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AUDITOR-GENERAL SOUTH AFRICA

FINAL MANAGEMENT REPORT

KAROO HOOGLAND LOCAL MUNICIPALITY

30 June 2019

Communicated to the accounting officer on: 25 November 2019

Auditing to build public confidence

AUDITOR-GENERAL SOUTH AFRICA

MANAGEMENT REPORT

KAROO HOOGLAND LOCAL MUNICIPALITY

30 June 2019

CONTENT

MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE KAROO HOOGLAND LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 June 2019

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2019..

2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

3. In accordance with the terms of engagement, our responsibility in this regard is to:

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

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

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.

5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.

7. The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

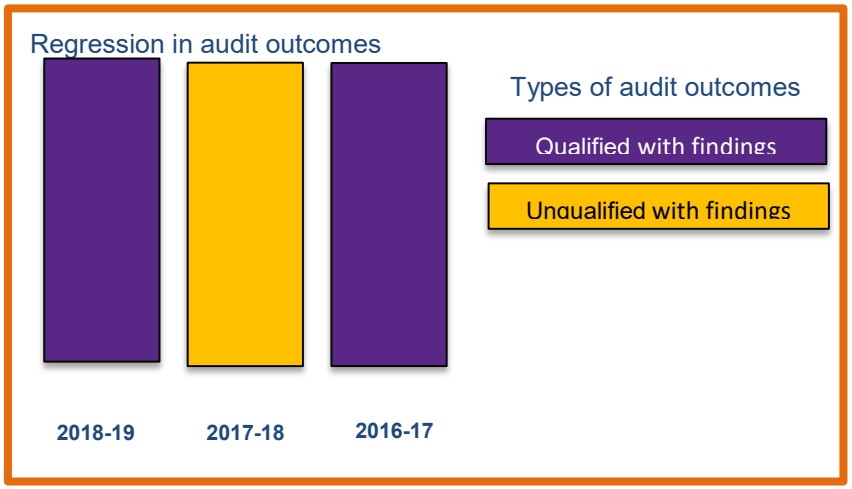
- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Root causes to be addressed

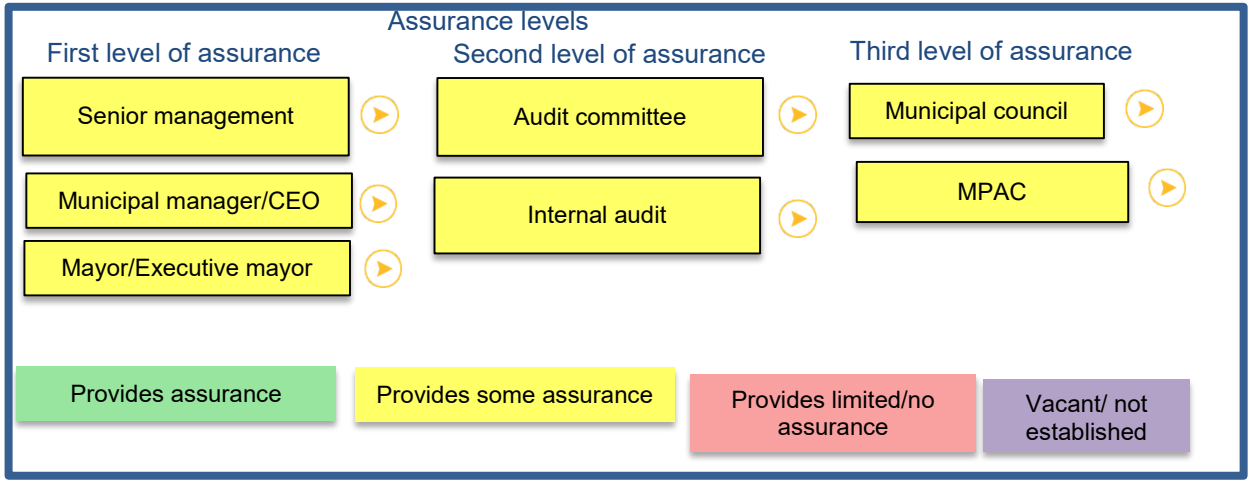
Movement from the previous year is depicted as follows:

 / Improved

 / Unchanged / slight improvement / slight regression

 / Regressed





1 To improve **audit outcomes** …

2 … the key role players need to **assure** that …

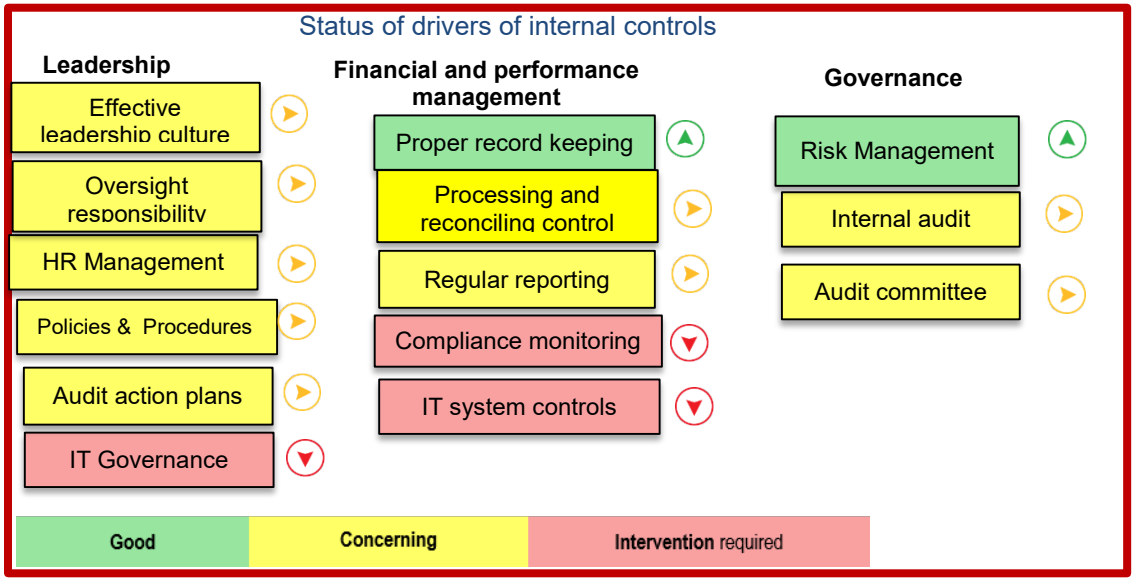
3 … attention is given to the **key controls** and …

4 … the **risk areas** and …

5 … the **root causes** are addressed …

[Root causes should be addressed

- Lack of consequences for poor performance
- Lack of oversight from senior management
- Slow response by management
- Lack of monitoring and review of implementation of new financial system



OVERALL MESSAGE

8. The audit outcome of Karoo Hoogland Local Municipality regressed from an unqualified audit opinion with findings to a qualified opinion with findings.
9. The controls implemented by management to address audit findings of the prior year proved to be ineffective in some instances as there were repeat findings which occurred in the current years audit. Material misstatements were identified in the current year annual financial statements. Management has not consistently and effectively monitored compliance to which the municipality must adhere to.
10. The municipality established a performance management system and submitted an annual performance report in the current year. However, the submitted annual performance report could not be audited as accurate and complete underlying records were not provided to enable the audit of usefulness and reliability of reported performance information.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

11. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Tabling of annual report	1
Municipal manager	Provide status update on the audit; discuss audit findings and status of requests for information.	5
Chief Financial Officer	Provide status update on the audit; discuss audit findings and status of requests for information.	5

12. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee.
    - Significant risks identified during audit planning and our planned responses to these risks
    - Key focus areas
    - Audit progress
    - Audit findings raised, including misstatements identified during the audit process.
13. All stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

AUDIT OF THE FINANCIAL STATEMENTS

14. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).

15. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	**Finding**	**Occurred in prior year**	**R** current year	**R** previous year
Material misstatements corrected				
Non-current assets				
Property, plant and equipment	DR Donations	No	630 000	-
	CR Property plant and equipment	No	(630 000)	-
	Land not belonging to the municipality included in the fixed assets register (asset was donated to the church) ***Iss.45***			
Current assets				
VAT Receivable	DR VAT Output (receive)	No	1 792 359	
	CR VAT Output (billing)	No	(1 792 359)	
	Differences between the VAT 201 and GL **Iss.65**			
Current liabilities				
Trade and other payables	DR Infrastructure assets	No	1 501 909	-
	CR Retentions	No	(1 501 909)	-

Material misstatement			Impact	Impact
Financial statement item	**Finding**	**Occurred in prior year**	**R** current year	**R** previous year
	Retentions presented in the financial statements not complete ***Iss 66***			
Disclosure	Statement of Cash Flows *Net of differences identified between cash flows as per the statement of cash flows and cash flows recalculated for audit purposes* ***Iss.27***	No	1 625 920	
Material misstatements not corrected				
Revenue				
Revenue from non-exchange transactions	DR Unknown (Receivable)	No	1 827 357	
	CR Revenue from non exchange transactions	No	(1 827 357)	
	Differences between property rates disclosed in the financial statements and property rates recalculated for audit purposes ***Iss.28***			
Disclosure				
	Irregular Expenditure *Irregular expenditure identified through audit processes, not disclosed* ***Iss. 36, 44, 54, 55, 64,***	No	3 770 335	

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

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

Restatement of corresponding figures

17. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of an error in the financial statements of the municipality, at, and for the year ended, 30 June 2019.

Material losses

18. As disclosed in note 30 to the financial statements, material losses to the amount of R3 351 957 (2018: R1 926 084) were incurred as a result of an impairment of trade and other receivables.

19. As disclosed in note 43 to the financial statements, material electricity losses to the extent of 11.97% (2018: 12.72%) were incurred as a result of technical losses, faulty meters and illegal connections.

Other matter paragraphs

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

Unaudited disclosure notes (MFMA 125)

21. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, we do not express an opinion on it.

Unaudited supplementary schedules

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

AUDIT OF THE ANNUAL PERFORMANCE REPORT

23. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope[1]

24. I was engaged to undertake a reasonable assurance engagement on the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in annual performance report	Opinion	Movement
KPA 1: Basic Service Delivery and Infrastructure Development	x – x	Disclaimer	(No APR submitted in the prior year)
KPA 2: Local Economic Development	x – x	Disclaimer	(No APR submitted in the prior year)

25. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information.*

26. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Basic Service Delivery and Infrastructure Development

Disclaimer of opinion

27. I do not express an opinion on the reported performance information for Basic service delivery and infrastructure development of the municipality. Because of the significance of the matter described in the basis for disclaimer of opinion section of my report. I have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the development priority.

Basis for opinion

28. . I was unable to obtain sufficient appropriate evidence for all indicators relating to this development priority. This was due to limitations place on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of all the indicators.

Local Economic Development

Disclaimer of opinion

29. I do not express an opinion on the reported performance information for Local Economic Development of the municipality. Because of the significance of the matter described in the basis for disclaimer of opinion section of my report. I have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the development priority.

Basis for Disclaimer of opinion

30. I was unable to obtain sufficient appropriate evidence for all indicators relating to this development priority. This was due to limitations place on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of all the indicators.

Other matters

31. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

32. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) 28 and 30 of this report.

Responsibilities of the accounting officer for the reported performance information

33. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

34. My objectives are to obtain reasonable assurance about whether the reported performance information in the annual performance report for the selected development priorities is free from material misstatement, in accordance with International Standard on Assurance Engagements, ISAE 3000: Assurance engagements other than audits or reviews of historical financial information and to issue a management report that includes my opinion. However, because of the matter described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on the selected development priorities.

35. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

AUDIT OF COMPLIANCE WITH LEGISLATION

36. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements, annual performance reports and annual reports

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.Material misstatements of non-current assets, current assets, current liabilities, revenue,receivables and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

38. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the PPPF Act, tax clearances not obtained, and procurement processes not followed. Irregular expenditure amounting to R 3 532 999 was incurred on Fraserburg replacement of pipes.

40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 5 600 as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments.

41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R11 703 749 as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure is expenditure incurred in excess of the final approved budget.

Revenue management

42. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

43. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Strategic planning and performance management

44. The SDBIP for the year under review

- did not include monthly revenue projections by source of collection and
- the monthly operational and capital expenditure by vote, and
- the service delivery targets and performance indicators for each quarter, as required by section 1 of the MFMA.

45. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management reg 12(1).

46. The performance management system and related controls were inadequate as it did not describe how the performance planning, measurement, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management reg 7(1).

Procurement

47. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

48. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

49. Some of the the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

Human resource management

50. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the MSA.

51. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Utilisation of conditional grants

52. Performance in respect of programmes funded by the Regional Bulk Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

53. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

Consequences management

54. Based on the report submitted for the audit, the investigation conducted did not meet the following criteria:

    a. The investigation was commissioned and approved at the appropriate level.

    b. Terms of reference of the investigations were approved.

    c. The scope of the investigation addresses the allegation.

    d. The recommendations/ findings were relevant to the allegation.

    e. Investigations comply with auditee's policies with regard to independence and qualification/ position.

55. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulations 75(1). Iss.11

OTHER INFORMATION

56. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.

57. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

58. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

59. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:

60. We did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, we may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROLS

61. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility[2]

62. Oversight responsibility of management has not been effectively exercised, resulting in material misstatements on the annual financial statements and non-compliance with laws and regulations.

63. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting.

64. The Accounting Officer did not adequately perform oversight responsibility over financial reporting resulting in material misstatements being identified during the audit.

- Detailed reviews of the financial statements, supporting working papers and calculations prior to submission for audit were not performed by the Chief Financial Officer. This impacted the

accuracy and quality of the financial statements submitted on 31 August 2019 to the extent that the submission contained misstatements. Refer to table of identified material misstatements.

Human resource management[3]

65. There is no performance management system is in place for employees other than senior managers.

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

Policies and procedures[4]

67. The internal policies and procedures of the municipalty did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information at an overall performance management level.

68. Policies were identified that were not approved, implemented and monitored for the year under review.

69. The accounting officer of the municipality did not develop, implement and monitor sufficient and appropriate internal controls to mitigate the risk of material misstatement in the preparation of the annual financial statements.

Action plans to address internal control deficiencies[5]

70. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner to ensure that the control deficiencies were adequately addressed resulting in instances of non-compliance with laws and regulations being identified.

Information technology governance framework[6]

71. The municipality did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

72. Management did not ensure that an effective IT governance policy is timeously developed and approved to ensure that the municipality operates within a sound IT control environment.

73. Management did not adequately address prior year audit findings by ensuring that a Disaster Recovery Plan and IT strategic plan are developed and implemented.

Financial and performance management

Proper record keeping[7]

74. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

Daily and monthly processing and reconciling of transactions[8]

75. The municipality did not implement an effective and efficient system of internal controls to respond to unauthorised, irregular, fruitless and wasteful expenditure.

76. The municipality did not ensure that compliance checklists were prepared to identify and prevent instances of non compliance with relevant laws and regulations.

Regular, accurate and complete financial and performance reports[9]

77. As indicated in section 2.1, the financial statements contained material misstatements. This was mainly due to a lack of adequate review and weaknesses in the implementation of internal controls in respect of financial management and financial reporting.

Compliance monitoring[10]

78. Non compliance with laws and regulations could have been prevented had the municipality designed, implemented and monitored a system of compliance with relevant laws and regulations.

79. The accounting officer did not effectively utilise compliance checklists to monitor compliance with laws and regulations, as evidenced by non compliance findings stated under the compliance section above.

Information technology systems[11]

80. The municipality does not have adequate controls and processes in place to ensure that it operates within an effective IT control environment.

81. The municipality does not have appropriate processes and policies in place to ensure that the service provider has restricted access to the system after it has been implemented.

82. Management did not put controls in place to ensure that personnel have restricted access to the system limited to their respective access privileges, as well as grant System Administrator privileges to limited personnel independent of the Clerks.

83. Management did not put controls in place to ensure that all changes made to the financial systems are supported by adequate supporting documentation.

84. Management did not ensure that sufficiently skilled staff are appointed in the municipality's IT department.

Governance

Audit committee[12]

85. The audit committee reviewed the financial statements. However, there were material misstatements and instances of non compliance with laws and regulations that were identified during the audit.

Summary

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

87. The accounting officer did not exercise and adequately perform oversight responsibility over the preparation of the annual financial statements, annual performance report and compliance with laws and regulations and internal control. Leadership did not implement adequate processes to ensure that reviews took place before financial statements and the annual performance report were submitted for audit. This was evident from the material misstatements in the financial statements, annual performance report and non compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

88. Action plans were not adequately monitored to ensure that the control deficiencies relating to prior year were adequately addressed, resulting in instances of non compliance with laws and regulations being identified

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

SECTION 3: Assurance providers and status of implementation of commitments and recommendations[13]

ASSESSMENT OF ASSURANCE PROVIDERS

90. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.

91. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

92. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides some assurance

- Deficiencies in key controls were identified during our assessment of these controls. Some of these deficiencies were repeated from the prior year. The control failure resulted in material misstatements, which could have been prevented if the necessary oversight responsibility was exercised by senior management.

- All four controls of proper record keeping, regular reporting, compliance monitoring and IT system controls are not properly developed, implemented and monitored by senior management.

Accounting officer: provides some assurance

- The accounting officer is the authoritative figure in the municipality. The accounting officer implemented the audit action plan to address findings of the prior year. However, repeat findings have been raised which could have been avoided if the control weaknesses were adequately addressed.

- The accounting officer did not exercise adequate oversight as all four controls of proper record keeping, regular reporting, compliance monitoring and IT system controls are not properly developed, implemented and monitored.

Mayor: provides some assurance

- The mayor of the municipality does not generally form part of the formulation and application of the day to day controls of the municipality. The mayor does provide oversight over matters that are presented to council by members of senior management.

- The municipality is still facing challenges regarding compliance with laws and regulations as several material mon compliances were identified.

Second level of assurance

Internal audit unit: provides some assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.

- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.

- Deficiencies were identified by the external auditors which were not reported on by the internal auditors.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.

- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

- The audit committee reviewed the financial statements before the issuing of the financial statements to the AGSA, but due to the material misstatements identified during the external audit of the AFS, it is illustrated that only some assurance can be obtained from the audit committee.

Third level of assurance

Municipal council: provides some assurance

- The municipality is still facing challenges regarding compliance with laws and regulations as several material non compliances were identified.

Municipal public account committee (MPAC): provides some assurance

- The municipality is still facing challenges regarding compliance with laws and regulations as several material non compliances were identified.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

93. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Status
1	Reduce material misstatements in the annual financial statements and annual performance report.	CFO	June 2018	Ongoing
2	Establish a performance management system.	CFO	Jan 2018	Ongoing
3	Implement measures for contract monitoring.	CFO	June 2018	Ongoing
4	Develop and implement an HR Plan.	CFO	June 2018	Ongoing
5	Undertake performance evaluations of managers directly accountable to the MM.	CFO	June 2018	Ongoing
6	Comply with payment of suppliers in 30 days.	CFO	June 2018	Ongoing

- 10 audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.

