

**SECTION 10: Summary of detailed audit findings**

		Classification					Rating				
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
<b>Disclosures</b>											
1	COMAF 78-Related party disclosure note understated	✓							✓		
<b>Borrowings &amp; long-term loans</b>											
2	COMAF 23: Other financial liabilities understated	✓						✓			
<b>General IT controls</b>											
3	Failed login attempts are not reviewed(Repeat finding)								✓		
4	Disaster Recovery Plan has not been tested(Repeat finding)								✓		
5	Inadequately documentation of the Program Change Management								✓		
6	IT Service Level Agreements are not being monitored								✓		
7	Inadequate implementation of backup restoration controls for Active Directory, firewall controls								✓		
8	Inadequate implementation of firewall controls								✓		

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<b>Compliance</b>											
9	COMAF 02 : Disciplinary Board not in place			✓				✓			
10	COMAF 02: No Consequence management policy in place			✓							
11	COMAF 22: Municipal standard chart of accounts (mSCOA) not implemented			✓				✓			
12	COMAF 045: Payment to suppliers not made within 30 days of invoice date			✓			✓				
13	COMAF 95 Lack of consequence management			✓			✓				
14	COMAF 01 : Non-Compliance with MFMA s62(1) (c) (ii) – No external quality assurance/assessment of the internal audit function conducted							✓			
15	COMAF 18: Non- Compliance with SALGA Agreement							✓			
16	COMAF 38: Non- Compliance as employees exceeding threshold were compensated.								✓		
17	COMAF 37: Non- Compliance with the leave policy								✓		
18	COMAF 66: Non-Compliance with Municipal Systems Act s67(1)(d)			✓							
19	COMAF 75 non-compliance in preparation of AFS			✓			✓				
20	COMAF 36: Payables-Leave Accrual incorrectly calculated								✓		
<b>Operating expenditure</b>											

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
21	COMAF 07: Payment to suppliers not made within 30 days of invoice date			✓					✓		
22	COMAF 64 of 2018 - Expenditure compliance			✓							
<b>Payable</b>											
23	COMAF 021: Understatement of unspent conditional grant liability	✓							✓		
24	COMAF 025: Understatement of unspent conditional grant liability	✓							✓		
<b>Predetermined objectives</b>											
25	COMAF 53 of 2018 AOPO Reliability D187- Reported Performance Information Not Supported by Valid and Accurate POE		✓								
26	COMAF 54. of 2018 AOPO Reliability D186- Reported Performance Information Not Supported by Valid and Accurate POE		✓								
27	COMAF 55 of 2018 AOPO Reliability - D138 Reported Performance Information Not Supported by Valid and Accurate POE		✓				✓				
28	COMAF 57 of 2018 AOPO Reliability - D58 Reported Performance Information Not Supported by Valid and Accu		✓				✓				
29	COMAF 60 of 2018 AOPO Reliability - D126 Reported Performance Information Not Supported by Valid and Accurate POE		✓				✓				

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
30	COMAF 80 of 2018 - AOPO Reliability of KPI D59 - Reported Performance Information Not Supported by Valid and accurate POE		✓				✓				
31	COMAF 28 of 2018- AOPO Usefulness of KPI D146 and D147 - not well defined		✓				✓				
37	COMAF. 91 of 2018 - AOPO Reliability of - Reported Performance Information Not Supported by Valid and Accurate POE		✓				✓				
32	COMAF.79 of 2018 - AOPO Reliability of KPI D129 - Reported Performance Information Not Supported by Valid and Accurate POE		✓				✓				
<b>Procurement and Contract Management</b>											
33	COMAF 10: SCM: Procurement without following official competitive bidding process.			✓			✓				
34	COMAF 08: SCM: Deviations do not meet the requirement for a valid deviation and did not comply with PPPF act.			✓			✓				
35	COMAF 12: SCM: Supplier did not have the required CIDB grading for the Project.			✓							
36	COMAF 03: SCM process not followed			✓			✓				
<b>Receivables</b>											
37	COMAF 20: Debtors with balance of 90 days overdue not issued with notice of discontinuance			✓				✓			

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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
38	COMAF 39-Long outstanding debtors not handed over								✓		
39	Receivable from exchange transaction Presentation and disclosure	✓							✓		
40	Consumer Deposit review not accurate								✓		
<b>Revenue</b>											
41	COMAF 19: Prior year expenditure recognized in the current year	✓					✓				
42	COMAF 061: Overstatement of grant revenue and expenditure relating to INEP grant	✓					✓				

## Detailed audit findings

### ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

#### Revenue

##### 1. COMAF 19: Prior year expenditure recognized in the current year

##### Audit Finding

In terms of section 122 (1) of the Municipal Finance Management Act;

Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and disclose the information required in terms of sections 123, 124 and 125.

Furthermore, GRAP 1.17 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 set out in the Framework for the Preparation and Presentation of Financial Statements".

During the audit of conditional grants expenditure, we noted that expenditure on the Integrated National Electrification Programme (Municipal) Grant (INEP) that relates to the 2016/17 financial year was recorded in the financial records in the 2017/18 financial year.

The table below summarises the transactions incorrectly accounted for in the 2017/18 financial year;

**Table 1: 2016/17 transactions in the 2017/18 GL**

Number	GL Transaction date	GL transaction description	Amount as per auditees records	Invoice date	GRN date	Payment date
1	Jul-17	ELEC KHUJWANA VILLAGE (cheque number 1070420)	R 88 026.36	28-Jun-17	28-Jun-17	25-Jul-17
2	Jul-17	ELECTRIFY MORAPALALA VILLAGE (cheque number 1070426)	R 11 395.43	20-Jun-17	23-Jun-17	21-Jul-17
3	Jul-17	PROF FEES ELEC MORAPALALA VILLAGE (cheque number 1070426)	R 37 755.63	28-Jun-17	28-Jun-17	21-Jul-17
4	Jul-17	ELECTRIFICATION BORN VILLAGE (cheque number 1070426)	R 46 469.08	28-Jun-17	28-Jun-17	21-Jul-17
5	Jul-17	PROF FEES ELEC MINE VIEW (cheque number 1070426)	R 203 302.24	28-Jun-17	28-Jun-17	21-Jul-17

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6	Jul-17	PROF FEES ELEC WALLY VILLAGE (cheque number 1070426)	R 43 564.77	28-Jun-17	28-Jun-17	21-Jul-17
7	Jul-17	ELECTRIFICATION SUNNYSIDE (cheque number 1070426)	R 46 469.08	28-Jun-17	28-Jun-17	21-Jul-17
8	Jul-17	SESSION TO BAWELILE MORAPALALA (cheque number 1070425)	R 61 260.00	01-Jun-17	23-Jun-17	21-Jul-17
9	Jul-17	SESSION TO BAWELILE MORAPALALA (cheque number 1070425)	R 221 280.00	01-Jun-17	23-Jun-17	21-Jul-17
10	Jul-17	SESSION TO BAWELILE (cheque number 1070426)	R 83 400.00	01-Jun-17	23-Jun-17	21-Jul-17
<b>Total</b>			<b>R 842 922.59</b>			

The impact of this misstatement is a projected amount of R5442053.94, which will be included along with other misstatements in the accumulation of misstatements for the year.

### Internal control deficiency

#### Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions;

- *Management did not ensure controls are in place over the processing on grant transactions to ensure the accuracy of reporting.*

### Recommendation

Management should;

- Ensure that all transactions are reviewed in terms of the necessary delegation of authority.
- Accrue for invoices not yet processed at year-end so as to not account for them in the new financial year, as that will lead to cut-off issues between the two financial years.

### Management response

#### Management comment on audit finding:

Management partially agrees with the finding. The invoices in question were received in June 2017 but could not be accounted for in the 16/17 Financial year as a result of the depletion of the INEP grant at the end of the year. Accounting for such invoices in the 2016/2017 F/Y would have resulted in unauthorized expenditure as there was no budget in those votes affected

#### Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):

Management will ensure that invoices with correct dates are accounted for in the year in which the expenditure was incurred

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<b>Management comment on recommendation:</b>	
Management has developed an invoice tracking register which records invoices on entry/ upon receipt and tracks payment progress as per invoice date; and this has been implemented with effect from 01 July 2018.	
<b>Management action for the audit improvement plan:</b>	
Management will use the Invoice tracking register as a source document, which will assist in developing a correct Accrual listing.	
Management has revisited the entire invoice population for the months which have an effect/ may have a bearing on accrual listing raised i.e. July and Aug 2017 to ensure completeness/ address cut-off issues	
Management will further discuss the Accounting Treatment with the AG and the necessary adjustments to be made	
<b>Responsible Official:</b>	Manager Expenditure
<b>Implementation Date:</b>	31 July 2019

### Auditor's conclusion

The management response is noted, however, we are unclear as to what partial agreement means in the stated transaction, as we have clearly stated that the 10 transactions were accounted for in an inappropriate accounting period. Furthermore, from the explanation given, the unauthorized expenditure of 2016/17 was understated, and the records for 2017/18 remain overstated. The finding will be included in the management report, and the misstatement will be combined with other projected misstatements, and may likely be included in the audit report.

### 2. COMAF 61: Overstatement of grant revenue and expenditure relating to INEP

#### Requirement

*In terms of section 122 (1) of the Municipal Finance Management Act; Every municipality and every municipal entity **must for each financial year** prepare annual financial statements which **fairly presents** the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position **as at the end of the financial year**; and disclose the information required in terms of sections 123, 124 and 125.*

Furthermore, GRAP 1.17 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 set out in the Framework for the Preparation and Presentation of Financial Statements".

#### Nature



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During the audit of conditional grant revenue and related expenditure, we noted that a prior year correction journal was passed to account for an amount of R11 359 523.00 as increase in both Integrated National Electrification Programme (Municipal) Grant (INEP) grant revenue and expenditure.

The amount emanates from a loan obtained from the Development Bank of South Africa (DBSA), with National Treasury approval, of R31 300 000.00, to be used on INEP projects in the 2015/16 financial year. Expenditure was incurred against this loan and INEP allocations in the 2015/16 and 2016/17 financial years, and duly recorded in the respective general ledgers.

Given that the prior correction has an effect 2017/18 INEP expenditure in the general ledger, as well as the revenue recognised, it implies double accounting for the transaction, and therefore the expenditure and revenue in the current year are overstated.

### **Impact**

The impact from this misstatement is a factual overstatement of INEP grant revenue and expenditure, for an amount of R11 359 523.00.

### **Internal control deficiency**

#### **Financial and performance management**

Implement controls over daily and monthly processing and reconciling of transactions;

- *Management did not ensure controls are in place over the processing on grant transactions to ensure the accuracy of reporting.*

### **Recommendation**

Management should;

- Consider passing an adjustment journal to correct the misstatements noted above.
- Strengthen controls around the accounting of transactions in the appropriate years affected to minimise the need pass prior year corrections.

### **Management response**

#### **Management comment on audit finding:**

Management agrees with the finding. It is confirmed that some of the National Electrification Grant disclosure were made in the incorrect financial year.

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<b>NATIONAL ELECTRIFICATION GRANT</b>		
	<b>2018</b>	<b>2017</b>
Balance Unspent at Beginning of Year	( 2 590 505)	( 9 495 586)
Prior Period Correction		(11 359 522)
Current Year Receipts	(25 000 000)	(25 000 000)
Expenditure (Loan Cost)	11 359 212	19 940 478
Conditions Met – Transferred to Revenue	10 726 498	20 024 883
VAT on grants (Own revenue)	1 529 639	2 049 242
Administration Fee	1 250 000	1 250 000
<b>Unspent grant</b>	<b>( 2 724 846)</b>	<b>2 590 505</b>
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>		
<b>Management comment on recommendation:</b> The movement on the National Electrification Grant, note 23 to the Annual Financial Statement will be changed as follows once approved by the Auditor General		
<b>Management action for the audit improvement plan:</b> Strengthen controls around the accounting of transactions in the appropriate years affected to minimise the need pass prior year corrections.		
<b>Responsible Official:</b>	Manager Expenditure	
<b>Implementation Date:</b>	09/11/2018	

**Auditor's conclusion**

The management response is noted; however, the response does not address the overstatement of revenue and expenditure, as it only focuses on a proposed revision of a portion of Note 23 to the annual financial statements. We also wish to point out the proposed revision to the note, for the prior year, remains the same in terms of the figures, but only signs (+/-) have been inserted to ultimately do away with a previously disclosed amount of R8 769 017, which was termed "overspending on previous year allocation", it is unclear how this amount is incorporated in the revised note.

Given that the primary issue of the finding has not yet been responded to, and revenue and expenditure remains misstated, the finding will still be reported in both the management report and in the audit report.

## Predetermined Objectives

### 3. COMAF 28 KPI not well defined, verifiable and not useful

#### Audit finding

In terms of paragraph 3.2 of the Framework for Managing Programme Performance Information, suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts.

A good performance indicator should be ...

(b) **Well-defined**: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.

(c) **Verifiable**: it must be possible to validate the processes and systems that produce the indicator.

Furthermore, paragraph 3.3, A useful set of criteria for selecting performance targets is the "SMART" criteria:

- **Specific**: the nature and the required level of performance can be clearly identified
- **Measurable**: the required performance can be measured
- **Achievable**: the target is realistic given existing capacity
- **Relevant**: the required performance is linked to the achievement of a goal
- **Time-bound**: the time period or deadline for delivery is specified.

