

The Accounting Officer

Senqu Municipality

PO Box 18

Lady Grey

9755

30 November 2010

Reference: 21290REG0910

Dear Sir

MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE SENQU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**INTRODUCTION**

1. This management report is provided in connection with our audit of the financial statements and the audit of the report on predetermined objectives for the year ended 30 June 2010.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The accounting officer's/authority's responsibilities
 - Misstatements in the financial statements
 - Matters to be brought to the attention of the users
 - Other legal and regulatory reporting requirements
 - Information technology systems
 - Specific focus areas
 - Details of significant deficiencies in internal control relevant to the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations
 - Remedial action taken on audit outcomes of prior years
 - Matters that may give rise to future audit findings if not addressed
 - Ratings of the audit findings
 - Summary of detailed audit findings
3. Annexures A, B and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our audit of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and report on predetermined objectives. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating compliance with applicable legislation regarding financial matters, financial management and other related matters.
 - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives.
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or report on predetermined objectives, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
 - An emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
 - An additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
 - The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
 - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.

- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
- Monitoring of, and reporting on, performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
- Disclosing all matters concerning any risk, allegation or instance of fraud.
- Accounting for and disclosing related-party relationships and transactions.

MISSTATEMENTS IN THE FINANCIAL STATEMENTS

Material misstatements corrected

8. The misstatements included in the two categories below were identified during the audit and have been corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to address the matters reflected as the internal control deficiency for the misstatements.
9. The following material misstatements arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required in accordance with the applicable financial reporting framework.

Material misstatements		Dr	Cr	Internal control deficiency
Financial statement line item	Reason for misstatement	R	R	
<i>Employee Benefits</i>	<i>An updated valuation of employee benefits was not performed for the year ended 30 June 2010</i>	<i>Actuarial loss R302 134</i>	<i>Non-current employee benefits R302 134</i>	<i>F1</i>
<i>Finance charges on DBSA loan</i>	<i>Correction of incorrect allocation of interest on DBSA loan</i>	<i>General expenses R53 708</i>	<i>Finance charges R53 708</i>	<i>F1</i>

10. The following material misstatements arose from a difference between the disclosures in the financial statements and the disclosures required by the financial reporting framework.

Material misstatements		Amount R	Internal control deficiency
Financial statement line item	Reason for misstatement		
<i>Asset impairment</i>	<i>Impairment of assets not consistent with the requirements of Directive 4</i>	<i>R 1035 109</i>	<i>L2</i>
<i>Commitments</i>	<i>Lack of review of the</i>	<i>R3 425 461</i>	<i>L1</i>

	<i>commitments register</i>		
<i>Irregular expenditure</i>	<i>Performance bonus payments not made in compliance with the Municipal Systems Act (Act no. 32 of 2000) (MSA)</i>	<i>R453 593</i>	<i>L2</i>
<i>Irregular expenditure</i>	<i>Expenditure incurred on the Fodder production LED project with no contract being finalised and approved</i>	<i>R83 813</i>	<i>L2</i>
<i>Irregular expenditure</i>	<i>Credit card expenditure</i>	<i>R179 798</i>	<i>L2</i>

Legend:

Legend	Fundamental of internal control	Objective of internal control
L1	Leadership: Tone at the top	Accountability and reporting
L2	Leadership: Oversight responsibility	Accountability and reporting
L3	Leadership: Action to mitigate risks	Accountability and reporting
L4	Leadership: Oversight responsibility	Compliance
L5	Leadership: Tone at the top	Compliance
F1	Financial and performance management: Quality, reliable AFS	Accountability and reporting
F2	Financial and performance management: Proper record keeping	Accountability and reporting
F3	Financial and performance management: Adequate financial management systems	Accountability and reporting
F4	Financial and performance management: Adequate financial management systems	Safeguarding of resources
F5	Financial and performance management: Quality, reliable AFS	Safeguarding of resources
G1	Governance: Risk identification	Accountability and reporting
G2	Governance: Fraud prevention	Accountability and reporting
G3	Governance: Internal audit	Accountability and reporting
G4	Governance: Audit committees	Accountability and reporting
G5	Governance: Fraud prevention	Safeguarding of resources

MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Matters important to the users of the financial statements:

Material losses

- As disclosed in note 40.4 to the financial statements, the municipality suffered a significant electricity loss of 9 million kilowatts amounting to R2.8 million.

Unauthorised and, fruitless and wasteful and irregular expenditure

- Unauthorised expenditure of R1.9 million is disclosed in note 40.1 to the financial statements. The unauthorised expenditure was incurred as a result of management's failure to effectively monitor the implementation of internal controls designed to prevent, detect and correct instances where expenditure exceeds the budget approved by the council.

13. As disclosed in note 40.2 to the financial statements, fruitless and wasteful expenditure to the amount of R2.8 million was incurred due to the excessive distribution loss experienced by the municipality.
14. Furthermore, note 40.3 to the financial statements disclosed irregular expenditure to the amount of R1.6 million relating to supply chain processes and procedures not being followed and non-compliance with the Municipal Systems Act 32 of 2000 (MSA) with respects to the payment of performance bonuses.

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Unaudited supplementary schedules

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and accordingly I do not express an opinion thereon.

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

Report on predetermined objectives

Included below are the findings identified during our audit of the report on predetermined objectives.

Non-compliance with regulatory and reporting requirements

Submission of the IDP to the MEC for Local Government in the Province

16. The municipality could not provide documentary evidence for proof of the submission of a copy of the IDP to the MEC for Local Government in the province within 10 days after the adoption of the IDP by the municipal council, as required by Section 32 of Local government Municipal Systems Act 32 of 2000 (MSA).

Notice of IDP approval not given

17. Notice of IDP approval was not given to the public within 14 days of the approval of the IDP, as required by Section 25 (4) (a) and (b) of the Municipal Systems Act 32 of 2000 (MSA).

Performance agreements were not concluded within one month after the beginning of the financial year

18. The municipality did not conclude performance agreements with the municipal manager and managers directly accountable to the municipal manager, as required by Section 57 (2) (a) of the Municipal Systems Act 32 of 2000 (MSA).

Performance evaluation of Municipal employees and suppliers was not performed

19. Performance evaluations of municipal employees and suppliers was not performed for the year under review, as required by Section 41 of the Municipal Systems Act (Act No. 32 of 2000) (MSA).

SDBIP not updated

20. The SDBIP of the municipality with respects to the 2009/2010 financial year was not updated as a number of performance measures and indicators presented were with respect to the

2008/09 financial year, which is not in compliance with Section 54(1) of the Municipal Finance Management Act 56 of 2003 (MFMA).

Financial plan does not include a budget projection for the next three years

21. The integrated development plan of the municipality does not include a budget projection for the next three years in the financial plan, as required by Section 26 (h) of the Municipal Systems Act (Act No. 32 of 2000) (MSA).

Performance assessment of the Municipality not completed within prescribed time frame

22. The performance assessment of the municipality was not submitted to the Council before 25 January 2010 and the municipality could not provide documentary evidence for the submission of the performance report assessment of the municipality to the mayor of the municipality, the National Treasury and the Provincial Treasury, as required by Section 72(1) of the Municipal Finance Management Act 56 of 2003 (MFMA).

The Integrated Development Plan (IDP) does not reflect performance targets

23. Key performance targets are not disclosed in the IDP for the 2009/2010 financial year, as required by Section 26 (i) of the Municipal Systems Act 32 of 2000 (MSA).

SDBIP approval

24. The municipality's SDBIP was not approved by the Mayor within 28 days after the approval of the budget as required by Section 53 (1) (c) (ii) of the Municipal Finance Management Act 56 of 2003 (MFMA).

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan] i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

25. The objectives in the service delivery budget implementation plan (SDBIP) are not measurable, as key performance indicators (KPI's) for the objectives do not measure the expected service delivery outcomes.
26. The objectives contained in the IDP outline broad strategies of the municipality which are not specific, measurable and time-bound.
27. The KPI's disclosed in the integrated development plan (IDP) are not in line with the KPI's disclosed in the SDBIP and the annual performance report. Furthermore, performance targets contained in the performance agreements for the managers accountable to the municipal manager and the annual performance report are disclosed as percentages and the basis for measurement of performance is not specific and time bound. Therefore, performance targets of the municipality do not measure the efficiency, effectiveness, quality and impact of the performance of the municipality.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

28. The performance management system of the municipality does not disclose detail on how performance information will be collated and included in the annual report. Furthermore, the performance management system does not disclose details of the official(s) responsible for the accurate collation, collection, recording, processing, monitoring and review of performance against pre-determined objectives and does not clarify the processes of implementing the performance management system within the framework of the service delivery objectives as contained in the SDBIP and the IDP.

Compliance with laws and regulations

Included below are findings related to material non-compliance with the acts as indicated.

Municipal Finance Management Act of South Africa, No 56 of 2003 (MFMA)

Material misstatements corrected in the financial statements

29. In order for the financial statements to meet the requirements of section 122(1) of the MFMA, material misstatements identified during the audit were corrected by management.

Expenditure was not paid within the parameters set by the applicable legislation

30. Expenditure was not paid in all instances within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure as required by section 65(2)(e) of the Municipal Finance Management Act.

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

31. As disclosed per note 40.1 to the financial statements, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

32. As disclosed in note 40.3 to the financial statements, expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality or municipal entity or the requirements of the municipality's by-laws giving effect to such policy as set out in section 1 the definition of "irregular expenditure" paragraph (d) of the MFMA.

33. As disclosed in note 40.3 to the financial statements, expenditure not was incurred in accordance with the requirements of the Municipal Systems Act as set out in section 1 the definition of “irregular expenditure” paragraph (b) of the MFMA.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

34. As disclosed in note 40.2 to the financial statements, expenditure incurred was made in vain, and could have been avoided based on the fact that reasonable care had not been exercised, as set out in section1 the definition of “fruitless and wasteful expenditure” of the MFMA.

Capital Projects not considered by the Council in terms of section 19 of the MFMA

35. The municipality does not comply with section 19 (2) of the Municipal Finance Management Act, in that the projected cost covering all financial years until capital projects are operational and the future operational costs and revenue on the projects, including municipal tax and tariff implications, are not considered by the council prior to the approval of the capital projects.

Municipal Systems Act 32 of 2000 (MSA)

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

36. Expenditure not was incurred in accordance with the requirements of the Municipal Systems Act as set out in section1 the definition of “irregular expenditure” paragraph (b) of the MFMA.

INTERNAL CONTROL

Internal control table

The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on significant deficiencies which give rise to matters included in the auditor’s report on the financial statements and for findings on predetermined objectives and compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

Fundamental of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No
Leadership				
• Oversight responsibility	Yes	Yes	No	Yes
• Tone at the top	Yes	Yes	No	Yes
• Action to mitigate risks	Yes	Yes	No	Yes
Financial and performance management				
• Quality, reliable annual financial statements	Yes	Yes	No	Yes
• Proper record keeping	Yes	Yes	Yes	No

• Adequate systems	Yes	Yes	Yes	Yes
Governance				
• Risk identification	No	No	No	No
• Fraud prevention	Yes	Yes	Yes	No
• Internal audit	Yes	No	Yes	Yes
• Audit committee	Yes	Yes	Yes	Yes

Achievement of internal control objectives

37. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the opinion on the financial statements as well as findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

- Leadership

Management's philosophy is positive; however, oversight responsibilities over reporting, compliance with laws and regulations and internal control are not exercised and the accounting officer does not evaluate whether management has implemented effective internal controls, risk management and performance management.

