance	Koot Van Schalkwyk (Deputy CFO)	31-Jul-15	Completed
8	Request bank confirmations from banks and reconcile with accounting records. Obtain monthly statements from the bank and process all transfers and interest earned on the account per month on the accounting system.	Koot Van Schalkwyk (Deputy CFO)	01-Jul-15	Completed
9	Cash flow statement workings to be prepared during preparation of the financial statements and reviewed to ensure accuracy.	CFO - Sarel Myburgh	21-Aug-15	In progress
10	Disclose contingent liability in financial statements.	CFO - Sarel Myburgh	30-Jun-15	Completed
11	Obtain permits for waste disposal sites. Include disclosure in financial statements.	CFO - Sarel Myburgh	30-Jun-15	In progress
12	Compile list of rentals to employees and determine market values of properties with a comparison between rent charged and market values. Include as fringe benefit on payslip and IRP5 , if considered to be material.	Koot Van Schalkwyk (Deputy CFO)	31-May-15	Completed
13	Review list of terminations and determine if overpayments occurred. Adjust financial statements with overpayments if necessary.	Koot Van Schalkwyk (Deputy head of finance)	31-Jul-15	Completed
14	Scrutinise all employee files and ensure appropriate supporting documentation is on file for all allowances and deductions from payslips. Include checklist in file.	CFO - Sarel Myburgh	31-Aug-15	In progress
15	Recalculate PAYE and UIF deductions to determine if correct. Provide calculations to audit team to resolve finding.	Koot Van Schalkwyk (Deputy head of finance)	30-Jun-15	Completed

16	Scrutinise all employee files and ensure appropriate supporting documentation is on file for all allowances and deductions from payslips. Include checklist in file. If no contract is on file - Draft new contract.	CFO - Sarel Myburgh	31-Aug-15	In progress
17	Recalculate differences are valid. If valid differences, recalculate entire employees' overtime payments and adjust financial statements.	Koot Van Schalkwyk (Deputy head of finance)	27-May-15	Completed
18	Prepare reconciliation between the payroll and general ledger for the entire year at year-end. Include as part of audit working paper file.	Koot Van Schalkwyk (Deputy head of finance)	Monthly - already in place Year-end - 10 Jul 2015	Completed
19	Scrutinise contract files and ensure contracts exist. If no contract is on file - Draft new contract. Provide to audit team.	CFO - Sarel Myburgh	30-Jun-15	Completed
20	Inspect journals and evaluate accounts and reasons for journals. Trace to possible supporting documentation and if not found - reverse or adjust journal based on information available.	CFO - Sarel Myburgh Koot Van Schalkwyk (Deputy CFO)	30-Jun-15	In progress
21	Compile register to submitted with AFS. The source documents for the registers will be 1) Legal representation letters, MIG/RBIG schedules.	CFO - Sarel Myburgh C Viljoen (Admin officer) F Lotter - Technical manager MM - GW Von Mollendorf	30-Jun-15	Completed
22	Reconcile the asset register with general ledger on a monthly basis. Perform overall reconciliation at year-end. Work through the detailed ledgers of PPE to identify additions and also repairs & maintenance accounts to identify additions and add to FAR	CFO - Sarel Myburgh Koot Van Schalkwyk (Deputy CFO)	03-Jul-15	In progress
23	Work through entire expenditure population and identify expenses without purchase orders. Obtain purchase orders and deviation letter to prevent irregular expenditure	D Vermeulen (Accountant SCM) Interns	30-Jun-15	Completed
24	Reconcile monthly losses and disclose in the financial statements.	F Lotter (Technical manager)	Already in place	Completed
25	All rental contracts must be inspected to determine if they are market related. If income is not market related must the contract be assessed to determine if it is in public interest or the plight of the poor in. If market relates income must be levied must a reconciliation be performed between actual income and market related income and recognize the receivable and income	MM - GW Von Mollendorf F Lotter - Technical manager	29-May-15	Completed
26	Review additional disclosures to the financial statements and ensure they agree to supporting working papers. Make adjustments as required.	CFO - Sarel Myburgh	15-Aug-15	In progress
27	Missing information to be found and provided to auditors. If tender process was not followed, include as irregular expenditure.	MM - GW Von Mollendorf D Vermeulen - Accountant SCM Christell Viljoen (PA of MM)	15-Apr-15	In progress