During the audit of **Objective SD 2: Optimize and sustain infrastructure investment and services**, we identified that the following performance measures are not well defined nor are they verifiable. Please refer to the table below

No	Planned indicators/ measures per annual planning document	Planned targets per SDBIP	Auditor's Comments on KPI
1	Provision of Capital Tools (Customer and Retail Services)	100%	1. The KPI is not well defined and not measurable as the unit of measure is not specific to which tools will be provided, and as the tools are purchased whenever required.
2	Provision of Capital Tools (Operations and Maintenance)	100%	

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No	Planned indicators/ measures per annual planning document	Planned targets per SDBIP	Auditor's Comments on KPI
			<ol style="list-style-type: none"> <li data-bbox="986 383 1544 495">2. The data collection for the reporting of the performance of the KPI cannot be measured the 100% as the source document is only the amount of expenditure incurred by the</li> <li data-bbox="986 600 1544 656">3. municipality to purchase the tools and the report to Council</li> <li data-bbox="986 741 1544 824">4. The unit of measure (%) defined is the same for all quarters (Q1-3), while the percentages vary ie. 25%, 50% 75% and 100%</li> </ol>

### Internal control deficiency

### Financial and Performance Management

Management did not review KPIs and their performance targets included in the Service Delivery Budget Implementation Plan (SDBIP) to ensure that they are well defined and verifiable.

### Impact

The impact of the above finding is that the KPI is not usefulness as required by the FMPPI.

### Recommendation

Management should develop and implement policies and procedures on formulation of performance targets to ensure that performance targets included in the Service Delivery Budget Implementation Plan are "SMART".

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## Management response

<b>Management comment on audit finding:</b>	
We are in agreement with the finding. The KPI targets were already changed for the 2018/19 financial year. See 18/19 SDBIP extract below	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
Management identified the weakness and it was corrected with the 18/19 SDBIP	
<b>Management comment on recommendation:</b>	
PME framework is in place, however the capacity to implement needs to be developed. PMS training was done during 17/18.	
<b>Management action for the audit improvement plan:</b>	
Project milestones must be measurable and verifiable.	
<b>Responsible Official:</b>	Frieda Human
<b>Implementation Date:</b>	

### KPIs & Projects - Electrical Engineering Department (EED)

KPI / Project Name	Unit of measurement	Baseline or (Actual at yearend of 2017/18)	Annual Target	Quarterly Targets for 2018/19			
				Q1: 30 Sept '18	Q2: 31 Dec '18	Q3: 31 Mar '19	Q4: 30 June '19
Provision of Capital Tools (Operations and Maintenance)	Q1: Determine capital tool requirements for new appointees and status of current equipment (25%) Q2: Determine specifications for capital tools (50%) Q3: Procurement of capital tools in progress (75%) Q4: Procurement of 1 Notebook, 3x Earth sets, 2x 12m stepladders, 3x 6m stepladders, 2x Electrical cordless drill and 3x linebuilding equipment completed (100%)	Actual Awaited	100%	Determine capital tool requirements for new appointees and status of current equipment (25%)	Determine specifications for capital tools (50%)	Procurement of capital tools in progress (75%)	Procurement of 1 Notebook, 3x Earth sets, 2x 12m stepladders, 3x 6m stepladders, 2x Electrical cordless drill and 3x linebuilding equipment completed (100%)

## Auditor's conclusion

Management response acknowledged, the finding will be reported in management report and Audit Report

#### **4. COMAF 60 Reported Performance Information Not Supported By Valid, Accurate and Complete POE**

##### **Audit finding**

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

##### ***KPI: % of households with access to electricity***

We audited the KPI for Validity, Accuracy and Completeness, and found the following,

The supporting documents uploaded on action assist did not indicate on how management got to the reported performance of 99%. This has thus placed a limitation on the audit of the reported achievement on the KPI

Therefore, the KPI is not valid, accurate and complete.

##### **Impact**

The reported performance information is overstated for the KPI

##### **Internal control deficiency**

##### **Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

##### **Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

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**Management response**

<b>Management comment on audit finding:</b>	
We are in agreement with the finding. The POE needs to be adjusted to reflect the source data and the calculation used to determine the Percentage of access.	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
Agree	
<b>Management comment on recommendation:</b>	
Agree	
<b>Management action for the audit improvement plan:</b>	
Management must review the POE to ensure that it supports the claimed performance.	
<b>Responsible Official:</b>	MR. M.S. LELOPE
<b>Implementation Date:</b>	7 November 2018

**Auditor's conclusion**

Management response acknowledged, the finding will be reported in management report and audit report.

***5. COMAF 53 Reported Performance Information Not Supported By Valid, Accurate and Complete POE***

**Audit finding**

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

***KPI: # of households with access to sanitation (GTM service area)***

We audited the Number for Validity, Accuracy and Completeness, and found the following,

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The KPI is a new KPI and the number of households with access to sanitation reported in the APR includes the number of households which were connected in the prior years and the KPI does not have a baseline which was audited in the past and the evidence uploaded on action assist does not indicate the number of households with access to sanitation.

Therefore, the KPI is not valid and accurate.

### **Impact**

The KPI is not valid and accurate

### **Internal control deficiency**

#### **Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

### **Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

### **Management response**

**Management comment on audit finding:**

We are in agreement with the finding. GTM already identified a challenge with the validity of the KPI since the span of control of GTM is limited since we are only the Water Service Provider. The KPI has therefore been removed from the IDP and not included in the SDBIP from 18/19.

**Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):**

None – controls are effective since the KPI has been removed from the IDP with effect from 18/19. This was determined during the finalization of the IDP and therefore only AFTER the 17/18 SDBIP was already adjusted. Another SDBIP adjustment could not



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take place since no further budget adjustment took place (a prerequisite to adjusting the SDBIP as per the MFMA)	
<b>Management comment on recommendation:</b> None – controls are effective since the KPI has been removed with effect from 18/19.	
<b>Management action for the audit improvement plan:</b> None –the KPI has been removed with effect from 18/19.	
<b>Responsible Official:</b>	W Molokomme
<b>Implementation Date:</b>	Implemented in May 2018

### Auditor's conclusion

Management response acknowledged, the finding will be reported in management report and audit report

### ***6. COMAF 54 Reported Performance Information Not Supported By Valid, Accurate and Complete POE***

#### Audit finding

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

#### ***KPI: # of households with access to water (GTM service area)***

We audited the KPI for Validity, Accuracy and Completeness, and found the following,

The KPI is a new KPI and the number of households with access to water reported in the APR includes the number of households which were connected in the prior years and the KPI does not have a baseline which was audited in the past and the evidence uploaded on action assist does not indicate the number of households with access to water.

Therefore, the KPI is not valid and accurate.

### **Impact**

The KPI is not valid.

### **Internal control deficiency**

### **Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

### **Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

### **Management response**

#### **Management comment on audit finding:**

We are in agreement with the finding. GTM already identified a challenge with the validity of the KPI since the span of control of GTM is limited since we are only the Water Service Provider. The KPI has therefore been removed from the IDP and not included in the SDBIP from 18/19.

#### **Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):**

None – controls are effective since the KPI has been removed from the IDP with effect from 18/19. This was determined during the finalization of the IDP and therefore only AFTER the 17/18 SDBIP was already adjusted. Another SDBIP adjustment could not take place since no further budget adjustment took place (a prerequisite to adjusting the SDBIP as per the MFMA)

#### **Management comment on recommendation:**

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None – controls are effective since the KPI has been removed with effect from 18/19.	
<b>Management action for the audit improvement plan:</b> None –the KPI has been removed with effect from 18/19.	
<b>Responsible Official:</b>	W Molokomme
<b>Implementation Date:</b>	Implemented in May 2018

### Auditor's conclusion

Management response acknowledged, the finding will be reported in management letter and the audit report.

### ***7. COMAF 55 Reported Performance Information Not Supported By Valid, Accurate and Complete POE***

#### Audit finding

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

#### ***KPI: Electrification of 541 households in Xihoko/ Radoo/ Thapana/ Mavele Phase2***

We audited the KPI for Validity, Accuracy and Completeness, and found the following,

The electrification of the households was completed on 02 December 2016 which is in the prior year and not relevant for current year performance.

Therefore, the KPI is not valid.

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**Impact**

The KPI is not valid.

**Internal control deficiency**

**Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

**Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

**Management response**

<p><b>Management comment on audit finding:</b></p> <p>Management does not agreed with the finding.</p>
<p><b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b></p> <p>The root cause is the frontloading of DOE funding by DBSA to fast track service delivery. The project was registered with DOE and included in the IDP for the 2017/2018 financial year, however DBSA agreed to loan (frontload) the funds for the municipality already in 2016/17.</p> <p>The decision to request funding from DBSA was taken due to pressure from the community bring the project forward to the 16/17 financial year. The funds from DBSA was received late in 2016/17 and therefore there was no time to do an adjustment to the SDBIP. Transaction was approved by National Treasury</p> <p>The actual implementation of the project was therefore included in the 17/18 SDBIP to ensure that we account for the INEP allocation which GTM received only in 2017/18.</p>
<p><b>Management comment on recommendation:</b></p> <p>Agree</p>
<p><b>Management action for the audit improvement plan:</b></p>

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Management must review the POE submitted to support claimed performance	
<b>Responsible Official:</b>	MR. M.S. LELOPE
<b>Implementation Date:</b>	Monthly

### Auditor's conclusion

Management response acknowledged the finding will be reported in management report and the audit report.

### ***8. COMAF 80 Reported Performance Information Not Supported By Valid, Accurate and Complete POE***

#### **Audit finding**

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

KPI: % households earning less than R1 100 with access to free basic waste removal (total registered as indigents)

The POE uploaded on action assist is not valid as we cannot validate nor recalculate how the information was used by management to calculate reported % relate to the KPI. This has thus placed a limitation on the testing of the reported KPI for reliability.

#### **Impact**

The KPI is not supported by valid and accurate performance information. This has thus placed a limitation on the testing of the reported KPI

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**Internal control deficiency**

**Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

**Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information

**Management response**

<p><b>Management comment on audit finding:</b></p> <p><b>Management do not agree to the finding.</b></p> <p><b>The national KPI is set on R1100.00 per household, yet the current old age pension exceeds the national KPI amount which means that nobody will qualify to be classified as indigents. Our indigent policy makes provision for earnings up to R3,200.00 per household.</b></p>	
<p><b>Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):</b></p> <p><b>The current internal control is sufficient for reporting and supporting evidence within the Municipal control environment.</b></p>	
<p><b>Management comment on recommendation:</b></p> <p><b>We do not have sufficient evidence for the villages who represent more than 90% of the indigents. Waste removal is done in bulk in Villages. Sufficient evidence is only available for indigents with consumer accounts within the Municipality.</b></p>	
<p><b>Management action for the audit improvement plan:</b></p> <p><b>Only the amount of indigents in formal towns should be considered when reporting on waste removal and not the total number of indigents registered.</b></p>	
<p><b>Responsible Official:</b></p>	<p>Rona Viljoen</p>
<p><b>Implementation Date:</b></p>	<p>18/19 Financial year.</p>

## Auditor's conclusion

Management comment noted. The finding remains as we are unable to re-calculate the reported achievement and thus have a limitation on verifying the reported performance information

### **9. COMAF 57 Reported Performance Information Not Supported By Valid, Accurate and Complete POE**

#### Audit finding

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 1: Improve access to sustainable and affordable basic services

#### ***KPI: % of households earning less than R1100 served with free basic electricity (total registered as indigents)***

The POE uploaded on action assist is not valid as it does not show on how management got to the reported performance of 100%. This has thus placed a limitation on the testing of the reported KPI

#### Impact

The KPI is not supported by valid and accurate performance information. This has thus placed a limitation on the testing of the reported KPI

#### Internal control deficiency

#### Financial and Performance Management

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

#### Recommendation

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

**Management response**

<b>Management comment on audit finding:</b>	
<p>We are in agreement with the finding. The national KPI was included in the SDBIP however GTM only has proof for those indigent residing in the GTM service area. In order to address the matter the KPI will be adjusted in 2018/19 to limit it to the performance in the GTM service area.</p> <p>% of households earning less than R1100 <u>and residing in the GTM electricity service area</u>, served with free basic electricity</p>	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
<p>The KPI is determined by National Regulations (Regulation 796 of 2001) however the GTM span of control is limited to our Service Area. The rural area is serviced by ESKOM and the majority of the indigents reside in this area. Herein the records of ESKOM plays a vital role in providing evidence to support claimed performance.</p> <p>The KPI further uses the term “access” which in the case of GTM universal access to electricity connections has been achieved. The KPI should be revised at a national level to rather require reporting on the number of registered indigents claiming FBS.</p>	
<b>Management comment on recommendation:</b>	
<p>Management should review the KPIs to ensure that they measure activities within the GTM Mandate and span of control.</p>	
<b>Management action for the audit improvement plan:</b>	
<p>Management to review KPIs to ensure that they are aligned to the GTM service area and span of control.</p>	
<b>Responsible Official:</b>	P Makhubela
<b>Implementation Date:</b>	Feb 2018

**Auditor’s conclusion**

Management comment noted. The finding remains as we are unable to re-calculate the reported achievement and thus have a limitation on verifying the reported performance information



## 10. COMAF 91 Reported Performance Information Not Supported By Valid, Accurate and Complete POE

### Audit finding

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Furthermore, section 40 of the Municipal Systems Act states that, a municipality must establish mechanisms to monitor and review its performance management system.

