SECTION 8: SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
38	Audit Committee did not review and report on compliance with SCM regulations.			✓				✓			[In progress/Not addressed]
42	Local government procedures			✓							[In progress/Not addressed]
Employee costs											
23	EMP: Salary scales				✓			✓			[In progress/Not addressed]
53	Employee Related Costs: No Employment contract and Performance agreement for a manager directly accountable to municipal manager				✓			✓			[In progress/Not addressed]
General IT controls											
23	Information technology governance- Service level agreements not monitored by management				✓			✓			[In progress/Not addressed]
29	Information technology service continuity- No approved backup and retention strategy				✓			✓			[In progress/Not addressed]
28	Program change management- No formal change request documentation completed				✓			✓			[In progress/Not addressed]
28	Program change management- No formally documented and approved processes in place to manage upgrades/updates made to all financi				✓			✓			[In progress/Not addressed]
29	Program change management-no evidence that vendors access is monitored				✓			✓			[In progress/Not addressed]

24	Security management - No formally approved it security policy				✓			✓			[In progress/Not addressed]
27	User access control- No processes in place for independent reviews of the activities of the person responsible for granting user				✓			✓			[In progress/Not addressed]
25	User access control-No formal access request documentation being completed for registering users, changing access rights, password				✓			✓			[In progress/Not addressed]
25	User access control-No formally documented and approved process that is used to manage the process of granting users access to a				✓			✓			[In progress/Not addressed]
26	User access control-No processes in place to ensure that users' access and privileges on all financial systems are periodical				✓			✓			[In progress/Not addressed]
Internal Control											
32	Business conducted with deregistered companies				✓			✓			[In progress/Not addressed]
30	Inadequate controls to prevent electricity loses				✓			✓			[In progress/Not addressed]
33	Internal Control: Entity Level Controls				✓			✓			[In progress/Not addressed]
39	Non-compliance: Roles and responsibilities of audit committee and internal audit unit			✓				✓			[In progress/Not addressed]
31	Policies and procedures				✓			✓			[In progress/Not addressed]
64	Procurement: No measures to monitor contract performance			✓				✓			[In progress/Not addressed]
32	Various policies not approved and others not reviewed during the year				✓			✓			[In progress/Not addressed]
Compliance											
36	Compliance: No reports relating to unauthorised,irregular, fruitless and wasteful expenditure			✓				✓			[In progress/Not addressed]
36	No risk assessment performed during the year			✓				✓			[In progress/Not addressed]
41	Non compliance: Audit committee meetings and submission of audit report on performance management			✓				✓			[In progress/Not addressed]

40	Non-compliance: No audit committee charter and evidence of appointment of audit committee by the council			✓				✓			[In progress/Not addressed]
5	Non-compliance- Section 62 (1)(d)-MFMA-Unauthorised, irregular, fruitless and wasteful expenditure			✓			✓				[In progress/Not addressed]
42	Roll over of Library Services Grant			✓				✓			[In progress/Not addressed]
Compliance											
65	Road maintenance					✓					[In progress/Not addressed]
66	Water Infrastructure Maintenance					✓					[In progress/Not addressed]
Procurement											
8	Procurement - The preference point system was not applied in the procurement of goods and services above R30 000	✓					✓				[In progress/Not addressed]
6	Procurement: Goods and services not procured through competitive bidding	✓					✓				[In progress/Not addressed]
7	Procurement: Non-compliance with SCM Regulations	✓					✓				[In progress/Not addressed]
Immovable assets											
50	PPE-Differences between detailed WIP schedule and AFS/Register	✓						✓			[In progress/Not addressed]
12	PPE: Asset which could not be traced to the asset register	✓					✓				[In progress/Not addressed]
46	PPE: Assets incorrectly classified as disposed	✓						✓			[In progress/Not addressed]
48	PPE: Assets not recorded in the asset register	✓						✓			[In progress/Not addressed]
49	PPE: Description as per asset register differs from the actual asset verified	✓						✓			[In progress/Not addressed]
16	PPE: Land and buildings not in the name of the municipality were recorded in the asset register	✓					✓				[In progress/Not addressed]
14	PPE: No sufficient evidence to confirm if assets were properly assessed for impairment	✓					✓				[In progress/Not addressed]
19	PPE: Prior period error adjustments	✓					✓				[In progress/Not addressed]

9	PPE: Property plant and equipment not physically verified	✓					✓				[In progress/Not addressed]
43	PPE: Control findings -Fixed asset register				✓			✓			[In progress/Not addressed]
45	PPE: Differences between the asset register and AFS										[In progress/Not addressed]
Investment property											
51	Investment property: Assets which could not be physically verified	✓						✓			[In progress/Not addressed]
18	Investment property: Incomplete investment register	✓					✓				[In progress/Not addressed]
Movable assets											
52	PPE: Assets not adequately insured				✓			✓			[In progress/Not addressed]
52	PPE: Incomplete lease asset register.				✓			✓			[In progress/Not addressed]
Operating expenditure											
56	Audit fees: Incorrect journal entry	✓						✓			[In progress/Not addressed]
57	Expenditure: Payments not made within 30 days of invoice	✓						✓			[In progress/Not addressed]
Revenue											
61	Revenue:Understatement of interest on outstanding debtors	✓						✓			[In progress/Not addressed]
Payable											
58	Creditors: Sub ledger does not agree to the general ledger	✓						✓			[In progress/Not addressed]
58	Library Services Grant not backed by cash reserves			✓				✓			[In progress/Not addressed]
59	Payable : Prior period error disclosure			✓				✓			[In progress/Not addressed
Predetermined objectives											
21	AOPO – IDP,SDBIP and Annual Performance Report		✓				✓				[In progress/Not addressed]
20	No performance management system (PMS) established		✓				✓				[In progress/Not addressed]
Provisions											

60	Landfill site permits			✓				✓			[In progress/Not addressed]
Taxes											
62	Value added tax: Misstatement of input vat accrual account	✓						✓			[In progress/Not addressed]
63	Value Added Tax: Output vat reconciling items not explained	✓						✓			[In progress/Not addressed]

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Compliance

1. EX.3 - Non-compliance- Section 62 (1)(d)-MFMA-Unauthorised, irregular, fruitless and wasteful expenditure

Audit finding

Section 62(1) (d) 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.

Nature

The municipality incurred the following unauthorised, irregular and fruitless and wasteful expenditure in the period under review

Description	2016
Unauthorised Expenditure	9 238 065
Irregular Expenditure	3 288 414
Fruitless and wasteful expenditure	209 139

The following non-compliance has been noted pertaining to the above amounts:

(a) Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure.

Furthermore the management did not investigate all instances of unauthorised, irregular and fruitless and wasteful expenditure to determine if ever, is there any person liable for such expenditure.

Cause

No effective controls were implemented by management to prevent the municipality from incurring unauthorised, irregular and fruitless and wasteful expenditure.

Impact

This resulted in non-compliance with Section 62(1)(d) of 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 implement an effective control environment or system that will prevent the municipality from incurring unauthorised, irregular and fruitless and wasteful expenditure.

Management response

Agree with finding. Section 32 Committee was established but were not functional for 2015/2016.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion

Management comments noted. The non-compliance has been reported.

Procurement and contract management

2. EX.74: Procurement: Goods and services not procured through competitive bidding

Audit finding

In terms of paragraph 12(1)(d) of the municipal SCM regulations, a competitive bidding process should be followed for
procurements above a transaction value of R200 000 (VAT Included) and
the procurement of long term contracts
Paragraph 36(1)(a) of the municipal SCM regulations states that the accounting officer
may dispense with the official procurement processes established by this policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
(i) in an emergency;
(ii) if such goods or services are produced or available from a single provider only;
(iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
(iv) acquisition of animals for zoos and/or nature and game reserves; or
(v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes
The following awards did not go through a competitive bidding process as required by paragraph 12(1)(d) of the Municipal SCM regulations. No evidence has been provided that the award met requirements of paragraph 36(1).

No	Supplier	Current year payments	Amount disclosed as irregular expenditure
1	Marsh Pty Ltd	246 602.92	Yes
2	Viking Pony Africa Pumps Trading As Tricom Africa	298 938.78	Yes
3	Lyners Consulting Engineers And Project Managers	2 379 307.77	Yes
4	AslaDevco Pty Ltd	434 043.79	No
	Total	**3 358 893.26**	

Cause
The management did not put controls in place to ensure that the procurement process is fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management.

Impact
This result in non-compliance with Municipal SCM regulations and understatement of irregular expenditure for the Asla Devco amount not disclosed.

Internal control deficiency

Financial and performance management: Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

The municipality must ensure that the procurement process is fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management.
Management should also ensure that all transactions above R200 000.00 (Including VAT) which are procured without competitive bid procedures are disclosed in the notes to the annual financial statements. Necessary adjustments should be made to correct the misstatements identified.
Management should investigate the whole population and ensure that after adjustments the total population is now free from misstatements.

Management response

Management agrees with finding except for Alsa Devco. The tender was awarded by using other municipality's tender processes.

Name: S Myburgh
Position: CFO
Date: 9 November 2016

Auditor's conclusion

Management comments noted. The matter will now be reported only as non-compliance as an adjustment of R434 043 has not been passed to correct the misstatement identified.

3. EX.75: Procurement: Non-compliance with SCM Regulations

Audit finding

SCM regulation 16 (a) states that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers who are not listed, such providers must meet the listing criteria in the supply chain management policy regulation 14 (1) (b) and (c).
Section 36(2) of the Municipal SCM regulation states that 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.

Section 13 (c) of the Municipal SCM regulations require the winning bidder to submit a declaration of interest.

In terms of regulation 14 of the Preferential Procurement Regulations, no tender may be awarded to any person whose tax matters have not been declared by the South African Revenue Service to be in order.

In terms of SCM regulations 43(2) & (3), before making an award to a person, a municipality must first check with SARS whether that person's tax matters are in order.

We have noted that the following awards were made contrary to SCM Regulations mainly :
a) The winning provider did not submit an original/valid certified-copy of tax clearance certificate and;
b) Winning provider did not submit a declaration of interest

No	Supplier	Current year payments	Winning provider submitted a declaration of interest	The winning provider submitted an original tax clearance certificate
1	Bayteck Fire Cc	12 277.80	No	Not Applicable
2	Loxton Hersteldienste	15 733.88	No	Not Applicable
3	Waltons	26 931.99	No	Not Applicable
4	Workwear Depot (Pty) Ltd	19 917.44	No	Not Applicable
5	Williston Vleiskoop Brand	12 057.56	No	Not Applicable
6	Roy Steele & Associates C	28 700.00	No	Not Applicable
7	Outeniqua Plastics	109 440.00	No	Yes
8	Strako Solar	38 646.00	No	Yes
9	Fraserburg Koop Mun36	37 927.85	No	No
10	Hardie Construction	59 900.00	No	Yes
11	Halsted & Co (Pty)Ltd	37 923.24	No	Yes
12	Nexia SAB & T	67 489.14	No	Yes
13	Roadspan Surfaces (Pty) L	108 037.80	No	Yes
14	Starplex 636 Cc	45 144.00	No	No
15	Exelcom	50 219.28	No	Yes
16	Jwl Motors	30 180.27	No	No
17	Aqua-Loc Sa	38 400.00	No	Yes

The above awards results in irregular expenditure which has not been disclosed in the financial statements.
Note: All the above awards were not advertised for at least seven (7) days on the website and official notice board of the municipality as required by SCM regulation 18(a).

Cause
Management did not put adequate controls to ensure that irregular expenditure is avoided.

Impact
This resulted in an understatement of irregular expenditure and non-compliance with MFMA.

Internal control deficiency
Financial and performance management: Management did not review and monitor compliance with applicable laws and regulations.

Recommendation
Management must ensure that the municipality abides by the laws and regulations issued by National Treasury, thereby ensuring that a consistent, fair, equitable, transparent, competitive and cost effective bidding process is carried out.
Management should only approve the transaction following inspection and confirmation of the adherence to the procurement process.

All awards that were made during the year under review should be investigated to confirm that a proper procurement process was followed.

Evidence should be provided to show that the irregular expenditure resulting from the above transaction has been recorded to the irregular expenditure register of the municipality and reported in line with relevant prescripts.

Management response

a) Agree with finding for the yellow coloured items. Disagree with all other in the schedule.
b) Disagree with finding. All suppliers did complete a declaration of interest.
c) Disagree with finding. Notices for all amounts exceeding R 30 000.00 was put on the notice boards of the Municipality. Agree that it was not advertised on website.

Name: S Myburgh
Position: CFO
Date: 9 November 2016

Auditor's conclusion
The finding still remains unresolved and the non-compliance has been resolved. Management has not submitted evidence to support their response.

4. EX.76: Procurement - The preference point system was not applied in the procurement of goods and services above R30 000

Audit finding
In terms of section 2(a) of the Preferential Procurement Policy Framework Act an organ of state must determine its preferential procurement policy and a preference point system must be followed.

There is no evidence that the preference point system was applied in the following procurement of goods and services above R30 000 through written price quotations:

No	Supplier	Current year payments	Preference point system applied
1	AQUA - LOC SA	38 400.00	No
2	LOXTON HERSTELDIENSTE	56 881.79	No
3	OUTENIQUA PLASTICS	96 000.00	No
4	HALSTED & COMPANY (Pty) LTD	54 471.00	No
5	STARPLEX 636 cc	44 100.00	No
6	ROADSPAN	47 385.00	No
7	EXCELCOM SSE	44 052.00	No

No	Supplier	Current year payments	Preference point system applied
8	Strako Solar	33 900.00	No
9	HARDIE KONSTRUKSIE	52 543.85	No

This result in non-compliance with the Preferential Procurement Policy Framework Act. The amounts has been disclosed in the financial statements as irregular expenditure.