28	Compile a list of prospective suppliers from the accounting system creditors' master file. Run comparison between this list and the NT database of prohibited suppliers and submit the AG with AFS. It is unlikely that prohibited suppliers are on the creditors list. By this why we can provide AG that we comply	Diana Vermeulen - Accountant: Supply Chain	30-Jun-15	In progress
29	Compile a contract register to be submitted with the AFS. Contract register can be compiled from the known service level agreements, amortizations schedules, commitment registers	Diana Vermeulen - Accountant: Supply Chain	30-Jun-15	Completed
30	Request bank confirmations from banks and identify guarantees. Include in audit file and financial statements.	K van Schalkwyk - Deputy CFO	01-Jul-15	Completed
31	Entire tender and contracts population to be scrutinised and included in irregular expenditure register and disclosure note.	Diana Vermeulen - Accountant: Supply Chain	30-Jun-15	Completed
32	Entire tender and contracts population to be scrutinised and included in irregular expenditure register and disclosure note. If considered a valid deviation, include in deviations register and submit to council.	MM - GW Von Mollendorf Technical manager - Frannie Lotter CFO - Sarel Myburgh	01-May-15	In progress
33	Entire purchases population to be scrutinised and deviations and irregular expenditure to be recorded. Disclose in Financial Statements.	SCM unit (Diana Vermeulen - Accountant: Supply Chain)	30-Jun-15	In progress
34	Deviations register is in place and can be used for disclosure in the financial statements. Disclose deviations per category.	Diana Vermeulen - Accountant: Supply Chain Deputy CFO - Koot van Schalkwyk MM - GW Von Mollendorf	Implementation of SCM checklist - 30 June 2015 Register of deviations already in place.	In progress
35	Work through the entire population of expenditure and compile a register of all expenditure with deviations per supplier with amount. This schedule must then presented in the notes of the financial statements according to the MFMA Act	Diana Vermeulen - Accountant: Supply Chain CFO - Sarel Myburgh Interns	Implementation of SCM checklist - 30 June 2015 Register of deviations already in place.	Completed
36	Entire purchases population to be scrutinised and deviations and irregular expenditure to be recorded. Disclose in Financial Statements. Provide supporting documentation to auditors.	Diana Vermeulen - Accountant: Supply Chain W Malgas (Intern)	30-Jun-15	Completed
37	Entire purchases population to be scrutinized and deviations and irregular expenditure to be recorded. Disclose in Financial Statements.	Diana Vermeulen - Accountant: Supply Chain CFO - Sarel Myburgh MM - GW Von Mollendorf	Implementation of SCM checklist - 30 June 2015 Register of deviations already in place.	Completed
38	Deviations register is in place and can be used for disclosure in the financial statements.	SCM unit (Diana Vermeulen - Accountant: Supply Chain)	30-Jun-15	In progress
39	Record bank charges as irregular expenditure.	MM - GW Von Mollendorf	30-Jun-15	Completed

40	Reconcile financial statements with Accounting records. Ensure all journals processed on financial statements are also processed on accounting system. Prepare lead schedules to indicate which accounts make up a balance in the financial statements. Include in working paper file for auditors. Audit committee to review AFS.	CFO - Sarel Myburgh	21-Aug-15	In progress
41	Prepare a financial statements checklist and ensure all required disclosures are included. Review the financial statements to ensure complete disclosure. Audit committee to review AFS.	CFO - Sarel Myburgh	21-Aug-15	In progress
42	Prepare a financial statements checklist and ensure all required disclosures are included. Review the financial statements to ensure complete disclosure. Cast financial statements before submission for audit. Audit committee to review AFS.	CFO - Sarel Myburgh	21-Aug-15	In progress
43	Implement contract registers indicating status, contracted amounts, actual spending, etc. Registers should be used to prepare disclosure note for financial statements.	CFO - Sarel Myburgh	30-Jun-15	Completed
44	Reconcile the Statement of accounts (VAT , EMP, Eskom, Telkom, etc.) with the accounting records. Record interest and penalties in accounting records as well as register of fruitless and wasteful expenditure. Adjust financial statements. Provide supporting documentation for interest and penalties reversed (as per MR)	CFO - Sarel Myburgh	31-Jul-15	Completed
45	Compile an audit working paper file and reconcile with the financial statements before submission for audit. Listings and registers will be compiled that will be casted with the AFS and vice versa to ensure the completeness and the accuracy of the disclosure on the financial statements Audit committee to review financial statements.	CFO - Sarel Myburgh	21-Aug-15	Completed
46	Prepare a working paper to reconcile opening balances. Differences to be reconciled to supporting working papers. Audit committee to review AFS.	CFO - Sarel Myburgh	14-Aug-15	In progress
47	Reconcile the asset register with general ledger on a monthly basis. Perform overall reconciliation at year-end.	CFO - Sarel Myburgh	03-Jul-15	In progress
48	Moveable assets - Perform an annual asset count to ensure completeness and existence of assets. Assess the useful lives during this physical verification. Infrastructure assets - Consult with engineers and technical department and assess the estimated useful lives. Changes to be accounted for in accordance with GRAP 3 - Accounting policies, estimates and errors.	CFO - Sarel Myburgh	03-Jul-15	Completed
49	Asset register to be recompiled. Scrutinise the asset register though the use of computer assisted techniques to ensure no negative carrying amounts. Assets to be verified to determine if still in use. Adjustments to be made.	CFO - Sarel Myburgh	03-Jul-15	In progress
50	Review the investment property register and determine the correct accounting treatment of the assets. Make corrections to the carrying values of investment property in accordance with GRAP 3 - Accounting policies, estimates and errors.	CFO - Sarel Myburgh	31-Jul-15	Completed