Contrary to the above requirement, the following deficiencies were identified during the audit of Objective SD 2: Optimize and sustain infrastructure investment and services

### ***KPI: Renewal, Repairs and Maintenance on pre-paid meters (Tzaneen, Letsitele & Politsi)***

Reported performance for the KPI is not valid as the supporting documents do not relate to the initial planned performance and the reported performance for the KPI not determined in accordance with the units of measure provided in the SDBIP:

KPI	Units of measurement	Auditors assessment of the achievement	Reported achievement	Auditors' recalculated achievement
Renewal, Repairs and Maintenance on pre-paid meters (Tzaneen, Letsitele & Politsi)	Q1: Specifications submitted to SCMU : Replace old meters at Politsi (10%) Q2: Tender process (25%) Q3: Service provider appointed (40%) Q4: Project at Politsi complete (100%)	Internal replacement of meter by GTM – Not on the unit of measure per KPI.  Attached appointment of service provider not related to KPI and not for current year	100%	0%

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**Impact**

The reported performance information is overstated for the KPI

**Internal control deficiency****Financial and Performance Management**

Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information.

**Recommendation**

Management should keep appropriate portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information. Furthermore, reported performance should be in accordance with the requirements of the provided units of measures as set in the SDBIP.

**Management response**

<b>Management comment on audit finding:</b>	
Management is not in agreement with the finding. The KPI required the renewal, repairs and maintenance on prepaid meters in the area. The department had to address inadequate metering of a newly acquired property in Politsi. Since the process of replacing the meters also involved replacement of old cables and meter boxes as part of the supply network hence the appointment letter was for "Politsi Network upgrade". The auditor should therefore consider the quotation and invoice (attached on ActionAssist) wherein the reference to "pre-paid meters" will be found. Also take into account that GTM procures the meters from our own supplier since they are pre-programmed with our specific supply code and issued to the service provider to install.	
<b>Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):</b>	
None. The performance is at 100%	
<b>Management comment on recommendation:</b>	
The KPI was not executed due to delays with approval of loan by DBSA.	
<b>Management action for the audit improvement plan:</b>	
The project will be implemented in the 2018/2019 financial year.	
<b>Responsible Official:</b>	MR. M.S. LELOPE

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<b>Implementation Date:</b>	15 November 2018
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### Auditor's conclusion

Management responses acknowledged, the KPI was relooked at based on further engagement with management and inspection of the internal processes performed by management to provide service to the community. The finding is not resolved as the unit of measure does not include internal processes and we thus urge management to redefine the units of measure in the future, to include internal processes that may be followed to implement the projects so that the KPI is verifiable and re-performable

### **11. COMAF 79: AOPO Reliability of KPI D176 Reported Performance Information not supported by Valid and Accurate POE**

#### Audit finding

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditees to have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

In terms of section 40 of the Municipal Systems Act, a municipality must establish mechanisms to monitor and review its performance management system.

Furthermore, section 41(1)(c)(i) and (ii) of the Municipal Systems Act, states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed with regard to each of those development priorities and objectives and against the key performance indicators and targets set; monitor, measure and review performance at least once per year.

The following jobs reported under KPI: Number of jobs created through EPWP does not relate to the 2017/18 performance:

No.	ID number	Project employed under	Date Contract Signed
1	6204245273083	MORUJI TO MATSWI	26/10/2016
2	9301016052089	MORUJI TO MATSWI	22/11/2016
3	8503050985089	MAFARANA TO BURGERSDORP ROAD	22/11/2016
4	8307060934081	TZANEEN LITTER PICKING	13/07/2015
5	8101105941080	RUNNYMEDE SPORTS FACILITY	2017/02/01
6	8511160885081	RUNNYMEDE SPORTS FACILITY	2017/02/01

Reported achievement is overstated by the jobs that were not created in 2017/18 financial period.

#### Internal control deficiency

Financial and Performance Management

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Management did not review that portfolio of evidence loaded on action assist is sufficient, valid accurate and complete to support reported performance information

#### Recommendation

Management should review the annual performance report to ensure that reported performance information agrees is relevant to the financial year

#### Management's response

We are not in agreement with the finding. The projects listed by the Auditor are multi-year projects. Herein the individuals were therefore engaged in the project over more than one financial year and viewed as jobs created in terms of EPWP.

#### Auditor's conclusion

Management comments noted. We maintain that a job can only be created once and thereafter sustained. The fact that the multi-year project started in the prior years, implies that it was reported in the year it was created as this is not a New KPI in 17/18.

The finding remains and management is encouraged to review the whole population and not report on jobs that were not created outside of 17/18.

## Compliance

### 12. COMAF 75 Non Compliance in preparation of AFS

#### Audit finding

In terms of MFMA 56 Par 122 (1) every municipality and every municipal entity must for each financial year prepare annual financial statements which—.

- (a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and
- (b) disclose the information required in terms of sections 123, 124 and 125.

During the audit of the 2017/18 AFS, we noted that the AFS that were submitted for audit are material misstated.

#### Impact

Non-compliance with section 122(1) (a) and (b) of the MFMA.

#### Internal control deficiency

#### Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions;

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- *Management did not ensure controls are in place to ensure that the annual financial statements are prepared in accordance to the section 122 (1) (a) and (b) of the MFMA*

**Recommendation**

Management should;

- *Ensure that controls are put in place to ensure that the annual financial statements are prepared in accordance to section 122 (1) (a) and (b) of the MFMA.*

**Management response**

<b>Management comment on audit finding:</b>	
Management agrees with finding on aspects of which audit adjustments will be made	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
Transaction classifications oversight	
<b>Management comment on recommendation:</b>	
Ensuring transaction processing is more accurate and classified correctly as part of internal daily controls	
<b>Management action for the audit improvement plan:</b>	
After audit adjustments management will ensure transaction processing is more accurate and classified correctly as part of internal daily controls	
<b>Responsible Official:</b>	CFO
<b>Implementation Date:</b>	09/11/2018

**Auditor’s conclusion**

Management comment noted. The non-compliance will be reported in the Audit Report

**13. COMAF 8 Deviations do not meet the requirement for a valid deviation and did not comply with PPPF act.**

**Audit finding**

**SCM Policy/SCM Regulation**

**Paragraph 2.2.1** Goods and services may only be procured by way of –

(c) Formal written price quotations for procurements of a transaction value over R10 000 up to R200 000 (VAT included).

**Paragraph 2.3.8**, The procedure for the procurement of goods or services through formal written price quotations, is as follows:

(f) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points;

**Paragraph 36:**

"A supply chain management policy may allow the accounting Officer-

(a) Established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only -

- (i) In an emergency if such goods or services are produced or available from a single provider only; for the acquisition of special works of art or historical Objects where specifications are difficult to compile;

Acquisition of animals for zoos; or in any other exceptional case where it is impractical or impossible to follow the official procurement processes.

Contrary to the above requirement, the following transactions did not follow the process required by the SCM Policy/Regulation: we noted the deviation forms attached to the payment vouchers. Upon inspection of the reasons for deviation we noted that the reason for the deviation does not qualify the award to be regarded as a valid deviation in accordance with SCM Regulations 17,

The quotations were not evaluated in terms of the PPPF act.

Procurement process for human communications did not obtain three quotations

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Supplier	Goods/service	Amount awarded
TSHIPISE A FOREVER RESORT	Accommodation and Conference Venue.	101,349.00
HUMAN COMMUNICATION	Advertisement	23,944.38
NYANKWAVI INVESTMENT	Training of employee on Microsoft word, excel and power point.	77,520.00
WHITE HELL TRADING	branded materials	192,922.20
LIMPOPO COACHES	Transport services	93,000.00
KARIBO LEISURE RESORT	Venue hire for gala dinner.	52,002.24
KALAMAZOO TRANSPORT CC	Transport services.	32,950.00
KARIBO LEISURE RESORT	Accommodation.	119,997.88
LINDISEC	Six tyres for the grader.	103,267.99
HUMAN COMMUNICATION	Advertisement	88,930.78
CHM VUWANI COMPUTER	Laptops for 2017 matric best performers	69,105.61
BIG VELA CONSTRUCTION	Bush Cutting	77,756.28
IVORY TUSK LODGE	Legal workshop	41,400.00
SIMA SILVER LODGE CC	Catering services	40,000.00
BAOBAB PROMOTIONS	Printing of IDP	83,869.50

1 198 015.86

## Impact

Irregular expenditure is understated by R 1 198 016

## Internal control deficiency

### Leadership

The accounting officer did not ensure that all procurements complied with the SCM policy and regulation.

## Recommendation

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Management should;

- Ensure that all procurements are done in terms of the SCM policy and SCM regulation and that the PPPF act is complied with.
- Management should ensure that procurement process is followed and deviations complies with the scm regulations.

**Management response**

<p><b>Management comment on audit finding: Management comment on audit finding:</b>  <b>Management agrees with the finding.</b>  <b>Management conducted SCM training for the key role players on the 24<sup>TH</sup> of July 2018 and the 25<sup>th</sup> of July 2018 and an internal memo was forwarded to all departments to advise officials to comply with SCM processes In line with the deviation requirements.</b>  <b>Attached hereto please find attendance register of the training provided as well as the memo forwarded to officials.</b></p>	
<p><b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>  <b>Management comment on audit finding:</b>  <b>Management agrees with the finding.</b></p>	
<p><b>Management comment on recommendation:</b>  <b>N/A</b></p>	
<p><b>Management action for the audit improvement plan:</b>  <b>The employees have been made aware that the reasons for deviation must be in line with SCM policy.</b></p>	
<p><b>Responsible Official:</b></p>	<p>MODJADJI ZABEL</p>



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<b>Implementation Date:</b>	1 JULY 2018
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### Auditor's conclusion

Management response noted, the finding will be reported in the management report and auditors report.

### **14. COMAF 10: SCM: Procurement without following official competitive bidding process.**

#### **Audit finding**

SCM Policy/SCM Regulation

Paragraph 2.2.1 Goods and services may only be procured by way of –

- (d) a competitive bidding process for–
- (i) Procurements above a transaction value of R200 000 (VAT included); and
- (ii) The procurement of long term contracts.

Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points;

Paragraph 36:

"A supply chain management policy may allow the accounting Officer-

(a) Established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only -

i. In an emergency if such goods or services are produced or available from a single provider only; for the acquisition of special works of art or historical Objects where specifications are difficult to compile;

Acquisition of animals for zoos; or in any other exceptional case where it is impractical or impossible to follow the official procurement processes.

Contrary to the above requirement, the following transactions did not follow the process required by the SCM Policy/Regulation:

We noted the deviation forms attached to the payment vouchers. Upon inspection of the reasons for deviation we noted that the reason for the deviation does not qualify the award to be regarded as a valid deviation in accordance with SCM Regulations 17,

The quotations were not evaluated in terms of the PPPF act.

Supplier	Goods/service	Amount awarded
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LOMBARDS UITRUSTERS	Sports clothing for Saimsa game to be held at Middleburg.	249,717.00
KARIBU RESORT	Accommodation and Venue hire.	705,443.97
NKEMANKEMA TRADING ENTERPRISE	Labour hire	575,244.00
		<u>1 530 404.97</u>

Management did not:

- Ensure that all procurements are done in terms of the SCM policy and SCM regulation and that the PPPF act is complied with.
- Ensure that competitive bidding is followed for all bids above R200 000 threshold.

Irregular expenditure is understated by R 1 530 404.97

### Internal control deficiency

#### Leadership

The accounting officer did not ensure that all procurements complied with the SCM policy and regulation.

### Recommendation

Management should;

- Ensure that all procurements are done in terms of the SCM policy and SCM regulation and that the PPPF act is complied with.
- Management must ensure that competitive bidding is followed for all bids above R200000 threshold.

### Management's response

Management agrees with the finding.

### Auditor's conclusion

Management response noted the finding will be reported in the management report and audit report.

### **15. COMAF 12 Supplier did not have the required CIDB grading for the Project.**

#### Audit finding

#### CIDB regulation

In terms of CIDB regulation paragraph 17,

A contractor registered in a contractor grading designation indicated in the table in the CIDB regulations, is considered to be capable of undertaking a contract in the range of tender values indicated in that table in the class of the construction works to which the category of registration of that contractor relates.

CIDB reg 21(3) & 25(8) allows an organ of state to award a contract to an emerging contractor who is registered on a grade which one level lower than the required, provided that the organ of state notify the CIDB on the nature of financial or management support that is provided to the contractor.

### **Nature**

Contrary to the requirements we noted the following:

Tender SCMU 16/2017 Treatment and Disposal Management:

The contractor awarded the award did not have the required CIDB grading for the project value as stated in paragraph 17 of the CIDB regulation.

The initial advert had a required grading of 6CE PE and it was later change to 5CE PE the reasons for the change were not stated in the advert or supporting documents submitted with the tender.

5CE PE Grading can undertake a contract in the range of tender values of less than or equal to R 6 500 000.00 as per the CIDB regulation.

7CE PE Grading can undertake a contract in the range of tender values of less than or equal to R 40 000 000.00 as per the CIDB regulation which was the required grading for the project value of R 20 060 637.59.

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No.	Supplier	Awarded amount for the tender	CIDB Grading of the contractor	Required CIDB Grading	Work done
1	THEUWEDI TRADING ENTERPRISE	20 060 637.59	5CE PE	7CE PE	The supplier did not have the required grading for the tender value.

Therefore, the total payment made to the winning bidder constitute irregular expenditure of R 3 837 826.21

#### Internal control deficiency

##### Leadership

The accounting officer did not ensure that construction contracts are awarded in terms of the CIDB regulation.

##### Impact

Irregular expenditure is understated by R3 837 826.21

##### Recommendation

Management should;

- Ensure that all procurements relating to construction are awarded in terms of the CIDB regulation.