- 8 recommendations are still being implemented and 9 have not been addressed, or very limited progress has been made.

- Details on the status of implementing the previous years recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

94. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	**AS AT 30 JUNE 2018**
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period*	**119 Days**	**71 Days**
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	**176 Days**	**77 Days**
2.2	Debtors impairment provision as a percentage of accounts receivable	**69 %**	**79.2 %**
	• Amount of debtors impairment provision • Amount of accounts receivable	**R 23 790 724** **R 34 389 834**	**R 21 322 837** **R 26 921 842**
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	**No**	**No**
	• Amount of the surplus / (deficit) for the year*	**R 49 736 571**	**R 10 929 658**
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	**No**	**Yes**
	• Amount of the net current assets / (liability) position	**R 6 858 379**	**(R 12 738 126)**
3.3	A net liability position was realised (total liabilities exceeded total assets)	**No**	**No**
	• Amount of the net asset / (liability) position*	**R 220 842 648**	**R 171 106 076**
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	**No**	**No**
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	**R 5 974 232**	**R 2 414 449**
4.2	Net cash flows for the year from operating activities were negative	**No**	**No**
	• Amount of net cash in / (out)flows for the year from operating activities*	**R 55 947 095**	**R 21 829 864**

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	**AS AT 30 JUNE 2018**
4.3	Creditors as a percentage of cash and cash equivalents	**121 %**	**194 %**
	• Amount of creditors (accounts payable) • Amount of cash and cash equivalents / (bank overdraft) at year-end	**R 7 234 918** **R 5 974 232**	**R 4 683 755** **R 2 414 449**
4.4	Current liabilities as a percentage of next year's budgeted resources **	**33 %**	**32 %**
	• Amount of current liabilities • Amount of next year's budgeted income **	**R 15 633 695** **R 47 095 000**	**R 23 347 112** **R 73 189 000**
OVERALL ASSESSMENT			
		Yellow (Concerning)	**Yellow (Concerning)**

* *This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.* [14]

** *This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councillors".*

High-level comments

95. Creditor payment days exceed the norm, which may result in penalty and interest charges being levied against the municipality and futher non-compliance with laws and regulations.

96. Debtors collection period is above the norm, resulting in cash flow problems and non-compiance with laws and regulations.

97. Significant provision for debt impairment, indicate poor debt recovery and significant financial losses, impacting the going concern of the municipality.

98. Future budget income is expected to cover a great portion of current liabilities, which may impact the municipality's solvency position should budgeted income realised be lower than anticipated,taking into consideration the current poor debt recovery.

PROCUREMENT AND CONTRACT MANAGEMENT

99. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

100. R109 262 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection are lack of review and monitoring of compliance with applicable legislation.

Procurement processes

101. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value *R*	Number	Value *R*	Number	Value *R*
Awards selected for testing	*33*	87 202 742	*19*	986 549	*14*	86 216 193
Expenditure incurred on selected awards – current year		60 409 052		986 549		59 422 502
Awards on which non-compliance was identified	*5*	29 296 811	*0*	*0*	*5*	29 296 811
Irregular expenditure identified	*3*	3 660 450	*2*	128 450	*1*	3 532 000

Procurement processes – general

- Two (2) awards with a value of R128 450 was procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.

Local content and production (designated sectors)

- For one contract with a total value of R4 578 728.75 the stipulated minimum threshold for local content is less than the prescribed minimum.

Contract management

- The performance of five (5) contractors or providers was not monitored monthly. The total value of related contracts was R29 296 811.

Internal control deficiencies

102. The accounting officer did not exercise adequate oversight responsibility over compliance with laws and regulations as well as internal controls which resulted in:

    - Quotations being awarded without obtaining the minimum prescribed number of written quotations and deviations were approved even though it was possible to obtain the quotations.

- Bid documents not updated with the prescribed minimum thresholds for local content
- SCM officials are not implementing the approved policies and procedures in all circumstances.

FRAUD AND CONSEQUENCE MANAGEMENT

103. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

- The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

Measures to manage consequences

104. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

- The disciplinary board was not properly constituted in accordance with the provisions of the Financial Misconduct Regulations.

  Based on the investigation report submitted for audit, the investigation conducted into unauthorised and fruitless and wasteful expenditure did not meet the following criteria.

  a).The investigation was commissioned/ approved at the appropriate level.

  b. Terms of reference of the investigations were approved.

  c. The scope of the investigation addresses the allegation.

  d. The recommendations/ findings were relevant to the allegation.

  e. Investigations comply with auditee's policies with regard to independence and qualification/ position.

  Irregular expenditure was not investigated.

Failure to properly deal with allegations reported in the prior year

105. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised,irregular,fruitless and wasteful expenditure

Finding	Value *R*
Unauthorised expenditure	

Finding	Value *R*
Unauthorised expenditure was not properly investigated	106 380 274
Irregular expenditure	
Irregular expenditure was not properly investigated	39 359 023
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure was not properly investigated	2 332 679

106. Unauthorised ,irregular,fruitless and wasteful expenditure disclosed in notes 41,42 amd 47 must be properly investigated to determine whether any officla is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised ,irregular,fruitless and wasteful expenditure and losses incurred should be recovered from the person liable.

USE OF CONSULTANTS

107. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.

108. The total expenditure on consultants was R4 687 59

Transfer of skills

- Measures to monitor transfer of skills according to the contract were not implemented.

Performance management and monitoring

- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.
- The consultancy project was not evaluated for value for money
- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.

CONDITIONAL GRANTS

109. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Municipal Infrastructure Grant
- Regional Bulk Infrastructure Grant
- Water Services Infrastructure Grant

110. The following compliance findings were raised on the utilisation of selected grants:

Finding	Municipal Infrastructure Grant	Regional Bulk Infrastructure Grant	Water Services Grant
	15		
The grant was not spent according to the applicable grant framework			
The municipality did not evaluate its performance on programmes funded by the grant			

111. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants on the projects. The audit findings raised on each project are reported in the table below and/or subsequent sections of the report.

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	**Details**	**Details**	**Details**
Name of grant	*Municipal Infrastructure Grant*	*Regional Bulk Infrastructure Grant*	*Water Services Infrastructure Grant*
Project/initiative funded by the grant	*MIG 1255 Sutherland Internal Reticulation*	*Williston Bulk Water Supply Phase 3*	*ZNC 256 Fraserburg: Upgrading Bulk Water Rising*
Audit findings	16		
Planned completion target for the selected project were not achieved			
Project stage of completion was not assessed			
Project stage of completion assessed by the municipality is incorrect			
Findings on the procurement of goods and services for the project			
Misstatements on the accounting for the expenditure relating to the project			
Payments were made for goods/services not received			
Misstatements on the accounting of funds used through implementing agents			
Process for appointing implementing agents did not comply with legislation			

Key projects/initiatives funded by the grant			
Summary of selected key project and result of testing	**Details**	**Details**	**Details**
Name of grant	*Municipal Infrastructure Grant*	*Regional Bulk Infrastructure Grant*	*Water Services Infrastructure Grant*
Project/initiative funded by the grant	*MIG 1255 Sutherland Internal Reticulation*	*Williston Bulk Water Supply Phase 3*	*ZNC 256 Fraserburg: Upgrading Bulk Water Rising*
Audit findings	16		
Implementing agents failed to comply with SCM prescripts when spending the funds			

WATER AND SANITATION SERVICES

112. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Delegation of function to provide water and sanitation services
- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure, including, routine maintenance and new infrastructure
- Water quality
- Reporting on water losses
- Waste water management
- Key water and sanitation infrastructure projects

113. A summary of the significant findings from the audit are as follows:

Water services

Planning and reporting on the provision of water services

- The table below summarises whether key performance indicators for the provision of water services were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of formal residential properties that receive piped water (credit and	Not reported	No	No

prepaid water) that is connected to the municipal water infrastructure network and which are billed for water or have pre paid meters as at 30 June 2019,			
Provide free basic water to indingent households	Not reported	No	No
Limit unaccounted for water to less than 15% by 30 June 2019	Not reported	No	No
95% water quality level obtained as per SANS 241 physical and micro parameters	Not reported	No	No
90% of the water management capital budget spent by 30 June 2019	Not reported	No	No
80% of the water management maintenance budget spent by 30 June 2019	Not reported	No	No

Water quality

- No environmental policy, strategy or documented processes were established for the identification and monitoring of environmental risks relating to water provision.

Reporting on water losses

- Water losses were not calculated using the Uniform financial ratios and norms prescribed by National Treasury in circular 71.
- Water losses [were incorrectly calculated or did not agree with the supporting evidence].
- Material water losses of 6.77% were incurred during the year under review as disclosed in note 43 of the financial statements.

Sanitation services

Planning and reporting on the provision of sanitation services

- The table below summarises whether key performance indicators for the provision of sanitation services were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of formal residential properties connected to the municipal waste water sanitation/sewerage service irrespective of the number of water closets (toilets) which are billed for sewerage as at 30 June 2019	Not reported	No	No

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Provide free basic sanitation to indigent households	Not reported	No	No
90% of sewerage capital budget spent by 30 June 2019	Not reported	No	No
80% of sewerage maintenance budget spent by 30 June 2019	Not reported	No	No

Waste water management

- No environmental policy, strategy or documented processes were established for the identification and monitoring of environmental risks relating to waste water management.

Key water and sanitation infrastructure projects

114. The audit also included an understanding of planning, project management and commissioning of key water and sanitation infrastructure projects undertaken by the municipality. This included testing the timelines, spending against budget , compliance with procurement processes, appropriate recording of transactions in the financial statements and the quality of the goods and services delivered.

115. The table below summarises the audit findings on the selected key projects.

Summary of the key findings	
Water infrastructure	
Project name	***Sutherland williston bulk water supply Phase 2***
Planning and budgeting for the project	
Brief description of key project	Bulk water supply to enhance sustainable service delivery through infrastructure
Source of funding	WSIG Grant
Project commenced as planned	Yes
Project completed within defined duration (applicable if completed)	Yes
Status of completion (applicable if WIP)	Completed
Available budget for the year	R 4 996 750

Summary of the key findings	
Water infrastructure	
Project name	***Sutherland williston bulk water supply Phase 2***
Actual amount spent in current year	R 4 347 832.08
Total project budget (multi-year) – original / revised	R 4 996 750 i
Actual amount spent from inception to date	R 4 347 832.08
Audit findings	
Execution of the project	
Significant overspending or underspending on budget available for the year	
Significant overspending or underspending on total project budget (multi-year)	
Findings on the procurement of goods and services for the project	
Overall quality of the project management was poor or not acceptable	
Findings on consequence management	
Findings on fraud	
Prior year findings not addressed (if applicable)	
Goods and services delivered on project of poor or sub-standard quality	
Findings on commissioning of the completed project	
Findings on accounting for the project (annual financial statements)	
Spending not aligned to stage of completion	
Budget spent but project milestones not achieved	

Summary of the key findings	
Water infrastructure	
Project name	***Sutherland williston bulk water supply Phase 2***
Findings on grant spending	
Findings on fruitless and wasteful expenditure in relation to the project	
Findings on irregular expenditure incurred on the project	
Infrastructure / facility not utilised for intended purpose	
Infrastructure / facility not utilised at all or under utilised	

ROADS INFRASTRUCTURE

116. The audit included an assessment of the roads infrastructure service delivery objective. Procedures were performed in relation to the following:

- Performance planning and reporting on roads infrastructure
- Planning for renewal and routine roads maintenance projects
- Planning for new or refurbished roads infrastructure projects
- Follow-up on the previous year's findings
- Key roads infrastructure projects

117. A summary of the significant findings from the audit are as follows:

Planning and reporting on roads infrastructure

- The table below summarises whether key performance indicators for roads infrastructure were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
KM's of roads resurfaced/rehabilitated by 30 June 2019.	Not reported	No	No

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
80% of the Road Transport Maintenance budget spent by 30 June 2019	Not reported	No	No

Planning for renewal and routine roads maintenance projects

- A priority list of roads infrastructure for the renewal and routine maintenance projects was not developed or approved for the period under review.
- The roads infrastructure included in the asset register was not included in the Road Maintenance Plan. This was due to the municipality not reconciling maintenance work performed to assets capitalised on the asset register.

Roads infrastructure projects

118. The audit also included an understanding of planning, project management and commissioning of key roads infrastructure projects undertaken at the municipality. This included testing the timelines, spending against budget, compliance with procurement processes, appropriate recording of transactions in the financial statements and the quality of the goods and services delivered.

119. The table below summarises the audit findings on the selected key projects

Summary of the key findings	
Project name	***Williston upgrade of roads***
Planning and budgeting for the project	
Brief description of key project	Upgrading of streets in Williston
Source of funding	Municipal Infrastructure Grant
Project commenced as planned	Yes
Project completed within defined duration (applicable if completed)	Not applicable
Status of completion (applicable if WIP)	Not yet completed
Available budget for the year	R 7 280 000
Actual amount spent in current year	R 7 037 858
Total project budget (multi-year) – original / revised	R 7 280 000
Actual amount spent from inception to date	R 7 564 208

Summary of the key findings	
Project name	***Williston upgrade of roads***
Audit findings	
Execution of the project	
Significant overspending or underspending on budget available for the year	
Significant overspending or underspending on total project budget (multi-year)	
Findings on the procurement of goods and services for the project	
Overall quality of the project management was poor or not acceptable	
Findings on consequence management	
Findings on fraud	
Prior year findings not addressed (if applicable)	
Goods and services delivered on project of poor or sub-standard quality	
Findings on commissioning of the completed project	
Findings on accounting for the project (annual financial statements)	
Spending not aligned to stage of completion	
Budget spent but project milestones not achieved	
Findings on grant spending	
Findings on fruitless and wasteful expenditure in relation to the project	
Findings on irregular expenditure incurred on the project	
Infrastructure / facility not utilised for intended purpose	

Summary of the key findings	
Project name	***Williston upgrade of roads***
Infrastructure / facility not utilised at all or under utilised	

SUPPORT TO LOCAL GOVERNMENT

120. The audit included an assessment of the support provided to local government by relevant national and provincial departments. No significant findings were identified.

SECTION 5: Using the work of internal auditors

121. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

122. The following reports were used for risk identification:

- Final report on performance management system – Quarter 1 to 4
- Human Resource Management – Recruitment and Selection

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:**GRAP pronouncement**	**Effective date**
GRAP 18 - *Segment reporting*	1 April 2020
GRAP 20 - *Related-party disclosures*	1 April 2019
GRAP 32 - *Service concession arrangements: grantor*	1 April 2019
GRAP 34 - *Separate financial statements*	1 April 2020
GRAP 35 - *Consolidated financial statements*	1 April 2020
GRAP 36 - *Investments in associates and joint ventures*	1 April 2020
GRAP 37 - *Joint arrangements*	1 April 2020
GRAP 38 - *Disclosure of interests in other entities*	1 April 2020
GRAP 104 - *Financial instruments* (Revised April 2019)	To be determined
GRAP 108 - *Statutory receivables*	1 April 2019

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:**GRAP pronouncement**	**Effective date**
GRAP 109 - *Accounting by principals and agents*	1 April 2019
GRAP 110 - *Living and non-living resources*	1 April 2020
IGRAP 1 *Applying the probability test on initial recognition revenue* (amendments)	1 April 2020
IGRAP 17 - *Service concession arrangements where a grantor controls a significant residual interest in an asset*	1 April 2019
IGRAP 18 - *Recognition and derecognition of land*	1 April 2019
IGRAP 19 - *Liabilities to pay levies*	1 April 2019
IGRAP 20 *Accounting for adjustments to revenue*	1 April 2020
Guideline *Accounting for arrangements undertaken in terms of the national housing programme*	1 April 2019
Guideline *Accounting for landfill sites*	To be determined
Guideline *The application of materiality to financial statements*	Voluntary*
* The Guideline on *The application of materiality to financial statements* was issued in April 2019. The Guideline is available for immediate consideration, to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the Guideline is voluntary, application is encouraged.	

Audit findings on matters that may be recognised as material irregularities in future audits

123. The amendments to the PAA and the Material Irregularities Regulations issued in terms of the PAA became effective on 1 April 2019.

124. The amendments introduce the concept of a material irregularity. As per the definition in the PAA, a material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

125. The AG has a statutory discretion to determine the manner of, and time frames within which to implement certain elements of the amendments. For the 2018-19 audits, the AG opted to apply a phased approach to the handling of material irregularities, which includes implementing the process only at selected auditees.

126. Although Karoo Hoogland Local Municipality was not selected in this first phase of implementation, we highlight the following significant matters which came to our attention during the audit which may be recognised as material irregularities in future when the process is implemented at the municipality. It is reported as audit findings in the annexures to this report.
– irregular expenditure identified through the audit process, not disclosed by the municipality

Audit findings on the annual performance report that may have an impact on the audit opinion in future

127. The planned and reported performance information of selected development priorities was audited against the following additional criteria as developed from the Performance Management Reporting Framework:

- **Presentation and disclosure – Overall presentation:**
  - Overall presentation of the performance information in the annual performance report is comparable and understandable

- **Relevance – Completeness of relevant indicators:**
  - Completeness of relevant indicators in terms of the mandate of the auditee, including:
    - relevant core functions are prioritised in the period under review
    - relevant performance indicators are included for the core functions prioritised in the period under review

128. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinions of the selected [development priorities in this report. However, it may impact on the audit opinion in future.