- Financial and performance management

Pertinent information is not always identified in a form and time frame to support financial and performance reporting and compliance with legislation.

- Governance

No formal training and skills development was provided to the in-house internal auditor. Furthermore, the in-house internal audit did not discharge all their responsibilities for the year as per the annual internal audit plan as approved by the audit committee.

Remedial action taken to improve audit outcomes of prior years

38. The municipality implemented an audit action plan to address prior year findings. This plan has not been fully effective in addressing all areas of reported non-compliance with laws and regulations and identified internal control deficiencies.

OTHER REPORTS

Investigations

Investigations in progress

39. The South African Police Service and Standard Bank are currently conducting an investigation into the unauthorised transfer of funds amounting to R600 000 from the municipality's bank account that occurred in June 2009. This fraudulent transaction was reported to the Executive Committee on 24th June 2009. An amount of R334 958 was recovered and the balance amounting to R265 041 was then disclosed as fruitless and wasteful expenditure in the financial statements.

Investigations completed during the financial year

40. The municipality dismissed a number of officials from the traffic services department following an investigation into the issue of motor vehicle licences by the said officials for no monetary consideration.

INFORMATION TECHNOLOGY SYSTEMS

Change control

41. The municipality's *Executive Information Security Policy* requires all changes implemented on the systems to comply with the change management policy. According to the change management policy, the following requirements have to be adhered to with regard to changes:

- A formal written change request should be submitted for all changes.
- Scheduled changes should be reviewed by the change management committee before they are implemented.
- A change management log has to be retained for all changes.

However, the above change control policy was not followed or implemented for changes made to the Sebata System at the time of the audit, which gave rise to the following risks:

- Unauthorised changes might be made to systems.
- Changes might be made without being properly tested first.
- Supporting change request documentation might not be maintained for the changes made.

Changes made might not address user requirements.

Security management

42. The IT administrator was responsible for system administration duties on both the operating system and the financial system. Furthermore, the administrator was also responsible for information security at the municipality (although this duty had not been formally assigned to the IT administrator).

The lack of adequate separation of the functions of the security officer and the system administrator could lead to transgressions of security controls deployed at both the physical and logical security levels and it would be difficult to determine accountability or to positively identify the perpetrator.

If the roles and responsibilities of the information security officer are not delegated to a specific individual it could result in a lack of coordination, management oversight and direction for both physical and logical aspects of security, including information security.

43. User account management procedures had not been formally documented, approved or implemented for either the Sebata application system or the operating system.

Without sound and formally approved user account management procedures, users do not have any rules and procedures to follow to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

44. No evidence could be obtained to confirm that the activities of the system administrator (user creation, user ID maintenance and allocation of functions) on both the Sebata System and the operating system were monitored. The monitoring of these activities is particularly important in view of the fact that the IT administrator performed system administrator duties on both the application and operating systems.

The lack of reviews of the activities performed by the system administrator could result in unauthorised activities not being timely detected.

45. The logs of logon and access violations on the Sebata application and the operating system were not monitored by management.

Security violations could consequently occur without being detected or followed up.

User access control

46. An inspection of the server room revealed the following environmental control weaknesses:

- The server room was not neat and it was used to store computer equipment.
- Although the server room's window had been adequately secured, it was not covered, which resulted in the computer equipment being exposed to the harmful effects of sunlight and outsiders being allowed to view the contents of the server room.
- No smoke detectors had been installed in the server room.

The lack of adequate environmental controls might have a negative impact on the servers in the server room, which could, in turn, result in the unavailability of the servers, leading to a loss of productivity.

IT Service Continuity

47. Although the municipality had established service level agreements (SLAs) with its service providers, none of the service providers (including the vendor for the financial systems) provided the municipality with reports on the services provided to the municipality.

The lack of a performance monitoring framework could result in performance not being periodically reviewed against targets and the cause for deviations not being analysed.

48. The service provider, First Wave, provided essential IT services to the municipality, such as the following:

- Hosting of external and local email messages
- Firewall services
- Antivirus updates and scanning

However, the agreement between the municipality and First Wave did not address all the minimum requirements that should be covered by an SLA.

The lack of comprehensive SLAs could result in a poor understanding of IT cost, benefits, strategy, policies and service levels and might lead to end-users not being satisfied with service offerings and service levels.

49. The municipality had not formally adopted a risk and control framework to manage IT risks.

The lack of an IT risk and control framework could result in the municipality's overall approach to risk and control not being defined.

50. Although a disaster recovery plan (DRP) had been documented, it had not been approved at the appropriate level of management. The following additional weaknesses were identified:

- The plan had not been communicated to the users concerned and training was not provided to ensure that users would be familiar with their responsibilities in the event of a disruption or disaster at the municipality. It should, however, be noted that the plan was work shopped to ensure that it addressed the required elements.
- The plan had not been tested.

Evidence that the DRP had been linked to the business continuity plan (BCP) could not be obtained as the BCP had not yet been documented.

The entity might consequently not be able to recover its operations in the event of a disaster or disruption.

Facilities and environmental control

51. The off-site backups were stored in the technical building, which was relatively close to the main building of the municipality.

If backups are not stored at an adequate off-site location that is located at an appropriate distance from the municipality, data might be lost in the event of a disaster occurring at the municipality's primary site.

Deficiencies in the fundamentals of internal control that gave rise to the above findings

Leadership

52. IT service continuity

Although documented, the disaster recovery plan had not been formally approved. This may impact negatively on resumption of business operations in the event of a disaster or disruption of IT operations.

53. Security management

User account management procedures had not been formally documented, approved or implemented for either the Sebata application system or the operating system. Without sound, active and formally approved security policy, users do not have any rules and procedures to follow in order to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.

No evidence could be obtained to confirm that the activities of the system administrator (user creation, user ID maintenance and allocation of functions) on both the Sebata System and the operating system were monitored. The monitoring of these activities is particularly important in view of the fact that the IT administrator performed system administrator duties on both the application and operating systems.

54. Change Controls

Although the change control policy/procedures had been formally documented and approved, changes or upgrades did not follow these procedures. This might result in unauthorised changes or upgrades in the production environment.

Financial and performance management

55. IT service continuity

The off-site backups were stored in the technical building, which was relatively close to the main building of the municipality, which renders offsite storage inadequate in the event of the major disaster.

56. Security management

The IT administrator was responsible for system administration duties on both the operating system and the financial system. Furthermore, the administrator was also responsible for information security at the municipality (although this duty had not been formally assigned to the IT administrator).

The logs of logon and access violations on the Sebata application and the operating system were not monitored by management. Security violations could consequently occur without being detected or followed up.

The server room was not in a neat condition and was used to store computer equipment, the window in the server room was not covered exposing the content of the server room to passersby and sunlight and no smoke detectors in the room.

Weaknesses in the operating system security as there were an excessive amount of administrator accounts and a number of inactive accounts were identified.

Governance

57. IT Governance

The municipality had not formally adopted a risk and control framework to manage IT risks. The lack of an IT risk and control framework could result in the municipality's overall approach to risk and control not being defined.

Although the municipality had established service level agreements (SLAs) with its service providers, none of the service providers (including the vendor for the financial systems) provided the municipality with reports on the services provided to the municipality.

The agreement between the municipality and First Wave did not address all the minimum requirements that should be covered by an SLA. The lack of comprehensive SLAs could result in a poor understanding of IT cost, benefits, strategy, policies and service levels and might lead to end-users not being satisfied with service offerings and service levels.

SPECIFIC FOCUS AREAS

Significant findings from the audit of procurement and contract management

58. The audit included an assessment of procurement processes, contract management and controls of the municipality which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

Irregular expenditure

59. R1 114 659 of irregular expenditure was incurred in the period as a result of the contravention of the SCM policy and legislation. R263 611 (24%) of the irregular expenditure was identified during the audit process. Only R851 048 (76%) was disclosed in the note to the financial statements prepared in accordance with section 125 (2)(d) of the Municipal Finance Management Act (MFMA). The incomplete identification and disclosure of SCM irregular expenditure was as a result of incorrect interpretation of the SCM policy and legislation.

60. At date of the report none of the SCM irregular expenditure incurred in the period had been investigated. All of the SCM irregular expenditure incurred in the previous period had been investigated and all (100 %) were written off by the council as irrecoverable after investigation. It appears as if liability for financial misconduct is not established or disciplinary actions and recoveries are not taking place.

Awards to persons in the service of the state

61. A number of the officials and councillors in the service of the municipality did not declare their interests, or that of their spouses, in providers, as required by the municipal SCM code of ethics and/or through their annual declarations required by the code of conduct for councillors and municipal staff members in terms of the Municipal Systems Act (MSA).

Awards to family member of persons in service of the state

62. Awards to the value of R350 451 were made to close family members of persons in the service of the municipality in the capacity of mayor and senior manager.

63. Particulars of 100% of the awards of more than R2000 were disclosed in the financial statements as required by SCM regulation 45.

Disclosure of deviations and ratifications

64. Deviations from, and ratifications of, procurement processes were incompletely disclosed in a note to the financial statements, as required by SCM regulation 36(2). Such disclosure is an important measure to prevent abuse of the SCM system and ensure the oversight thereof.

Procurement processes and contract management

65. The table below provides a summary of other findings on procurement and contract management as well as limitations experienced in performing the audit procedures relating to the audit findings. It provides an indication on the identified number of instances (#) of findings or limitations and the related rand value of the awards.

Detail	Findings		Limitations	
	#	R- value	#	R- value
Price quotations				
Goods and services of a transaction value between R30 000 and R200 000 were procured without inviting at least three written price quotations from accredited prospective providers and the deviation was not approved by the CFO or his/her delegate.	15	R 819 971	n/a	n/a

Fundamental controls

66. The table below provides a summary of our findings on the significant control deficiencies in procurement and contract management that should be addressed.

Financial management
There was a lack of an effective internal monitoring system to determine, on the basis of a retrospective analysis, whether the authorised SCM processes were being followed and whether the desired objectives were being achieved.
Governance
No risk assessment was performed for the identification, consideration and avoidance of potential risks in the SCM system.
Internal audit did not evaluate the control processes and compliance with laws and regulations with regard to SCM.

DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS, THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS

LEADERSHIP

Oversight responsibility over reporting

67. The preparation of the financial statements were not subject to adequate monitoring and review as a result material amendments were identified which need to be made to the financial statements after submission for audit.

Availability of key personnel

68. Key personnel were available throughout the audit.

Adequacy and competence of personnel responsible for reporting

69. Personnel responsible for reporting have the required competence; however, the municipality is currently relying on a few key staff members.

Integrity and ethical behaviour

70. The municipality has an established internal audit unit, risk management policy and fraud prevention plan. However, though management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable:

- The strategy does not include a plan for periodic evaluation of control activities for critical operational and mission support systems.
- Operating personnel are not required to sign-off on the accuracy of their unit's financial statements and performance reports so that they can be held accountable if errors are discovered.
- Determination is not made on how best to manage or mitigate the risk and what specific actions should be taken as the risk register only has controls for some of the risks identified and not for all risks identified.

Furthermore, not all employees of the municipality had signed a code of conduct which is filed in the employee's personnel file which sets out the ethical standards expected of officials in the performance of their official duties.

Implementation of appropriate key controls (policies and procedures)

71. Management did document policies and procedures to guide the operations of the municipality which have been approved by the council. However, policies and procedures with regards to the information systems environment and skills retentions and monitoring of staff performance were not approved and/ or implemented by year end.