Cause
Management did not put adequate controls in place to detect and avoid non compliance with the Preferential Procurement Policy Framework Act.

Impact
This results in non-compliance with the Preferential Procurement Policy Framework Act.

Internal control deficiency
Financial and performance management: Review and monitor compliance with applicable laws and regulations.
Inadequate controls to ensure that all quotations are evaluated in accordance with the preference point system as prescribed by the PPPF Act.

Recommendation
SCM policies and procedures must specifically state the application of preferences system as a criteria for evaluating quotations above a transaction value of R30 000 (Vat included). The criteria must form part of the request for quotations. Evidence showing how the preference point system was applied should be provided for audit purposes. All transactions made with suppliers without applying the preference point system should be disclosed as irregular expenditure in the financial statements.

Management response
Agree with finding. Management will ensure that preference points system as per the PPPFA will be applied for goods and services exceeding R 30 000.00

Name: S Myburgh
Position: CFO
Date: 9 November 2016

Auditor's conclusion
Management comments noted. The finding has been reported as non-compliance as the irregular expenditure has been disclosed in the financial statements.

Immovable assets

5. EX.33 - PPE: Property plant and equipment not physically verified

Audit finding

MFMA section 62(1)(c)(i) 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.

1. During physical verification we could not be able to verify the following assets.

No	FAR ID	Location	Description	LATITUDE	Category	Carrying Amount
1	1996	Fraserburg	Fraserburg Main Substation - MV Switch 01 Fraser Str North	-31.91605	Electricity	206,354.87
2	1997	Fraserburg	Fraserburg Main Substation - MV Switch 02 SchwalkwykStr	-31.91605	Electricity	206,354.87
3	1998	Fraserbu	Fraserburg Main Substation - MV Switch 03 Fraser	-	Electricity	206,354

No	FAR ID	Location	Description	LATITUDE	Category	Carrying Amount
		rg	Str South	31.91605		.87
4	1999	Fraserburg	Fraserburg Main Substation - MV Switch 04 Spare	-31.91605	Electricity	206,354.87
5	2000	Fraserburg	Fraserburg Main Substation - MV Switch 05 Transformer No 1	-31.91605	Electricity	206,354.87
6	2182.2	Fraserburg	New Development Road 7 Asphalt Structure	-31.90518	Roads	351,828.12
7	164011	Fraserburg	Fraserburg WWTW Ponds with HDPE lining		Waste water	5,657,272.65
8	682	Sutherland	Sutherland Water Reticulation Pipeline WRP-9	-32.39341	Water	55,239.63
9	923	Sutherland	Truck		Vehicles	63,198.05
Total						**7,159,312.80**

2. The following assets could not be physically verified due to insufficient information as per the asset register.

No	FAR ID	Location	Description	ERF No	Category	Carrying Amount
1	LB17		VACANT	248/00000	Land	50,600.00
2	LB49		VACANT	522/00000	Land	81,700.00
3	LB56		VACANT	608/00000	Land	47,900.00
4	LB110		ROAD	761/00000	Land	559,900.00
5	LB128		VACANT	898/00000	Land	70,000.00
6	LB166		FARM	355/00000	Land	1,841,500.00
7	LB167		FARM	435/00000	Land	194,300.00
8	LB169		VACANT	4/00000	Land	202,500.00
9	LB184		VACANT	451/00000	Land	120,000.00
10	LB189		VACANT	456/00000	Land	101,500.00
11	LB195		VACANT	469/00000	Land	120,000.00
12	LB200		VACANT	479/00000	Land	101,500.00
13	LB283		VACANT	488/00000	Land	215,000.00
14	LB154			Land	Land	8,292,500.00
15	LB155			Land	Land	3,663,500.00
16	LB156			Land	Land	3,045,600.00
17	LB157			Land	Land	4,407,100.00
18	LB158			Land	Land	1,903,900.00
19	LB159			Land	Land	7,060,200.00
20	LB160			Land	Land	2,633,800.00
21	LB18		ARTS & CRAFT CENTRE	265/00000	Buildings	376,750.57
23	LB115		DWELLING	800/00000	Buildings	111,829.14
24	LB168		COMMONAGE	1/00000	Buildings	1,570,152.86
25	LB172		HOSPITAL	41/00000	Buildings	1,734,248.67
26	LB191		DWELLING	461/00000	Buildings	36,778.03
27	LB238		DWELLING	562/00000	Buildings	60,339.89
28	LB243		DWELLING	752/00000	Buildings	32,173.30
29	LB304		DWELLING	693/00000	Buildings	26,910.76
						38,662,183.22

Cause
Inadequate controls in place to ensure that all assets owned by the municipality are physically verified.

Impact
This could result in an overstatement of assets by a projected amount of R55 410 584.

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 controls in place to ensure that all assets recorded in the fixed asset register can be physically verified.

Management response
Management partially agrees with finding. Please refer to screenshots from GIS/Asset registers/photos.

ID 1996,1997,1998,1999 & 2000 management agrees that the mention assets should be removed and will adjust FAR 2016 and AFS 2016 after agreement with auditors.

Truck 923 is in Loxton. Management is of the option that the cost to drive more than 300km to verify one item will be fruitless. We asked the auditors if we can supply a photo to be take of the truck with number plates will be sufficient, but the auditors refuse to accept a photo.
1. Management does not agree with finding, as all assets could be verified except LB49 & LB56. Waiting for valuators response on the following two.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comments noted. The finding has not been resolved due to the following:
1) Table 1-Assets FAR ID 1996,1997,1998,1999 and 2000-No adjustments allowed on the fixed asset register. The finding has been reported as the substation switches reported did not exist at year end. These substation switches were replaced with new ones but were not derecognised and removed from the asset register.
2) Assets FAR ID 2182.2, 682 -Staff provided by management to assist during physical verification could not locate the asset and therefore we could not verify existence of the assets
3) Assets FAR ID 164011-Staff provided by management to assist during physical verification could not locate the asset and therefore we could not verify existence of the assets
The coordinates provided on the management responses do not agree with the coordinates per the asset register.
3) Asset FAR 923-Alternative procedures of verifying the pictures have been carried out. We however could not verify the condition of the Truck. The finding will still be reported to enable a follow up to be performed in the next financial period.
4) Table 2-All assets could not be verified as insufficient information is recorded on the fixed asset register. Staff provided by management to assist during physical verification could not locate the assets and therefore we could not verify existence of the assets.
No adjustments will be allowed as the findings are based on a sample selected. Management will have to ensure that all assets recorded in the fixed asset register exist at year end. The matter has been reported in the Audit Report.

6. EX.34: PPE: Asset which could not be traced to the asset register

Audit finding

Section 63 of the MFMA states that, the accounting officer of the municipality 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.

The following assets which were selected during our physical verification exercise could not be traced to the asset register.

No	Location	Category	Bar code	Serial number	Description
1	Freserburg	Electricity	none	IVZA10001BCR/C01	Main Substation - MV Switch: Freserburg workshop
2	Freserburg	Electricity	none	IVZA10001BCR/C03	Main Substation - MV Switch: Freserburg workshop
3	Freserburg	Electricity	none	IVZA10001BCR/C04	Main Substation - MV Switch: Freserburg workshop
4	Freserburg	Office equipment	1987	none	Printer
5	Sutherland	Vehicles	1192	none	Tractor trailer
6	Sutherland	Land	none	none	Sutherland fill site
7	Sutherland	Land	none	none	Sutherland cemetery
8	Willistone	Land	none	none	2 cemeteries in Willistone
9	Sutherland	Building	none	none	Karoo Hoogland Testing station building
10	Sutherland	Office equipment	2095	none	Printer
11	Sutherland	Air condition	2027	none	Air condition
12	Sutherland	Water	none	none	Workshop wind pump
13	Sutherland	Building	none	none	Sutherland workshop building
14	Sutherland	Plant equipment	1945	none	Generator: workshop
15	Sutherland	Office equipment	2096	none	Printer
16	Sutherland	Building	none	none	Library building

This may result in understatement of property, plant and equipment.

Cause

Management did not put controls to ensure that during municipality asset verification all assets are identified and recorded.

Impact

This may result in understatement of property, plant and equipment.

Internal control deficiency

Finance 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 all assets are recorded in the asset register.

Management response
Management does not agree with finding. Please refer to comment below:

No	Location	Category	Bar code	Serial number	Description	
1	Freserburg	Electricity	none	IVZA10001BCR/C01	Main Substation - MV Switch: Freserburg workshop	GIS ID is MVSF01
2	Freserburg	Electricity	none	IVZA10001BCR/C03	Main Substation - MV Switch: Freserburg workshop	GIS ID is MVSF01
3	Freserburg	Electricity	none	IVZA10001BCR/C04	Main Substation - MV Switch: Freserburg workshop	GIS ID is MVSF01
4	Freserburg	Office equipment	1987	none	Printer	It was removed the previous year as it was broken already then.
5	Sutherland	Vehicles	1192	none	Tractor trailer	It was removed the previous year as it was broken already then.
6	Sutherland	Land	none	none	Sutherland fill site	It is part of erf 1.
7	Sutherland	Land	none	none	Sutherland cemetery	It is part of erf 1. Williston as well.
8	Williston e	Land	none	none	2 cemeteries in Willistone	It is part of erf 255.
9	Sutherland	Building	none	none	Karoo Hoogland Testing station building	Namakwa Districts Municipality
10	Sutherland	Office equipment	2095	none	Printer	On the Finance Lease Register
11	Sutherland	Air condition	2027	none	Air condition	Aircorn is one of duplicates with nr 2021
12	Sutherland	Water	none	none	Workshop wind pump	Auditors should give GPS location
13	Sutherland	Building	none	none	Sutherland workshop building	Namakwa Distriks Municipality
14	Sutherland	Plant equipment	1945	none	Generator: workshop	It was broken the previous year and removed 13/14
15	Sutherland	Office equipment	2096	none	Printer	On the Finance

No	Location	Category	Bar code	Serial number	Description	
						Lease Register
16	Sutherland	Building	none	none	Library building	Erf 209 on assets register

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comments noted. However the finding still remains unresolved due to the following:
1) MV Switches with serial numbers IVZA10001BCR/C01,IVZA10001BCR/C03 and IVZA10001BCR/C04 pertain to new switches that have not been recorded in the fixed asset register. The switches indicated in the management responses are just old MV switches which were replaced and not derecognised.

2) Bar code 1987 is now resolved as it was traced to the lease asset register. Management response that the asset was removed the previous year as it was broken is not accurate.

3) Bar code 1192 was physically verified whilst in use. The asset is in good condition and not broken as indicated in the management response. Management response is therefore not valid.

4) Sutherland landfill site-

5) Sutherland and 2 Williston cemeteries could not be identified on the asset register

6) Karoo Hoogland testing station building-No evidence submitted by management to indicate that the testing station building is owned by Namakwa District Municipality.

7) Bar code 2095-Traced to leased asset register

8) Bar code 2027-Bar code incorrectly recorded in the asset register. However asset is the same. Air con now traced to asset register.

9) Sutherland workshop building-No evidence submitted by management to indicate that the workshop building is owned by Namakwa District Municipality.
10) Bar code-Generator was physically verified and in good working order-Management response that it was broken and removed in 13/14 financial period is not accurate.

11) Bar code 2096-Traced to leased asset register

12) Library Building-Now traced to the asset register

7. EX.41 - PPE: No sufficient evidence to confirm if assets were properly assessed for impairment

Audit finding
MFMA section 62(1)(c)(i) 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.

1. The municipality did not assess impairment on the following pressure reservoir as it is no longer in use for a significant period of time.

No	Code	Location	Description	Longitude	Latitude	Carrying amount
1	446	Fraserburg	Pressure reservoir Fraserburg& stand	-31.9164	21.5071	1,417,018.34

2. The following assets were not assessed for impairment since they are no longer in use and in a bad condition.

No	Code	Location	Description	Category	Latitude	Carrying amount
1	927	Sutherland	Sewerage septic tank tractor	Vehicles		71,402.78
2	LB252	Willistone	Park	Buildings		45,449.28
3	LB270	Willistone	Club house	Buildings		107,643.02
Total						**224,495.08**

Cause
Management did not put controls to ensure that during municipality asset verification all assets are identified and assessed for possible impairment.

Impact
This may result in an overstatement of assets carrying value at year end and understatement of impairment loss.

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 indicators of impairment are appropriately assessed at year end.

Management response
1. Conclusion from statements below:

GRAP 26 defines impairment as
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.

We believe that this asset still have the same service potential that it had prior to the commissioning of new infrastructure and therefore it does not require impairment, but rather be derecognized/disposed.

GRAP17.68 states the following

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production

However, if management agrees with this finding and decides that the assets do require impairment, we will carry out the necessary adjustments on the FAR after management provides the impairment amount.

2. The tractor is broken. It was used then but will cost the municipality too much to repair. This action should only be taken in 2016/2017 as it was still in use 2015/2016.The asset will be put on tender in 2016/2017. The Park is an old playpark and can be impaired. There is a toilet which is not being use. The club house is a building that is neglected and can be impaired. Management can adjust FAR 2016 to include these impairments.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comments noted. However, the matter will be reported in the audit report. No adjustments will be allowed as the finding is based on a sample selected. Management will have to re-examine the total population and ensure that all assets with indicators of impairment are impaired. The matter will be followed up in the 2016-17 financial year.