##### Management response

###### Management comment on audit finding:

Management disagree on the basis that Sewer and waste treatment is an operational project is does not require CIDB as attached as this was not a construction related

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<p>projects and CIDB compliance or conformity in terms of grading is not a regulatory requirement and no bidder was disqualified on this basis to create an unfair advantage on bidders. .</p> <p>The bidders CIDB level had no bearing on work activity s I is purely an operational management project no construction industry related grading</p>	
<p><b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding): Bid specification must not include un-related legislative requirements that are not regulated by CIDB</b></p>	
<p><b>Management comment on recommendation: review of bid specs more efficiently</b></p>	
<p><b>Management action for the audit improvement plan:</b></p>	
<p><b>Responsible Official:</b></p>	<p>SCM and user departments</p>
<p><b>Implementation Date:</b></p>	<p>10/10/2018</p>

**Auditor’s conclusion**

Management response noted, we disagree with the response based on the following:

On page 36 of the Tender Document, Bid specification under Chapter 2: Landfill-site Management Paragraph dd) Landfill drainage and storm water management:

v) A system of berms and cut off drains must be constructed at the landfill-site as per design/construction plan as follows:

- The contractor will be responsible for the development of such system of berms and cut off drains to be constructed.
- The contractor will be responsible for the Civil Earthworks.

The construction work to done is covered in detail in the bid document under bid specification.

The finding remains and will be reported in the management report

**16. COMAF 03 SCM Process not followed**

**Audit finding**

**Requirement**

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**SCM Policy/SCM Regulation**

Paragraph 2.3.8, The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations, is as follows:

(b) all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of the formal written price quotation as stipulated in (paragraph 2.3.8) be advertised for at least seven days on the website and an official notice board of the municipality.

(f) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points;

Contrary to the above the following transactions did not follow the process required by the SCM Policy/Regulation:

Supplier name	Cheque no	Amount	Deviation memo no	Order no
Tzaneen Country Lodge	1076797	38 000.00	1099	D1587TZA
<b>Total Amount</b>		<b>38 000.00</b>		

We noted a deviation form attached to the payment voucher. Upon inspection of the reasons for deviation we noted that the reason for the deviation does not qualify the award to be regarded as a valid deviation in accordance with SCM Regulations 16,

"A supply chain management policy may allow the accounting Officer-

(a) Established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only -

(i) In an emergency If such goods or services are produced or available from a single provider only; for the acquisition of special works of art or historical Objects where specifications are difficult to compile; Acquisition of animals for zoos; or in any other exceptional case where it is impractical or impossible to follow the official procurement processes."

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**Internal control deficiency**

**Leadership**

SCM did not ensure that correct SCM process were followed.

**Recommendation**

Management should;

- Ensure that all procurements are done in terms of the SCM policy and SCM regulation.

**Management response**

<p><b>Management comment on audit finding:</b></p> <p><b>Management agrees with the finding.</b></p> <p><b>Management conducted SCM training for the key role players on the 24<sup>TH</sup> of July 2018 and the 25<sup>th</sup> of July 2018 and an internal memo was forwarded to all departments to advise officials to comply with SCM processes in line with the deviation requirements.</b></p> <p><b>Attached hereto please find attendance register of the training provided as well as the memo forwarded to officials.</b></p>
<p><b>Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):</b></p> <p><b>Management Agreed with the finding</b></p>
<p><b>Management comment on recommendation:</b></p> <p><b>N/A</b></p>
<p><b>Management action for the audit improvement plan:</b></p> <p><b>The employees have been made aware that the reasons for deviation must be in line with SCM policy.</b></p>

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<b>Responsible Official:</b>	MODJADJI ZABEL
<b>Implementation Date:</b>	1 JULY 2018

**Auditor's conclusion**

Management comment noted, the finding will be report in the management report and audit report

**ANNEXURE B: OTHER IMPORTANT MATTERS****Compliance****17. COMAF 02: Disciplinary Board not in place****Audit finding**

In terms of municipal regulations on financial misconduct procedures and criminal proceedings, Chapter 2 paragraph 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.* "

Contrary to the above the municipal council did not establish the disciplinary board to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor.

Non-compliance with the laws and regulations

**Internal control deficiency**

Leadership- Municipal council did not establish a disciplinary board to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor.

**Recommendation**

The municipal council should ensure that they establish a disciplinary board.

**Management's response**

Indeed, the Board has yet been established, however all necessary preparations have been done for Council to establish it. Its establishment will be no later than end of September 2018.

**Auditor's conclusion**

Management noted, the finding will be reported in the management report.



## **18. COMAF 02: No Consequence management policy in place**

### **Audit finding**

It is considered a best business practice for municipality to develop a consequence management policy.

During the understanding of the Consequence Management Business Process we noted that the Municipality does not have an approved consequence management policy in place as at 30 June 2018.

The matter was also communicated in the previous audit cycle (201617). As per the Action Plan, dated 15.08.2018, the reported finding was regarded as "implemented". Contrary to the action plan's status, we were unable to confirm the implementation of the recommendations of the previous audit cycle.

### **Internal control deficiency**

Municipal council did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities relating to consequence management policy.

### **Recommendation**

Municipal Council should ensure that they develop a consequence management policy.

### **Management's response**

Yes, the finding is correct, the Municipality does not yet have an approved Consequence Management Policy, however, it should be noted that much effort has already gone to the development of the policy. The policy will be finalised in a special Council meeting to be held at the end of September 2018 and implementation will start forthwith.

### **Auditor's conclusion**

Agree with management responses, the findings will be report in the management report.

## **19. COMAF 22 Municipal standard chart of accounts (mSCOA) not implemented**

### **Audit finding**

*In terms of Gazette 37577, sections 3, 15 and 16;*

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*“These Regulations apply to **all municipalities** and municipal entities”*

*“The Minister may, by notice in the Gazette on good cause shown by a municipality or municipal entity and after considering any recommendations of the*

*SCOA Committee, **exempt** such municipality or municipal entity **from the application of a provision of these Regulations**, for the period and on the conditions determined in the notice.*

*(2) A postponement or exemption in terms of sub-regulation (1) may*

*(a) Apply to municipal ties generally; or*

*(ii) Municipal entities generally, or*

*(b) Be limited in its application to a particular*

*(i) Municipality;*

*(ii) Category of municipalities, which may be defined either in relation to a type or budgetary size of municipality or in any other manner;*

*(iii) Municipal entity; or*

*(iv) a category of municipal entities, which may either in relation to a type or budgetary size of municipal entity or in any other manner.”*

*“These Regulations are called the Standard Chart of Accounts for Local Government Regulations, 2014, and **take effect on 1 July 2017.**”*

*During the obtaining of an understanding of the municipality and its environment, as part of risk assessment procedures at the planning stage of the audit, we noted that the municipality is not yet operational on the mSCOA project, even though the Gazette required implementation to be effective by 1 July 2017.*

*We further obtained a confirmation letter from management confirming the municipality is not in compliance with the Gazette, and no exemption certificate was obtained from the Minister of Finance in terms of Section 15, as quoted above.*

## **Impact**

The risk from this non-compliance is an indicator for more non-compliance by the municipality with other applicable laws and regulations.

Furthermore, the delay in implementation of mSCOA means the municipality is not embracing the core objective of mSCOA, being;

\*

“To provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which-

- (a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and
- (b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.”

**Internal control deficiency**

**Financial and performance management**

Review and monitor compliance with applicable legislation;

- *Management did not ensure the municipality complies with Gazette 37577.*

**Recommendation**

Management should;

- Engage National Treasury on possibly obtaining exemption certificates for the delayed implementation of mSCOA, given the apparent challenges faced by not only this municipality but other municipalities in the country, to avoid non-compliance findings.

**Management response**

<p><b>Management comment on audit finding:</b></p> <p>Management agrees with the finding</p>
<p><b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b></p> <p>Delays in appointment of service provider in 2016 as per regulation , the proves was undertaken in 2017</p>
<p><b>Management comment on recommendation:</b></p> <p>Ensure compliance with National Treasury Circular</p>
<p><b>Management action for the audit improvement plan:</b></p>

\*

Service provider appointed in 2017 ,currently busy with chart conversion and data stratification ad analysis as per mScoa meetings held and progress reports	
<b>Responsible Official:</b>	MP makhubela
<b>Implementation Date:</b>	1 july 2019

**Auditor's conclusion**

Management comment noted. The finding will be reported in the Management Report

**20. COMAF 45 Payment to suppliers not made within 30 days of invoice date****Audit finding****Requirement**

*In terms of section 65 (1) and (2)(e) of the Municipal Finance Management Act (MFMA);*

*"The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.*

*The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure."*

**Nature**

During the audit of overall expenditure, we noted transactions on which the time elapsed between invoice and payment date exceeded a period of 30 days, in contravention of the above cited piece of legislation.

\*

The tables below outline the transactions mentioned above;

### 1. Bulk purchases transactions

No.	Cheque number	Amount	Invoice date	Date stamp on invoice	Payment date	Number of days
1	BULK PURCHASES ELECTRICITY SEPT 2017 (Cq01 1072223)	R 13 815 789.47	2017/09/05	2017/09/06	2017/10/27	51
2	ESKOM SETTLEMENT (Cq01 1072355)	R 13 551 413.20	2017/09/05	2017/09/06	2017/10/30	54
3	BULK PURCHASES ELECTRICITY SEPT 2017 (Cq01 1072805)	R 6 578 947.37	2017/10/04	2017/10/05	2017/11/27	53
4	BULK ELECTRICITY (Cq01 1073049)	R 9 944 327.08	2017/10/04	2017/10/05	2017/12/01	57
5	ESKBUL/OCT (Cq01 1073051)	R 20 670 754.72	2017/11/01	2017/11/02	2017/12/04	32
6	BULK PURCHASES ELECTRICITY JANUARY 2018 (Cq01 1075039)	9 856 128.53	2018/02/05	2018/02/06	2018/03/20	42
7	BULK PURCHASES ELECTRICITY MARCH 2018 (Cq01 1075899)	R 2 444 537.47	2018/04/05	2018/04/09	2018/05/15	36

\*

8	BULK PURCHASES ELECTRICITY MARCH 3RD TRA (Cq01 1075915)	R 986 842.11	2018/04/05	2018/04/09	2018/05/22	43
9	BULK PURCHASES ELECTRICITY MARCH FINAL P (Cq01 1075931)	R 1 333 161.04	2018/04/05	2018/04/09	2018/05/23	44
10	BULK PURCHASES ELECTRICITY APRIL 2ND TRA (Cq01 1076526)	R 3 260 869.57	2018/05/04	2018/05/07	2018/06/20	44
11	BULK PURCHASES ELECTRICITY APRIL & MAY18 (Cq01 1076925)	R 28 226 810.26	2018/06/04	2018/06/05	2018/07/10	35
12	BULK PURCHASES ELECTRICITY SEPT 2017 (Cq01 1072223)	R 4 605 263.16	2017/09/05	2017/09/06	2017/10/27	51
13	ESKOM SETTLEMENT (Cq01 1072355)	R 4 517 137.73	2017/09/05	2017/09/06	2017/10/30	54
14	BULK PURCHASES ELECTRICITY SEPT 2017 (Cq01 1072805)	R 2 192 982.46	2017/10/04	2017/10/05	2017/11/27	53
15	BULK ELECTRICITY (Cq01 1073049)	R 3 314 775.69	2017/10/04	2017/10/05	2017/12/01	57
16	ESKBUL/OCT (Cq01 1073051)	R 6 890 251.57	2017/11/01	2017/11/02	2017/12/04	32

\*

17	SETTLEMENT FROM ESKOM SHR CREDITED (Cq01 1074456)	R 294 120.34	2017/12/04	2017/12/04	2018/02/23	81
18	PART PAYMENT/CORRECTION (Cq01 1074455)	R 1 046 540.71	2017/12/04	2017/12/05	2018/02/23	80
19	BULK PURCHASES ELECTRICITY JANUARY 2018 (Cq01 1075039)	R 3 285 376.18	2018/02/05	2018/02/06	2018/03/20	42
20	BULK PURCHASES ELECTRICITY MARCH 2018 (Cq01 1075899)	R 814 845.82	2018/04/05	2018/04/09	2018/05/15	36
21	BULK PURCHASES ELECTRICITY MARCH 3RD TRA (Cq01 1075915)	R 328 947.37	2018/04/05	2018/04/09	2018/05/22	43
22	BULK PURCHASES ELECTRICITY MARCH FINAL P (Cq01 1075931)	R 444 387.01	2018/04/05	2018/04/09	2018/05/23	44
23	BULK PURCHASES ELECTRICITY APRIL 2ND TRA (Cq01 1076526)	R 1 086 956.52	2018/05/04	2018/05/07	2018/06/20	44
24	BULK PURCHASES ELECTRICITY APRIL & MAY18 (Cq01 1076925)	R 9 408 936.77	2018/06/04	2018/06/05	2018/07/10	35

\*

**2. General expenses and finance costs**

No.	Cheque number	Amount	Invoice date	Date stamp on invoice	Payment date	Number of days
1	SEBATA PHASE 1 (Cq01 1071298)	R 41 395.06	2017/07/31	2017/08/11	2017/09/13	33
2	mcscoa phase 4/5/6/7 (Cq01 1076690)	R 134 154.20	2018/04/30	2018/05/17	2018/06/30	44
3	REDEPTION LOAN REPLACE CHEQUE 1072226 (Cq01 1072949)	R 134 206.83	2017/10/18	2017/10/18	2017/11/29	42

The risk from the above non-compliance with legislation is the incurrence of fruitless and wasteful expenditure by the municipality, from interest that is likely to be charged by suppliers on overdue accounts.