FINANCIAL AND PERFORMANCE MANAGEMENT

Adequacy of systems preparation of the financial statements and the report on predetermined objectives

72. The municipality does not have reliable information systems for recording and reporting on predetermined objectives. This has resulted in a number of differences between reported information as documented in the report on predetermined objectives.

Accounting policies, estimates and disclosures

73. The municipality did not amend its accounting policies during the financial year under review. Restatements were made for corrections of errors identified and are disclosed in note 34 to the financial statements.

Budget process as well as measurement and achievement

74. Unauthorised expenditure of R1.9 million is disclosed in note 40.1 to the financial statements. The unauthorised expenditure was incurred as a result of management's failure to effectively monitor the implementation of internal controls designed to prevent, detect and correct instances where expenditure exceeds the budget approved by the council. Numerous instances of non-compliance with legislation regarding the budget process, measurement and reporting of achievement of the budget of the municipality have been reported as per the report on pre-determined objectives above.

Availability of expected information (both financial and performance)

75. Information in respect of the audit of the financial statements was made readily available by management and officials of the municipality; however not all information with respects to the audit of pre-determined objectives was made available for audit purposes.

Related party transactions

76. The municipality has implemented controls to identify, account for and disclose related party relationships and transactions; however these were not effective as not all the councillors and officials of the municipality declared their business and private interests, as reported above.

Use of consultants in the preparation of the financial statements

77. Reasons for use of consultants

- The financial reporting personnel did not have all the requisite skills and competencies in order to prepare the financial statements for the year under review.

78. Assessment of effectiveness of consultants

- The municipality has indicated that limited use of consultants will be made in the preparation of the financial statements for the forthcoming year, due to the transfer of skills and additional learning and training initiatives which will be attended by finance officials.

GOVERNANCE

Risk identification and management

79. The municipality conducted a risk assessment during the financial year as required by the MFMA; however, while an entity level risk register was developed, the municipality has not yet identified departmental risks which may result in risks relating to the achievement of financial and performance objectives not being identified and addressed on a timely basis for corrective action to be taken.

Fraud prevention, detection and response

80. The municipality reviewed its risk management strategy during the financial year which includes its fraud prevention plan.

Internal audit

81. No formal training and skills development was provided to the in-house internal auditor. Furthermore, the in-house internal audit did not discharge all their responsibilities for the year as per the annual internal audit plan as approved by the audit committee.

Audit committee

82. The audit committee of the municipality adequately discharged of its mandate as required by the MFMA.

REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS

Actions taken by management and those charged with governance to address matters previously reported

83. The municipality implemented an audit action plan to address prior year findings. This plan has not been fully effective in addressing all areas of reported non-compliance with laws and regulations and identified internal control deficiencies.

MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR

Accounting and compliance matters

84. As disclosed in their accounting policy and note 11 and note 50 to the financial statements the Municipality has taken advantage of the transitional provisions contained in Directive 4 of the GRAP reporting framework for property, plant and equipment, provisions, contingent liabilities and contingent assets, non-current assets and discontinued operations, investment properties, intangible assets and inventories. This transitional period ends on 30 June 2011 when all

medium capacity municipalities are required to comply in full with the disclosure requirements of the GRAP standards. Any non-compliant disclosures in this regard may at this time impact on the auditor's report.

Susceptibility of assets or liabilities to loss or fraud

85. Missing or stolen assets were not reported to the council by the responsible officials as required by the asset management and insurance policy of the municipality and the MFMA.

RATINGS OF DETAILED AUDIT FINDINGS

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

- Matters to be included in the auditor's report.
These matters should be addressed as a matter of urgency.
- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.
These matters should be addressed within the next 12 months.
- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.
These matters should be addressed at the discretion of the entity.

87. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely

Dereck Ollsson

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Audit committee

Head of internal audit

SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
Employee costs												
22	No policy on skills retentions and monitoring of staff performance				✓			✓				
24	Vacant posts not filled as required by SALGA circular 27/2009					✓		✓				
25	The 2007/2008 S57 Managers performance bonuses are not consistent with the Municipal Systems Act no.32 of 2000				✓			✓				
27	Leave discrepancies				✓			✓			✓	
29	Attendance register not signed by employees and not reviewed by the HR officer				✓			✓			✓	
31	Pre- authorization of overtime not attached on the overtime attendance register				✓			✓			✓	
33	Pre- authorization of overtime worked was not approved in advance				✓			✓			✓	
Internal audit												
34	No formal training attended by the in house internal auditor for skills development purposes					✓		✓		✓		
Leases												
35	Non-submission of lease agreements				✓			✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
Movable assets												
36	Missing / stolen asset not reported to the council and insurance claim not submitted to the insurer				✓			✓				
Operating expenditure												
38	No signature as evidence that documents were checked for review.				✓			✓		✓		
39	Exceptional cases, urgency or emergency not defined on the policy.				✓			✓				
41	No formal process for contract management			✓				✓				
42	Over reliance on contractors and consultants				✓			✓				
44	Payments not made within 30 days of receipt of the invoice.			✓				✓		✓		
45	Directors' interest not declared on the declaration register (form 3)			✓				✓				
46	No supporting documents on credit card expenditure.			✓				✓				
48	Non-compliance with section 19 of the MFMA, Act no. 56 of 2003 (MFMA)			✓				✓				
Predetermined objectives												
50	Performance management system not effectively and efficiently implemented		✓					✓		✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
53	SDBIP was not approved within 28 days after the approval of the budget			✓				✓		✓		
54	The integrated development plan (IDP) does not reflect performance targets.			✓				✓				
55	Financial plan does not include a budget projection for the next three years.			✓				✓				
56	Performance assessment of the municipality not completed within prescribed time frame stipulated by section 72 of the MFMA, Act no. 56 of 2003 (MFMA)			✓				✓		✓		
57	Performance agreements were not concluded within one month after the beginning of the financial year			✓				✓				
58	Notice of IDP approval was not given to the public within 14 days of the approval of the plan.			✓				✓				
59	No evidence for submission of a copy of the IDP to the MEC for local government in the province within 10 days of the adoption or amendment of the plan			✓				✓				
60	Performance evaluation of Municipal employees and suppliers was not performed.			✓				✓		✓		
61	SDBIP not updated			✓				✓		✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
Receivables												
62	Long outstanding debtors are not handed over for collection.				✓			✓				
63	Unreconciled difference between the consumer deposit register and the general ledger				✓			✓				
Revenue												
64	Loss of revenue due to inadequate monitoring between the technical services and the finance department.				✓			✓		✓		
Risk Management												
66	No departmental risk identification process in place				✓			✓				
67	No approved disaster recovery plan/ business continuity plan/backup plan				✓			✓		✓		
69	No controls developed or implemented to address risks identified in the risk register				✓			✓				
Employee costs												
70	Forms in respect of application for employment are not stamped by the registry official				✓				✓			
71	Code of conduct not signed and kept in the employee's personnel file				✓				✓			

ANNEXURE B: OTHER IMPORTANT MATTERS

Employee costs

1. No policy on skills retentions and monitoring of staff performance

Audit finding

Section 41 of the Municipal Systems Act (Act No. 32 of 2000) (MSA) states: (1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed— (a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan; (b) set measurable performance targets with regard to each of those development priorities and objectives; (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)— (i) monitor performance; and (ii) measure and review performance at least once per year.

Section 9(2)(b) of Municipal Planning and Performance Management Regulations, 2001 states that in setting key performance indicators, a municipality must ensure that the key performance indicators inform the indicators set for all its administrative units and employees and for every service provider with whom the municipality has entered into a service delivery agreement.

During the audit it was noted that the municipality does not have any tool in place to evaluate the performance of municipal employees. Only Section 57 employees sign performance contracts and are evaluated. No performance contracts were signed by all the other employees.

This matter was reported in prior year management and audit report and no/inadequate steps have been taken to date to implement the recommendations provided to management.

The municipality has not developed a monitoring tool to measure and monitor the performance of employees other than sec 57 managers.

The municipality has also not developed a skills retention plan which poses a risk of the municipality losing good/competent employees.

1. There is non-compliance to the legislation on performance measurement and information. There is also a risk that in the absence of a tool to measure and monitor performance, there will a negative impact on service delivery and cases of underperformance by employees might not be identified and addressed on a timely basis.
2. In the absence of a skills retention plan the municipality has a risk of losing good/competent employees which will have a negative impact on the municipality's ability to meet its objectives and targets as set in the IDP.

Internal control deficiency

Leadership "Tone at the top", - an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour:

Performance is not measured. The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

Management should develop and implement performance contracts for all employees. These should be filed and made available for audit purposes.

Management response

A Scarce Skills Policy was developed and approved by Council, which will be implemented to retain skills. The intention of management is to put in place systems that would ensure the cascading of PMS to other levels below s57 employees. The matter would be discussed and finalized during the upcoming Organizational Strategic planning session in December where labour would be taken on for smooth implementation.

Name: Mary-Ann Theron & Danso Poku Agyemang

Position: Director: Corporate Services & Director IPME

Date: 11 October 2010

Auditor's conclusion

Management have only started to address this matter after the year end and as such the finding will be reported in the management report.

2. Employee cost: Vacant posts not filled as required by SALGA circular 27/2009

Audit finding

In terms of circular no.27/2009 issued by the South African Local Government Association, all vacant posts should be filled on or before 1 August 2010 by the respective municipalities.

During our audit of employee cost, we observed that the municipality's 2009/2010 organogram have a total of 58 vacant posts, 26 of which are described as funded and 32 described as non funded which were not filled at year end.

Adequate incentives are not attached to the vacant posts in order to attract suitably qualified individuals.

There may be delays in the services delivery and the municipality achieving its objectives and non compliance with the requirements of the SALGA circular 27/2009.

Internal control deficiency

Leadership: Oversight responsibility

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control

Recommendation

Management should ensure that all vacant and critical service delivery posts as appearing in the municipality's organogram are filled timeously as required by SALGA circular no.27/2009.

Management response

Critical position that are funded are from Technical Services of which, it is difficult to attract candidates with specified expectations or skills i.e. 1. Electricians and Mechanics 2. Team Leaders Water and Sanitation. Some of the positions are being advertised (Electricians) and the other positions of Water and Sanitation, the District is on the process of taking back the function and currently the Municipality is preparing the Data that is required by the District. Other funded positions that are not critical but funded are being advertised and the information as per SALGA Circular is being responded to as stipulated quarterly or as required dates. All the position mentioned above are reflecting in the organogram.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

3. The 2007/2008 S57 Managers performance bonuses are not consistent with the Municipal Systems Act no.32 of 2000

Audit finding

Section 41 of the Municipal Systems Act (Act No. 32 of 2000) (MSA) states: (1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed— (a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan; (b) set measurable performance targets with regard to each of those development priorities and objectives; (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)— (i) monitor performance; and (ii) measure and review performance at least once per year.

During the audit work performed on bonuses paid in the 2009/2010 financial year for section 57 managers, the following findings were noted.