8. EX.49 - PPE: Land and buildings not in the name of the municipality were recorded in the asset register

Audit finding
The Municipal Finance Management Act, section 63, states:

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

The following assets which are recorded in the asset register could not be traced to the deed search results of all properties in the name of the municipality:

No	ERF Number	Type	Suburb	Carrying value
1	2/00000	Improved	FRASERBURG	3,385,600.00
2	58/00000	Improved	SUTHERLAND	110,400.00
3	59/00000	Improved	SUTHERLAND	331,200.00
4	60/00000	Improved	SUTHERLAND	273,056.00
5	431/00000	Vacant	Vacant Land	40,800.00
6	438/00000	Vacant	Vacant Land	40,800.00
7	799/00000	Vacant	8(2)(i)	1,000.00
8	806/00000	Vacant	Vacant Land	7,200.00
9	813/00000	Vacant	Vacant Land	7,600.00
10	1173/00000	Vacant	Vacant Land	8,000.00
11	1174/00000	Vacant	8(2)(i)	1,000.00
12	1175/00000	Vacant	Vacant Land	8,500.00
13	1176/00000	Vacant	Vacant Land	6,300.00
14	1177/00000	Vacant	Vacant Land	8,000.00
15	1178/00000	Vacant	Vacant Land	6,900.00
16	1179/00000	Vacant	Vacant Land	6,500.00
17	1180/00000	Vacant	Vacant Land	6,500.00
18	1181/00000	Vacant	Vacant Land	6,500.00
19	1182/00000	Vacant	Vacant Land	6,500.00
20	1183/00000	Vacant	Vacant Land	6,500.00
21	1184/00000	Vacant	Vacant Land	6,500.00
22	1185/00000	Vacant	8(2)(i)	1,000.00
23	1186/00000	Vacant	Vacant Land	5,400.00
24	1187/00000	Vacant	Vacant Land	5,400.00
25	1188/00000	Vacant	Vacant Land	5,600.00

No	ERF Number	Type	Suburb	Carrying value
26	1189/00000	Vacant	Vacant Land	9,500.00
27	1192/00000	Vacant	Vacant Land	50,000.00
28	1193/00000	Vacant	Vacant Land	50,000.00
29	1195/00000	Vacant	Vacant Land	50,000.00
30	1248/00000	Vacant	Vacant Land	5,900.00
31	1269/00000	Vacant	Vacant Land	50,000.00
32	1291/00000	Vacant	8(2)(i)	5,000.00
33	21/00000	Vacant	8(2)(d)i	8,292,500.00
34	25/00000	Vacant	8(2)(d)i	3,663,500.00
35	26/00000	Vacant	8(2)(d)i	3,045,600.00
36	32/00000	Vacant	8(2)(d)i	4,407,100.00
37	56/00000	Vacant	8(2)(d)i	7,060,200.00
38	62/00000	Vacant	8(2)(d)i	2,633,800.00
39	279/00003	Vacant	8(2)(d)i	-
40	279/00004	Vacant	8(2)(d)i	-
41	4/00000	Vacant	Vacant Land	202,500.00
42	41/00000	Improved	8(2)(g)	1,734,248.67
43	98/00000		8(2)(a)	-
44	181/00000	Improved	8(2)(h)	77,742.18
45	200/00000	Vacant	Vacant Land	16,500.00
46	209/00000	Improved	8(2)(h)	209,305.87
47	210/00000	Improved	8(2)(h)	5,980.17
48	479/00000	Vacant	Vacant Land	101,500.00
49	480/00000	Vacant	Vacant Land	6,500.00
50	482/00000	Vacant	Vacant Land	5,200.00
51	483/00000	Vacant	Vacant Land	5,000.00
52	484/00000	Vacant	Vacant Land	5,200.00
53	61/00000	Vacant	8(2)(d)i	90,000.00
54	98/00005	Vacant	8(2)(d)i	25,600.00
55	605/00000	Improved	8(2)(a)	16,086.65
56	859/00000	Vacant	Vacant Land	5,000.00
57	990/00000	Improved	8(2)(a)	12,976.96
58	992/00000	Improved	8(2)(a)	12,797.56
Total				**36,147,994.06**

This could result in an overstatement of land and buildings.

Cause
The asset register was not reviewed to ensure that only properties registered in the name of the municipality are recorded

Impact
This could result in an overstatement of land and buildings.

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 only properties registered in the name of the municipality are recorded in the asset register.

Management response
Management awaiting response from valuator.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Upon further search on the deeds search, only the following 9 assets have been resolved:

No	ERF Number	Type	Suburb	Carrying value
1	2/00000	Improved	FRASERBURG	3,385,600.00
19	58/00000	Improved	SUTHERLAND	110,400.00
20	59/00000	Improved	SUTHERLAND	331,200.00
21	60/00000	Improved	SUTHERLAND	273,056.00
178	4/00000	Vacant	Vacant Land	202,500.00
183	181/00000	Improved	8(2)(h)	
185	209/00000	Improved	8(2)(h)	209,305.87
186	210/00000	Improved	8(2)(h)	5,980.17
205	479/00000	Vacant	Vacant Land	101,500.00

The remaining population of the assets which are still not resolved will be reported in the audit report.

Investment property

9. EX.50: Investment property: Incomplete investment register

Audit finding
The Municipal Finance Management Act, section 63, states:

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

During physical verification of the farms as per asset register, we noted the following buildings of which they are not included in the investment register.

No	Erfnr.	Suburb	Comments
1	434/0000	Freserburg	Counted 10 buildings in fair condition
2	96/00000	Sathurland	Counted 2 buildings in good condition

This could result in an understatement of investment property.

Cause
The investment property register was not reviewed to ensure that all investment property buildings are recorded.

Impact
This could result in an understatement of investment property.

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 all investment property buildings are recorded in the investment asset register.

Management response
Disagree with finding. In accordance to the MPRA property be valued at market value and therefore buildings and land on an agriculture property cannot be separately valued.

Name: S Myburgh
Position: CFO
Date: 11 November 2016

Auditor's conclusion
Management comment noted and the finding is not resolved. As per GRAP 17 land and buildings should be disclosed separately.
In addition based on the accounting policy of the municipality buildings are depreciated and land is not depreciated, therefore land and buildings were supposed be disclosed separately.

10. EX.64: PPE: Prior period error adjustments Audit finding

The Municipal Finance Management Act, section 63, states:

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

Nature
Appropriate supporting documentation could not be obtained for the following restatements made in the period under review.

Details	Amounts per prior year AFS	Current comparatives	Difference
Buildings	9,356,986.53	9,240,246.00	116,740.53
Buildings	801,492.60	816,769.00	(15,276.40)
Vehicles	1,373,539.93	1,380,936.00	(7,396.07)
Computer hardware	1,270,094.26	1,276,346.00	(6,251.74)
Infrastructure	230,629,958.19	143,750,186.00	86,879,772.19
Community	93,077.21	90,659.00	2,418.21
Other property plant and	15,000.5	24,459.00	(9,458.47)

equipment	3		

This could result in material misstatement of Property Plant and Equipment.

Cause
Management did not implement adequate controls to ensure that all prior period adjustments are supported by adequate supporting documents and detailed listings.

Impact
This could result in material misstatement of Property Plant and Equipment.

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 all prior period adjustments are supported by adequate supporting documents and detailed listings supporting the restatement.

Management response
Management does not agree with the finding. Management supplied all Correction of Error calculation in Request 26 of 2016 with the files called "Recon 2015" and "20160725 KHM Infra Asset register – 2016". Please see files attached to COMAF 4. If any calculation is unclear to the Audit team, please indicate and Management will be more than willing to explain.

Name: S Myburgh
Position: CFO
Date: 2 November 2016

Auditor's conclusion
Management comment noted, however the issue is not resolved and will be included in the audit report. Requested 36 unique infrastructure unit costs supporting documents, only 6 were submitted by management. Mobesko, informed us through email that they will not be able to provide us any supporting documentation for the remaining unit costs due to time constraints.
The issue will be followed up during the audit next year.

PREDETERMINED OBJECTIVES

11. EX.6: No performance management system (PMS) established

Audit finding
The Municipal Systems Act, section 38 states that a municipality must -
a)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;
b)promote a culture of performance management among its political structures, political office bearers and councillors and in its administration; and
c)administer its affairs in an economical, effective, efficient and accountable manner.

The Municipal Systems Act, section 41 also states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed -
a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
b)set measurable performance targets with regard to each of those development priorities and objectives;
c)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;
d)take steps to improve performance with regard to those development priorities and objectives where performance targets are not met; and
e)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.

The entity should develop and implement a Performance Management System (PMS) to govern reporting concerning performance information. To ensure the achievement of the municipality's development priorities, objectives, indicators and targets a Performance Management System should be designed, implemented and maintained. The framework must describe and represent 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 and how the compensation is related to the performance of these key role players.

The municipality did not develop and maintain a Performance Management System. As a result the following key documents were not prepared:
- Quarterly reports.

This was caused by the fact that a Performance Management System (PMS) was not developed and implemented.

Cause
Management did not develop and implement formally approved policies, standard operating procedures and performance management systems which details all the responsible officials and the procedures to be followed by them.

Impact
This resulted in a non-compliance with the Municipal Systems Act section 38 and 41.

Internal control deficiency
Leadership: The municipality 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 identify the action and control activities needed to address the risks relating to performance information. This should be done through the development and implementation of formally approved policies, standard operating procedures and performance management systems which details all the responsible officials and the procedures to be followed by them.

Management response
Agree with finding. With the implementation of mSCOA this matter will be addressed.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management comments noted. The non-compliance has been reported.

12. EX.73: AOPO – IDP,SDBIP and Annual Performance Report Audit finding

Section 26(i) of the Municipal Systems Act 32 of 2000-Core components of integrated development plans states that an integrated development plan must reflect the key performance indicators and performance targets determined in terms of section 41.

On review of the IDP,SDBIP and the Performance report, The following was noted:

1) The municipality's IDP includes development priorities and objectives for each key performance area (KPA), however, the IDP does not reflect the key performance indicators and performance targets as prescribed in section 26(i) of the Municipal Systems Act 32 of 2000.
2) Although the municipality's Service Delivery and Budget Implementation Plan (SDBIP) includes indicators and targets per vote, it does not link to the Integrated Development plants development priorities and objectives for each key performance area.
3) Section 5.2 of the annual performance report submitted for audit includes key performance indicators that are linked to National Key Performance Areas. These reported key performance indicators were not incorporated in the Service Delivery and Budget Implementation Plan (SDBIP) for the period under review. Furthermore section 5.3.1 of the annual performance report reflects indicators per vote, however, the annual report does not contain the development priories and objectives for each key performance are as reflected in the Integrated Development Plan.

There is therefore no consistency and accurate link amongst the IDP,SDBIP and the annual performance report submitted for audit. The annual performance report does not reconcile to the underlying records which are the IDP and SDBIP.The annual performance report although submitted will not be audited and no conclusion will be reached on performance reported. Compliance matters on the IDP and SDBIP process will still be audited and any non-compliance identified will communicated to management and reported.

Cause
Management did not implement a performance management framework and system

Impact
This results in non-compliance with the Municipal Systems Act 32 of 2000

Internal control deficiency
Management did not comply with applicable legislation by properly aligning their Integrated Development Plan’s identified Key performance Areas to the SDBIP.
There is no performance management system in place and the municipality is only starting to implement the performance management system.

Recommendation
Management should implement a performance management framework and system that will ensure the following:

1) The IDP should include key performance indicators and performance targets as prescribed in section 26(i) of the Municipal Systems Act 32 of 2000

2) The development priorities and objectives for each key performance area (KPA), key performance indicators and performance targets per the IDP should be carried over to the SDBIP to ensure that there is a proper link between the SDBIP and the IDP.
3) The planned development priorities and objectives for each key performance area (KPA), key performance indicators and performance targets per the IDP and SDBIP should be reported in the annual performance report to ensure that there is consistency between the planning and reporting process.

Management response
Agree with finding. Management has already attend to this matter with the implementation of mSCOA

Auditor’s conclusion
Management comments noted. A disclaimer conclusion will be reported.

ANNEXURE B: OTHER IMPORTANT MATTERS

Employee costs

13. EX.16: EMP: Salary scales

Audit finding
In terms of the Public Service Regulation Act Para B of page 16
"Determination of salary scales and allowances
The Minister shall determine a salary scale or scale and allowance
(a) for employees who fall within the ambit of the Labour Relation Act, in the course of the relevant collective bargaining process, and"
(b) For other employees, by a determination
All the salaries was not structured and calculated according to the SALGA scales.

This results in non-compliance with the Public Service Regulation Act and Municipal Finance Management Act.

Cause
The accounting officer did not ensure that all the employees of the municipality a paid within an approved posting scale limit.

Impact
This results in non-compliance with the Public Service Regulation Act and Municipal Finance Management Act.

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
The accounting officer should ensure that all the employees of the municipality a paid within an approved posting scale limit.

Management response
Agree with finding. Currently the Municipality is in the process of TASK and salaries will be corrected with the completion of the TASK.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

General IT controls

14. EX.19: Information technology governance- Service level agreements not monitored by management

Audit finding
Services delivered by the service providers were not monitored against the services agreed in the service level agreement (SLA) to ensure optimal service delivery.

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.

Cause
Management did not 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.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
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.

Recommendation
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.

Management response
Agree with finding. Management will implement corrective measures.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

15. EX.20: Security management - No formally approved it security policy

Audit finding
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.
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.