## Internal control deficiency

### Financial and performance management

Review and monitor compliance with applicable legislation;

- *Management did not ensure that the municipality complies with the provisions of sections 62(2)(e) of the MFMA.*

### Recommendation

Management should;

- Ensure that a control is developed and implemented to track the time period from when invoices are received from suppliers, in order to always be aware of situations where the 30 day requirement will likely not be complied with.
- Ensure that responsible staff for payment of supplier invoices is capacitated sufficiently to appreciate the importance of adhering to the 30 day requirement.
- Ensure measures are in place to recover fruitless and wasteful expenditure incurred due to negligence of any staff member.

### Management response

**Management comment on audit finding:**

Management agrees with the finding on all Eskom Payments. Payments were made late due to financial constraints, it must be noted that the municipality made arrangements with Eskom to do payments once the municipality was in a position to.

Management agrees with the finding on chq 10712980& 1076690.

Management does not agree with the finding on chq 1072226 and 1072229. Loan redemptions are paid as per amortization tables. The repayments in question were both paid on the days they were due.

**Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):**

**Management comment on recommendation:**

An invoice tracking register has been developed and is updated on a monthly basis.

**Management action for the audit improvement plan:**

An invoice tracking register has been developed and is updated on a monthly basis.	
<b>Responsible Official:</b>	Manager Expenditure
<b>Implementation Date:</b>	30/10/2018

### Auditor's conclusion

The management comments are noted, however, as no mutually agreed arrangement with Eskom or any other supplier was provided as part of the response, we still regard the stated cases as non-compliance, and as such, we will report these in the management reports.

### 21. COMAF 95 Lack of consequence management

#### Audit finding

MFMA 32(2) –

A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—

- (a) in the case of unauthorised expenditure, is— authorised 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
- (b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council. any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;

#### Nature

Contrary to the requirement, Losses resulting from unauthorised, irregular as well as fruitless expenditure were not recovered from the liable persons after the investigation of 2016/17 UIF, as required by section 32(2) of the MFMA.

#### Impact

Non-compliance with section 32(2) of the MFMA.

#### Internal control deficiency

## Leadership

The accounting officer did not put in place controls to ensure that the municipality complies with section 32(2).

## Recommendation

Management should Ensure that controls are put in place to ensure that the municipality complies with applicable laws.

## Management response

<b>Management comment on audit finding: Management comment on audit finding:</b> Management agrees to the finding	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b> <b>Management comment on audit finding:</b> Consequence management policy was approved in council	
<b>Management comment on recommendation:</b> A consequence management policy has been approved in council and financial misconduct board	
<b>Management action for the audit improvement plan:</b>	
<b>Responsible Official:</b>	All management
<b>Implementation Date:</b>	November 2018

## **Auditor's conclusion**

Management report noted, the finding will be reported in the management report

## **22. COMAF 01: Non-Compliance with MFMA s62(1) (c) (ii) – No external quality assurance/assessment of the internal audit function conducted**

### **Audit finding**

According to Municipal Finance Management Act 56 of 2003, s62(1)(c)(ii), 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 internal audit operating in accordance with any prescribed norms and standards.

The Institute of Internal Auditors standard 1312 requires that an external quality assurance assessment of an internal audit function by a qualified, independent reviewer from outside the organization take place at least once every five years.

During the assessment of the work of the internal audit of the municipality, we noted that an external quality assurance assessment has not been conducted at least once in the past five (5) years. This results in non-compliance with MFMA s62(1)(c)(ii) as management failed to comply with the prescribed norms and standards of the Institute of Internal Auditors.

Lack of overview by management as they failed to ensure that the external quality assessment was completed.

External auditors do not have the assurance that the internal audit function is of an adequate.

### **Internal control deficiency**

Management did not ensure that the municipality complies with applicable legislation as well as standards and prescribed norms which affect the municipality.

### **Recommendation**

Management should,

- Ensure that controls are implemented to ensure compliance with all relevant legislation and standards.
- Ensure that the internal audit function is adequately resourced in order to meet all applicable requirements from legislation, regulation and professional bodies.
- Develop a compliance checklist for assessing compliance with all applicable legislation and standards

### **Management's response**

<b>Management comment on audit finding:</b>	
Management agree that the assessment was not done, a qualified, independent reviewer from outside the organization will be appointed to perform an external quality assurance assessment of the internal audit function.	
<b>Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):</b>	
<b>Management comment on recommendation:</b>	
The recommendations are noted. The external quality assurance assessment will be done.	
<b>Management action for the audit improvement plan:</b>	
A qualified, independent reviewer from outside the organization will be appointed for an external quality assurance assessment of the internal audit function.	
<b>Responsible Official:</b>	Helen Manyike
<b>Implementation Date:</b>	31 March 2019

### Auditor's conclusion

Management Comments noted. The finding will be communicated in the Management Report and followed up in the next audit cycle.

### 23. COMAF 18: Non- Compliance with SALGA Agreement

#### Audit finding

According to the Collective Agreement on Conditions of Service for the Limpopo Division of the SALGABC between the South African Local Government Association and Independent Municipal and Allied Trade Union dated 18 September 2017, paragraph 12.1 states that when an employee is required by written approval of the Municipal Manager to act in a more senior post for a period not less than ten consecutive days, an acting allowance should be paid to him.

Paragraph 12.6 states that acting in a senior position should not exceed 4 months, where it exceeds such period, a council resolution is required to authorise this. The council may approve additional acting for a period not exceeding two months

During the audit of Employee Cost we noted that the following employees have been acting for a period exceeding 6 months as prescribed by the requirement above:

NO.	EMP CODE	CURRENT POSITION	ACTING POSITION	STARTED PERIOD	ENDED PERIOD	ACTING PERIOD
1	1082	Clerk	Supervisor	2011/02/22	2018/06/30	7 YEARS & 4 MONTHS
2	100055	Junior HR Officer	HR Admin Officer	2017/04/01	2018/11/30	8 MONTHS
3	221064	General Worker	Supervisor	2016/12/01	2018/06/30	19 MONTHS
4	224591	Senior Labourer	Senior Operator	2004/05/31	2018/05/31	17 YEARS & 1 MONTH

5	255640	General Worker	Supervisor	2012/05/01	2018/06/30	6 YEARS & 1 MONTH
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This is due to vacant posts not being filled in a timely manner.  
Non- Compliance with Laws and Regulations as the Collective Agreement is a binding regulation.

### Internal control deficiency

Financial and Performance Management

Management failed to review and monitor compliance with Collective Agreement on Conditions of Service for the Limpopo Division of the SALGABC.

### Recommendation

Management should ensure vacancies are filled within 6 months of the position being vacant, and develop a system of internal control to track the periods in which people act in higher positions.

### Management's response

The finding is correct. The two vacant positions are filled for 221064 and 224591 which address the query. For Community Services the interviews will be held on the 18/10/2018 to address the query of acting. For Corporate services the positions will not be filled due to cash flow. The municipality will request exemption from the SALBC for the acting of the Secretary of the speaker due to cash flow.

### Auditor's conclusion

Management's comments are noted. The finding will be reported in the management report and followed up in the next audit cycle.

## ANNEXURE C: ADMINISTRATIVE MATTERS

### 24. COMAF 38: Non- Compliance as employees exceeding threshold were compensated.

#### Audit finding

In terms of the Regulation and Remuneration of Overtime Policy Paragraph C" Qualifications for payment of remuneration;

1. Employees eligible for remuneration in monetary value shall be employees who are in the income bracket of less than or as may be determined by the collective Agreement as Gazetted.
2. Employees who earn more than R193805.00 (Earnings threshold) per annum shall only be compensated by means of time off equivalent to the hours worked, it must be noted that threshold will annually change and it shall apply as per notice."

The threshold used in the 2017/2018 financial year was R205433,3.

During our audit we identified that there were employees that were paid for overtime while their earnings thresholds exceeded that of the policy for the Municipality. The following payments for overtime were made:

No	Employee no.	Period	Annual Salary	Amount paid out
1	165047	May	R400 660,08	5008,25
2	15039	June	R309 162,48	2318,7
3	15040	June	R309 162,48	1159,35
4	15041	June	R273 154,32	2048,7
5	15043	June	R273 154,32	1024,35
6	15047	June	R273 154,32	2048,7
7	15049	June	R273 154,32	1024,35
8	290034	May	R400 660,08	25567,13
9	290038	May	R400 660,08	19832,67
10	290040	May	R400 660,08	39114,44
11	290041	May	R388 588,2	25258,23
12	290042	May	R388 588,2	32107,11
13	165064	May	R327 988,8	9347,69
14	165063	May	R327 988,8	9429,69
<b>Total</b>			<b>R4 746 736.56</b>	<b>R175 285.85</b>

Management failed to ensure compliance with the overtime policy, as they were aware that this condition exists and is clearly stated on the overtime approval form.

The projected misstatement is: R22 638 079,96.

Employee cost is overstated as a result of non-compliance with overtime policy.

#### **Internal control deficiency**

Financial and Performance Management

Management failed to, review and monitor compliance with the municipality's overtime policy.

#### **Recommendation**

Management should ensure that prior to approval of overtime they inspect if the employees are above the threshold and not authorise payment for such employees.

Entire population of overtime paid should be revisited to identify further instances of over-payments and journal be proposed to correct the financials

**Management’s response**

Management agree that employees earning above the threshold were paid for overtime worked.

The Minister of Labour determines the earnings threshold in line with the Basic Conditions Employment Act, Act no 75 of 1997 and related amendment Acts.

Unfortunately, Council policy was overtaken by recent ministerial determination earnings threshold and is slightly misaligned to the Basic Conditions of Employment Act.

While employees earning above threshold are not covered by section 10 of the Basic Condition of Employment Act, they are however not precluded from being compensated for overtime worked as long as there is an agreement (approval) between management and employees concerned. Council policy is subordinate to both the ministerial determination on earnings threshold and the Basic Conditions of Employment Act.

Management has already identified a discrepancy in the policy which has resulted in the slight misalignment with the Basic Conditions of Employment Act.

The policy is already reviewed and waiting approval by Council which should happen no later than December 2018. Amendments have been effected to the policy in line with both the Act and Ministerial determination. A copy of the draft amended policy is herewith attached.

Date:

**Auditor’s conclusion**

Management's comments are noted. The finding will be reported in the management report and followed up in the next audit cycle.

**25. COMAF 37: Non- Compliance with the leave policy**

**Audit finding**

In terms of the Leave Policy, paragraph C, (iii) leave days will be encashed on “rate per day” x amount of leave days encashed (basic salary divided by 250= rate of pay per day).

In terms of section 62, (1) (b) 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Nature

We noted the following differences when recalculating the leave pay out where the payout was calculated based on Cost to Company but the Leave Policy states it should be based on basic salary, please refer to the table below:

No.	Emp Code	Leave Amount Paid	Leave calculated on Basic Salaries	Difference
-----	----------	-------------------	------------------------------------	------------



1	2032	13 227,20	5 985,07	7 242,13
2	2033	15 718,24	5 985,07	9 733,17
3	2062	14 413,60	7 694,25	6 719,35
4	150006	12 885,68	7 694,25	5 191,43
5	221051	14 588,32	7 694,25	6 894,07
6	224088	12 105,60	7 694,25	4 411,35
7	227548	14 592,00	7 694,25	6 897,75
8	255006	20 728,32	7 694,25	13 034,07
9	255012	17 654,40	9 617,82	8 036,58
10	255019	14 128,24	7 694,25	6 433,99
11	280041	12 030,00	7 466,31	4 563,69
12	1082	14 899,50	7 915,38	6 984,12
13	1084	11 676,08	6 171,84	5 504,24
14	221049	11 781,40	7 915,38	3 866,02
15	221055	11 297,90	7 915,38	3 382,52
16	221056	11 297,90	7 915,38	3 382,52
17	221057	11 297,90	7 915,38	3 382,52
18	221058	11 392,90	7 915,38	3 477,52
19	221060	16 313,70	7 915,38	8 398,32
20	221571	10 814,56	6 332,30	4 482,26
		272 843,44	150 825,82	122 017,62

Management failed to ensure that leave pay out calculations are in line with the provisions of the leave policy.

Impact

The above misstatements have been projected to the whole population and the projected misstatement for the leave payments is R5 150 026,54.

Employee Cost is overstated as a result of the Non- Compliance with Leave Policy.

### Internal control deficiency

Financial and Performance Management

Management failed to;

Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

### Recommendation

Management should ensure revisit the entire population for the staff leave accrued and ensure that the staff leave is calculated as per the approved leave policy and adjust the financials through a journal entry.

### Management's response

<b>Management comment on audit finding:</b>
---

Management does not agree with the finding. The leave pays out calculation is based on the Basic Conditions of Employment Act of 1997. The Basic Conditions Employment of Employment States that:

1. The following payments are included in an employee's remuneration for the purpose of calculating pay for annual leave in terms of section 21, payment instead of notice in terms of section 38 and severance pay in terms of section 41-

1. Housing or accommodation allowance or subsidy or housing or accommodation received as a benefit in kind
2. Car allowance or provision of a car, except to the extent that the car is provided to enable the employee to work,
3. Any cash payments made to an employee, except those listed as exclusions of this schedule
4. Any other payment in kind received by an employee, except those listed as exclusions from this schedule
5. Employer's contributions to medical aid, pension, provident fund or similar schemes
6. Employer's contributions to funeral or death benefit schemes

A copy of the BCEA is attached for easy reference

### Auditor's conclusion

Managements comments are noted. The finding is reclassified to non-compliance with the leave policy and will be reported in the management report.

### 26. COMAF 36: Payables-Leave Accrual incorrectly calculated

#### Audit finding

In terms of the Leave Policy, paragraph C, (iii) leave days will be encashed on "rate per day" x amount of leave days encashed (basic salary divided by 250= rate of pay per day).