SECTION 7: Ratings of detailed audit findings

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

- Matters to be included in the auditor's report: these matters should be addressed as a matter of urgency.
- Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 8: Conclusion

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

Yours faithfully

Louis Els
Senior Manager: Northern Cape

[Date of signature]

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Distribution:
Audit committee
Head of internal audit unit
Municipal Manager
Chief Financial Officer

SECTION 9: Summary of detailed audit findings

		Classification					Rating				
Page no.	**Finding**	**Misstatements in financial statements**	**Misstatements in annual performance report**	**Non-compliance with legislation**	**Internal control deficiency**	**Service delivery**	**Matters affecting the auditor's report**	**Other important matters**	**Administrative matters**	**Number of times reported in previous three years**	**Status of implementation of previous year(s) recommendation**
Cash and cash equivalents											
	COA 6. Cash and Cash Equivalents: Amount held as guarantee not disclosed in the financial statements (Iss.37)	✓						✓		Year - 1	[In progress / Not addressed]
	COA 6. Cash and Cash Equivalents: Fuel deposit incorrectly presented and disclosed in the financial statements (Iss.38)	✓						✓		Year - 1	[In progress / Not addressed]
Cash flow statements											
	COA 4: Cash Flow Statement: Mistatements in the cash flow statement (Iss.27)	✓					✓			Year - 1	[In progress / Not addressed]
Conditional grants											
	COA 2. Conditional Grants: Incorrect accounting treatment applied for conditional grants (Iss.6)				✓			✓		Year - 2	[In progress / Not addressed]
	COA 10. Conditional Grants: No evidence of evaluation performed by municipality on key projects funded by grants (Iss.60)			✓			✓			Year - 1	[In progress / Not addressed]

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
Consequences management											
	COA 1. Consequences Management: No policies and disciplinary procedure implemented to deal with disciplinary issues (Iss.7)			✓				✓		All three previous years	[In progress / Not addressed]
	COA 1. Consequences Management: No disciplinary board to investigate allegations of financial misconduct (Iss.8)			✓				✓		All three previous years	[In progress / Not addressed]
	COA 1. Consequence management: No investigation done on irregular expenditure (Iss.11)			✓			✓			All three previous years	[In progress / Not addressed]
	COA 6. Consequences Management: Investigations for UIFW not properly conducted (Iss.43)			✓				✓		Year - 1	[In progress / Not addressed]
Contingent liabilities											
	COA 4. Contingent Liabilities: Misstatement of contingent liabilities in the annual financial statements (Iss.23)	✓						✓		Year - 1	[In progress / Not addressed]
Employee costs											
	COA 4. Employee Costs: Not all leave forms were captured (Iss.2)				✓			✓		Year - 1	[In progress / Not addressed]
	COA 6. Employee Costs: Salary increase not approved (Iss.36)			✓			✓			Year - 1	[In progress / Not addressed]

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COA 8. Employee Costs: Miscalculation of long service bonus (Iss. 40)	✓						✓			
	COA 8. Employee Costs: Proper recruitment procedures not followed (Iss.44)	✓					✓			Year - 1	[In progress / Not addressed]
	COA 7. Compliance: Compliance deviations identified within HR Management (Iss.47)			✓			✓			Year - 1	[In progress / Not addressed]
Financial statements											
	COA 10. AFS: High level review of financial statements (Iss.25)	✓						✓		Year - 1	[In progress / Not addressed]
General IT controls											
	COA 2. Information Systems: No formally approved IT Governance Policy (Iss.13)				✓			✓		All three previous years	[In progress / Not addressed]
	COA 2. Information Systems: No Disaster recovery plan and IT Strategic Plan (Iss.14)				✓			✓		All three previous years	[In progress / Not addressed]
	COA 2. Informations Systems: EMS system can be accessed by service provider without approval from the IT Manager. (Iss.15)				✓			✓		Year - 1	[In progress / Not addressed]
	COA 2. Information Systems: No periodical reviews performed to confirm that access and privileges to the system are still commensurate with user job responsibilities (Iss.16)				✓			✓		Year - 1	[In progress / Not addressed]

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COA 2. Information Systems: The Debtors Clerk and most of the SCM personnel have dual access to the system (Iss.17)				✓			✓		Year - 1	[In progress / Not addressed]
Immovable assets											
	COA 7. PPE: The municipality has no rights to land included in the fixed assets register (Iss.45)	✓					✓			Year - 1	[In progress / Not addressed]
Movable assets											
	COA 1. Assets: Control deficiencies identified within Asset Management (Iss.5)				✓			✓		Year - 1	[In progress / Not addressed]
	COA 5. PPE: Disposals not disclosed in the AFS (Iss.30)	✓						✓		Year - 1	[In progress / Not addressed]
Operating expenditure											
	COA 5. Expenditure: Expense incorrectly classified (Iss.34)	✓						✓		Year – 1	[In progress / Not addressed]
	COA 9. Expenditure: Inconsistent kilometres claimed on travel claims (Iss.57)	✓						✓		Year – 1	[In progress / Not addressed]
Payable											
	COA 5. Trade Payables - Unidentified Deposits not cleared (Iss.31)	✓						✓		Year – 2	[In progress / Not addressed]

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COA 12. Payables: Retentions presented in the financial statements not complete (Iss.66)	✓					✓			Year – 1	[In progress / Not addressed]
Predetermined objectives											
	COA 1. AOPO: Non-alignment of indicators in the SDBIP to the Intergrated Development Plan (Iss.3)		✓				✓			Year – 3	[In progress / Not addressed]
	COA 1. AOPO: No evidence in the SDBIP of inclusion of revenue collected and expenditure incurred (Iss.4)		✓				✓			Year – 1	[In progress / Not addressed]
	COA 10: AOPO: Inadequacies of the newly implemented performance management system (Iss.9)		✓				✓			Year – 1	[In progress / Not addressed]
	COA 6. AOPO: Measurable performance targets not set for all key performance indicators (Iss.12)		✓				✓			Year – 1	[In progress / Not addressed]
	COA 3. AOPO: Approved adjusted budget not made public after approval by council (Iss.20)		✓					✓		Year – 1	[In progress / Not addressed]
	COA 3. AOPO: Incomplete annual performance report submitted for audit (Iss.21)		✓				✓			Year – 1	[In progress / Not addressed]
Procurement and Contract Management											
	COA 5. SCM: Minimum threshold for local content production in the bid document is less than the			✓			✓			Year – 1	[In progress / Not addressed]

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	stipulated threshold prescribed by National Treasury (Iss.32)										
	COA 10. SCM: Performance of contractors not monitored on a monthly basis (Iss.48)			✓			✓			All three previous years	[In progress / Not addressed]
	COA 10. SCM: Non compliance with the requirements of section 32 (Iss.54)	✓					✓			Year – 1	[In progress / Not addressed]
	COA 10. SCM: Three quotations not obtained (Iss.55)			✓			✓			Year – 1	[In progress / Not addressed]
	COA 10. SCM: No evidence that the quotation was advertised for the prescribed period (Iss.63)			✓				✓		Year – 1	[In progress / Not addressed]
	COA 13. SCM: Issues identified with deviations to procurement processes (Iss.64)	✓						✓		Year – 1	[In progress / Not addressed]
Policies											
	COA 7. Policies: No evidence of review of policies (Iss.1)				✓			✓		Year – 1	[In progress / Not addressed]
Receivables											
	COA 11. VAT: Differences noted between the GL and VAT 201 (Iss.65)	✓					✓			Year – 1	[In progress / Not addressed]
Revenue											

Page no.	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COA 5. Revenue: Property Rates - Differences between recalculated property rates and rates disclosed in the financial statements (Iss.28)	✓					✓			Year - 1	[In progress / Not addressed]
	COA 5. Revenue: Completeness of revenue from rental of facilities could not be confirmed (Iss.35)	✓						✓		Year - 1	[In progress / Not addressed]
	COA 10. Revenue: Difference between amount as per the contract and the billed amount (Iss.52)	✓						✓		Year - 1	[In progress / Not addressed]
	COA 9. Revenue: Rental agreements not provided for audit (Iss.53)	✓						✓		Year - 1	[In progress / Not addressed]
Roads infrastructure											
	COA 10. Roads Infrastructure: Road maintenance plan not reconciled to the asset register and priority list for the renewal and routine maintenance projects not developed (Iss.62)					✓		✓		Year - 1	[In progress / Not addressed]
Water and sanitation services											
	COA 11. Water and Sanitation Services: No environmental policy in place (Iss.59)					✓		✓		Year - 1	[In progress / Not addressed]

Detailed audit findings[17]

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Cash flow statement

1. ISS.27-COA 4: Cash Flow Statement: Mistatements in the cash flow statement (Iss.27)

Audit finding
In terms of the Municipal Finance Management Act 56 of 2003, section 62(1)(b):
The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of the cash flow statement the following variances were identified between the auditor's re-calculation and the cash flow statement submitted for audit:

Details	Amounts as per cash flow statement (A) (R)	Amounts auditors recalculation (B) (R)	Difference (A-B) (R)
Employee Related Costs	(26 461 715,00)	(26 508 556,00)	46 841
Suppliers Paid	(19 258 077,00)	(19 012 246,00)	(245 831)
Purchase of Property, Plant and Equipment	52 093 242,00)	(52 301 242,01)	208 000,01
Finance lease payments	(265 490,00)	(256 489,99)	(9 000,01)
Receivables from exchange transactions	(5000 105,00)	(7 222 892,00)	(2 222 787,00)
Other receivables from non-exchange transactions	(1 129 261,00)	(1705 159,00)	(575 898,00)
Payables from exchange transactions	2119 287,00	3 195 223,00	1 075 936,00

Prior Year Restated Cashflow			
Details	**Amount as per cash flow statement (A)**	**Amount as per auditors recalculation (B)**	**Difference (A-B)**
Correction (Intangible assets)	1 719 552,00	1 698 474,42	21 077,58

Management did not adequately review the financial statements to ensure that they are accurate.

The above finding results in misstatements of the cash flow statement in the annual financial statements.

Internal control deficiency
Financial and performance management

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

Recommendation

The financial statements and information supporting disclosure notes should be reviewed for accuracy and completeness by management before submission for audit.

Management's response
On agreement with the auditors the final cashflow adjustment will be postpone to the end of the audit process. The Cashflow was therefore preliminary adjusted as per the Auditors recommendation and calculations.

Name: S Myburgh
Position: CFO
Date: 21 October 2019

Auditor's conclusion
Management agreed with the finding and requested to adjust the financial statements. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

Conditional grants

2. ISS.60-COA 10. Conditional Grants: No evidence of evaluation performed by municipality on key projects funded by grants (Iss.60)

Audit finding
In terms of DORA section 12 (5) The receiving officer must evaluate the financial and non-financial performance of the provincial department or municipality, as the case may be, in respect of programmes partially or fully funded by a Schedule 5 allocation and submit such evaluation to the transferring officer and the relevant provincial treasury within two months after the end of the 2018/19 financial year applicable to a provincial department or a municipality, as the case may be.

There is no evidence of evaluation of performance in respect of projects funded by the Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant within two months after the end of the financial year as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

Number	Name of Grant	Projected funded	Amount
1	Water Services Infrastructure Grant (WSIG)	ZNC 256 Fraserburg: Upgrading Bulk Water Rising	4 500 000,00
2	Regional Bulk Infrastructure Grant (RBIG)	Williston Bulk Water Supply phase 3	17 577 750,00

Management did not evaluate the performance of projects funded by schedule 5 allocation.

The impact of above finding is non-compliance to section 12(5) of the Division of Revenue Act (Act 1 of 2018).

Internal control deficiency
Leadership

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

Recommendation

Management should ensure that the financial and non-financial performance in respect of projects funded by Schedule 5 allocation are evaluated and the evaluation reports are submitted to the relevant provincial treasury within two months after the end of the financial year.

Management's response
Management disagree as the attached minutes of site meetings was provided to you as evidence to the fact that the projects were reviewed and monitored

Niel Lyners was the appointed Consulting Engineer for the RBIG project and Ribicon Consulting for the WSIG project whose scope of work includes performance monitoring of all the Infrastructure projects per site meetings. Performance are only monitored once work commenced, hence no site meetings before that.

Mr FJ Lotter attends all site meetings together with the consulting engineers and Mr FJ Lotter also submits monthly and quarterly reports to the necessary governmental departments who again monitors the performance of the municipality.

Please find attached all the evidence for the above statement.

As for the 2019/2020 year monthly performance of consultants are being done as well as quarterly meetings to address any non-performance.

WSIG project only started from May 2019 – and therefore only monitored from then per site meetings and then I also attach the report which was send to the department.

RBIG projects contractors were appointed during September and October 2018 and the work depends on the receiving of the funds from NT and the contractors knows that.

Site meetings vir JVZ: appointed 18 october 2018
Completion date was April 2019 - extended to August 2019
Site meetings: -
18 oct 2018 - JVZ
The site of the works was handed over on 27 February 2019.
The commencement date of the contract was 18 October 2018. The project was suspended from 26 October 2018 to 4 February 2019.

18 maart 2019 -JVZ
Nr 4 – 25 april 2019
5 june 2019
site meeting nr 5 (4 july 2019) ,
nr 6 - 7 august 2019

Therefore no evaluation was necessary while the project was suspended.

Please see attached copies of minutes and reports

Auditor's conclusion
Management comments noted. However; no evidence could be obtained that the municipality submitted evaluation reports on projects funded by the Regional Bulk Water Infrastructure Grant and the Water Services Infrastructure Grant to the transferring officer within two months after the end of the year.

No evidence could be found that indicates that the municipality does not have to submit an evaluation on programmes funded by the Regional Bulk Water Infrastructure Grant within two months after year end, as required by section 12(5) of the DoRA.

Therefore, the finding remains unresolved and will be reported in the auditor's report as part of non-compliances identified.

Employee costs

3. ISS.44-COA 8. Employee Costs: Proper recruitment procedures not followed (Iss.44)

Audit finding
The Karoo Hoogland Municipality Recruitment and Selection Policy (approved by Council on 30 August 2018) paragraph 5.3.12 states that:
In cases where urgent appointments are required, the Municipal Manager, or his or her delegate, can apply to council to deviate from the normal recruitment and selection process.
The council resolution can then condone the deviation from normal recruitment and selection process.
Urgent appointments should be handled as a temporary appointment on a fixed term contract for no longer than 12 months.

Contrary to the above requirements, it was noted that the municipality made an urgent contract employment whereby recruitment and selection processes were not followed. There is however, no Council resolution that approves the deviation from the recruitment and selection process for this appointment, as required by the policy.

The following employee was employed without following the requirements of the Recruitment and Selection Policy:

No.	Employee Number	Employment Date	Employment Type	Total Remuneration
1	5088	2018/10/01	Contract	84 687,03

Management did not ensure that all policy requirements are adhered to.
The above finding may result in irregular expenditure of all remuneration paid to the employee for the year, amounting to R84 687.03 if the appointment was not appropriately approved by Council.

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

Appointments made that were not appropriately approved should be identified, investigated, quantified and disclosed as irregular expenditure.

Management should ensure that appointment processes are followed before employees are appointed.

Management's response
Management agrees. The MM instructed that the recruitment and selection process will be done in terms of the policy and that the appointment is scheduled for 01 January 2020.

Name: SJ Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management agreed to the finding, the finding remains unresolved and will be reported in the management report. The salary paid to the employee results in irregular expenditure. Therefore, irregular expenditure disclosed in the financial statements is not complete. The resulting irregular expenditure will be reported in the auditor's report.

Consequence mananagent

4. ISS.11-COA 1. Consequence management: No investigation done on irregular expenditure (Iss.11)

Audit finding
In terms of the Municipal Finance Management Act 56 of 2003, section 32: Unauthorized, irregular or fruitless and wasteful expenditure states that:

1. without limiting liability in terms of the common law or other legislation a municipality must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure in the case of unauthorized expenditure, is authorized in an adjustments budget; or certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

During the audit of unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure, we noted that there were no investigations done for transgression of laws and regulations relating to irregular expenditure for prior year per the annual financial statements as disclosed below:

Description	Amount
Irregular expenditure	39,359,285

There are no processes in place to ensure that unauthorised, irregular, fruitless and wasteful expenditure incurred is investigated and officials responsible for such expenditure are held accountable.

The municipality does not have a compliance checklist and a monitoring tool in place in order to ensure that all requirements per the laws and regulations are complied with.

The above finding results in non-compliance with the MFMA section 32.

Internal control deficiency
Financial and performance management
Management did not ensure that investigation for instances that led to unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure are undertaken and appropriate action taken.

Recommendation

Management should ensure that instances of unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure are investigated, and appropriate action taken.

Management's response
Disagree with finding. An investigation committee have been established and did investigate unauthorized and fruitless and wasteful expenditure.

Name: S Myburgh

Position: CFO
Date: 19 September 2019

Auditor's conclusion
Management comments noted. The municipality established an investigation committee and provided an investigation report on the committee's investigation of unauthorised, fruitless and wasteful expenditure. However, the committee did not investigate irregular expenditure.

Therefore, the finding remains unresolved and will be reported as non-compliance in the audit report.

Employee costs

5. ISS.36-COA 6. Employee Costs: Salary increase not approved (Iss.36)

Audit finding
According to the Municipal Finance Management Act (MFMA) section 62(1)(d):
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 South African Local Government Bargaining Council (SALGBC) Circular 6 of 2018: Salary and Wage Collective Agreement 2018 paragraph 6 states:
Financial Year 2018/2019
6.1 In respect of this financial year, all employees covered by this agreement shall receive an increase of seven percent (7%) with effect from 1 July 2018.
6.2 Employees who earn a basic salary of R9 000.00 or less shall receive a further increase of zero comma five percent (0.5%) with effect from 1 October 2018 based on the salaries of the employees as at 30 September 2018.

It was noted that an employee's basic salary was increased with 39% from April 2019. This increase was granted after the SALGA Salary Increases were effected in July 2018. No evidence of a formal process followed to implement and approve this increase could be found on the employee's personnel file.

The employee's basic salary was as follows for the financial period under review:

Employee Number	Position	Remuneration Type	July 2018 to March 2019 Salary Per Month	April 2019 Back Pay Salary	April 2019 to June 2019 Salary Per Month
101	Officer: Administration and support services	Basic Salary	17 433,63	13 728,84	24 298,05

The municipality did not ensure that proper processes are followed when salaries are increased.

The above finding may result in:

- irregular expenditure being incurred as a result of salary increments implemented that are not in line with approved processes in place; and
- a weak control environment within the human resource management.

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 only implement salary changes according to SALGBC increments or if the employee's job description changes, that warrants a promotion.
Formal human resource management processes in place for implementing and approving salary increases should be followed for all salary increments effected by management.

Management's response
Management agrees

Name: S.J. Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management comments were evaluated. Subsequent to the audit finding, supporting documents to validate the increase were provided. However; some of these documents were not signed by the Municipal Manager. On requesting signed documents, the HR Manager did not have signed documents ready.

It should also be noted that the municipality's currently approved staff establishment provides for the position of Officer: Admin & Support COR02- Mr Al Hendricks (Fixed Term Contract) at the job functions that were initially approved as per the job description and appointment documents. The additional job functions result in Mr Al Hendricks performing functions that are beyond the scope of

his position and not provided for in the staff establishment. He is effectively performing duties of a Performance Manager; which is currently not included in the staff establishment.

It was also noted that the employee was on a salary scale of T10 prior to the increase. Thereafter, his salary scale moved to T12. This places the employee in a salary scale that is not in line with his current position.

Therefore; the finding remains unresolved and will be reported. The increase of R24 298 results in irregular expenditure as proper processes were not followed to approve the increase. The resulting irregular expenditure will be reported in the auditor's report.

Human resource management

6. ISS.47-COA 7. Compliance: Compliance deviations identified within HR Management (Iss.47)

Audit finding
The Municipal Systems Act No. 32 of 2000 (MSA) section 66(3) states that:
No person may be employed in a municipality unless the post to which he or she is appointed, is provided for in the staff establishment of that municipality.