Cause
Management did not seek from "parent departments" for the development of IT security policies.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA

Internal control deficiency
Leadership – Policies and procedures
There was no IT security framework to assist and provide guidance to the IT Managers with developing IT security policies.

Recommendation
In the absence of a government-wide IT security framework, assistance should be sought from "parent departments" for the development of IT security policies.

Management response
Agree with finding. Management will ensure to develop and adopt such a policy.

Name: S Myburgh
Position: CFO
Date: 17 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

16. EX.21: User access control-No formally documented and approved process that is used to manage the process of granting users access

Audit finding
A formally documented and approved user account management process had not been established to manage the granting of access to users of the Sebata financial system. The informal process implemented was inadequately designed to mitigate the risks of unauthorised access to the Sebata financial system
Inadequately designed processes could result in inappropriate access being granted to the financial systems.

Cause
Management did not ensure that is training is sought to up skills of existing staff with assistance from "parent departments".

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership - Human resource management
The IT staff did not have the appropriate skills to develop user account management policies and procedures.

Recommendation
IT management should ensure that appropriately skilled IT staff is employed and where necessary, appropriate training be sought to up skills of existing staff with assistance from "parent departments".

Management response
Agree with finding. Management will ensure that user account processes will be documented and approved.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

17. EX.22: User access control-No formal access request documentation being completed for registering users, changing access rights.

Audit finding

Formal access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.
The lack of formal access documentation could result in the inability to monitor the authorisation of access granted to the system. Inappropriate access that could be used to perform unauthorised transactions would consequently not be detected.

Cause
Management did not ensure that a user account management policy and related procedures are developed and implemented to ensure deficiencies identified are addressed.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership – Policies and procedures
Approved user access policies and procedures had not been established to ensure that sufficient IT internal controls would be implemented.

Recommendation
Management should ensure that a user account management policy and related procedures are developed and implemented to ensure that:

- a single user access form is developed for all applications in use at the entity
- users who sign on to any application are required to have their own user IDs allocated to them
- the access allocation for new users, changes to existing users' access and procedures for dealing with resignations, terminations and retirements are clearly documented and managed
- time frames for notifying the staff of user movements are documented.

Management response
Agree with finding. Management will ensure that formal access request documentation be developed and implemented.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

18. EX.23: User access control-No processes in place to ensure that users' access and privileges on all financial systems are periodical

Audit finding
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.
If the functions allocated to application users are not timely reviewed, it could result in users having functions that are not commensurate with their job descriptions.

Cause
Management did not ensure that a user account management policy and procedures is developed and documented.

Impact
Management did not ensure that a user account management policy and procedures is developed and documented.

Internal control deficiency
Leadership – Policies and procedures
No formalised policies and procedures to provide guidance on the processes to be followed

Recommendation
Management should ensure that a user account management policy and procedures is developed and documented.

Management response
Agree with finding. Management will ensure that processes be put in place to align the current access and privileges to the job descriptions of the employees.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

19. EX.24: User access control- No processes in place for independent reviews of the activities of the person responsible for granting user access

Audit finding
No processes were in place to ensure that the activities of the systems administrator/(IT manager) who granted user access to the financial system would be reviewed.
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.

Cause
Management did not 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.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership – Policies and procedures
No formalised policies and procedures to provide guidance on the processes to be followed

Recommendation
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.

Management response
Agree with finding. Management will ensure that an IT strategy plan to govern IT goals be developed and implemented.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

20. EX.25: Program change management- No formally documented and approved processes in place to manage upgrades/updates made.

Audit finding
Formally documented and approved program change control policies and procedures were not in place to detail the process that should be followed when system updates were made to application systems.
The lack of a standard policy/procedure for program change management could result in unauthorised system updates being made to systems, consequently introducing updates that do not address user requirements.

Cause
Management did not develop procedures including key elements such as ensuring that updates are approved and tested prior to implementation.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership- Human resource management
The entity did not have the required skills to develop the change management security policy due to vacancies with the IT department.

Recommendation
Application change control standards and procedures should be developed and should include key elements such as ensuring that updates are approved and tested prior to implementation.
Management should approve the change control standards and procedures document and compliance with the procedures and standards should be monitored regularly.

Management response
Agree with finding. Management will ensure that an application for change control standards and procedures be developed and approved and tested prior to implementation.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

21. EX.26: Program change management- No formal change request documentation completed

Audit finding
Formal change requests forms were not completed for performing system upgrades.

Cause
Management did not develop change management policies and procedures.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership-Human resource management
Insufficient skills within the IT department to monitor the vendors

Recommendation
- Change management policies and procedures should be developed.
- Appropriately skilled individuals should be employed.

· When the services of contractors are used, it should be ensured that skills are transferred to the entity's IT staff to prevent the contractors from operating in the live environment.

Management response
Agree with finding. Management will ensure that formal change request forms be completed for performing system upgrades

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

22. EX.28: Information technology service continuity- No approved backup and retention strategy

Audit finding
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.
In the event of restoration of data/systems the organisation might not be able to recover the correct data and systems for specific periods.

Cause
Management did not put controls in place to ensure that a backup and retention strategy are developed and implement.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
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.

Recommendation
Management should develop and implement a backup and retention strategy in line with contractual, legal/regulatory and business requirements.

Management response
Agree with finding. Management to ensure the development and implementation of a backup and retention strategy.

Name: S Myburgh
Position: CFO
Date: 18 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

23. EX.29: Program change management-no evidence that vendors access is monitored

Audit finding
Vendors had unlimited and unmonitored access to the production environment.

Cause
Management did not put controls in place to ensure that skills are transferred to the entity ? IT staff when the services of contractors are used.

Impact
This resulted in non-compliance with section 62(1)(b) of the MFMA.

Internal control deficiency
Leadership – Human resource management
Insufficient skills within the IT department to monitor the vendors.

Recommendation
When the services of contractors are used, it should be ensured that skills are transferred to the entity's IT staff to prevent the contractors from operating in the live environment or to enable the monitoring of their actions.

Management response
Agree with finding. Management will ensure the implementation of your recommendations.

Name: S Myburgh
Position: CFO
Date: 10 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

Internal Control

24. EX.5: Inadequate controls to prevent electricity loses

Audit finding
The Municipal Finance Management Act section 62(1)(d) states:

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—
(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;

The following material distribution losses were reported in the financial statements:

Electricity R1 077 219 (16.76%).
This is above the norm of 7%-10%.
Based on the material losses, doubt exists on whether preventive measures are in place.
Losses incurred in the prior year were also above the norm.

Cause
Management did not ensure that distribution losses are followed up monthly and that proper action is taken to limit these kinds of losses.

Impact
This resulted in a non-compliance with 62(1)(d) of the MFMA.

Internal control deficiency
Leadership: Management did not Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation
The accounting officer should ensure that distribution losses are followed up monthly and that proper action is taken to limit these kinds of losses.
Measures should be put into place to prevent distribution losses, or keep distribution losses to a minimum.

Management response
Agree with finding. Technical Manager will attend to this matter in 2016/2017.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

25. EX.7: Policies and procedures

Audit finding
The Municipal Finance Management Act, Section 62(1)(c)(1) 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.*

The municipality did not have the following approved policies and documents in place during the period under review:

1) Fraud prevention plan
2) IT security policy
3) Risk management Strategy

This will result in significant conditions, events, circumstances, actions or inactions that could adversely affect the municipality's ability to achieve its objectives and execute its strategies, or form the setting of inappropriate objectives and strategies.

Cause
Management did not put controls in place to ensure that relevant policies and procedures are in place, to effectively manage and monitor the municipality's objectives.

Impact
This resulted in a non compliance with the Municipal Finance Management Act, Section 62(1)(c)(1)

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 all the relevant policies and procedures are in place, to effectively manage and monitor the municipality's objectives.

Management response
- Disagree with finding Fraud Prevention Policy in Place. Available at Christelle
- Agree with finding. In process of developing
- Agree with finding. One in place for 2014/2015, should be review.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management comments noted. The fraud prevention plan has subsequently been obtained and inspected. The finding on IT security policy and risk management strategy has been reported.

26. EX.10: Business conducted with deregistered companies

Audit finding
The Municipal Finance Management Act, section 62(1)(c)(i) states:
(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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control;

There is no evidence of enquiries done with CIPRO to ensure that companies are not deregistered or liquidated
From the CAATs results we noted that the municipality conducted business with the following deregistered or liquidated companies

No	Supplier	Amount	Status
1	EDK	94 504.30	Final Liquidation
2	PATHCARE	53 749.10	AR Final deregistration

Cause
The accounting officer did not develop and monitor the implementation of action plans to ensure that business is only done with registered companies.

Impact
This resulted in non compliance with MFMA section 62.

Internal control deficiency
Leadership-Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation
The accounting officer should develop and monitor the implementation of action plans to address internal control deficiencies.

Management response
Agree with finding if reliance can be placed on the information of CIPRO.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management comments noted. The finding has been reported.

27. EX.17: Various policies not approved and others not reviewed during the year

Audit finding
The MFMA section 62(1)(c)(i) 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 55 of the Municipal Systems Act states that the municipal manager is:
(1) As head of administration the municipal manager of a municipality is, subject to the policy directions of the municipal council, responsible and accountable for:
(a) the formation and development of an economical, effective, efficient and accountable administration

(i) equipped to carry out the task of implementing the municipality's integrated development plan in accordance with Chapter 5;
(ii) operating in accordance with the municipality's performance management system in accordance with Chapter 6; and
(iii) responsive to the needs of the local community to participate in the affairs of the municipality;
(b) the management of the municipality's administration in accordance with this Act and other legislation applicable to the municipality.

An internal control system consists of all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. The control environment reflects management's overall attitude, awareness and demonstrate commitment towards establishing a positive atmosphere for the implementation and execution of well-controlled business operations.

The municipality currently uses draft policies and procedures as the policies have not been approved by council. The following serves as examples;
1) Indengent Policy
2) Office hours policy
3) Archive & Registry policy
4) Bank facilities and checks approval
5) HIV policy
6) Internet policy
7) Cell phone policy

Cause
Management did not ensure that all applicable policies are approved by council

Impact
This resulted in non-compliance with The MFMA section 62(1)(c)(i).

Internal control deficiency
Leadership: Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Management did not ensure that policies and procedures in place are approved by the council and communicated to all employees.

Recommendation
Management should ensure that all applicable policies are approved by council, implemented and communicated to all employees.

Management response
Agree with finding but this is already included in exception no 9.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management comments noted. The finding has been reported.

28. EX.18: Internal Control: Entity Level Controls

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.

The following control deficiencies were identified during the review of the municipality’s control environment.

Communication and enforcement of integrity and ethical values

1) The code of conduct is not periodically acknowledged by signature from all employees.
2) Not all policies and procedures have been approved
3) There are no documented policies which state that overriding of internal control by low-level management personnel is prohibited except in emergency situations, and if it happens, upper-level management are immediately notified and the circumstances documented.
4) There is no evidence that compensation and promotion is based on achievements and performance.
5) There is no evidence management takes quick and appropriate action as soon as there are any signs that a problem may exist.
6) There is no evidence that management takes action when there are violations of policies, procedures, or the code(s) of conduct.
7) There are no processes in place to prevent management override of controls

Understanding and evaluating the municipality’s financial and performance reporting competencies

8) Employees are not provided with candid and constructive job performance counselling.
9) There are no performance appraisals. These should be based on an assessment of critical job factors and clearly identify areas in which the employee is performing well and areas that need improvement.
10) There is no evidence that there is an appropriate training programme that meets the needs of all employees.
11) Supervisors have not been trained to provide effective job performance counselling.

Organisational structure

12) The staffing structure is not adequate for proper performance management and measurement.

Assignment of authority and responsibility

13) Management has not put processes in place to ensure that authority, responsibility and accountability is clearly assigned throughout the organisation and is clearly communicated to all employees, including for the under-mentioned performance management areas:
(i) Developing and evaluating output performance measures
(ii) Monitoring and managing data measurement and reporting processes
(iii) Reporting sufficient and appropriate information to stakeholders
14) There are no documented processes for performance evaluation which contain specific references to internal control-related duties, responsibilities, and accountability.

Human resource policies and practices

There are no documented procedures to ensure the following:

15) Promotion, compensation, and rotation of employees is based on periodic performance appraisals.
16) Performance areas in the contract are linked to the objectives, indicators and targets in the entity's strategic plan.
17) The importance of integrity and ethical values are reflected in the performance appraisal criteria.
18) Employees are provided with appropriate feedback and counselling on their job performance and suggestions for improvements.
19) Candidates who change jobs often are given particularly close attention.
20) Hiring standards require investigations for criminal records for all potential employees.

Risk Assessment

21) There is no evidence that the municipality clearly communicates its objectives, indicators and targets to all employees, and does management obtain feedback signifying that the communication has been effective.

22) There is no evidence that consideration is given to possible risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained.

23) There is no evidence that risks resulting from unusual employee access to vulnerable assets are considered.

Monitoring

24) Management's strategy does not provide for routine feedback and monitoring of performance and control objectives.

Cause

The accounting officer did not ensure that documented policies are developed, implemented and communicated to address all identified internal control deficiencies.

Impact

This resulted in non compliance with section 62(1)(b) of the MFMA.

Internal control deficiency

Leadership-The accounting officer did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Leadership- The accounting officer did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Leadership- The accounting officer did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Leadership-The accounting officer did not develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

The accounting officer should ensure that documented policies are developed, implemented and communicated to address all identified internal control deficiencies.

