



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

LAINGSBURG MUNICIPALITY

30 June 2019

Communicated to the accounting officer on: 30 November 2019





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SOUTH AFRICA

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MANAGEMENT REPORT

LAINSBURG MUNICIPALITY

30 June 2019

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

INTRODUCTION




1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2019.
2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objectives, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

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

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.

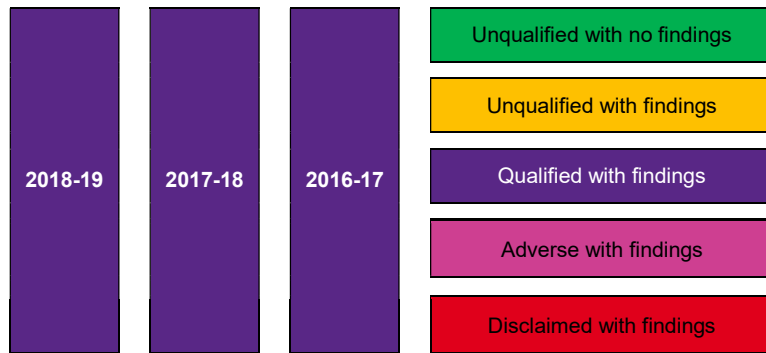
7. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
- Status of the audit outcomes
 - Status of the level of assurance provided by key role players
 - Status of the drivers of internal controls
 - Status of risk areas
 - Root causes to be addressed

Movement from the previous year is depicted as follows:

	Improved / maintained
	Unchanged / slight improvement / slight regression
	Regressed

Audit outcomes

Types of audit outcomes



Assurance levels

First level of assurance

Senior management	▶
Accounting officer	▶
Executive Mayor	▶

Second level of assurance

Audit committee	▶
Internal audit	▶

Third level of assurance

Municipal Council	▶
MPAC	▶

Provides assurance

Provides some assurance

Provides limited/
no assurance

Vacant/not established

1 To improve/maintain the **audit outcomes** ...
5 ... the **root causes** are addressed...
4 **controls**, and ...
... the **best practices** are maintained.

2 ... the **key role players** need to assure that...
3 ... the **risk areas**, and ...
... attention is given to the **key**

Root causes should be addressed

- The municipality's audit outcome stagnated as qualified with findings, which can mainly be attributed to:
- Leadership not compiling and implementing action plans in a timely manner.
 - Oversight responsibility being neglected leading to repeat findings in the financial statements, non-compliance with laws and regulations and reoccurrence of irregular expenditure.
 - The financial statements were not sufficiently reviewed in order to ensure the accuracy of the amounts and information disclosed based on the underlying records, before submission for auditing.

Risk factors

Quality of submitted financial statements	Quality of submitted performance information	Supply chain management
▶	▶	▶
Financial health	Human resource management	Information technology
▶	▶	▶

Status of the drivers of internal controls

Leadership	Financial & performance management	Governance
Effective leadership culture	Proper record keeping	Risk management
Oversight responsibility	Processing and reconciling controls	Internal audit
Human resource management	Regular reporting	Audit committee
Policies and procedures	Compliance monitoring	
Audit action plans	IT system controls	
IT governance		

Good

Concerning

Intervention required

Good

Concerning

Intervention required



OVERALL MESSAGE

8. The municipality's audit outcome stagnated, as the opinion remained "qualified with findings". Not only did we identify repeat findings in inventory, property plant and equipment, irregular expenditure, trade payables, procurement and contract management and grants but additional material findings relating to material losses, expenditure, employee costs, revenue management, and performance information were raised.
9. Leadership did not exercise adequate oversight over the maintenance and improvement of internal controls to address matters as reported in previous years. The leadership has also not been supported by governance and oversight structures to achieve a strong control environment within the municipality.
10. The late submission of the prior year financial statements for audit purposes and the resultant delayed sign-off of the prior year audit report impacted on the implementation of sustainable and credible action plans for the current year. Although management compiled an action plan to address prior year findings, the action plan was not executed and monitored in order to determine if it was implemented and effective. This resulted in several misstatements recurring. This also created a reliance on consultants to assist in the preparation of the financial statements to ensure timely submission thereof.
11. The assurance providers at each level are not providing the requisite assurance nor are there adequate consequences implemented for non-performance of responsibilities. In addition, reviews and monitoring at management level are inadequate and of a major concern. This can be attributed to the deteriorating state of internal controls combined with the current staff complement, a lack of succession planning relating to the finance office and a lack of accountability and consequence management implemented throughout the municipality.
12. Management is not effectively using the IT systems currently in place at the municipality. Even though inventory was qualified in the prior year and the municipality's financial system has an inventory management module, this function has still not been utilised by the municipality, thus leading to inventory again being qualified this year.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Key stakeholder	Purpose of interaction	Number of interactions
Municipal manager	<ul style="list-style-type: none"> • Discussion of Engagement letter and Audit Strategy • Audit Steering Committee meetings to discuss audit related matters as well as the progress with the audit • Status of the records review • Discussion of draft and final Management report as well as draft Audit report 	5
Audit committee	<ul style="list-style-type: none"> • Discussion of the progress of the audit • Discussion of Draft Management Report 	2

14. At these interactions, we shared and highlighted the following key matters affecting audit outcomes and the auditee:
- Identification of shortcomings in the current action plan and recommendations on how to streamline the focus areas in the action plan.
 - Inadequate review and monitoring that occurs at the highest level in the municipality to drive the successful implementation of actions required in the action plan.
 - Highlighting the concern that most of the audit findings issued are repeat findings raised in the prior years.
15. Stakeholders made commitments to implement initiatives that can maintain/improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

AUDIT OF THE FINANCIAL STATEMENTS

16. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA).

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

Material misstatement			Impact R current year	Impact R previous year
Financial statement item	Finding	Occurred in prior year		
Material misstatements not corrected				
Inventory	There is no system in place to account for inventory (ComAF 3)	Yes	888 956	1 224 821
Inventory consumed		Yes	2 266 844	1 828 325
Trade payables	List of trade payables disagrees with trade payables according to the general ledger (ComAF 17)	Yes	2 198 309	2 198 309
	List of trade payables disagrees with trade payables according to the general ledger (ComAF 17)	Yes	1 223 932	-
Expenditure	Payments recorded inclusive of VAT (ComAF 48)	No	276 020	-
Expenditure (contacted services)	No invoices or insufficient supporting documentation attached to the payments in respect of contracted services (ComAF 48)	No	268 509	-
Expenditure (operational cost)	No invoices or insufficient supporting documentation attached to the payments in respect of operational cost (ComAF 48)	No	451 185	-
Expenditure	Payments relating to financial years prior to 2017/18 included in current year expenditure (ComAF 48)	No	842 550	-
Expenditure	VAT apportionment not applied resulting in the understatement of expenditure	No	741 084	-

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding	Occurred in prior year		
Transfer revenue: Government grants and subsidies	Evidence could not be provided for all payments and resultant revenue recognises in respect of MIG [ComAF 54]	Yes	10 523 098	3 036 342
Unspent conditional grants	Since no supporting documentation can be provided to justify the expenditure recorded against conditional grants, the unspent grants are understated d.	Yes	10 523 098	3 036 342
Transfer revenue: Government grants and subsidies	As reported in the prior year management report, evidence could still not be provided for grant expenditure and revenue recognised.	Yes	337 392	337 392
Transfer revenue: Government grants and subsidies	As reported in the prior year management report, grant expenditure and resultant revenue are still not recorded in the financial statements	Yes	205 050	205 050
Material misstatements corrected				
Employee related cost	Appointment resulting in irregular expenditure (ComAF 12)	No	120 583	-
Statement of comparison of budget and actual: Property rates	The actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement. (ComAF 30)	No	360	-
Statement of comparison of budget and actual: Grants	The actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement. (ComAF 30)	No	32 101	-
Statement of comparison of budget and actual: Sale of goods and services	The actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement. (ComAF 30)	No	1 627 754	-

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding	Occurred in prior year		
Statement of comparison of budget and actual: Suppliers and employees	The actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement. (ComAF 30)	No	752 797	-
Statement of comparison of budget and actual: Transfers and grants	The actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement. (ComAF 30)	No	842 493	-
Cash flow statement: sale of goods and services	Upon recalculation the amounts differed from the amounts disclosed in the cash flow statement (ComAF 38)	No	1 130 498	-
Cash flow statement: Grants and subsidies	Upon recalculation the amounts differed from the amounts disclosed in the cash flow statement (ComAF 38)	No	464 795	-
Cash flow statement: suppliers and payments	Upon recalculation the amounts differed from the amounts disclosed in the cash flow statement (ComAF 38)	No	1 528 208	-
Cash flow statement: finance cost	Upon recalculation the amounts differed from the amounts disclosed in the cash flow statement (ComAF 38)	No	67 090	-
Revenue from exchange transactions and expenditure	Revenue collected on behalf of the Department of Transport and Public Works (Principal) and expenditure is incorrectly accounted for as required by par. 43 of GRAP 109 - <i>Revenue from exchange transactions</i> Expenditure (ComAF 36)	Yes	956 822	1 135 562
Expenditure	Other receivables incorrectly debited against expenditure (ComAF 48)	No	418 809	-

Financial statement item	Material misstatement		Impact R current year	Impact R previous year
	Finding	Occurred in prior year		
Transfer revenue: Government grants and subsidies	Amounts as per note 35 disagrees with the breakdown of note 35 [ComAF 54]	No	7 890 116	-
Misclassification of property rates note 33	Property rates charged i.r.o. Agriculture misstated	No	2 067 680	-
	Property rates charged i.r.o. residential misstated	No	-314 093	-
	Revenue forgone misstated	No	-1 797 708	-
Irregular expenditure	Irregular expenditure incurred due to not inviting 3 quotations [ComAF 21]	Yes	255 849	219 725
Irregular expenditure	Reasons for deviating not justifiable [ComAF 24]	Yes	3 341 624	199 856
Material losses as per note 59	Water losses materially misstated [ComAF 56]	No	2 584 163	-
Irregular expenditure	Irregular deviations in terms of SCM regulation 32 [ComAF 26]	Yes	7 995 290	3 115 187

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

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

Restatement of corresponding figures

19. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors detected during the 2018-19 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Materiality uncertainty related to going concern

20. I draw attention to note 56 to the financial statements, which indicates that the municipality is dependant on the approval from National Treasury to rollover the unspent portion of their conditional grants in order to spend monies on capital projects. As stated in note 56, these events or conditions, along with the basis for qualified opinion in paragraph 6, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Material impairments

21. As disclosed in note 11 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (consumer debtors) amounting to R2,2 million (2017-18: R2,3 million).
22. As disclosed in note 12 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R62,5 million (2017-18: R36,8 million). This mainly related to traffic fines issued.

Material losses

23. As disclosed in note 60 to the financial statements, water and electricity losses of 63,48% and 11,15% amounting to R3 737 930 (2017-18: 61.36 % amounting to R3 271 132) and R1 401 963 (2017-18: 9,19% amounting to R1 058 383) respectively were suffered during the year.

Other matter paragraph

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

Unaudited disclosure notes

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

Unaudited supplementary schedule


26. The supplementary information set out on pages 104 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, I do not express an opinion thereon.

AUDIT OF THE ANNUAL PERFORMANCE REPORT

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

Introduction and scope

28. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic Objective	Pages in annual performance report	Opinion	Movement
Strategic objective 5: Provision of infrastructure to deliver improved services to all residents and business	11 – 13	Qualified	

29. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.
30. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Strategic objective 5: Provision of infrastructure to deliver improved services to all residents and business

Qualified Opinion

31. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of my report, the reported performance information for Strategic objective 5 – Provision of infrastructure to deliver improved services to all residents and business is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Basis for qualified opinion

32. The achievement for target TL7: Number of formal residential properties that received piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019, reported in the annual report was 1 338. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 518.

Other matter

33. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

34. Refer to the annual performance report on pages 11 to 13 for information on the achievement of planned targets for the year.

Responsibilities of the accounting officer for the reported performance information

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

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

36. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected strategic objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

37. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters

38. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

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

Annual financial statements, performance and annual reports

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

41. The council failed to adopt an oversight report containing the council's comments on the 2017-18 annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Asset management

42. An adequate management, accounting and information system which accounts for assets inventory was not in place, as required by section 63(2)(a) of the MFMA.

Consequence management

43. Unauthorised expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
44. Irregular expenditure incurred by the municipality in the prior year were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
45. Fruitless and wasteful expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

46. Reasonable steps were not taken to prevent irregular expenditure amounting to R23 631 929 as disclosed in note 59 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations
47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R4 296 079, as disclosed in note 57 to the annual financial statements. This is in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by the overspending of the respective municipal votes.
48. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R127 791, as disclosed in note 58 to the annual financial statements. This is in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made in respect of interest on late payments.

Procurement and contract management

49. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
50. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
51. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

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

Revenue management

53. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
54. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Utilisation of conditional grants

55. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).
56. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 1 of 2018).

OTHER INFORMATION

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected strategic objective presented in the annual performance report that have been specifically reported in the auditor's report.
58. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
59. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROLS

61. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 7, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

62. There are indicators of a lack of due regard for internal controls and legislation. This can be substantiated by discrepancies identified in the subsistence and travel claims of senior personnel and councillors as well as the approval of numerous payments identified that were made outside of the scope of the municipality's responsibility and payments made which are not supported by sufficient documentation. In addition, there is a lack of consequence management which is evidenced by the numerous instances of irregular expenditure incurred and non-compliance with legislation identified.

Oversight responsibility

63. Leadership did not timeously provide the consultants with the required information to compile the financial statements resulting in the financial statements only being finalised on the day of submission. Due to this management was not in the position to review the financial statements before submitting it for auditing, resulting in material differences between the financial statements and schedules submitted in support of the financial statements not being identified and corrected before submission for audit.
64. In addition, the annual performance report was not reviewed by a senior official resulting in numerous immaterial differences and a material difference between the actual performance reported in respect of indicator, TL7: Number of formal residential properties that received piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019, and the supporting documentation.
65. Although the municipality has experienced significant water losses for the last couple of years no oversight was exercised to ensure that the issue was addressed. During the audit conventional water meters were again identified that showed no movement while it was found that numerous pre-paid water meters are not working or have been removed resulting in losses in revenue for the municipality. Due to this, the municipality is also unable to effectively monitor water usage and with the recent drought that was experienced, this matter should be addressed as a matter of urgency. This loss of revenue could be used to improve the revenue and cash flow of the municipality if recovered.
66. Leadership did not provide sufficient oversight over the implementing and monitoring of controls to prevent non-compliance. This has resulted in a breakdown of controls and a multitude of repeat findings in the areas of consequence management, procurement and contract management and expenditure management. In addition, with the removal of information by the Hawks, no oversight was exercised in order to ensure that copies of the information are retained by the municipality.
67. Furthermore, leadership did not provide oversight over the internal audit function resulting in minimal work being done by the internal audit section, which in turn contributed to the breakdown of internal controls over financial, performance and compliance reporting.

Human resource management

68. Management did not implement effective human resource (HR) management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. The staff establishment is not reviewed on a regular basis to ensure that it caters for the municipality's needs and there are inadequate resources employed in the finance section.

- 69. Leadership has not been able to source adequate and sufficiently skilled staff for the internal audit function. This resulted in the internal audit function not operating effectively.
- 70. Due to capacity constraints and shortage of appropriate skills in the municipality, a lack of segregation of duties was identified in the finance department, which resulted in a lack of reviews on the information captured on the financial system or changes made to employees' master files. However, management has not implemented initiatives to address the shortage of staff in the finance department, nor is there procedures and processes in place to ensure that skills are transferred and that succession planning needs are addressed.

Policies and procedures

- 71. Policies are not effectively communicated and implemented to the responsible staff to enable them to carry out their duties. This was identified in the areas of supply chain management, human resource management and performance management.
- 72. The municipality does not have a contract management system in place to effectively manage and monitor contracts and appropriately approve extensions and modifications to quotations or contracts. This has resulted in repeat non-compliance with the required legislation but also raises the risk for the municipality of value for money for services rendered or goods delivered.
- 73. The accounting officer did not establish and communicate a strategy for the use of consultants for implementation by the municipality as these were used to supplement the current staff complement especially in the finance department.

Action plans to address internal control deficiencies

- 74. Although the prior year audit report was signed off late, numerous findings raised during 2017/18 were already raised during the 2016/17 financial year. The action plans that were compiled in respect of the 2016/17 and 2017/18 financial years were not monitored to ensure that findings are addressed. This is evident by the numerous repeat findings relating to non-compliance and internal control deficiencies that re-occurred. Furthermore, management did not hold officials responsible for implementing these corrective measures, accountable and monitor progress made in addressing these findings on a regular basis.

Information technology governance framework

- 75. Management did not establish an information technology (IT) governance framework and IT Strategic plan that supports and enables the business to deliver value and improve performance.
- 76. It was found that the IT framework does not have all the minimum criteria included in the IT governance framework.
- 77. The IT department of the municipality does not have adequate resources to implement all the necessary policies and procedures, IT controls and processes to enable the department to function effectively. This resulted in a number of findings identified in the prior year being repeated in the current year. Furthermore, no corrective measures were implemented to address the findings identified in the prior year in the IT department.

Financial and performance management

Proper record keeping

78. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
79. Processes were not implemented by management to ensure that information received from the service providers and consultants are kept and made available for audit purposes.
80. In addition, various delays with the receipt of information and documentation were also encountered during the audit process, which is also evidenced by the fact that 23 of the 58 ComAFs raised during the audit process have not yet been responded to. This stemmed from the staff complement in the finance office and the strain placed on the existing staff due to unavailability of the CFO as a result of unforeseen circumstances. As a result of the municipality being unable to respond to numerous ComAFs by the 18 November, taking cognisance of the availability of staff in the finance department during the audit as well as the time afforded to the municipality to respond, we did not accept any further responses subsequent to this date.

Daily and monthly processing and reconciling of transactions

81. Management has not implemented adequate controls to ensure that there are monthly reconciliations performed of transactions to support valid, accurate and complete financial reporting in respect of VAT and payables. As a result of this, management had to appoint consultants to address these issues in order to submit financial statements within the legislative deadline.

Regular, accurate and complete financial and performance reports

82. Management did not implement proper review processes over the annual financial statements and the annual performance report in order to ensure that the financial and performance information reported are accurate and complete. This resulted in the notes in respect of property rates and grant expenditure being materially misstated, as well as amounts disclosed in the statement of comparison of budget and actual amounts and the cash flow statement.

Compliance monitoring

83. Management do not effectively monitor the implementation of policies and procedures, which resulted in non-compliance with laws and regulations.
84. The municipality did not adequately review and monitor compliance with the supply chain management policy and the municipal supply chain management regulations to ensure fair, transparent and competitive procurement processes and to avoid recurring irregular expenditure.
85. Management has not ensured that the actions plans developed to address the recurring non-compliance findings were implemented and monitored effectively.

Information technology systems

86. Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

87. There is no process in place for the independent reviews of activities of the person responsible for granting users access to the network, application systems and performance reporting systems.
88. It was identified that the IT department does not have any processes and procedures in place to ensure that all proposed changes to the existing information system environment coordinated, scheduled, authorised and tested. This is of major concern since it was also found that the municipality does not have proper review processes in place to ensure that information captured on the financial system/changes made to employees' master files are reviewed by a senior employee. In addition, although the creditor and inventory modules are available within the financial system, it has not been utilised by the municipality resulting in qualified audit opinions in both these areas.

Governance

Risk management activities and risk strategy

89. MPAC, although constituted, did not meet once during the year under review due to vacancies within the committee not being filled.

Internal audit

90. The internal audit plan submitted for audit purposes was not approved while the only internal reports issued were done by the consultants that assist the municipality with the audit function. None of the tasks per the internal audit plan that had to be fulfilled by municipality's internal audit function were performed. It is therefore evident that the internal audit function is not adequately staffed.
91. Furthermore, numerous of the findings identified in the current year are repeat findings from the prior year. This is an indication that the internal audit function was not in operation. This could lead to a further regression in the municipality's internal control environment as the internal audit function is not evaluating the effective operation of the internal controls that have been put in place by management.

Audit committee

92. It was identified that the audit committee did not perform all of its functions, roles and responsibility that are documented in the approved audit committee charter. No evidence could be provided that audit charter has been reviewed and updated annually to ensure relevance and consistency with the MFMA in terms of the Municipal Systems Act (No 32 of 2000) and other related regulations, guides and best practices. No evidence could be obtained that the audit committee assisted the municipality in reviewing the functioning and effectiveness of the information technology systems and controls and approving the internal audit plan.

Summary

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

Leadership

94. There are indicators of a lack of due regard for internal controls and adherence to legislative prescripts resulting in a repeat qualification areas and non-compliance with laws and

regulations. Leadership did not provide adequate oversight over the preparation of the annual financial statements by strengthening the internal control environment at the municipality.

Financial and Performance Management

95. Management did not implement proper review processes and record keeping over the annual financial statements and performance report in order to ensure that the reported financial and performance information are free from material misstatements and supported by relevant and accurate information. The information that the consultants required to compile the financial statements were not always provided timeously resulting in the financial statements only being completed on the day of submission, hence leaving management with insufficient time to adequately review the financial statements before submission for audit.
96. The municipality has significant capacity constraints and a shortage of skilled staff with a lack of succession planning in the finance department specifically. However, management has not implemented initiatives or processes to ensure that the municipality has an adequately skilled labour force to carry out the mandate and functions of the municipality. In addition, leadership did not provide adequate oversight over the information technology environment of the municipality through effective use of systems which resulted in a weakened internal control environment at the municipality.
97. Deficiencies in the review processes and the ineffective implementation of compliance monitoring controls to ensure compliance with key applicable legislation contributed to the non-compliance with the MFMA and other applicable legislation.

Governance

98. The audit committee did not perform all its functions as per the approved audit committee charter. Internal audit is also not adequately resourced and equipped in order to carry out its functions effectively. None of the tasks per the internal audit plan that had to be fulfilled by the municipality's internal audit function was performed.

OTHER REPORTS

99. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.
100. The Hawks is currently conducting an investigation into allegations relating to the appointment of the accounting officer, speaker, mayor and debt collector.

SECTION 3: Assurance providers and status of implementation of commitments and recommendations

ASSESSMENT OF ASSURANCE PROVIDERS

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

credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.

102. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
103. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides limited assurance

104. Senior managers refer to the Chief Financial Officer and the heads of the departments within the municipality. Senior managers provided limited assurance due to the following:
105. Despite compiling a municipal action plan to address prior period audit findings in the current and future audit periods, no progress has been made on this commitment. A significant number of findings have re-occurred in the current financial year. The commitments and actions contained in the action plan have not been implemented and monitored by management on a regular basis to assess the effectiveness and to avoid repeat findings. Management is dependent on consultants and minimal transfer of skills is evident during interactions with management regarding the preparation of the financial statements and performance reports.
106. Senior management did not implement appropriate and sufficient review processes and controls in order to ensure that the annual financial statements is accurate and complete as there were material misstatements identified in the financial statements that were submitted for audit.
107. Senior management also did not have processes and procedures in place to ensure proper authorisation of transactions, as well as a sound system of segregation of duties and delegations within the municipality in order to avoid a breakdown of internal controls.

Accounting officer/authority: provides limited assurance

108. The municipal manager (MM) is responsible for the municipality's internal controls, including leadership, planning, risk management as well as oversight and monitoring.
109. The MM was not able to consistently exercise oversight over the internal control processes currently implemented, especially in the area of reported financial and performance information in order to ensure that the control environment within the municipality is operating effectively.
110. The municipal manager should ensure that the framework for monitoring and enforcing controls at the municipality are strengthened to prevent findings in the areas of the financial statements, compliance with applicable legislation and the report on performance information from re-occurring.

Mayor: provides limited assurance

111. The executive mayor has a monitoring and oversight role at the municipality. The executive mayor has specific oversight responsibilities in terms of the MFMA and the Municipal Systems

Act, which include reviewing the integrated development plan and budget management as well as ensuring that municipality addresses the matters raised in audit reports.

112. Through the review of council meetings, no evidence could be obtained that leadership had been involved and provided effective oversight regarding the commitments made by management and actions taken/to be taken by the municipality to work towards clean administration and improved audit outcomes.

Second level of assurance

Internal audit unit: provides limited assurance

113. Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality governance, risk management and internal control processes.
114. The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
115. During the audit, it was found that internal audit did not review and evaluate controls relating to financial and performance management as well as compliance with laws and regulations. No audit plan was presented and approved by the Audit Committee. Furthermore, it appears that none of the planned internal audit work was completed during the financial year under review since no final reports could be submitted for audit purposes.
116. The work of the internal audit function was not used by the external auditors due to the limited work performed by the internal auditors and the differences in the audit methodology.
117. No evidence could be provided that any training was provided for the internal audit function during the year under review.
118. No evidence could be provided that the head of internal audit was a member of the Institute of Internal Audit of South Africa and no evidence could be provided for audit purposes that the internal audit function has quality control policies in place.

Audit committee: provides limited assurance

119. The audit committee must be an independent advisory body to the council and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
120. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
121. Due to the numerous audit findings raised in respect of the financial statements and compliance with applicable legislation it is evident that the audit committee did not have an

effective process in place to monitor the implementation of all recommendations made to council and the accounting officer.

Third level of assurance

Municipal council: provides limited assurance

122. Through the review of council minutes, no evidence could be obtained that leadership had been involved and provided effective oversight regarding the commitments made by management and actions taken/to be taken by the municipality to work towards a clean administration and improved audit outcomes.