- it was confirmed through inspection that the bonuses of section 57 managers paid in the 2009/2010 financial year for the performance evaluation with respects to the 2007/2008 financial year was not authorised and approved as there was no signature of the municipal council found on the minutes of the ordinary council meeting held 30th November 2009.
- The approval for performance management reviews were only approved by the remuneration committee as per inspection of the minutes of meeting held at 19 November 2009, which was seated by only three representatives, Mr ZI Dumzela: Mayor ;and Mr MM .Yawa
- Bonus payments made to Managers were paid at the incorrect scale, as scores were incorrectly added and scores were incorrectly awarded.
- The scores allocated do not correspond to the rating scale disclosed in "Section 27 (4) Local Government: Municipal performance regulations for municipal managers and managers directly accountable to municipal manager", as follows:

	Municipal Manager	Community Services Manager	Technical Services Manager
Client's scores	177.58	130.92	153.20
Auditor's score	181.50	128.68	167.13
Difference	(3.92)	31.82	(13.93)

Through inspection of the performance management reviews for 2007/2008, the annual report state that in paragraph 2 and 3, "in terms of performance bonuses, the Regulations for s57 Managers promulgated in August 2006 indicate that a performance bonus will range between 5% and 14% of all inclusive remuneration package may be paid in order to recognize outstanding performance; this is applicable to Managers who entered into contracts after these regulations were promulgated, S57 managers that entered into contracts prior to implementation of the Performance Management Regulations are treated as special cases in terms of section 39(2) of the Regulations (their performance contracts deals with percentage allocations and payment of performance bonuses up to 20%, in terms of the performance contracts applicable this arrangement will remain in force."

- It was however noted that performance bonuses were calculated up to 20% for which is contrary to "Local Government: Municipal performance regulations for municipal manager and manager's directly accountable to municipal manager".

The following managers are affected:

Employee name	Contract period
MM:Mr Yawa	1 August 2006 to 31 July 2011
CFO:Mr Venter	1 February 2007 to 31 January 2012
Technical Service Manager:Mr Crozier	1 August 2007 to 31 July 2012

The finding is due to the lack of monitoring and review by the management and high reliance on the consultants.

This has resulted in irregular expenditure amounting to R453 593 being incurred which should be disclosed in the financial statements.

Internal control deficiency

Leadership: Oversight responsibility:

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that annual performance evaluation of section 57 employees should be properly approved by the council.

Management should ensure that the audit committee is involved when the performance evaluation process is undertaken and not only be reviewed by the remuneration committee.

Management should further ensure that all the requirements of Local Government: Municipal Systems Act 32 of 2000 are complied with when performance evaluation process is performed

Furthermore, management should disclose the performance bonus paid amounting to R453 593 as part of irregular expenditure as per note 40.3 to the financial statements for the year ended 30 June 2010.

Management response

Management has provided a detailed written response to the audit finding which has been considered in the preparation of the auditor's response.

Auditor's conclusion

Management comments provided are noted. The legal opinion provided for audit purposes related to the application of the Local Government: Municipal performance regulations for municipal managers and managers directly accountable to the municipal manager, in the performance management process of the municipality. The inconsistencies with regards to the scoring and calculation of scores and rating criteria and approval of the payment of the performance bonus remain and have resulted in irregular expenditure being incurred by the municipality. Management have disclosed the total amount of the performance bonus payment as irregular expenditure in the financial statements.

4. Leave discrepancies

Audit finding

In terms of section 62 (1) of the Municipal Financial Management Act (MFMA) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

During the performance of the audit, the following leave discrepancies were identified:

1. Annual leave not approved by duly delegated official before the official commenced with leave:

Employee No	Surname	Initials	Leave taken		No. of days
			From	To	
0058	Gologolo	L	13/1/2010	13/1/2010	1
			11/9/2009	11/9/2009	1
			1/3/2010	1/3/2010	1
			30/3/2010	30/3/2010	1
			26/4/2010	26/4/2010	1
0084	Venter	CR	27/7/2009	30/7/2009	4
0105	Rapeane	L	13/7/2009	13/7/2009	1

2. Discrepancies with regards to the recording of sick leave:

Employee No	Surname	Initials	Leave taken		No. of days	Comment
			From	To		
0010	Yawa	MM	14/7/2009	14/7/2009	1	This sick leave has not been recorded on the SEBATA leave register
			18/3/2010	23/3/2010	4	Leave captured as 3 days on SEBATA leave register and not 4 days
0083	Theron	ML				Sick leave day for 21/5/2010 captured on SEBATA leave register but no approved sick leave form on the file
1801	Elias	M	29/6/2010	1/7/2009	3	This leave has not been recorded on the SEBATA leave register
0109	Morobi	MY				Sick leave day for 2/12/2009 to 4/12/2009 is recorded on the SEBATA leave register, but no approved sick leave form on file

Inadequate review of leave transactions posting on the SEBATA leave register.

Resulting in officials of the municipality taking annual leave without the leave being approved by an appropriately delegated senior official. In addition, the sick leave balances of officials of the municipality may be misstated due to sick leave days taken not being recorded in the SEBATA leave register.

Internal control deficiency

Financial and performance management: Quality, reliable monthly financial statements and management information-

Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

Recommendation

Management should implement control checks and regular reviews of leave capturing on the SEBATA leave register to approved leave forms in order to ensure that all sick leave is recorded on the SEBATA leave register. Furthermore, management should implement control checks in order to ensure that an appropriately delegated official approve annual leave before the leave is taken by officials of the municipality.

Management response

Management has taken note of AG's recommendation and acknowledges deficiencies in monitoring, supervision and lack of internal controls. This will be put in place as soon as possible.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding does not have a financial impact on the financial statements, but will be reported in the management report as internal control deficiencies which should be addressed by management of the municipality.

5. Attendance register not signed by employees and not reviewed by the HR officer

Audit finding

Section 62(1)(b) of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During our audit of the employee costs at the planning stage at our obtaining of an understanding of the business processes, it has been confirmed that the attendance register is used by the municipality as a leave monitoring tool and that it must be signed in and out by all staff on a daily basis, however during the walkthrough performed, it has been confirmed that some employees did not sign the attendance register in and out on certain dates. Furthermore, there was no evidence that HR officer reviewed the attendance register as required (i.e. no reviewer's signature on this date and no comment was documented e.g. absent or leave) where an employee did not sign the register.

The following serves as an example:

No	Employee name	Employee number	Period
1	P.Tshangela	120	19-31 Mar 2010
2	S.Mbalo	117	12 -31 Mar 2010
3	M.Y. Morobi	108	05-31 March 2010
4	N.M .Mvuleni	15	26-28 Feb 2010
5	A.K Fourie	29	19-28 Feb 2010
6	M.Yi.Moko	108	8-Feb-10
7	S.C Faku	93	8-Feb-10
8	N.P George	7	4-Feb-10
9	N.Simanga	36	12-Jan-10
10	N.Maponopono	20	23-Dec-09
11	N.P George	7	23-Dec-09
12	L.L Makaula	19	18-Dec-09
13	N.C Sbukwana	1103	18-Dec 09
14	N.Simanga	36	9-Dec-09

This is a result of a lack of accountability by the respective employees and a lack of supervision by management of the municipality.

Leave accruals could be misstated resulting in a modification of an audit report.

Internal control deficiency

Financial and performance management: Quality, reliable monthly financial statements and management information-

Management and staff do not fulfil their duties and responsibilities.

Recommendation

Management should ensure that the attendance register is signed in and out on a daily basis by all employees and this process should be monitored consistently throughout the year.

Management response

Management notes AG recommendations and will ensure that this implemented very strictly.

Name: Mary-Ann Theron

Position: Director Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report as a weakness in the internal control of the municipality.

6. Pre- authorization of overtime not attached on the overtime attendance register

Audit finding

In terms of section 62(1) of the Municipal Financial Management Act (MFMA) :

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

Furthermore, in terms of no.5 of Working Hours, Overtime & Stand-by Policy, states that the heads of department must maintain daily records of all overtime worked and submit monthly report to Council on the duration and cost of overtime. The report should include information on how much overtime of the overtime budget has already been spent for that financial year.

During the performance of the audit it was noted that the employees listed below worked overtime, their overtimes were monitored according to the attendance register on the time sheets, the request for pre- authorization of overtime was however not attached to the timesheets. Reasonable assurance could therefore not be obtained on the dates worked for overtime and also the names of employees who were authorized to work overtime.

No	Surname	Initial	Staff no.	Month	Hours worked	Amount
1	Williams	SPH	101	July 2009	20	R 827.26
				August 2009	15	R 696.43
				October 2009	21	R 975
				February 2010	21	R 975
				June 2010	19	R 882.14
2	Moletsane	TR	104	July 2009	21	R 869.25
				August 2009	14	R 650
				September 2009	22	R1 021.43
				October 2009	23	R1 067.86
				February 2010	28	R1 300
				February 2010	12	R 742.8
				June 2010	22	R1 021.43
3	Molefe	EN	1108	July 2009	12	R 533.25
				July 2009	12	R 711
				June 2010		
4	Rapeane	LV	105	July 2009	15	R 620.89
				August 2009	1	R 46.43
					14	R 650

Lack of monitoring and supervision by the management

Employee cost could be overstated resulting from employees' working unauthorised overtime.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

Management should ensure that full and proper records regarding the overtime information is kept for all the overtime worked by all employees.

Pre-authorization of overtime with the names of employee and hours to be worked on overtime should be attached to the attendance register of overtime hours worked for a particular month.

Management response

We are working on improving monitoring of overtime worked. Effort is put in the redesigning of uniform timesheets and pre-authorization forms.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be included in the management report as an internal control deficiency which should be addressed by management of the municipality.

7. Pre- authorization of overtime worked was not approved in advance

Audit finding

In terms of section 65(1) of the Municipal Financial Management Act (MFMA) (1) the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

(2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(a) That the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;

Furthermore in terms of no.5 of Working Hours, Overtime & Stand-by Policy: Overtime, except in the case of emergencies, must be approved by the relevant Head of Department prior to such overtime being worked.

During the performance of the audit it was ascertained that pre- authorization of overtime worked on 19 October 2009 was only approved on 19 November 2009. The overtime worked was approved after the overtime had already been worked.

The details of the affected employee are as follows:

No.	Surname	Initial	Staff No.	Month	Hours worked	Rate	Amount
1	Molefe	EN	1108	Nov-09	7	1.5	R311.06
					9	2	R533.25

Lack of monitoring and supervision by the management.

Unauthorised transactions in respect of employee cost could result to irregular expenditure.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

Management should ensure that overtime to be worked in a particular month is approved by the head of the department prior to overtime being worked.

Management should ensure that in the case of emergency work, valid explanations are attached to the pre- authorization of overtime.

Management response

We are in the process of rectifying this by designing uniform timesheets and all the forms going together with this e.g. pre-authorization of overtime.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be included in the management report as an internal control deficiency which should be addressed by management of the municipality.

Internal Audit

8. No formal training attended by the in house internal auditor for skills development purposes

Audit finding

Municipal Finance Management Act 56, 2003(MFMA) Section 65 (2) The accounting officer must for the purpose of subsection (1) takes all reasonable steps to ensure—

(c) that the municipality has and maintains a system of internal control in respect of creditors and payments;

(j) that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

During our assessment of the work performed by the internal auditors at the planning stage of the audit, we confirmed that the in house internal auditor did not attend any formal training for skills development purposes. Furthermore, we observed that there is no structured in-house Internal Audit to provide supervision; as a result the in house internal auditor did not discharge all her responsibilities allocated to her in terms of 2009/2010 internal audit plan approved by the audit committee.

Management believed that involvement of the in house internal auditor in the internal audit activities conducted by PWC through skills transfer is adequate.

Inability for the in house internal auditor to successfully discharge her responsibilities, resulting in deficiency in internal controls.

Internal control deficiency

Financial and performance management: Quality, reliable monthly financial statements and management information-

Management and staff do not fulfil their duties and responsibilities.