The accounting officer should consider the following:

- Establish and implement policies and procedures that enable and support understanding and execution of internal control objectives, processes and responsibilities.
- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Develop and monitor the implementation of action plans to address internal control deficiencies

Management response

Agree with finding. With the Implementation of mSCOA the performance management module will be in place.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion

Management acknowledges the finding. The matter will be followed up in the next financial period to verify whether an action plan was prepared to address the root cause of the finding and whether the finding has been resolved.

Compliance

29. EX.2: Compliance: No reports relating to unauthorised, irregular, fruitless and wasteful expenditure

Audit finding

Section 32(4) (a) 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 any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
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.

We noted that reports relating to unauthorised, irregular, fruitless and wasteful expenditure were not submitted to the mayor, MEC for local government and the Auditor-General.

Cause

The accounting officer did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality as required by Section 32(4) (a) of the MFMA.

Impact

This resulted in non-compliance with Section 32(4) (a) of the MFMA.

Internal control deficiency

Financial and performance management: management did not review and monitor compliance with applicable laws and regulations.
There are no controls designed by management that will ensure that relevant reports on unauthorised, irregular, fruitless and wasteful expenditure are submitted to the mayor, MEC for local government and the Auditor-General.

Recommendation

The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality as required by Section 32(4) (a) of the MFMA.

Management response

Agree with finding. Section 32 Committee established and will be functional in 2016/2017

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion

Management comments noted. The matter has been reported.

30. EX.4: No risk assessment performed during the year

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.

No risk assessment was performed by management during the current year to comprehensively identify risks annually.

This matter could result in:
(a) risks not being properly identified and mitigated to an acceptable level;
(b) non-compliance with section 62(1) (c)(i) of the MFMA.

Cause
Management did not ensure a risk assessment is performed on an annual basis to identify risks in accordance with a risk management policy and framework.

Impact
This matter could result in:
(a) risks not being properly identified and mitigated to an acceptable level;
(b) non-compliance with section 62(1) (c)(i) of the MFMA.

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.

Recommendation
Management should ensure that:
A risk assessment is performed on an annual basis to identify risks in accordance with a risk management policy and framework.

The risk assessment should consider the following factors:

1) The risk that critical activity (programme)-level objectives may not receive particular attention and review from management and that their performance may not be monitored at least quarterly as required by treasury regulations.
2) The risks associated with technological advancements and developments.
3) Risks arising from the changing needs or expectations of Parliament, entity officials, and the public.
4) Risks posed by new legislation or regulations identified.
5) Risks to the municipality as a result of possible natural catastrophes or criminal or terrorist actions.
6) Risks resulting from any business, political, and economic changes identified.
7) Risks resulting from its interactions with various other government entities and parties outside the government.
8) Risks resulting from downsizing of entity operations and personnel
9) Risks associated with business process reengineering or redesign of operating processes.
10) Risks posed by disruption of information systems processing and the extent to which backup systems are available and can be implemented.
11) Risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained.
12) Risks resulting from heavy reliance on contractors or other related parties to perform critical municipality operations
13) Risks that might be associated with major changes in managerial responsibilities.
14) Risks resulting from unusual employee access to vulnerable assets
15) Risks related to the availability of future funding for new programmes or the continuation of current programmes
16) Risks related to past failures to meet municipality missions, goals, or objectives or failures to meet budget limitations.
17) Risks indicated by a history of unauthorised, irregular and fruitless and wasteful expenditure, or other statutory non-compliance.

Management response
Agree with finding. The Municipality did seek support from PT in this regard, but to date no support was given.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor’s conclusion
Management acknowledges the finding. The matter has been reported.

31. EX.84: Audit Committee did not review and report on compliance with SCM regulations.

Audit finding
The Municipal Finance Management Act, Section 166 states:

(1) Each municipality and each municipal entity must have an audit committee, subject to subsection (6).
(2) An audit committee is an independent advisory body which must—
(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, 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;

During the performance of the audit the following was noted:
1.The audit committee did not perform a review of the entity's compliance with laws and regulations including compliance with the SCM regulations.
2.The audit committee's report on effectiveness of internal controls did not cover controls around the SCM system as it is one of the key fraud risk areas.

The audit committee did not fulfil its duties as prescribed by the Municipal Finance Management Act.

This results in non-compliance with the Municipal Finance Management Act.

Cause
The audit committee did not ensure that its duties are full filled as prescribed by the Municipal Finance Management Act.

Impact
This results in non-compliance with the Municipal Finance Management Act, Section 166

Internal control deficiency
Governance:
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.

Recommendation
The audit committee should perform a review of the entity's compliance with laws and regulations as well as report on the effectiveness of internal controls for supply chain management.

Management response
Agree with finding. Management will ensure that the audit committee report on the effectiveness of the SCM.

Name: S Myburgh
Position: CFO
Date: 15 November 2016

Auditor's conclusion
Management comments noted. The finding has been reported.

32. EX.85: Non-compliance: Roles and responsibilities of audit committee and internal audit unit

Audit finding
Section 165 (2) internal audit of the MFMA states the following:
(2) The internal audit unit of a municipality or municipal entity must—
(b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—
(i) Internal audit;
(ii) Internal controls;
(iii) Accounting procedures and practices;
(iv) Risk and risk management;
(v) Performance management;
(vi) Loss control; and
(vii) Compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
Section 166 (2) (a) audit committees of the MFMA states the following:
(2) An audit committee is an independent advisory body which must—
(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—

1. i) internal financial control and internal audits;
2. ii) risk management;
3. iii) accounting policies;
4. iv) he adequacy, reliability and accuracy of financial reporting and information;
5. v) performance management;
6. vi) effective governance;
7. vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
8. viii) performance evaluation

Matter 1
During the audit of internal audit compliance there was no evidence to prove that the internal audit unit advised the accounting officer and reported to the audit committee on the implementation of the internal audit plan and matters relating Internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with this Act, the annual Division of Revenue Act and any other applicable legislation.
Furthermore there is no evidence that internal audit unit prepared quarterly reports on their audits of performance measurement.

Matter 2

There was no evidence to prove that the audit committee fulfilled its roles and responsibilities as required by MFMA to advice the municipal council, the accounting officer on the matters of internal financial control and internal audit, risk management, accounting policies, performance

management, effective governance, compliance with this Act, the annual Division of Revenue Act and any other applicable legislation and performance evaluation.
Furthermore audit committee did not review and discuss the submissions by internal audit on adequacy, reliability and accuracy financial reporting and information.
This leads to non-compliance to MFMA laws and regulation.

Cause
Management did not put controls in place to ensure internal audit and audit committee adhere to the laws and regulations as stipulated in the MFMA.

Impact
This resulted in non-compliance with MFMA Section 165 (2).

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 internal audit and audit committee adhere to the laws and regulations as stipulated in the MFMA.

Management response
Agree with finding. Management will ensure that internal audit and the audit committee comply with the abovementioned.

Name: S Myburgh
Position: CFO
Date: 15 November 2016

Auditor's conclusion
Management acknowledges the finding. The matter has been reported.

33. EX.86: Non-compliance: No audit committee charter and evidence of appointment of audit committee by the council

Audit finding
Section 166 (5) audit committees of the MFMA states the following:

The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality.

Matter 1
The audit committee appointed for the period under review does not have a signed and approved audit charter. We therefore could not conclude whether a performance audit is also a function of the audit committee as there is no audit committee charter.

Matter 2
Referring to matter above regarding shared service of audit committee, the is no evidence that such audit committee was appointed by the council.

This lead to non-compliance with the laws and regulation of the MFMA regarding appointment of the audit committee and the audit committee charter thereof.

Cause
Management did not ensure it has its own audit committee charter regardless of the audit committee being a shared service.

Impact
This resulted in non-compliance with MFMA Section 166 (5).

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 it has its own audit committee charter regardless of the audit committee being a shared service. The audit committee should be appointed by the council.

Management response
Agree with finding. Management will ensure the charter to be developed and implemented as well as the appointment through council.

Name: S Myburgh
Position: CFO
Date: 15 November 2016

Auditor's conclusion
Management comments noted. The finding has been reported.

34. EX.87: Non-compliance: Audit committee meetings and submission of audit report on performance management

Audit finding
Section 166 (4) audit committees of the MFMA states the following:
(4) An audit committee must—
(b) Meet as often as is required to perform its functions, but at least four times a year.
Regulation 14(4) (a) of Municipal Planning and Performance Management Regulations state the following:
(4) (a) a performance audit committee must –
(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

During the audit it was noted and confirmed with management that the audit committee:

- Only met once for the year under review.
- Did not submit an audit report on the review of the performance management system to the council.
  This leads to non-compliance with MFMA laws and regulations.

Cause
Management did not put adequate controls in place to ensure that the audit committee adheres to the laws and regulation stipulated in the MFMA.

Impact
This resulted in non-compliance with section 166 (4) of 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 audit committee adheres to the laws and regulation stipulated in the MFMA.

Management response
Agree with finding. Management will ensure regular meetings to take place and the review of the PMS by the audit committee.

Name: S Myburgh
Position: CFO
Date: 15 November 2016

Auditor's conclusion
Management comments noted. The finding has been reported.

35. EX 93: Roll over of Library Services Grant

Requirement
In terms of section 8 of the grant agreement between the Municipality and the Provincial Government of the Northern Cape In Its Department of Sport, Art and Culture any portion of the grant that is unspent at the end of the 2015/16 financial year must be paid back to the Department.

Nature
The Municipality did not pay back the unspent Library Services Grant amount of R 292 207 as required by section 8 of the grant agreement, to the Provincial Government of the Northern Cape In Its Department of Sport, Art and Culture.

Cause
Management did not implement adequate controls to ensure that unspent grant amounts are paid back to the relevant department.

Impact
This resulted in non-compliance with the grant agreement and the MFMA.

Control Deficiency
Financial and performance management: Review and monitor compliance with applicable laws and regulations.

Recommendation
The accounting officer should ensure that any unspent grants amount to the Department in terms of the grant agreement is paid back to the department.

Management response
No management response received.

Auditor's conclusion
The finding still remains and has been reported.

36. EX 94: Local government procedures

Nature
The following findings have been noted
1) The municipality is not using MISA's Municipal Infrastructure Performance Management Information System (MIPMIS) or a similar system.
2) The municipality was not supported by CoGTA, Provincial Treasuries and national treasuries to improve their financial management and improve their ability to deliver services.
3) The municipality does not have a list of basic concerns which has been identified by the ward committees.
4) Treasury and CoGTA did not provide a significant impact at the municipality in respect of the investigation and curbing of unauthorised,irregular and fruitless and wasteful expenditure.
5) Treasury has not provided any support to the municipality to improve the municipality's financial health.

6) Treasury has not provided support to the municipality to address the issue of debt owed to and by municipalities with a view of finding viable solutions.
7) No support plans have been drafted by CoGTA for the municipality to address key challenges identified.

Cause
Inadequate support provided by CoGTA and treasury

Impact
Challenges faced by the municipality may not be addressed due to no support provided by local government.

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

Recommendation
The municipality management should ensure that the municipality complies with the above compliance requirements

Management response
No management response received.

Auditor's conclusion
The finding still remains and has been reported.

Immovable assets

37. EX.31: PPE:Control findings -Fixed asset register

Audit finding
The Municipal Finance Management Act, section 63, states:

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

We reviewed the asset register and identified the following issues:

1. 56 Assets have got no purchases cost
2. 496 assets have got no physical location.
3. 3468 assets have no depreciation method used.
4. 5 assets have got no bar code.
5. 1124 assets have got duplicated bar codes.
6. 114 assets disposed have got no disposal date.
7. 114 assets disposed have got no disposal amount column.
8. 15 assets have got asset condition.
9. No monthly reconciliations were done between the asset register and the general ledger.

This resulted in an incomplete asset register as well as non-compliance with the requirement of the municipal management act.

Cause
Management did not review the asset register to ensure that an asset register is adequate and with accurate information.

Impact
This resulted in non-compliance with the Municipal Finance Management Act, section 63.

Internal control deficiency
Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls of assets.

Recommendation
Management should implement controls to ensure that there is an asset register in place with adequate and accurate information. An action plan should be prepared and implemented to address the identified internal control deficiencies.

Management response
1. Management does not agree with the finding. Please note this 56 asset lines is for the link to the toolbox items in the room. Toolbox items do not have a value and is only there for control over the smaller items in the room.
2. Management partially agrees with finding. 496 assets do not have town descriptions, but have physical locations. All 496 assets were allocated a town in the updated FAR 2016.
3. Management agrees with finding and included a column for depreciation method for all assets. See example below:
4. Management partially agrees with the finding. Please note that this is all extra assets that form part of building or community asset. For example safety gates that forms part of the new municipal building in Williston. We include IDs as extras for the following 5 assets as indicated in the updated FAR:
5. Management does not agree with the finding. Duplicates under ID are the following
The first two was broken and disposed. The next 4 have duplicated IDs but is have unique GIS IDs. The last 8 is WIP with no unbundled IDs already allocated, but have unique purchase times.
Duplicates under bar codes are the following:
Air conditioner was incorrect and was corrected in adjusted FAR to 2027.