Municipal public account committee (MPAC): provides limited assurance

123. The MPAC did not meet during the year under review to consider matters in terms of their mandate and function in order to assist the council and the accounting officer in ensuring a clean administration and improved audit outcomes.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

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

No.	Commitment	Made by	Date	Status
1	Management should implement an inventory management system to facilitate the tracking and monitoring of movements of inventory, which would enable management to assign cost to inventory based on the weighted average cost formula.	Not indicated in the action plan	No date indicated on the action plan	Not implemented
2	The municipality should not just perform an asset count by comparing the assets according to the register to the physical asset, but should embark on a full asset count in order to also identify municipal assets that are not recorded in the fixed asset register.	Not indicated in the action plan	No date indicated on the action plan	Not implemented
3	Management should implement controls to ensure the proper record keeping of trade payables and that it is reconciled on a regular basis with the general ledger and the supporting documents.	Accountant	No date indicated on the action plan	Not implemented
4	The prescribed processes, as set out in section 32 of the MFMA, for the investigation and write-off of any irregular expenditure should be followed.	Not indicated in the action plan	No date indicated on the action plan	Not implemented
5	Management should request the service provider of the financial system to make the necessary corrections to the system in order to produce a reliable trail balance that can be used for the compilation of the financial statements. Furthermore, management should implement processes and procedures in order	Not indicated in the action plan	No date indicated on the action plan	Implemented

No.	Commitment	Made by	Date	Status
	to identify similar situations going forward at an early stage to ensure that technical errors are addressed and resolved well before 31 August of each year.			
6	Leadership of the municipality should implement processes and procedures in order to ensure that the prescribed legislative requirements are adhered in respect of procurement and contract management.	SCM Official	No date indicated on the action plan	Not implemented
7	Management should implement processes and procedures to ensure the prevention of unauthorised, irregular and fruitless and wasteful expenditure.	Not indicated in the action plan	No date indicated on the action plan	Not implemented
8	Management should implement processes and procedures to ensure that timelines are set to deal with the investigation of irregular and fruitless and wasteful expenditure in a prompt manner.	Internal auditor	No date indicated on the action plan	Not implemented

- One audit recommendation accepted by management in the previous year on matters included in the auditor's report, or alternative actions were taken to resolve the finding.
- Seven audit recommendations have not been addressed, or very limited progress has been made.
- Details on the status of implementing the previous year(s) recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

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

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	83 Days	86 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	167 Days	162 Days

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2019	AS AT 30 JUNE 2018
2.2	Debtors impairment provision as a percentage of accounts receivable	86,20%	79,1%
	• Amount of debtors impairment provision	R64 745 333	R39 160 029
	• Amount of accounts receivable	R75 144 521	R49 503 075
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R9 344 722	R6 850 521
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R7 752 447	R4 830 35
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R178 197 117	R171 774 489
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R6 551 627	R10 169 928
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R10 157 585	R16 268 278
4.3	Creditors as a percentage of cash and cash equivalents	99,4 %	56,7%
	• Amount of creditors (accounts payable)	R 6 511 784	R5 771 070
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R6 551 627	R10 169 928
4.4	Current liabilities as a percentage of next year's budgeted resources **	15,9%	21,3%
	• Amount of current liabilities	R14 111 891	R19 823 521
	• Amount of next year's budgeted income **	R88 825 000	R92 886 000
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Yellow (Concerning)	Yellow (Concerning)
<p>* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</p> <p>** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councillors".</p>			

High-level comments

126. The municipality's debt impairment provision as a percentage of accounts receivable is 86,2% (2017/18: 79,1%) which is very high. This is mainly due to fines not being paid timeously as well as non-payment by consumers.
127. The municipality made a surplus for the current year under review of R9 344 722 (2017/18: surplus of R6 850 521).
128. The municipality's creditor's payment period has decreased slightly to 83 days (2017/18: 86 days) which is still very high and an indication that payments are not made within 30 days as required. This could however not be confirmed since the municipality does not have a system in place which provides reliable information on when invoices were received from suppliers. Invoices are not stamped when received from suppliers, but are stamped when they are processed for payment. In addition, the amount of R3 422 241 relating to payable and accruals for which no supporting documents could be provided also has a significant influence on this calculation.
129. In addition, the debtors' collection period of 167 days is of a concern (2017/18 162 days). Constant management of these accounts is encouraged not only because it is required by legislation, but also because this can help with the municipality's working capital cycle.
130. Creditors as a percentage of cash and cash equivalents increased significantly to 99,4% (2017/18: 56,7%). It should be kept in mind that the unspent conditional grants at 30 June 2019 amounting to R3 788 053 also forms part of the cash and cash equivalents balance at year-end while the municipality only have funds available to cover the creditors as at year end.

PROCUREMENT AND CONTRACT MANAGEMENT

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

Irregular expenditure

132. R20 396 159 (99%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years, amounting to R3 115 187, was also identified in the current year. 61% (100% of irregular expenditure relating to the previous year) of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause of the lack of effective prevention and detection are leadership did not establish processes and procedures to ensure compliance with SCM regulation requirements.

Awards to persons in the service of the state

133. Regulation 44 prohibits awards to persons in the service of the auditee, persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

134. The findings were as follows:

Finding	Number and value of awards made	Number and positions of official/ councillor identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/ councillor or did not declare interest	Official/ councillor was involved in awarding the contract/ quotation
Awards made to councillors of the municipality	1 R165 197	1 Councillor	1	-	-	-	-

Procurement processes

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

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	41	13 768 678	28	1 246 338	13	12 522 340
Expenditure incurred on selected awards – current year		5 537 536		1 284 643		4 252 893
Awards on which non-compliance was identified	23	9 507 727	11	494 219	12	9 013 508
Irregular expenditure identified	18	3 157 435	10	405 653	8	3 652 913

Procurement processes – general

- 5 awards with a value of R301 140 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- 8 contracts with a value of R6 270 571 were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
- 6 contracts were awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state.

Contract management

- The performance of 4 contractors was not monitored monthly. The total value of related contracts was R2 742 937.

Internal control deficiencies

136. Management do not have sufficient review and monitoring processes in place to ensure that all relevant supply chain management legislation is adhered to.

FRAUD AND CONSEQUENCE MANAGEMENT

137. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
138. No indication of fraud has been detected during the audit engagement.
139. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audit included an assessment of the municipality's management of consequences. The significant findings are provided below:

Failure to properly deal with allegations reported in the prior year

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

Unauthorised/irregular/fruitless and wasteful expenditure

Finding	Value R
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	4 920 943
Unauthorised expenditure was not properly investigated	4 920 943
Unauthorised expenditure was not authorised through an adjustment budget	4 920 943
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if any person was liable for the expenditure	44 588 514
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	43 044

141. Unauthorised, fruitless and wasteful expenditure and irregular expenditure disclosed in notes 57 and, 58 and 59 respectively to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

USE OF CONSULTANTS

142. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.
143. The total expenditure on consultants was R3 761 544.
144. A summary of the significant findings from the audit is as follows:

Planning and appointment process

- Consultants were appointed without a proper needs assessment.

Internal capacity

- Consultants were appointed to perform work of a continuous nature for which permanent capacity is needed and no formal attempts were made to create a position in the establishment.

Transfer of skills

- Requirements for transfer of skills were not included in the terms of reference.
- Conditions or clauses for transfer of skills were not included in the contract.
- Measures to monitor transfer of skills according to the contract were not implemented.
- There was no evidence that skills were transferred or training programmes took place.
- Employees were not identified for training or were not available to attend training.
- Transfer of skills was not evaluated at the end of the consultancy project.

Performance management and monitoring

- Measures to monitor contract performance and delivery were not defined and/or implemented.
- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.
- The consultant's contract did not stipulate deliverables or deliverables stipulated in the contract were not linked to timelines.'
- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.

Internal control deficiencies

- The accounting officer did not establish and communicate a strategy for the use of consultants for implementation by the municipality.
- Management did not ensure that all consultants' contracts are appropriately tailored and monitored to prevent poor performance and that skills are transferred to the municipality's own

officials. Furthermore, the proposals and recommendations that are contained in the consultant's close out report must be considered and implemented.

PUBLIC PARTICIPATION

145. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation.

146. No findings were identified in this regard.

CONDITIONAL GRANTS

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

- Municipal Infrastructure Grant
- Financial Management Grant
- Expanded Public Works Programme

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

Finding	Municipal Infrastructure Grant	Financial Management Grant	Expanded Public Works Programme
The grant was not spent according to the applicable grant framework	Finding identified	No finding identified	No finding identified
The municipality did not evaluate its performance on programmes funded by the grant	Finding identified	No finding identified	No finding identified

149. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants on the projects. No audit findings were identified.

WATER AND SANITATION SERVICES

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

- Planning and budgeting for water and sanitation infrastructure, including, routine maintenance and new infrastructure
- Water quality
- Reporting on water losses
- Key water and sanitation infrastructure projects

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

Water services

Planning and reporting on the provision of water services

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

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of formal residential properties that receive piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019	1338	Yes	No

Planning and budgeting for routine maintenance of new water infrastructure

- A policy on routine maintenance of water infrastructure was not developed.
- No condition assessments of water infrastructure were performed to inform the water infrastructure maintenance plan.
- Standard procedures on the condition assessments of water infrastructure were not established.
- The requirements of the standard procedures were not adhered to in conducting the condition assessments of water infrastructure.
- Specific timeframes and targets were not included in the routine maintenance plan.
- The targets and timeframes as per the routine maintenance plan was not achieved.
- The approved maintenance budget did not include any specific provision for routine maintenance of water infrastructure as per the routine maintenance plan.
- There are no qualified engineers/ technical staff in-house responsible for water infrastructure projects.
- There are insufficient qualified technical staff to conduct the condition assessments and/or meet project needs and/or oversee the work performed by consulting engineers in relation to water infrastructure due to one vacancy in the Infrastructure.
- A list of new water infrastructure projects was not compiled.

Water quality

- No policy was established for the identification and/or monitoring of environmental risks relating to water provision.
- Environmental risks relating to water provision were not identified during the period under review.

Reporting on water losses

- Water losses were incorrectly calculated as a result the water losses disclosed in the financial statements is incorrect.

Sanitation services

Planning and reporting on the provision of sanitation services

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

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of water closets (toilets) and billed for the service as at 30 June 2019.TL8	1 295	Yes	Yes

Planning and budgeting for routine maintenance of and/or new sanitation infrastructure

- A policy on routine maintenance of sanitation infrastructure was not developed.
- No condition assessments of sanitation infrastructure were performed to inform the sanitation infrastructure maintenance plan.
- Standard procedures on the condition assessments of sanitation infrastructure were not established.
- The standard procedures on the condition assessments of sanitation infrastructure did not address
- Specific timeframes and targets were not included in the routine maintenance plan.
- The targets and timeframes as per the routine maintenance plan were not achieved.
- There are no qualified technical staff in-house responsible for sanitation infrastructure projects.
- A list of new sanitation infrastructure projects was not compiled.

Key water and sanitation infrastructure projects

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

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

	Water infrastructure	Sanitation infrastructure
Project name	<i>Southkloof Reservoir to Town Reservoir:New Bulk Water main</i>	<i>Sludge drying beds at Laingsburg WWTW</i>
Planning and budgeting for the project		
Brief description of key project	Water main pipeline from Southkloof	Sludge drying beds at Laingsburg WWTW
Source of funding	MIG Grant funding	WSIG and own funding
Project commenced as planned	2018/02/08	2019/03/04
Project completed within defined duration (applicable if completed)	2019/03/26	2019/07/26
Status of completion (applicable if WIP)	Final	Project still in construction phase and within budget
Available budget for the year	R3 605 992	R2 300 000
Actual amount spent in current year	R3 605 992	R590 857
Total project budget (multi-year) – original / revised	R10 951 296	R2 300 000
Actual amount spent from inception to date	R10 951 296	R1 602 23
Audit finding		
Execution of the project		
Significant overspending or underspending on budget available for the year		
Significant overspending or underspending on total project budget (multi-year)		

	Water infrastructure	Sanitation infrastructure
Project name	<i>Southkloof Reservoir to Town Reservoir: New Bulk Water main</i>	<i>Sludge drying beds at Laingsburg WWTW</i>
Findings on the procurement of goods and services for the project		
Overall quality of the project management was poor or not acceptable		
Findings on consequence management		
Findings on fraud		
Prior year findings not addressed (if applicable)		
Goods and services delivered on project of poor or sub-standard quality		
Findings on commissioning of the completed project		
Findings on accounting for the project (annual financial statements)		
Spending not aligned to stage of completion		
Budget spent but project milestones not achieved		
Findings on grant spending		
Findings on fruitless and wasteful expenditure in relation to the project		
Findings on irregular expenditure incurred on the project		
Infrastructure / facility not utilised for intended purpose		
Infrastructure / facility not utilised at all or under utilised		

- **Green:** No finding identified
- **Red:** Finding identified

SUPPORT TO LOCAL GOVERNMENT

154. The audit included an assessment of the support provided to local government by relevant national and provincial departments. A summary of the significant findings from the audit are as follows:

- MISA's Municipal Infrastructure Performance Management Information System (MIPMIS) was not used to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life cycle of assets at municipal level.
- An asset management information system similar to MISA's Municipal Infrastructure Performance Management Information System (MIPMIS) was not used to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life cycle of assets at municipal level.
- No integrated municipal support plan was developed for Laingsburg Municipality identified as a priority in terms of the national Back to basics support initiative.
- No technical support plan was developed for Laingsburg Municipality for support by the district support team.

SECTION 5: Using the work of internal auditors

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

156. The following reports were used for risk identification:

- Four quarterly audits performed by the internal audit unit on performance management
- Grants

• SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated: GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	1 April 2020
GRAP 35 - <i>Consolidated financial statements</i>	1 April 2020
GRAP 36 - <i>Investments in associates and joint ventures</i>	1 April 2020
GRAP 37 - <i>Joint arrangements</i>	1 April 2020

The ASB has issued the following GRAP pronouncements, with effective dates as indicated: GRAP pronouncement	Effective date
GRAP 38 - <i>Disclosure of interests in other entities</i>	1 April 2020
GRAP 104 - <i>Financial instruments</i> (Revised April 2019)	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 1 <i>Applying the probability test on initial recognition revenue</i> (amendments)	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	1 April 2019
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019
IGRAP 20 <i>Accounting for adjustments to revenue</i>	1 April 2020
Guideline <i>Accounting for arrangements undertaken in terms of the national housing programme</i>	1 April 2019
Guideline <i>Accounting for landfill sites</i>	To be determined
Guideline <i>The application of materiality to financial statements</i>	Voluntary*
* The Guideline on <i>The application of materiality to financial statements</i> was issued in April 2019. The Guideline is available for immediate consideration, to assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. Although the application of the Guideline is voluntary, application is encouraged.	

AUDIT FINDINGS ON MATTERS THAT MAY BE RECOGNISED AS MATERIAL IRREGULARITIES IN FUTURE AUDITS

157. The amendments to the PAA and the Material Irregularities Regulations issued in terms of the PAA became effective on 1 April 2019.
158. The amendments introduce the concept of a material irregularity. As per the definition in the PAA, a material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
159. The AG has a statutory discretion to determine the manner of, and time frames within which to implement certain elements of the amendments. For the 2018-19 audits, the AG opted to apply a phased approach to the handling of material irregularities, which includes implementing the process only at selected auditees.
160. Although Laingsburg Municipality was not selected in this first phase of implementation, we highlight the following significant matters, which came to our attention during the audit, which may be recognised as material irregularities in future when the process is implemented at the municipality. It is reported as audit findings in the annexures to this report.

Asset management

161. An adequate management, accounting and information system which accounts for assets and inventory was not in place, as required by section 63(2) (a) of the MFMA.

Deviating from the competitive bidding procurement processes

162. During the audit of procurement and contract management, it was identified that management always applied deviations as a last resort in the SCM process, as often it resulted from a lack of proper planning and resulted in non-compliance with competitive bidding processes.
163. Markets were not adequately analysed to determine if competitive prices were obtained for good/services, for which management approved the deviations. This also resulted in some suppliers being preferred over other suppliers as mentioned by management when discussing the deviations for legal services, which is indicative that not all user departments applies the deviation procedures appropriately. This may result in financial loss, as the market was not appropriately tested.
164. Management is encouraged to take appropriate, effective and timeous action on these matters to prevent any losses, misuse or harm or to recover any losses as a result thereof. Appropriate steps should also be taken against the responsible officials or other parties.

Revenue management

165. Most of the pre-paid water meters within the municipal area does not function resulting in a loss of revenue for the municipality.
166. These water meters should be replaced as a matter of urgency to ensure that the loss of revenue is minimised.

Expenditure management

167. Management does not have effective internal control processes in place to prevent the re-occurrence of unauthorised -, irregular - and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

RISKS THAT REQUIRE CONTINUOUS MONITORING

SCM Regulation 32

168. The supply chain management regulations issued in terms of the MFMA allows for the accounting officer to procure goods and services for the municipality or municipal entity under a contract secured by another organ of state in terms of regulation 32. However, the procurement must occur whilst the originating contract is enforceable, i.e. active contract, and the nature, scope and duration of the contract must be consistent. Contracts secured through the application of regulation 32 cannot be amended, in terms of section 116(3) of the MFMA, if those amendments change the scope of the original contract. Non-adherence to these principles will be considered for non-compliance.
169. We wish to remind all municipalities of the principles and conditions when participating in contract secured by another organ of state in terms of regulation 32, which are as follows:
- The contract must have been procured through a competitive bidding process (not a deviation).
 - The contract must be active at the time of participation.

- The procuring institution may not procure beyond the scope of the original contract, i.e., the original contract price, term and goods and services must remain unchanged.

Deviations

170. In terms of Municipal Supply Chain Management Regulation 36, an accounting officer may deviate from competitive bidding procurement processes, provided that such deviation is properly approved and justifiable.
171. Our audits at municipalities have brought to light that this regulation is increasingly being used by departments and approved by the accounting officer even though it was not impractical to invite competitive bids. Future audits will continue to focus on evaluating whether the deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons, to confirm that this regulation is not being used to circumvent competitive bidding.
172. The municipality's deviation register reflects that R2,6 million of contracts were concluded during the 2018-19 financial year using deviations (2017-18: R1,1 million), the largest procurement deviations relating to emergency. The municipality is advised to ensure that, where deviations are unavoidable, such cases are properly motivated/justifiable and documented and that the requirements of section 217 of the Constitution of the Republic of South Africa, 1996, i.e. fair, equitable, transparent, competitive and cost-effective, are considered throughout

Bid adjudication committee (BAC) composition

174. MFMA regulation 29(2) states that a BAC must consist of at least four senior managers of the municipality or municipal entity which must include-
 - (i) the chief financial officer (CFO) or, if the CFO is not available, another manager in the budget and treasury office reporting directly to the CFO and designated by the CFO;
 - (ii) at least one senior supply chain management (SCM) practitioner who is an official of the municipality or municipal entity; and
 - (iii) a technical expert in the relevant field who is an official of the municipality or municipal entity, if the municipality or municipal entity has such an expert.
175. Each award should be adjudicated by a committee that is composed in compliance with regulation 29(2).
176. The following principles were confirmed with National Treasury:
 - (i) the senior manager referred to above are managers as envisaged by s56 of the Municipal Systems Act
 - (ii) the senior SCM practitioner does not have to be a manager as envisaged by s56 of the Municipal Systems Act
 - (iii) The CFO cannot fulfil the role of both the CFO and the SCM practitioner
 - (iv) Not any senior manager can fulfil the role of SCM practitioner for purpose of the BAC – the SCM practitioner's daily duties and functions should primarily include SCM functions
 - (v) A voting member of a bid evaluation committee (BEC) cannot also be a member of the BAC. A member of the BEC can be present to provide clarity but may not do work of the BAC i.e. to review the decision of the BAC

177. It is understandable that in some cases, municipalities/municipal entities do not have the staff establishment to have an adequately composed BAC however this does not negate the responsibility of complying with regulation 29(2). We direct municipalities/municipal entities to s170 of the MFMA regarding departures from treasury regulations or conditions.

Material irregularities

178. In terms of section 1(g) of the Public Audit Amendment Act, 2018 (Act No. 5 of 2018) a material irregularity is defined as any *non-compliance* with, or contravention of, legislation, *fraud, theft or a breach of a fiduciary duty* identified during an audit performed under this Act that resulted in or is likely to result in a *material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public*.

179. Accounting officers have a legal obligation to prevent all irregularities and take action if it occurred. The AGSA's focus is only on material irregularities.

180. Accounting officers commit financial misconduct if they:

- wilfully or negligently contravene sections 60 to 76 of the MFMA which deal with their responsibilities
- incur or permit unauthorised, irregular or fruitless and wasteful expenditure misconduct.

181. Officials commit financial misconduct if they wilfully or negligently fail to exercise duty or power assigned by the accounting officer.

182. Financial misconduct must be investigated and appropriate action taken.

183. Auditors will take the following action upon detection of known or suspected material irregularities:

- The accounting officer will be notified without delay of the material irregularity in writing
- The content of the notification and the response required from the accounting officer are prescribed in the material irregularity regulations.
- The notification will provide all the relevant information on the material irregularity and will request written feedback, substantiating documents and other forms of proof within 20 working days that appropriate steps are being taken to:
 - stop the irregularity (if ongoing)
 - prevent any loss, misuse or harm, or recover any losses
 - determine who the responsible person or entity (e.g. supplier or implementing agent) is and take appropriate action

184. The material irregularity will be reported in the audit report. A certificate of debt can be avoided by implementing the directive to quantify the financial loss and take steps to recover the losses.

185. The commencement date agreed with the president is 1 April 2019. For the 2018-19 financial year a phased in approach was implemented on selected auditees only, but the requirements of the Act will be applicable to all auditees for the 2019-20 financial year's audit process.

AUDIT FINDINGS ON THE ANNUAL PERFORMANCE REPORT THAT MAY HAVE AN IMPACT ON THE AUDIT OPINION IN FUTURE

186. The planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the Performance Management Reporting Framework:
- **Presentation and disclosure – Overall presentation:** Overall presentation of the performance information in the annual performance report is comparable and understandable
 - **Relevance – Completeness of relevant indicators:** Completeness of relevant indicators in terms of the mandate of the auditee, including:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review
187. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion(s) of the selected objectives in this report. However, it may impact on the audit opinion in future.
188. No material findings were identified in respect of the additional criteria.