The MSA section 67(1)(d) states that:
A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective and transparent personnel administration, including—
(d) the monitoring, measuring and evaluating of performance of staff;
Contrary to the above requirements, the following compliance deviations were identified:

1. **Position of Internal Audit Manager not on the staff establishment:**
It was noted that the municipality appointed an Internal Audit Manager during the financial period under review. However, the position of Internal Audit Manager was not provided for in the approved staff establishment.

2. **No appropriate systems and procedures in place to monitor, measure and evaluate the performance of staff:**
It was noted that the municipality does not have an appropriate system and procedures in place to monitor, measure and evaluate the performance of staff. Senior managers are the only employees who have signed performance agreements and that is the only staff performance measurement tool in place.

The staff establshment is not regularly updated to ensure that all required positions are included therein.

The municipality does not have effective internal controls in place to ensure that compliance is monitored and prior years compliance issues are addressed.

The above findings result in non-compliance with the requirements of the MSA.

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

Recommendation

Management should review the municipality's staff establishment and provide for all additional posts that are currently required but not included on the staff establishment.
Management should develop and implement an employee performance management system that will enable them to monitor, measure and evaluate staff performance.

Management's response
1. Management agrees. The organogram will be taken to the LLF for reviewing in November 2019 and for adoption by Council in December 2019
2. Management agrees as the performance management function on EMS is not fully functionalyet

Name:S.J. Myburgh
Position:CFO
Date:2019/11/01

Auditor's conclusion
Management agreed to the finding. The finding remains unresolved and will be reported in the auditor's report as non-compliance.

Immovable assets

7. ISS.45-COA 7. PPE: The municipality has no rights to land included in the fixed assets register (Iss.45)

Audit finding
The Municipal Finance Management Act No.56 of 2003, section 63 states that:
(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; and
(b) the liabilities of the municipality.
(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—
(a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
(b) that the municipality's assets and liabilities 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 and liabilities, including an asset and liabilities register, as may be prescribed.

Contrary to the above requirements, it was noted that not all land recorded in the fixed assets register belongs to the municipality. A deeds search was performed to identify whether property listed in the municipality's fixed asset register is in the name of the municipality.

According to the deeds search performed, the following land is not registered in the name of the municipality, it is recorded in the name of the Verenigende Gereformeerde Kerk In Suider-Afrika Fraserburg.

ID	Description	Component Type	Town	ASSET SUBCAT DESCRIPTION	CARRYING VALUE 30/06/2019
LB18	265/00000	ARTS & CRAFT CENTRE	Fraserburg	Land	630 000,00

There was inadequate review of the asset register to ensure that land which does not belong to the municipality is removed from the municipality's asset register.

The above finding results in an overstatement of Property, Plant and Equipment of R630 000.

Internal control deficiency
Financial and performance management
Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should investigate the Property, plant and equipment population to ensure that only assets belonging to the municipality are recorded in the fixed assets register and accounted for. Management should ensure that adequate review of the asset register is performed to ensure that land which does not belong to the municipality is removed from the municipality's fixed asset register.

Management's response
Management agrees with the finding.
The above land is the only property transferred.
The AFS will be adjusted by removing the property from the FAR and disclosing the property as donated PPE.

Name: **S. Myburgh**
Position: **CFO**
Date: **04/11/2019**

Auditor's conclusion
Management agreed with the finding and requested to adjust the financial statements. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

Payables

8. ISS.66-COA 12. Payables: Retentions presented in the financial statements not complete (Iss.66)

Audit finding
The Municipal Finance Management Act 56 of 2003 (MFMA) section 62(1)(b) and (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—
(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

During the audit under review, the following issues were identified:

Retentions that were not accounted for:

It was noted that the following retentions were not included on the retentions list:

TENDER NUMBER	NAME OF BIDDER	DESCRIPTION OF TENDER/SERVICE	CERTIFICATE NUMBER	PAYMENT ADVICE NUMBER	RETENTION AMOUNT INCL. VAT R
KHM/ WB03/007/2018	JVZ Construction JV	Williston Bulk Water Supply Civil Works Phase 3:	5	59	1 501 908,98

Management did not monitor retentions and ensure that all retentions are accounted for as payables.

The above finding results in:

- an understatement of retentions of R1 501 909 for the retentions that were not included on the retentions list

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

Recommendation

Management should investigate the retentions population and ensure that all retentions for contracts have been included on the retentions list and accounted for as payables for the year and that all retentions are calculated at the correct rate.

Management's response
1. Retentions that were not accounted for:
JVZ Construction JV:
Management agrees with the finding. The above are the only retention not withheld from the construction contracts. The financial statements will be adjusted with the following journal:

Dt: WIP - 1306007.81
Dt – VAT - 195901.17
Kt – Retentions - 1501908.98

Auditor's conclusion
Management responses were evaluated as follows:

1. Retentions that were not accounted for:
JVZ Construction JV:
Management agreed with this part of the finding and requested to adjust the financial statements. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

Predetermined objectives

9. ISS.3-COA 1. AOPO: Non-alignment of indicators in the SDBIP to the Intergrated Development Plan (Iss.3)

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.

Section 41 (a) to (c) of the Municipal Systems Act 32 of 2000 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.

ii) measure and review performance at least once a year.

Section 53(1)(c)(iii) of the Municipal Finance Management Act 56 of 2003 - Budget process and related matters

(1) The mayor of a municipality must take all reasonable steps to ensure that the annual performance agreements as required in terms of section 57 (1) (b) of the Municipal Systems Act for the municipal manager and all senior managers:

(a) comply with this Act in order to promote sound financial management;

(b) are linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan; and

(c) are concluded in accordance with section 57 (2) of the Municipal Systems Act.

During our review of the Integrated Development Plan (IDP) and Service Delivery Budget and Implementation Plan (SDBIP) the following deficiencies were 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 SDBIP includes indicators and targets per vote, it does not link to the IDP's development priorities and objectives for each key performance area.

There is therefore no consistency and accurate link amongst the IDP and SDBIP.

Management does not implement the requirements of the municipal systems act and are not monitoring compliance with the act.

The above finding may result in non-compliance with the Municipal Systems Act.

Internal control deficiency

Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did not comply with applicable legislation by properly aligning their IDP's identified Key performance Areas to the SDBIP.

Recommendation

Management should review the IDP and SDBIP and ensure that:

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

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.

Management's response
Agree with finding. Management is however in the process of getting assistance from Sebata official from the first week of October 2019.

Name:S Myburgh
Position: CFO
Date: 19 September 2019
Auditor's conclusion
Management agree with the audit finding. Therefore, the finding still remains and will be reported in the auditor's report as part of non-compliance identified.

10. ISS.4-COA 1. AOPO: No evidence in the SDBIP of inclusion of revenue collected and expenditure incurred (Iss.4)

Audit finding
Section 1 of the Municipal Finance Management Act 56 of 2003 states that a "service delivery and budget implementation plan" means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate:
1. projections for each month of
    i. revenue to be collected ,by source; and
    ii. operational and capital expenditure ,by vote
2. service delivery targets and performance indicators for each quarter; and
3. any other matters that may be prescribed,
and includes any revisions of such plan by the mayor in terms of section 54 (1) (c);

It was noted that there was no evidence that the approved Service Delivery Budget Implementation Plan (SDBIP) includes projections of each month of revenue collected by source and operational and capital expenditure by vote, as per the requirements of the Act.

Management did not implement the requirements of the Municipal Finance Management Act and are not monitoring compliance with the Act.

The above finding may result in non-compliance with the requirements of the MFMA.

Internal control deficiency

Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did not comply with applicable legislation by ensuring that the SDBIP is designed in accordance with the requirements of the Act .

Recommendation

Management should ensure that the SDBIP prepared for the financial period under review includes the projections of revenue to be collected by source as well as operational and capital expenditure per vote as per the MFMA.

Management's response
Agree with finding. A service provider (Sebata) are assisting the municipality to ensure that the SDBIP will have revenue and expenditure linked to it.
Name:S Myburgh
Position: CFO
Date: 19 September 2019

Auditor's conclusion
Management agree with the audit finding. therefore, the finding still remains and will be reported in the auditor's report as part of non-compliance identified.

11. ISS.9-COA 10: AOPO: Inadequacies of the newly implemented performance management system (Iss.9)

Audit finding
Section 41 (1)states that "a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed"

(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 the public and appropriate organs of state.
The following defeciencies were identified within the newly implemented performance management system.

1.The performance management framework is silent on the corrective action to be taken on the under achievement of performance targets set by the municipality as per the Intergrated development plan and Service delivery budget implementation plan.

2.There is no evidence that the Performance management system was made public in accordance with the requirements of the act.

3.There is no evidence that quarter one performance management report was prepared for the year ended 30 June 2019

The above is caused by the implementation of a new performance management system.

The above finding results in:
Non-compliance with the requirements of the Municipal Systems Act.

Internal control deficiency

Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that the performance management framework is amended to include corrective action to be taken on the under achievement of performance targets set by the municipality .

Management should post the performance management framework of the municipality's website.

Management should ensure that performance management reports are prepared, reviewed and submitted to council on a quarterly

Management's response
1.The performance management policy and framework does make provision for corrective action under the heading ; MONITORING
2 We agree with the finding and have already placed our PMS on the website for the current financial year.
3 We agree with the finding because we were busy with the new PMS system

Auditor's conclusion
1.Management comment noted however the policy is silent on the corrective action to be taken on the under achievement of performance targets, finding still remains and will be reported in the management report as part of non-compliance identified

2.Management agree with the audit finding therefore finding still remains and will be reported in the management report as part of non-compliance identified.

3. Management agree with the audit finding therefore finding still remains and will be reported in the management report as part of non-compliance identified

12. ISS.12-COA 6. AOPO: Measurable performance targets not set for all key performance indicators (Iss.12)

Audit finding
The Municipal Systems Act section 41(1)(b) states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—
b) set measurable performance targets with regard to each of those development priorities and objectives
Measurable performance targets were not set for all the key performance indicators in the Service Delivery Budget and Implementation Plan (SDBIP).

The following are the Key Performance Indicators (KPIs) that did not have performance targets:

Number	Key performance indicator	Target as per SDBIP
1	Number of formal residential properties that received piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and which are billed for water or have prepaid meters as at 30 June 2019.	No target set
2	Provide free basic water to indigent	No target set
3	Provide free basic sanitation to indigent household	No target set
4	Provide free basic electricity to indigent household	No target set
5	Provide free basic refuse to indigent household	No target set

Management did not implement the requirements of the Municipal Systems Act and are not monitoring compliance with the Act.

The above finding results in:
Non-compliance with the requirements of the Municipal Systems Act.

Internal control deficiency

Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that the SDBIP includes measurable performance targets for all the key performance indicators.
Management should review the SDBIP for completeness before it is submitted to Council for approval.

Management's response
Management Disagree:
1. How can you set targets if all Residential properties already have metered connected water
2. All indigents that applied for subsidy do get free basic water
3. All indigents that applied for subsidy do get free basic sanitation
4. All indigents that applied for subsidy do get free basic electricity
5. All indigents that applied for subsidy do get free basic refuse

Name:S.J. Myburgh
Position:CFO
Date:2019/11/01

Auditor's conclusion
Management comment noted however the issue remains as the targets are not set in the SDBIP and the issue will be reported as non-compliance in the auditor's report

13. ISS.21-COA 3. AOPO: Incomplete annual performance report submitted for audit (Iss.21)

Audit finding
Section 46(1) of the Municipal Systems Act (MSA) 32 of 2000 - Annual performance reports **-** states that a municipality must prepare for each financial year a performance report reflecting —
(a) the performance of the municipality and of each external service provider during that financial year;
(b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
(c) measures taken to improve performance.

During the performance of our audit, we noted the following discrepancies with the Annual Performance Report that was submitted for audit for the financial period under review:

1. **Actual performance not included on the report:**

The annual performance report submitted for audit does not reflect actual performance of the municipality as measured against the performance indicators and targets in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP).

2. **Other information not included in the report:**

It was also noted that the report does not include:

1. key performance indicators as a yard stick for measuring performance, including outcomes and impact with regard to the municipality's development priorities and objectives set out in its its IDP;
2. measurable performance targets with regard to each of the development priorities and objectives set in the IDP;
3. reasons for under-performance on the targets that have been set; and
4. measures taken to improve performance.

3. **Lead schedules and listings not submitted for audit purposes:**
Lead schedules and listings for the reported performance information was requested from the municipality (Request for Information No. 06 of 2019) on 12 September 2019. The information submitted could not be aligned to the IDP and the SDBIP.

There is a lack of understanding of the requirements of the MSA with regards to the requirements of an Annual Performance Report.

The above finding results in:

- non-compliance with the MSA; and
- a limitation of scope on performance information.

Internal control deficiency
Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that the Annual Performance Report submitted for audit includes all the requirements as per the MSA.

The municipality's Internal Auditors should review the Annual Performance Report before it is submitted for audit purposes, to ensure that an accurate and complete report that is aligned to the requirements of the MSA is submitted for external audit purposes.

Management's response
Agree with finding. Assistance was given to Karoo Hoogland from Sebata official in this regard and therefore the finding is addressed for the 2019/2020 financial year.
Name:S Myburgh
Position: CFO
Date: 14 October 2019

Auditor's conclusion
Management agree with finding. Therefore, finding still remains and will be reported in the auditor's report, as it results in a limitation of scope on the annual performance report.

Procurement and Contract Management

14. ISS.32-COA 5. SCM: Minimum threshold for local content production in the bid document is less than the stipulated threshold prescribed by National Treasury (Iss.32)

Audit finding
The Preferential Procurement Policy Framework Act, 2000 Preferential Procurement Regulations, 2011 regulation 9(1) states that:
9. (1) An organ of state must, in the case of designated sectors, where in the award of tenders local production and content is of critical importance, advertise such tenders with a specific tendering condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content will be considered.

During the performance of our audit, we noted that the bid specifications for the bids below specified the minimum threshold for local production and content which is less than the threshold prescribed in the relevant National Treasury Instruction Notes.

The following differences were identified:

No	Bid no	Winning bidder	Description	Minimum threshold per bid document	Minimum threshold per treasury instruction note
1 2	BID No. KHM E-10/2018	VE RETICULATION	Transformers	70%	80%

Possible cause could be that management did not obtain the updated minimum threshold as per National Treasury thresholds.

The above finding results in non-compliance with applicable laws and regulations.

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

Recommendation

Management should ensure that only bidders that meet the required minimum threshold are evaluated for preference points.
Management should continuously update bid documents to ensure the most recent procurement requirements, as prescribed by National Treasury, are applied.

Management's response
Management does not agree with the finding as management does not agree that the above could result in a non-compliance as the correct supplier was appointed. The minimum threshold was however not updated on the tender documents.

Attached are the National Treasury Instruction notes received with regards to the minimum threshold for Transformers and for Valves Products. Also, a print from the DTI webpage which shows the minimum thresholds which have also not been corrected for the Transformers.

VE Reticulation: The minimum threshold for the Transformers changed to 80% from 1 January 2018. It was notchanged in the bid/tender documents. However, the bidder's minimum threshold is in compliance as it is 100% and therefore the successful bidder was in compliance with the minimum threshold even though the document stipulated the incorrect National Treasury minimum threshold.

Management will ensure to review and monitor compliance with all instruction notes and all applicable laws and legislation annually as it has already been noted that some minimum thresholds are due to change from 1 January 2020. There are also some adjustments to tender value ranges in terms of the construction industry development regulations, 2004 (as amended) which will also affect 2019/2020. Management distribute all instruction notes and changes/amendments as soon as they are received.

Management will ensure that the Bid Specification Committee will review and monitor the Tender/bidding documents and ensure that they are updated.
Therefore, both awarded contracts (VE Reticulation and Phambili Civils) did meet the prescribed minimum threshold although the National Treasury minimum threshold for the transformers was specified incorrectly in the bidding documents

Name: **S. Myburg**
Position: **CFO**
Date: **23/10/2019**

Auditor's conclusion
1.VE RETICULATION: Management comment is noted. However; the minimum threshhold in the bid document is below the prescribed threshold for local production and content. Therefore the issue will reported in the management report as non-compliance.

15. ISS.48-COA 10. SCM: Performance of contractors not monitored on a monthly basis (Iss.48)

Audit finding
Section 116 (Contracts and contract management) of Municipal Finance Management Act states that:
(2) The accounting officer of a municipality or municipal entity must
(b) monitor on a monthly basis the performance of the contractor under the contract or agreement

The contracts below were not monitored on a monthly basis in accordance with the requirements of MFMA we noted that the contracts were mostly monitored from April-June 2019

Number	Supplier	Description	Bid number	Amount
1	De jagers Loodgeiter kontrakteurs	Williston upgrading of streets	KHM T 001/7/2018/1	6 944 511,25
2	De jagers Loodgeiter kontrakteurs	Sutherland Internal water network - upgrade -phase 1	KHM T 004/7/2018/2	7458 492.75
3	Neil Lyners consultants	Consulting engineers	Section 32	8 958 581,83
4	Viking Pony /ta Tricom Africa (Pty) ltd	Williston bulk water supply phase 3 supply and installation of mechanical and electrical equipment for boreholes and lift pump station	KHM WB04/007/2018	8 412 215,00
5	VE Reticulation	Medium Voltage upgrading in Fraserburg and Williston	KHM E-010/2018	3 981 503,21

The municipality relies excessively on Lyners consultants to monitor however monitoring is not performed on a monthly basis

The above finding results in non-compliance with MFMA sec 116(2)(b).

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

Recommendation

Management should put in place effective measures in place to monitor contracts of all service providers and implement the agreed measures on a monthly basis.

Management's response
001 contractor was monitored by Niel Lyners per site meeting from October 2019 - all sitemeetings already send to Auditors
002 contractor was monitored by Niel Lyners per site meeting - all sitemeetings already send to Auditors
003 and 004 - CONSULTANTS - NOT CONTRACTORS - policy in place from may and monthly monitorings started there after and quarterly meetings on their performance to be held in 2019/2020
005 – contractor was monitored by Niel Lyners per site meeting - all sitemeetings already send to Auditors
006 - contractor was monitored by Niel Lyners per site meeting - all sitemeetings

Date:

Auditor's conclusion

001 Management comment noted however the project was not monitored on a monthly basis
002 Management comment noted however the project was not monitored on a monthly basis
003 and 004 Management comment noted however they were not monitored on a monthly basis
005 Management comment noted however project was not monitored on a monthly basis
006 Management comment noted however project was not monitored on a monthly basis

Therefore, the unresolved part of the finding results in non-compliance with laws and regulations, which wil be reported in the auditor's report.