Management also do not agree with the finding that the audit team toke bar codes and Infrastructure ID and made a finding of duplicated bar codes. These two numbers has nothing in common and are not both bar codes. The bar code is a physical metal plate with a number on and attached to loose assets. Verification of loose assets occur by verifying the bar code on the loose asset. The Infrastructure ID is not a physical item and is only a number allocated to the infrastructure component on the register. The verification of infrastructure occur by using the GIS ID to verify asset on GIS and through that identify its location. These numbers is also in two separate columns in the asset register that indicates that they have nothing in common.
6. Management partially agrees with the finding. The 114 assets were not disposed at a disposal amount, but were written of on 30 June 2016 as they were broken, stolen, condition five or were not found. Management will include the following columns in the adjusted FAR 2016:
7. Management partially agrees with the finding. The 114 assets were not disposed at a disposal amount, but were written of on 30 June 2016 as they were broken, stolen, condition five or were not found. Please refer to point 6 for list of new columns in the Adjusted FAR 2016.
8. Management agrees with finding and have included the 5 conditions in the adjusted FAR 2016:
9. Management agrees with finding that no monthly reconciliations were done between the asset register and the general ledger. Management will implement controls to put monthly reconciliations in place.

Auditor’s conclusion
Management comments noted. No adjustments to the fixed asset register will be allowed. The matter has been reported as a control finding and will be followed up in the 2016/17 financial year.

38. EX.38: PPE: Differences between the asset register and AFS

Audit finding

The Municipal Finance Management Act, section 63, states:
(1) The accounting officer of a municipality is responsible for the management of
(a) the assets of the municipality, including the safeguarding and the maintenance of those assets;
(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure:
(a) that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
(b) that the municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
(c) that the municipality has and maintains a system of internal control of assets, including an asset register, as may be prescribed.

1. The following difference was identified between the accumulated depreciation as per the asset register and the accumulated depreciation as per Appendix B of the financial statements.

Description	Accumulated depreciation as per the appendix B	Accumulated depreciation as per the asset register	Difference
Electricity	5,032,391.38	5,011,483.34	20,908.04
Water Supply	14,487,863.02	14,535,995.01	(48,131.99)
Office equipment	198,417.73	533,929.73	(335,512.00)
Air-conditioning	61,869.44	98,485.13	(36,615.69)
Chairs	165,477.32	180,869.74	(15,392.42)
Computer hardware	365,676.72	434,003.20	(68,326.48)
Concrete mixer	7,120.71	10,547.64	(3,426.93)
Electronic equipment	28,726.03	45,056.06	(16,330.03)
Extinguisher fire	39,422.56	41,774.78	(2,352.22)
Office equipment	31,110.31	47,548.35	(16,438.04)
Office furniture	134,854.39	140,201.26	(5,346.87)
Plant & Equipment	15,020.98	18,487.38	(3,466.40)
Pump equipment	8,641.87	10,701.64	(2,059.77)
Road work machinery	198,267.26	277,842.93	(79,575.67)
Tables and desks	94,983.28	100,740.73	(5,757.45)
Tools	31,551.59	33,399.87	(1,848.28)
Truck flat bed	67,874.05	167,228.72	(99,354.67)
Total	**20,969,268.64**	**21,688,295.51**	**(719,026.84)**

2. The following differences were identified between the general ledger and the appendix B of the annual financial statements.

Account	Account description	Amount as per GL	Amount as per appendix B	Difference
NEW PPE Accumu	NEW PPE Accumulated Impairment	-	(20,908.03)	20,908.03

Cause
Management did not review the asset register to ensure all formulas are correct.

Impact
This has got no financial impact since the figures in the AFS are correct.

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 the amounts disclosed in the financials agree to the asset register.

Management response
1. Management does not agree with the finding. All Appendix B per AFS amounts agree with the Appendix B per FAR. Please refer to screen shots below of Appendix B per AFS
2. Management does not agree with the finding. Please refer to vote 8003/8001/8001 – Accumulated Impairment & 0301/3202/0000 –Impairment.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comment noted:
1. Issue not resolved, inspected the fixed asset register and still appendix B of the AFS does not agree to the detailed asset register. The accumulated depreciation in the detailed asset register includes accumulated depreciation of assets disposed ie the depreciation for the disposed asset was not derecognised. The finding has been reported.
2. Issue resolved, we inspected the general ledger account 8003/8001/8001 and confirmed that the accumulated impairment loss was recorded.

39. EX.39: PPE: Assets incorrectly classified as disposed

Audit finding
In terms of GRAP 21 par 19, an asset is impaired when the carrying amount of the asset exceeds its recoverable service amount.
Paragraph 23 further states that, in assessing whether there is any indication that an asset may be impaired an entity shall consider the following indication, thus 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, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.

The following assets which were identified as impaired by management were incorrectly recorded as disposed in the asset register.

No	Bar code	Description	Date Verified	Cost	Disposal accumulated depreciation 2016
1	1036	Computer pc cpu	04-07-16	5,517.69	5,506.34
2	1268	Projector overhead	04-07-16	3,451.25	3,444.15
3	1002	Computer ups	04-07-16	465.92	464.96
4	1046	Computer ups	04-07-16	465.92	464.96
5	1047	Machine paper shredder	04-07-16	1,399.77	1,396.89
6	808	Calculator desk	04-07-16	129.42	129.16
7	882	Calculator desk	04-07-16	129.42	129.16

No	Bar code	Description	Date Verified	Cost	Disposal accumulated depreciation 2016
8	939	Computer pc cpu	04-07-16	5,517.69	5,506.34
9	1331	Heater	04-07-16	120.79	120.14
10	842	Chair visitor	04-07-16	1,043.51	1,041.37
11	809	Machine copy.fax.scan.print	04-07-16	16,350.00	16,308.89
12	862	Hi-fi	04-07-16	776.01	774.42
13	1212	Computer pc cpu	11-07-16	3,310.61	3,293.05
14	1208	Computer pc monitor	11-07-16	72.48	72.09
15	752	Chair typist	07-07-16	344.43	342.61
16	1378	Heater	07-07-16	120.79	120.14
17	1375	Heater	07-07-16	120.79	120.14
18	601	Heater	07-07-16	72.47	72.13
19	620	Computer pc cpu	07-07-16	4,414.15	4,405.07
20	628	Vacuum cleaner	07-07-16	1,379.81	1,373.34
21	992	Air conditioner	11-07-16	2,846.42	2,831.32
22	993	Air conditioner	11-07-16	2,846.42	2,831.32
23	907	Computer pc monitor	07-07-16	72.48	72.33
24	906	Computer pc cpu	07-07-16	2,070.75	2,066.49
25	909	Chair typist	07-07-16	344.43	343.73
26	910	Vacuum cleaner	07-07-16	1,379.81	1,372.49
27	945	Pump water	07-07-16	1,035.38	1,029.88
28	990	First aid kit	07-07-16	265.57	264.33
29	16	Machine binder	06-07-16	1,418.91	1,411.38
30	9	Computer pc cpu	06-07-16	5,517.69	5,506.34
31	6	Table	06-07-16	447.97	445.60
32	38	Air conditioner	06-07-16	1,707.85	1,699.84
33	174	Air conditioner	06-07-16	2,174.29	2,164.08
34	200	Air conditioner	06-07-16	2,174.29	2,164.08
35	82	Table	06-07-16	447.97	445.60
36	1372	Computer scanner	06-07-16	291.63	290.08
37	146	Desk	06-07-16	258.84	257.03
38	114	Air conditioner	11-07-16	4,314.06	4,291.18
39	555	Air conditioner	11-07-16	2,846.42	2,840.56
40	494	Stone crusher	11-07-16	80,000.00	79,575.67
41	463	Truck	11-07-16	100,000.00	99,354.67
42	498	Grinder	06-07-16	1,430.25	1,423.54
43	1288	Computer pc cpu	04-07-16	5,517.69	5,506.34
44	1296	Table	04-07-16	467.72	466.76
45	1303	Saw chain	04-07-16	2,239.00	2,227.12
46	1210	Concrete mixer	04-07-16	3,433.99	3,426.93
47	1896	Cpu	04-07-16	2,724.41	2,709.96
48	1406	Chair	04-07-16	37.12	36.95
50	1233	Printer	11-07-16	100.00	99.47
51	1891	Chair	04-07-16	324.49	322.77
52	1422	Pump	04-07-16	1,858.14	1,848.28
53	1635	Table	07-07-16	249.49	247.75
54	1433	Printer	04-07-16	1,200.87	1,192.86
55	1457	Cpu	04-07-16	2,517.54	2,501.40
56	1753	Air conditioner	11-07-16	7,245.61	7,225.24
57	1790	Air conditioner	11-07-16	7,245.62	7,225.25
58	1960	Lawnmower	11-07-16	3,476.87	3,466.40
59	1741	Air conditioner	11-07-16	3,354.48	3,342.80
60	1455	Chair	04-07-16	315.75	314.72
61	1434	Printer	04-07-16	7,894.69	7,835.80

No	Bar code	Description	Date Verified	Cost	Disposal accumulated depreciation 2016
62	1907	Heater 2 Bar	04-07-16	114.03	113.11
63	1906	Heater 2 Bar	04-07-16	114.03	113.11
64		Caravan park reservoir not in use		48,179.66	48,131.99
Total				**357,705.56**	**356,121.87**

This results in understatement of accumulated impairment loss, understatement of impairment expense and overstatement of loss on disposal

Cause

Management did not review and ensure that assets which are considered impaired are correctly accounted for.

Impact

This results in understatement of accumulated impairment loss, understament of impairment expense and overstatement of loss on disposal

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 must ensure that assets which are considered impaired are correctly accounted for.

Management response

Management does not agree with the finding. The 114 assets were not disposed at a disposal amount, but were written off on 30 June 2016 as they were broken, stolen, condition five or were not found. These condition five items were written off as they are not in use any more. Management will include the following columns in the adjusted FAR 2016:

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion

Management comment noted. Issue is not resolved, all the assets detailed above were verified by management and still in the custodian of the municipality, therefore should have been impaired rather than being written off. The matter will be reported in the management report.

40. EX.40: PPE: Assets not recorded in the asset register

Audit finding

Section 63 of the MFMA states that, the accounting officer of the municipality 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.

The following assets which were physically verified could not be traced to the asset register. The asset register indicated that the asset was not found during managements physical verification exercise and was therefore recorded as disposed

No	Location	Category	Bar code	Serial number	Description
1	Sutherland	Computer hardware	1387	none	Monitor
2	Sutherland	Computer hardware	1388	none	CPU

This resulted in an understatement of assets at year end.

Cause
Management did not put controls to ensure that during municipality asset verification all assets are identified and recorded.

Impact
This may result in understatement of property, plant and equipment.

Internal control deficiency
Finance 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 descriptions and recording of assets in the asset register are accurate and appropriate.

Management response
Management does not agree with finding. Assets exist but are the property of Department of Safety and Liaison. Please find attached correspondence from department.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comment noted, however issue not resolved. Inspected the confirmation received from the Department of Safety and Liaison and noted that it has got different bar codes as compared to the ones on these assets. Furthermore the bar codes on the assets are in the name of Karoo Hoogland Local Municipality.

41. EX.46: PPE: Description as per asset register differs from the actual asset verified

Audit finding
MFMA section 62(1)(c)(i) 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.

The following gravel road was incorrectly recoded as an asphalt structure in the asset register. This was confirmed during our physical verification exercise.

No	FAR ID	Location	Description	Carrying Amount
1	2214.2	Fraserburg	New Development Road 25 Asphalt Structure	77,477.70

This could result in incorrect valuation of assets.

Cause
The asset register was not reviewed to ensure that assets recorded in the fixed asset register have correct descriptions

Impact
This could result in incorrect valuation 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.

Recommendation
Management should ensure correct asset descriptions are recorded when populating the fixed asset register.

Management response
Management agrees with the finding and will adjust FAR 2016 and AFS 2016 if auditors agree to it.

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management acknowledges the finding. No adjustment will be allowed as physical verification was carried out on a sample basis. Management will have to re-examine the total population and ensure that all the assets condition in the fixed asset register are correct. This will be followed up in the next financial year. The extrapolated misstatement is R239 732 and will be reported in the management report.

42. EX.51: PPE-Differences between detailed WIP schedule and AFS/Register

Audit finding
The Municipal Finance Management Act, section 63, states:

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

The following difference was identified between the detailed work in progress register/schedule and the financial statements.

Details	Amount per detailed WIP register/Schedule	AFS	Difference
Work in Progress	8 658 195.85	9 546 073.34	(887,877.49)

This may result in the misstatement of work in progress disclosed in the financial statements.

Cause
Management did not reconcile the work in progress per the detailed schedule or register to the financial statements.

Impact
This may result in the misstatement of work in progress disclosed 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 reconcile the work in progress per the detailed schedule or register to the financial statements. Any differences identified should be investigated and resolved.

Management response
Management does not agree with the finding. Please refer to print screen of Appendix B of the AFs vs Appendix B of the FAR:

Management noted that the column BN with WIP as heading vs Column BT with Asset Value differed with the last few updates on the Asset Register before 31 August 2016, only updating the column BT. BN was also now updated in the adjusted FAR 2016

Name: S Myburgh
Position: CFO
Date: 2 November 2016

Auditor's conclusion
Management comments noted. The finding has been reported as there is a difference between the detailed WIP schedule submitted for audit and the AFS/Register.

Investment property

43. EX.45: Investment property: Assets which could not be physically verified

Audit finding
MFMA section 62(1)(c)(i) 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.

During physical verification we could not be able to physical verify the following assets.

No	Description	Description	Erfnr.	Suburb	Comments	size	Carrying value
1	Improved	Buildings	2/00000	FRASERBURG		36	10,304.00
2	Improved	Buildings	2/00000	FRASERBURG		236	228,748.80
3	Improved	Buildings	2/00000	FRASERBURG		12	13,248.00
4	Improved	Buildings	2/00000	FRASERBURG		20	14,720.00
	Total						**267 020.80**

This could result in a non-compliance with the MFMA and overstatement of investment property.