SECTION 7: Ratings of detailed audit findings

189. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- **Matters to be included in the auditor's report:** these matters should be addressed as a matter of urgency.
 - **Other important matters:** these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
 - **Administrative matters:** these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 8: Conclusion

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

Yours faithfully



Ashley Olkers
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29 November 2019

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Chairperson: Audit committee
Head: Internal audit

SECTION 9: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Inventory											
71	No system in place to account for inventory [ComAF 5]	✓					✓			3	Not implemented
Employee related cost											
155	Appointment process – Executive mayor's assistant [ComAF 12]	✓					✓			-	
137	Employee files could not be provided [ComAF 13]	✓						✓		-	
158	Bonuses [ComAF 33]	✓						✓		1	Not implemented
160	Motor vehicle allowance not allowed [ComAF 40]	✓						✓		-	
161	Misstatement of acting allowances [ComAF 41]	✓						✓		-	
162	Internal control deficiencies relating to employee cost [ComAF 52]				✓			✓		1	Not implemented
Payables from exchange transactions											
73	Listing of trade and other payable transactions does not agree to the general ledger [ComAF 17]	✓					✓			1	Not implemented
Fixed assets											
142	Completeness of asset register (Property, plant and equipment [ComAF 19]	✓						✓		1	Not implemented

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
164	Building incorrectly classified as investment property [ComAF 31]	✓						✓		-	
166	Disposal of assets [ComAF 32]			✓				✓		-	
Revenue from non-exchange transactions											
83	Transfer revenue- misstatement of conditional grant [ComAF 54]	✓					✓			1	Not implemented
87	Property rates: Misclassification in the categories disclosed [ComAF 15]	✓					✓			-	
137	Fines withdrawn [ComAF 29]	✓						✓		-	
142	Fines – limitation of scope [ComAF 35]	✓						✓		-	
Revenue from exchange transactions											
89	Water meters showing no movements [ComAF 18]	✓					✓			1	Not implemented
92	Agency fees from motor vehicle registrations [ComAF 42]	✓					✓			1	Not implemented
241	Rental of facilities and equipment [ComAF 16]	✓							✓	-	
146	Internal control deficiencies: Indigent subsidies [ComAF 50]				✓			✓		-	
Statement of comparison of budget and actual amounts											
150	Reasons not disclosed or not adequate [ComAF 30]	✓						✓		-	
Cash flow statement											
153	Misstatements in the calculation [ComAF 38]	✓						✓		-	
Expenditure											

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
76	Misstatement of expenditure: No invoices, incorrect recording of VAT, incorrect cut-off [ComAF 48]	✓					✓			1	Not implemented
169	Overstatement of expenditure due to incorrect allocation [ComAF 37]	✓						✓		1	Not implemented
171	Subsistence and travel expenses [ComAF 49]			✓				✓		-	
Audit of predetermined objectives											
66	Reliability of KPI Provision of infrastructure to deliver improved services to all residents and business [ComAF 53]		✓				✓			1	Not implemented
161	Reliability of Key Performance Indicator: Provision of infrastructure to deliver improved services to all residents and business [ComAF 6]		✓					✓		-	
164	Performance management system [ComAF 1]			✓				✓		1	Not implemented
Non-compliance with legislation											
98	Consequence management – unauthorised expenditure [ComAF 7]			✓			✓			2	Not implemented
100	Consequence management – Irregular and fruitless and wasteful expenditure [ComAF 8]			✓			✓			2	Not implemented
129	AFS, performance and annual reports – Material misstatements identified [ComAF 45]			✓			✓			2	Not implemented

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
131	AFS, performance and annual reports – Oversight report on the final annual report [ComAF 27]			✓			✓			1	Not implemented
193	HR management: Appointment process – debt collector [ComAF 39]			✓				✓		-	
195	HR Management – minimum competencies [ComAF 44]			✓				✓		1	Not implemented
133	Expenditure management –Unauthorised-, irregular- and fruitless and wasteful expenditure was not prevented [ComAF 46]			✓			✓			2	Not implemented
190	Expenditure management – Payments not made within 30 days [ComAF 47]			✓				✓		2	Not implemented
136	Utilisation of conditional grants - Conditional grants [ComAF 51]			✓			✓			1	Not implemented
188	Strategic planning and performance – Adjustment budget not made public [ComAF 2]			✓				✓		1	Not implemented
IT Environment											
176	Internal control deficiencies [ComAF 4]				✓			✓		2	Not implemented
Procurement and contract management											
125	Internal control deficiencies [ComAF 5]							✓		1	Not implemented
102	Non-compliance relating to quotations [ComAF 21]			✓			✓			2	Not implemented
105	Deviation – Reasons not justifiable [ComAF 24]			✓			✓			2	Not implemented

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
118	SCM regulation 32 contracts [ComAF 26]			✓			✓			-	
125	Non-compliance relating to contract management [ComAF 28]			✓			✓			2	Not implemented
Audit committee											
187	Inconsistencies in the information provided by internal audit and duties not performed by the audit committee [ComAF 9]				✓			✓		1	Not implemented
Internal audit											
212	Non-compliance and control deficiencies [ComAF11]			✓				✓		2	Not implemented
215	External assessment not performed on internal audit			✓				✓		1	Not implemented
Cash and cash equivalents											
217	Disclosure of bank accounts [ComAF 14]	✓						✓		-	
Disclosures											
219	Distribution losses [ComAF 20]				✓			✓		1	Not implemented
87	Misstatement of water- and electricity losses [ComAF 56]	✓					✓			-	
221	Contingent liabilities [ComAF 57]	✓						✓		-	
Use of consultants											
201	Internal control deficiencies identified [ComAF 22]				✓			✓		1	Not implemented
Value Added Tax (VAT)											
204	Misstatement of VAT receivable [ComAF 23]	✓						✓		2	Not implemented

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Provisions											
230	Insurance Workmen's Compensation Act [ComAF 25]	✓						✓		-	
Receivables from non-exchange transactions											
232	Other receivables incorrectly classified [ComAF 34]	✓						✓		-	
Control deficiencies in the overall control environment											
234	Fraud prevention plan outdated [ComAF 36]				✓			✓		1	Not implemented
236	No delegations exist [ComAF 43]			✓				✓		-	
Sector audit											
238	Water and sanitation [ComAF 55]			✓				✓		1	Not implemented
240	Support to Local Government [ComAF 58]			✓				✓		1	Not implemented

Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Inventory

1. No inventory management system in place (CoMAF 5)

Audit finding

Section 62(1)(b) and (1)(c) of the Municipal Finance Management Act, No 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 -
(b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards”
(c) that the municipality has and maintains an effective, efficient and transparent systems –
(i) of financial and risk management and internal control, and
(ii) of internal audit operating in accordance with any prescribed norms and standards”.

The municipality has not implemented an inventory management system to account for the acquisition and issuance of inventory items throughout the period under review, but rather performs and relies on a year-end inventory count to determine the inventory items at hand at 30 June 2019. The replacement cost for inventory items were obtained by management at year-end in order to assign a value to the inventory items.

However, since the municipality does not have any records to reflect the movements (acquisitions and items issued) of the inventory, the inventory that should have been at hand year-end could not be determined.

Therefore, there is a limitation of scope and no opinion can be expressed on the inventory amounting to R888 956 at 30 June 2019 as disclosed in the Statement of Financial Position as well as the inventory consumed of R2 266 844 as disclosed in the Statement of Financial Performance.

Internal control deficiency

Leadership -

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

Due to capacity constraints within the finance section, management was not able to implement the inventory functionality of the financial system.

Recommendation

Management should ensure that the finance section is adequately staffed so that inventory management system can be implemented.

Management response

Management comment on audit finding		
<i>Management agrees with the audit finding</i>		
Management comment on internal control deficiencies		
<i>Management agrees with the internal control deficiencies</i>		
Management comment on recommendation		
<i>Management is in the process to implement an inventory management system to facilitate the tracking and monitoring of movements of inventory, which would enable management to correctly assign cost to inventory.</i>		
Remedial action		
	By whom GS BOTHMA	By when 31 December 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
N/A		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Since management agrees with the finding that there is no system in place to account for inventory, the matter will be reported in the auditor's report.

Trade and other payables

2. Listing of trade and other payables from exchange transactions does not agree to the general ledger (CoMAF 17)

Audit Finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- a) that the resources of the municipality are used effectively, efficiently and economically;*
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- c) that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which:

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

1. Trade payables

Included under trade and other payables at year-end is payables and accruals to the amount of R6 511 784 as disclosed in note 20 to the financial statements. The supporting schedule for the payable and accruals that was provided for audit purposes however differed as follows from the payables and accruals according to the financial statements:

Payables and accruals according to the financial statements	R6 511 784
Payables and accruals according to supporting schedule	<u>R3 089 543</u>
Difference	<u>R3 422 241</u>

No evidence could be provided for the difference of R3 422 241.

2. Advance payments

Included under advance payments of R618 918 at 30 June 2019 is the following suspense account that was not cleared at year-end:

<u>Account no.</u>	<u>Account name</u>	<u>Amount</u>
655353022400	Debtors annual payments	(R320 263)

An inspection of the general ledger account and subsequent discussion with management revealed that a journal entry was processed twice in order to clear the suspense account, resulting in this account being overstated with R320 263 (journal entries AJ256 and AJ258 refers).

In addition, the following account, which is also disclosed under advance payments, related to a lease in respect of Soutkloof, which already ended on 30 June 2016:

<u>Account no.</u>	<u>Account name</u>	<u>Amount</u>
655252012400	Debtors – Rent Soutkloof	(R29 699)

Therefore, advance payments included under trade and other payables are overstated with R349 962 in total.

Trade and other payables of R8 823 682 as disclosed in the Statement of Financial Position is therefore overstated with R3 722 203

Internal control deficiency

Financial and performance management -

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The trade payables general ledger account is not reconciled to the supporting documents on a monthly basis.

In addition, management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

Management should implement procedures to ensure that trade payables are reconciled on a monthly basis.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Furthermore, the necessary corrections need to made to the general ledger accounts and the financial statements needs to be adjusted accordingly.

Management response

Management comment on audit finding In agreement Adjustment will be done.
Management comment on internal control deficiencies In agreement
Management comment on recommendation In agreement

Remedial action			
	By whom	By when	
1. Timely review of annual financial statements before submission to Auditor-General;	A Groenewald	30 August 2020	
2. Correction and adjustments to the general ledger and financial statements;	G Bothma	19 November 2019	
If the above finding affects an amount(s) disclosed in the financial statements:			
Please give an indication of whether a correcting journal entry shall be processed		YES	NO
If yes, please indicate the accounting entry			
If no, please provide the reason why such a conclusion has been reached			

Auditor's conclusion

Management's comments are noted. The adjusted financial statements were inspected and it was found that management had not made the correction in respect of payables and accruals to the amount of R3 422 241. Therefore is matter will be reported in the management report under matters affecting the audit report.

Expenditure

3. Misstatement of expenditure: No invoices, incorrect recording of VAT, incorrect cut-off (CoMAF 48)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- a) that the resources of the municipality are used effectively, efficiently and economically;*
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA further states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which:

- 1) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year and disclose the information required in terms of sections 123, 124 and 125...*
- 2) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91 (1) (b) of the Public Finance Management Act.”*

1. Accuracy of Expenditure

During a sample test of 106 expenditure items, it was found that 14 transactions were recorded in the expenditure accounts inclusive of VAT. This resulted in an overstatement of expenditure. The projected overstatement is R276 020 and was calculated as follows:

Population	R23 914 214
Sample	R 1 659 054
Error	R 19 149
Projection	R 276 020

ALLOCATION	DESCRIPTION	AMOUNT	EFFECTICE DATE	LINK NUMBER	Difference
633232578600	AAA PAINTS CC	R 9 200,00	22/05/2019	100088572	R 1 200,00
633232578600	CHURCH STREET LODGE	R 3 960,00	05/09/2018	100078983	R 516,54
633232578600	SPECIALIST SYSTEM ENGINEERING (PTY) LTD	R27 347,00	25/04/2019	100087566	R 3 567,00
633232578600	AURECON	R61 801,82	31/01/2019	100084621	R 8 061,11
633232578600	Point Village Hotel	R 7 300,00	13/07/2018	100076997	R 952,18
633232578600	AURECON	R65 166,00	29/08/2018	100078833	R 8 499,91
633232578600	BOLAND SKRYFBEHOEFTE BK	R 7 635,00	12/09/2018	100079146	R 995,87
633232578600	JUTA AND COMPANY LTD	R 490,60	05/04/2019	100087006	R 63,98
633232578600	SA POSKANTOOR LAINGSBURG	R 309,85	26/06/2019	100089945	R 47,57
633232578600	BOLAND KANTOORTOERUSTING CC	R 7 263,60	28/01/2019	100084403	R 947,42
633232578600	BOLAND SKRYFBEHOEFTE BK	R 725,60	13/03/2019	100085975	R 94,64
633232578600	BOLAND SKRYFBEHOEFTE BK	R 725,60	13/03/2019	100085975	-R 6 900,23
633232578600	BOLAND KANTOORTOERUSTING CC	R 7 496,25	11/06/2019	100089292	R 977,77
633232578600	WILNA ROUX PROKUREURS	R 1 399,33	02/04/2019	100086936	R 126,00

2. Occurrence of Expenditure

During the testing of expenditure, the following payments to PFP van Eeden Elektries were identified that were made in respect of maintenance of property that is not owned by the municipality. These payments made were not in accordance with the mandate of the municipality and could have been avoided had reasonable care been taken:

Description	Amount	Effective date	Reason
ACC#19 6de laan 1 na ure uitroep - Lig skiet vlamme	R 790,00	15/08/2018	Restore lights at 1 Sixth Lane
ACC#19 Orionstr 29 - Plug in kombuis foutief, Kamerlig skiet	R 370,00	19/03/2019	Inspection at 29 Orion Street
ACC#19 Rivierstraat 95 - Elektriese fout	R 370,00	19/03/2019	Inspection at 95 River Street

Description	Amount	Effective date	Reason
ACC#19 Wolliebronghorst straat (huis op bult) - Krag problem	R 1 500,00	19/03/2019	Test and replace earth fault at Wolliebronghorst Street
ACC#19 Orionstraat 36 - Kombuis kragproppe werk nie, gloeilampe blaas	R 800,00	29/04/2019	Repair power plug and lights at 36 Orion Street
ACC#19 Melkweg 6 - Lig fittings smelt	R 1 090,00	29/04/2019	Restore lights at 6 Melkweg
ACC#19 Orionstr 29 - Plugs foutief	R 805,00	29/04/2019	Repair power plug and light at 29 Orion Street
ACC#19 Plutostr 29 - kragprop en lig foutief	R 810,00	30/05/2019	Repair power plug and light at 29 Pluto Street
ACC#19 Orionstraat 24 - Kamer en badkamer bulbs blaas	R 790,00	30/05/2019	Restore lights at 24 Orion Street
ACC#19 Uranus 28 Lig fittings gebrand	R 750,00	20/06/2019	Restore lights at 28 Uranus
ACC#19 Melkweg 36 - Lig skakelaar foutief	R 455,00	20/06/2019	Replace switch at 36 Melkweg Street
ACC#19 Pluto 16: Vervang ligskakelaar en kragprop	R 840,00	20/06/2019	Replace two switches and power plug at 16 Pluto Street

As a result, the expenditure in this regard to the value of R24 085 is regarded as fruitless and wasteful expenditure.

3. Accuracy of Expenses

During the testing of 54 expenditure items in respect of contracted services, inventory consumed and transfers and subsidies, various discrepancies resulted in us being unable to verify the occurrence and accuracy of the following payments made:

Reference	Supplier	Discrepancy	Description	Recording of invoice amount
45180	M Gouws	This relates to the purchase of a coffin. There is however no invoice attached to the payment and the cheque was made out to councillor M Gouws.	Coffin	R 2 500,00

Reference	Supplier	Discrepancy	Description	Recording of invoice amount
1810-057	DR OJ Van Heerdan	No invoice attached to the payment	Tetanus Entstof	R 4 000,00
45786	Mr Raymond Walter	No invoice or calculation attached to the payment.	Committee meeting	R 810,00
149999	Autacs Signs	Difference between invoice and general ledger	ID Cards	R 36,63
45448	F Jansen	No invoice attached to the payment	December holiday programme	R 2 000,00
BS476	Nashua/Toshiba	No invoice attached to the payment	Bank charges	R 21 406,36
45138	Koup Produsente Kooperasie Beperk	No invoice attached to the payment	Boukalk, Gluex, Cement, Loan	R 268,32
				R31 021,31

This resulted in a projected misstatement of R268 509 which was calculated as follows:

Population	R12 138 396
Sample	R 1 402 367
Error	R 31 021
Projection	R 268 509

4. Accuracy of Expenses

During the testing of operational expenditure as per note 45 to the financial statements, the following discrepancies were identified:

- Included under professional bodies, membership and subscriptions of R1 295 562 are payments to the amount of R842 550 which related to financial years prior to 2017/18. Operational expenditure (professional bodies, membership and subscriptions) and accumulated surplus are therefore overstated with R842 550.
- Included under communication of R2 363 854 is an amount of R418 809 which relates to the prior year closing balance of other receivables under receivables from non-exchange transactions. During the compilation of the financial statements, it appears that this line item was incorrectly mapped to operating expenditure (communications) and therefore operational expenditure is overstated by a further R418 809 while Receivables from non-exchange transactions is under with the same amount.
- During the testing of a sample of 52 operational expenditure items, the following discrepancies were identified:

Beneficiary	Payment no.	Amount of discrepancy R	Date	Discrepancy
Stadstesourier: Kleinkas	45669	59,35	29/05/2019	The expenditure was recorded inclusive of VAT.

Beneficiary	Payment no.	Amount of discrepancy R	Date	Discrepancy
Travelstart	1809-059	638,52	27/09/2019	The expenditure was recorded inclusive of VAT.
Spark and Ellis	339085	591,00	21/01/2019	The expenditure was recorded inclusive of VAT.
B van As	45753	13 000,00	06/06/2019	No invoice is attached to this payment, only a request for funds to be spend on certain projects in ward 1. In addition the cheque was made out to councilor van As and not to the suppliers from whom the goods and/or services were procured.
B van As	45311	1 850,00	11/10/2018	No invoice is attached to this payment but only a request from the councilor to the CFO for a donation of R500 to the SAPD and R1 350 to a dance group. In addition, the cheque was made out to councilor van As and not to the 2 beneficiaries.
B van As	45236	1 400,00	06/09/2019	No invoice is attached to the payment but only a request from the councilor for R1 400 to buy cleaning supplies and blinds. In addition the cheque was made out to councilor van As and not to the suppliers from

Beneficiary	Payment no.	Amount of discrepancy R	Date	Discrepancy
				whom the goods and/or services were procured.
B van As	45112	1 000,00	16/07/2018	No invoice is attached to the payment but only a request from the councilor for R1 000 to buy ingredients for a soup kitchen. In addition the cheque was made out to councilor van As and not to the suppliers from whom the goods and/or services were procured.
L Potgieter	45709	1 500,00	14/05/2019	No invoice is attached to the payment, but only a letter from the councilor to pay R1 500 to Donald Duck Creche for purchases. In addition, the cheque was made out to councilor Potgieter and not to the suppliers from whom the goods and/or services were procured.
L Potgieter	45138	5 807,35	31/07/2018	No invoice or any supporting documentation is attached to this payment.
M Gouws	45718	2 000,00	17/05/2019	No invoice is attached to this payment, but only a letter from the councilor requesting a donation of R2 000,00 to a rugby club. The

Beneficiary	Payment no.	Amount of discrepancy R	Date	Discrepancy
				cheque was however made out to councilor Gouws and not the rugby club.
Me S Gouws	45133	4 870,00	25/07/2018	No invoice or any supporting documentation is attached to this payment.

This resulted in a projected misstatement of R451 185 which was calculated as follows:

Population	R11 775 820
Sample	R 853 884
Error	R 32 716
Projection	R 451 185

This results in a material misstatement and will be reported in the management report and audit report.

Internal control deficiency

Financial and performance management –

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

Payments are not properly reviewed against the supporting documentation before it is approved for payment.

Recommendation

Management should implement processes and procedures to ensure the payments are adequately reviewed and correctly allocated before it being approved for payment.

In addition, the populations should be inspected in respect of the findings above where projections were made and the financial statements should be adjusted accordingly.

Management response

No management response has yet been received.

Auditor's conclusion

With the exception of the amount of R418 809 which was reclassified to receivables from non-exchange transactions in the adjusted financial statements, no further adjustments were made to the financial statements. Since the amounts are material in aggregate the matter will be reported in the management report under matters affecting the audit report.

Revenue from non-exchange transactions

4. Transfer revenue - Misstatement of unspent conditional grants (CoMAF 54)

Audit Finding

The South African Standards of Generally Recognised Accounting Practice (GRAP) 1: Presentation of financial statements, paragraph 17 states:

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

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which:

- 1) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year and disclose the information required in terms of sections 123, 124 and 125...*
- 2) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91 (1) (b) of the Public Finance Management Act.”*

1. During the audit of grants, the following misstatements were identified in respect of note 35 to the financial statements where the revenue recognised does not agree with the sub-disclosures in the same note. Refer to the table below for detail:

	Note 35	Breakdown of note 35	Difference
Operating grants			
Department of Water Affairs	143 750,00	-	143 750,00
Equitable share	15 000 000,00	15 000 000,00	-
Financial Management Grant	2 394 903,00	352 310,00	2 042 593,00
Financial Management Support Grant	47 783,00	-	47 783,00
Local Government Graduate Internship Grant	-	54 903,00	54 903,00
Department of Culture and Sport (Library)	1 260 000,00	-	1 260 000,00
Provincial: Municipal Finance Improvement Programme	-	1 533 934,00	1 533 934,00
Provincial: Sub Seta	39 795,00	-	39 795,00
Western Cape Financial Management Capacity Grant	1 577 294,00	-	1 577 294,00
Human Settlement Grant	-	198 000,00	198 000,00

	Note 35	Breakdown of note 35	Difference
Overberg Water war on Leaks	-	165 370,00	165 370,00
Municipal Electrical Master Plan	-	153 750,00	153 750,00
Capital Grants			
Integrated national Electrification Programme	2 156 790,00	2 000 000,00	156 790,00
Municipal Infrastructure Grant (MIG)	17 111 098,00	16 594 944,00	516 154,00
			7 890 116,00

2. Furthermore, the closing balances of the respective unspent grants as per the prior year audited financial statements does not agree to the opening balances of the unspent grants as per the breakdown of note 35 of the current year financial statements. Refer to the table below for detail:

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Local Government Graduate Internship Grant	54 903,00	103 713,00	48 810,00
	54 903,00	103 713,00	48 810,00

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Department of Water Affairs	0	336 146,00	336 146,00
	0	336 146,00	336 146,00

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Municipal Drought Support	0	7 800 000,00	7 800 000,00
	0	7 800 000,00	7 800 000,00

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Western Cape Financial Management Capacity	0	120 000,00	120 000,00
	0	120 000,00	120 000,00

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Municipal Infrastructure Grant	8 420 248,00	1 120 248,00	7 300 000,00
	8 420 248,00	1 120 248,00	7 300 000,00

	Opening balance as per current year AFS	Closing balance from the prior year	Difference
Municipal Electrical Master Plan	153 750,00	250 000,00	96 250,00
	153 750,00	250 000,00	96 250,00

3. Upon inspection of notes 18 and 35 to the financial statements it was found that the revenue recognised in respect of government grants and subsidies differed as follows:

	Note 18	Note 35	Difference
Revenue recognised	R 40 234 517,00	R 40 731 413,00	R496 896,00

4. During the testing of the Municipal Infrastructure Grant (MIG) grant it was found that revenue of R17 111 098 was recognised during the financial year under review as disclosed in note 35 to the financial statements. Supporting documentation could however only be provided for expenditure (and resultant revenue) to the value of R6 588 000. Therefore, the expenditure and resultant revenue recognised in respect of MIG is overstated by R10 523 098.
5. Upon inspection of note 35 to the financial statements it was found that the municipality incurred expenditure of R143 750 in respect of Department of Water Affairs grant. An inspection of the supporting documentation for journal AJ 271 however revealed that the amount of R143 750 was spent in respect of Integrated National Electrification Programme (INEP) grant. The INEP grant is therefore understated with R143 750 in the note 35 to the financial statements and the DWA grant is overstated with the same amount.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor-general.

Recommendation

Note 35 to the financial statements should be adjusted in accordance with the source documentation. In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

Management comment on audit finding		
<i>Management agrees with the finding.</i>		
Management comment on internal control deficiencies		
<i>Management agrees with internal control deficiencies</i>		
Management comment on recommendation		
<i>Management noted the Auditor-General's recommendation.</i>		
Remedial action		
<i>Note 35 to the financial statements will be adjusted.</i>	By whom CFO	By when Finalisation of AFS
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		
<i>Note 35 to the financial statements will be adjusted.</i>		

Auditor's conclusion

Through inspection of the adjusted financial statements it was confirmed that note 35 to the financial statements was corrected. However, no evidence could still be provided for MIG expenditure to the amount of R10 523 098. Since the amount for which no evidence could be provided is material, the matter will be reported in the management report under matters affecting the audit report.

5. Property rates: Misclassification in the categories disclosed (CoMAF 15)

Audit Finding

The South African Standards of Generally Recognised Accounting Practice (GRAP) 1: Presentation of financial statements, paragraph 17 states:

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

During the audit of property rates, the following misstatements were identified in respect note 33 to the financial statements:

Detail	Amount disclosed in note 33 to the AFS R	Amount according to the debtor sub-ledger R	Difference R
Agriculture	-	2 067 680	2 067 680
Business	598 594	598 594	-
Industrial	17	17	-
Municipal	344 643	344 643	-
Public benefit organisations	110 657	148 705	38 048
Public service infrastructure	174	248	74
Residential	1 170 508	856 415	-314 093
State-owned	744 517	744 517	-
Less: Revenue forgone	941 323	-850 385	- 1 797 708
Total	3 910 433	3 910 433	-

Consequently, the above categories are materially misstated.

Internal control deficiency

Financial and performance management –

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

Note 33 to the financial statements should be adjusted in accordance with the source documentation.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

Management comment on audit finding		
In agreement		
Management comment on internal control deficiencies		
In agreement		
Management comment on recommendation		
In agreement		
Remedial action		
1. Adjust Disclosure note 33 in the financial statements in accordance with the source documentation.	By whom G Bothma	By when 19 November 2019
2. Allow for adequate time for financial statements review before submission to the Auditor-General.	A Groenwald	30 August 2020
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO X
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		
Only amendment of Note 33 to the financial statements		

Auditor's conclusion

The adjusted financial statements were inspected and it was confirmed that the necessary corrections were made. Since management had to adjust the financial statements the matter will be reported in the management report under matters affecting the audit report..

Revenue from exchange transactions

6. Revenue: Water meters showing no movement (CoMAF 18)

Audit finding

Issue 1: Conventional meters

During an inspection of the meter reading books, the following consumers were identified whose water meter readings did not show any movement for certain months during the financial year under review:

No	Account number	Consumer	Number of months that meter showed no movement
1	130016360011	Sit en Rus Karavaanpark	12 months
2	180000340019	Theunissen C	6 months
3	120030020019	Huis Karoo	12 months
4	120035180015	Oosthuizen C J	12 months
5	120031480014	Pep Stores – Laingsburg	12 months
6	120001290023	Delport M	12 months
7	120014000028	Fortuin E	12 months
8	130016220025	Scheepers Cupido	12 months
9	140014760012	Bourbon Leftley J	12 months
10	140014940018	Theron A C P	6 months
11	130017630032	Cell Phone Plek	12 months
12	280001440012	Lottering Ann	12 months
13	130035250014	Van Der Merwe CM	12 months
14	280001460010	Bobbejee Adam	12 months
15	130004470010	Standard Bank	12 months
16	130030500015	Department of Public Works	10 months
17	130030630019	Bottelstoor	8 months

According to paragraph 18 of the municipality's Water Supply By-laws, the quantity of water consumed during the period when a meter was out of order, is calculated based on the average consumption during the preceding three months of the nearest unbroken period of three months before or after the period the meter was out of order. The determination of this uninterrupted period rests entirely with the chief financial officer.

However, it was found that no such average water consumption was calculated for the consumers listed above and consequently these consumers were not charged for water consumption for the periods indicated above.

This will not only result in a loss of revenue for the municipality, but will also have a negative impact on the municipality's water distribution losses.

It should be noted that these water meters also showed no movement during the 2017/18 financial year and that the matter was raised during the prior year audit per COMAF 18 of 2018. Management has not yet inspected the whole population in order to determine the revenue that needs to be raised in respect of the affected consumers (2017/18 and 2018/19 financial years).