16. ISS.54-COA 10. SCM: Non compliance with the requirements of section 32 (Iss.54)

Audit finding

Regulation 32 of the Municipal SCM regulations provides that: "A Supply Chain Management policy may allow the accounting officer to procure goods or services for the municipality or municipal entity under a contract secured by another organ of the state, but only if

(a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;

(b) the municipality has no reason to believe that such contract was not validly procured;

(c) there are demonstrable discounts or benefits for the municipality to do so; and

(d) that other organ of state and the provider have consented to such procurement in writing."

MFMA Circular 96 states that the municpality will not enter into a new contract with the service provider but will participatre in existing contracts.The contract must therefore not have expired or its validity modified to accommodate the procurement of the contract and must be legally sound .The participating municipality will conclude an addendum to the agreement with the service provider that stipulates that the duration of the participation agreement which may not exceed the end date of the original contract .

The municipality or the municpal entity must confirm the duration of the contract between the service provider and the other organ of the state and determine the remaining term of the contract .Once this has been confirmed the municipality must assess whether the remaining period will be sufficient for the service provider to deliver its requirements

The municipality participated in a section 32 contract and they did not comply with the requirements of the section.The details are as below

1. The municipality participated on a contract that expired on 30 March 2019 as per the original contract. According to regulation 32, the municipality cannot participate on an expired contract and the contract cannot not be extended or varied by the participating municipality.

2. By participating in the contract effectively means that the accounting officer of the original contract forfeited a portion of its contract that has not already been utilised to the requesting accounting officer however with the contract below this would be difficult as the contract relates to infrastructure project and the original municipality utilised all the funds allocated to the project.

Municipality	Description	Expiry date	Date of request to participate	Amount
Bayers naude municipality	74/2018 Willowmore bulk supply:Wanhoop abstraction scheme/two new wilgerkloof boreholes and pipelines	30-Mar-19	16-Apr-19	3 532 999.53

Management was not aware of the new requirements of section 32.

The above finding results in non -compliance with the applicable rules and regulations and an understatement of irregular expenditure of R3 532 999.

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

Recommendation

Management should ensure that before they participate in regulation 32 contracts they have met all the requirements of regulation 32.
Management should investigate all regulation 32 contracts that the municipality is currently participating in and ensure that all irregular expenditure from these contracts is identified and appropriately disclosed in the financial statements.

Management's response
Disagree with finding. Please note that there was given guidance by means of the Circular, but in accordance with the Regulations the assumptions as per the Circular are not supported. The Municipality did adhere to the Regulations and can therefore not accept that these expenses are irregular. The Circular was also only recently released and will be unfair to be used for prior appointments as per Regulation 32. This is a matter of interpretation of the regulations and our Council revert to the Regulations and will accept the Circular going forward.

Auditor's conclusion
Management comment noted however management did not comply with the requirements of Section 32. The contract is required to still be valid on the date of request to participate. Per the additional documents provided which indicate that the completion date was 28 weeks from the 8th of October 2018, the contract had expired on the 12th of April 2019 and the requested participation was after the contract expiration date on the 16th of April 2019. Therefore; the issue remains unresolved and the resulting irregular expenditure will be reported in the auditor's report and management report.
AG is waiting for technical guidance from ARD regarding the legal opinion submitted by management.

17. ISS.55-COA 10. SCM: Three quotations not obtained (Iss.55)

Audit finding
The Municipal Finance Management Act 56 of section 62(1)(b) and (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
(c) that the municipality has and maintains effective, efficient and transparent systems
(i) of financial and risk management and internal control.

The Municipal Supply Chain Management Regulation GNR.868 of 30 May 2005 (SCM Regulations), regulation 17(c) states that If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer.

The following issues, relating to deviations with SCM requirements, were identified:

1. **No evidence that three quotations were obtained:**
For the award below the municipality did not obtain three quotations for the paving of the library.Three quotations were attached on the payment voucher relating to the paving of the library however we noted that the third quotation does not relate to paving of the library.The third quotation relates to the renovation of the kitchen library.

Supplier	Description	Total Amount
JME Projects	Paving of Williston Library	45 500,00

There are no internal controls in place to ensure that the applicable regulations are enforced

The above finding results in non-compliance with SCM regulations and an understatement of irregular expenditure of R45 500.

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 three quotations are obtained are obtained as required by the regulation.

Management's response
Management disagrees, see attached the files that states our disagreement

Name: SJ Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion

Management comment noted however the requisitions for the renovations of the library and paving of the library and the requisitions show that the same quotation was used for the paving of the library and the renovations to library therefore three quotations were not received for the paving of the library as the other quotation does not relate to the paving of the library. Therefore the finding remains unresolved and the resulting irregular expenditure will be reported in the auditor's report.

18. ISS.64-COA 13. SCM: Issues identified with deviations to procurement processes (Iss.64)

Audit finding
The Municipal Finance Management Act 56 of section 62(1)(b) and (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
(c) that the municipality has and maintains effective, efficient and transparent systems
(i) of financial and risk management and internal control.

The following issues were identified with deviations to procurement processes:

Reasons for deviation not justifiable:
The reason for the deviation for the award below is not sufficient and does not appear to be reasonable, the basis for the deviation is that it was impossible/impractical for the municipality to obtain 3 quotations because the municipality waited for seven days for people to respond and there were no respondents. However; we noted that the advertising date on the request for formal written price quotation number SCM/T0636/02/2019 is 28/03/2019 and closing date for the advert is 12/03/2019. This misled the public. Therefore, the municipality was supposed to readvertise.

Invoice number	InvoiceDate	Supplier	Description	Total Amount
I0035953	20-May-19	De Jagers Loodgieter	Hiring of excavator with diesel and operator	82 850,00

The municipality does not have effective systems in place to avoid irregular expenditure and to ensure that only justifiable deviations from procurment processes are approved.

The above results in non compliance with the applicable regulations and an understatement of irregular expenditure of R82 850.

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

Recommendation
Management should review reasons documented for deviations from procurement processes to ensure that the reasons are justifiable.

Management's response
Disagree with finding. Although the date on the notice was incorrect the advertisement placed on the Karoo Hoogland Website indicate the date of 28 February 2019. Please visit website and under information go to tenders and quotations. Scroll down to Request for Quotation Hire of excavator - 2019 – SCM and open advertisement. Note that the advert was corrected before it was placed on the Website.

Name: S Myburgh
Position: CFO
Date: 8 November 2019

Auditor's conclusion
Management comment noted; however the initial advertisement that was provided to the auditors was incorrect. The amended advertisement as well as a screen shot of the website as proof that it was uploaded on the website was provided subsequent to the audit finding. However, this screen shot stated that the amended advertisment was uploaded in November 2019.

Management provided another screen shot with correspondence from Webdesign stating that the previous screen shot reflected the last edit date instead of the published date. This new screen shot reflected that the amended advertisement was uploaded in March 2019.

The evidence submitted is inconsistent as the first screen shot submitted should have reflected that the content was published in March 2019 and edited in November 2019, and not reflect both dates as upload dates. Also, we cannot verify that this document was indeed first uploaded in March 2019. If the website changes the upload date everytime the document is opened by the person who uploaded it, then there is no reliable audit trail to confirm the initial upload date.

Therefore, this finding remains unresolved and results in an understatement of irregular expenditure of R82 850.

Revenue

19. ISS.28-COA 5. Revenue: Property Rates - Differences between recalculated property rates and rates disclosed in the financial statements (Iss.28)

Audit finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (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;"

Property rates received, as disclosed in Note 25 to the financial statements submitted for audit were recalculated and a difference was identified between the recalculated total amount and the total amount disclosed in the financial statements.

The following differences were identified:

Category	Market Value	Rate	Amount
AGRI	3 680 207 500	0.000505	1 858 504.79
COM	174 706 000	0.010809	1 888 397.15
MULTI	16 111 000	0.010809	174 143.80
MUNS	33 402 000	0.010809	361 042.22
NATURE	12 648 000	0.010809	136 712.23
PBO	8 466 000	-	-
POW	9 613 000	-	-
PSI	731 000	-	-
PSP	46 933 000	0.010809	507 298.80
RES	279 173 000	0.010809	3 017 580.96
STATE	1 850 000	0.010809	19 996.65
VAC	23 062 500	0.010809	249 282.56
Recalculated Total Amount (GROSS) (A)			**8 212 959.16**
Total Amount as per AFS (GROSS) (B)			10 015 309.00
Difference (A-B)			**(1 802 349.84)**

Management did not review financial information for accuracy and completeness after it was captured into the financial system

The above finding results in revenue from non-exchange transactions and receivables from non-exchange transactions being overstated with R1 802 349.84.

Internal control deficiency
Financial and performance management
Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

The entire property rates population should be investigated to verify that all revenue transactions for the financial period under review are accounted for.

Management should prepare a monthly reconciliation of rates levied on the system and the rates to be levied based on the properties values per the valuation roll.

Management's response

The entire population of rates were inspected and transactions incorrectly allocated to the rates vote were identified. This was due to a system error.

A manual calculation was additionally performed on the valuation roll and submitted to the Auditors with a different difference as calculated by the AG

The reason for the difference in calculations were due to the properties belonging to the SKA. The transfer of ownership provided.

Please refer to the Attached WP indicating the proposed journal for correction. The Financial statements will therefore be adjusted on approval of the AG…>>>

Name: **S. Myburgh**
Position: **CFO**
Date: **29/10/2019**

Auditor's conclusion
Management comments noted. The difference of R2 458 849.83 that was identified through audit processes was evaluated, based on the manual calculation performed by management; which reflected a difference of R1 802 349. The difference identified through audit processes could be reconciled and cleared to the municipality's difference. There was however an additional R25 007.16 difference identified on the summary of property rates correction that was submitted subsequent to the audit finding Therefore, the overstatement that remains amounts to R1 827 357 (R1 802 349.84 + R25 007.16).

Management requested to adjust the financial statements. The proposed adjustment is not accepted. Management is proposing to adjust revenue and accumulated surplus for the year. It is acknowledged that revenue from non-exchange transactions is overstated with R1 827 357. However; the contra account that is affected by this misstatement was not identified. The correction cannot be adjusted through accumulated surplus. Current year errors are supposed to be corrected on the specific accounts affected and not through accumulated surplus.

Therefore, the finding remains unresolved and will be reported in the auditor's report and management report as an uncorrected material misstatement.

VAT Receivable

37. ISS.65-COA 11. VAT: Differences noted between the GL and VAT 201 (Iss.65)

Audit finding
The Municipal Finance Management Act 56 of 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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

During the audit, differences were noted between the VAT 201s submitted to SARS on corresponding months and the General ledger.

The following differences were identified:

Vat returns 201			General Ledger		Differences	
Month	**Input Vat (A)**	**Output vat (B)**	**Input Paid (C)**	**Output received (D)**	**Difference between Input Vat as per VAT 201 and Input Vat as per the GL (A-C)**	**Difference between Output VAT 201 and GL Output VAT (B-D)**
July	237 353,15	72 010,04	223 578,27	171 322,87	13 774,88	99 312,83
August	386 674,86	111 781,43	385 138,30	225 992,96	1 536,56	114 211,53
September	523 953,02	156 603,00	540 728,74	155 935,62	16 775,72	667,38
October	756 338,96	207 516,26	752 218,76	206 476,51	4 120,20	1 039,75
November	199 194,61	213 301,04	201 832,93	212 504,37	2 638,32	796,67
December	752 571,42	130 759,43	675 036,51	131 057,22	47 083,37	297,79
January	583 883,00	146 946,00	584 318,37	1 374 624,12	435,37	1 227 678,12
February	383 176,01	250 518,52	382 486,99	208 920,12	689,02	41 598,40
March	505 427,61	222 914,09	482 458,04	662 108,99	22 969,57	439 194,90
April	794 895,71	185 238,91	795 273,20	144 482,83	377,49	40 756,08
May	1 790 357,24	224 589,65	1 788 298,30	258 596,99	2 058,94	34 007,34
June	3 308 219,75	226 325,22	3 365 725,43	188 840,39	57 505,68	37 484,83
Total	**10 222 045,34**	**2 148 503,59**	**10 177 093,84**	**3 940 862,99**	**14 499,96**	**1 792 359,40**
					Reconciling items, difference accepted	

Input VAT, output VAT and net VAT as declared in the VAT returns were not reconciled to the VAT account(s) in the General ledger for the corresponding Vat periods

The above finding results in Vat receivables being overstated with R1 792 359.

Internal control deficiency
Financial and performance management

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

Recommendation
Management should ensure that the input VAT, output VAT and net VAT as declared in the VAT returns agrees to the VAT account(s) for the corresponding VAT periods.

Management's response

Disagree with finding. See attached reconciliation for support and additional working papers will be provided by Mr van Schalkwyk on memory stick.

Name: S Myburgh
Position: CFO
Date: 5 November 2019

Auditor's conclusion
Management responses were evaluated. Differences that were initially identified were followed up based on the reconciliation provided in response to the audit finding. A difference of R14 499.96 was identified between Vat input as per the VAT 201 returns and Vat input as per the General Ledger was identified. The difference was as a result of reconciling items. Therefore, this part of the finding is resolved.

There is however, a difference of R1 792 359.40 between the Vat output as per the VAT 201 returns and Vat output as per the General Ledger. It was noted that the difference pertains to journals that were passed in the Vat cash control account but not in the Vat accrual control account.

The resulting difference of R1 792 359.40 will net off if a journal is passed in the Vat accrual control account. However, the Vat receivable balance, as presented and disclosed in the financial statements will remain unchanged.

The finding will be reported in the management did not ensure that all required financial information are processed during the year under review, to ensure that amounts in the financial statements are supported by accurate and complete underlying supporting records.

ANNEXURE B: OTHER IMPORTANT MATTERS

Cash and cash equivalents

20. ISS.37-COA 6. Cash and Cash Equivalents: Amount held as guarantee not disclosed in the financial statements (Iss.37)

Audit finding
In terms of section 62(1)(c)(i) of the Municipal Finance Management Act 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—

(c) that the municipality has and maintains effective, efficient and transparent systems

(i) of financial and risk management and internal control and of internal audit operating in accordance with any prescribed norms and standards."

In terms of the Standard of Generally Recognised Practice (GRAP) 104 paragraph 109:
An entity shall disclose:
(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph .79(a); and
(b) the terms and conditions relating to its pledge.

In terms of GRAP 104 paragraph 129:
An entity shall disclose by class of financial asset:
(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements
It was noted that pledged/ceased bank balances were not disclosed in the notes to financial statements, as required by GRAP 104.

Bank confirmations were obtained from the municipality's bankers on all bank accounts disclosed as cash and cash equivalents as per Note 8 to the financial statements. It was noted on the bank confirmation obtained for the ABSA Bank Call Account, with account number: 92 9194 4935, that reference was made to account 24-9000-0065 regarding a pledge. Through inspection of the bank confirmation obtained for account 24 9000 0065, it was confirmed that there is a limited general cession on Call Account number 92 9194 4935 for R18 000.

The municipality did not ensure that disclosures made were complete and in accordance with GRAP requirements before financial statements were submitted for audit.

The above finding results in incomplete disclosures for cash and cash equivalents.

Internal control deficiency
Financial and performance management

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

Recommendation
Management should review the annual financial statements to verify that all disclosures required by the Standards of GRAP have been included in the notes to financial statements

Management's response
Management agrees with the finding. The general cession of the Call account 92 9194 4935 of R18000 will be disclosed in the adjusted financial statements on approval of the Auditor General.

Name: **S. Myburgh**
Position: **CFO**
Date: **31/10/2019**

Auditor's conclusion
Management agreed with the finding and requested to adjust the financial statements. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

21. ISS.38-COA 6. Cash and Cash Equivalents: Fuel deposit incorrectly presented and disclosed in the financial statements (Iss.38)

Audit finding
In terms of section 62(1)(c)(i) of the Municipal Finance Management Act 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—

(c) that the municipality has and maintains effective, efficient and transparent systems

(i) of financial and risk management and internal control and of internal audit operating in accordance with any prescribed norms and standards."

In terms of the Standard of Generally Recognised Practice (GRAP) 1 paragraph 17:
Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

GRAP 2 paragraph 07 defines cash as cash on hand demand deposits; and defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The municipality has a deposit of R15 000 that was paid several years ago to the WVK Vleiskoporasie. The deposit allows the municipality to purchase fuel on credit worth R15 000 and then settle the account at the end of the month. In the event that the municipality does not settle its outstanding balance for fuel purchased on credit, then the corporation will be entitled to the deposit. The corporation owns the R63 Fuel Station situated in Williston.

It was noted that the R15 000 fuel deposit is disclosed as cash and cash equivalents in the financial statements instead of as a receivable. The R15 000 does not meet the definition of cash or cash equivalents, as per the definition of GRAP 2. The deposit is held by the corporation as a security in case the municipality defaults in paying their outstanding fuel balance. The deposit has

been held by the corporation for more than a year. Therefore, the deposit meets the requirements to be disclosed as a receivable instead of cash and cash equivalents.
Management did not adequately review financial statements to ensure that financial statements fairly present the financial position, financial performance and cash flows of the municipality.

The above finding results in cash and cash equivalents being overstated by R15 000 and trade and other receivables being understated by R15 000.

Internal control deficiency
Leadership

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

Recommendation
Management should review the annual financial statements to verify that all transactions and events for the financial period under review are correctly presented and disclosed, as well as to ensure that comparative information is appropriately presented and disclosed in the financial statements.

Management's response
Management agrees with the finding.
The financial statements will be adjusted with approval of the Auditor General.
The following adjustment items will be adjusted:
Cash and bank
Debtors
Cash flow
Prior period error note

Name:**S. Myburgh**
Position: **CFO**
Date: **31/10/2019**

Auditor's conclusion
Management agreed with the finding. The finding remains unresolved and will be included in the management report.

Conditional grants

22. ISS.6-COA 2. Conditional Grants: Incorrect accounting treatment applied for conditional grants (Iss.6)

Audit finding
Section 62(1)(b) of the Municipal Finance Management Act (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure —

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

Section 64(2)(e)(i) of the MFMA states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—
(e) that the municipality has and maintains a management, accounting and information system which—
(i) recognises revenue when it is earned;

According to the Standard of Generally Recognised Accounting Practice (GRAP) 23 paragraph 16:

Conditions on transferred assets
Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.

According to GRAP 23 paragraph 50:

Present obligations recognised as liabilities
A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognised as a liability when, and only when:
(a) it is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and

(b) A reliable estimate can be made of the amount of the obligation.

According to GRAP 23 paragraph 51:
Present obligation
A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

It was noted that conditional grants are recognised as revenue when the funds are initially received instead of initially recognising such funds as a liability. According to the municipality's business process for conditional grants; the cashier receipts the full grant amount received on this system. This means that the full amount is recognised as revenue; which is an incorrect accounting treatment. The municipality must first meet the stipulated grant conditions before such funds can be recognised as revenue.

Management does not ensure that funds received by the municipality are correctly accounted for, in accordance with GRAP standards.