In terms of section 62, (1) (b) 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 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 staff leave, we noted that the Municipality calculates the Leave Payable based on Total Cost to Company but the Leave Policy states it should be calculated based on the basic salary, the following differences were noted during the recalculation:

No.	Emp no.	Days	Monetary Value as per leave payable listing	Recalculation of payable	Difference in Value
1	4009	35	53260,9	39 986,08	13 274,82

2	4013	36	136089,36	65 567,82	70 521,54
3	2019	31	84576,06	39 105,76	45 470,30
4	1110	39	98154,42	49 197,56	48 956,86
5	1111	44,35	128295,68	55 946,46	72 349,22
6	1082	47,23	113640,58	37 389,50	76 251,08
7	4010	27	94046,16	55 970,23	38 075,93
8	2003	15	116092,8	42 657,72	73 435,08
9	2064	23,47	63117,4	29 606,84	33 510,56
10	2017	28	85491,28	35 321,33	50 169,95
11	2033	37	67105,42	27 684,77	39 420,65
12	2053	39	95007,51	60 098,09	34 909,42
13	1022	23,75	61230,59	29 960,05	31 270,54
14	2052	30	161679,9	85 315,43	76 364,47
15	1009	36,5	149718,26	68 543,18	81 175,08
16	2062	27	43515,63	25 971,70	17 543,93
17	1025	29	122366,66	50 483,28	71 883,38
18	2018	29	232397,59	82 471,59	149 926,00
19	50112	22	36468,52	26 159,50	10 309,02
20	50110	30	51808,5	36 783,11	15 025,39
<b>577</b>			<b>1 905 786,20</b>	<b>881 277,38</b>	<b>1 024 508,82</b>

Management failed to ensure that the Overtime Policy is applied correctly. The above misstatements have been projected to the whole population and the projected misstatement for the staff leave is **R19 288 562,06**.

Staff Leave is overstated as a result of Non-Compliance with Leave Policy.

### Internal control deficiency

Management failed to;

Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

### Recommendation

Management should ensure revisit the entire population for the staff leave accrued and ensure that the staff leave is calculated as per the approved leave policy and adjust the financials through a journal entry.

### Management's response

Management does not agree with the finding. The leave pays out calculation is based on the Basic Conditions of Employment Act of 1997. The Basic Conditions Employment of Employment States that:

1. The following payments are included in an employee's remuneration for the purpose of calculating pay for annual leave in terms of section 21, payment instead of notice in terms of section 38 and severance pay in terms of section 41-

1. Housing or accommodation allowance or subsidy or housing or accommodation received as a benefit in kind
2. Car allowance or provision of a car, except to the extent that the car is provided to enable the employee to work,
3. Any cash payments made to an employee, except those listed as exclusions of this schedule
4. Any other payment in kind received by an employee, except those listed as exclusions from this schedule
5. Employer's contributions to medical aid, pension, provident fund or similar schemes
6. Employer's contributions to funeral or death benefit schemes

A copy of the BCEA is attached for easy reference

### **Auditor's conclusion**

Managements comments are noted. The finding is changed to non-compliance with the leave policy as we note that legislation takes precedence but management failed to align policy to legislation.

## **General IT controls**

### **27. Failed login attempts are not reviewed (Repeat finding)**

#### **Audit finding**

User Access Management

#### **Audit finding 2016/2017**

The ICT Account Management Policy (page 14 paragraph 12.4) state that "All account logs shall be monitored weekly and the administrator must sign log reports "However evidence could not be provided to ascertain review of failed login attempts and access violations on the Active Directory, Payday and ProMIS.

#### **Current Status- Unresolved**

IT Management had previously committed to ensuring that system administrators are capacitated through the assistance of service providers on how to retrieve audit logs and adhere to the ICT User Account Management Policy. However, during the audit assurance could not be provided that audit logs were retrieved and failed login attempts, access violations on the Active Directory, PayDay and ProMIS were reviewed.

Financial and Performance Management: Implement formal controls over IT systems

The domain policy rendered challenges; the main server replication process could not enable logging of failed login attempts.

If the above reports are not monitored security breaches and incidents may not be timely detected, which may affect the confidentiality, integrity and availability of financial systems.

### **Internal control deficiency**

Financial and Performance Management: Implement formal controls over IT systems

The domain policy rendered challenges; the main server replication process could not enable logging of failed login attempts.

### **Recommendation**

Management should ensure that IT department complies with the ICT Account Management Policy. Reports of access and logon violations should be requested from relevant parties and regularly reviewed to identify possible unauthorized access to the system

### **Management's response**

We agree with the finding for Active Directory failed login monitoring, however, the Domain Controller audit policies are enabled to log failed logons but don't reflect them on the log viewer, this makes it impossible to verify logon violations. To resolve the Active Directory (Domain Controller), we will ensure that the Policies work as expected and reviews are as per the User Account Management Policy document during the refurbishment of the entire ICT Infrastructure.

Our IT Administrators will be taken for training to address the issues raised on the Payday system. The ProMIS system failed logons will be addressed. Action Assist POE was sent to AGSA on the 17<sup>th</sup> October 2018.

Name: Tshembani Maluleke

Position: Manager IT

Date: 31 December 2018

Date: 31 December 2018

### **Auditor's conclusion**

Management responses were noted and implementation of action plans will be audited in the next audit cycle.

## ***28. IT Service Level Agreements are not being monitored***

### **Audit finding**

IT Governance

The municipality had Service Level Agreements (SLAs) with the following service providers:

- Anaka Group
- Business Engineering
- Fujitsu

However, there was no evidence provided to ascertain that the services rendered by the above service providers were formally monitored.

Financial and Performance Management: Implement formal controls over IT systems

ICT had informal meetings with the above service providers; however, minutes were not recorded for service monitoring and feedback purposes.

Failure to monitor the performance of service providers may lead to inadequate services being delivered by the service providers with delayed or no recourse taken by the Municipality

### **Internal control deficiency**

Financial and Performance Management: Implement formal controls over IT systems

ICT had informal meetings with the above service providers; however, minutes were not recorded for service monitoring and feedback purposes.

### **Recommendation**

Management must ensure that services rendered by the consultants to the municipality are monitored and evidence of monitoring should be filled for audit purpose and future reference.

### **Management's response**

We agree with the finding, however, ANAKA Group was appointed on temporary basis as there were challenges with printing services. SEBATA was monitored and we had numerous meetings with them throughout the project both by the Municipality and Provincial Treasury, minutes were sent to AGSA on the 17<sup>th</sup> October 2018. Business Engineering is monitored through reports and information will be sent to AGSA by the 18<sup>th</sup> October 2018. Action IT is monitored; minutes were sent to AGSA on the 17<sup>th</sup> October 2018. Fujitsu only provides Licences for the ProMIS system and ad-hoc support and are monitored whenever there are issues emanating from the system. We have also resolved to meet with Service providers at least once per quarter where possible to address the finding.

Name: Tshembani Maluleke

Position: Manager IT

Date: 31 December 2018

### **Auditor's conclusion**

Management response was noted and implementation of the action plan will have audited in the next audit cycle.

## **IT Security Management**

### **29. Inadequate firewall management controls**

#### ***Audit finding***

The municipality has an approved ICT Firewall policy in place which governs the management of incoming and outgoing traffic on the network. However during the audit the following evidence could not be provided to audit:

- Changes to firewall are formally logged.
- Real-time alerts are sent to firewall administrator.

- Firewall rules commentary were reviewed to ensure that are sufficient and accurate.
- Firewall administrator analyses and reviews firewall logs on a weekly basis.
- Access rules to the firewall are reviewed on a quarterly basis.
- Formal user access management process was followed in granting users to the firewall access.

Lack of formally logged changes to the firewall, it may result in unauthorized changes being introduced to the firewall.

If real-time alerts are not reviewed or monitored, management may only notice an attack / incident once the impact is significant or after the incident occurred.

If activities performed by the firewall administrators and firewall rules are not monitored to ensure sufficiency and accurate, unnecessary traffic and/or services permitted via the firewall could be utilised by a malicious user or attacker to bypass the firewall rules and obtain access to resources in an unauthorised manner.

If formal user access management process is not followed in granting users to the firewall there is a risk that intrusions on the network might not be detected which might result in data loss, confidentiality and availability of the financial system should unauthorised access be gained on the system.

### **Internal control deficiency**

**Financial and performance management:** Implementation of formal controls over IT systems.

The current firewall has numerous configuration challenges which have resulted in limitations in the management of the firewall controls.

Moreover, real time alerts were disabled as it rendered challenge in the management of incoming emails.

### **Recommendation**

ICT Management should ensure that the ICT Firewall procedures as documented on the ICT Firewall policy are implemented within the municipality and evidence thereof be retained for audit purpose and future reference. Furthermore ICT Management is encouraged to install a firewall that has the necessary configurations and requirements to adequately manage the incoming and outgoing traffic on the network.

### **Management response**

We agree with the finding, however, the municipality is currently in the process to refurbish the ICT Infrastructure, as such, the current firewall will be replaced, then necessary configurations and requirements will be addressed.

**Name:** Tshembani Maluleke

**Position:** Manager IT

**Date:** 31 December 2018

### **Auditor's conclusion**

Management comments are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

### **IT Service Continuity**

#### ***30. Disaster Recovery Plan has not been tested (prior year finding)***

#### **Audit finding**

A Business Continuity Plan (BCP) had been documented however it was not approved. Furthermore, although a Disaster Recovery Plan (DRP) had been established and approved it had not been tested.

#### **Current Status- Partially resolved**

IT Management had previously committed to ensuring that when the Disaster Recovery Equipment are in place or procured, tests will be performed. However, evidence to ascertain that the Disaster Recovery Plan (DRP) has been tested for the period under review could not be provided.

If the Disaster Recovery Plan is not tested, there may be inefficiencies which might hinder successful execution of the plan in the event of a disaster.

#### **Internal control deficiency**

**Financial and performance management:** Implementation of formal controls over IT systems. The municipality had challenges with the configuration of the Virtual Private Network (VPN); therefore DRP could not be tested during the period under review.

#### **Recommendation**

IT management should expedite the testing of the DRP and ensure that it is adequately designed to respond to the municipal needs in the event of a disaster.

#### **Management response**

We agree with the finding; however, Council approved the Business Continuity Plan in the previous financial year. Test results for the Disaster Recovery Plan will be made available by 31 December 2018 as there is a project on the pipeline to refurbish all ICT infrastructures and will have a great impact on the DR Plan as all servers will be upgraded to the latest versions to enhance high availability, efficiency and security.

**Name:** Tshembani Maluleke

**Position:** Manager IT

**Date:** 31 December 2018



## **Auditor's conclusion**

Management comments are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

### **31. Inadequate implementation of backup processes on the Active Directory, ProMIS and PayDay**

#### **Audit finding**

The ICT Backup Policy on page 10 paragraph 5.7.3 states that *"Test restores from backup tapes for each system will be performed at least every three months (quarterly). Problems will be identified and corrected. This will work to ensure that both the tapes and the backup procedures work properly"*.

Evidence of backup data restoration was not provided to the auditors for review. Consequently, assurance could not be given to ensure that restoration testing was performed to test the ongoing readability of backup tapes during the period under review.

Not performing data restoration testing may result in the management not being able to recover or restore data in the event of a disaster, leading to financial loss and compromised data integrity.

#### **Internal control deficiency**

**Financial and performance management:** Implementation of formal controls over IT systems. Tests for restoration of backups were not performed due to constant network outages emanating from obsolescence of our current ICT Infrastructure.

#### **Recommendation**

IT Management is encouraged to ensure that ongoing readability of backups should be tested periodically through restoration testing as stated on the ICT Backup Policy. Evidence of the test restores should be retained. Furthermore management should ensure that the ICT department is adequately skilled to perform backup data restorations for the Active Directory, ProMIS and PayDay.

#### **Management response**

We agree with the finding on PayDay and ProMIS as there was no test results provided though daily backups were successful and stored offsite. Other servers including the active directory are backed up on daily basis on our Disaster Recovery Appliance where we are currently running the File Server on the Disaster Recovery Server, as the production server ceased to function since the 22nd August 2018. Tests for restoration of backups were not performed due to constant network outages emanating from obsolescence of our current ICT Infrastructure however; tests will be performed when the ICT infrastructure is refurbished.

**Name:** Tshembani Maluleke

**Position:** Manager IT

**Date:** 31 December 2018

### **Auditor's conclusion**

Management comments are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

### **Program Change Management**

#### ***32. Program Change Management policy Inadequately documented***

#### **Audit Finding**

The Municipality had documented and approved an ICT Program Change Management policy which is used to guide the processes to manage changes and or updates made to all financial systems. However, the policy did not address the key aspect of testing of changes prior to moving to production.

If the change management policy is inadequately document, the basic change control requirements might not be understood by all system administrators and a consistent approach might consequently not be followed when operational changes are made to systems, which could lead to unauthorised changes being moved to production environment, loss of data integrity and the municipality not being able to process transactions due to unavailability of systems.

#### **Internal control deficiency**

**Financial and performance management:** Implementation of formal controls over IT systems. Management did not realise the risk of not including the testing of changes when documenting the ICT Program Change Management Policy.

#### **Recommendation**

ICT Management should ensure that the ICT Program Change Management policy is revised to address all key aspect to manage changes and or updates made to all financial systems.

#### **Management response**

We agree with the finding and will implement recommendations by the AGSA.