Issue 2: Pre-paid water meters

An inspection of the financial statements revealed that the municipality suffered a significant water loss of 63,48% (2017/18: 61,36%) during the 2018/19 financial year. Further scrutiny of the calculation of the water losses found that the municipality had 859 pre-paid water meters and that

the revenue received from the sale of pre-paid water amounted to R6 148 (2017/18: R4 284) for the financial year under review which equals to 1 593 kilolitres (2017/18: 1 153 kilolitres). Based on the water loss calculations, the water consumed at the 2 residential areas where the meters were installed during the 2018/19 financial year, were as follows:

<u>Residential area</u>	<u>Kilolitres (kl)</u>
Goldnerville	106 661
Bergsig	<u>82 410</u>
TOTAL	<u>189 071</u>

According to council's approved tariffs, the first 6 kilolitres consumed per household are free. If it is assumed that all households used 6 kilolitres water during the financial year under review, council has suffered the following loss of revenue:

Kilolitres consumed according to the bulk water meter readings	189 071
Less: Kilolitres sold	1 593
Less: First 6 kilolitres free (859 x 6 x 12)	<u>61 848</u>
Kilolitres not accounted for	<u>125 630</u>
Estimated loss based on the approved tariff of R3,86/kl	R484 931

In addition this will also result in material non-compliance with section 64(2)(b) of the MFMA since revenue due to the municipality was not calculated on a monthly basis.

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

Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Conventional water meters - Although exception reports, indicating water meters that showed no movements during a month, are submitted to management on a monthly basis, management neglected to take the necessary steps to ensure that the average water consumption was calculated for the affected consumers.

Pre-paid water meters – Over time the batteries of the water meters diminished which resulted in the valves of some of the meters remaining open at the time when the meter stopped functioning. In these cases, the water flow did not stop when the credit on the meter ran out.

In cases where the valves were closed at the time when the battery diminished, the meters were removed and not replaced with another meter.

Recommendation

Conventional meters – The meters identified in the exception reports should be replaced and the amount of the loss of revenue based on the full population should be calculated and the financial statements adjusted to recognise the additional revenue.

Pre-paid meters – All pre-paid water meters should be inspected and those not working should be replaced as a matter of urgency to limit the loss of revenue.

Management response

No management response has yet been received.

Auditor's conclusion

Since no management response has yet been received the matter will be reported in the management report under matters affecting the audit report..

7. Agency fees from Motor Vehicle Registrations (CoMAF 42)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- a) that the resources of the municipality are used effectively, efficiently and economically;*
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- c) that the municipality has and maintains effective, efficient and transparent systems—*
 - (i) of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA further states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which:

- 1) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year and disclose the information required in terms of sections 123, 124 and 125...*
- 2) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91 (1) (b) of the Public Finance Management Act.”*

GRAP 109, *Accounting by Principals and Agents*, states:

- 5) An **agent** is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.*

*A **principal** is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.*

*A **principal-agent arrangement** results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).*

- 25) An **entity is an agent** when, in relation to transactions with third parties, all three of the following criteria are present, except as outlined in paragraph .26:*
 - (a) It does not have the power to determine the significant terms and conditions of the transaction.*
 - (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.*
 - (c) It is not exposed to variability in the results of the transaction.*
- 43) An **agent recognises only** that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.*

- 45) *Conversely, when an entity is an agent, it would not recognise revenue and expenses resulting from those transactions with third parties. It only recognises the revenue and expenses associated with undertaking the transactions on behalf of the principal.*

It was identified that the municipality recognises all motor vehicle registration fees collected on behalf of the Department of Transport and Public Works (DTPW) as revenue (note 27 to the financial statements) as well as all the amounts paid over to the DTPW (note 45 to the financial statements) in the Statement of Financial Performance.

The above treatment of revenue collected on behalf of the Department of Transport and Public Works (Principal) and expenditure is incorrect as per paragraph 43 of GRAP 109. The amount collected on behalf of the principal is required to be disclosed separately in the notes of the financial statements. The agent (Laingsburg Municipality) is permitted to only recognise the revenue and expenses associated with undertaking the process of collection of the motor vehicle registration fees on behalf of the principal, therefore only the commission.

Revenue and expenses is therefore overstated by R956,822.06 and is calculated as follows:

Description of account	Amount R
Revenue from licenses and permits (exchange)	1 333 865, 35
Municipal income	226 195,00
Agency fees	150 848,29
Overstatement	956 822,06

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor-general.

Recommendation

Notes 27 and 45 of the financial statements should be updated to reflect the actual amounts collected as commission.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

Management comment on audit finding

Management agrees with the finding.

Management comment on internal control deficiencies		
<i>Management agrees with internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management noted the Auditor-General's recommendation.</i>		
Remedial action		
<i>Notes 27 and 45 of the financial statements will be updated.</i>	By whom CFO	By when Finalisation of AFS
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed. N/A	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached.		
<i>Accounts will be remapped.</i>		

Auditor's conclusion

The adjusted financial statements were inspected and it was confirmed that the necessary corrections were made. Since management had to adjust the financial statements the matter will be reported in the management report under matters affecting the audit report..

Disclosure

8. Misstatement of water- and electricity losses (CoMAF 56)

Audit finding

During a recalculation of the water and electricity losses the following differences were identified:

Detail	Calculation as provided in the audit file and disclosed in the financial statements	Recalculation	Difference
WATER LOSSES			
Total expenditure	1 817 625,95	5 888 685,11	(4 071 059,16)
Total water (kl) available	638 445,10	638 446,10	(1,00)
Cost of water per kl	2,85	9,22	(6,38)
Total water (kl) sold	233 182,00	233 183,00	(1,00)
Water lost in kl	405 263,10	405 263,10	-
Value of water lost	1 153 766,75	3 737 929,92	(2 584 163,18)
ELECTRICITY LOSSES			
Total expenditure	13 369 045,10	12 569 129,75	799 915,35
Total electricity available	7 344 143,00	7 344 143,00	-
Cost of electricity per Kw	1,82	1,71	0,11
Total water(KL) sold	6 524 976,00	6 524 976,00	-
Electricity lost in Kw	819 167,00	819 167,00	-
Value of electricity lost	1 491 185,64	1 401 962,94	89 222,70

The water and electricity losses as disclosed in note 59 to the financial statements are materially misstated.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The final figures were not used in the calculation of water and electricity losses.

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor-General.

Recommendation

Note 59 to the financial statements should be adjusted to agree with the final amounts. In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

No management response has yet been received.

Auditor's conclusion

Although no management response was received the necessary adjustments were made to the financial statement and found to be in order. Since management had to make material adjustments to the financial statements the matter is seen as material non-compliance with section 122 of the MFMA and the matter will therefore be reported in the management report under matters affecting the audit report.

Predetermined objectives

9. Reliability Key Performance Indicator (KPI): Provision of infrastructure to deliver improved services to all residents and business (CoMAF 53)

Audit finding

During the audit of the adjusted annual performance report, we identified the following instance where the actual performance reported does not agree with the supporting documents provided for audit purposes.

TL7: Number of formal residential properties that received piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019.

Upon inspection of the supporting documents provided for audit purposes it was found that the actual performance reported of 1 338 includes 518 pre-paid water meters. According to the KPI and the unit of measurement pre-paid water meters are not to be included in this figure.

Therefore, the actual performance reported in respect of this KPI is overstated by 518.

Internal control deficiency

Financial and performance management –

Prepare regular and accurate performance reports that are supported and evidenced by reliable information.

Management did not have effective review procedures in place to ensure that accurate and reliable information is provided in the APR.

Recommendations

Management should review the Annual Performance Report before the report is submitted for audit purposes.

Management should ensure that the information that is reported in the APR agrees to the source documents that they used to prepare the APR and that the information is valid and accurate.

Management response

No management response has yet been received.

Auditor's conclusion

Since no management response has yet been received, the matter will be reported in the management report under matters affecting the audit report.

Compliance – Consequence management

10. Unauthorised expenditure has not been investigated (CoMAF 7)

Audit finding

Section 32(2)(a) of the Municipal Finance Management Act (MFMA) requires a municipality to recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure –

In the case of unauthorised expenditure, is –

- a) authorised in an adjustments budget; or
- b) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and ...

Upon procedures performed in respect of the unauthorised expenditure incurred and reported in prior years, no evidence could be provided for audit purposes that the prior years' unauthorised expenditure have been investigated to determine if any person is liable for the expenditure, as required by section 32(2) of the MFMA.

This results in material non-compliance with section 32(2)(a) which will be reported in the auditor's report.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

The MPAC who was responsible to perform these investigations did not meet during the 2017/18 financial year and only met once during the 2018/19 financial year and since there was not a quorum present at the 2018/19 meeting none of the matters on the agenda could be dealt with.

Recommendation

Management should implement processes and procedures to ensure that timelines are set to deal with the investigation of unauthorised expenditure in a prompt manner.

Furthermore, the prior years' expenditure not yet dealt with, should be investigated promptly in order to determine if any person is liable for the expenditure as required by section 32(2)(a) of the MFMA.

Management response

Management comment on audit finding

In agreement

Management comment on internal control deficiencies

In agreement

However, Council still undergo training as to how the MPAC can be effectively formulated with the best suitable chairperson of the Council's choice. Assist has been requested in this regard from SALGA: Western Cape and WC: Department for Local Government to assist in the clarification of the composition, role and responsibilities and duties of the MPAC.

A new Councilor has replaced Cllr. B Kleinbooï (who was a member of MPAC) who had to be inducted and trained on matters regarding to MPAC.

Management comment on recommendation

Council adopted and approved a Section 32 Committee for investigation purposes. Training and, or workshop was done for Councilors on the difference between MPAC and Section 32 Committee, through SALGA: Western Cape and WC: Department for Local Government

Remedial action

	By whom	By when
1. Review the Terms of Reference for MPAC;	Council	28 November 2019
1.1 Finalise the duties MPAC will cover for Laingsburg Municipality;	Council	28 November 2019
2. Review the Terms of Reference for Section 32 Committee;	Council	28 November 2019
2.1 Finalise the composition of the Section 32 Committee;	Council	28 November 2019
4. Refer matters to Section 32 Committee for investigation;	Council	30 January 2020

If the above finding affects an amount(s) disclosed in the financial statements:

Please give an indication of whether a correcting journal entry shall be processed

YES

NO

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

The matter is material non-compliance and will therefore be reported in the management report under matter affecting the audit report.

11. Irregular and Fruitless and wasteful expenditure has not been investigated (CoMAF 8)

Audit finding

Section 32(2) of the Municipal Finance Management Act (MFMA) requires a municipality to recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure –

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

During procedures performed in respect of irregular and fruitless and wasteful expenditure incurred in the prior years, no evidence could however be provided for audit purposes that the irregular and fruitless and wasteful expenditure have been investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

This results in material non-compliance with section 32(2)(b) which will be reported in the auditor's report.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

The MPAC who was responsible to perform these investigations did not meet during the 2017/18 financial year and only met once during the 2018/19 financial year and since there was not a quorum present at the 2018/19 meeting none of the matters on the agenda could be dealt with.

Recommendation

Management should implement processes and procedures to ensure that timelines are set to deal with the investigation of irregular and fruitless and wasteful expenditure in a prompt manner.

Furthermore, irregular and fruitless and wasteful should be investigated promptly in order to determine if any person is liable for the expenditure as required by section 32(2)(b) of the MFMA.

Management response

Management comment on audit finding

In agreement

Management comment on internal control deficiencies

In agreement. However, Council still undergo training as to how the MPAC can be effectively formulated with the best suitable chairperson of the Council's choice. Assist has been requested in this regard from SALGA: Western Cape and WC: Department for Local Government to assist in the clarification of the composition, role and responsibilities and duties of the MPAC.

A new Councilor has replaced Cllr. B Kleinbooï (who was a member of MPAC) who had to be inducted and trained on matters regarding to MPAC.

Management comment on recommendation

Council adopted and approved a Section 32 Committee for investigation purposes. Training and, or workshop was done for Councilors on the difference between MPAC and Section 32 Committee, through SALGA: Western Cape and WC: Department for Local Government

Remedial action

	By whom	By when
1. Review the Terms of Reference for MPAC;	Council	28 November 2019
1.1 Finalise the duties MPAC will cover for Laingsburg Municipality;	Council	28 November 2019
2. Review the Terms of Reference for Section 32 Committee;	Council	28 November 2019
2.1 Finalise the composition of the Section 32 Committee;	Council	28 November 2019
4. Refer matters to Section 32 Committee for investigation;	Council	30 January 2020

If the above finding affects an amount(s) disclosed in the financial statements:

Please give an indication of whether a correcting journal entry shall be processed

YES

NO

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

The matter is material non-compliance and will therefore be reported in the management report under matter affecting the audit report.

Procurement and contract management

12. Non-compliance relating to quotations (CoMAF 21)

Audit Finding

Paragraph 17(1)(c) of the Supply Chain Management (SCM) regulations GNR 868 of 30 May 2005 states that if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer. In addition, quotations must be obtained in writing from at least three different providers.

According to SCM regulation 36(2), the accounting officer must record the reasons for any deviations in terms of sub-regulation (1)(a) and (b) and report them to the next meeting of the council, and include it as a note to the annual financial statements.

SCM Regulation 13(c) states that a supply chain management policy must state that the municipality may not consider a written quotation or bid unless the provider who submitted the quotation or bid has indicated

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
- (iii) Whether a spouse, child or parent of the provider or a director, manager, shareholder or stakeholder referred to in subparagraph, (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

SCM Regulation 45 states that the notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person on the service of the state, or has been in the service of the state in the previous twelve months, including-

- (a) the name of that person;
- (b) the capacity in which that person is in the service of the state; and
- (c) the amount of the award.

During the testing of quotations, the following non-compliance was identified in respect of the following quotations:

Supplier	Amount	Actual Expenditure	Comment
K/143 - Servicing of Vehicle - Worcester BMW	R30 864,77	R30 864,77	<p>During the inspection of this payment it was found that the municipality did not obtain 3 quotations as required by SCM regulation 17(1)(a). In the approval for not obtaining 3 quotations, the CFO indicated that since BMW is the original supplier, it must be serviced by the original company. Upon inspection of the related invoice it was noted that the mileage of the vehicle is 316 015km and therefore it is evident that the vehicle is not under warranty anymore or has a service plan.</p> <p>This payment is therefore irregular expenditure since it is in contravention of SCM regulation 17(1) as the reason for</p>

Supplier	Amount	Actual Expenditure	Comment
			not obtaining three quotes is not reasonable.
I/42 - Legal Services - Adv. S.E Ferreira	R78 300	R78 300	In management's documentation of why 3 quotations were not submitted, it was indicated that it is impractical to obtain 3 quotations since council decided at an in-committee meeting of 13 June 2018 that a special investigation be lodged. However, no evidence could be provided how management decided to make use of Advocate SE Ferreira. This is therefore non-compliance with SCM regulation 17(1) and is regarded as irregular expenditure.
K/139 - Supply and Delivery of Material & Suppliers - Buco Worcester	R45 709,22	R45 090,33	The declaration of interest (MBD4) submitted by the winning supplier was not fully completed. It was not signed by a director of the supplier and no details of the director were provided in the declaration. Therefore, management should have disregarded the quotation. This results in non-compliance with SCM regulation 13(c) and irregular expenditure.
D/240 - Supply and Delivery of Steel - Transcape Steel	R18 547,89	R18 547,89	Upon inspection of the MBD 4 form it was found that the declaration is incomplete as it cannot be established who completed the declaration and under which capacity the person signed the document since the name of the signatory is not indicated. Therefore, management should have disregarded the quotation. This results in non-compliance with SCM regulation 13(c) and irregular expenditure.
K/166 - Supply and Delivery of 70 kg Chlorine Gas Cylinders - Metsi Chem iKapa	R16 744	R16 744,00	The declaration of interest was incomplete, as it was not signed by the supplier. Therefore, management should have disregarded the quotation. This results in non-compliance with SCM regulation 13 and irregular expenditure.
K/222 - Supply and Delivery of Upholstery Supplies - WC Upholstery	R18 777,6	R18 777,60	The declaration of interest was incomplete, as the supplier did not sign it. Therefore, management should have disregarded the quotation. This results in non-compliance with SCM regulation 13 and irregular expenditure.
K/161 - Hiring of an Excavator - Korrelland Konstruksies	R108 640,5	R156 165,26	The total payments made in terms of this quotation exceeded the quotation amount with R47 524,76. Since no approval was obtained from a designated official to exceed the total amount of the quotation, this is in contradiction with SCM regulation 5 and the expenditure of R47 524,76 is regarded as irregular expenditure.

Irregular expenditure as disclosed in note 58 of the financial statements is therefore understated with R255 849,35 and the municipality did not comply with the above-mentioned regulations.

Internal control deficiency

Financial and performance management –

Review and monitor compliance with applicable legislation.

Reviews and approvals on quotations were not performed adequately as the reasons for not obtaining three quotations were not always reasonable and specific approvals with regards to excess payments were not specifically approved.

Recommendation

Leadership of the municipality must establish processes and procedures to enable proper reviews before accepting quotations in order to ensure compliance with the SCM regulations.

In addition, management should adjust the irregular expenditure as disclosed in note 58 to the annual financial statements.

Management response

No management response has yet been received.

Auditor's conclusion

Through inspection of the adjusted financial statements it was confirmed that all the irregular expenditure in this regard has since been disclosed. This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

13. Deviations – Reasons not justifiable (CoMAF 24)

Non-compliance

SCM regulations 36: Deviation from, and ratification of minor breaches of, procurement processes, states the following –

- (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 and*
 - (b) *to ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties, which are purely of a technical nature.*
- (2) *The accounting officer must record the reasons for any deviations in terms of sub-regulation (1) (a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements.*
- (3) *Sub-regulation (2) does not apply to the procurement of goods and services contemplated in regulation 11(2).*

Furthermore, section 62(1) (a) of the Municipal Finance Management Act, Act No. 56 of 2003: General financial management functions, states the following –

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

- (a) *That the resources of the municipality are used effectively, efficiently and economically.*

During the testing of deviations, the following non-compliance was identified:

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
SCMD-01-11-2018 - Appointment as prosecutor for a disciplinary committee - Advocate EW Vermaak	R49 927	R41 326	<p>It was found that during an In-committee council meeting of 1 November 2018 council decided to appointment Advocate EW Vermaak as the prosecutor for a disciplinary hearing. In the motivation for the deviation, it was documented that it was impractical due to the sensitivity of the case. No evidence could be provided for audit purposes that management established that Advocate EW Vermaak is the only person that can act as a prosecutor in a disciplinary case.</p> <p>This is therefore regarded as non-compliance with SCM regulation 36(1) and the expenditure incurred is considered irregular expenditure.</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
			In addition, during the inspection of the supplier's declaration of interest, it was found that the spouse of Advocate EW Vermaak is employed by the state while it is not disclosed in the financial statements as required by SCM regulation 45.
SCMD-02-08-2018 - Installation of Wireless Internet and Monthly Internet Service. - Breedenet Wireless Internet Service Solutions	R18 230	Needs to be determined by client.	<p>This deviation (impractical) stems from a contract that was previously regarded as irregular expenditure since no competitive bidding took place and therefore this deviation will also result in irregular expenditure.</p> <p>Furthermore, inspected the minutes of the council meeting and confirmed that the deviation was not reported to council. This therefore also results in non-compliance with SCM regulation 36(2).</p>
SCMD-01-12-2018 - Supply and Delivery of Refuse Bags - Brodsky Trading 194 (Pty) Ltd	R107 525	R107 525	<p>C3M Consultants was appointed during August 2017 per a tender process to supply and deliver refuse bags for a period of 3 years. According to the motivation for the deviation, the municipality attempted to contact the appointed supplier early during November 2018 to arrange for the delivery of the next batch of refuse bags without any success. In the motivation, dated 12 December 2018, it is indicated that the refuse bag stock is now depleted and that refuse bags are required urgently. It further states that Brodsky Trading 194 is the only supplier willing to supply and deliver the refuse bags since the other suppliers are closing at 14 December 2018. Management therefore felt that it was impractical to follow the competitive bidding process.</p> <p>No proof can however be provided for audit purposes that the municipality contacted other suppliers in order to establish if they can deliver the refuse bags at short notice. In addition, it should be noted that the municipality was already aware in early November 2018 of the fact that the appointed supplier was not responding to their request and that they had sufficient time from thereon to approach other suppliers to supply and deliver the refuse bags. Therefore, management</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
			<p>did not plan appropriately to test the market before deciding to deviate. This is therefore regarded as non-compliance with SCM regulation 36(1) and the expenditure incurred is regarded as irregular.</p> <p>Furthermore, inspected the minutes of the council meeting and confirmed that the deviation was not reported to council, which is contradictory to SCM regulation 36(2).</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
CMD-02-02-2019 - Emergency Repair to Water-main in River - Exeo Khokela Civil Engineering Construction	R34 523	R34 523	<p>In their motivation to deviate dated 20 February 2019, management indicated that during the December 2018 holidays the main water source of Laingsburg Municipality dried up and the services of Exeo Khokela Civil Engineering Construction was requested to repair the water-main in the river and therefore resulting in the services of Exeo Khokela Civil Engineering Construction being an emergency.</p> <p>However, based on an email dated 5/2/2019 that was addressed to Ms A Groenewald (CFO) from Egan Treu (official from the supplier) the official submitted their invoice for work that was performed during November 2018. This is a clear indication that the deviation was subsequently approved for work performed in November 2018 and therefore contradicts the reason that the services was required due to circumstances encountered during December 2018.</p> <p>This results in non-compliance with SCM regulation 36(1) and irregular expenditure being incurred.</p> <p>Furthermore, inspected the minutes of the council meeting and confirmed that the deviation was not reported to council.</p> <p>This furthermore results in non-compliance with SCM regulation 36(2).</p>
SCMD-02-03-2019 - Supply and Delivery of Water Meters - Elster Kent Metering (Pty) Ltd (Honeywell)	R1 199 235	R1 199 235	<p>Inspected the reason for deviation and confirmed that management indicated that during the December holidays, the main water supply for Laingsburg dried up. Furthermore, the Western Cape Government provided money, which had to be spent. However, based on the above listed reason the deviation is not regarded as impractical due to management having sufficient time to go through a deviation process as the deviation process was concluded on 12</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
			<p>March 2019 and the drying up of the main water supply occurred in December 2018.</p> <p>In addition, through physical verification it was found that the water meters have not yet been installed but that it is still in the municipal stores. This results in non-compliance with SCM regulation 36(1) and irregular expenditure.</p> <p>Furthermore, it cannot be determined that the water meters were obtained at a reasonable price and is therefore non-compliance with the section 62(1)(a) of the MFMA.</p>
SCMD-03-02-2019 - Supply, Installation and Commissioning of Emergency Power Generators - E-Power Technologies	R510 451	R510 451	<p>In the motivation for the deviation (impractical) management indicated that during the Eskom load-shedding, the water pumps at the different water plants could not pump water into the main reservoir leaving the town without water. Furthermore, it was indicated that power generators are urgently required to ensure the constant water supply without power interruptions.</p> <p>Based on an email received on 15/02/2019 from Izak Toerien (Deputy Director - Western Cape Local Government) he indicated that the municipality follow the SCM process.</p> <p>From the deviation documentation, it is therefore not evident that it was impractical to follow the official procurement process that this matter is therefore regarded as non-compliance with SCM regulation 36(1) and irregular expenditure.</p> <p>Furthermore, it could not be determined if the goods were received at a reasonable priced which is non-compliance with section 62(1)(a) of the MFMA.</p>
SCMD-02-12-2018 - Emergency Works at the Zoute Kloof Fountain - Korrelland Konstruksie BK	R882 583	R882 583	<p>Upon inspection of the deviation documentation it was found that no submission of declaration of interest and declaration of past supply practices was submitted by the supplier. Management should have obtained the relevant documents from the supplier to ensure that they are updated with the status of the suppliers past practices and declarations of interest, therefore practicing due care. Therefore, this results in non-compliance with SCM regulations 38(1)(d)(ii) & (g)(iii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii) and 13(c)(i) and irregular expenditure.</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
			<p>Furthermore, inspected the minutes of the council meeting and confirmed that the deviation was not reported to council.</p> <p>This therefore also results in non-compliance with SCM regulation 36(2).</p>
SCMD-01-05-2019 - Laingsburg Emergency Works on Water Supply - Exeo Khokela Civil Engineering Construction	R3 284 896	R1 060 644.31	<p>In their reason to deviate, dated 23 May 2019, management indicated that due to the low water supply and drought during November and December 2018, they had to enhance emergency methods, which resulted in this deviation, as it was impractical to follow the SCM process.</p> <p>Management's reason for the deviation is not seen as reasonable since they were already aware of the drought during December 2018 and sufficient time lapsed to follow the official procurement process. This results in non-compliance with SCM regulation 36(1) and irregular expenditure.</p>
SCMD-02-06-2019 - Provision of Electrical Services - P.F.P Van Eeden Elektries (Pty) Ltd	Rates based	No expenditure yet incurred in 2018/19	<p>Based on inspection of this deviation, it was found that the supplier did not submit a tax clearance certificate. This therefore, results in non-compliance with SCM regulation 13(b).</p> <p>Furthermore, it was identified that the declaration of interest and declaration of past supply practices was not submitted with the deviation. Management should have obtained the documents from the supplier to constantly be up to date with the status of the suppliers past practices and declarations of interest, therefore practicing due care. Therefore, this results in non-compliance with SCM regulations 38(1)(d)(ii) & (g)(iii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii) and 13(c)(i). All expenditure on this supplier should be regarded as irregular expenditure.</p>
SCMD-04-06-2019 - Management of Short-term Insurance Portfolio - Marsh (Pty) Ltd underwritten by Guard Risk	R393 405,92	R0	<p>The municipality followed a deviation process for their short-term insurance indicating that it is impractical to follow the official procurement process. There are however, numerous insurance companies that specialise in short term insurance for municipalities and therefore the municipality could have followed the official procurement process. This therefore results in non-compliance with SCM regulation 36(1) and the resultant expenditure is regarded as irregular.</p>

Supplier	Award Amount	Actual Expenditure 2018/19	Comment
SCMD-03-06-2019 - Provision of Legal Services - Wilna Roux Attorneys	N/A	N/A	<p>Management indicated that Wilna Roux is the current service provider for legal services and this deviation remains a natural continuation. The service provider has been rendering legal services since it took over from former service provider DB Davids Prokureurs during 2014.</p> <p>Management's reasons are noted however this does not make it impractical to follow the official procurement process since there are similar service providers within the market. The reason for deviation is therefore not seen reasonable.</p> <p>This results in non-compliance with SCM regulation 36(1) and irregular expenditure.</p>
SCMD-03-03-2019 - Drilling, Commissioning of Additional Boreholes - Moore and Sons	R387 920,3	R387 920,3	<p>Inspected the reason for deviation and confirmed that the main water source of Laingsburg municipality dried up and therefore interrupting the water supply. Management indicated that due to already utilising the services of Moore and Sons on deviation SCM-01-03-2019 that they would be suitable for the additional borehole.</p> <p>However, management failed to prove that reasonable care was taken with regards to identifying the supplier who does a thorough analysis of possible water points that would provide sufficient water supply. Due to the first bore hole not producing sufficient water, management should have been skeptical to utilise the same supplier as there is a risk that the additional borehole would have the same results. A tender process should have been followed in order test the market for additional suppliers that would have resulted in a fair, transparent process.</p> <p>This results in non-compliance with SCM regulation 36(1) and irregular expenditure.</p>

The above results in material non-compliance and the irregular expenditure note is understated with R4 224 208.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Leadership did not establish processes and procedures to ensure compliance with SCM regulation requirements.