51	Inspect the asset register and determine the valuation method used for assets. Prepare reconciliation between the valuation roll and the asset register with valid reasons for differences. I.e. assets valued at cost vs valuation roll at market values. Make adjustments if required.	A Louw (Head income clerk)	29-May-15	In progress
52	Asset register to be updated. Perform an annual asset count and update the asset register with all verified assets. Quotations to be obtained for all assets without values and accounted for in accordance with GRAP 3. Review the asset register to ensure all required information is recorded.	CFO - Sarel Myburgh	03-Jul-15	In progress
53	Perform an annual asset count and update the asset register with all verified assets. Locations to be recorded. Include an asset control sheet in each office and hold officials accountable for missing assets.	CFO - Sarel Myburgh	03-Jul-15	In progress
54	Infrastructure assets - Consult with engineers and technical department and update the asset register with locations to ensure assets are verifiable.	CFO - Sarel Myburgh	03-Jul-15	In progress
55	Perform an annual asset count and update the asset register with all verified assets. Asset register to be updated with impairments. Adjust financial statements with impairments.	CFO - Sarel Myburgh	03-Jul-15	In progress
56	Scrutinise the asset register and ensure through the use of computer assisted techniques that useful lives per category assets are consistent with the financial statements accounting policy. Adjustments to be accounted for in accordance with GRAP 3 if required.	CFO - Sarel Myburgh	03-Jul-15	Completed
57	Reconcile actual expenditure per Sebata for projects with the asset register and contract register.	CFO - Sarel Myburgh	03-Jul-15	Completed
58	All additions should be agreed to supporting documentation to ensure accurate recording.	CFO - Sarel Myburgh Deputy CFO - Koot van Schalkwyk Intern	03-Jul-15	Completed
59	Obtain list of disposals and remove from the asset register. Reconciliation between the general ledger and asset register will assist. Asset count at year-end will also help ensure disposed assets are removed from the asset register.	CFO - Sarel Myburgh	30-Jun-15	Completed
60	Obtain bank statements for 2014-15 financial year. Perform and review investment reconciliations monthly. Perform overall reconciliation at year-end.	CFO	30-Jun-15	Completed
61	Asset register to be used for calculation of depreciation and posting of journal. Sebata asset function can also be used. Scrutinise the asset register via computer assisted techniques to ensure all assets are accurately depreciated. Reconcile the asset register with the financial statements at year-end.	CFO - Sarel Myburgh	03-Jul-15	Completed

62	<p>Perform cut-off procedures close to year-end to ensure all expenses are recorded in the correct financial year. This can be done by tracing payments after year-end to supporting invoices and confirming they are recorded in the correct financial year.</p> <p>Entire expenditure population to be scrutinised to ensure it is recorded in the correct financial year.</p> <p>Errors to be corrected via journals and disclosed in accordance with GRAP 3.</p>	CFO - Sarel Myburgh	30-Jun-15	Completed
63	<p>Entire expenditure population to be scrutinised to ensure correct classification.</p> <p>Transactions identified as incorrectly classified to be corrected via journals and disclosed in accordance with GRAP 3.</p>	SCM unit	30-Jun-15	Completed
64	Entire expenditure population to be scrutinised to ensure supporting documentation is available for all transactions. Provide supporting documentation to auditors.	CFO - Sarel Myburgh	30-Jun-15	Completed
65	Perform reconciliation between creditors' statements and the accounting system. Correct misstatements.	Diana Vermeulen (Accountant SCM)	10-Jul-15	Completed
66	Record unidentified deposits in a register with sufficient detail. Do proper follow ups of unidentified deposits to ensure balance remains at a minimum. Reconcile the register with the general ledger weekly.	A Louw (Head income clerk)	03-Jul-15	Completed
67	Prepare grant expenditure schedules and reconcile with grants received. Prepare overall reconciliation at year-end. Process journal at year-end.	CFO - Sarel Myburgh	31-Jul-15	Completed
68	Prepare journal file and sign all journals before submission for audit.	CFO - Sarel Myburgh	30-Jun-15	Completed
69	Review financial statements to ensure financial statements agree to supporting working papers.	CFO - Sarel Myburgh Koot van Schalkwyk - Deputy CFO S Philander - Head of HR	15-Jul-15	In progress
70	Review bonus accrual calculation and ensure it is valued in accordance with GRAP 25 - Employee benefits.	Koot van Schalkwyk - Deputy CFO	15-Jul-15	Completed
71	Review bonus accrual calculation and ensure it only includes employees entitled to receive bonuses.	Koot van Schalkwyk - Deputy CFO	15-Jul-15	Completed
72	Scrutinise entire indigent and loan agreement population and ensure all forms are signed as approved.	J Vlok - Debtors clerk S Myburgh - CFO	30-Jun-15	In progress
73	Assess debtors at year-end for impairment.	CFO - Sarel Myburgh	31-Jul-15	Completed
74	Prepare working paper for long term debtors and prepare financial statements journal to disclose non-current portion separately.	K Van Schalkwyk - Deputy CFO S Myburgh - CFO	31-Jul-15	Completed
75	Include payments after year-end in assessment when impairing debtors at year-end. If payment not received must the balance be impaired	CFO - Sarel Myburgh	30-Jun-15	Completed