**Name:** Tshembani Maluleke

**Position:** Manager IT

**Date:** 31 December 2018

### **Auditor's conclusion**

Management comments are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

## Receivables

### 33. COMAF 20: Debtors with balance of 90 days overdue not issued with notice of discontinuance

#### Audit finding

In terms of municipal Credit control and debt collection policy:

15(1) The council may cause to be delivered to a customer who fails to make timeous payment i

In terms of section 96 of MSA Debt collection responsibility of the municipalities. A municipality in terms of a municipal account, a notice to remind such customer to make the due payment on or before a date specified in such notice.

16(1) The Council may cause to be delivered to a customer who is in arrears with payment in terms of a municipal account, a letter demanding payment of such arrear amount on or before a date specified in such letter of demand.

must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act

No	Debt. no	Balance as at 30 June 2018	Current Balance	30D Balance	60D Balance	90D Balance	120D Balance	120D+ Balance
1	430758	125 525.32	4 330.24	6 123.87	5 841.78	3 280.52	5 310.32	100 638.59
2	778320	221 332.24	9 831.64	9 016.34	8 846.26	10 035.19	8 571.58	175 031.23
3	63794	137 033.12	7 660.13	5 912.25	6 862.80	5 904.59	6 136.86	104 556.49
4	309173	124 095.85	8 361.05	3 904.48	8 160.35	4 951.68	8 890.34	89 827.95
5	405487	429 626.68	12 616.73	15 710.09	24 839.86	6 106.14	13 989.99	356 363.87
6	585487	113 386.15	8 550.44	8 755.00	43 384.62	4 527.44	48 168.29	0.36
7	888435	4 174 505.77	103 475.60	60 908.04	41 114.25	118 015.98	126 828.73	3 624163.17
8	732340	6 895 896.80	160 262.39	188 62.30	189199.23	184 675.74	180 352.80	5 993 44.34

Lack of overview by management as they failed to ensure that the accounts with balance of 90 days overdue are issued with notice of discontinuance

Non-compliance with the MSA and Credit control & debt collection policy.

#### Internal control deficiency

Financial and performance management

The accounting officer did not put in place measures to ensure that debtors with balances 90 days overdue are issued with notice of discontinuance.

## **Recommendation**

The accounting officer should ensure that the municipality comply with revenue & debt collection Acts prescribed by MSA and Credit control & debt collection policy of the municipality.

## **Management's response**

Management do not agree to the finding.

The policy does not prescribe that a notice of discontinuance must be issued for balances 90 days overdue. Final reminders are however issued for balances 30 days and over, requesting payment before a date specified in such reminder. Non adherence result in services being disconnected. The policy does make provision for extension for payment and arrangement payments for arrears in which case we won't disconnect.

Debtor 430758 – Disconnection request was submitted to service provider and the disconnection report indicated that they did the disconnection.

Debtor 778320 – Client disputed the charges. Request for disconnection was submitted although physical disconnection did affect another account for consumer who is not in default and we reconnected awaiting technical assistance.

Debtor 63794 – This consumer run into cash flow problems and arranged for extension for payment which is covered in our policy. Made payment 2/10/2018 and another payment to reach us by 30/10/2018.

Debtor 309173 – Disconnection request was submitted to electrical department for assistance due to the issue of farms disconnections that is not always accessible and problematic. Request was done after audit query.

Debtor 405487 - Disconnection request was submitted to service provider and the disconnection report indicated that they did the disconnection.

Debtor 585487 – Payment was received for 50% of arrears in September 2018 and verbal arrangement for the balance to be paid not later than 30 November 2018. Arrangement will be formalised in writing.

Debtor 888435 – Numerous disconnection notices was issued and the consumer was accommodated with services due to the nature of the business and correspondence with the owner on settlement of the account. Current arrangement is settlement not later than 20 November 2018.

Debtor 732340 – Electricity was disconnected and the building is not in use. The account however accumulates basic charges each month. It was handed over to lawyers for summons and attachment of property.

Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):

The services of credit control and debt collection is outsourced. Our internal control deficiencies are to analyse reports and proof submitted of actions taken by the service provider.

Management comment on recommendation:

Non- compliance to credit control and debt collection policy must be substantiated with documented approval for deviation

Management action for the audit improvement plan:

Proper record keeping of all correspondence and audit trials of work executed by service providers.

## **Auditor's conclusion**

The auditor acknowledges management response; however, the finding is not resolved:

**Debtor 430758:** The municipality have to come-up with a plan/ solution on how to deal with illegal connections, because we noted that there is a consumption on the account and we further noted that legal actions were not taken against the account holder for illegally reconnecting themselves.

**Not resolved**

**Debtor 778320:** auditor not agreeing to the management response, as electrical department should separate connections of account holders to make it easy to disconnect the accounts that are in arrears and disputes of charges should also be completed on specific form and signed by both municipality & account holders. **Not resolved**

**Debtor 63794:** Inspected Promis & confirmed that the amount of R50000.00 was paid by the account holder and arrangement made as per policy. **Resolved**

**Debtor 309173:** The action was taken only after the audit query was raised and the municipality should have a plan in place to deal with disconnections in the farms. **Not resolved**

**Debtor 405487:** The action was taken only after the audit query was raised. **Not resolved**

**Debtor 585487:** The account holder paid R100000.00 in October and arrangement made to settle the balance. **Resolved**

**Debtor 888435:** The account is still in arrears. **Not resolved**

**Debtor 732340:** inspected the correspondence from the attorneys for summons and attachment of property. **Resolved**

## Payables

### 34. COMAF 21 Understatement of unspent conditional grant liability

#### Audit finding

*In terms of section 122 (1) of the Municipal Finance Management Act;*

*Every municipality and every municipal entity must **for each financial year** prepare annual financial statements which **fairly presents** the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position **as at the end of the financial year**; and disclose the information required in terms of sections 123, 124 and 125.*

*Furthermore, GRAP 1.17 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 set out in the Framework for the Preparation and Presentation of Financial Statements".*

## Nature

During the audit of the unspent conditional grant liability component, we noted that an amount of R2 924 848 is presented as a liability in the statement of financial position as at 30 June 2018, consisting of an unspent portion of R2 724 846 from the Integrated National Electrification Programme (Municipal) Grant (INEP) and R200 000 from prize money awarded by the Limpopo department of economic development, environment and tourism from the cleanest town competition.

Upon further audit work, we noted that an amount of R450 766 was not included in the unspent amount at year end on the cleanest town award, despite the amount not appearing in any of the expenditure votes.

Management explanation for the issue was that a Council Resolution was obtained to recognise all unspent allocations from prior years as revenue in the 2017/18 financial year. Although we were provided with the signed Resolution of 30 August 2018, there is no mention of the awarding department relaxing the usual condition attached to the cleanest town allocation, which is to spend the allocation on an environmental project.

Given that the condition for the cleanest town allocation was still not met as at 30 June 2018, the unspent conditional grant is understated by an amount of R450 766.

## Impact

The impact of this misstatement is an understatement of the unspent conditional grant liability by an amount of R450 766, which will be added with other misstatements in the schedule of uncorrected misstatements.

## Internal control deficiency

### Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions;

- *Management did not ensure controls are in place over the processing on grant transactions to ensure the accuracy of reporting.*

## Recommendation

Management should;

- Ensure that revenue from conditional grants is only recognised when the attached conditions are met.
- Ensure that counter party approval is obtained if the conditions are not met but the auditee is of the view the revenue should be recognised.
- Consider passing an adjustment journal to correct the misstatement on the unspent conditional grant liability.

### Management response

<b>Management comment on audit finding:</b>	
Management does not agree with the finding. A Council resolution was obtained from Council giving approval to transfer unspent grants, which have been sitting on the AFS for more than 8 years, to revenue. The amount was prize money that the Municipality won for the Cleanest Town. Not all the funds were utilized, resulting in unspent funds.	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
<b>Management comment on recommendation:</b>	
Engagement will be entered into with the Auditors to discuss the matter further	
<b>Management action for the audit improvement plan:</b>	
<b>Responsible Official:</b>	Manager Expenditure
<b>Implementation Date:</b>	30/06/2019

### Auditor's conclusion

The management comment is noted. However, as mentioned in the body of the finding, the Council Resolution is not sufficient to warrant the recognition of revenue from a conditional allocation from a third party. Furthermore, we have communicated an extension of the finding to include other revenue recognized by means of this stated Council Resolution (COMAF 25).

**35. COMAF 25 Understatement of unspent conditional grant liability – Part 2****Audit finding**

*In terms of section 122 (1) of the Municipal Finance Management Act;*

*Every municipality and every municipal entity must **for each financial year** prepare annual financial statements which **fairly presents** the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position **as at the end of the financial year**; and disclose the information required in terms of sections 123, 124 and 125.*

*Furthermore, GRAP 1.17 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 set out in the Framework for the Preparation and Presentation of Financial Statements”.*

**Nature**

During the audit of the other income component, we noted that an amount of R2 739 309.00 was recognised as revenue from various grants, which had remained unspent in prior years. Unspent grant realised on the basis of a Council Resolution, adopted on 30 August 2018.

The table below provides detail of the grants and amounts making up the R2 739 309.00;

<b>Grant</b>	<b>Amount recognised as revenue</b>
Drought relief programme	R 30 700.00
SETA	R 441 931.00
Department of Minerals and energy	R 33 186.00
Community based projects	R 356 878.00
Neighbourhood grant	R 1 325 225.00
Cleanest town	R 450 766.00
Upgrade of sport facilities	R 100 623.00
<b>Total</b>	<b>R 2 739 309.00</b>

Given that these grants usually have attached with their allocation conditions on how they should be utilised, management did not provide us with evidence to substantiate the recognition of the amounts as income, aside from the Council Resolution.

**Impact**



The impact of this factual misstatement is an understatement of the unspent conditional grant liability by the amount of R2 739 309.00, and overstatement of the other income revenue by the same amount.

**Internal control deficiency**

**Financial and performance management**

Implement controls over daily and monthly processing and reconciling of transactions;

- *Management did not ensure controls are in place over the processing on grant transactions to ensure the accuracy of reporting.*

**Recommendation**

Management should;

- Ensure that revenue from conditional grants is only recognised when the attached conditions are met.
- Ensure that counter party approval is obtained if the conditions are not met but the auditee is of the view the revenue should be recognised.
- Consider passing an adjustment journal to correct the misstatement on the unspent conditional grant liability.

**Management response**

<b>Management comment on audit finding:</b>	
Management partially agrees with the finding. Management obtained a Council resolution to transfer the balances on all unspent grants which were sitting on the AFS for more than 5 years. However it must be noted that Treasury deducted the NDPG unspent grant from the Equitable share for 17/18 financial year. Management will submit a request for AFS adjustments to Auditor General for Approval.	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>	
<b>Management comment on recommendation:</b>	
<b>Management action for the audit improvement plan:</b>	
<b>Responsible Official:</b>	Manager Expenditure
<b>Implementation Date:</b>	26/10/2018

**Auditor's conclusion**

The management response is noted. We are open to engagement regarding proposed adjustments by management; however, we are going to report on the finding in the management report.

**Operating expenditure****36. COMAF 07: Payment to suppliers not made within 30 days of invoice date****Audit finding**

In terms of section 65 (1) and (2)(e) of the Municipal Finance Management Act (MFMA);

“The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.”

During the audit of expenditure on the Financial Management Grant, we noted transactions on which the time elapsed between invoice and payment date exceeded a period of 30 days, in contravention of the above cited piece of legislation.

The table below outlines the transactions mentioned above;

No.	Cheque number	Amount	Invoice date	Date stamp on invoice	Payment date	Number of days
1	PROMIS LICENCE (Cheque number 1071292)	R 92 400.00	2017/07/28	2017/08/02	2017/09/13	42
2	PROMIS SUPPORT BANK RECON (Cheque number 1072904)	R 87 316.00	2017/10/27	2017/10/27	2017/11/28	32

The impact from the above non-compliance with legislation is the incurrence of fruitless and wasteful expenditure by the municipality, from interest that is likely to be charged by suppliers on overdue accounts.

**Internal control deficiency**

Financial and performance management

Review and monitor compliance with applicable legislation;

- *Management did not ensure that the municipality complies with the provisions of sections 62(2)(e) of the MFMA.*

**Recommendation**

Management should;

- Ensure that a control is developed and implemented to track the time period from when invoices are received from suppliers, in order to always be aware of situations where the 30-day requirement will likely not be complied with.
- Ensure that responsible staff for payment of supplier invoices is capacitated sufficiently to appreciate the importance of adhering to the 30-day requirement.
- Ensure measures are in place to recover fruitless and wasteful expenditure incurred due to negligence of any staff member.

### Management's response

<b>Management comment on audit finding:</b>	
<ol style="list-style-type: none"> <li>1. Management agrees with the finding. The invoice was under investigation; as a result, it was paid late.</li> <li>2. Management does not agree with the finding. The invoices are paid on 30 days of statements. Attached is the statement relating to the specific invoice.</li> </ol>	
<b>Management comment on internal control deficiencies (if the entity disagrees please provide the correct root cause for the finding):</b>	
1.The invoice was under investigation, as a result it was paid	
<b>Management comment on recommendation:</b>	
The invoice was under investigation, as a result it was paid	
<b>Management action for the audit improvement plan:</b>	
An invoice tracking register has been developed and is updated on a monthly basis.	
<b>Responsible Official:</b>	Mokgadi Sono
<b>Implementation Date:</b>	09/10/2018

### Auditor's conclusion

Management comments are noted, however, based on the evidence inspected, the number of days elapsed between invoice receipt and payment dates exceed the 30-day mark, and no special arrangement was provided by management to substantiate the payment outside of 30 days on the account, the finding therefore remains relevant to indicate non-compliance, and will therefore be included in the management report.