Financial and performance management –

Review and monitor compliance with applicable legislation.

Reviews for deviations are not performed adequately as the reasons for not following the official procurement process are not always reasonable.

The absence of a procurement plan also contributed to the municipality not following a competitive bidding process. The deviation in respect of the short-term insurance is a direct consequence of management not planning in advance.

Recommendation

Leadership should establish processes and procedures to enable proper reviews before it is decided to deviate from the official procurement process.

Furthermore, an annual procurement plan should be implemented to ensure that contracts are entered into in advance.

Management response

Management comment on audit finding

1. Audit Finding 1 – SCMD-01-11-2018 – Appointment as prosecutor for a disciplinary committee – Advocate EW Vermaak

Management agrees with finding.

Council involvement in the selection and appointment of service providers is completely unacceptable. SCM was instructed after a council resolution was taken to appoint a specific service provider.

2. Audit Finding 2 – SCMD-02-08-2019 – Installation of Wireless Internet and Monthly Internet Service – Breedenet Wireless Internet Solutions

Management agrees with finding.

A new contract should be acquired and current contract to be phased out.

3. Audit Finding 3 – SCMD-01-02-2018 – Supply and Delivery of Refuse Bags – Brodsky Trading 194 (Pty) Ltd

Management disagrees with finding.

Brodsky Trading was the only supplier willing to assist with the supply and delivery of refuse bags.

4. Audit Finding 4 – SCMD-02-02-2019 – Emergency Repair to Water-main in River – Exeo Khokela Civil Engineering Construction

CFO to respond.

5. Audit Finding 5 – Supply and Delivery of Water Meters – Elster Kent Metering (Pty) Ltd (Honeywell)

CFO to respond.

6. Audit Finding 6 – SCMD-03-02-2019 - Supply, Installation and Commissioning of Emergency Power Generators – E-Power Technologies

CFO to respond.

7. Audit Finding 7 – SCMD-02-12-2018 – Emergency Works at the Zoute Kloof Fountain – Korrelland Konstruksie BK

CFO to respond.

Deviation was done after the service provider was appointed through a Formal Written Price Quotation process and the necessary due diligence was followed.

8. Audit Finding 8 – SCMD-01-05-2019 – Laingsburg Emergency Works on Water Supply – Exeo Khokela Civil Engineering Construction

CFO to respond.

9. Audit Finding 9 – SCMD-02-06-2019 – Provision of Electrical Services – P.F.P Van Eeden Elektries (Pty) Ltd

Management agrees with finding.

10. Audit Finding 10 – SCMD-04-06-2019 – Management of Short-term Insurance Portfolio – Marsh (Pty) Ltd underwritten by Guard Risk

Management agrees with finding.

11. Audit Finding 11 – SCMD-03-06-2019 – Provision of Legal Services – Wilna Roux Attorneys

Management agrees with finding.

12. Audit Finding 12 – SCMD-03-03-2019 – Drilling, Commissioning of Additional Boreholes – Moore and Sons

CFO to respond.

Management comment on internal control deficiencies

1. Audit Finding 1 – SCMD-01-11-2018 – Appointment as prosecutor for a disciplinary committee – Advocate EW Vermaak

From a SCM perspective, we should have questioned the selection of the specific supplier choice of Council. The internal control deficiency is due to not having a process in place to fairly select suppliers when deviating. This will be addressed as a matter of urgency.

The first internal control deficiency was not having an adequate documented deviation process in place. Secondly, the Accounting Officer should at the level of Council meeting

informed the Councillors, that they are not allowed to take council resolutions where suppliers are recommended by Council at all.

2. Audit Finding 2 – SCMD-02-08-2019 – Installation of Wireless Internet and Monthly Internet Service – Breedenet Wireless Internet Solutions

Procurement Plan must include the procuring of Internet Services to address irregular contract.

3. Audit Finding 3 – SCMD-01-02-2018 – Supply and Delivery of Refuse Bags – Brodsky Trading 194 (Pty) Ltd

Lack of adequate contract management on appointed service provider C3M Consultants.

4. Audit Finding 4 – SCMD-02-02-2019 – Emergency Repair to Water-main in River – Exeo Khokela Civil Engineering Construction

CFO to respond.

5. Audit Finding 5 – Supply and Delivery of Water Meters – Elster Kent Metering (Pty) Ltd (Honeywell)

CFO to respond.

6. Audit Finding 6 – SCMD-03-02-2019 - Supply, Installation and Commissioning of Emergency Power Generators – E-Power Technologies

CFO to respond.

7. Audit Finding 7 – SCMD-02-12-2018 – Emergency Works at the Zoute Kloof Fountain – Korrelland Konstruksie BK

CFO to respond.

8. Audit Finding 8 – SCMD-01-05-2019 – Laingsburg Emergency Works on Water Supply – Exeo Khokela Civil Engineering Construction

CFO to respond.

9. Audit Finding 9 – SCMD-02-06-2019 – Provision of Electrical Services – P.F.P Van Eeden Elektries (Pty) Ltd

Procurement Plan must include the procuring of Electrical Services to address irregular contract.

10. Audit Finding 10 – SCMD-04-06-2019 – Management of Short-term Insurance Portfolio – Marsh (Pty) Ltd underwritten by Guard Risk

Procurement Plan includes the procuring of Insurance Services to address irregular contract.

11. Audit Finding 11 – SCMD-03-06-2019 – Provision of Legal Services – Wilna Roux Attorneys

No competitive contract in place.

12. Audit Finding 12 – SCMD-03-03-2019 – Drilling, Commissioning of Additional Boreholes – Moore and Sons

CFO to respond.

Management comment on recommendation

1. Audit Finding 1 – SCMD-01-11-2018 – Appointment as prosecutor for a disciplinary committee – Advocate EW Vermaak

A process to be put in place to ensure fair selection of capable suppliers when deviating. Process must ensure Council independence, where Council can instruct and direct that a certain service be procured, but not propose or recommend suppliers. The Accounting Officer to ensure, Council remains outside of operational procurement processes.

An adequate documented deviation process to be put in place to ensure deviations are only approved when necessary.

2. Audit Finding 2 – SCMD-02-08-2019 – Installation of Wireless Internet and Monthly Internet Service – Breedenet Wireless Internet Solutions

The procuring of Internet Services Contract is already part of the Procurement Plan for the 2019/2020 financial year to address the irregular contract.

3. Audit Finding 3 – SCMD-01-02-2018 – Supply and Delivery of Refuse Bags – Brodsky Trading 194 (Pty) Ltd

Refuse bags to be procured as and when needed through Formal Written Price Quotations.

4. Audit Finding 4 – SCMD-02-02-2019 – Emergency Repair to Water-main in River – Exeo Khokela Civil Engineering Construction

CFO to respond.

5. Audit Finding 5 – Supply and Delivery of Water Meters – Elster Kent Metering (Pty) Ltd (Honeywell)

CFO to respond.

6. Audit Finding 6 – SCMD-03-02-2019 - Supply, Installation and Commissioning of Emergency Power Generators – E-Power Technologies

CFO to respond.

7. Audit Finding 7 – SCMD-02-12-2018 – Emergency Works at the Zoute Kloof Fountain – Korrelland Konstruksie BK

CFO to respond.

8. Audit Finding 8 – SCMD-01-05-2019 – Laingsburg Emergency Works on Water Supply – Exeo Khokela Civil Engineering Construction

CFO to respond.

9. Audit Finding 9 – SCMD-02-06-2019 – Provision of Electrical Services – P.F.P Van Eeden Elektries (Pty) Ltd

The procuring of Electrical Services Contract is already part of the Procurement Plan for the 2019/2020 financial year to address the irregular contract.

10. Audit Finding 10 – SCMD-04-06-2019 – Management of Short-term Insurance Portfolio – Marsh (Pty) Ltd underwritten by Guard Risk

The procuring of Insurance Services Contract is already part of the Procurement Plan for the 2019/2020 financial year to address the irregular contract.

11. Audit Finding 11 – SCMD-03-06-2019 – Provision of Legal Services – Wilna Roux Attorneys

Procurement Plan to be amended to include a tender for the Provision of Legal Services.

12. Audit Finding 12 – SCMD-03-03-2019 – Drilling, Commissioning of Additional Boreholes – Moore and Sons

CFO to respond.

Remedial action

	By whom	By when
The development of a compliant Deviation Standard Operating Procedure (SOP) with clear definitions of emergencies and controls. (Must include, consideration, evaluation, approval and reporting of deviations)	SCM, Internal Audit, CFO	30 November 2019
Procurement Plan - Tender Internet Services	SCM, ICT	30 May 2020
Procurement Plan – Tender Electrical Services	SCM, Infrastructure	30 May 2020
Procurement Plan – Tender Insurance Services	SCM, CFO	30 May 2020
Procurement Plan – Tender Legal Services	SCM, Corporate Services, CFO	30 May 2020

If the above finding affects an amount(s) disclosed in the financial statements:

Disclosure Note 58:

Additional Irregular Expenditure to be declared:

Audit Finding 1 – SCMD-01-11-2018 – Appointment as prosecutor for a disciplinary committee – Advocate EW Vermaak – R 41,326.00;

All expenditure of Breedenet Wireless Internet Solutions already declared as irregular in Note 58 of AFS;

Audit Finding 3 – SCMD-01-02-2018 – Supply and Delivery of Refuse Bags – Brodsky Trading 194 (Pty) Ltd – R 107,525.00;

Audit Finding 4 – SCMD-02-02-2019 – Emergency Repair to Water-main in River – Exeo Khokela Civil Engineering Construction – R 34,523.00;

Audit Finding 5 – Supply and Delivery of Water Meters – Elster Kent Metering (Pty) Ltd (Honeywell) – R 1,199,235.00;

Audit Finding 6 – SCMD-03-02-2019 - Supply, Installation and Commissioning of Emergency Power Generators – E-Power Technologies – R 510,451.00;

Audit Finding 7 – SCMD-02-12-2018 – Emergency Works at the Zoute Kloof Fountain – Korrelland Konstruksie BK – R 882,583.00;

Audit Finding 8 – SCMD-01-05-2019 – Laingsburg Emergency Works on Water Supply – Exeo Khokela Civil Engineering Construction – R 1,060,644.31;

Audit Finding 10 – SCMD-04-06-2019 – Management of Short-term Insurance Portfolio – Marsh (Pty) Ltd underwritten by Guard Risk - 393,807.80;

Audit Finding 12 – SCMD-03-03-2019 – Drilling, Commissioning of Additional Boreholes – Moore and Sons – R 387,920.30.

Please give an indication of whether a correcting journal entry shall be processed

YES

NO

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

Management indicated in their response that they agree with all the findings except the matter relating to the refuse bags. However to date no proof could be provided for audit purposes that the municipality communicated with other suppliers and that this supplier was the only one that could provide the goods during this period. Therefore, this matter is also regarded as irregular expenditure.

The adjusted financial statements were inspected and it was confirmed that all the irregular expenditure, including the procurement of the refuse bags, has now been disclosed in note 59 to the financial statements. Since this matter results in material non-compliance it will be reported in the management report under matters affecting the audit report.

14. Non-compliance with Municipal Supply Chain Regulation 32 (CoMAF 26)

Audit finding

Section 1 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) defines irregular expenditure as *“expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170”*.

Section 110(2)(c) of the MFMA states that Chapter 11, Part 1: Supply chain management, states that: *“This Part, except where specifically provided otherwise, does not apply if a municipality or municipal entity contracts with another organ of state for the procurement of goods and services under a contract secured by that other organ of state, provided that the relevant supplier has agreed to such procurement”*.

Regulation 32 of the Municipal Supply Chain Management Regulations (SCM Regulations) reads as follows:

- (1) *A supply chain management policy may allow the accounting officer to procure goods or services for the municipality or municipal entity under a contract secured by another organ of state, but only if-*
 - (a) *the contract has been secured by that organ of state by means of a competitive bidding process applicable to that organ of state;*
 - (b) *the municipality or entity has no reason to believe that such contract was not validly procured;*
 - (c) *there are demonstrable discounts or benefits for the municipality or entity to do so; and*
 - (d) *that the other organ of state and the provider have consented to such procurement in writing.*

The following two court cases provided rulings on the interpretation of SCM regulation 32:

- Blue Nightingale Trading 397 (Pty) Ltd t/a Siyenza Group v Amathole District Municipality [2016] 1 All SA 721 (ELC)
- Kwadukuza Municipality v Skilful 1169 CC and Another (11060/2017) [2018] ZAKZDHC 35

These court rulings have the force of law and must form the basis against which the application of regulation 32 is tested.

The above court case provides the following example and rulings in terms of the interpretation of section 110(2)(c) of the MFMA (referred to as LGMFMA in rulings):

- (a) Ruling 32: The usual example would be where an organ of state contracts, in accordance with a Section 217 compliant process, with a supplier to supply say R5 Million Rand's worth of A4 paper. If that organ of state thereafter does not intend to utilize the entire consignment, it is permissible for another organ of state to, as it were, 'take up the slack' in respect of the remaining portion of the same contract.
- (b) Ruling 33: I must add that the second organ of state will do so by procuring the A4 paper under the contract between the first organ of state and the supplier, as required by section 110(2)(c).
- (c) Ruling 34: The constitutionality of the exemption will always depend on the facts of the particular case. For the exemption to operate under section 110(2) of LGMFMA, I cannot conceive compliance with the constitutional imperatives unless the goods or services

procured by the second organ of state are the same as that required by the first organ of state, and the contract price is the same

- (d) Ruling 35: In my respectful view, the terms and conditions of a procurement contract between the second organ of state and the supplier which complies with Chapter 11 of the LGMFMA (including section 116 thereof which requires the contract to be in writing and stipulates the nature of the terms and conditions thereof and the management of the contract) cannot be deleted or amended or compromised in such a manner as to render the contract with the first organ of state not compliant with either Chapter 11 or with the constitutional imperatives.
- (e) Ruling 36: The words "... under a contract secured by another organ of state ..." in the Regulation can only refer to the "... contract with another organ of state ..." as contemplated by section 110(2) of the empowering legislation (LGMFMA).
- (f) Ruling 37: In my respectful view, this can only refer to the situation where the municipality, with the consent of the supplier, either becomes a party to the existing contract between the other organ of state and the supplier; or where the other organ of state concludes a contract with the supplier for the benefit of a third party, namely for the benefit of the municipality, against payment by the municipality of the approved contract price. In either case, the material terms and contract price of the contract already secured by that organ of state remain binding, and thus remain compliant with section 217 of the Constitution and with the procurement policy of the other organ of state, and therefore with LGMFMA.

MFMA Circular No. 96 was issued on 24 July 2019 *to provide further elaboration to municipalities and municipal entities on the principle as captured in Regulation 32 of SCM Regulations when procuring good or services from contracts secured by other organs of state.*

The legal interpretation results in the application of regulation 32 in a procurement process, effectively meaning that the accounting officer of the original contracting organ of state is willing to forfeit a portion of its contract, in terms of contract value and quantity that has not already been utilised, to the accounting officer who is requesting to procure under that contract.

The following regulation 32 deviations were identified on which expenditure was incurred during the 2018-19 financial year:

Other organ of state	Award number	Contract start date	Supplier name	Award value	Expenditure incurred in 2018-19
Overstrand Municipality	SC 1758/2017	2017/07/28	Universal Trading	Rate based	R272 006.63
Oudtshoorn Municipality	S/32/03/2017	2018/04/06	Mubesko Africa (Pty) Ltd / Moore Stephens Mo Inc.	R2 352 937	R4 251 236.48
Mosselbay Municipality	S/32/02/2017	2017/11/29	Makukhane Consulting Engineers cc	Rate based	R3 472 047.78
Total					R7 995 290.89

No evidence was submitted to audit as part of the documents supporting the regulation 32 awards listed above that indicated that any portion of these contracts equals a portion of the original contract that was forfeited by the other organ of state. In addition, the municipality also entered into new contracts with these suppliers and are therefore not participants to the existing contracts.

Any expenditure, from inception of the contract, incurred on the above contracts, or on any other similar contracts on which expenditure was incurred during the 2018-19 financial year, and which is not incurred on a portion forfeited by the other organ of state, meets the definition of irregular expenditure detailed in section 1 of the MFMA.

This also constitutes non-compliance with SCM regulation 19, which has been assessed as material.

Internal control deficiency

Financial and performance management-

Review and monitor compliance with applicable laws and regulations.

Management did not identify that its historical interpretation and application of SCM regulation 32 has resulted in non-compliance with the regulation and/or has failed to provide audit with evidence that the expenditure incurred by it on so-called “piggy-back” contracts were limited to the portion forfeited by the other organ of state, resulting in the incurring of irregular expenditure.

Recommendation

Management should review its interpretation and implementation of SCM regulation 32 and implement the principles as clarified by the courts in the matters of *Blue Nightingale Trading 397 (Pty) Ltd t/a Siyenza Group v Amathole District Municipality* and *Kwadukuza Municipality v Skilful 1169 CC and Another* as it has the force of law and must form the basis against which the application of regulation 32 is measured.

The outcomes of the court judgement are to be applied retrospectively and applies to contracts where expenditure has been incurred in the 2018-19 financial year.

Management should investigate all regulation 32 contracts on which expenditure was incurred in 2018-19 to identify any other instances where the prescribed requirements were not complied with, or alternatively, provide audit with evidence, obtained from the other organ of state, confirming that that expenditure was incurred on a forfeited portion of the original award. Evidence of any such investigation, as well as the outcome thereof, should be provided for auditing.

Management is advised to review their existing SCM policies and effect the necessary amendments where appropriate for approval by the municipal council.

Management response

Management comment on audit finding

Management disagrees with finding.

A judgement from a high court is limited to the jurisdiction of the province where it applies. The Blue Nightingale judgement was made by a high court in the Eastern Cape and the KDM judgement by a high court in KwaZulu-Natal, which means that the application of the stated judgements is limited to the relevant jurisdictions of the Eastern Cape and KwaZulu-Natal Provinces.

Neither of these judgements were tested by the Supreme Court of Appeal or the Constitutional Court, which means that its application of the stated judgements to the country as a whole is not allowed.

Both judgements tested the constitutionality of the contracts and concluded that the relevant contracts were unconstitutional and therefore invalid, unlawful and void ab initio.

These judgements are therefore bound by the principle that an order of constitutional invalidity has no force unless confirmed by the Constitutional Court.

The 'common practice or customary practice', since the promulgation of the MFMA in 2003 and its supporting SCM Regulation in 2005, was to apply SCMR 32 contracts, or so-called 'piggy back' contracts, where the participating municipality will conclude its own contract with the service provider, based materially on the same terms and conditions of the initial tender, subject to compliance with the provisions of SCMR 32(1) (a) – (d).

This common practice was endorsed through various National Treasury circulars and Guidelines

This means that for the past 14 years, municipalities applied a specific common practice, concluded and honoured contracts.

With the alternative interpretation by the stated judgements, it appears that the 'common practice' is now regarded as unconstitutional and therefore invalid, unlawful and void ab initio.

Neither of these judgements considered the 'customary law' application of SCMR 32 and the implication thereof if such 'practice' is now impugned.

Prior to concluding that on matters of constitutional matters, whether 'case law' will trump 'customary law, by virtue of common practice', the impact must be tested by an appropriate court of law in order to reach a 'just and equitable remedy' as provided for in section 172(1)(b) of the Constitution.

The common law of rules and presumptions presumes that a statute does not apply retroactively, unless specifically so enacted.

Although 'case law' is not necessarily 'legislation or statutory law', it is argued that this presumption will also apply to 'case law' as the Constitution in section 36(1) provides clear guidelines of when rights may be limited in terms of law of general application to the extent that the limitation is reasonable and justifiable in an open and democratic society.

Prior to concluding that the relevant judgements as case law, must be applied retrospectively, it is argued that an appropriate court of law should consider, in terms of section 36(1) of the Constitution, whether a retrospective application will limit rights and whether such limitation is reasonable and justifiable in an open and democratic society section.

The MFMA specifically reference 'legislation' and not 'law', thereby limiting 'irregular expenditure' to a contravention of 'legislation', i.e. 'statutory law' and not 'case law'. This argument is supported by the Public Audit Act in its definition of 'material irregularity' to relate to "any non-compliance with, or contravention of, legislation..."

Alternatively, where 'legislation' is regarded as inclusive of case-law, such will only be the case where such case law originates from decisions of the appellate courts, and not provincial high courts, as is the matter in this AG finding.

The AG failed to consider, and test of all relevant legislation related to the 'procurement of goods and services under a contract secured by another organ of state' as it considered ONLY 3 of the relevant 9 MFMA and SCMR prescripts.

The AG incorrectly understood the application of National Treasury MFMA circulars as:

The application of National Treasury MFMA circulars are incorrectly understood as the latter do not amount to valid and binding legislation, as contemplated by MFMA section 168(3).

It follows that non-compliance with the provisions of a National Treasury MFMA circular cannot be the basis for a finding of irregular expenditure, unless the content was adopted by the relevant Municipal Council.

Alternatively, it is important to note that the legality and enforceability of some of the provisions of MFMA circular 96 are questionable.

The two judgements quoted only considered the application of MFMA section 110(2) read with SCMR 2(4); SCMR 11(2) and (3) and SCMR 19(a) – all provisions specifically reference MFMA section 110(2).

No consideration was had to the potential provision of another type of contract, namely a MFMA section 112(1) (o) read with SCMR 32 – which specifically excludes the reference to MFMA section 110(2) and also 'a contract with another organ of state'.

It is therefore argued that an appropriate court of law should consider the legality and enforceability of the relevant prescripts in context and advise accordingly

Management comment on internal control deficiencies

None.

Management comment on recommendation

To review the interpretation and implementation:

- Agree

Implement the principles as clarified by the court in the two court decisions referred to as it has the force of law:

- Disagree,
These decisions are not binding on the Western Cape and do not fully address the principles espoused in section 217 (1) of the Constitution and the regulatory framework for SCM. Court decisions to be taken under review and way forward on the application to be decided taking into consideration all SCM and procurement requirements, considerations and impact.

Management to investigate all regulation 32 contracts in 2018/2019 where prescribe requirements were not met:

- Agree

Provide audit evidence confirming that expenditure was incurred a forfeited portion of the original award:

- To be held in abeyance up until a competent decision is made on the interpretation and implementation of regulation 32.

Amend SCM policies:

<ul style="list-style-type: none"> • Agree, But to be held in abeyance up until a competent decision is made on the interpretation and implementation of regulation 32. <p>The outcomes of court decisions to be applied retrospectively where expenditure has incurred in the 2018/2019 financial year:</p> <ul style="list-style-type: none"> • Disagree, To be held in abeyance up until a competent decision is made on the interpretation and implementation of regulation 32. 		
Remedial action		
What actions will be taken	By whom	By when
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

The audit finding is not based on MFMA Circular No 96 issued in July of 2019 by National Treasury to provide further elaboration to municipalities and municipal entities on the principles captured in regulation 32 of the Municipal Supply Chain Management Regulations 2005 (SCM Regulations) when procuring goods or services from contracts secured by other organs of state.

Circular 96 provides important principles for the effective implementation of regulation 32 of the municipal supply chain management regulations, and as a consequence section 110(2) of the MFMA.

However, the circular is not used to raise the non-compliance. There have also been two court judgments which provide an understanding of regulation 32 and section 110(2). They were delivered in the High Court of South Africa KwaZulu-Natal division (Durban) on 6 July 2018 (KwaDukuza) and in the High Court of South Africa (Eastern Cape circuit court, East London) on 24 November 2015 (Amathole) which were based on the interpretation of regulation 32.