Recommendation

Management should ensure that in house internal audit division is properly structured. Management should ensure that in house internal auditor attends formal training in order to successfully discharge all allocated responsibilities in terms of approved internal audit plan as approved by the audit committee.

Management response

Management has taken note of the training of the in house internal auditor and will plan training accordingly for her.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 11 October 2010

Auditor's conclusion

Management comment is noted. This finding will be reported further.

Leases

9. Non-submission of lease agreements

Audit finding

In terms of section of 104 (b) of the Municipal Finance Management Act 56 of 2003 (MFMA) - the accounting officer of a municipal entity must submit to the accounting officer of the entity's parent municipality, the National Treasury, the provincial treasury, the department of local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

During the audit of fixed assets, it was noted that the following lease agreements were not submitted to the auditors as requested and as a result the audit procedures could not be performed thereon:

Erf No	Contract nr.	Lessee	Description	Start date	Exp. Date
6		Ekhephini Community Radio	Portion of building adjacent to the Barkly East Library	01/07/2006	30/06/2010
18	25	Mobile Telephone Networks	Ndofela Villiage	01/04/2005	28/02/2015
19	25	Mobile Telephone Networks	Palmietfontein	01/04/2005	28/02/2015

The responsible official does not take necessary steps to ensure that the records of the municipality are properly maintained.

The non-submission of information could lead to a limitation of scope being placed on the audit.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should implement controls over the maintenance of supporting documentation and ensure that all supporting information to the accounting records is made available for audit purposes.

Management response

Management admits that this has been a problem. Staff will be sent on a course on Contract Management and one staff member will be responsible for maintenance of the municipal contracts.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management's comment is noted. This finding will be reported in the management report as part of the limitation of scope on the audit.

Movable assets

10. Missing / stolen asset not reported to the council and insurance claim not submitted to the insurer

Audit finding

Municipal Finance Management Act section 63 (1) (a) states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. Furthermore, section 63 (2) (c) states that the accounting officer must for the purposes of section 63(1) take all reasonable steps to ensure— 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.

During our audit of assets while obtaining an understanding of the business process in respect of assets when reviewing the count sheets, it was noted that assets that could not be physically verified were not reported to the council by the responsible officials and a claim was not submitted to the insurer as required by the asset management and insurance policy.

The following serves as an example:

#	ITEM	RESPONSIBLE DEPARTMENT	REGION
1	Bicycle	Community Services	Barkly East

Responsible officials did not follow the procedures and processed as outlined by the asset management and insurance policy.

Non compliance with the asset management and insurance policy.

Financial loss to the municipality due to non submission of claims to the insurer.

Internal control deficiency

Financial and performance management: Quality, reliable monthly financial statements and management information-

Management and staff do not fulfil their duties and responsibilities.

Recommendation

Management should ensure that when all missing or stolen assets are reported to the council a claim should be submitted to the insurer as required by the asset management and insurance policy of the municipality.

Management response

When the asset management official visited Barkly East she could not find the bicycle and the user reported that it had been stolen, before they could report the matter to management they recovered the bicycle but failed to inform the asset management official. Because the supervisor had recovered the bicycle he did not see it necessary to inform me about the loss, I have reprimanded him on this issue and on a subsequent staff meeting, I emphasized the need to identify risks and come up with strategies to deal with them on an ongoing basis.

Name: C.N.L Gologolo

Position: Director Community Services

Date: 11 October 2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report relating to control weaknesses over the safeguarding of assets.

Operating expenditure

11. No signature as evidence that documents were checked for review.

Audit finding

The Municipal Finance Management Act 56, 2003(MFMA) Section 65 (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(c) that the municipality has and maintains a system of internal control in respect of creditors and payments;

(j) that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

During the performance of the audit it was noted that the reconciliation between the supplier's statement and the list of unpaid creditors was only signed by the preparer and not signed to evidence that it has been reviewed to confirm its accuracy and completeness.

This was confirmed by inspecting the list of unpaid creditors dated 09/04/2010 and compared to Barkley East reporter CC as at 26/03/2010 and confirmed the payment of R20 608.87.

It was also noted that VAT reconciliations are not signed by the preparer. VAT reconciliation are not reviewed, it is only prepared by the CFO.

Management do not sign the payables reconciliation to evidence that the reconciliation has been reviewed.

Vat reconciliations are only prepared by the CFO without anyone reviewing them.

Errors can go undetected which would lead to misstatement of payables. (Understatement) and also a misstatement to VAT.

Internal control deficiency

Governance: Internal audit that inspects the adequacy and implementation of internal control-

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over reporting is present and functioning.

Recommendation

The expenditure accountant must print the list of unpaid suppliers, attach the supplier's statement and sign to evidence that reconciliation has been performed. VAT reconciliations must be prepared by the accountant expenditure and reviewed by the CFO and signed as proof of review.

Management response

Your finding is noted. Suppliers' statement and VAT reconciliations would in the future be prepared by the accountant expenditure and be reviewed by the CFO

Name: C R Venter

Position: CFO

Date: 2010/10/12

Auditor's conclusion

Management comment is noted. Management has agreed to implement the control measure to mitigate the risk.

12. Expenditure: exceptional cases, urgency or emergency not defined on the policy.

Audit finding

In terms of Supply Chain Management Regulation (SCM reg.) 36(1) A supply chain management policy may allow the accounting officer-

a) To dispense with the official procurement processes 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;
- II. If such goods or services are produced or available from a single provider only;
- III. For the acquisition of special works of art or historical objects where specifications are difficult to compile;
- IV. Acquisition of animals for zoos; or
- V. In any other exceptional case where it is impractical or impossible to follow the official procurement processes.

During the performance of the audit it was noted that the supply chain management policy does not give a definition of exceptional cases, urgency or emergency cases under which the procurement process may be deviated from gives room of manipulation and non compliance with the supply chain management policy.

The supply chain management policy does not give a definition of exceptional cases, urgency or emergency cases which gives room of manipulation and non compliance with the supply chain management policy.

As there is no definition of exceptional cases, urgency or emergency cases within the supply chain management policy, there is a risk that the procurement policy will be deviated from in cases of poor planning or to promote fraudulent activities and these will be approved as deviations.

Internal control deficiency

Leadership: Oversight Responsibility-

The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

The policy should provide definitions of exceptional cases, urgency or emergency to avoid unnecessary deviations from the procurement policy and Supply Chain Management Regulations and to ensure compliance with the same.

Management response

As correctly stated, sect 36(1)(a) of the Supply Chain Management Regulations was used as basis when council's Supply Chain Management Policy was compiled. Although the regulations do provide definitions, it does not cover those referred to in your findings. This office is certain that if National Treasury felt that it is important to include definitions for your findings, it would have been included in the regulations. However, an opinion from National Treasury on this matter would be obtained.

Name: C R Venter

Position: CFO

Date: 2010/10/12

Auditor's conclusion

Management has agreed to follow up the matter; however the weakness in the policy remains and will be reported in the management report.

13. No formal process for contract management

Audit finding

Section 41 of the Municipal Systems Act (Act No. 32 of 2000) (MSA) states: (1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—

- (a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
- (b) set measurable performance targets with regard to each of those development priorities and objectives;
- (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)—
 - (i) monitor performance; and
 - (ii) measure and review performance at least once per year.

Section 9(2)(b) of Municipal Planning and Performance Management Regulations, 2001 states that in setting key performance indicators, a municipality must ensure that the key performance indicators inform the indicators set for all its administrative units and employees and for every service provider with whom the municipality has entered into a service delivery agreement.

During the audit it was noted that the municipality does not have a formal process of monitoring performance of contractors and service providers. This was identified in various minutes of management meetings where it was noted that the Municipal Manager was not pleased with the performance of some of the municipality's service providers.

The municipality does not have a formal process of monitoring the performance of contractors and service providers.

In the absence of a formal process of monitoring the performance of service providers, the municipality will end up incurring fruitless and wasteful expenditure through paying service providers who do not deliver. This will also result in the municipality not being able to achieve its service delivery objective.

Internal control deficiency

Leadership "Tone at the top", - an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour -
Performance is not measured.

Recommendation

Management should develop and implement performance contracts with service providers with whom the municipality has entered into a service delivery agreement with and a formal process of monitoring the performance of service providers must be developed and implemented.

Management response

Your finding is noted. Performance contracts as recommended will be developed.

Name: C R Venter

Position: CFO

Date: 2010/10/12

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

14. Over reliance on contractors and consultants

Audit finding

Section 83 of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA) states, *inter alia*, that the accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels, and the municipality must provide resources or opportunities for the training of officials. Section 119 further states that the accounting officer and all other officials of a municipality involved in the implementation of the supply chain management policy (SCM) of the municipality must meet the prescribed competency levels.

The Municipal Regulations on Minimum Competency Levels determines the competency levels for the relevant officials as follows:

Manager	Proficiency in the competency areas	Higher education qualification	Work related experience
Municipal Manager	Skills, experience and capacity to assume and fulfill the responsibilities and exercise the functions and powers assigned.	At least NQF level 6, or Certificate in Municipal Financial Management	Minimum of 5 years at senior management level
CFO	Skills, experience and capacity to assume and fulfill the responsibilities and exercise the functions and powers assigned.	At least NQF level 6 in fields of Accounting, Finance, Economics or Certificate in Municipal Financial Management	Minimum of 5 years at middle management level
Other senior managers	Skills, experience and capacity to assume and fulfill the responsibilities and exercise the functions and powers assigned.	At least NQF level 6 in a field relevant to the senior position, or Certificate in Municipal Financial Management	Minimum of 5 years at middle management level
Head: SCM	Skills, experience and capacity to assume and fulfill the responsibilities and exercise the functions and powers assigned.	At least NQF level 5, or National Diploma: Public Finance Management and Administration	Minimum of 4 years of which at least 1 year must be at middle management level and at least 3 years at any level in a role related to the position of the official
SCM Officer	Skills, experience and capacity to assume and fulfill the responsibilities and exercise the functions and powers assigned.	At least NQF level 5 in fields of Accounting, Finance, Economics or National Diploma: Public Finance Management and Administration	Minimum of 2 years

From a review of the abovementioned official's personnel files, it was determined that they do not meet all of the minimum requirements. It was noted however that though some of the officials have attended training by the Department of Local Government to bridge any competency gaps; the CFO has not attended any training throughout the year under review.

Management does not have the minimum required competency level and have not attended adequate training to cover any competency gaps.

There is a risk that the municipality has an over reliance on consultants which perform the work that is supposed to be performed by employees in terms of their job descriptions and the employees are rated during performance evaluations based on work done by consultants which results on the municipality incurring fruitless and wasteful expenditure.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities

Recommendation

The municipality must ensure that the competencies of existing officials are assessed promptly in order to identify and address gaps. Where an existing official does not meet the prescribed higher education qualification and/ or required minimum competency level in the required unit standards, he/ she should enrol for appropriate SAQA recognised qualifications and address all other gaps on or before 01 January 2013.

During the implementation period however, new officials that do not meet the prescribed competency levels may be recruited provided the official's continued employment is subject to a condition that the official attains the requirements no later than 01 January 2013. This will require the official to attain the higher education qualification and the required minimum competency level in the required Unit Standards for each competency area on or before 01 January 2013. After 01 January 2013 no person may be employed that does not meet the requirements of the Regulations. However, new candidates applying for any of the abovementioned positions must have their competencies assessed in accordance with the Regulations prior to their appointment. Any advert to invite applications for this position should make reference to the required competencies for this position.