The above finding may result in:
- An understatement of liabilities and an overstatement of revenue.
- The financial statements not fairly presenting the financial affairs of the municipality in accordance with GRAP 23.

Internal control deficiency
Financial and performance management

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

Recommendation
Management should ensure that the accounting treatment for conditional grants is applied in line with the requirements of GRAP (GRAP 23 16 to 24 and 57). A liability should be raised when conditional grant funds are initially received. Revenue on conditional grants should only be recognised as and when grant conditions are met.

Management's response
Agree with finding. When EMS are fully implemented these issues will be resolved.
Name: S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agrees with the finding. Therefore, the finding remains unresolved and will be reported as an internal control deficiency in the management report.

Consequences management

23. ISS.7-COA 1. Consequences Management: No policies and disciplinary procedure implemented to deal with desciplinary issues (Iss.7)

Audit finding
In terms of Municipal Systems Act 32 of 2000, Section 67. Human resource development.—(1) A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective and transparent personnel administration, including:

-the recruitment, selection and appointment of persons as staff members;

-service conditions of staff;

-the supervision and management of staff;

-the monitoring, measuring and evaluating of performance of staff;

-the promotion and demotion of staff;

-the transfer of staff;

-grievance procedures;

-disciplinary procedures;

-the investigation of allegations of misconduct and complaints against staff;

Contrary to the above requirements, we noted that the municipality does not have policies and procedures in place dealing with disciplinary issues and investigations of allegations of misconduct. The municipality does not have a compliance checklist and a monitoring tool in place in order to ensure that all requirements per the laws and regulations are complied with.

This matter constitutes non-compliance with s67 of the Municipal Systems Act

Internal control deficiency
Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that policies and procedures are developed and implemented to address disciplinary issues and investigation of allegations of financial misconduct.

Furthermore, a compliance checklist should be drafted, approved and monitored to address compliance issues.

Management's response
Disagree with finding. The municipality do have a disciplinary policy as there is a disciplinary collective agreement for all municipalities. Investigations are handled in the same manner as per the collective agreement

Name: S Myburgh
Position: CFO
Date: 19 September 2019

Auditor's conclusion
Management comments are noted. However; the municipality must develop and adopt their own disciplinary procedures. Therefore; the finding remains unresolved and will be reported in the management report.

24. ISS.8-COA 1. Consequences Management: No disciplinary board to investigate allegations of financial misconduct (Iss.8)

Audit finding
In terms of Financial Misconduct Regulations:

Section 4.1, a municipal council or board of directors of a municipal entity must establish a disciplinary board to investigate allegations of financial misconduct in the municipality or municipal entity, and to monitor the institution of disciplinary proceedings against an alleged transgressor.

Section 4.3, a disciplinary board must consist of maximum five members appointed on a part- time basis by the council or board of directors for a period not exceeding three years, in accordance with a process as determined by the municipal council.

Section 4.5, the following persons are disqualified from membership of a disciplinary board:

(d) An accounting officer of a municipality or municipal entity;

(e) A political office-bearer; and

(f) A person who is an office-bearer in a political party.

Contrary to the above requirements, we noted that the municipality does not have a disciplinary board to investigate financial misconduct that has occurred.

The municipality did not develop and implement an appropriate process to address financial misconduct allegations within the municipality, as required by the financial misconduct regulations.

The above finding may result in non-compliance with applicable regulations

Internal control deficiency
Leadership

The Accounting Officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation
The Accounting Officer should ensure that a disciplinary board is established to deal with financial misconduct. Furthermore, a compliance checklist should be drafted, approved and monitored to address compliance issues.

Management's response
Agree with finding. Management will ensure that a disciplinary board is established to address possible financial misconduct

Name: S Myburgh
Position: CFO
Date: 19 September 2019

Auditor's conclusion
Management agreed to the finding. Therefore, the finding remains and will be reported in the management report.

25. COA 6. Consequences Management: Investigations for UIFW not properly conducted conducted (lss.43)

Audit finding
In terms of the Municipal Finance Management Act 56 of 2003 (MFMA) section 62(1)(c)(i):
The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control

The municipality conducted investigations on Unauthorised, Irregular, Fruitless and Wasteful expenditure incurred and submitted the investigation report that for audit purposes. It was however

noted, that the investigations were not properly conducted; as the investigation report did not reflect the following criteria :

a. The investigation was commissioned/ approved at the appropriate level.
b. Terms of reference of the investigations were approved.
c. The scope of the investigation addresses the allegation.
d. The recommendations/ findings were relevant to the allegation.
e. Investigations comply with auditee's policies with regard to independence and qualification/ position.

The municipality did not ensure that a proper process is followed and documented for investigations into Unauthorised, Irregular, Fruitless and Wasteful expenditure.
The above finding may result in:

- non-compliance with the MFMA section 62; and
- inadequate investigations which may result in the municipality not recovering Unauthorised, Irregular, Fruitless and Wasteful expenditure from officials responsible for it.

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 investigations into Unauthorised, Irregular, Fruitless and Wasteful expenditure are properly conducted and the the investigation report includes complete information.

Management's response
Management agrees, although a Committee already started to investigate the UIFW, and has made certain recommendations to the Municipal Manager, but the process still needs to be concluded.

Name: S.J. Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management agrees with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

Contingent liabilities

26. ISS.23-COA 4. Contingent Liabilities: Misstatement of contingent liabilities in the annual financial statements (Iss.23)

Audit finding
In terms of GRAP 19 para. 101

Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:
(a) an estimate of its financial effect, measured under paragraphs .43 to .59;
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement.

The entity recognised a contingent liability of R609 056 while both the lawyer's representation letter and the list of contingencies shows a contingent liability of R693 056, which results in the understatement of contingencies in the AFS of R84 000.

Possible cause could be management not preparing regular reconciliations which may help in picking up errors.

Contingent liabilities disclosed in the financial statements have been understated by R84 000.

Internal control deficiency
Financial and performance management

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

Recommendation

- Management should prepare regular, accurate financial reports that are supported by reliable evidence.
- Management should use the best estimate when recording contingent liabilities.
- Management should review the amounts recorded to ensure that the reviewer can identify misstatements before the financial statements are submitted for audit.

Management's response
Management agrees with the finding. The above was a typing error. Financial statements will be adjusted with permission of the AG

Name: S Myburgh
Position: CFO
Date: 21 October 2019

Auditor's conclusion
Management agreed with the finding and requested to adjust the financial statements. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

Employee costs

27. ISS.2-COA 4. Employee Costs: Not all leave forms were captured (Iss.2)

Audit finding

The Karoo Hoogland Municipality Leave Management Policy (approved by Council on 30 August 2018) paragraph 5.10.2 states that leave will be captured on the system before the payroll run.

When the SEBATA EMS is used to capture leave, it will be captured within three (3) days after it was approved.

It was noted that not all leave were captured on the payroll module on the SEBATA system.

The following leave forms were not captured on the system:

No.	Employee No.	Surname	Initial	Document	Start Date	End Date	Leave Type	Approved By
1	2020	VAN WYK	F	V11409	21-May-19	21-May-19	SICK	A.GIBBONS
2	5088	LOUW	D	V10800	12-Dec-18	12-Dec-18	OVERTIME	FJ LOTTER

Leave information is not timeously captured and updated on the payroll system.

The above finding may result in the balance of leave per employee being overstated in the leave report.

Internal control deficiency

Financial and performance management

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

Recommendation

Management should ensure that leave forms are captured in the system immediately after the manual leave form has been approved.

Management's response

Agree with finding. It was identified that these two documents were not captured on the system and is due to human error. However please note that this oversight does not have any financial implications as the provision for leave is calculated on annual leave only.

Name: S Myburgh
Position: CFO
Date: 21 October 2019

Auditor's conclusion

Management agrees with the finding. Therefore, the finding remains unresolved and will be reported as an internal control deficiency in the management report.

28. ISS.40-COA 8. Employee Costs: Miscalculation of long service bonus (Iss. 40)

Audit finding

The Municipal Finance Management Act No 56 of 2003 (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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

The Collective Agreement on Conditions of Service paragraph 10.1.5 states that an employee is entitled to a once off payment of 6% on their annual salary for 30 years of service.
Differences were identified between the amount of long service paid to an employee and the amount recalculated for audit purposes.

The following difference was identified:

Employee Number	Pay Date	Years in Service	Long Service Bonus Paid (A)	Recalculated Long Service Bonus (B)	Difference (A-B)
1020	2019/03/20	30	19 240,21	17 720,23	1 519,98

Management did not ensure that the calculation is based on accurate information as the incorrect annual salary amount was used to calculate the bonus

The above finding results in employee costs being overstated with R1 519.98

Internal control deficiency
Financial and performance management
Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Management should investigate the entire bonus population and ensure that all bonuses are correctly calculated.
Management should review bonus calculations performed before they are approved and captured to identify and correct errors that may be identified.

Management's response
Management agrees. Will collect the overpayment from the staff member.

Name: SJ Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management agrees to the finding. Therefore, the finding remains unresolved and will be reported in the management report.

Financial statements

29. ISS.25-COA 10. AFS: High level review of financial statements (Iss.25)

Audit finding

In terms of Section 62(1)(c) 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:
(i) the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control

The following misstatements were noted during the high level review of the financial statements.

1. Receivables from non-exchange transactions
The amount disclosed in the statement of financial position as receivables from non-exchange transactions does not agree to the amount disclosed in note 5 .

Receivables from non- exchange transactions (Statement of financial position)	Receivables from non-exchange transactions note 5 (Annual financial statements)	Difference
1 961 933	1 959 337,00	2 596,00

2. Renumeration of councillors
Note 27 of the annual financial statements states incorrectly states that Mr Myburgh acted as Municipal manager from 8 December 2018 to 31 January 2018 .

3. Distribution losses
It was noted that electricity units purchased for 2019 were incorrectly disclosed in Note 43 to the financial statements as 5 090 076 instead of 5 920 076.

Management did not adequately review the financial statements before submission to the auditors .

The above finding results in financial statements not fairly presented in accordance with GRAP requirements and misstatements in the annual 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

The financial statements should be adjusted to correctly reflect receivables from non exchange transactions and renumeration to councillors in the annual financial statements

Management’s response
Agree with finding. AFS will be adjusted accordingly.

Name: S Myburgh
Position: CFO
Date: 5 November 2019

Auditor’s conclusion
Management agrees with the finding. Adjusted financial statements will be awaited to evaluate whether the finding has been resolved or not.

General IT controls

30. ISS.13-COA 2. Information Systems: No formally approved IT Governance Policy (Iss.13)

Audit finding
The Municipal Finance Management Act (MFMA), section 62(1)(c)(i) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

A formally approved Information Technology (IT) Governance Policy had not been established.
The informal processes implemented were inadequately designed to ensure data confidentiality, integrity and availability.
Without an IT Governance 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.

Management did not ensure that an effective IT Governance Policy is timeously developed and approved to ensure that the municipality operates within a sound IT control environment.

The above finding may result in:

- A weak IT control environment which may lead to unauthorised access to municipal data, theft of data and increased risk of errors.
- Non-compliance with section 62(1)(b) of the MFMA.

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

Recommendation

In the absence of a government-wide IT Governance framework, assistance should be sought from the District Municipality for the development, approval and implementation of IT Governance policies.

Management's response
Agree with finding. However, these policies were approved for the 2019/2020 financial year.
Name: S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

31. ISS.14-COA 2. Information Systems: No Disaster recovery plan and IT Strategic Plan (Iss.14)

Audit finding
The Municipal Finance Management Act (MFMA), section 62(1)(c)(i) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control." A Disaster Recovery Plan and an IT Strategic Plan that determine business continuity in terms of unforeseen events has not been implemented.

A Disaster Recovery Plan and an IT Strategic Plan, that determine business continuity in terms of unforseen events has not been implemented.

Management did not adequately address prior year audit findings by ensuring that a Disaster Recovery Plan and IT Strategic Plan are developed and implemented.

The above finding may result in:

- The municipality having no processes and procedures in place to recover lost information in an event of a disaster occurring.
- The municipality operating within a weak IT control environment and not addressing its IT risks as and when they arise because of a lack of an IT Strategic Plan.
- non-compliance with theMunicipal Finance Management Act, section 62(1)(c)(i)

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

Recommendation

Management should ensure that a Disaster Recovery Plan and IT Strategic Plan are developed, approved by Council, communicated to all relevant staff and implemented within the municipality.

Management's response
Agree with finding. Management will develop such plans which will be implemented in 2019/2020.
Name:S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

32. ISS.15-COA 2. Informations Systems: EMS system can be accessed by service provider without approval from the IT Manager. (Iss.15)

Audit finding
The Municipal Finance Management Act (MFMA), section 62(1)(c)(i) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The new EMS system can be accessed by the service provider to add users without approval from the IT manager.
The municipality does not have appropriate processes and policies in place to ensure that the service provider has restricted access to the system after it has been implemented.
The above finding may result in:

- Unauthorised access to the municipality's financial management system, which may result in theft or loss of information.
- Non-compliance with the MFMA, section 62(1) (c) (i).

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 must develop, communicate and implement processes and procedures to add or remove users. The EMS service provider's access to the system should be restricted once the system is fully functional.

Management's response
Agree with finding. Management will implement controls to ensure that your recommendation is adhere to.
Name:S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

33. ISS.16-COA 2. Information Systems: No periodical reviews performed to confirm that access and privileges to the system are still commensurate with user job responsibilities (Iss.16)

Audit finding
The Municipal Finance Management Act (MFMA), section 62(1)(c)(i) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

There are no periodical reviews performed, to confirm that access and privileges to the system are still commensurate with user job responsibilities.

There are no periodical reviews performed of activities of the person responsible for granting users access to the network, application systems and performance reporting systems.

The municipality does not have adequate controls and processes in place to ensure that it operates within an effective IT control environment.
The above finding may result in:

- Unauthorised access and privileges to the system by users
- Inadequate monitoring of persons responsible for granting users access to the network, application systems and performance reporting systems.

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 controls are in place to ensure that periodical reviews are performed to confirm that access and privileges to the system are still commensurate with user job responsibilities.

Management should ensure that controls are place to ensure that periodical reviews are performed of activities of the person responsible for granting users access to the network, application systems and performance reporting systems.

Management's response
Agree with finding. Management will implement controls in this regard.
Name: S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

34. ISS.17-COA 2. Information Systems: The Debtors Clerk and most of the SCM personnel have dual access to the system (Iss.17)

Audit finding
The Municipal Finance Management Act, section 62(1)(c)(i) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

It was noted that the Debtors Clerk and most of the SCM personnel have access to the municipality's system as both System Administrators and their respective access privileges.

Management did not put controls in place to ensure that personnel have restricted access to the system limited to their respective access privileges, as well as grant System Administrator privileges to limited personnel independent of the Clerks

The above finding may result in:

- A weak IT control environment which may lead to loss of data and an increased risk of errors.

- Internal controls already in place may be overridden by Clerks who have access to the system as System Administrators.

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 implement controls to ensure personnel have access to the municipality's information system limited to their respective access privileges.

The number of employees with System Administrator privileges should be limited to a few employees.

Management's response
Agree with finding. Management will implement controls in this regard.
Name:S Myburgh
Position: CFO
Date: 02 October 2019

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

Movable assets

35. ISS.5-COA 1. Assets: Control deficiencies identified within Asset Management (Iss.5)

Audit finding
In terms of the Municipal Finance Management Act (MFMA) 56 of 2003, section 62(1)(c)(i):

(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 of financial and risk management and internal control.

In terms of the MFMA section 63(2)(c): Asset and liability management.
(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure:
(c) That the municipality has and maintains a system of internal control of assets and liabilities,including an asset and liabilities register, as may be prescribed.

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

1. Acquisition and receiving of assets:
It was noted that assets that have been acquired during the year are only recorded on the fixed asset register when the physical verification of assets is performed by the municipality's asset management officials.

The Accountant: Financial Reporting, Assets and ICT are not consulted prior to assets being purchased and become aware of such new assets during the physical verification process.

2. Assets moved without Movement of asset form:
It was noted that there were assets moved from one location to another during the financial period under review without the completion of a movement of asset form.

Management did not implement effective internal controls within Asset Management to ensure that municipal assets are appropriately accounted for from acquisition date and to monitor the location and use of assets.

The above finding may result in:

- a weak control environment within Asset Management;
- an incomplete fixed asset register because of assets purchased during the year allocated to officials without first being bar-coded and included in the fixed asset register; and

assets not found for physical verification because of undocumented movement of assets between locations

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:
1. The Accountant: Financial Reporting, Assets & ICT is consulted before assets are purchased and be the first person to receive the assets in order to allocate and attach asset numbers to the assets and record them on the fixed asset register
2. Movement of asset forms should be completed during all movement of assets; and signed by both the previous custodian and the current custodian of the asset. This form should be approved by the Accountant: Financial Reporting, Assets & ICT.
3. Regular updates of movement of assets and their current locations on the fixed asset register should be done.

Management's response
Agree with finding although some of the controls are implemented but more effective controls will be implemented by management.

Name:S Myburgh
Position: CFO
Date: 19 September 2019

Auditor's conclusion
Management agrees with the finding. Therefore, the finding remains unresolved and will be reported as an internal control deficiency in the management report.

38. ISS.30-COA 5. PPE: Disposals not disclosed in the AFS (Iss.30)

Audit finding
The Standard of Generally Recognised Practice (GRAP) 17 (Property, Plant & Equipment) states the following:

Par .79 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised (unless GRAP 13 requires otherwise on a sale and leaseback).

Par .85 The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:
(e) a reconciliation of the carrying amount at the beginning and end of the period showing:
(ii) disposal;

The municipality disposed of a truck during the financial period under review. However, the gain on disposal of the asset was not presented on the face of the Statement of financial performance for the financial period under review.

The following information is included on the fixed assets register for the truck that was disposed:

Asset Bar Code/Unit	Description	Licence No.	Disposal Date	Carrying Value 30/06/2019	Gain/(Loss)
923	Truck - Isuzu f8000d 1993	BJM 376 NC	2019/05/09	-	25 000

The Accounting Officer did not adequately review the Annual Financial Statements to ensure that they are accurate and complete.

The above findings results in incomplete disclosure in the annual financial statements and non-compliance with the requirements of GRAP 17.

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 financial statements disclose, for each class of property, plant and equipment recognised in the financial statements, a reconciliation of the carrying amount at the beginning and end of the period showing the disposals that occurred during the financial year.

Financial statements should be reviewed for accuracy and completeness before they are submitted for audit purposes.

Management's response
Management agrees with the finding. Management highlights the fact that the above assets were the only asset disposed and that the R25000 is a factual misstatement.
Name:S. Myburgh
Position: CFO
Date: 10/29/2019

Auditor's conclusion
Management agrees with audit finding. Therefore, the finding remains unresolved and will be reported in the management report.