In both judgements, the contracts between the supplier and the municipality were declared to be *null and void ab initio*. Part of the reasons for the decisions are that the original contract had expired at the time the municipality participated and the terms and conditions were different and therefore the conditions for the section 110(2) exemption were not met.

The court judgements (KwaDukuza and Amathole) provide a lens through which regulation 32 and section 110(2) can be interpreted. However, they are not the criteria we use to base and conclude a non-compliance on.

Section 110(2) provides for an exemption from competitive processes established in terms of municipal SCM policies when municipalities **contract** with other organs of state for the procurement of goods or services under **a contract secured by that other organ of state**, *provided that the relevant supplier has agreed to such procurement.*

The exclusion of Part 1 under Chapter 11 of the MFMA may not detract from or erode the constitutional imperatives of fairness, equity, competitiveness and cost-effectiveness. Regulations must be read subject to the empowering legislation. The regulation may not be used as an aid to interpret a provision of the statute. The regulations shall not be used as an aid to interpreting any of the statutory provisions, nor can the regulations be used to extend the meaning of the enactment.

A provision in a statute must be interpreted before the regulation is considered as stated in paragraph 26 of the Amathole judgement.

Regulation 32 must therefore be interpreted to mean that the municipality or municipal entity must conclude a contract with another organ of state as required by section 110(2) and procure within that contract only the goods or services that have been procured through the contract secured by another organ of state and not more.

The “section 110(2) contract” must be in writing as required by section 116 of the MFMA.

The municipality is not legislatively empowered to contract directly with the supplier, as the exemption provided by section 110(2) is applicable only if the municipality contracts **(enters into a contract) with another organ of state**.

The municipality procures under the contract through the other organ of state. The municipality cannot substitute itself in place of the other organ of state.

A municipality or entity cannot conclude a contract with any supplier without a section 217(1) fair, equitable, transparent, competitive, and cost effective procurement process in terms of paragraph 50 of the Amathole judgement.

Non-compliance with regulation 32 (remaining scope, term, etc.) is based on the fact that the municipality did not procure **under a contract secured by another organ of state as required by MFMA section 110(2)(c)**. The case law (the 2 court judgments referred to above) assists in understanding the requirements of MFMA section 110(2)(c) and SCM regulation 32.

The adjusted financial statements that was submitted has since been inspected and it was found that the irregular expenditure in this regard has since been disclosed.

15. Non-compliance relating to contract management (CoMAF 28)

Audit finding

Section 62 of the Municipal Finance Management Act, No. 56 of 2003, (MFMA) states the following-

"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-

- a) that the resources of the municipality are used effectively, efficiently and economically;*
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- c) that the municipality has and maintains effective, efficient and transparent systems-*
 - (i) of the financial and risk management and internal control; and*
 - (ii) of internal audit operating in accordance with any prescribed norms and standards*
- d) that unauthorised, irregular and fruitless and wasteful expenditure and other losses are prevented".*

In terms of section 116 of the MFMA, Contracts and contract Management –

- (1) *A contract or agreement procured through the supply chain management system of a municipality must –*
 - (a) Be in writing;*
 - (b) Stipulate the terms and conditions of the contract or agreement, which must include provisions providing for-*
 - (i) the termination of the contract or agreement in the case of non- or under – performance*
 - (ii) dispute resolution mechanisms to settle disputes between the parties;*
 - (iii) a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and*
 - (iv) any other matters that may be prescribed.*
- (2) *The accounting officer of a municipality must –*
 - (a) take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced;*
 - (b) monitor on a monthly basis the performance of the contractor under the contract or agreement;*
 - (c) establish capacity in the administration of the municipality –*
 - (i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and*
 - (ii) to oversee the day-to-day management of the contract or agreement; and*
 - (d) regularly report to the council of the municipality or the board of directors of the entity, as may be appropriate, on the management of the contract or agreement and the performance of the contractor.*
- (3) *A contract or agreement procured through the supply chain management policy of the municipality may be amended by the parties, but only after -*
 - (a) the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and*
 - (b) the local community—*
 - (i) has been given reasonable notice of the intention to amend the contract or agreement; and*
 - (ii) has been invited to submit representations to the municipality or municipal entity.*

According to Government Procurement: General Conditions of Contract, 2010 (GCC) paragraph 17.1, prices charged by the supplier for goods delivered and services performed under the contract shall not vary from the prices quoted by the supplier in his bid, with the exception of any price adjustments authorized or in the purchaser's request for bid validity extension, as the case may be.

During the testing of contract management, the following non-compliance was identified in respect of the contracts listed below:

Requirement	Supplier	Comment
GCC (2010) clause 17.1	Doberman Security Services	No contract existed for this supplier since no SCM process was followed to appoint this supplier. Therefore, no price of the contract could be determined. Furthermore, management extended the contract which result in the contract remaining irregular expenditure as the initial contract was irregular.
MFMA sec. 116(1)(a)	PFP Van Eeden (Pty) Ltd	No official procurement was followed to appoint the supplier even though a contract existed.
GCC (2010) clause 17.1 SCM reg. 21(a)		There is no stipulated contract price in the contract and therefore this is not in accordance with National Treasury's general conditions of contracts. Furthermore, no measures were identified to monitor the contract and therefore no proper contract management was implemented in respect of this contract.
MFMA sec. 116(2)(c) MFMA sec.116(2)(b)		No measures to monitor the contract have been defined. Therefore, this results in non-compliance with sec. 116(2)(b) and (c) of the MFMA.
MFMA sec. 116(1)(a)	Central Karoo Traffic Systems (Pty) Ltd	No contract existed for this supplier as no SCM process was followed to appoint this supplier. Therefore, no price of the contract could be determined. Furthermore, measures to monitor contract performance and delivery have not been defined and implemented. This will therefore result in non-compliance with the indicated legislative requirements.
MFMA sec 116(1)(b)(i)		The performance of this contract could not be measured and therefore results in non-compliance with the indicated legislative requirements.
GCC (2010) clause 17.1		
MFMA sec. 116(2)(b)		
MFMA sec. 116(2)(c)		

Requirement	Supplier	Comment
SCM reg. 5	Mubesko Africa	There was an over expenditure on this contract of R1 898 299 which was not specifically approved by a delegated official and as a result is non-compliance with SCM regulation 5 and results in irregular expenditure.
MFMA sec 116(2)(b)		The municipality does not perform any contract management on this contract. This therefore results in non-compliance with sec. 116(2)(b) of the MFMA.
	C3M Consultants (Pty) Ltd	Management did not adequately start advertising within 6months after cancelling the contract for a new supplier. This results therefore in a controls deficiency as management is aware that supplying the refuse bags is a continued need.
MFMA sec 116(1)(a)	Aurecon	No contract existed for this supplier as no SCM process was followed to appoint this supplier. Therefore, no price of the contract could be determined. Furthermore, measures to monitor contract performance and delivery have not been defined and implemented. This will therefore result in non-compliance with the indicated legislative requirements.
MFMA sec 116(1)(b)(i) and (ii)		
GCC (2010) clause 17.1		

This results in non-compliance with the various legislation indicted above and will be considered for testing in the audit report.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

There is no effective internal monitoring system to determine whether the prescribed procurement and contract management processes are being followed and whether the desired objectives are achieved.

Procurement and contract management is crucial for the operation of the municipality to achieve its mandate and service delivery targets.

Recommendation

Leadership of the municipality should implement processes and procedures in order to ensure that the prescribed legislative requirements are adhered to and that performance of contracts is being monitored and the desired objectives are achieved.

Management response

No management response was received.

Auditor's conclusion

This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

Compliance – Annual financial statements, performance and annual reports

16. Annual Financial statements - Material misstatements identified (CoMAF 45)

Audit finding

Section 122 of the Municipal Finance Management Act (MFMA), states the following –

Preparation of financial statements. —

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

During the testing of compliance with legislation in respect of the annual financial statements, the following matter was identified:

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA.

If the material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements are not corrected and/or the supporting records are not provided, the uncorrected material misstatements and/or supporting records that could not be provided, might result in the financial statements receiving a qualified or even a disclaimer of the audit opinion.

This instance results in material non-compliance which will be reported in the auditor's report.

Internal control deficiency

Financial and performance management –

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

The municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

No management response was received.

Auditor's conclusion

This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

17. Oversight report on the Final Annual report 2017/2018 (CoMAF 27)

Audit Finding

Section 129 of the Municipal Finance Management Act, 2003 (Act no.56 of 2003) (MFMA) requires: —

- “(1) The council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council’s comments on the annual report, which must include a statement whether the council—*
- (a) has approved the annual report with or without reservations;*
 - (b) has rejected the annual report; or*
 - (c) has referred the annual report back for revision of those components that can be revised.*
- (2) The accounting officer must—*
- (a) attend council and council committee meetings where the annual report is discussed, for the purpose of responding to questions concerning the report; and*
 - (b) submit copies of the minutes of those meetings to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.*
- (3) The accounting officer must in accordance with section 21A of the Municipal Systems Act make public an oversight report referred to in subsection (1) within seven days of its adoption.”*

During the audit of compliance legislation, it was identified that the municipal council did not comply with section 129(1) and adopt an oversight report within two months on the final annual report 2017/2018 which was tabled and approved by Council on the 27 June 2019.

Therefore, council also did not comply with sections 129(2) and (3) of the MFMA.

Internal control deficiency

Financial and performance management-

Review and monitor compliance with applicable legislation

Since management already adopted a draft oversight report on 29 May 2019 they assumed that it would not be necessary to do a final oversight report. However, since the audit report was only issued on 6 June 2019 the annual report on which the oversight was performed did not contain the audit report nor the audited financial statements.

Recommendation

Management should adopt an oversight report based on the final annual report.

Management response

Management comment on audit finding

Management agrees with the finding.

Management comment on internal control deficiencies		
Management noted the Auditor-General's comment on internal control deficiencies.		
Management comment on recommendation		
Management noted the Auditor-General's recommendation.		
Remedial action		
Management will adopt an oversight report based on the final annual report and consider the report not later than two months from the date the annual report was tabled in council.	By whom PA Williams	By when February 2020
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

Compliance – Expenditure management

18. Expenditure Management: Unauthorised, irregular and fruitless and wasteful expenditure was not prevented (CoMAF 46)

Audit finding

Section 62 of the MFMA, states the following –

General financial management functions. – (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure –

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

During the testing of expenditure, the following non-compliance was identified:

Prevention of Irregular expenditure

As disclosed in note 58 to the financial statements, the municipality again incurred irregular expenditure to the amount of R7 920 810 (excluding additional irregular expenditure as communicated via CoMAFs No. 21 dated 29 October 2019, No. 24 dated 7 November 2019, No. 26 dated 7 November 2019 and No. 28 dated 8 November 2019) during the 2018/19 financial year. Since various of the irregular expenditure incurred were due to similar transgressions than in the previous years, reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Prevention of fruitless and wasteful expenditure

Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R127 791, as disclosed in note 57 to the annual financial statements. This is in contravention with section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made in respect of interest on late payments.

Prevention of unauthorised expenditure

Per inspection of note 56 to the financial statements, it was found that the municipality again incurred unauthorised expenditure to the amount of R4 296 079 during the 2018/19 financial year.

Therefore, reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by an overspending of the respective municipal votes.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management has neglected to perform their oversight responsibility with respect to the prevention of unauthorised, irregular and fruitless and wasteful expenditure.

Recommendation

Management should implement processes and procedures to ensure the prevention of unauthorised, irregular and fruitless and wasteful expenditure.

Management response

Management comment on audit finding

Prevention of Irregular Expenditure

The majority of the irregular expenditure is due to contracts that were declared irregular during previous audits by the Auditor-General.

The rest of the irregular expenditure is a direct result of transactions that were done without involving SCM and following the necessary processes.

Furthermore most of the additional irregular expenditure to be declared, is a direct result of uncompetitive bidding processes especially deviations.

Prevention of Fruitless and Wasteful Expenditure

The Fruitless & Wasteful expenditure is a direct result of interest on late payments of invoices except for the SARS penalties.

Prevention of Unauthorised Expenditure

Unauthorised expenditure is caused when no verification of allocated budget is done when transacting either through SCM process or payment of creditors. It is also caused, when spending allocated budget to items not budgeted for.

Management comment on internal control deficiencies

Prevention of Irregular Expenditure

The lack of a Procurement Plan to address the irregular contracts and Standard Operating Procedures (SOPs) is one of the major contributors of irregular expenditure.

Prevention of Fruitless and Wasteful Expenditure

A Standard Operating Procedure (SOP), must be developed in terms of the receipt, verification and payment of invoices. This SOP should also have timeframes attached to it to ensure that invoices are paid timeously to avoid interests on late payments.

Prevention of Unauthorised Expenditure

There is no control in place to verify available budget when transacting. From a SCM perspective, a control will be built in as part of the Standard Operating Procedure (SOP), where available budget will be checked before capturing any requisition or orders. If items are detected, that are not budgeted for, it will be referred back to the user department and the user department must provide proof before any SCM process is continued.

Management comment on recommendationPrevention of Irregular Expenditure

All irregular contract should be included in the Procurement Plan and a competitive bidding process should be followed to replace these contracts.

Once new contracts are put in place that are regular, the termination process can be started.

Prevention of Fruitless and Wasteful Expenditure

A Standard Operating Procedure (SOP), must be developed for the receipt, verification and payment of invoices.

Prevention of Unauthorised Expenditure

Standard Operating Procedure (SOPs) of SCM as well as Expenditure must make provision for the verification of budget before any financial transaction takes place.

Remedial action

	By whom	By when
Inclusion of all irregular contracts in the Procurement Plan to put new contracts in place that are not irregular.	SCM, All Relevant User Departments of Contracts	30 June 2020
Standard Operating Procedure (SOP), for the Receipt, Verification, Authorisation and Payment of Invoices	SCM, Expenditure & Senior Accountant	31 January 2020
Standard Operating Procedure (SOP), for the verification of allocated budget as part of the overall business process before any financial transacting takes place.	SCM, Expenditure & Senior Accountant	28 February 2020

If the above finding affects an amount(s) disclosed in the financial statements:

Please give an indication of whether a correcting journal entry shall be processed

YES

NO

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

Compliance – Utilisation of conditional grants

19. Non-compliance: Conditional Grants – performance not evaluated (CoMAF 51)

Audit finding

Section 12 of the Division of Revenue Act 1 of 2018 (DORA), states the following –

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

During the testing of compliance with legislation in respect of conditional grants, the following matter was identified:

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

This instance results in material non-compliance which will be reported in the auditor's report.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management has neglected to exercise the necessary oversight responsibility over compliance with legislation as timeframes were not adhered to.

Recommendation

The municipality should implement processes to ensure that compliance requirements are adequately monitored and should have a compliance officer that monitors the requirements with its timeframes.

Management response

No management response was received.

Auditor's conclusion

This results in material non-compliance and will be reported in the management report under matters affecting the audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS

Revenue from non-exchange transactions

Employee cost

1. Employee files could not be provided (CoMAF 13)

Audit Finding

Section 15(1)(a) of the Public Audit Act (PAA) states the following:

“General auditing powers. - (1) When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee.”

During the audit of the employee related cost, the following employee files could not be provided for audit purposes:

No	Employee Name	Surname	Position	Employee Code	Amount (R)
1	M	Gouws	Executive Mayor	1004	810 992
2	RM	Louw	Speaker	1023	657 376
3	W	Adams	Debt collector	169	31 500
4	PA	Williams	Municipal Manager	35	1 397 562

Due to the non-submission of these personnel files the accuracy, occurrence, classification and completeness of the following, as disclosed in the financial statements, could not be determined:

<u>Note to the AFS</u>	<u>Item</u>	<u>Amount</u>
36	Remuneration of Mr. PA Williams	R1 397 562
37	Executive Mayor	R 810 992
37	Speaker	R 657 376

In addition, the accuracy, occurrence, classification and completeness of the remuneration of W Adams of R31 500 which is included in employee related costs of R20 289 284 could also not be determined.

Therefore, we were unable to verify the accuracy, occurrence, classification and completeness of employee related costs of R2 897 430 since no supporting documentation could be provided to substantiate this amount.

Internal control deficiency

Financial and performance management

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Through discussion with management, it was confirmed that the Hawks confiscated the above-mentioned files.

Recommendation

The relevant files should be obtained and provided for audit purposes.

Management response

Management comment on audit finding In agreement The files were confiscated by the Hawks. No employee files for Councillors.		
Management comment on internal control deficiencies In agreement		
Management comment on recommendation In agreement Files will be obtained and be submitted as soon as we retrieve them from the Hawks.		
Remedial action		
<i>What actions will be taken</i> 1. Obtain files or copies from Hawks	<i>By whom</i> N Gouws	<i>By when</i> 20 March 2020
If the above finding affects an amount(s) disclosed in the financial statements		
<i>Please give an indication of whether a correcting journal entry shall be processed</i>	YES	NO N/A
<i>If yes, please indicate the accounting entry</i>		
<i>If no, please provide the reason why such a conclusion has been reached</i>		

Auditor's conclusion

The amount of R2 897 430 consists of employee related cost of R1 429 062 and councilors remuneration of R1 468 368.

Upon the performance of alternative procedures in order to verify the accuracy and classification of employee related cost of R1 429 062 an estimated difference of R117 207 was identified. Since no employee files could be provided for audit purposes we could not determine the validity of this difference. Therefore the matter will be reported in the management report under other important matters.

Based on alternative procedures performed in respect of councilor remuneration of R1 468 368 the classification of the 2 councilors's remuneration as disclosed in the detail of note 37 to the financial statements could not be confirmed. However it could be performed that the total remuneration for these 2 councilors do agree with the payments made according to the salary

system. Therefore, this matter will be reported in the management report under other important matters.

2. Fines withdrawn (CoMAF 29)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- b) that the resources of the municipality are used effectively, efficiently and economically;*
- c) that the municipality has and maintains effective, efficient and transparent systems—*
 - a. of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

Twenty withdrawn fines were selected and agreed to the fines listing which in turn agrees to the revenue from traffic fines as disclosed in the statement of financial performance. The following withdrawn fines were however not taken into account on the fines listing:

Provincial fines withdrawn			
Notice Number	Issue Date	Amount	Date of withdrawal
55/41911/911/084788	02/01/2019	R4,000	28/05/2019
55/41703/911/084372	05/01/2019	R1,000	28/05/2019
55/41704/911/084374	05/01/2019	R3,000	28/05/2019
55/38932/911/078830	06/01/2019	R2,500	28/05/2019
55/42248/911/085462	24/01/2019	R2,500	27/05/2019
55/16838/911/034642	04/11/2018	R1,000	07/02/2019
Municipal fines withdrawn			
Notice Number	Issue Date	Amount	Date of withdrawal
52/05009/690/010760	13/10/2018	R300	13/12/2018
52/04962/690/010666	25/10/2018	R3,000	13/12/2018

Therefore, revenue from traffic fines is overstated with a projected amount of R470 044 which was calculated as follow:

Error	R 17 300
Sample size	R 21 600
Population	R587 750
Projected misstatement	R470 744

Internal control deficiency

Financial and performance management –

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

The total population in respect of fines withdrawn needs to be reviewed and the financial statements needs to be adjusted accordingly.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

No management response was received.

Auditor's conclusion

Since no management response has yet been received the matter will be reported in the management report under other important matters.

Property, plant and equipment

3. Completeness of asset register (CoMAF 19)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- a) that the resources of the municipality are used effectively, efficiently and economically;*
- c) that the municipality has and maintains effective, efficient and transparent systems—*
- (i) of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

1. Assets not found on asset register

During the testing of Property, Plant and Equipment, 209 assets were randomly selected from the Laingsburg municipal offices, Laingsburg Thusong service center, Laingsburg Library, Laingsburg Tourism Center and Erf 1623.

The following assets as per description with barcodes could not be traced to the asset register:

Bar code	Description	Location
11158	Printer	Laingsburg Municipal Office
13710	Table Computer	Laingsburg Municipal Office
13753	Chair	Thusong Center
11145	Chair	Thusong Center
12596	Chair	Thusong Center
13718	Chair	Thusong Center
13517	Chair	Thusong Center
13512	Chair	Thusong Center
14046	Computer CPU unit	Erf 1623
13448	Table	Erf 1623
13446	Chair	Erf 1623

2. Duplicates in the assets register

During the testing of Property Plant and Equipment, the following assets were duplicated in the asset register. The asset register and Note 4 of the financial statements is therefore overstated.

Barcode	Description	Carrying value
13677	Cabinet filing 4 drawer metal	316.68
11783	Chair highback upholstered swivel & tilt	501.44
13697	Machine laminator	647.73
12665	Chair visitor metal legs no arms	345.35
12674	Chair visitor metal legs no arms	2 003.93
13772	Computer CPU unit	2 441.76

Barcode	Description	Carrying value
		6 256.89

Internal control deficiency

Financial and Performance Management -

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

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

The municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Furthermore, the necessary corrections need to made to the financial statements.

Management response

Management comment on audit finding		
<i>Management agrees with the finding.</i>		
Management comment on internal control deficiencies		
<i>Management noted the Auditor-General's comment on internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management noted the Auditor-General's recommendation.</i>		
Remedial action		
<i>Fixed Asset Register will be updated upon the verification of the condition of the above identified assets, Property, Plant and Equipment on the face of the Statement of Financial Position and note 4 to the AFS to be updated / corrected.</i>	By whom CFO	By when <i>FAR and AFS to be updated upon finalisation of audit.</i>
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO

If yes, please indicate the accounting entry

Accounting journals will be provided upon finalisation of the FAR.

If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

A comparison of these assets to similar assets in the fixed asset register revealed that the projected misstatement in this regard is only R6 375. Since management's internal controls did not identify these assets the matter will be reported in the management report under other important matters.

4. Revenue: Limitation of scope relating to Fines (CoMAF 35)

Audit Finding

Section 15(1) (a) of the Public Audit Act (PAA) states the following:

General auditing powers. - (1) When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee.

During the testing of revenue from non-exchange transactions, fines relating to the municipality and administered by the service provider, Central Karoo Traffic Systems (Pty) Ltd, could not be tested for completeness since a complete listing of rejected fines as at year-end, which must be taken into account for this testing, could not be provided for audit purposes despite numerous follow-ups with the service provider and traffic services. No alternative procedures could be performed to test the completeness fines.

As a result, we could not test the completeness of fines of R33 341 444 as disclosed in note 25 to the financial statements.

Internal control deficiency

Financial and performance management

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Only one report covering the current and previous years could be produced. The rejections for the year under review could not be extracted from this report. Furthermore, the report was tested and found to be unreliable because since it was found in the code summaries that a rejection of example one fine was recorded two to three times in different code summaries. Furthermore, the service provider concluded it would be a time consuming exercise to

- Extract the current rejection report for the year under review and
- Sanitise the rejection report.

Recommendation

Adequate controls should be implemented to ensure that all listings are complete and easily accessible when required.

Management response

No management response was received.

Auditor's conclusion

A complete listing of rejected fines was provided subsequent to the issuance of the draft management report. The necessary tests were performed and found to be in order. Since the information was not easily retrievable the matter will be report under other important matters.

Revenue from exchange transactions

5. Internal control deficiencies: Indigent subsidies (ComAF 50)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

b) that the resources of the municipality are used effectively, efficiently and economically;

(c) that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control; and....”

1. Deceased indigent not removed on the indigent register

During the performance of CAATS procedures on indigent consumers, the following 31 indigent consumers were still registered as indigent on the debtor register while they have already deceased. Inspection of these accounts however found that these persons do not occupy these premises anymore and did not receive the indigent subsidy. Management has however not removed this outdated information from the debtor register.

Account	Consumer	Id Number	Death Date
110019090025	GROOTBOOM E	2312140142081	20161021
111026200014	BOER EDWARD al	3510255051083	20170616
150023500011	PLAATJIES A	3706070015085	20070321
110018330029	JANUARIE ANNA	4001140078084	20180606
110012930016	JANSEN KLAAS &	4012205047088	20170321
110013660015	OLIFANT JAN J	4112030035082	20171217
111026150012	SAS MARIA	4212100028080	20170828
150022200017	BUYS MIENA	4501200161084	20170821
150023300017	VISSER J & K	4506080522081	20170930
110013560018	GERTSE JAKOB &	4601045026086	20170622
110019150026	ISAACS J (OORL	4706115149088	20131019
110012810028	WILLEMSE GERTR	4709040051080	20160806
110018430026	PLAATJIES R	4901120302083	20161116
111026800016	LACKAY HESTER	4910050024088	20181210
102265000018	MAANS A	5006165823081	20190605
110013900012	MARTHINUS A	5009015093087	20190626
150024790019	SAS PIET & SA	5108065052082	20150530
150023870015	VAN DER BERG J	5309225033083	20171127
150021960017	NEL SAM J & M	5311145643082	20180309
110018460023	VAN ROOI V	5412065194088	20150405
111026210013	SOLOMONS JD	5609050121089	20190514
150023540017	BALIE S	5804170052088	20181228
110032450011	BALIE H	5905195163089	20180814
111026250019	MAANS C & M	6002035093087	20171231
150025340019	SWARTS KLAAS&	6012235876082	20160919
110018390023	OLIVIER WS & H	6211250194088	20180803
111027420019	DE BRUYN M & J	7003080975086	20171011

Account	Consumer	Id Number	Death Date
110017790028	HARMSE P D & E	7012230213082	20140207
111027250012	VOLMINK S & D	7106170233082	20150919
150025590018	OSS PATRICK &	7111165670082	20190422
150021670022	PRETORIUS T F	8508220232080	20170812

2. Indigent applications not approved

During the testing of indigent subsidy, it was found that the following indigent application forms were not approved by the chief financial officer, however, the consumer was awarded the indigent status.