### 37. COMAF 64 Expenditure non- compliance (No controls to prevent UIF)

#### Audit finding

#### Requirement

MFMA 62(1)(d) – Municipalities

The accounting officer should take reasonable steps to prevent irregular expenditure, fruitless and wasteful expenditure, and unauthorised expenditure

**Nature**

Contrary to the requirement, the municipality incurred irregular expenditure, fruitless and wasteful expenditure, and unauthorised expenditure as disclosed in notes to the financial statement.

**Impact**

Non-compliance with section 62(1)(d) of the MFMA.

**Internal control deficiency**

**Leadership**

The accounting officer did not put in place controls to ensure that the municipality prevent irregular expenditure, fruitless and wasteful expenditure, and unauthorised expenditure.

**Recommendation**

Management should Ensure that controls are put in place to prevent irregular expenditure, fruitless and wasteful expenditure, and unauthorised expenditure

**Management response**

<p><b>Management comment on audit finding: Management comment on audit finding:</b>  <b>Management agrees to the finding</b></p>
<p><b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b>  <b>Management comment on audit finding:</b>  <b>Lack Institutional adherence to internal controls and scm compliance</b></p>
<p><b>Management comment on recommendation:</b>  <b>Awareness Institutional adherence to internal controls and scm compliance</b></p>
<p><b>Management action for the audit improvement plan:</b></p>

<ul style="list-style-type: none"> <li>• Awareness Institutional adherence to internal controls and scm compliance</li> <li>• Ensure no expenditures and scm wards comply before processing and also monitor invoice submission by departments to avoid late payments</li> </ul>	
<b>Responsible Official:</b>	MODJADJI ZABEL
<b>Implementation Date:</b>	1 JULY 2018

### Auditor's conclusion

Management response noted, the finding will be reported in the management report

### 38. COMAF 39 Long outstanding debtors not handed over for legal action/collection

#### Audit finding

In terms of section 96 of MSA Debt collection responsibility of the municipalities, a municipality must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act

Contrary to the requirement:

During the audit of consumer debtors, we noted that the following long outstanding debtors were not handed over for legal action or collection:

No	Debtor no.	Debit balance	Current	30 days	60 days	90 days	120 days	120 days plus
1	77701	145 210.01	1 925.56	1 963.71	1 951.84	1 883.32	1 872.21	135 613.37
2	417563	164 359.60	3 014.37	3 141.57	3 118.76	2 934.50	2 913.95	149 236.45
3	978946	30 434.51	362.79	2 963.89	4 041.74	399.65	5 858.50	16 807.94
4	823678	784 844.65	10537.47	10 644.25	10 599.83	10 383.82	10 343.15	732 336.13
5	77412	999 946.44	11359.55	11 329.40	10 635.15	10 589.73	10 562.49	945 470.12

## Impact

Non-compliance with MSA

## Internal control deficiency

Financial and performance management

The accounting officer did not put measures in place to ensure that the long outstanding debtors are handed over for legal action or collection.

## Recommendation

Management should put in measures to ensure that all long outstanding debtors are handed over for legal action or collection.

## Management response

### Management comment on audit finding:

Management partially agree to the finding, 4 accounts were handed over but we did not redirect hand overs to other debt collectors when Altimax quit.

1. Debtor 77701 – Account was included in list sent on 6 April 2017 to Zandile
2. Debtor 417563 – Accounts was included in list sent on 6 April 2017 to Zandile
- 3 Debtor 978946 – Accounts for Tzaneen area was allocated to Altimax but they stop working due to a dispute on interpretation of SLA and Tzaneen accounts were not re-directed to other debt collectors, thus it was not handed over.
4. Debtor 823678 – Account was included in list sent on 6 April 2017 to Zandile
5. Debtor 77412 – Account was included in list sent on 6 April 2017 to Zandile

### Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):

The current Promis system do not allow us to “park” the hand over accounts and deal with them separately, monthly charges is continuing on the accounts handed over

<p><b>making it difficult to keep track of the amount handed over vs payments related to the handed over amounts. The debt collection process was managed on an excel spreadsheet, whilst the system should be able to accommodate hand over management.</b></p>	
<p><b>Management comment on recommendation:</b></p> <p>The contracts of the current debt collection service providers expire on 31 October. The new financial system (Sebata) once implemented would assist in reporting mechanisms to identify debt not previously handed over. New service provider to be appointed need to assist in this regard.</p>	
<p><b>Management action for the audit improvement plan:</b></p> <p>Appointment of new service provider together with the Revenue division will ensure a full debt analysis and management plan to improve on debt collection practices.</p>	
<p><b>Responsible Official:</b></p>	<p>Mmarena Masekwameng</p>
<p><b>Implementation Date:</b></p>	<p>Appointment of new service provider</p>

### Auditor's conclusion

The auditor acknowledges the management response; however the query is not resolved

**Debtor 77701:** Inspected the email with the attached listing of queried accounts send to debt collector. **Resolved**

**Debtor 417563:** Inspected the email with the attached listing of queried accounts send to debt collector. **Resolved**

**Debtor 978946:** Not handed over to debt collector as per management response. **Not resolved**

**Debtor 823678:** Inspected the email with the attached listing of queried accounts send to debt collector. **Resolved**

**Debtor 77412:** Inspected the email with the attached listing of queried accounts send to debt collector. **Resolved**

**39. COMAF 78-Related party disclosure note understated**

**Audit finding**

In terms of sec 63, (1) and (2) of the Municipal Finance Management Act 56 of 2003, Asset and liability management.

(1) The accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets; and the liabilities of the municipality.

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

**In terms of GRAP 1 paragraph 17:**

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

Contrary to the requirement:

During the audit of related party disclosure note 40, we noted the following difference:

Disclosed amount	Auditor recalculated amount	Difference
176 890 916.00	209 840 259.00	(32 949 343.00)

Review of disclosure note 40 not made after final journal were passed

Understatement of disclosure amount for related parties in the financial statements

**Internal control deficiency**

Financial and performance management

The accounting officer did not put measures in place to ensure that the related party disclosure note is accurate

**Recommendation**

The accounting officer should put measures in place to ensure that the amount in AFS are properly disclosed.

**Management’s response**

Management agrees to the finding:



the error was based on not updating the note after journals were passed

### Auditor's conclusion

Management response noted and the finding will be resolved after management adjusted the financials.

## Borrowings & long-term loans

### 40. COMAF 23: Other financial liabilities understated

#### Audit finding

In terms of GRAP 1 paragraph 17:

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

Contrary to the requirement, during the audit of other financial liabilities a difference between the amount recorded on the annual financial statements and the external bank confirmations obtained.

Refer to the table below for details of:

Name of institution	Amount per financial statements	Amount per bank confirmation	Difference
DBSA	R32041 867.27	R32183024.59	R141156.59
ABSA	R18340756.00	R18504805.59	R164049.59
<b>Total</b>			<b>R305206.57</b>

Contrary to the requirement, during the audit of other financial liabilities a difference between the amount recorded on the annual financial statements and the external bank confirmations obtained Other financial liabilities are understated by R 305 206.57

#### Internal control deficiency

Financial and performance management

The accounting officer did not put in place measures to ensure that the Other financial liabilities disclosed in the Municipality Annual Financial Statements are accurately disclosed.

#### Recommendation

Management will ensure that the loan payments for the annuity loan in question is paid on time and as per the statement of Account/ Agreement

**Management's response**

Management does not agree with the finding on the ABSA Loan. Included in the closing balance amounting to R18'504'805.59 is the interest accrued on the loan account from 02-30 June 2018 as per the amortization table. Please see the calculation below:

Closing balance	= 18 504 805.59 ( <b>Balance Confirmation Letter</b> )
Less Accrued Interest	= <u>164 051.76</u>
<b>As per Loan Recon &amp; Register</b>	<b><u>18 340 753.83</u></b>

- Management does not agree with the finding on the DBSA Loan.

As per the loan agreement and full loan amortization table/statement of account attached, the loan in question was payable in 12 instalments annually. See attached Statement of Account on full loan and supporting documents i.e. reconciliations per DBSA system, GTM Recon and Register and list of repayment for 2017/18.

Date: 30 June 2019

**Auditor's conclusion**

The response obtained is still incorrect and the finding still stands

**41. Consumer deposit review not accurate****Audit finding****Requirement**

In terms of sec 63, (1) and (2) of the Municipal Finance Management Act 56 of 2003, Asset and liability management.

(1) The accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets; and the liabilities of the municipality.

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

**In terms of GRAP 1 paragraph 17:**

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the GRAP 1 faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and

Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

### Nature

Contrary to the requirement:

During the audit of consumer deposit review, we noted differences between reviewed deposit and the auditor's recalculation on the following accounts:

No	Debtor No	Consumer deposit before review	Consumer deposit at year end	Deposit review	Recalculated deposit review	Difference Deposit review and recalculated review
1	1069005	R 1 200.00	R 4 160.00	R 2 960.00	R 3 363.25	-R 403.25
2	447448	R 4 640.01	R 9 640.01	R 5 000.00	R 25 311.35	-R 20 311.35
3	44142	R 16 660.00	R 20 660.00	R 4 000.00	R 73 993.87	-R 69 993.87
4	2939	R 4 276.00	R 5 466.00	R 1 190.00	R 4 877.24	-R 3 687.24
5	746984	R 8 950.00	R 9 220.00	R 270.00	R 3 363.25	-R 3 093.25
6	744641	R 2 570.01	R 3 430.01	R 860.00	R 4 508.13	-R 3 648.13
7	12408	R 960.00	R 1 430.00	R 470.00	R 1 063.78	-R 593.78
8	1080489	R 1 000.00	R 1 690.00	R 690.00	R 1 084.64	-R 394.64
9	827344	R 1 332.01	R 1 512.01	R 180.00	R 1 399.08	-R 1 219.08

**-R 103 344.57**

### Impact

Consumer deposit might not be sufficient to cover in case of non-payment of account

### Internal control deficiency

Financial and performance management

The accounting officer did not put measures in place to ensure that the review of consumer deposit is done in a manner that is consistent and accurate

**Recommendation**

It is best practice that the accounting officer should put measures in place to ensure that review of consumer deposit is accurate and complete.

**Management response**

<b>Management comment on audit finding:</b> Management agree to the audit finding.	
<b>Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):</b> The deposits raised will be adjusted accordingly and ensure system allocations and formulas address the risk	
<b>Management comment on recommendation:</b> Deposits are reviewed annually and with the next review we'll ensure that the amount of consumer deposit is accurate and complete.	
<b>Management action for the audit improvement plan:</b> Review consumer deposit policy and align formula on financial system to ensure deposit is sufficient to cover average consumption charges.	
<b>Responsible Official:</b>	Rona Viljoen
<b>Implementation Date:</b>	April 2018

**Auditor's conclusion**

Management comment noted. The finding will be reported in the Management Report as Internal Control Deficiency

**42. Receivable from exchange transaction Presentation and disclosure**

**Audit finding**

In terms of GRAP 1 paragraph 17:

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

Contrary to the above requirement, we noted that Prepayments presented in note 6 relating to Receivables from exchange transactions, inspection revealed that it is not prepayments as, it is amount owed by consumers for the services rendered by the municipality and remained unpaid as it year end. Prepayment is money forwarded to the suppliers by the municipality for goods and services not yet received.

	AFS	Recalculated
Trade debtors	229 050 606.00	235 665 738.00
Prepayment	6 615 132.00	-
Other receivables	29 056 132.00	29 056 132.00
Bursary loans	586 374.00	586 374.00
	265 308 244.00	265 308 244.00

### Impact

Noncompliance with GRAP 1

### Internal control deficiency

Financial and performance management

The accounting officer did not put measures in place to ensure that the AFS are properly reviewed

### Recommendation

The accounting officer did not put measures in place to ensure that the AFS are properly reviewed

### Management response

**Management comment on audit finding:**

**Management comment on internal control deficiencies (if the entity disagree please provide the correct root cause for the finding):**

<b>Management comment on recommendation:</b>	
<b>Management action for the audit improvement plan:</b>	
<b>Responsible Official:</b>	
<b>Implementation Date:</b>	

**Auditor's conclusion**

The finding will be reported in the Management Report as Internal Control Deficiency

### 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 (FMPPPI), 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
<b>Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.</b>		
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
6. Changes to targets are approved	Section 25(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
<b>Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.</b>		
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 FMPPPI	
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 FMPPPI	

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	
<b>Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.</b>		
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	
<b>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.</b>		
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
<b>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.</b>		
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	Chapter 5 of the FMPPi	Chapter 5 of the FMPPi
3. All actual performance that should have been recorded is included in the reported performance information.		



## Annexure E: Auditor-general's responsibility for the audit of the reported performance information<sup>1</sup>

1. As part of my engagement conducted in accordance with ISAE 3000, I exercise professional judgement and maintain professional scepticism throughout my reasonable assurance engagement on reported performance information for selected objectives.
2. 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 in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

### Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

### Reported performance information

4. In addition to my responsibility for the assurance engagement on reported performance information as described in the auditor's report, I also:
  - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. In making those risk assessments, I consider internal control relevant to the management and reporting of performance information per selected objective in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected objective.
  - evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant.
  - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

### Communication with those charged with governance




5. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.


## Annexure F: Assessment of internal controls



















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:

	Regressed
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	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>						
• 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						
• 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						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
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						
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>						
• 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	N/A
<b>Governance</b>						
<b>Overall movement from previous assessment</b>						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> <li>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</li> </ul>						
<ul style="list-style-type: none"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>						
<ul style="list-style-type: none"> <li>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</li> </ul>						

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