Cause
Management did not put control in place to ensure that all assets are identifiable and verifiably.

Impact
This could result in a non-compliance with the MFMA and overstatement of investment property.

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 controls in place to ensure that all assets recorded in the fixed asset register can physically verified.

Management response
Management does not agree with finding. Please see below extra descriptions on the listed investment properties:

Name: S Myburgh
Position: CFO
Date: 01 November 2016

Auditor's conclusion
Management comments noted. However the finding will still be reported in the management report as the asset accountant could not assist in locating the asset during our physical verification exercise.

Intangibles

Movable assets

44. EX.32: PPE: Incomplete lease asset register.

Audit finding

GRAP 17 par 37 states that the carrying amount of an item of property, plant and equipment shall be derecognized:

a) on disposal {including disposal through a non-exchange transaction)

The following leased printers which were derecognized in the period under review are still in use by the municipality.

Bar Code	Description	Serial Number	Town	Cost	Accumulated depreciation	Carrying amount
1797	Printer	S9308803116	Williston	16,725.00	16,725.00	-
1773	Printer	L7006960460	Williston	16,725.00	16,725.00	-
Total				33,450.00	33,450.00	-

Cause

Management did not review the asset register to ensure that its complete.

Impact

This resulted in an understatement of property plant and equipment.

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, leased asset are only derecognized from the asset register when they are returned to the lessor.

Management response

Disagree with the finding. These two lease contracts were completed and Nashua was informed to collect their machines. Nashua has to date not informed Karoo Hoogland Municipality when they will collect the machines. Finance lease assets is only included in the Fixed Asset Register if they have the same contract term as the normal lifespan of a similar asset that was bought by the municipality. As this contract terms were completed, these leases are on a month to month basis until they are collected. This do not form part of the criteria of finance leases to be included in the Fixed Asset Register. A simple example is because the Remaining Useful Life of these assets cannot be determined.

Name: S Myburgh
Position: CFO
Date: 11 November 2016

Auditor's conclusion

Management comment noted. Issue not resolved, as the assets are still being used. Hence the issue will be reported.

45. EX.15: PPE: Assets not adequately insured

Audit finding

The Municipal Finance Management Act section 63(1)(a) 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.

A comparison between the carrying value of fixed assets and the insured value of assets, as per the insurance agreement revealed that the municipality's assets are under insured. It also seems as if the infrastructure assets of the municipality are not insured.

The under insurance of assets may result in financial difficulties in the case of major damage to assets and infrastructure assets, which may lead to inadequate service delivery.

Management did not take reasonable care to ensure that all assets of the municipality are adequately insured.

Cause
The accounting officer did not put adequate controls in place to ensure that assets are adequately insured.

Impact
This will result in non-compliance with the MFMA.

Internal control deficiency
Financial and performance management **-** Management did not review and monitor compliance with applicable laws and regulations.

Management did not ensure that all assets recorded in the asset register are adequately insured.

Recommendation
The accounting officer should ensure that the municipality's assets are adequately insured.

Management response
Agree with finding.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management comments noted. The matter has been reported.

Employee cost

46. EX.83: Employee Related Costs: No Employment contract and Performance agreement for a manager directly accountable to municipal manager

Audit finding
1. The Municipal Systems Act section 57 paragraph 1(a) states
.
(1) A person to be appointed as the municipal manager of a municipality, and a person to be appointed as a manager directly accountable to the municipal manager, may be appointed to that position only—
(a) in terms of a written employment contract with the municipality complying with the provisions of this section; and
(b) subject to a separate performance agreement concluded annually as provided for in subsection

(2) The performance agreement referred to in subsection (1) (b) must—
(a) (i) be concluded within 60 days after a person has been appointed as the municipal manager or as a manager directly accountable to the municipal manager, failing which the appointment lapses: Provided that, upon good cause shown by such person to the satisfaction of the municipality, the appointment shall not lapse; and
(ii) be concluded annually, thereafter, within one month after the beginning of each financial year of the municipality;

(c) in the case of a manager directly accountable to the municipal manager, be entered into with the municipal manager.

(3) The employment contract referred to in subsection (1) (a) must—

(a) include details of duties, remuneration, benefits and other terms and conditions of employment as agreed to by the parties, subject to consistency with—
(i) this Act;
(ii) any regulations as may be prescribed that are applicable to municipal managers or managers directly accountable to municipal managers; and
(iii) any applicable labour legislation; and be signed by both parties before the commencement of service.

(b) be signed by both parties before the commencement of service

(3A) Any regulations or guidelines that relate to the duties, remuneration, benefits and other terms and conditions of employment of municipal managers or managers directly accountable to municipal managers, must be regarded as forming part of an employment contract referred to in subsection (1) (a).

(4) The performance agreement referred to in subsection (1) (b) must include—
(a) in terms of a written employment contract with the municipality complying with the provisions of this section; and subject to a separate performance agreement concluded annually as provided for in subsection (2).
(i) be concluded within 60 days after a person has been appointed as the municipal manager or as a manager directly accountable to the municipal manager, failing which the appointment lapses: Provided that, upon good cause shown by such person to the satisfaction of the municipality, the appointment shall not lapse; and be concluded annually, thereafter, within one month after the beginning of each financial year of the municipality.

2. The Basic Conditions of Employment Act section 29 paragraph 1 states:

An Employer must supply an employee, when the employee commence employment, with the following particulars in writing -
(a) the full name and address of the employer
(b) the name and occupation of the employee, or a brief description of the work for which the employee is employed
(c) the place of work, and, where the employee is required or permitted to work at various places, an indication of this
(d) the date on which the employment began
(e) the employee's ordinary hours of work and days of work
(f) the employee's wage or the rate and method of calculating wages
(g) the rate of pay for overtime work
(h) any other cash payments that the employee is entitled to
(i) any payment in kind that the employee is entitled to and the value of the payment in kind
(j) how frequently remuneration will be paid
(k) any deductions to be made from the employee's remuneration
(l) the leave to which the employee is entitled
(m) the period of notice required to terminate employment, or if employment is for a specified period, the date when employment is to terminate
(n) a description of any council or sectoral determination which covers the employer's business
(o) any period of employment that counts towards the employee's period of employment
(p) a list of any other documents that form part of the contract of employment, indicating a place that is reasonably accessible to the employee where a copy of each may be obtained.

1. No Employment contract and Performance agreement for the following Manager directly accountable to the Municipal Manager could be tested by the auditors.

Number	Employee	Employee Name	Identity Number	Payslip	Commencement	Salary

	number			Month	Date	(Earnings) per month
1	1003	FJ LOTTER	6208215177083	Feb-16	06 January 1999	49,109.92

Agree with finding. Management will ensure employment and performance contract to be in place.

2. The following employees do not have signed employment contracts.

Number	Employee number	Employee Name	Identity Number	Payslip Month	Commencement Date	Salary (Earnings) per month
1	1006	A SIEBERHAGEN	5711090051084	May-16	05 January 1986	16,817.32
2	1007	S KAROLUS	7409270205087	Apr-16	08 January 1997	18,538.09
3	1010	LY FRITZ	5304040019086	Apr-16	09 January 1984	13,607.52
4	1017	P JOOSTE	7310225044086	May-16	03 January 2000	13,445.62
5	1020	P FRIESLAAR	6704015127088	May-16	03 January 1989	21,437.45
6	8	SJ VAN SCHALKWYK	6208075050081	May-16	10 January 1991	75,758.69
7	1030	C CONSTABEL	7204015106082	Oct-15	01 January 1999	12,951.30
8	1042	V OPPERMAN	8106205102087	Nov-15	11 March 2003	33,755.01
9	1044	B VAN DER HORST	8007125459088	Nov-15	01 January 2005	10,250.80
10	1048	AL MESSIAS	8710190066080	Nov-15	08 January 2007	15,518.99
11	2014	R CLOETE	6802050022089	Jan-16	17 October 2001	15,466.30

Disagree with finding. In term of section 29(1) of the basic conditions of employment act all information is on files of employees.

This results in non-compliance with Municipal Systems Act and The Basic Conditions of Employment Act

Cause
Management did not put controls in place to ensure employment and performance contract to be in place.

Impact
This resulted in non-compliance with s57 of the Municipal System Act.

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
The accounting officer should ensure that all managers accountable to the municipal manager have Employment Contract and Performance Agreements signed with the municipality.

Management response
See comments at each finding.

Name: S Myburgh
Position: CFO
Date: 15 November 2016

Auditor's conclusion
Management comment noted:
1. Issue not resolved, as there is no contract in place for employment and performance agreement.
2. Issue not resolved, inspected the employment file of the employees identified above and no employment file was found. The finding remains and has been reported in the management report.

Operating expenditure

47. EX.53: Audit fees: Incorrect journal entry

Audit finding
According to section 62(1) of the Municipal Finance and Management Act 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards; that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following journal entry affecting the audit fees account was incorrectly passed as it does not pertain to audit fees.

Vote	Reference	Date	Description	Vote	Amount
0002/3602/0000	TJ00026	24/03/2016	P249671 moesnie btw hef	7801/7804/7803	67 392.44

This may result in misstatement of audit fees disclosed in the financial statements.

Cause
Management did not review audit fees expenditure transactions to ensure that the amount are correctly accounted for

Impact
This may result in misstatement of audit fees disclosed in the financial statements.

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 review Audit fees expenditure transactions and ensure that the amounts are correctly accounted for. Management should investigate the total population to quantify the total misstatement. Necessary adjustments should be passed to correct the misstatement identified.

Management response
Agree with finding. AFS will be adjusted accordingly. This is an invoice that formed part of the down payment to the AG. The system automatically put it through to VAT Input paid, when it recognize it was paid in full, but we did not claim this particular invoices, because we claimed the vat on the down payment. In this case it should not have been journalized to 0002/3602/0000, but to 7801/7802/7803.

Name: S Myburgh
Position: CFO
Date: 11 November 2016

Auditor's conclusion
Management's comments noted. However the adjusting journal that was passed is incorrect and resulted in misstatement of R 134 784.88.The finding still stands and has been reported in the management report.

48. EX.57: Expenditure: Payments not made within 30 days of invoice

Audit finding
According to the MFMA Act S65(2)(e) 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.

The following transactions were not paid within 30 days of invoice receipt as require by MFMA Act S65(2)(e)

Vote	Reference	Date	Description	Vote	Amount
0361/3611/0000	SI306137	1-Oct-15	HALSTED&CO-FREEZER JKT	7651/7651/7653	4,241.00
0360/3755/0000	SI26566	27-Jan-16	JWL MOTORS - BANDE - CBL9	7651/7651/7653	13,190.79
0020/3758/0000	SI3498	29-Jan-16	WVK - REKENAARDIENSTE	7651/7651/7653	864.47
0020/3771/0000	SI*4091	31-May-16	SEBATA PROJECT PLANNING &	7651/7651/7653	139,884.42
0020/3800/0000	SI3270	31-May-16	SEBATA Phase1 & 3 MSCOA	7651/7651/7653	23,954.10
0020/3800/0000	SI4091	31-May-16	SEBATA PROJECT PLANING EN	7651/7651/7653	40,607.31
0020/3802/0000	SI4091*	31-May-16	SEBATA PROJECT PLANNING &	7651/7651/7653	3,508.77
0361/3611/0000	SI306137	1-Oct-15	HALSTED&CO-FREEZER JKT	7651/7651/7653	4,241.00
0340/3755/0000	SI110528	11-May-16	LOXTON-HERSTEL BXP225NC	7651/7651/7653	27,890.00
0340/3754/0000	SI170578	7-Jun-16	WVK-STOPKRAAN	7651/7651/7653	755.00
Total					**259,136.86**

Cause
Inadequate controls in place and insufficient monitoring to ensure that all payments that should be made by the Municipality are made within the prescribed 30 days.

Impact
This results in non compliance with the requirements of MFMA

Internal control deficiency
Financial and performance management: Review and monitor compliance with applicable laws and regulations.

Recommendation
Management should ensure that controls are in place and monitored to ensure that all payments that should be made by the Municipality are made within the prescribe 30 days.

Management response
Agree with items on the list numbers 2, 3, 4,5,6,7 and 8.
Disagree with item 1 as item 1 and item 8 is duplicated. Item 9 and 10 was paid within 30 days

Name: S Myburgh
Position: CFO
Date: 3 November 2016.

Auditor's conclusion
Management comments noted. Item 1, 8, 9 and 10 have been followed up and exception updated. The remaining items have been reported.

Payable

49. EX.60: Creditors: Sub ledger does not agree to the general ledger

Audit finding
According to section 62 (1)(c)(i) 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 the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following difference was noted between the sub ledger and the general ledger

Details	Amount R
Amount per General Ledger	7,996,639.90
Balance as per SEBATA/ Sub ledger	7,943,336.28
Difference	**53,303.62**

Cause
Management did not reconcile creditors sub ledger to the general ledger.

Impact
This could result in misstatement of creditors

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 reconcile creditors recorded to actual amounts owing. Any differences identified should be followed up.

Management response
Management agrees with the finding and will adjust the AFS accordingly.

Name: S Myburgh
Position: CFO
Date: 2 November 2016

Auditor's conclusion
Management agrees with the finding. The matter has been reported.

50. EX.61: Library Services Grant not backed by cash reserves

Audit finding
According to section 62 (1)(c)(i) 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 the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The unspent liability on the Library Services Grant of R 292 207 disclosed in Note 19 is not backed by cash reserves. Details are as follows:

Details	Unspent liability R	Balance in the bank account R	Balance not backed by cash reserves
Library services grant	292 207	5 066	287 141

The funds for the grant may have been used for other purposes other than conditions stipulated in the grant agreement.