Account	Consumer	Id Number
	WM LUKAS	7109140275084
	BJ LOTTERING	9303310313084
101909000013	Louise Grootboom	8406140222085
150023500011	Agnes Rabie	7912030051089
110018330029	JANUARIE ANNA	6910260183086
150023300017	Jimmy Visser	6610035823087
102680000018	Whilma Lackay	8409160098088
111026210013	Marlon Solomons	9103155198081

3. Incorrect ID number on the system

During the testing of indigent consumers, it was found that the following applicant's ID numbers were captured incorrectly on the application form:

Account	Consumer	Id Number	Correct ID
110018010013	FARAO J H & H	3708200029010	3708200029085
150024190017	SALMON F & WIL	4308165137012	6301150238083
150022830016	PALMAN NGWELLA	4508100082013	4508100082088
110020440022	FARAO K	4702060070015	4702060070080
120002600016	VIEIRA ANTONI	4709200003004	4709200003087
150023480016	HOLLAND R	4806060006018	4806060006083
110019570022	LOTTERING M &	4806180012011	4806180012086
101307000014	JANTJIES D	5204285168084	5204285240084
150022090014	LOUW A & S M M	5212040155018	5212040155083
150022960027	VAN DEN BERG R	5507040199019	5507040199084
150022950011	ARENDSE R H A	5508135158019	5808185132082
110012950014	BEUKES JAN &	5809025129015	5809025129080
150037050014	WILLEMSE ALIE	6068190725082	6008190725082
150023140019	CARELSE WT & C	6307105112018	640629020081
150023700015	PRETORIUS JACO	6510285221018	6510285221083
150022850014	FIELIES A & MA	6611145217012	6611145217087
101321000015	DE WEE W L D	9501055263087	9501055263089

4. Account not in the applicant's name

During the testing of indigent applications, it was identified that the following applicants applied for indigent subsidy while the accounts are not in their name:

Account	Account holder name	Applicant name	Applicant Id Number
150023500011	Plaatjies A	Agnes Rabie	7912030051089
110018330029	Januarie Anna	JANUARIE D	6910260183086
111026210013	Solomons Jennifer	Marlon Solomons	9103155198081

5. Shared accounts

During the testing of indigent applications, it was identified that some of the accounts were under two persons' name. It was however found that the person who qualified for the indigent subsidy (per the application form) has passed away and that the debtor register has not yet been updated in this regard.

Account	Consumer	Id Number
110012930016	JANSEN KLAAS & KATRINA 1293	4012205047088
110013560018	GERTSE JAKOB & JOHANNA 1356	4601045026086
110019150026	ISAACS J (OORLEDE)/KATRINA	4706115149088
150021960017	NEL SAM J & MARIA M 2196	5311145643082
110018460023	VAN ROOI K & V	5412065194088
110018390023	OLIVIER WS & H	6211250194088
111027420019	DE BRUYN M & J 2742	7003080975086
110017790028	HARMSE P D & E V	7012230213082
111027250012	VOLMINK S & D 2725	7106170233082
150025590018	OSS PATRICK & DITSEBE LEKAKAB	7111165670082
110018390023	OLIVIER WS & H	6211250194088
111027420019	DE BRUYN M & J 2742	7003080975086
110017790028	HARMSE P D & E V	7012230213082
111027250012	VOLMINK S & D 2725	7106170233082
150025590018	OSS PATRICK & DITSEBE LEKAKAB	7111165670082
110018390023	OLIVIER WS & H	6211250194088
111027420019	DE BRUYN M & J 2742	7003080975086
110017790028	HARMSE P D & E V	7012230213082
150023300017	Visser J & K	4506080522681
111026250019	Maans C & M	6702250067084
150025340019	Swarts Klaas & Steyn	6603220694082

6. Consumers earning more than R3500

During the testing of indigent applications, it was found that the following applicants were earning more than R3500 a month while they incorrectly received indigent subsidy:

Account	Consumer	Id Number
150021390012	MARTHINUS SANN	5607280118081
150023980011	W WILLEMSE	7202220075084
150021330018	MM KLEIN	7206240071080
150023460025	BJ LOTTERING	9303310313084

Internal control deficiency

Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions

Management did not have sufficient monitoring controls in place to ensure that all indigent debtors listed are valid indigents due to the number of indigent debtors and the size of the municipality. The municipality also does not have access to other governmental databases to confirm the validity of all indigent debtors.

Recommendation

The municipality should update the information on the debtor register to ensure that similar exceptions do not occur going forward.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

Statement of comparison of budget and actual amounts

6. Reasons not disclosed or not adequate (CoMAF 30)

Audit findings

GRAP 24, *Presentation of Budget Information in Financial Statements*, states the following -

- .12 *Subject to the requirements of Paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:*
- c) *by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.*

Statement of financial position

According to note 61 to the financial statements, budget differences are deemed material if it differs with more than 10%. During testing, it was found that no explanations were provided for the following line items, which have variances more than 10%:

- Intangible assets
- Employee benefit obligation

Cash Flow statement

Explanatory note not satisfactory

The explanatory note for the variance between budget and actual for the purchase of property, plant and equipment in the statement of cash flows is not satisfactory, as it merely states that capital expenditure is in line with budgeted figures, when in actual fact it differed by R 8,858,626.

Differences between actual figures per statement of comparison of budgeted and actual figures and financial statements.

During the performance of audit procedures, it was found that the actual figures per the statement of comparison between budget and actual for the cash flow statement, differs from the figures presented in the Cash flow statement.

The differences were as follows:

Line item	Statement of Comparison of Budget and Actual Amounts				Cash flow Statement	Difference
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Actual amounts per statement of cash flows	
Property rates	3,935,762	-293,858	3,641,904	5,073,483	5,073,843	-360
Grants	30,589,000	13,037,120	43,626,120	34,400,267	34,432,368	-32,101
Sale of goods and services	27,424,632	-2,123,588	25,301,044	27,692,850	26,065,096	1,627,754
-Service charges	19,005,120	-2,295,771	16,709,349	16,709,349	-	
-Other receipts	8,419,512	172,183	8,591,695	10,983,501	-	
Suppliers and employees	-5,805,909	304,997	-5,500,912	-56,933,307	-56,180,510	752,797
Transfers and grants	-351,240	-	-351,240	-842,493	-	842,493

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to the fact that management did not have sufficient review time as the financial statements were completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

Note 61 of the financial statements should be updated to provide valid reasons for all variances.

Explanatory notes should be more descriptive for the user of the financial statements to understand the reasons for variances.

The statement of comparison of budget and actual amounts should be updated to reflect actual amounts as per the cash flow statement.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

Management comment on audit finding

Management agrees with the findings.

Management comment on internal control deficiencies		
<i>Management agrees with internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management take note of the Auditor-General's recommendation.</i>		
Remedial action		
<ul style="list-style-type: none"> Note 61 of the AFS will updated. Explanatory notes will include more descriptive reasons. The statement of comparison of budget and actual amounts will be updated. 	By whom <i>CFO</i>	By when <i>Finalisation of AFS</i>
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed. N/A	YES	NO
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached. Disclosures will be corrected.		

Auditor's conclusion

The adjusted financial statements were inspected and it was confirmed that the necessary corrections were made. Since management had to adjust the financial statements the matter will be reported in the management report under other important matters.

Cash Flow Statement

7. Misstatements in the calculation (CoMAF 38)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

(a) that the resources of the municipality are used effectively, efficiently and economically;

*(c) That the municipality has and maintains effective, efficient and transparent systems —
(i) of financial and risk management and internal control; and....”*

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

During performance of audit procedures, it was found that certain line items in the cash flow statement were calculated and presented inaccurately.

A recalculation of the cash flow statement revealed the following differences.

Line item	Amount reported R	Recalculated amount R	Difference R
Sale of goods and services	26 065 096	27 195 594	-1 130 498
Grants and subsidies received	34 432 368	34 897 163	-464 795
Suppliers and other payments	-30 868 043	-32 396 251	-1 528 208
Finance costs	-18 433	-85 523	67 090

Internal control deficiency

Financial and performance management -

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

The cash flow statement should be corrected to reflect the correct amounts.

Management response

Management comment on audit finding		
<i>Management agrees with the finding.</i>		
Management comment on internal control deficiencies		
<i>Management agrees with internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management noted the Auditor-General's recommendation.</i>		
Remedial action		
<i>The cash flow statement will be corrected upon finalisation of the annual financial statements.</i>	By whom CFO	By when Finalisation of AFS.
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed. N/A	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached.		
<i>Cash flow statement disclosure will be corrected adjusted.</i>		

Auditor's conclusion

The adjusted financial statements were inspected and it was confirmed that the necessary corrections were made. Since management had to adjust the financial statements the matter will be reported in the management report under other important matters.

Employee related costs

8. Appointment process – Executive mayor’s assistant (CoMAF 12)

Audit Finding

Section 67(1)(a) of the Local Government Municipal Systems Act No. 19 of 2008 (MSA), states that:

“Human resource development: A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72(1)(c), to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.”

In terms of the appointment policy which was approved by Council minute of 26 July 2010, paragraph 3.4, application of the Employment Equity Act of 1998 states as follows,

- (i) *Employment equity will be applied by the Municipality.*

Paragraph 4, recruitment of the appointment policy stipulates the following,

- (ii) *A selection panel must be appointed,*
- (iii) *The post must be advertised which stipulates the conditional requirements of the post,*
- (iv) *All candidate applications must be shortlisted,*
- (v) *A preferred selection and evaluation methodology will be applied,*
- (vi) *The inherent requirements of the post must be upheld.*

With effect from 28 May 2018 staff member Agnes van Niekerk, employee number 164, was appointed as the Executive Mayor's Personal Assistant on a contract basis on a salary of R10 410.00 per month (all inclusive).

Examination and inspection of the employee file revealed that for the filling of this post;

- (i) The requirements of the Employment Equity Act, 1998 has not been met.
- (ii) A selection panel has not been appointed to oversee the appointment process,
- (iii) The post has not been advertised,
- (iv) The conditional requirements of the policy have not been applied,
- (v) No shortlisting was applied,
- (vi) No selection and evaluation methodology have been applied,
- (vii) The inherent requirements of the post have not been upheld and met.

This results in non-compliance with section 67 of the MSA and will be reported in the management report.

Furthermore, this results in irregular expenditure of R120 582,50 and should be dealt with in terms of section 32 of the MFMA.

Internal control deficiency

Leadership

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

The position was filled based on a political caucus decision and no evidence could be provided to confirm compliance with the appointment process.

Recommendation

Leadership should ensure that all appointments are done in accordance with their appointment policy.

In addition, note 58: Irregular expenditure to the financial statements should also be updated accordingly.

Management response

Management comment on audit finding		
In Agreement		
Management comment on internal control deficiencies		
In Agreement		
Management comment on recommendation		
Remedial action		
1. Will ensure that all our recruitment policies are in place	By whom N Gouws	By when 30 June 2020
2. Note 53: Irregular Expenditure to the financial statements will be updated accordingly	G Bothma	19 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO X
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		
Only Note 53 will be amended.		

Auditor's conclusion

The adjusted financial statements were inspected and it was confirmed that the irregular expenditure was disclosed. Since management had to adjust the financial statements the matter will be reported in the management report under other important matters.

9. Bonuses (CoMAF 33)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- (a) that the resources of the municipality are used effectively, efficiently and economically;*
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- (c) that the municipality has and maintains effective, efficient and transparent systems —*
 - (i) of financial and risk management and internal control; and....”*

Section 78 of the MFMA states:

“(1) Each senior manager of a municipality and each official of a municipality exercising financial management must take all reasonable steps within their respective areas of responsibility to ensure —

- (a) that the system of financial management and internal control established for the municipality is carried out diligently;*
- (b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;”*

Bonuses paid to employees

During the testing of bonus payments to employees, the following case was identified where a bonus was paid to an employee who is not entitled to an annual bonus in terms of their employment contract.

No	Employee code	Surname	Initial	Bonus paid to employee as per payslip	Month paid
1	158	Njomi	K	R 9 743	Nov 2018

Internal control deficiency

Leadership -

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

Policies are not effectively communicated to staff responsible to carry out their duties.

Recommendation

Municipal policies should be communicated and be available to all staff to ensure that adherence are given thereto.

In addition, management should investigate the whole population to determine the extent of bonuses paid out incorrectly.

Overpayments identified in this regard should be recovered from the affected employees.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

10. Motor vehicle allowance not allowed (CoMAF 40)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

- (a) that the resources of the municipality are used effectively, efficiently and economically;*
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards*
- (c) that the municipality has and maintains effective, efficient and transparent systems —
(i) of financial and risk management and internal control; and....”*

Allowance paid to employees

During the testing of allowances, the following case was identified where a motor vehicle allowance was paid to an employee who, in terms of his employment contract, was not entitled to this allowance. No council decision could also be provided to proof the contrary.

Employee code	Surname	Initials	Type of allowance	Allowance per payslip
58	Hendrikse	NA	Allowance – Travelling allowance	R13 020,79

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

When the official was initially appointed he was not entitled to a motor vehicle allowance and no subsequent decision in this regard was taken by council.

Recommendation

Management should indicate the corrective actions taken to address the control deficiencies and investigate all possible cases where allowances were paid and overpayments incurred.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

11. Misstatement of acting allowances (CoMAF 41)

Audit finding

The Collective Agreement on Conditions of Service for the Western Cape Division of the South African Local Government Bargaining Council (SALGBC) states the following –

- 8.1 An employee is entitled to an acting allowance when he is requested by written instruction by his superior in terms of Council's delegation policy to act in a higher post for a period of at least ten consecutive working days, including public holidays and compulsory closing of office during the festive season.
- 8.2 An acting allowance equal to the difference between his pensionable salary and the **commencing** notch of the salary scale of the post in which he is acting shall be paid to the employee for the period of acting.

Included in a sample of 20 allowances selected for testing were the following 2 acting allowances. In both instances it was found that the commencing notch of the salary scale of the post in which the officials acted was not used for the calculation but the salary of the official in whose position they acted. This led to the following overpayments:

No.	Allowance	Surname	Initials	Recalculated Value (R)	Acting allowance paid (R)	Overpayment (R)	Month paid
1	Acting allowance	Hermanus	EM	2 047,00	5 992,00	3 945,00	Dec 2018
2	Acting allowance	Meintjies	L	5 483,74	6 244,18	760,45	April 2019

Internal control deficiency:

Financial and performance management –

Review and monitor compliance with applicable legislation

The prescripts of the collective agreement with SALGBC were interpreted incorrectly resulting in the overpayment of acting allowances.

Recommendation

Since management did not interpret the collective agreement correctly, all acting allowances paid during the financial year under review should be recalculated and the overpayments made should be recovered from the relevant individuals.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

12. Internal control deficiencies relating to employee cost (CoMAF 52)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

- “(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—*
- c) that the resources of the municipality are used effectively, efficiently and economically;*
 - d) that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control; and....”*

Section 78 of the MFMA states:

- “(1) Each senior manager of a municipality and each official of a municipality exercising financial management must take all reasonable steps within their respective areas of responsibility to ensure—*
- (c) that the system of financial management and internal control established for the municipality is carried out diligently;*
 - (d) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;”*

The following issues were identified while assessing the internal control environment relating to employee cost:

Segregation of duties

Segregation of duties is the concept of having more than one person required to complete a task which strengthens the internal control environment and decreases the risks of fraud or errors occurring.

It was found that no reviews were performed on amendments/changes made to the employees' Masterfile on the Promun system. This include the following:

- Amendments/changes made to the employee's banking details.
- Capturing of the new appointments on the Promun system in order to ensure that the employees' details are captured accurately and completely.
- The amendments made on the overtime to be paid to employees, changes to the additional deductions to be added on the employees Masterfile and days to be deducted from the salary of the employee which relate to days where the employee was absent from work without applying for leave.
- Capturing of leave days taken by the employees on the Promun system in order to ensure that leave days captured are valid, accurate and complete.
- Termination of employees from the Promun system (including calculations of the amount to be paid to the employee on termination date/month).

Screening of candidates

With the exception of the municipal manager position, the municipality does not perform any screening of candidates for positions to verify their qualifications, experience and whether the candidates have been involved in any criminal/fraudulent activities or not.

Internal control deficiency

Leadership –

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

Financial and performance management -

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

Recommendations

Management should implement policies and procedures to ensure that there is effective segregation of duties within the municipality, where one employee captures the information on the Promun system or make changes/amendments to the Promun system, and another senior employee reviews the information captured/changes made.

During the appointment process of the employees, management should ensure that the credentials of candidates are properly verified in order to ensure that details provided by the candidates (qualifications, experience, skills, etc.) are valid and accurate.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

Fixed assets

13. Building incorrectly classified as investment property (CoMAF 31)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

b) that the resources of the municipality are used effectively, efficiently and economically;

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

i. of financial and risk management and internal control; and....”

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

During the audit of capital assets, it was found that a municipal house (ERF 1623) situated at Van Riebeeck street 1 Laingsburg, is being used by the municipality as official offices for municipal traffic department. This property to the amount of R191 500 is incorrectly classified as investment property instead of the property plant and equipment (PPE).

Therefore, investment property as disclosed in note 3 to the financial statements and property plant and equipment as disclosed in note 4 to the financial statements are overstated and understated respectively by R191 500.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor-general.

Recommendation

The municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

In addition, the financial statements and various fixed asset registers should be adjusted and re-submitted to the auditors.

Management response

No management response was received.

Auditor's conclusion

Although management did not formally respond to this finding it was noted that the adjusted financial statements have been adjusted to correct the investment properting and property, plant and equipment in accordance with the CoMAF raised. Since management's internal controls did not identify this misstatement and the financial statements had to be adjusted subsequent to submission, the matter will be reported in the management report under other important matters.

14. Disposal of assets (CoMAF 32)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

d) that the resources of the municipality are used effectively, efficiently and economically;

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

i) of financial and risk management and internal control; and....”

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

14. Disposal of capital assets. — (1) A municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.

(2) A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public—

(a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and

(b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

(3) A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.

(4) A municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in subsection (2) (a) and (b) in respect of movable capital assets below a value determined by the council.

During the testing of Capital assets, a disposal of R73 368 was disclosed in note 4 – Property Plant and Equipment.

However, no documentary evidence could be produced by the municipality that these disposals were approved by council as required by section 14 of the MFMA.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

The disposals came to light during the updating of the fixed asset register for the purpose of the compilation of the financial statements. Therefore, there was not sufficient time to submit the disposals to council before the submission of the financial statement to the Auditor-general.

Recommendation

A list of assets disposed, should be submitted to council and be dealt with in terms of section 14 of the MFMA.

Management response

Management comment on audit finding <i>Management agrees with the finding.</i>
Management comment on internal control deficiencies <i>Management agrees with the internal control deficiencies.</i>
Management comment on recommendation <i>Management noted the Auditor-General's recommendation.</i>
Remedial action

<p>Paragraph .78 of GRAP 17 states the following: “.78 The carrying amount of an item of property, plant and equipment shall be derecognised: (a) on disposal (including disposal through a non-exchange transaction); or (b) when no future economic benefits or service potential are expected from its use or disposal.</p> <p><i>As these assets could not be found during the 17/18 financial year as well as the 18/19 financial year, the assets were derecognized in the FAR and disclosed as such in the AFS.</i></p> <p><i>If these assets remain in the FAR, the carrying value will ultimately increase the total carrying value of PPE, which in essence overstates PPE.</i></p> <p><i>The existence and valuation assertion will be negatively affected by the non-verification of the assets.</i></p>	<p>By whom</p> <p><i>CFO to discuss this matter with the AG and ultimately a council meeting should be held as soon as possible to address the COMAF.</i></p>	<p>By when</p> <p><i>As soon as possible.</i></p>
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Auditor's conclusion

Management's response is noted. However since no approval has yet been obtained the matter will be reported in the management report under other important matters.

Expenditure

15. Overstatement of expenditure due to incorrect allocation (CoMAF 37)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

b) that the resources of the municipality are used effectively, efficiently and economically;

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

i) of financial and risk management and internal control; and....”

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

Expenditure overstated

During the audit of sundry deposits, as disclosed in note 12 to the financial statements, it was found that a payment of R19 730 to ESKOM for an electricity connection was incorrectly allocated to operational expenditure instead of to sundry deposits. During the recognition of the interest earned on these deposits, the municipality however incorrectly recorded the R19 730 as interest earned by debiting sundry deposits and crediting revenue.

As a result, the amount of R19 730 has since been allocated to sundry deposits, but operational expenditure and interest earned of R70 566 have been overstated by R19 730.

Internal control deficiency

Financial and Performance Management -

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

Although the annual financial statements are compiled by a consultant on behalf of the municipality, management should ensure that amounts are correctly allocated, classified and mapped for financial statement purposes. In addition, management should consider making the necessary adjustment to the financial records.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

16. Non-compliance: Payments not made in accordance with the approved subsistence and travel policy (S&T policy) (CoMAF 49)

Audit Finding

We identified that notwithstanding MFMA Circular No. 82: Cost Containment Measures (updated November 2016), expenditure in respect of travel and subsistence has increased from the prior year as per the table below.

Expenditure 2017/18	Expenditure 2018/19	Percentage increase
R670 963	R931 774	38,9%

Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of a municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

During the audit of travel and subsistence and assessing the validity and accuracy of the payments made against the travel and subsistence policy, the following discrepancies were identified:

1. Transaction no. 17967 dated 18 June 2019 to the amount of R9 221,30 paid to PA Williams
=

This claim related to official commitments on

- 3 June 2019 (Cape Town) (Monday)
- 10 June 2019 (Worcester) (Monday)
- 11 June 2019 (George) (Tuesday)
- 14 June 2019 (Cape Town) (Friday)

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Place where official commitment will be held
- Date of official commitment
- Date and time of departure
- Expected date and time when official will be back from commitment
- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following were identified upon inspection of Annexure C (claim form):

- No supporting documentation was attached to the claim to support the official commitments that were attended on 3/6/2019 and 10/6/2019.
- It was found that the official claimed allowances for being absent for less than 24 hours (4 days – R550) and allowances for being absent for longer than 24 hours (2 days – R1 000). No evidence is attached to the claim to determine for which days the official was absent for less than 24 hours and for which days more than 24 hours. Note that the commitments according to this claim was for 4 days in total.
- The official claimed travel cost for 1 530 km. No detail is attached to the claim how this distance was determined.
- In addition, the official claimed 7 x “daggeelde” at R100 per day. The trips undertaken per the claim was only in respect of 4 days.

- According to section 1.2(2) of Annexure A of the S&T policy the “daggelde” is for accidental cost and must be substantiated by supporting documentation. No supporting documentation was attached to the claim to support the “daggelde”.
- The official further on claimed a further R158 in respect of toll fees (no supporting documents) and a further R200 for parking (no supporting documents) while section 2.2.3 of Annexure A of the policy stipulates that supporting documents must be provided for the official/councillor to be reimbursed.
- Furthermore, the official claimed R1 411,30 for out of pocket expenses. The S&T policy only caters for breakfast, lunch and supper if not provided at the official commitment to a maximum of R100, R120 and R150 respectively. An inspection of the invoices attached for the out of pocket expenses revealed that with the exception of 1 invoice, none of the invoices relate to the period of the claim and is in fact in respect of expenses incurred within the municipal area. The one invoice that does relate to the date of the claim is for R610 which is more than the maximum that can be claimed for supper as determined in council’s S&T policy.

2. Transaction no. 17246 dated 24 January 2019 to the amount of R5 117,20 paid to PA Williams –

This claim related to official commitments on

- 21 January 2019 (Caledon) (Monday)
- 23 January 2019 (Prince Albert) (Wednesday)
- 25 January 2019 (Beaufort West) (Friday)

According to section 4.1 of council’s S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following were identified upon inspection of Annexure C (claim form):

- The official claimed travel cost for 1 158 km. No detail is attached to the claim how this distance was determined.

3. Transaction no. 17741 dated 26 April 2019 to the amount of R4 036,84 paid to PA Williams –

This claim related to official commitment on 25 April 2019 (Oudtshoorn) (Thursday):

According to section 4.1 of council’s S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was however only submitted on 26 April 2019 and was not completed in respect of the following:

- Date of official commitment
- Date and time of departure
- Expected date and time when official will be back from commitment
- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following were identified upon inspection of Annexure C (claim form):

- The official claimed R996,84 for out of pocket expenses. The S&T policy only caters for breakfast, lunch and supper if not provided at the official commitment to a maximum of R100, R120 and R150 respectively.
- An inspection of the invoices attached for the out of pocket expenses revealed that the following invoices do not relate to this official commitment:
 - R307,40 dated 10 April 2019
 - R49,98 dated 26 April 2019
 - R26,99 dated 27 March 2019
 - R338,50 dated 5 April 2019
- One of the invoices claimed that did relate to 25 April 2019 is for R209 which is more than the maximum that can be claimed for supper as determined in council's S&T policy.

4. Transaction no. 17385 dated 20 February 2019 to the amount of R1 924,00 paid to A Groenewald –

This claim related to official commitment on 21 February 2019 (Beaufort West)(Thursday).

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Certification that sufficient funds are available in the budget for the official to attend the official commitment

In addition, the following were identified upon inspection of Annexure C (claim form):

- According to the details of the claim form the official commitment was on 21 February 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councillor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 20 February 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.
- The official claimed for a "Sunday lunch" of R240. The invoice does not relate to this claim as it is dated 17 February 2019 and it is within the municipal area.