Operating expenditure

39. ISS.34-COA 5. Expenditure: Expense incorrectly classified (Iss.34)

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

The Standard of Generally Recognised Accounting Practice (GRAP) 1 paragraph 05 defines expenses as decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

GRAP 1 paragraph 17 states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

The municipality received money from its insurers for damages to municipality offices in Fraserburg caused by floods. The received money was paid over to a supplier who performed repair work on the damages. The expenditure relating to the repair work was recorded in the insurance premium account instead of repairs and maintenance account in the General Ledger.

The following is the transaction as recorded in the General Ledger:

Vote	Description	Doc	Date	Description_1	Dr	Cr
0002/3610/0000	Insurance	SI352	2019/05/07	HARDUS CONSULTING	74 630,00	
7801/7802/7803	VAT input	SI352	2019/05/07	HARDUS CONSULTING	11 194,50	
8801/8801/8803	Bank	15005723	2019/05/07	HARDUS CONSULTING		85 824,50

Furthermore we noted that insurance proceeds of R93 492.63 for damages to the offices was not recognised as other income. The required journal entry as follows was not processed:

Description	Dr	Cr
Bank	93 942,62	
VAT output		12 253.39
Other income		81 689.23

Financial information is not reviewed for accuracy after it has been captured onto the financial system.

The above finding results in the following:

- insurance expense being overstated with R74 630;
- repairs and maintenance expenditure being understated with R74 630;
- other income being understated with R81 689; and
- VAT Receivable being overstated with R12 253.

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
Information should be reviewed for accuracy and completeness after it has been captured onto the financial system.
Management should ensure that the general ledger and annual financial statements are adequately reviewed and that they agree to the underlying documents.

Management's response
Part a: Management agrees with the finding, the classification issue was picked up between insurance expense and repairs and maintenance. The entire vote for insurance and repairs and maintenance including journals included in the votes were investigated and all incorrect classifications were identified. The proposed journal for the correct classification of expenses are included in the WP.
The error will be corrected and adjusted in the Financial statements on approval of the AG
Part b: Management agrees with the finding, however disagree with the misstatement of other income with R93943, as the amount is inclusive of VAT. Income are therefore reported excluded VAT.

Name:S. Myburgh
Position: CFO
Date: 29/10/2019

Auditor's conclusion
Management agreed with the finding and requested to adjust the financial statements. Finding corrected for the error on the other income amount. The adjusted financial statements are awaited to evaluate whether the finding is resolved or not.

40. ISS.57-COA 9. Expenditure: Inconsistent kilometres claimed on travel claims (Iss.57)

Audit finding
The Municipal Finance Management Act 56 of 2003 section 62(1)(b) and (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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

It was noted that kilometres claimed on travel claims are not consistent with the distance between the municipalities and destinations officials were traveling to. Kilometres claimed on travel forms were compared to kilometres determined as per Google Maps and differences were identified.

The following differences were identified between travel claims that were incurred and the recalculated amounts:

No	Date	Description	Kilometres claimed (A)	Kilometres as per Google Maps (B)	Difference (C) (A-B)	Amount as per the GL (D)	Recalculated amount (E) (C x rate)	Difference (D-E)
1	2018-07-02	A.HENDRICKS-WILLIS-HOUSING	1080	996	84	3834	3535,8	298,2
2	2018-08-24	D.LANGENHOVEN-WILL-UPT-MFMP	1050	948	102	3727,5	3365,4	362,1
3	2018-10-01	S.MYBURGH-WILL-UPT-NERSA WORKS	1020	948	72	3682,2	3422,28	259,92
4	2018-07-13	D MALAN- WILL-SPRINGBOK-LGSETA	1100	996	104	3971	3595,56	375,44
5	2018-08-01	FJ LOTTER - SPRINGBOK- BEHUISI	1220	1170	50	4404,2	4223,7	180,5
6	2018-08-01	FJ LOTTER-UPINGTON-EPWP MEETY	1220	1148	72	4404,2	4144,28	259,92
7	2019-03-18	J.FORTUIN-WILL-SPRINGB-	985	898	87	3555,85	3241,78	314,07
		Total	**7675**	**7104**	**571**	**27 578,95**	**25 528,8**	**2 050,15**

Travel claim forms are not reviewed for accuracy of information captured therein before they are approved for payment.

The above finding results in a projected misstatement of travel and accommodation expenses of R27 382.

Internal control deficiency
Financial and performance management

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

Recommendation
Management should review the entire travel and accommodation population and ensure that the correct kilometeres have been applied in the calculation of travel and accommodation expenses.

Management should ensure that correct kilometres are claimed before travel claim forms are approved.

The municipality should apply consequences management requirements by investigating overstated kilometres claimed by officials, hold such officials accountable and recover the excess travel claim from the responsible official.

Management's response
Management do not agree. You have included the payment of Breakfast, Lunch, Dinner and Overnight stay with friends in your calculations. Please find attached recalculations of distances through Google Maps, and payment calculations per kilometre excluding fees for meals etc.

Auditor's conclusion
Management responses were evaluated. The amounts incurred for breakfast, lunch, dinner and overnight stay were excluded from the amounts communicated on the finding.However; some employees are claiming excess kilometres and no evidence was submitted to validate the reasons provided therefore the issue will be reported on the management report.

Payables

41. ISS.31-COA 5. Trade Payables - Unidentified Deposits not cleared (Iss.31)

Audit finding
According to section 62(1)(b) and (c)(i) 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—

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

(c) that the municipality has and maintains effective, efficient and transparent systems —

(i) of financial and risk management and internal control.

During the testing of trade payable noted that unidentified deposits are not being followed up and cleared. The municipality's payables from exchange transactions includes unidentified deposits, as reflected on the below table. Although the balance on this account decreased from the prior year, an unidentified deposits account is similar to a suspense account, which should be cleared to zero as at year end.

Payables from exchange transactions comprises of the following unidentified deposits from 2011-2012, as disclosed in Note 16 to the financial statements.

No	Details	Balance 2019	Balance 2018
1	Unidentified deposits	511 319	646 805

This finding was also raised in the prior year, which means that the municipality did not implement an action plan to address the issue.
Management does not follow up on long outstanding transactions to ensure that all deposits have been appropriately accounted for.

The above finding results in the following:

- Receivables may be overstated with R511 319 (2018: R646 805); and
- Payables may be overstated with R511 319 (2018: R646 805)

Internal control deficiency
Financial and performance management

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

Recommendation
Management should ensure that unidentified deposits are followed up on a monthly basis with a view of clearing the account.

Management's response
When receiving a deposit with no identifiable account number or name to it, we contact the Banks and try and establish from whom the deposit was received. Only when going through all the steps, the deposit is then received under unidentified deposits. We also put notices on the monthly bills in that effect to ask people to use the correct identifiable link to their deposits, so that we could be able to link it to the correct account.

We also have given you a register that link up to the total amount that was stated in the AFS, so therefore, there is proof that this is being monitored. We cannot thumb suck the correct account to which the deposit must go, so we keep it in this account, until we get an enquiry from the person who has deposited the money, and see that the money did not go through on his/her account, or in some instances people trying to renew their motor vehicle licenses and have to show proof of payment.

The municipality is in the process of adopting a policy of whereby the money will be treated as own income after a x number of years. By adopting the policy, the unidentified deposit will be cleared through a period of time.

Management highlights the fact that the findings was concluded as a control issue in the prior year.

Name:S. Myburgh
Position: CFO
Date: 29/10/2019

Auditor's conclusion
Management comments were evaluated. Although the register of unidentified deposits agrees to the amount recognised as payables, it should be noted that these deposits should actually be cleared and allocated to their rightful accounts as at year end.

We acknowledged that the municipality is developing processes to address these unidentified deposits.

This finding therefore remains unresolved and will be reported as an internal control deficiency in the management report.

Predetermined objectives

42. ISS.20-COA 3. AOPO: Approved adjusted budget not made public after approval by council (Iss.20)

Audit finding
Municipal budget and reporting regulation GN 393 of 17 April 2009; regulation 26(1) states that within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25 (3).

Municipal budget and reporting regulation GN 393 of 17 April 2009; regulation 26(2) states that when making public an adjustments budget and supporting documentation in terms of sub regulation (1), the municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the adjustments budget, including—
(a) summaries of the adjustments budget and supporting documentation in alternate languages predominant in the community;
(b) information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
(c) any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

We noted that the approved adjusted budget for 2018/19 financial year was not made public in line with the municipal budget and reporting regulation GN 393.

Management does not have a compliance checklist to ensure that the municipality has complied with all applicable laws and regulations.

The above finding may result in non-compliance with applicable laws and regulations.

Internal control deficiency
Leadership

The municipality did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that the adjusted budget is made public within 10 days after approval by council.
A compliance checklist should be drafted, approved and monitored to address compliance issues.

Management's response
Agree with finding. The MFMA checklist will be implemented to ensure compliance in this regard.
Name:S Myburgh
Position: CFO
Date: 14 Oktober 2019

Auditor's conclusion
Management agree with the audit finding. Therefore, the finding still remains and will be reported in the management report as part of non-compliance identified.

Procurement and Contract Management

43. ISS.63-COA 10. SCM: No evidence that the quotation was advertised for the prescribed period (Iss.63)

Audit finding
The Municipal Finance Management Act 56 of section 62(1)(b) and (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
(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
(c) that the municipality has and maintains effective, efficient and transparent systems
(i) of financial and risk management and internal control.

SCM Regulation 18(a) state that all requirements in excess of R30000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of regulation 17, be advertised for at least 7 days on the website and an official notice board of the municipality or municipal entity.

In terms of SCM Regulation 13(c), the municipality may not consider a written quotation or bid unless the provider who submitted a quotation or bid has indicated.
1.Whether he or she is in the service of the state or has been in the service of the state for the previous 12 months;
2.If the provider is not a natural person, whether any of its directors, managers, principal shareholders, stakeholders is in the service of the state or has been in the service of the state in the previous twelve months; or
3.Whether a child, spouse or parent of the provider or of a director, manager, principal shareholder or stakeholder referred to in subparagraph(ii) is in the service of the state or has been in the service of the state for the previous twelve months

We noted that the award for the supply below for sanitation contracts - USD - Toilets, was not advertised for at least seven days on the website and official notice board of the municipality .

Invoice no	Date	Supplier	Description	Amount
JKJAH21022026	21-Jun-19	JKJ BIO-FLO	sanitation contracts-USD-Toilets	61 639

There are no internal controls in place to ensure that the applicable regulations are enforced

The above results in non-compliance with the applicable regulations

Internal control deficiency
Leadership

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

Recommendation
Management should ensure that all the required documents are attached to the payment voucher before payments are made to respective suppliers.

Management's response
Management agree to the fact that the Quotation was not advertised for the correct time, but as funds had to be spent before year-end, and to get the money back from Namakwa District Municipality before year-end, the Municipal Manager gave instructions that this time period must be ignored.

Auditor's conclusion
Management agreed with the finding and the issue will be reported on the management report.

Policies

44. ISS.1-COA 7. Policies: No evidence of review of policies (Iss.1)

Audit finding
In terms of the Municipal Finance Management Act 56 of 2003, section 62(1)(c)(i):

(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.

The policies listed below were not reviewed by Council in the current financial year:

3. Cell phone policy
8. Code of Ethics

Management did not ensure that all policies are submitted to Council for review.

The above finding may result in a weak control environment whereby policies are not regularly reviewed and approved.

Internal control deficiency
Leadership
Managment didn't establish and communicate policies and procedures to enable and support understanding of internal control objectives,processes and responsibilities

Recommendation

Management should ensure that all the relevant policies and procedures are in place and approved, to effectively manage and monitor the municipality's objectives

Management's response
Management do not agree to points 1 to 7 but agree on point 8

Internet acceptable use policy, IT Risk management policy, Patch management policy & procedures and Physical protection of IT facility policy all have a clause that says it will be reviewed when changes are made and not annually as there is no requirement to review those policies annually.

Please see also attached Minutes of HR workshops and attendance registers regarding point 1 and 2

Name: S.J. Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management responses were evaluated and it was noted that although some of the listed policies include the clause that states that the policy will only be reviewed when changes are made to the policy; this clause is not included in the Cell Phone policy.

Management agreed to part 8 of the finding.

Therefore, the part of the finding relating the Cell phone policy and Code of ethics remain unresolved and will be reported in the management report.

Revenue

45. ISS.35-COA 5. Revenue: Completeness of revenue from rental of facilities could not be confirmed (Iss.35)

Audit finding

Section 64(1) of the Municipal Finance Management Act No. 56 of 2003 states:

"The accounting officer of a municipality is responsible for management of the revenue of the municipality, and must for this purpose take all reasonable steps to ensure—

(a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;

(b) that revenue due to the municipality is calculated on a monthly basis;

(e) that the municipality has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue

(f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed."

Contrary to the above requirements, it was noted that the following customer was not billed for rental of the the facility leased, in the 2018/19 financial year:

Details as per the rental agreement:

Name of the customer	Description	Start Date	End Date	Amount
Rodge Cloof (Pty) Ltd	Sutherland Aerodrome	01-Jan-17	31-Dec-19	24 000

Management did not review information captured onto the financial system to ensure that it is complete.

The above finding results in revenue from exchange transaction and receivables from exchange transactions being misstated by a projected amount of R339 646.

Internal control deficiency
Financial and performance management
Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

The entire revenue from exchange transactions population should be investigated to verify that all revenue transactions for the financial period under review are accounted for.

Management should put controls in place to ensure that all customers are billed for the applicable service charges on a monthly basis.

Management's response
Management partially agree to the finding.
Management agrees to the amount not billed, however disagree with the extrapolated amount.

The entire rental register compiled from the contracts were compared to the actually billing on the system. Only the following rentals were identified not to be billed

MTN – R4638.93
SKA site – R463.89 x 2
MTN-T1693 – R391.59 x 2
Broadband infranco – R6430.77

Total amount not billed = **R39746.07**

Please refer to Rental register, internal memo and billing information from the system.

Name: **S. Myburgh**
Position: **CFO**
Date: **29/10/2019**
Auditor's conclusion
Management responses were evaluated. The total amount of contracts that management identified as not billed could not be agreed to the rental register submitted in response to the audit finding. Some of the rental income could not be found on the billing reports.

Therefore, the finding remains unresolved and will be reported in the management report.

46. ISS.52-COA 10. Revenue: Difference between amount as per the contract and the billed amount (Iss.52)

Audit finding
The Municipal Finance Management Act 56 of 2003 section 62(1)(b) and (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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

Differences were identified between the billing report and amounts stipulated in rental agreements.

The following differences were identified:

No.	Account	Date	Consumer	Amount per billing report (A)	Amount per contract (B)	Difference (A-B)
1	100 369 100 369	2018/10/24	B C Coetzee	1 438,00	1 881,00	- 443,00
2	100 770 100 770	2018/10/24	G Van Wyk	78,00	162,00	- 84,00
3	300 493 300 339	2018/09/21	J Hendricks	60,00	80,00	- 20,00
4	100 000 391 311	2018/11/26	Willem Sas	184,00	1 026,00	- 842,00
5	100 000 391 757	2018/11/26	S Willemse	184,00	390,00	- 206,00
6	0110 0302 0000	2018/08/28	M Skiffers	78,20	162,00	- 83,80
			Total	**2 022,20**	**3 701,00**	**- 1 678,80**

There was no adequate review of the billing reports to ensure that they agree to the rental agreements.
The above finding finding results in revenue from rental facilities being understated by the projected amount of R25 492.

Internal control deficiency
Financial and performance management

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

Recommendation

Management should review the rental revenue to ensure that rental income is billed in accordance to the agreed upon rental fee, as per rental agreements.

Management's response

Management agrees

Old contracts will be revised and differences in amounts will be investigated.

Management will review the rental revenue to ensure that rental income is billed in accordance to the agreed upon rental fee, as per rental agreements.

Name:SJ Myburgh
Position:CFO
Date:2019/11/01

Auditor's conclusion
Management agreed to the finding. Therefore, the finding remains unresolved and will be reported in the management report.

47. ISS.53-COA 9. Revenue: Rental agreements not provided for audit (Iss.53)

Audit finding

The Municipal Finance Management Act No. 56 of 2003 (MFMA) section 62(1)(b) (Act No. 56 of 2003) (MFMA) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

MFMA section 74(1) states that:

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

Rental agreements were requested for rental of facilities that are leased out by the municipality. The municipality could not provide all the requested rental agreements. It was indicated upon enquiry, that there are no rental agreements in place for the below transactions:

No	Account No.	Date	Description	Amount
2	100 594 100 594	2018/10/24	Huur Meent Oktober	230,00
3	300 462 310 506	2018/09/21	Huur Meent September	809,60
			Total	**1 039,60**

The municipality does not have an effective record keeping system to ensure that all transactions are supported by reliable supporting documents.

The above finding results in a projected limitation of scope of R15 772.

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 rentals of facilities are supported by documented rental agreements.

Management should implement a proper record keeping system which will facilitate timeous retrieval of information for audit purposes.

Management's response
Management agrees, and will put a register in place to safeguard against this.

Auditor's conclusion
Management agreed to the finding. Therefore, the finding remains unresolved and will be reported in the management report.

Name:SJ Myburgh
Position:CFO
Date:2019/11/01

Roads infrastructure

48. ISS.62-COA 10. Roads Infrastructure: Road maintenance plan not reconciled to the asset register and priority list for the renewal and routine maintenance projects not developed (Iss.62)

Audit finding
The Municipal Finance Management Act 56 of section 62(1)(b) and (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—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control.

The following issues were identified with the municipality's roads infrastructure:

1. No reconciliation between the roads maintenance plan and the fixed assets register:
The roads infrastructure included in the asset register was not included in the RMP. This was due to the fact that the municipality's Infrastructure Maintenance Plan does not provide specific maintenance plans for all the municipality's infrastructure assets.

2. No approved priority list for the renewal and routine maintenance projects:
A priority list of roads infrastructure for the renewal and routine maintenance projects was not developed for the period under review.

The municipality did not ensure that its infrastructure plans are detailed and specific and relate to all infrastructure assets included in the asset register.

The above finding may result in a significant finding to be reported in the management report.

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

Recommendation

The municipality should update its Infrastructure Plan relating to roads infrasture and ensure that it is specific to the municipality's existing infrastructure assets.

The municipality should develop, approve and implement a priority list for the renewal and routine maintenance roads infrastructure projects.

Management's response
Agree with finding. Management will ensure that the Roads Maintenance plan will include the above as per your finding.

Name: S Myburgh
Position: CFO
Date: 5 November 2019

Auditor's conclusion
Management agrees with the finding. Therefore, the finding remains unresolved and will be reporfed in the management report.