The attainment of prescribed competencies and qualifications should be incorporated into the job description and evaluation criteria as reflected in the annual performance agreement of existing and any new financial official of a municipality. All assessments of competencies must be undertaken by assessors accredited by the Local Government Sector Education Training Authority (LGSETA) in terms of SAQA guidelines and NQF-registered Unit Standards and criteria.

Management response

Recommendations are noted. In fact, majority of people involved with the Supply Chain Management (SCM) of the Municipality are attending and some cases have completed the minimum competency required. We are therefore certain that on or before 01 January 2013, all the SCM involved people will be meeting the minimum competency levels.

Name: M.M.Yawa

Position: Municipal Manager

Date: 11/10/2010

Auditor's conclusion

Management agrees with the finding and has started with the necessary training interventions towards achieving the minimum competency required.

15. Payments not made within 30 days of receipt of the invoice.

Audit finding

In terms of section 62 (1) of the Municipal Financial Management Act (MFMA) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

During the performance of the audit it was noted it was noted that payment of the following was effected after 30 days from receipt of the invoice and no supporting reasons were attached to the payment invoice:

No	Trans Description	PMT Date	Invoice Date	Vote Number	Further Description
1	27102009	2009/12/04	27/10/2009	2150/2237/0000	DOUGLAS & BOTHA
2	19MAY09	2010/03/05	2009/05/19	4350/2006/0000	CLAYTON MKHULULI MANXIWA

This is as a result of inadequate controls over the timeous payment of suppliers.

Paying suppliers after 30 days from date of receipt of invoice leads to interest charged on the amount owed which leads to fruitless and wasteful expenditure.

Internal control deficiency

Leadership: Oversight responsibility:

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should monitor implemented controls over the expenditure. Adherence to the Supply Chain Management prescripts as well as the Municipal Finance Management Act (MFMA) should be ensured by management and that all payments are effected within 30 days from receipt of the invoice from the supplier. If it is not possible to pay within 30 days due to unforeseen circumstances or due to valid reasons, the municipality should indicate such on the payment batch supporting documentation.

Management response

AG's recommendation is noted and will be implemented.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be reported as a non-compliance matter in the management report.

16. Directors' interest not declared on the declaration register (form 3)

Audit finding

In terms of the Municipal Finance Management Act (MFMA) Sec112 (1) the supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management, which must cover at least the following:

(f) Compulsory disclosure of any conflicts of interest's prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders or bids.

During the performance of the audit it was noted that the following general ledger transactions matched to CIPRO search results were not declared on the respective councillors and employee's declaration of interest forms (form 3):

No	Type	I.D. Number	Registration no.	Name
1	Spouse	7908070766081	2009/210442/23	Sphamandla WC Construction
2	Councilor	5504030875088	2009/001997/24	Masithembane Agricultural
3	Councilor	7110305417081	2009/118694/23	Begijima Building Construction
4	Councilor	6106270856080	2005/154439/23	Sizisa Ukhanyo trading 360
5	SCM	6108030065085	2003/017334/07	Quantum Leap Investments 760
6	SCM	7210165497080	1998/007328/08	Dordrecht International Peoples community college
7	Spouse	6709075061085	2009/134245/23	Snow line Trading 620
8	Spouse	6007045427084	2005/038896/07	Sihkulile-Infratec SA
9	Spouse	6007045427084	2009/192786/23	We shall rise trading and projects
10	SCM	6009125153085	1995/023616/23	

This is as a result of management not adhering to the supply chain policy for declaration of interests.

This may lead to a bidding process being conducted which is not fair and equitable. This also results to non compliance with the supply chain policy and the municipality incurring possible irregular expenditure.

Internal control deficiency

Leadership: "Tone at the top", - an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour-

Integrity and ethical values are not developed and understood and do not set the standard for sound corporate governance.

Recommendation

The councillors and officials of the municipality must disclose all business interests on the declaration of interest form and where an interest is identified such official should be excluded from the evaluation and bidding process of that supplier.

Management response

Management have submitted responses to this finding and the relevant officials have subsequently declared their interests.

Auditor's conclusion

Management comment is noted. This finding will be reported further.

17. No supporting documents on credit card expenditure.

Audit finding

In terms of section 62 (1) of the Municipal Financial Management Act (MFMA) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

During the performance of the audit it was noted that the following payments for credit card expenditure were made without supporting invoices:

No.	Trans. description	Trans. date	Vote Number	Further description	Amount
1	19000523	2010/04/01	1100/3215/0000	R/M: Vehicles	R15,566.2
2	19000517	2010/03/31	1101/2238/0000	S & T	R12,299.94
3	19000541	2010/06/01	1101/2238/0000	S & T	R10,877.87
4	19000506	2010/02/03	1101/2239/0000	S & T (Mayor)	R9,167.51
5	19000534	2010/05/31	1100/3215/0000	R/M: Vehicles	R5,148.43
6	19000443	2009/07/31	11001/2238/000	S & T	R5,002.9
7	19000517	2010/03/31	11001/2238/000	S & T	R4,929.91
8	19000443	2009/07/31	1101/2238/0000	S & T	R4,559.47
9	19000502	2010/01/03	1101/2239/0000	S & T (Mayor)	R3,703.83
10	19000447	2009/08/03	1101/2238/0000	S & T	R3,682.45
11	19000443	2009/07/31	1101/2238/0000	S & T	R3,464.89
12	19000466	2009/10/01	1101/2239/0000	S & T (Mayor)	R3,083.73
13	19000476	2009/11/02	1101/2238/0000	S & T	R3,026.22
14	JUNE0630	2010/06/30	1101/2238/0000	S & T	R2,563.92
15	19000476	2009/11/02	1101/2238/0000	S & T	R2,526.18
16	19000458	2009/09/02	1101/2238/0000	S & T	R2,494.47
17	19000523	2010/04/01	1101/2238/0000	S & T	R2,494.32
18	19000486	2009/12/01	1101/2238/0000	S & T	R2,480.55
19	19000486	2009/12/01	2150/2238/0000	S & T	R2,110.53
20	19000447	2009/08/03	1101/2238/0000	S & T	R1,989.47
21	19000476	2009/11/02	1101/2239/0000	S & T (Mayor)	R1,890.35
22	19000476	2009/11/02	1101/2239/0000	S & T (Mayor)	R1,882.46
23	19000506	2010/02/03	1101/2238/0000	S & T	R1,814.9
24	19000443	2009/07/31	4150/2238/0000	S & T	R1,792.98
25	19000476	2009/11/02	1101/2238/0000	S & T	R1,723.93

This is as a result of payments on credit cards being authorized without supporting invoices, which amounts to non-compliance with the supply chain management policy and the MFMA.

Resulting in irregular expenditure being incurred by the municipality.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The duly delegated personnel approving payment should ensure that supporting invoices are attached to the payment voucher before a payment is effected and released.

Management response

We agree to this finding. It will be disclosed as irregular expenditure.

Name: C R Venter

Position: CFO

Date: 2010/10/15

Auditor's conclusion

Management comment is noted. Management has agreed to disclose the credit card expenditure amounting to R179 798 as irregular expenditure in the notes to the financial statements for the year ended 30 June 2010. This finding will form part of the emphasis of matter paragraph included in the audit report.

18. Non-compliance with section 19 of the MFMA, Act no. 56 of 2003

Audit finding

Section 19 of the Municipal Finance Management Act ("MFMA"), Act no. 56 of 2003 states, "A municipality may spend money on a capital project only if—

- (a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2);
- (b) the project, including the total cost, has been approved by the council;
- (c) section 33 has been complied with, to the extent that that section may be applicable to the project; and
- (d) the sources of funding have been considered, are available and have not been committed for other purposes.

(2) Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider—

- (a) the projected cost covering all financial years until the project is operational;
- and
- (b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

(3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme."

During the audit of the capital projects of the municipality completed during the financial year, and currently in progress, it has been noted that the municipality does not comply with all the requirements of section 19 of the MFMA, Act no. 56 of 2003 (MFMA), in that the projected cost covering all financial years until the capital project is operational and the future operational costs and revenue on the project, including municipal tax and tariff implications, are not considered by the council prior to the approval of the capital projects.

Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting and compliance with laws and regulations.

This results in non-compliance with section 19 of the MFMA.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

Management should implement control mechanisms and contract management within the municipality in order to ensure that the capital projects of the municipality comply with the section 19 of the MFMA.

Management response

Management agree with the finding and have agreed to effect the necessary improvements in the next financial year.

Name: Rob Crozier

Position: Director Technical Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This non-compliance will be reported in the management report and the audit report.

19. Performance management system not effectively and efficiently implemented

Audit finding

Per Regulation 9 (l) (a) and (b) of Municipal Planning and Performance Management Regulations, 2001 states that (a) "A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act ." (b) "A key performance indicator must be measurable, relevant, objective and precise." Furthermore, MFMA Circular No. 13 states that where SDBIP used to measure performance on a quarterly basis during the financial year Section 53 (1) (c) (ii) of the Municipal Finance Management Act 56 of 2003 (MFMA), states that: "The mayor of a municipality must take all reasonable steps to ensure that the municipality's SDBIP is approved by the mayor within 28 days after the approval of the budget". Section 26(i) of the Municipal Systems Act 32 of 2000 (MSA), states that," an Integrated development plan must reflect- (i) the Key performance indicators and performance targets determined in terms of section 41. "

During our evaluation of work performed by the internal auditors at the planning stage, review of the internal audit report and inspection of the IDP, SDBIP, performance management framework and the report on performance information during the audit of predetermined objectives, we observed that the performance management system of the municipality is not effective and efficient.

The following serves as an example:

- The SDBIP was not approved within the prescribed period of 28 days after approval of budget.
- Key performance targets are not disclosed in the IDP for the 2009/2010 financial year.
- The objectives and the KPI's contained in the performance report do not agree with the objectives and the KPI's contained in IDP and the SDBIP
- The objectives in the service delivery budget implementation plan (SDBIP) are not measurable, as key performance indicators (KPI's) for the objectives do not measure the expected service delivery outcomes.
- The objectives contained in the IDP outline broad strategies of the municipality which are not specific, measurable and time-bound.
- The KPI's disclosed in the integrated development plan (IDP) are not in line with the KPI's disclosed in the SDBIP and the annual performance report. Furthermore, performance targets contained in the performance agreements for the managers accountable to the municipal manager and the annual performance report are disclosed as percentages and the basis for measurement of performance is not specific and time bound. Therefore, performance targets of the municipality do not measure the efficiency, effectiveness, quality and impact of the performance of the municipality.

The performance management system does not:

- Disclose how planning will be organised, managed and has insufficient detail on how planning will be conducted;
- Disclose how quarterly monitoring of staff will be conducted, organised and managed;
- Disclose detail on how quarterly reviews for Section 57 Managers will be conducted;
- Disclose detail on how performance information will be collated and included in the strategic score card and annual report;
- Disclose detail on how to remedy poor performance;
- Disclose timelines on when employees will have performance managed as per the Disciplinary and Grievance Procedure and Code;
- Disclose details of official(s) responsible for the accurate collation, collection, recording, processing, monitoring and review of Performance Information;

- Clarify roles and responsibilities of staff below Section 57 Managers;
- Clarify the processes of implementing the performance management system within the framework of the IDP; and
- Establish the frequency of reporting for employees reporting to Section 57 Managers and does not disclose the lines of accountability for performance i.e. The performance management system is not consistent when describing the monitoring of Section 57 Managers and employees e.g. the last paragraph on page 11 only refers to the evaluation of the Section 57 Managers.
- Disclose a process of regular reporting to the council, other political structures, political office bearers and staff of the municipality, and the public and appropriate organ of state.