Cause
Inadequate controls in place to ensure that all grant unspent balances are backed by cash reserves.

Impact
The funds for the grant may have been used for other purposes other than conditions stipulated in the grant agreement.

Internal control deficiency
Financial and performance management: Review and monitor compliance with applicable laws and regulations.

Recommendation
Management should ensure that all grant unspent balances are backed by cash reserves.

Management response
Management disagrees with the finding. Our view is that at year end the cash flow indicates that the Municipality did in fact have substantive cash in the bank and therefore the liability was cash-backed. We can agree that the amount was however not ring-fenced in a separate account.

Name: S Myburgh
Position: CFO
Date: 2 November 2016.

Auditor's conclusion
Management comments noted. The municipality has enough cash reserves to back the unspent amount. However, the cash amount in the Library Services Grant account which is ring fenced specifically for the grant is only R5 066 which does not support the unspent amount at year end of R292 207.

51. EX.62: Payable : Prior period error disclosure

Audit finding
According to section 62 (1)(c)(i) 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 the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

In terms of GRAP 1 fair presentation is achieved by presenting all information in the financial statements in a manner that is relevant, reliable, comparable and understandable

The prior year restatement of retentions amounting to R 434 039.23 was incorrectly disclosed under trade payables.

Cause
Management did not adequately review the financial statements to ensure that fair presentation is achieved.

Impact
The prior year restatement of retentions amounting to R 434 039.23 was incorrectly disclosed under trade payables.

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 review and adjust the disclosure Note 16 to ensure that fair presentation is achieved. There is a separate line item for retentions and the prior year restatement should be reclassified from trade payables to retentions.

Management response
Management disagree with the finding. Paragraph 51 of GRAP 3 – Accounting policies, changes in Accounting estimates and errors, states the following:
In applying paragraph .44, an entity shall disclose the following:
(b) *for each prior period presented, to the extent practicable, the amount of the correction for* ***each financial statement line item affected****;*

Retentions are disclosed as part of payables from exchange transactions which is the relevant financial statement line item affected. Therefore the disclosure is in accordance with GRAP 3.

It should also be noted that in the narrative in the Correction of errors note, it is indicated that retentions were restated.

Name: S Myburgh
Position: CFO
Date: 2 November 2016

Auditor's conclusion
Management comments noted. The restatement should be reclassified to retentions as there is a separate line item for retentions.

Provisions

52. EX.14: Landfill site permits

Audit finding
The Waste Management Act, section 68 paragraph 1 states that a*person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10,000,000 or to imprisonment for a period not exceeding10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made in terms of the National Environmental Management Act.*

The Waste Management Act, section 67 paragraph 1 states that a person*commits an offence if that person—*
(a) contravenes or fails to comply with a provision of section 15, 16(1) (c), (d), (e) or (f), 20, 26(1), or any order under section 38(2) or (3) or a notice under section 17(2) or 18(1);
(g) fails to conduct a site assessment or to submit a site assessment report in terms of section 37(1);
(h) contravenes or fails to comply with a condition or requirement of a waste management license or an integrated license contemplated in section 44.

The following two landfill sites do not have permits as required by the Waste Management Act:
1. Williston
2. Sutherland

The application forms were completed and the licenses were applied for, but no licenses were received up to date.
This results in the non-compliance with The Waste Management Act.

Cause
Management did not ensure that the landfill site licenses for the Williston and Sutherland landfill sites are obtained.

Impact
This results in the non-compliance with The Waste Management Act.

Internal control deficiency
Financial and performance management-Review and monitor compliance with applicable laws and regulations.

Recommendation
The accounting officer should ensure that the landfill site licenses for the Williston and Sutherland landfill sites are obtained as soon as possible.

Management response
Agree with finding. The landfill Sites license for Sutherland was received in the 2016/2017 financial year.

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
Management agrees with the finding. The matter will be followed up in the 2016/17 financial year.

Revenue

53. EX.66: Revenue:Understatement of interest on outstanding debtors

Audit finding
According to section 62(1) of the Municipal Finance and Management Act 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards; that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following differences between the interest charged as per the customer statements and the recalculations were identified.

NUMBER	NAME OF DEBTOR	INTERST CHARGED	INTEREST RECALCULATED	DIFFERENCE
1	MNR F Bantom	10,21	13,75	3,54
2	ME A M November	48,60	60,75	12,15
3	ME KR B October	43,22	53,03	9,81
4	MNR K April	13,02	13,95	0,93
5	ME S E Isaacs	38,26	46,94	8,68
6	MNR S Louw	3,92	4,06	0,14
7	ME G Isaks	6,82	6,87	0,05
8	ME M Afrika	10,69	11,60	0,91
9	MNR S Louw	7,42	7,45	0,03
10	MNR FJ Klein	57,34	72,63	15,29
11	ME K Abrahams	48,87	59,14	10,27
12	MNR M M L Foscher	0,97	1,04	0,07
13	Ronel Trust	4,98	5,46	0,48
14	MNR J Visser	19,85	21,03	1,18
TOTAL		**314,17**	**377,70**	**63,53**

Cause
Management did not review the calculated interest on outstanding debtors to ensure that they are correctly calculated.

Impact
This resulted in an extrapolated misstatement of R55 879.63
This could lead to the material misstatements of revenue.

Internal control deficiency
Financial and Performance Management- Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation
Management should ensure that interest on outstanding debtors is compounded on the total debt i.e interest brought forward and the outstanding balance.

Management response
Disagree with finding. The auditor used the current amount for calculation of interest. He was informed that the current amount includes accumulated interest and the municipality do not levy interest on interest. It was explained that he first have to deduct the accumulated interest from the current amount and then calculate the interest.

Auditor's conclusion
Management comment noted, issue not resolved. According to the municipality's policy the interest is charged on the outstanding debtors at a prime plus 1%.Outstanding debtors debtors includes principal plus interest

Taxes

54. EX.77: Value added tax: Misstatement of input vat accrual account

Audit finding
According to section 62(1) of the Municipal Finance and Management Act 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards; that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

During the audit, it was noted that the invoice (invoice no: INV249670 from AGSA, dated 31/07/2014) of R882 551.52 (incl. vat) was paid on 30 June 2015 (R491 323) and on 21 July 2015 (R391227.84). The total input vat of R108 383.52 was claimed and paid by SARS during the 2016 financial period. However the accrual input vat GL account no: 7801/7802/7803 is debited with an amount of R108 383.52 at year end as if the amount is still to be claimed from SARS in future when the supplier is paid.

This leads to overstatement of input vat (accrual account) account in the Annual financial Statements.

Cause
Lack of management oversight over processing of VAT transactions.

Impact
This could result in overstatement of input vat (accrual account) and understatement of Revenue SARS account (0020/0814/0000) in the Annual financial Statements.

Internal control deficiency

Financial and Performance Management- Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that all amounts paid to suppliers where input vat is actually claimed from SARS, the input vat accounts (accrual and actual) was closed off appropriately at year end.

Management response

Disagree with finding. Zero effect onto the closing balances, for VAT. Please see Journal TJ00018 which is in your possession, as it was between two VAT votes, and therefore has no effect on the final recon of the VAT.

Name: S Myburgh
Position: CFO
Date: 11 November 2016

Auditor's conclusion

Management comment noted. However the issue still remains. The effect is indeed zero but the amount was debited in the incorrect input vat **accrual** account (GL no: 7801/7802/7803) which indicates that amount R108 383.52 is still to be received from SARS once the supplier is actually paid. This is incorrect as the supplier has already been paid and the amount has already been claimed from SARS. The credit side of the journal (GL no: 7801/7804/7803) which is input vat **actual** account is correct as its reducing this account after the amount claimed is received from SARS. Therefore the correct debit account should have been affected in general ledger account no: 0020/0814/0000 which offsets the entire amount actual claimed from SARS.

55. EX.78: Value Added Tax: Output vat reconciling items not explained

Audit finding

According to section 62(1) of the Municipal Finance and Management Act 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards; that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Finding 1

During the audit of output vat, the following reconciling items between the VAT 201 returns submitted to SARS and output vat GL account were identified but we could not obtain from the management the reason for such reconciling items. There is no evidence in the general ledger that the reconciling items were adjusted:

Month	VAT 201 return	GL_ Client workings	
	VAT output	VAT output	Absolute differences
Nov-15	148,601.16	149,272.97	(671.81)
Mar-16	202,047.14	589,511.88	(387,464.74)
Apr-16	187,407.07	200,057.54	(12,650.47)
Total Difference			**(400 787.02)**

Finding 2

The following differences were noted between the general ledger amounts that were used in the preparation of VAT 201 and the general ledger submitted to the auditors.

-

Output VAT			
Month	GL_ Clients workings as per reconciliation	GL_ Auditors workings	Difference

Jun-16	198,202.05	7,781.55	190,420.50

Input VAT			
Month	GL_Clients workings as per reconciliation	GL_Auditors workings	Difference
May-16	129,925.39	110,281.10	19,644.29
Jun-16	172,989.52	173,282.90	(293.38)
		Total	**19,350.91**

Cause
Lack of management oversight over processing of VAT transactions.

Impact
This resulted in misstatement of VAT.

Internal control deficiency
Financial and Performance Management- Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation
Management should ensure that vat returns are prepared using the GL vat accounts and bank statements. And that all reconciling items are identified and adjusted accordingly on a monthly basis.

Management response
Disagree with finding. See responses at each finding.

Name: S Myburgh
Position: CFO
Date: 11 November 2016

Auditor's conclusion
Management comment noted. However the issue still remains. The evidence provided for finding 1 relating to reconciling items. For finding 2 and 3 the supporting calculation don't add up to the differences raised as exceptions

56. Ex 88-Procurement: No measures to monitor contract performance

Audit Finding
MFMA section 116(2) states that the accounting officer must -
(a) takes all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipal entity is properly ensured.
(b) that the accounting officer of a municipality must monitor on a monthly basis the performance of the contractor under contract or agreement,
(c) establish capacity in the administration of the municipality to assist the accounting officer in the carrying out of duties set out in the paragraphs (a) and (b).
(ii) to oversee the day-to-day management of the contract or agreement.

During the performance of the audit, we noted that there were no measures in place to monitor the performance of the contractors:

SUPPLIER	NATURE OF SERVICE	CONTRACTUAL AMOUNT
Nexia SAB &T	Compilation of audit plan	110 689
Nexia SAB &T	In house action plan	193 594
Beaufort Wes Alarms	Monitoring,Installation and maintenance of alarm	4 800 000

SUPPLIER	NATURE OF SERVICE	CONTRACTUAL AMOUNT
	systems	
Mubesko Africa	Preparation of the asset register	1 378 649
Lyners and Associates (RF) (PTY)Ltd	Consultancy work on MIG projects	6 871 347
TOTAL		**13 354 279.00**

Cause
Management did not put adequate controls in place to ensure that contract performance is monitored.

Impact
This might result in poor performance by contactors not being identified.

Internal control deficiency
Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation
Management must ensure that measures to monitor contract performance have been defined and implemented.
The performance of the contractor/ provider should be monitored on a monthly basis and the progress reported thereon.

Management response
No management response obtained.

Auditor's conclusion
The finding has been reported in the management report

57. EX.11: Road maintenance

Audit Finding
The Municipal Finance Management Act, section 62(1)(c)(i) states theaccounting 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."

The following should to be in place in order to ensure that the roads under the control of the municipality is adequately maintained. However, this is not evident within the municipality:
1. The municipality does not have an approved road infrastructure policy in place.
2. The municipality does not have an approved road maintenance plan that clearly indicates the strategy to be followed for the financial year.
3. The municipality does not have a road asset management system.

A formal road maintenance plan is not prepared and implemented.

This results in the possibility that roads, under the control of the municipality, are not adequately maintained.

Cause
Management did not put plans and systems are in place to maintain roads under the control of the municipality.

Impact
This resulted in non-compliance with Municipal Finance Management Act, section 62(1)(c)(i) .

Internal control deficiency
Leadership-Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation
The accounting officer should ensure that plans and systems are in place to maintain roads under the control of the municipality.

Management response
Disagree with finding. Plan available at CFO

Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
There is no evidence that the following policies submitted to the auditors were approved by the council.

- road infrastructure policy
- road maintenance plan
- road asset management system

The finding still stands and would be reported in the management report.

58. EX.12: Water Infrastructure Maintenance

Audit Finding
The Municipal Finance Management Act, section 62(1)(c)(i) 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.*

The following should be in place in order to ensure that the water and sanitation infrastructure under the control of the municipality is adequately maintained. However, it not evident that the municipality have an approved water infrastructure policy in place.

A formal water infrastructure maintenance plan is not prepared and implemented.

This results in the possibility that water infrastructure under the control of the municipality, is not adequately maintained.

Cause
Management did not put plans and systems are in place to maintain water infrastructure under the control of the municipality.

Impact
This resulted in non-compliance with Municipal Finance Management Act, section 62(1)(c)(i) .

Internal control deficiency
Leadership-Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation
The accounting officer should ensure that plans and systems are in place to maintain water infrastructure under the control of the municipality.

Management response
Disagree with finding. The Plans is available at the CFO.
Name: S Myburgh
Position: CFO
Date: 03 October 2016

Auditor's conclusion
The water infrastructure maintenance submitted to the auditors was not approved by the council. The finding still stands and would be reported in the management report.

ANNEXURE C: ADMINISTRATIVE MATTERS