76	Include payments after year-end in assessment when impairing debtors at year-end. If payment not received must the balance be impaired	CFO - Sarel Myburgh	31-Jul-15	Completed
77	The basis for calculating the provision for debt impairment will be assessed for both financial years and adjusted accordingly.	CFO - Sarel Myburgh	31-Jul-15	Completed
78	Prepare grant expenditure schedules and reconcile with grants received. Prepare overall reconciliation at year-end. If receivables are recognised - obtain supporting documents.	CFO - Sarel Myburgh	31-Jul-15	Completed
79	Reconcile financial statements with Accounting records. Ensure all journals processed on financial statements are also processed on accounting system. Prepare lead schedules to indicate which accounts make up a balance in the financial statements.	CFO - Sarel Myburgh	21-Aug-15	In progress
80	Inspect debtors listing for municipal debtors. Trace movement in accounts to supporting documentation and reverse entries via journals.	CFO - Sarel Myburgh	10-Jul-15	Completed
81	Ensure correct classification in the financial statements by preparing a financial statements checklist.	CFO - Sarel Myburgh	10-Jul-15	In progress
82	Prepare reconciliation between actual prior year restatements and prior period restatements disclosure. File will be prepared with supporting documentation agreeing the prior year adjustments and disclosure.	CFO - Sarel Myburgh	21-Aug-15	Completed
83	Prepare grant expenditure schedules and reconcile with grants received. Prepare overall reconciliation at year-end. Unspent conditional grants to be accounted for as a payable.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	Completed
84	Prepare grant expenditure schedules and reconcile with grants received. Prepare overall reconciliation at year-end. If receivables are recognised - obtain supporting documents.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	Completed
85	Perform reconciliation between approved valuation roll, valuation roll on revenue system, and actual property rates billed.	A Louw - Head income clerk	15-Jul-15	Completed
86	Contact Sebata to determine how interest is calculated and perform test checks to ensure interest is calculated accurately. If interest was charged incorrectly, examine entire debtors population and recalculate interest. Correct as necessary.	A Louw - Head income clerk	03-Jul-15	Completed
87	Prepare grant expenditure schedules and reconcile with grants received. Prepare overall reconciliation at year-end. Scrutinise entire grant expenditure population to ensure grants were used for intended purposes.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	Completed
88	Prepare grant expenditure and receipt schedules and reconcile with grants received. Prepare overall reconciliation at year-end.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	Completed
89	CFO to review VAT reconciliations monthly. Overall reconciliation to be performed at year-end.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	In progress
90	Perform overall reconciliation between revenue and VAT per general ledger and the billing system.	A Louw - Head income clerk	30-Jun-15	Completed
91	Monthly reconciliation should be performed between the VAT returns, general ledger, and reports used to complete VAT returns before submission to SARS. Reconciliation for the entire year to be performed at year-end.	Koot van Schalkwyk - Deputy CFO	31-Jul-15	In progress

92	Disclose all material items separately in the financial statements.	Sarel Myburgh - CFO	21-Aug-15	Completed
93	Entire purchases population to be scrutinised to ensure accurate classification of VAT.	Diana Vermeulen - Accountant supply chain Interns	30-Jun-15	Completed
94	Perform inventory count at year-end and ensure inventory is correctly valued in the financial statements.	Koot van Schalkwyk - Deputy CFO Frannie Lotter - Technical Manager	15-Jul-15	Completed

75. Ninety four audit recommendations accepted by management in the prior year regarding matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
76. 30 recommendations are still being implemented and [insert number] have not been addressed or very limited progress has been made.
77. Further details on the status of these recommendations are provided in section 8, which summarises the detailed audit findings.

SECTION 3: SPECIFIC FOCUS AREAS

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

1. 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

2. R12 435 397 (99%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 12% of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the municipality. The root cause of the lack of effective prevention and detection are the review and monitor of compliance with applicable legislation.