The Municipality's performance management system was not reviewed to ensure it adheres to all applicable regulations.

The IDP is not reviewed to ensure that it complies with all legislation.

The SDBIP is not timeously prepared, reviewed and approved as required by the legislation.

The above results in non compliance with the requirements of the MFMA Circular No.13 and Section 53 (1) (c) (ii) of the Municipal Finance Management Act 56 of 2003 and non compliance with the requirements of Regulation 9 (l) (a) and (b) of Municipal Planning and Performance Management Regulations, 2001.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

- Management should ensure that KPI's in respect of each of the development priority and objectives are measurable and precise and time bound.
- Management should ensure that the Municipality's SDBIP is approved by the Mayor within 28 days after the approval of the budget.
- Management should ensure that key performance targets are disclosed in the IDP.
- Management should ensure that the Performance management system discloses the following:
 - how planning will be organised, managed and indicate sufficient detail on how planning will be conducted
 - how quarterly monitoring of staff will be conducted, organized and managed
 - detail on how quarterly reviews for Section 57 Managers will be conducted
 - detail on how performance information will be collated and included in the strategic score card and annual report
 - detail on how to remedy poor performance
 - timelines on when employees will have performance managed as per the Disciplinary and Grievance Procedure and Code
 - details of official(s) responsible for the accurate collation, collection, recording, processing, monitoring and review of Performance Information
 - clear roles and responsibilities of staff below Section 57 Managers
 - processes of implementing the performance management system within the framework of the IDP
 - the frequency of reporting for all managers and all employees reporting to Section 57 Managers with clear lines of accountability for performance

Management response

It is incorrect that the IDP was not reviewed. The PMS would be reviewed to address the concerns raised by the AG.

Name: D. Agyemang

Position: Director: IPME

Date: 15/11/10

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

20. The SDBIP was not approved within 28 days after the approval of the budget

Audit finding

Section 53 (1) (c) (ii) of the Municipal Finance Management Act 56 of 2003 (MFMA), states that: "The mayor of a municipality must take all reasonable steps to ensure that the municipality's SDBIP is approved by the mayor within 28 days after the approval of the budget"

During our audit, it was noted that the Municipality's SDBIP was not approved by the Mayor within 28 days after the approval of the budget, as the budget was approved by the Council on the 29 May 2009, while the SDBIP was approved on 14 August 2009.

The performance management system does not document detailed processes over performance planning, monitoring, measurement, review, reporting and how improvement will be conducted, organised and managed for the SDBIP.

This has resulted in non-compliance with Section 53. (1) (c) (ii) of the Municipal Finance Management Act, Act no. 56 of 2003.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

Management should ensure that the Municipality's SDBIP is approved by the Mayor within 28 days after the approval of the budget as required by section 53 (1) (c) (ii) of the Municipal Finance Management Act 56 of 2003 (MFMA).

Management response

Management accepts the findings and would ensure the SDBIP is approved within the timeframe as prescribed by the regulations

Name: D. Agyemang

Position: Director: IPME

Date: 15/11/10

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

21. The Integrated Development Plan (IDP) does not reflect performance targets.

Audit finding

Section 26(i) of the Municipal Systems Act 32 of 2000 (MSA), states that, "an integrated development plan must reflect-

(i) the Key performance indicators and performance targets determined in terms of section 41."

During our audit of the integrated development plan (IDP) for the 2009/10 financial year, it was noted that key performance targets are not disclosed.

The IDP is not reviewed to ensure that it complies with the Municipal Systems Act 32 of 2000 (MSA).

Internal control deficiency

Governance: Risk identification and management designed to identify changes in processes or risks and verify that the design of underlying controls remains effective-

The entity does not identify risks relating to the achievement of financial and performance reporting objectives.

Recommendation

Management should ensure that the IDP reflects key performance targets, as required by the Municipal Systems Act (MSA).

Management response

There were targets set but emphasis would be place on ensuring that they are explicit and captures the essence of performance.

Name: Danso Agyemang
Position: Director IPME
Date: 16/11/2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

22. Financial plan does not include a budget projection for the next three years.

Audit finding

Section 26 (h) of the Municipal Systems Act (Act No. 32 of 2000) (MSA) states: “An Integrated Development Plan must reflect a financial plan, which must include a budget projection for at least the next three years.”

During our audit of the financial plan disclosed in the IDP, it was noted that the financial plan does not include a budget projection for the next three years.

The IDP is not reviewed to ensure that it complies with Section 26 (h) of the Municipal Systems Act (Act No.32 of 2000) (MSA).

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The municipality should ensure that the IDP reflects a financial plan, which must include a budget projection for at least the next three years as required by the legislation.

Management response

Management accepts the finding and would advise Finance department to ensure a 3-year financial projection to address the query raised by the AG.

Name: Danso Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

23. Performance assessment of the Municipality not completed within prescribed time frame stipulated by S72 of the MFMA

Audit finding

Section 72(1) of the Municipal Finance Management Act 56 of 2003 (MFMA), states that, "The accounting officer of a municipality must by 25 January of each year—

(a) assess the performance of the municipality during the first half of the financial year, taking into account—

(ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the SDBIP."

Per inspection of the council minutes for the year under review, it was noted that:

1. The SDBIP was not completed for the first quarter of the year by the Section 57 Managers; and
2. The second quarter SDBIP performance assessment was not submitted to Council before 25 January 2010.

Furthermore, the municipality could not provide documentary evidence for the submission of the performance report assessment of the municipality to the mayor of the municipality, the National Treasury and the Provincial Treasury as required by section 72 (1) of the Municipal Finance Management Act 56 of 2003 (MFMA),

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Performance assessments of the Municipality should be completed within the prescribed timeframe stipulated by Section 72(1) of the MFMA, Act no. 56 of 2003 and furthermore, management of the municipality should ensure that a report of the performance assessment of the municipality should be submitted to the mayor of the municipality, the National Treasury and the Provincial Treasury within the prescribed timeframes.

Management response

Findings and recommendations accepted and would be addressed in the coming financial year

Name: Danso Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

24. Performance agreements were not concluded within one month after the beginning of the financial year

Audit finding

Section 57 (2) (a) of the Municipal Systems Act 32 of 2000 states: "The performance agreement referred to in subsection (1) (b) must-

(a) be concluded within a reasonable time after a person has been appointed as the municipal manager or as a manager directly accountable to the municipal manager, and thereafter, within one month after the beginning of the financial year of the municipality;"

Per review of the performance agreements for section 57 Managers with respects to the 2009/10 financial year revealed that performance agreements were not concluded within one month after the beginning of the financial year, as they were signed by:

- Municipal Manager: Mr MM Yawa, on 20 August 2009;
- Chief Financial Officer: Mr C Venter, on 28 August 2009;
- Corporate Services Manager: Mrs M Theron, on 28 August 2009;
- Technical Services Manager: Mr R Crozier, on 28 August 2009; and
- Community Services Manager: Mrs N Gologolo, on 20 August 2009

The accounting officer does not exercise adequate oversight responsibility over performance reporting and accountability.

The municipality is in non-compliance with section 57 (2) (a) of the Municipal Systems Act 32 of 2000 (MSA).

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Performance agreements should be concluded within a reasonable time after a person has been appointed as the Municipal Manager or as a manager directly accountable to the Municipal Manager, and thereafter, within one month after the beginning of the financial year of the Municipality, as required by section 57 (2) (a) of the Municipal Systems Act 32 of 2000.

Management response

Performance agreements would be signed timeously as per the regulations in future.

Name: D. Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Managements comment is noted. This finding will be reported in the management report and the audit report.

25. Notice of IDP approval was not given to the public within 14 days of the approval of the plan.

Audit finding

Section 25 (4) (a) and (b) of the Municipal Systems Act 32 of 2000 states that:

"A municipality must, within 14 days of the adoption of its integrated development plan in terms of (1) or (3) a notice give to the public of the adoption of the plan and that copies of or extracts from the plan are available for public inspection at specific places, and publicise a summary of the plan."

During our audit of predetermined objectives, it was noted that the notice of IDP approval was not given to the public within 14 days of the approval of the IDP, as the IDP was approved by Council on the 29 May 2009, while the notice to the public of the adoption of the IDP was only issued on the 17 August 2009.

The municipality has not complied with Section 25 (4) (a) and (b) of the Municipal Systems Act 32 of 2000 (MSA).

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The municipality should ensure that notice of the adoption of the IDP is given to the public within 14 days of the approval of the IDP as required by the Municipal Systems Act 32 of 2000 (MSA).

Management response

Notices would be given within the requisite timelines as part of IDP consultative processes.

Name: D. Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Managements comment is noted. This finding will be reported in the management report and the audit report.

26. No evidence for submission of a copy of the IDP to the MEC for local government in the province within 10 days

Audit finding

Section 32 of the Municipal Systems Act 32 of 2000 (MSA) states that: "The municipality manager of a municipality must submit a copy of the integrated development plan as adopted by the council of the municipality, and any subsequent amendment to the plan, to the MEC for local government in the province within 10 days of the adoption or amendment of the plan."

During our audit of the predetermined objectives, the municipality could not provide documentary evidence for proof of the submission of a copy of the IDP to the MEC for Local Government in the province within 10 days after the adoption of the IDP by the municipal council.

Information was not submitted for audit purposes and as a result it was not possible to perform audit procedures on the outstanding information.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that a copy of the IDP is submitted to the MEC for Local Government in the province within 10 days after the adoption of the IDP by the municipal council as required by the regulations, and that such is submitted for audit purposes.

Management response

Copy of the IDP was submitted.

Name: D. Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Management has not provided the necessary supporting documentation, and as such this finding will be reported in the management report and the audit report.

27. Performance evaluation of municipal employees and suppliers was not performed.

Audit finding

Section 41 of the Municipal Systems Act (Act No. 32 of 2000) (MSA) states:

(1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—

(a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;

(b) set measurable performance targets with regard to each of those development priorities and objectives;

(c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)—

(i) monitor performance; and

(ii) measure and review performance at least once per year.

Regulation 9(2)(b) of Municipal Planning and Performance Management Regulations, 2001 states that, "in setting key performance indicators, a municipality must ensure that the KPI's inform the indicators set for all its administrative units and employees and for every service provider with whom the municipality has entered into a service delivery agreement."

During the audit of predetermined objectives, it has been noted that the performance evaluation and assessment of municipal employees and suppliers was not performed with respects to the 2009/10 financial year and as such the municipality has not complied with section 41 of the Municipal Systems Act (MSA).

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The municipality should ensure that performance contracts for all employees and service providers, with whom the Municipality has entered into a service delivery agreements, are developed and implemented.

Management response

Management accepts the findings and would address the query in the current financial year

Name: D. Agyemang

Position: Director IPME

Date: 16/11/2010

Auditor's conclusion

Managements comment is noted. This finding will be reported in the management report and the audit report.

28. SDBIP not updated

Audit finding

Section 54(1) of the Municipal Finance Management Act 56 of 2003 (MFMA), states that: "On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must—

- (a) consider the statement or report;
- (b) check whether the municipality's approved budget is implemented in accordance with the SDBIP;
- (c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;
- (d) issue any appropriate instructions to the accounting officer to ensure—
 - (i) that the budget is implemented in accordance with the service delivery and budget implementation plan; and
 - (ii) that spending of funds and revenue collection proceed in accordance with the budget;
- (e) identify any financial problems facing the municipality, including any emerging or impending financial problems; and
- (f) in the case of a section 72 report, submit the report to the council by 31 January of each year."