Water and sanitation services

49. ISS.59-COA 11. Water and Sanitation Services: No environmental policy in place (Iss.59)

Audit finding
The Municipal Systems Act No. 32 of 2000 (MSA) section 23(1)(c) states that:
A municipality must undertake developmentally-oriented planning so as to ensure that it—
together with other organs of state contribute to the progressive realisation of the fundamental rights contained in sections 24, 25, 26, 27 and 29 of the Constitution.

The Constitution of the Republic of South Africa 1996 section 24 states that:
(a) to an environment that is not harmful to their health or wellbeing; and
(b) to have the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that—
(i) prevent pollution and ecological degradation;
(ii) promote conservation; and
(iii) secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.

The municipality does not have an environmental policy, strategy or documented processes for the identification and monitoring of environmental risks relating to water and waste water provision.

Management did not ensure that it has developed, approved and implemented all the policies and processes that are required.

The above finding may result in a significant finding to be reported in the management report.

Internal control deficiency

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

Recommendation
Management should develop, approve and implement an environmental policy, strategy or documented processes to be used to identify environmental risks.

Management's response
Management agrees and will develop a policy in this regard and adopt it

Name: SJ Myburgh
Position: CFO
Date: 2019/11/01

Auditor's conclusion
Management agreed with the finding. Therefore, the finding remains unresolved and will be reported in the management report.

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters identified

Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
  - Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)
  - Municipal Systems Act (Act No. 32 of 2000)
  - *Regulations for planning and performance management*, 2001, issued in terms of the Municipal Systems Act.
  - *Municipal performance regulations for municipal managers and managers directly accountable to municipal managers*, 2006, issued in terms of the Municipal Systems Act.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.

- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria	References to PMRF per institution	
	Municipalities	Municipal Entities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.		
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to strategic or development objectives are approved	Section25(2) of the MSA	Section54(1)(c) of the MFMA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section41 (a) - (c) & 46 of the MSA	Section121(4)(d) of the MFMA
4. Changes to indicators are approved	Section 25(2) of the MSA	Section54(1)(c) of the MFMA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
6. Changes to targets are approved	Section25(2) of the MSA	Section 54(1)(c) of the MFMA
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.		
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPI	
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPI	

Criteria	References to PMRF per institution	
	Municipalities	Municipal Entities
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPI	
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPI	
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPI	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.		
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPI	
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.		
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Criteria not applicable
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Criteria not applicable
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Criteria not applicable
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA Chapter 5 of the FMPPI	Section 45 of the MSA Chapter 5 of the FMPPI
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.		
3. All actual performance that should have been recorded is included in the reported performance information.		

Annexure F: Assessment of internal controls[18]

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

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information				**N/A**	**N/A**	**N/A**
Governance						
Overall movement from previous assessment						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

EXPLANATORY MATERIAL

Introduction and scope

If a disclaimer of opinion is expressed on all selected (development priorities/objectives), the introduction should be replaced with the following:

> I was engaged to undertake a reasonable assurance engagement on the reported performance information for the following selected [development priorities/objectives] presented in the annual performance report of the [type of auditee] for the year ended [30 June 2018]:

[Development priorities/ objectives]	Pages in annual performance report	Opinion
[Development priority/objective (include number)] – (include name)	x – x	
[Development priority/objective (include number)] – (include name)	x – x	

[2] **Oversight responsibility**

The non - application of governance best practice indicators as internal control deficiencies should be reported in the management report only. These control deficiencies may be used as root causes for governance weaknesses if relevant. This can be linked to the dashboard report under leadership.

For entities which have adopted King IV, these control deficiencies should be reported as non - application of a recommended practice with the King IV Report on Corporate Governance.

For entities which have not adopted King IV, these control deficiencies should be reported as non - application of governance best practices.

This should be reported irrespective of the non-application being identified by the auditor, auditee or any other party.

(the above is only applicable to schedule 2 state-owned entities and auditees with debt listed on the JSE)

Include matters relating to the ineffective oversight of the reporting process by those charged with governance. One of the responsibilities of the leadership is to review interim or monthly reporting regularly in terms of best practice as well as the MFMA. This should include the approval of accounting policies and other matters of judgement, such as accounting estimates, fair value measurements and performance measures.

> As the accounting officer did not review the [interim/monthly] reports [and/or] the financial statements and the [annual performance report/insert name of annual performance report] before submitting them for auditing, the following matters were not identified and corrected:
>
> - …
>
> ***Or***

The [type of auditee] did not have sufficient monitoring controls to ensure the proper implementation of the overall process of [planning/budgeting/implementation/reporting].

(Note: This pertains to the overall performance management systems and processes.)
Or

The [type of auditee] did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a [development priority/objective] level and for purposes of taking corrective action.

(Note: This pertains to the performance management systems and processes at a development priority/objective level. Relevant details and examples pertaining to the development priorities/objectives audited should be included.)

The unavailability of key personnel during the course of the audit has an impact on the effectiveness of the audit. Such unavailability could be at the beginning of the audit during the risk assessment process or at the end of the audit when responses to audit findings are requested.

Despite numerous requests, we were unable to arrange an appointment with the [accounting officer] to discuss the financial [and/or] performance risks faced by the municipality and how they were mitigated.

[3] **Human resource management**

The audit must include an assessment of the management of human resources to determine the adequacy of human resource planning and organisation; management of vacancies; appointment processes; competencies of key officials and performance management. The significant deficiencies should be included in this paragraph under each focus area.

Where wording appears in square brackets [ ], the appropriate wording for the circumstances should be selected and non-applicable wording should be deleted. Where wording is included in round bracket ( ), this is explanatory information which should be deleted. The summary should not be included if there were no findings relating to human resource management.

Additional findings may also be added and changes made to provide context and create understanding.

We identified the following shortcomings in human resource management relating to predetermined objectives:

The [type of auditee] did not have sufficient capacity to plan, manage and report on its performance.

Or

The [type of auditee] did not properly plan and provide training on planning, managing and reporting performance information.

Or

The [type of auditee] did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.

[4] **Policies and procedures**

Reflect on whether controls are described in policy and procedure manuals and whether these were communicated to staff, using the information obtained during the documentation of the auditee's business processes. Where recommendations were communicated, establish whether they were implemented.

Management did not have documented policies and procedures to guide the operations of the [type of auditee], resulting in numerous instances of non-compliance with the [MFMA/ Companies Act], as detailed under the *Findings on compliance with legislation* section of this report. In addition, management did not take action to correct the following internal control deficiencies identified during our audit:

- …

Or

The [type of auditee] did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

(Note: This pertains to the overall performance management systems and processes.)

Or

The [type of auditee] did not have documented and approved internal policies and procedures to address the process of [collecting/recording/processing/monitoring/reporting] performance information.

(Note: This pertains to the performance management systems and processes at a development priority/objective level. Relevant details and examples pertaining to the development priority audited should be included.)

Or

The internal policies and procedures of the [type of auditee] did not adequately address the processes pertaining to the [planning/monitoring/managing/reporting] of performance information at an overall performance management level or a [development priority/objective] level.

Or

The internal policies and procedures pertaining to the [planning/monitoring/managing/reporting] of performance information were not aligned to the applicable legislation in the following instances:

- [Include relevant examples.]

(Note: This pertains to the overall performance management systems and processes.)

Or

The following implemented [activities/processes] were not in accordance with the documented policies and procedures:

- [List examples of actual activities/processes.]

(Note: This pertains to audit findings that stem from an understanding of the overall performance management systems and processes and/or the performance management systems and processes at a development priority/objective level.)

Or

The [type of auditee] did not have key controls to address the systems of [collecting/collating/verifying/storing] performance information. For example:

- [List examples.]

(Note: This pertains to audit findings that stem from an understanding of the performance management systems at a development priority/objective level in relation to the key controls that ensure the completeness, validity and accuracy of input, processing and output of performance information.)

Or

The following key controls were insufficient to address the systems of [collecting/collating/verifying/storing] performance information:

- [Include details.]

(Note: This pertains to audit findings that stem from an understanding of the performance management systems at a development priority/objective level in relation to the key controls that ensure the completeness, validity and accuracy of input, processing and output of performance information.)

Or

The [type of auditee] did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

[5] **Action plans to address internal control deficiencies**

Reflect on whether management developed action plans and whether their implementation was monitored.

The [type of auditee] developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner.

Or

The [type of auditee] did not develop a plan to address internal and external audit findings relating to [financial/performance/compliance] matters.

[6] **Information technology governance framework**

Include detailed information on the deficiencies relating to IT governance (as provided by the ISA BU, or other audit where applicable).

[7] **Proper record keeping**

Reflect on whether a proper filing/record management system was in place and whether documents and records, such as schedules and reconciliations of debtors, creditors and bank supporting the financial statements and performance report, were properly filed, easily retrievable and available for audit purposes.

The [type of auditee] did not have [a proper filing system/a proper record management system/an approved record classification system] to maintain information that supported the reported performance in the [annual performance report/name of performance report]. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

Or

The [type of auditee] did not formulate and implement a record management policy and related procedures to ensure that all documentation was properly controlled.

Or

The [type of auditee] did not compile and maintain an approved record classification system for paper-based and electronic records to safeguard these records and facilitate their timely retrieval.

Or

Documents and records of the [type of auditee] were not numbered consecutively to facilitate control over documents.

Or

The [type of auditee] [did not designate a member of staff to take responsibility for record management] [and] [did not ensure that staff were trained to apply proper record management procedures to facilitate sound record management].

In terms of ISA 260.16(b), significant difficulties encountered during the audit may include the following:

- Significant delays in management providing the required information.
- An unnecessarily short time within which to complete the audit.
- Extensive unexpected effort to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to assess the auditee's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that will lead to a modification of the auditor's opinion.

The MFMA and general notice issued in terms of the PAA require the financial statements and the annual performance report to be submitted for auditing within two months after year-end. Report here on any significant delays in this submission and the factors that may have contributed in this regard.

In terms of our engagement letter, we agreed that all information requested for audit purposes would be submitted within [xx] working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:

- [Give details of significant delays in providing information.]

The information requested was only supplied on [insert date], after we had issued the draft auditor's report that contained qualifications in respect of the limitation on the scope of the audit. Due to the late receipt of the information and given the legislated deadlines for the submission of the auditor's report, we did not consider the information when finalising this report.

Or

The information requested was only supplied on [insert date], after we had issued the draft auditor's report. Due to the late receipt of the information and given the legislated deadlines for the submission of the auditor's report, we did not consider the information when finalising this report.

[8] **Daily and monthly processing and reconciling of transactions**
Reflect on whether controls over daily and monthly processing and reconciling of transactions were implemented.

Management did not implement the following daily and monthly controls designed for the [type of auditee]'s business processes:

- Monthly bank reconciliations were not [prepared/reviewed].
- Payments to creditors were not properly authorised by agreeing the payment to the detailed creditor statements.

Or

Management did not design the following daily and monthly controls to lessen the [type of auditee]'s business risks:

- No password controls were designed for employees accessing the accounting system.

Or

A recurring issue in recent years has been the number of suspense accounts that are not reconciled and cleared timeously. The impact of these uncleared accounts is a potential misstatement of:

- accounts receivable
- revenue
- expenditure.

The balances of the uncleared suspense accounts are as follows:

[9] **Regular, accurate and complete financial and performance reports**
Reflect on whether management prepares regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Do staff understand the applicable financial reporting framework and performance information reporting requirements? Are accounting policies reviewed quarterly/bi-annually/annually to ensure that they are still relevant, and are any changes to accounting policies appropriately treated and disclosed?

As indicated in section 2.1, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

Or

As indicated in section 2.3, the [annual performance report/name of performance report] contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the performance information requirements.

[10] **Compliance monitoring**
Reflect on whether the auditee understands which legislation it must comply with, whether compliance is regularly monitored, and whether non-compliance is promptly addressed.

Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

[11] Information technology systems

Include detailed information, as provided by the ISA BU, on deficiencies relating to the following key control areas that ensure the reliability of IT systems as well as the availability, accuracy and protection of information:

- Change control
- Security management
- User access control
- IT service continuity
- Facilities and environmental control

[12] **Audit committee**

Report on whether an audit committee was in place and complied with relevant legislation. Matters regarding the audit committee should not only relate to non-compliance with legislation. Also reflect on the audit committee's impact on financial and performance reporting, for example:

- Did they review the financial statements and performance report before their submission to the external auditors?
- Did they have regular meetings with the executive?
- Did they monitor compliance with legislation?
- Did they monitor supply chain management?
- Did they provide guidance on rectifying internal control deficiencies?
- Did they monitor the implementation of internal and external audit recommendations?
- Did they review monthly management information?
- Did they review the effectiveness of the internal audit unit?

The audit committee did not function throughout the year. Members were only appointed two months before year-end. Consequently, the committee did not approve the internal audit plan and did not oversee the implementation of the matters reported by the internal audit unit.

Or

The audit committee did not meet before the submission of the financial statements and [annual performance report/name of performance report] for auditing, to review the adequacy, reliability and accuracy of the financial statements and [annual performance report/name of performance report].

Or

The audit committee [did not consider the internal audit reports] [and] [did not monitor the implementation of recommendations].

[13] **ASSESSMENT OF ASSURANCE PROVIDERS**

The colours should be amended to indicate the correct status of each driver. The following options and the levels are available to choose from when assessing the level of assurance provided by assurance providers:

- Provides assurance
- Provides some assurance
- Provides limited or no assurance
- Vacant or not established

NB- The level of assurance provided should be assessed for all the key positions as per the assurance working papers even if, at the time of the assessment, the positions were vacant (i.e. the person/s who were acting in the roles must be assessed. The vacancy option must not be selected if there was a person acting in the role).

Not established means that the assurance provider was not formed, vacant means that there was insufficient membership to constitute the assurance provider.

The assessment of the level of assurance provided by assurance providers must be based on the following:

Assurance providers	Basis of assessment
Senior management	Overall key control assessment of financial and performance management controls. Refer to the Assurance providers working paper
Accounting officer	Overall key control assessment of: - Leadership controls - Risk management activities (included in governance controls) Refer to the Assurance providers working paper
Mayor	Overall key control assessment of leadership controls. Assessment of impact of executive authority on the controls of the auditee based on interactions with the executive, commitment given and honoured and the impact of actions/initiatives by the executive. Refer to the Assurance providers working paper
Internal audit and audit committee	Overall status of the drivers of key controls. Note: The assessment must be the same as the overall status of the drivers of key controls for both assurance providers.

[14] The auditor should indicate which of the R-amounts included in the financial viability table have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion by placing an asterisk (*) next to such amounts.

[15] **Compliance findings in table**

The results in the table should be reflected by using the colours indicated below:

- Green: No finding identified
- Red: Finding identified

[16] **Table with audit finding on key projects**

The results in the table should be reflected by using the colours indicated below:

- Green: No finding identified
- Red: Finding identified

[17] **Detailed Audit findings**

ANNEXURES A – C

[Class of transaction/account balance/disclosure/non-compliance/predetermined objectives]

- Include all the findings for each class of transaction, account balance or disclosure together, not as separate findings.
- Include all findings for each legislation (non-financial) together.

Audit finding

- Disagreement misstatement
  - State the factual evidence regarding the situation measured against the required standard (what should exist), and include full reference to the applicable accounting standard. Refer to the actual item in the financial statements if possible or applicable.
  - Describe why the misstatement occurred without giving explanations or making excuses for the auditee.
  - State that the misstatements identified are quantitatively or qualitatively material. The projected misstatements should not be reported. Factual misstatements identified from items specifically selected for testing should still be reported.
  - Where a disclosure is omitted, the nature of the omitted information should be described if possible.
- Limitation misstatement
  - Describe the limitation and indicate the reason for the limitation.
  - State why it was not possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- Control deficiency
  - Describe the control deficiency. Why has it not been appropriately designed (in other words, why is it unable to prevent, or detect and correct, misstatements in the financial statements or performance report) or why has it not been appropriately implemented?

Or

- Describe the missing control that is necessary to prevent or detect misstatements in the financial statements or performance report.

Or

- State the factual evidence regarding the situation measured against the required standard (what should exist), refer to the applicable policies and procedures of the auditee, and describe how the deficiency occurred.
- Explain the potential effects of the deficiency; for example, the likelihood of material misstatements in the financial statements or performance report, susceptibility to loss or fraud of the related asset or liability, and the exposure of the financial statement items to the deficiency.
- State the misstatements detected as a result of the deficiency.

- Non-compliance (non-financial)
  - State the factual evidence regarding non-compliance with the required legislation (what should exist) and include full reference to the applicable legislation. Refer to chapter 6 for detailed guidance.
- State the auditee's accomplishment, or lack thereof, in terms of improvements since the previous year. This information is necessary to present the existing conditions fairly and to provide a proper perspective of the nature and significance of the audit finding being raised.

  For example: This matter was reported in [the previous year/20xx-xx], but no steps had been taken to date to implement the recommendations provided.

Internal control deficiency

- State the internal control deficiency that caused the finding.
- The deficiencies should be recorded under the following headings:
  - Leadership
  - Financial and performance management
  - Governance
- Refer to chapter 6 of the reporting guide for guidance on what should be covered under each of the above headings. The issues reported should be specific to the auditee.
- No internal control deficiency should be reported when the finding is an internal control deviation.
- Document the root cause for the finding
- Document management's commitment to correcting the finding or previous commitments to correcting a repeat finding.

Recommendation

- The recommendation should include the following:
  - The action that should be taken to address the existing conditions or to improve operations.
  - Suggestions to correct or enhance performance to achieve the desired results.
- The recommendation should address the internal control deficiency.

Management's response

- Management should be required to include a response, especially for internal control deficiencies, to ensure that they are in agreement with the finding and to improve the quality of their commitments.
- Management's response should include the following:
  - Acknowledgement of, or agreement with, the finding and the internal control deficiency.
  - Commitment to take corrective action.
  - For findings that affect an amount disclosed in the financial statements, an indication of what corrections will be made to the population. Alternatively, should management deem the journal entry unnecessary, the reason why such a conclusion has been reached.
  - Who (position) will be responsible for the corrective action to be taken.
  - The estimated date on which the corrective action would have been completed (refer to the agreed timelines in the communication of the misstatement).
- Management's response in terms of internal control deficiencies should include the following:
  - Management's understanding of the actual or suspected causes of the deficiencies.
  - Exceptions arising from the deficiencies that management may have noted; for example, misstatements that were not prevented by the relevant IT controls.
  - A preliminary indication of management's response to the findings.

Name
Position
Date

Auditor's conclusion

- This section of the communication of audit findings and the management report is used to facilitate the communication process between the auditor and the auditee and to indicate to management that the auditor has assessed and understood their response.
- The auditor is required to respond to the responses received from management in a timely manner, especially where management stated that they have corrected the population. This will ensure that there is sufficient time to make the necessary corrections.
- Please note that this is not an appropriate avenue to voice differences of opinion. The auditor must use structures such as the audit committee and audit steering committee to resolve differences.