Awards to persons in the service of the state

3. 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:

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 and/or councillors of the municipality/ municipal entity	None was identified through the audit procedures performed	None was identified through the audit procedures performed	None was identified through the audit procedure s performed	None was identified through the audit procedures performed	None was identified through the audit procedures performed	None was identified through the audit procedures performed	None was identified through the audit procedures performed
Awards to officials of other state institutions	One award valued at R 233 714	One	One	One	One		One

Procurement processes

4. The following findings on procurement processes result from the testing of 17 contracts with a total value of R13 255 801 and 52 of price quotations with a total value of R2 836 501.
5. Procurement process – Quotations
 - Eight (8) awards to the total value of R149 116 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
 - One (1) quotation to the total value of R84 590 were procured from suppliers who did not have tax clearance from SARS confirming that their tax matters are in order.
6. Procurement process - Competitive bidding
 - The preference point system was not applied in the procurement of one (1) competitive bid to the total value of R84 590.
 - Sufficient appropriate evidence could not be obtained that the preference point system was applied in the procurement of one (1) competitive bid to the total value of R84 590.
 - Sufficient appropriate evidence could not be obtained that public invitations for five (2) competitive bids to the value of R108 551 were advertised.
7. **Contract management**
 - One contract were amended or extended without approval by a delegated official. The total value of the extensions is R 6,971,273.88.

8. Internal control deficiencies

Internal control deficiencies

The accounting officer did not exercise adequate oversight responsibility over financial and performance reporting, compliance with laws and regulations as well as internal control which resulted in:

- Inadequate control to ensure that interests is declared
- SCM officials are not aware of the policies and procedures under all circumstances
- There is not an effective internal monitoring system to determine, on the basis of a retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved.
- The OPCAR plan to obtain clean administration is not fully implemented and monitored regularly.

SCM officials are not trained on the implementation of the SCM policy

PART B – SERVICE DELIVERY MATTERS

Water and sanitation

9. The audit included an assessment of specific service delivery aspects relevant to the municipality. For the financial year under review, we focused on the following:

Water infrastructure maintenance and water losses

10. The municipality does not have an approved policy in place that addresses routine maintenance of water infrastructure.
11. The municipality did not plan for the maintenance of water infrastructure by setting specific timeframes and targets in this regard.
12. Targets and timeframes for routine maintenance of water infrastructure were not achieved.
13. Maintenance of water infrastructure was not budgeted for by the municipality.

14. Conditional assessments were not done on water infrastructure to inform the routine water infrastructure maintenance plan and budget.
15. Appropriate steps to prevent over/under spending of the budget allocation for routine water infrastructure maintenance were not taken.

Water quality status

16. The municipality has achieved blue drop status for water quality but has no plan to maintain the water quality.
17. The municipality has achieved green drop status for waste water management but has no plan to maintain the quality of waste water.

Sanitation

18. 1 of 1 sanitation projects selected for audit have significant supply chain findings.

Roads infrastructure

19. The audit included an assessment of specific service delivery aspects relevant to roads infrastructure. For the financial year under review, we focused on the following:

Policy, planning and budgeting for routine maintenance and renewal (upgrade/improve/replace/rehabilitate) of roads infrastructure

20. The municipality does not have an approved policy in place for the planning, management and reporting of roads infrastructure.
21. Council approved a policy on road infrastructure; however the policy has not been implemented
22. The municipality does not have an approved RMP/priority list in place for the renewal and routine maintenance of roads infrastructure.
23. The municipality did not perform condition assessments for all roads infrastructure under their control to inform the RMP/Priority list.
24. The approved RMP/priority list does not provide for renewal and routine maintenance of all roads infrastructure allocated to the municipality
25. The municipality does not have an approved priority list of roads infrastructure renewal and routine maintenance projects.

PART C – FINANCIAL INDICATORS

26. 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.
27. 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.
28. 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

29. 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.

FINANCIAL VIABILITY INDICATORS			
		AS AT 30 JUNE 2015	AS AT 30 JUNE 2014
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	163.3 Days	139.4 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	180.7 Days	202.3 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	53.3%	50.7%
	• Amount of debtors impairment provision	R 11 262 211	R 12 707 201
	• Amount of accounts receivable	R 21,133,423	R 18 874 254
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	No
	• Amount of the surplus / (deficit) for the year	(R 4 970 394)	R 664 529
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current assets / (liability) position	(R 23 365 053)	(R 21 022 781)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R 272 723 067	R 277 892 990
3.4	Percentage of PPE and/or intangible assets impaired	0%	0%
	• Amount of PPE and intangible assets impairment provisions	R 0	R 0
3.5	Percentage of loan receivables (loans awarded) and/or investments impaired	0%	0%
	• Amount of loan receivables (loans awarded) and investments impairment provisions	R 0	R 0
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R 2 918 473	R 3 149 181
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R 10 865 402	R 11 925 957
4.3	Creditors as a percentage of cash and cash equivalents	287.7%	197%
	• Amount of creditors (accounts payable)	R 8 397 477	R 6 204 978
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R 2 918 473	R 3 149 182
4.4	Current liabilities as a percentage of net cash inflows for the year from operating activities	303.9%	255.5%
	• Amount of current liabilities	R 33 025 613	R 30 469 396
	• Amount of net cash inflows for the year from operating activities	R 10 865 402	R 11 925 957