Section 72(1) of the Municipal Finance Management Act 56 of 2003 (MFMA), states that: "The accounting officer of a municipality must by 25 January of each year—

- (a) assess the performance of the municipality during the first half of the financial year, taking into account—
 - (i) the monthly statements referred to in section 71 for the first half of the financial year;"

During the audit of predetermined objectives, it was noted that the SDBIP for 2009/2010 was not updated as a number of performance measures and indicators presented were with respect to the 2008/09 financial year.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The SDBIP should be updated as required by section 54 (1) of the Municipal Finance Management Act 56 of 2003 (MFMA).

Management response

The SDBIP would be amended whenever there is budget adjustment or changing circumstance to reflect on the realities

Name: D. Agyemang
Position: Director IPME
Date: 16/11/2010

Auditor's conclusion

Managements comment is noted. This finding will be reported in the management report and the audit report.

29. Long outstanding debtors are not handed over for collection.

Audit finding

The Municipal Finance Management Act 56 of 2003, Section 64 (1) states that the accounting officer of a municipality is responsible for the management of the revenue of the municipality. Furthermore, the credit control and debt collection policy adopted by the council on 17 February 2009 states that, debtors' accounts which are outstanding for the period of 90 days must be handed over to the municipality's attorneys for collection.

During our audit of accounts receivable, we observed that outstanding debtors longer than 90 days are not handed over to the municipality attorneys for collection, as required by the credit control and debt collection policy.

Management does not implement the credit control policy to ensure that amounts owed by debtors are adequately collected.

Non-compliance with the credit control and debt collection policy may result in overstatement of debtors and revenue in the municipality's accounting records due to the understatement of the provision for bad debts.

Internal control deficiency

Leadership: Oversight responsibility-

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that all debtors' accounts longer than 90 days are handed over to the municipality's attorneys for collection.

Management response

Finding noted. Measures have been implemented to ensure compliance with council's approved policies.

Name: C R Venter

Position: CFO

Date: 2010/11/15

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report as an internal control weakness.

30. Unreconciled difference between the consumer deposit register and the general ledger

Audit finding

The Municipal Finance Management Act, Act no. 56, 2003 (MFMA) Section 65 (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(j) that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

During the audit of consumer deposits, the SEBATA PF250701 consumer deposits register in the amount of R353 489.93 was compared to the general ledger account 9250/9560/0000 comprising the consumer deposits account balance in the amount of R362 978 and it was noted that there is an unreconciled difference in the amount of R9 488.07.

This is as a result of the municipality not adequately reconciling the consumer deposits register to the consumer deposits control account in the general ledger.

This has resulted in an unreconciled difference between the consumer deposits register and the consumer deposits control account at year end.

Internal control deficiency

Leadership: Oversight responsibility-

The Accounting Officer does not exercise oversight responsibility over reporting and compliance with laws, regulations and internal control.

Recommendation

Management should ensure that the consumer deposits register is reconciled to the consumer deposits control account in the general ledger at the end of each month, and that reconciling items are identified and followed up, as required by section 65(2)(j) of the MFMA, Act no. 56 of 2003.

Management response

We do agree to this finding. This will be corrected in the 2010/2011 financial year.

Name: C R Venter

Position: CFO

Date: 2010/10/15

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

31. Loss of revenue due to inadequate monitoring between the technical services and the finance department.

Audit finding

Section 62 of the Municipal Finance Management Act (No 56 of 2003) (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented, and that any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable. The MFMA further defines "fruitless and wasteful expenditure" as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Section 125(2)(d) of the MFMA states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable.

During our audit at the planning stage: obtaining an understanding of business processes and risk assessment, it was established through inspection of the council minutes and technical services minutes that approximately 300 municipal meters were not working during the year where electricity have been supplied by Eskom via municipal transformers. It was further established that there was a communication gap between technical services and finance section which resulted in the installation of electricity metres before consumers' details are updated on the conlog system by the Finance section.

The distribution loss reported per distribution loss report was 40.15%.

This represents an increase loss in revenue of R 4,146,366.76 compared to R 3,049,332 in 2008/09 financial period.

Management does not take necessary steps to ensure that control weakness are prevented, detected and corrected timeously.

The financial position of the municipality is being affected adversely by the continued losses incurred in the distribution electricity services. The unit income tariffs charged may be insufficient to recover distribution loss. Distribution losses on a monthly basis could remain undetected or be prevented timeously.

Internal control deficiency

Leadership: Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance-

Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

Recommendation

Management should implement control systems to monitor electricity consumption distributed via municipality's transformers and that management should ensure that consumers' details are updated on the conlog system by the finance section before the technical services install electricity for consumers.

Management response

Measures already implemented have resulted that the losses for the period July – October 2010 have decreased to 30.6%. A notable improvement is expected towards the end of the financial year.

Name: C R Venter

Position: CFO

Date: 2010/11/15

Auditor's conclusion

Management comment is noted. The electricity losses above the norm has been disclosed in the financial statements. This matter will be reported as part of an emphasis of matter paragraph in the audit report.

32. No departmental risk identification process in place

Audit finding

No departmental risk identification process in place to identify activity /programme level risks and controls to mitigate the risks.

During the audit it was noted through discussions with management and analysing minutes of management meetings that the municipality highlighted the importance of developing a risk register, both at municipal level and at departmental level. It was noted however that, that an entity level risk register was developed, the municipal has not yet identified departmental risks.

No formal process has been developed to identify and address activity/department level risks.

Risks are not identified and addressed on a timely basis for corrective action to be taken.

Internal control deficiency

Leadership: Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance -

Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

Recommendation

Management must develop a formal process of identifying activity/departmental level risks and controls to mitigate such and these should be documented in a risk register such must be regularly reviewed and updated with emerging risks.

Management response

We do not agree with the finding. The risk identification and assessment process that was undertaken in the financial year being audited was done in the form of a workshop in which all departments sent delegates this was the means by which we felt would meet the need of identifying both strategic risks and departmental risks. In this financial year the departmental risks will be part of the annual strategic session in order that we can progress in our risk management process.

There is a Risk Management Framework and Policy, which were adopted on 03 July 2009, and it was given to the auditors.

Name: Palesa Bushula

Position: Chief Operations Officer

Date: 11 October 2010

Auditor's conclusion

Management has indicated that the departmental risks will form part of the annual strategic session in the next financial year and as such this finding will be reported in the management report.

33. No Approved disaster recovery plan/ business continuity plan/backup plan

Audit finding

In terms of the Municipal Finance Management Act 56, 2003 section 62(1) (b), the accounting officer of the 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.

Though the municipality has developed a disaster recovery plan, by year end it was still in draft and was thus not yet adopted by council and implemented.

During the audit it was noted that the Municipality does not have an approved Disaster recovery Plan/ business continuity plan/Backup plan.

It was also noted that, though back-ups are done on a daily basis:

- No back-ups are kept off site as they are kept at the Technical department which is very close to the main building.
- When the backs are done they overwrite the previous back-up leaving no audit trail for the previous back up.
- The back-up tapes are not kept in a safe or lockable place as they are kept in the server room which is always open.

The municipality does not an approved Disaster recovery Plan/ business continuity plan/Backup plan.

Continuity of operations:

- In case of a system failure, the Municipality will not be able to continue with its daily operations if there are no back-ups.

Internal control deficiency

Leadership: Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance-

Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

Recommendation

Management must table the Disaster recovery Plan or business continuity plan to council for approval and implement:

- The municipality must develop, adopt and implement a back up policy.
- Back-ups must be kept off site.
- There should be an audit trail of all back-ups

Management response

Once finalized, the Disaster Recovery Plan will be tabled to council for approval. Although not yet approved, the requirements thereof have been implemented.

The Technical building is across the street, more than 100 meters away from the main building. In our opinion this is off-site.

The server room is always locked, it is NOT always open.

The backup systems/procedures will be revisited and an audit trail will be compiled.

Name: C R Venter
Position: CFO
Date: 2010/10/12

Auditor's conclusion

Management has not fully implemented the disaster recovery plan and such this weakness in the information technology controls will be reported in the management report.

34. No controls developed or implemented to address risks identified in the risk register

Audit finding

No controls have been developed or implemented to address risks identified in the risk register.

During the audit it was noted that though management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable:

- The strategy does not include a plan for periodic evaluation of control activities for critical operational and mission support systems.
- Operating personnel are not required to sign-off on the accuracy of their unit's financial statements and performance reports so that they can be held accountable if errors are discovered.
- Determination is not made on how best to manage or mitigate the risk and what specific actions should be taken as the risk register only has controls for some of the risks identified and no for all risks identified.

Controls to address risks identified in the risk register have not been designed

In the absence of controls the risk register will not serve any purpose and this will have a negative impact on the municipality's operations as its risks will not be mitigated or addressed.

Internal control deficiency

Leadership: Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance-

Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

Recommendation

Management must ensure that controls are developed for all risks identified in the risk register and there must be periodic evaluations of the control activities.

Management response

Management has developed an audit action plan and an IDP toolkit to identify the weaknesses and shortages in our operations this was the first step in identifying critical risks in operations and also improving the profile of the municipality. As our risk management processes are in their infancy (policy adopted July 2009), controls of the risk register will be done in the next Strategic Session.

Name: Palesa Bushula

Position: Chief Operations Officer

Date: 11 October 2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

ANNEXURE C: ADMINISTRATIVE MATTERS

Employee costs

1. Forms in respect of application for employment are not stamped by the registry official

Audit finding

Section 62(1)(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) states the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

During the audit work performed at planning stage: obtaining of understanding of the municipality's business processes relating to employee cost, we observed that the application form for the candidate (Mr Maweyi) for general assistant: water services position, advert notice no.08/2010 dated 19/02/2010 was not stamped by the registry official to confirm that the selection process has been adequately followed.

This is a result of a Lack of monitoring and review of employment processes by the HR supervisors.

This results in non-compliance with the municipality's appointment processes and procedures. Should there be any disputes or complaints by unsuccessful applicants, the municipality will have no documents to refer to.

Internal control deficiency

Leadership: Oversight responsibility-

The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

Management should ensure that application forms for all applicants are stamped by the registry official as evidence that the selection process has been adequately followed and reviewed.

Management response

This is normally done, could have been an oversight. AG's recommendation is noted and will be strictly implemented.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 15 November 2010

Auditor's conclusion

Management comment is noted. This finding will be reported in the management report.

2. Code of conduct not signed and kept in the employee's personnel file

Audit finding

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

During the audit of the employee cost at planning stage while performing risk assessment and obtaining an understanding of the municipality's business processes, it was noted that municipality do not file the code of conduct signed by an employee on appointment date in each employee's personnel file.

The following serves as an example:

<u>Employee Name</u>	<u>Employee no.</u>	<u>Appointment date</u>
Mr S.Maweyi	3018	8 March 2010

Non compliance with the municipality's recruitment and appointment processes and procedures.

Non compliance with the municipality's recruitment and appointment processes and procedures. Should there be any act of misconduct charged against an employee; municipality will have no documents to refer to, resulting in financial loss to the municipality.

Internal control deficiency

Leadership: Oversight responsibility-

The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

Management should ensure that all employees sign the code of conduct on appointment date and a copy should be kept in each employee's personnel file.

Management response

Management has taken note of recommendation and will be strictly implemented.

Name: Mary-Ann Theron

Position: Director: Corporate Services

Date: 11 October 2010

Auditor's conclusion

This finding will be reported further in the management report as an administrative matter.