OVERALL ASSESSMENT		
Overall the results of the above financial viability indicator evaluation is assessed as:		
	Yellow (Unfavourable indicators)	Yellow (Unfavourable indicators)
* <i>This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree to the financial statement amounts.</i>		

30. A Debtor-collection period that is significantly above the norm has been noted for the current and prior year, this leads to an impairment provision of more than 50% of accounts receivables as well as creditor-payment period that is significantly above that MFMA norm of 30 days.
31. A deficit of R 5 142 303 for the year has been noted, this is in contradiction with the policy of the municipality to break-even.

PART D – CONSULTANTS

USE OF CONSULTANTS

32. 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.
33. The table below shows the extent and nature of the municipality's use of consultants:

Type of consultancy services	Number of consultants	Expenditure
Financial reporting services	2	315 683
Preparation of performance information	0	-
IT related services	0	-
Other consultancy services		-

34. 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
Mubesco Africa	Assistance with the fixed asset register	R1 378 648	Lack of skills and vacancies	No	No	N/a	N/a
Nexia SAB&T	Assistance with the annual financial statements and prior year management reports.	304 283	Lack of skills	No	No	N/a	N/a

PART E – FRAUD

35. 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. Below is a summary of matters that indicate a risk of fraud.
36. Fraud allegations against senior officials are still under investigation.
37. As the Municipality did not undertake a risk assessment to assess any risks of fraud, a fraud prevention plan was not developed, as required by SCM regulation paragraph 41.

PART F – CONSEQUENCES MANAGEMENT

38. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated, and disciplinary steps taken based on the results of the investigations. Our audits included an assessment of the compliance with this legislation and the significant findings are provided below:

Inadequate measures to manage consequences

39. The following measures were not implemented to ensure that the environment is conducive for effective consequences management:

- A disciplinary board was not established to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor;
- The municipality did not adopt a system (policies) for investigations of allegations of misconduct; and disciplinary procedures.

Failure to implement consequences

40. The table below provides a summary of transgressions from the prior year which were either not investigated or instances where proper disciplinary steps were not taken after investigation.

Unauthorised/ irregular/ fruitless and wasteful expenditure

Finding	Number of instances	Value
Unauthorised expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.		R 34 257 152
Irregular expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.	All	R 2 050 099
Fruitless and wasteful expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.	All	R 193 618
UIFW expenditure investigation was not properly conducted.	All	R 21 540 452
Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised expenditure/ irregular and/or fruitless and wasteful expenditure.	All	R 21 540 452
Losses resulting from unauthorised expenditure/ irregular and/or fruitless and wasteful expenditure were not recovered from the person liable.	All	R 21 540 452
Unauthorised/ irregular and/or fruitless and wasteful expenditure was written-off as irrecoverable without a council approval	All	R 21 540 452
Unauthorised expenditure was approved by authorities that did not have the authority to approve such unauthorised expenditure		R 21 540 452
Irregular expenditure was condoned by authorities that did not have the authority to condone such irregular expenditure.	All	R 21 540 452

Transgressions identified in the current year

41. Unauthorised/ irregular/ fruitless and wasteful expenditure disclosed in note 36 to the financial statements must be investigated to determine if any official is liable for losses incurred as a result of the unauthorised/ irregular/ fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised/ irregular/ fruitless and wasteful expenditure and losses incurred as a result of the unauthorised/ irregular/ fruitless and wasteful expenditure must be recovered from the person liable.

PART G - MANAGEMENT OF GRANTS

Utilisation of conditional grants

42. The audit included an assessment of the effectiveness of the utilisation of the following conditional grants received:

- National Electrification Programme
- National FMG grant
- National MIG Grant
- National MSIG Grant
- National Extended Public Works Program (EPWP)
- Provincial Housing Grant
- Provincial Library Grant
- Regional Bulk Infrastructure Grant

43. No audit findings were noted on the effectiveness of the utilisation of conditional grants received.

PART H - PUBLIC PARTICIPATION

44. Sub-outcome 2 as per MTSF chapter 9 aims at addressing poor communication with communities and weak and ineffective platforms for public participation. The anticipated impact through this sub-outcome is to strengthen the capacity of municipalities, especially at ward level, for deliberate public participation through improved consultation, communication and feedback mechanisms to citizens to participate in decision-making and be kept informed of key issues and developments.

45. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act (MSA) relevant to community participation. The following findings were identified:

- The municipal council did not amend its integrated development plan in accordance with the prescribed process of consultation with the public as required by MSA sec 34(b) and Municipal planning and performance management regulations 3.

SECTION 4: EMERGING RISKS

Accounting, performance management / reporting and compliance matters

46. In July 2014, the Minister of Finance approved the implementation of the following Standards of GRAP for application by municipalities and municipal entities from 1 April 2015:

- GRAP 105 *Transfers of functions between entities under common control*
- GRAP 106 *Transfers of functions between entities not under common control*
- GRAP 107 *Mergers*

The intention of this effective date means that these standards will only become effective for financial years commencing on or after this date, i.e. on 1 July 2015.

47. The ASB has issued the following additional Standards and Interpretations of GRAP for which effective dates have not yet been gazetted by the Minister of Finance:

- GRAP 18 *Segment reporting*
- GRAP 20 *Related party disclosures*
- GRAP 32 *Service concession arrangements: Grantor*
- GRAP 108 *Statutory receivables*
- GRAP 109 *Accounting by principals and agents*
- IGRAP 17 *Service concession arrangements where a grantor controls a significant residual interest in an asset*

Municipalities and municipal entities may use these standards to develop an accounting policy or to disclose information in its financial statements, except for GRAP 18 *Segment reporting*. GRAP 18 may not be applied by municipalities and municipal entities as it is anticipated that the effective date of this standard will be linked to the implementation of the Standard Chart of Accounts project initiated by the National Treasury.

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) for local government

The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. The mSCOA will take effect on 1 July 2017, thus impacting the 2017-18 financial statements and audits of all local government auditees. The piloting of mSCOA has already commenced in 19 local, two district and eight metropolitan municipalities, phased over the 2015-16 and 2016-17 financial years. Piloting is done in close cooperation with the National Treasury's mSCOA project team and the provincial treasuries.

mSCOA is a significant project which, by its very nature and purpose, poses various risks to local government, the more important being:

- Inability of some of the current system vendors to accommodate the technical specifications set in mSCOA, which could result in significant changes having to be effected to current systems and/or the implementation of new systems
- Municipalities constrained by a scarcity of capacity and skills to manage the changes required by the mSCOA classification framework
- Funding constraints related to the implementation of the mSCOA

The National Treasury is closely involved in ensuring that municipalities and their entities will comply with the mSCOA requirements as contained in the government gazette of 22 April 2014. For most of the municipalities this will, however, mean having to adopt another financial system, or to re-implement a current IT system, or to subject it to major upgrades. These changes expose the municipalities to a variety of risks, which should be closely managed to ensure the completeness, accuracy and validity of the information captured, processed and transmitted through the IT systems.

Each municipality is ultimately accountable for ensuring that it has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA).

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

1. 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.
 - Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation.

SECTION 6: CONCLUSION

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

Yours faithfully

Dean Contell
Business Executive: Northern Cape

30 November 2015

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Municipal Manager
CFO
Head of internal audit unit

SECTION 8: 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		

Contingent liabilities

123	DISCL: Landfill site permits <EX.12>			✓				✓		3 years	In Progress
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Employee costs

91	EMP: Non-compliance with the subsistence and travel policy <EX.2>				✓			✓		n/a	Not applicable
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92	COMPL: Allowances <EX.40>			✓				✓		3 years	In progress
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93	EMP: Approval of overtime <EX.41>				✓			✓		3 years	In Progress
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90	EMP: Basic Conditions of Employment Act <EX.42>			✓				✓		3 years	In Progress
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95	EMP: No employment contracts <EX.54>				✓			✓		3 years	In progress
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INTERNAL CONTROLS											
100	INTCNTRL: Policies and procedures <Ex.7>				✓			✓		3 years	In progress
101	INTCNTRL: Internal control weaknesses <Ex.8>				✓			✓		3 years	In progress
103	INTCNTRL: Updated the organogram <Ex.11>				✓			✓		3 years	In progress
104	INTCNTRL: Register not updated <Ex.22>				✓			✓		1 year	In progress
105	INTCNTRL: Minutes not approved <EX.23>				✓			✓		2 years	In progress
107	PROC: Fraud prevention plan <Ex.30>				✓			✓		2 years	In progress
108	INTCNTRL: Completeness of journals <Ex.31>				✓			✓		3 years	In progress
111	INTCNTRL: Business conducted with deregistered companies <Ex.59>				✓			✓		1 year	Not addressed
112	INTCNTRL: Journal discrepancies <Ex.60>				✓			✓		1 year	Not addressed
99	PROC: Control deficiencies <Ex.66>				✓			✓		1 year	Not addressed
114	REC: Discontinuance of Services <Ex.68>				✓			✓		3 years	In progress
117	INTCNTRL: Road maintenance <Ex.69>				✓			✓		2 years	In progress



118	INTCNTRL: Non-compliance with internal policies <Ex.73>				✓			✓		1 year	In progress
120	INTCNTRL: Standard Bank Signatories <Ex.78>				✓			✓		1 year	In progress
121	INTCNTRL: Water Infrastructure Maintenance <Ex.86>				✓			✓		1 year	In progress
54	INTCNTRL: Electricity losses <Ex.90>			✓			✓			3 year	In progress
COMPLIANCE											
43	COMPL: Internal Audit function not functional <Ex.3>			✓			✓			3 years	In progress
45	COMPL: Audit committee not functional <Ex.4>			✓			✓			3 years	In progress
47	EXP: Irregular expenditure, Fruitless and wasteful expenditure <Ex.17>			✓			✓			3 years	In progress
49	COMPL: Suppliers not paid within 30days <EX.33>			✓			✓			3 years	In progress
125	PPE: Assets under insured <Ex.43>			✓			✓			3 years	In progress
51	COMPL: MFMA section 32 recovery <Ex.49>			✓			✓			3 years	In progress
122	COMPL: Service delivery <Ex.83>				✓			✓		1 year	In progress
52	COMPL: Human Resource Compliance <Ex.85>			✓			✓			1 year	In progress



126	COMPL: Salary scales <Ex.47>			✓			✓			1 year	In progress
PROCUREMENT and SUPPLY CHAIN MANAGEMENT											
68	PROC: Tax clearance <Ex.9>			✓			✓			3 years	In progress
130	PROC: Lists of accredited prospective providers <Ex.13>			✓			✓			3 years	In progress
57	EXP: ASLA contract not renewed after 3 years <Ex.15>			✓			✓			2 year	In progress
59	PROC: Persons not declaring their interests <Ex.27>			✓			✓			2 years	In progress
64	PROC: Three quotations not obtained <EX.34>			✓			✓			3 years	In progress
55	PROC: Committees <Ex.63>			✓			✓			1 year	In progress
128	PROC: Quotations advertised <Ex.70>			✓			✓			3 years	In progress
62	PROC: Preference point system <Ex.76>			✓			✓			3 years	In progress
132	PROC: Supplier Chain Management Policy <Ex.77>			✓			✓			3 years	In progress
66	PROC: Deviation register deficiencies <Ex.79>			✓			✓			3 years	In progress



FINANCIAL STATEMENT AND DISCLOSURE											
160	DISCL: Casting of the Financial Statements <Ex.21>	✓						✓		3 years	In progress
158	DISCL: Unauthorised expenditure disclosed <Ex.29>	✓						✓		3 years	In progress
72	DISCL: Fruitless and wasteful expenditure <Ex.38>	✓					✓			3 years	In progress
70	DISCL: Cash flow statement <Ex.64>	✓					✓			3 years	In progress
74	DISCL: Irregular expenditure discrepancies <Ex.80>			✓			✓			3 year	In progress
84	ACC: Prior year audit report <Ex.88>	✓					✓			3 years	In progress
Immovable assets											
137	PPE: Additions <Ex.37>	✓						✓		3 years	In progress
135	PPE: Review of fixed assets <Ex.48>	✓						✓		3 years	In progress
77	PPE: Fixed asset register inconsistencies <Ex.50>	✓					✓			3 years	In progress
82	PPE: Infrastructure not unbundled <Ex.51>	✓					✓			3 years	In progress
139	PPE: Incomplete asset register <Ex.52>				✓			✓		3 years	In progress
145	PPE: Physical Location <Ex.53>				✓			✓		3 years	In progress
141	PPE: Incorrect journal general ledger accounts <Ex.57>	✓						✓		3 years	In progress



143	PPE: General ledger accounts <Ex.58>	✓					✓			1 year	In progress
Operating expenditure											
97	EXP: Input VAT Discrepancies <EX.32>			✓			✓			3 years	In progress
Predetermined objectives											
86	AOPO: Non-submission of Annual Performance Report <Ex.1>		✓				✓			3 years	In progress
87	AOPO: No performance management system (PMS) established <Ex.6>		✓				✓			3 years	In progress
89	AOPO: 2014/15 SDBIP not approved <EX.28>			✓			✓			1 year	Not addressed
Payable											
148	CRED: Supplier balances <Ex.67>	✓					✓			3 years	In progress
Receivables											
149	REC: Indigent consumer contracts <Ex.26>				✓		✓			3 years	In progress
152	REC: No bad debt policy <Ex.72>				✓		✓			3 years	In progress
153	REC: Long-term debtor Agreements <Ex.74>				✓		✓			3 years	In progress
155	REC: Receivables age analysis <Ex.82>	✓					✓			1 year	In progress
Revenue											
157	REV: Incorrect Classification <EX.65>	✓					✓			1 year	In progress