5. Transaction no. 17894 dated 23 May 2019 to the amount of R6 162,67 paid to PA Williams =

This claim related to an official commitment on 24 May 2019 (Cape Town) (Friday)

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- The form was not signed by the applicant
- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following was identified upon inspection of Annexure C (claim form):

- No supporting documentation was attached to the claim to support the official commitment that was attended on 24 May 2019.
- According to claim the official left on 23 May 2019 (Thursday) at 16:00 and returned on 24 May 2019 (Friday). The official however claimed private accommodation at R500 per night for 2 nights while he was only away for one night.
- The official claimed 840 kilometres for a trip from Laingsburg to Cape Town and back to Laingsburg. The distance does not seem to be reasonable.
- In addition, the official claimed 2 x “daggelde” at R100 per day. According to section 1.2(2) of Annexure A of the S&T policy the “daggelde” is for accidental cost and must be substantiated by supporting documentation. No supporting documentation was attached to the claim to support the “daggelde”. In addition, the official claimed a further R58 in respect of toll fees (no supporting documents) and a further R200 for parking (no supporting documents) while section 2.2.3 of Annexure A of the policy stipulates that supporting documents must be provided for the official/councillor to be reimbursed.
- Furthermore, the official claimed R1 848,67 for out of pocket expenses. The S&T policy only caters for breakfast, lunch and supper if not provided at the official commitment to a maximum of R100, R120 and R150 respectively. An inspection of the invoices attached for the out of pocket expenses revealed that none of the invoices relate to the period of the claim and most is in fact in respect of expenses incurred within the municipal area.

6. Transaction no. 17653 dated 18 April 2019 to the amount of R6 129,00 paid to PA Williams
=

This claim related to official commitments on

- 1 April 2019 (Stellenbosch) (Monday)
- 2 April 2019 (Cape Town) (Tuesday)
- 10 - 11 April 2019 (Beaufort West) (Wednesday and Thursday)
- 15 - 16 April 2019 (Beaufort West) (Monday and Tuesday)

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Place where official commitment will be held
- Date of official commitment
- Date and time of departure
- Expected date and time when official will be back from commitment
- Signature of applicant
- The form is dated 18 April 2019, which is subsequent to the official commitments.
- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following were identified upon inspection of Annexure C (claim form):

- No supporting documentation was attached to the claim to support the official commitments that were attended on 1 and 2 April 2019.
- The official claimed travel cost for 1 050 km. No detail is attached to the claim how this distance was determined.
- In addition, the official claimed 7 x “daggelde” at R100 per day. There is no indication how the 7 days were determined as based on the above dates.
- According to section 1.2(2) of Annexure A of the S&T policy the “daggelde” is for accidental cost and must be substantiated by supporting documentation. No supporting documentation was attached to the claim to support the “daggelde”.

- In addition, the official claimed a further R79 in respect of toll fees (no supporting documents) and a further R200 for parking (no supporting documents) while section 2.2.3 of Annexure A of the policy stipulates that supporting documents must be provided for the official/councillor to be reimbursed.

7. Transaction no. 17436 dated 27 February 2019 to the amount of R11 334,00 paid to PA Williams –

This claim related to official commitments on

- 12 February 2019 – 15 February 2019 (Worcester, Cape Town) (Tuesday – Friday)
- 22 February 2019 (Stellenbosch) (Friday)
- 25 February 2019 (Stellenbosch) (Friday)

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. The application form was however only signed on 26 February 2019 therefore not prior to the trips.

Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Place where official commitment will be held
- Date of official commitment
- Date and time of departure
- Expected date and time when official will be back from commitment
- Certification that sufficient funds are available in the budget for the official to attend the official commitment
- Approval of the executive mayor (in the case of the municipal manager)

In addition, the following were identified upon inspection of Annexure C (claim form):

- No supporting documentation was attached to the claim to support the official commitments that were attended on 12 February 2019.
- The official claims private accommodation for 5 nights at R500 per night. Seeing that 15 and 22 February were Fridays, the official only stayed over for 3 nights and not 5.
- The official claimed travel cost for 2 090 km. No detail is attached to the claim how this distance was determined.
- In addition, the official claimed 8 x "daggelde" at R100 per day. The trips undertaken per the claim was only in respect of 6 days.
- According to section 1.2(2) of Annexure A of the S&T policy the "daggelde" is for accidental cost and must be substantiated by supporting documentation. No supporting documentation was attached to the claim to support the "daggelde". In addition, the official claimed a further R428 in respect of toll fees (no supporting documents) and parking (no supporting documents) while section 2.2.3 of Annexure A of the policy stipulates that supporting documents must be provided for the official/councillor to be reimbursed.

8. Transaction no. 17593 dated 27 March 2019 to the amount of R800,00 paid to ACVV Huis Malan Jacobs –

This payment was made for the provision of 2 salads. No invoice could be provided for audit purposes.

9. Cheque no. 45194 dated 23 August 2018 to the amount of R1 964,00 paid to A Groenewald

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Approval of the municipal manager

In addition, the following were identified upon inspection of Annexure C (claim form):

- Toll fees of R76 was claimed while no supporting documents were attached to the claim as required by section 2.2.3 of Annexure A of the policy.

10. Cheque no. 45131 dated 25 August 2018 to the amount of R601,00 paid to R Louw

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Approval of the executive mayor (in the case of a councillor)

In addition, the following were identified upon inspection of Annexure C (claim form):

- Toll fees (no supporting documents) and parking (no supporting documents) were claimed while section 2.2.3 of Annexure A of the policy stipulates that supporting documents must be provided for the official/councillor to be reimbursed.

11. Cheque no. 45079 dated 5 July 2018 to the amount of R524,00 paid to B Kleinbooï

No claim form or any supporting documentation attached to support this claim.

12. Cheque no. 45202 dated 28 August 2018 to the amount of R4 872,84 paid to B Kleinbooï

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Approval of the executive mayor (in the case of a councillor)

According to the details of the claim form the official left on 28 August 2018 and returned on 29 August 2018. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. According to the details of the claim the councilor departed on 28 August 2018 and returned on 29 August 2018. The payment for the full expense claim was already made on 28 August 2018, while no evidence is attached to the claim to approve the payment of an advance on the claim.

13. Cheque no. 45263 dated 18 September 2018 to the amount of R1 684,00 paid to L Potgieter

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Approval of the executive mayor (in the case of a councillor)

14. Cheque no. 45230 dated 5 September 2018 to the amount of R1 594,00 paid to R Louw

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Approval of the executive mayor (in the case of a councillor)

15. Cheque no. 45323 dated 16 October 2018 to the amount of R1 378,00 paid to M Gouws

No supporting documentation was attached to the claim to support the official commitment that was attended on 16 October 2018.

16. Cheque no. 45312 dated 10 October 2018 to the amount of R1 378,00 paid to M Gouws

No supporting documentation was attached to the claim to support the official commitment that was attended on 11 October 2018.

According to the details of the claim form the councilor attended an official commitment on 11 October 2018. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be.

The payment for the full expense claim was made on 10 August 2018, while no evidence is attached to the claim to approve the payment of an advance on the claim.

17. Cheque no. 45420 dated 27 November 2018 to the amount of R1 378,00 paid to I Brown

According to the details of the claim form the councilor attended an official commitment on 29 November 2018.

Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 27 November 2018, while no evidence is attached to the claim to approve the payment of an advance on the claim.

18. Cheque no. 45411 dated 22 November 2018 to the amount of R3 264,00 paid to I Brown

According to the details of the claim form the councilor attended an official commitment in George on 23 November 2018.

Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 22 November 2018, while no evidence is attached to the claim to approve the payment of an advance on the claim.

Please also refer to item 19 below.

19. Cheque no. 45408 dated 21 November 2018 to the amount of R3 364,00 paid to B Kleinbooi

According to the details of the claim form the councilor attended an official commitment in George on 23 November 2018. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 21 November 2018,

while no evidence is attached to the claim to approve the payment of an advance on the claim.

With reference to item 18 above, according to the supporting documentation attached to the claim, councilor Kleinbooi attended the same meeting as councilor I Brown (item 18). However, both councilors claimed and was paid traveling cost of R2 074,00 indicating that they traveled on their own. This is not cost effective and in the best interest of the municipality.

20. Cheque no. 45497 dated 24 January 2019 to the amount of R580,00 paid to M Gouws

According to section 4.1 of council's S&T policy, approval to attend an official commitment needs to be obtained beforehand. Annexure B of the claim form (request for approval) was not completed in respect of the following:

- Proof that the executive mayor informed the municipal manager and the speaker (in the case of the executive mayor)

21. Cheque no. 45491 dated 18 January 2019 to the amount of R2 109,20 paid to M Gouws

No supporting documentation was attached to the claim to support the official commitment that was attended on 21 January 2019.

According to the details of the claim form the councilor attended an official commitment on 21 January 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 18 January 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

22. Cheque no. 45472 dated 3 January 2019 to the amount of R1 594,00 paid to A Groenewald

According to the details of the claim form the official attended an official commitment in Beaufort-West with Minister Bredell on 2 January 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 3 January 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

Please also refer to item 23 below.

23. Cheque no. 45469 dated 3 January 2019 to the amount of R1 684,00 paid to M Gouws

According to the details of the claim form the councilor attended an official commitment in Beaufort-West with Minister Bredell on 2 January 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was

already made on 3 January 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

With reference to item 22 above, according to the supporting documentation attached to the claim, councilor M Gouws attended the same meeting as the official A Groenewald (item 22). However, both the councilor and official claimed and were paid traveling cost of R1 394,00. This is not cost effective and in the best interest of the municipality.

24. Cheque no. 45553 dated 18 February 2019 to the amount of R1 174,00 paid to L Potgieter

According to the details of the claim form the councilor attended an SALGA workshop in Prince Albert on 19 February 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 18 February 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

Please also refer to item 25 below.

25. Cheque no. 45548 dated 14 February 2019 to the amount of R1 174,00 paid to P Post

According to the details of the claim form the official attended an SALGA workshop in Prince Albert on 19 February 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 14 February 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

With reference to item 24 above, according to the supporting documentation attached to the claim, councilor L Potgieter attended the same meeting as the official P Post (item 24). However, both the councilor and official claimed and were paid traveling cost of R884,00. This is not cost effective and in the best interest of the municipality.

26. Cheque no. 45631 dated 28 March 2019 to the amount of R1 288,00 paid to M Gouws

No supporting documentation was attached to the claim to support the official commitment that was attended on 28 March 2019.

27. Cheque no. 45608 dated 19 March 2019 to the amount of R290,00 paid to J Mouton

According to the details of the claim form the official attended an official commitment 20 March 2019. Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 19 March 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

28. Cheque no. 45787 dated 27 June 2019 to the amount of R1 378,00 paid to N Gouws

According to the details of the claim form the official attended an official commitment 28 June 2019.

Section 7.2 of council's S&T policy states that chief financial officer can pay an official or councilor an advance on his/her expense claim. An application in this regard should however be made, where possible, 3 days before date of departure. The advance to be paid should be calculated by the chief financial officer or a delegated official and should be based on a conservative estimate of what the expected expense claim will be. The payment for the full expense claim was already made on 28 June 2019, while no evidence is attached to the claim to approve the payment of an advance on the claim.

Consequently, the above results in non-compliance with section 62 of the MFMA as the above resulted in overpayment made in respect of the subsistence and travel policy. Since the expenditure has also been incurred in vain, it is regarded as fruitless and wasteful expenditure.

Internal control deficiency

Leadership

Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity

A culture of good governance and enhancing the interests of the municipality has not been implemented by leadership and governance due to payments being made that is not in accordance with the travel and subsistence policy, which is also contrary to the principles of cost containment.

Recommendation

Management should ensure that the subsistence and travel policy is strictly adhered to when expense claims are submitted.

In addition, the total overpayments made in this regard should be identified. These overpayments are regarded as fruitless and wasteful expenditure and should be dealt with in terms of section 32 of the MFMA and note 57 to the financial statements should be updated once the total amount has been determined.

Management response

Management comment on audit finding

Management agrees with the audit finding

Management comment on internal control deficiencies

Management agrees with the internal control deficiencies

Management comment on recommendation

Management agrees with the Auditors recommendation

Management's response is noted. This matter will be followed up during our next status of records review to monitor the progress made in this regard by the internal auditor.

Predetermined objectives

17. Reliability of Key Performance Indicator: Provision of infrastructure to deliver improved services to all residents and business (CoMAF 6)

Audit finding

Issue 1

During the audit of performance objectives, we identified the following instances where the actual performance reported does not agree with the supporting documents provided for audit purposes.

Details of the variances identified are as follows:

TL6: Number of formal residential properties connected to the municipal electrical infrastructure network credit and pre-paid electrical meters (excluding Eskom areas) and billed as at 30 June 2019.

Reference	Listing provided	Annual performance report	
TL6	Number of residential accounts which are billed/purchased electricity (excluding Eskom areas) as at 30 June 2019 per the mun837 tariff listing report	Number of residential accounts which are billed/purchased electricity (excluding Eskom areas) as at 30 June 2019 per APR	Difference
1.	852	855	3

Therefore, the number reported in the Annual Performance Report (APR) is overstated.

TL7: Number of formal residential properties that received piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019.

Reference	Listing provided	Annual performance report	
TL7	Number of residential properties which are billed for water as at 30 June 2019 per the mun837 tariff listing report	Number of residential properties which are billed for water as at 30 June 2019 per the APR	Difference
2.	1338	1339	1

Therefore, the number reported in the Annual Performance Report (APR) is overstated.

TL8: Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of closets (toilets) as at 30 June 2019.

Reference	Listing provided	Annual performance report	
TL8	Number of residential accounts which are billed for sewerage as at 30 June 2018 per the mun837 tariff listing report	Number of residential accounts which are billed for sewerage as at 30 June per the APR	Difference
3.	1295	1300	5

Therefore, the number reported in the Annual Performance Report is overstated.

TL9: Number of formal residential properties for which refuse is removed once per week and billed for the service as at 30 June 2019.

Reference	Listing provided	Annual performance report	
TL9	Number of residential property which are billed for refuse removal as at 30 June 2019 per the mun837 tariff listing report	Number of residential property which are billed for refuse removal as at 30 June 2019 per the APR	Difference
4.	1343	1348	5

Therefore, the number reported in the Annual Performance Report is overstated.

Issue 2

For the following indicators, no supporting documentation evidence could be provided to support the actual achievement as reported in the Annual Performance Report:

1. TL19 – Spend 80% of the budget allocated on the INEP programme by 30 June 2019
2. TL28 - The percentage of the municipal capital budget actually spent on capital projects by 30 June 2019
3. TL29 – Spend 80% of the budget allocated on the Main Water Pipeline in the Southkloof by 30 June 2019
4. TL30 – Spend 80% of the budget allocated on the 2ML Reservoir by 30 June 2019-
5. TL31 – Spend 80% of the budget allocated on the Electricity and Equipment for Boreholes by 30 June 2019
6. TL32 – Spend 80% of the budget allocated on the Water Treatment Project by 30 June 2019

Internal control deficiency

Financial and performance management

Prepare regular and accurate performance reports that are supported and evidenced by reliable information.

Management did not have effective review procedures in place to ensure that accurate and reliable information is provided in the APR.

Recommendations

Management should review the Annual Performance Report before the report is submitted for audit purposes.

Management should ensure that the information that is reported in the APR agrees to the source documents that they used to prepare the APR and that the information is valid and accurate.

Management response

Management comment on the audit finding:

Management agrees with the audit finding

Management comment on the root cause identified within the audit finding: <i>Management agrees with the internal control deficiencies</i>		
Management comment on the recommendation: <i>Managent agrees with the recommendations.</i>		
Remedial action: <i>Management will review the APR and ensure that the source documentation is valid and accurate.</i>		
What actions will be taken: The KPI's will be corrected in the APR and source documentation will be made available.	By whom: A Abrahams	By when: 22 October 2019

Auditor's conclusion

Inspected the revised annual report and confirmed that the annual performance report was updated.

This finding will be reported in as an other important matter.

18. Performance Management System (PMS): No data assurance procedures have been included in the PMS. (CoMAF 1)

Audit Findings

Chapter 4, step 6 of the National Treasury Framework for Managing Programme Performance Information (FMPPI), states:

“Step 6: Establish processes and mechanisms to facilitate corrective action

Regular monitoring and reporting of performance against expenditure plans and targets enables managers to manage by giving them the information they need to take decisions to keep service delivery on track. The information should help managers establish:

- *What has happened so far?*
- *What is likely to happen if the current trends persist, say, for the rest of the financial year?*
- *What actions, if any, need to be taken to achieve the agreed performance targets?*

Measuring, monitoring and managing performance are integral to improving service delivery.”

Chapter 5, paragraph 5.2 of the National Treasury Framework for Managing Programme Performance Information (FMPPI), states:

“5.2 Integrated performance information structures and systems

Performance information systems should be integrated within existing management processes and systems. The accounting officer or head official of an institution is responsible for ensuring that the institution has:

1. *Documentation addressing the following:*
 - *Integration of performance information structures and systems within existing management*
 - *processes and systems*
 - *Definitions and technical standards of all the information collected by the institution*
 - *Processes for identifying, collecting, collating, verifying and storing information*
 - *Use of information in managing for results*
 - *Publication of performance information.*
2. *Appropriate capacity to manage performance information.*
3. *Appropriate systems to collect, collate, verify and store the information.*
4. *Consultation processes that ensure the information needs of different users are taken into consideration when specifying the range of information to be collected.*
5. *Processes to ensure the information is appropriately used for planning, budgeting and management within the institution, including:*
 - *Processes to set performance standards and targets prior to the start of each service delivery period*
 - *Processes to review performance and take management action to ensure service delivery stays on track*
 - *Processes to evaluate performance at the end of a service delivery period.*
6. *Processes to ensure that responsibility for managing performance information is included in the individual performance agreements of line managers and other officials.*

7. *An identified set of performance indicators for reporting for oversight purposes.”*

The evaluation of the municipality's performance management system, revealed that the standard operating procedures do not include data assurance procedures such as data collection, processing and monitoring procedures which should be monitored by management.

The exclusion of these assurance procedures such as data assurance procedures might result in the municipality not submitting valid, accurate and complete performance information. Without proper accurate and timely information managers would not be in a position to discharge their responsibilities thus ensuring that timely action is taken in respect of poor service delivery.

Internal control deficiency

Leadership –

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

Develop and monitor the implementation of action plans to address internal control deficiencies

Although this was already communicated during the prior year audit, this matter was not included in the audit action plan and the municipality has not yet developed and implemented data assurance procedures as part of their standard operating procedures.

Recommendation

The municipality's standard operating procedures in respect of their performance management system should be updated to include data assurance procedures in order to ensure that the municipality's performance information is valid, accurate and complete and that it complies with the guidance per the FMPPI.

Management response

Management comment on the audit finding		
<i>Management agrees with the audit finding.</i>		
Management comment on the root cause identified within the audit finding:		
<i>Management agrees to the root cause identified and will put measures in place to prevent the repetition of the events.</i>		
Management comment on the recommendation:		
<i>Management agrees that accurate processes must be put in place to ensure correct data outputs.</i>		
Remedial action:		
<i>Standard operating procedures will be put in place to ensure accurate data submission.</i>		
What actions will be taken:	By whom: P Post	By when: 30 June 2020

Auditor's conclusion

Since management has indicated in their response that they agree with the finding the matter will be reported in the management report under other important matters.

Compliance – Strategic planning and performance

19. Strategic planning and performance: Approved adjustment budget not made public (CoMAF 2)

Audit finding

Section 21A of the Municipal Systems Act 32 of 2000, states the following:

21A. Documents to be made public.—(1) *All documents that must be made public by a municipality in terms of a requirement of this Act, the Municipal Finance Management Act or other applicable legislation, must be conveyed to the local community—*

- (a) *by displaying the documents at the municipality's head and satellite offices and libraries;*
 - (b) *by displaying the documents on the municipality's official website, if the municipality has a website as envisaged by section 21B; and*
 - (c) *by notifying the local community, in accordance with section 21, of the place, including the website address, where detailed particulars concerning the documents can be obtained.*
- (2) *If appropriate, any notification in terms of subsection (1) (c) must invite the local community to submit written comments or representations to the municipality in respect of the relevant documents.*

Regulation 26 of the Municipal Budget and Reporting Regulations, 2008, states the following:

26. Publication of approved adjustments budget—(1) *Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25 (3).*

- (2) *When making public an adjustments budget and supporting documentation in terms of subregulation (1), the municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the adjustments budget, including—*

summaries of the adjustments budget and supporting documentation in alternate languages predominant in the community;

information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and

any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

No evidence could be provided by the municipality that the 2018/19 adjustment budget, that was approved by Council at their meeting of 27 February 2019, was made public by the municipal manager within ten working days as required by Municipal Budget and Reporting regulation 26(1).

This will result in non-compliance with the Municipal Budget and Reporting Regulations.

Internal control deficiency*Leadership –*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Management does not have processes and procedures in place to ensure adherence to the above-mentioned laws and regulations.

Recommendation

Processes and procedures should be implemented to ensure that management does not overlook the requirements of the above-mentioned laws and regulations.

It is also recommended that the municipality improves its monitoring and review procedures to ensure compliance with Section 21A of the Municipal Systems Act 32 of 2000 and regulation 26 of the Municipal Budget and Reporting Regulations, 2008.

Management response

Management comment on audit finding		
<i>Management agrees with the audit finding</i>		
Management comment on internal control deficiencies		
<i>Management agrees with the comment of internal deficiency</i>		
Management comment on recommendation		
<i>An internal process will be put in place to avoid the shortcomings in the requirements of laws and regulations</i>		
Remedial action		
Processes and procedures to be implemented	By whom A GROENEWALD	By when 31 March 2020

Auditor's conclusion

Since management agrees with the finding the matter will be reported in the management report under other important matters.

Compliance – Expenditure management

20. Non-compliance: Expenditure Management Payments not made within 30 days (CoMAF 47)

Audit finding

Section 65 of the Municipal Finance Management Act, (MFMA) states the following –

Expenditure management. – (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 –*

(b) *that the municipality has and maintains a management, accounting and information system which-*

(i) *recognise expenditure when it is incurred*

(ii) *accounts for creditors of the municipality; and*

(iii) *accounts for payments made by the municipality*

(e) *that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.*

30 Days payment

Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. Refer to table below for details in this regard:

INVOICE NUMBER	INVOICE RECEIVED DATE	TOTAL PER INVOICE	PAYMENT DATE	EFT/CHEQUE NO	DAYS BETWEEN INVOICE RECEIPT AND PAYMENT
No invoice number recorded on invoice	28 Aug 2018	R 2 007,75	11Oct 2018	16682	44
No invoice number recorded on invoice	26 July 2017	R 1 844,00	22 Feb 2019	17396	576
IN102429	29 Mar2019	R 29 137,50	06 May2019	17764	38
2964	21 Jan 2019	R124 200,00	26 Mar2019	17573	64

This results in a non-compliance with section 65(2)(e) of the MFMA.

Internal control deficiency

Financial and performance management-

Review and monitor compliance with applicable legislation.

Management did not implement sufficient controls to ensure invoices received are processed within the legislative timeframes. Invoices received from creditors are not timeously sent to the accounts payables unit for payment.

Recommendation

Management should implement adequate controls, processes and procedures to ensure when invoices are received from creditors, such invoices are timeously paid.

Management should ensure that all invoices be paid within 30 days of receipt thereof to avoid possible interest being charged and to comply with the prescripts.

Management response

Management comment on audit finding

Management agrees with finding.

The Municipality experience challenges with the receipt of invoices. Invoices are mostly received from suppliers after the due date on the invoice has already expired.

Management comment on internal control deficiencies

The internal control deficiency is not having a documented process (SOP) in place for the receipt, verification and payment of invoices. This process will form part of a bigger Standard Operating Procedure (SOP) and will be aligned with the SOP of RFQ's and payment of creditors.

Management comment on recommendation

Management will put a process in place for the receipt, verification, authorisation and payment of invoices. As mentioned above this will be incorporated as part of an overall business process for the payment of RFQ's and other invoices.

A Standard Operating Procedure (SOP) will be developed and agreed by both SCM and Expenditure with certain timelines attached to it.

Remedial action

<p>Development of a Standard Operating Procedure (SOP) for the receipt, verification, authorisation and payment of invoices.</p> <p>This SOP include the following process:</p> <ul style="list-style-type: none"> • When an invoice is received after goods or services has been rendered 30 days processing starts immediately. • When an invoice is received and the due date for payment or invoice date is already past the received date, 30 days starts from this point forward. The supplier is notified accordingly. • SCM will on a monthly basis pull a report on all outstanding orders, checks whether goods has been received. If goods has been received, request an invoice immediately Supplier is accordingly notified and a payment date will be agreed upon. • A Central point for the receipt of invoices will be essential. 	<p>By whom</p> <p>SCM, Expenditure & Senior Accountant</p>	<p>By when</p> <p>31 January 2020</p>
<p>If the above finding affects an amount(s) disclosed in the financial statements:</p>		
<p>Please give an indication of whether a correcting journal entry shall be processed</p>	<p>YES</p>	<p>NO</p>
<p>If yes, please indicate the accounting entry</p>		
<p>If no, please provide the reason why such a conclusion has been reached</p>		

Auditor's conclusion

Management's comments are noted. The matter will be reported in the management report under other important matters.

Compliance – Human resource management

21. Appointment process – Debt collector (CoMAF 39)

Audit finding

Section 66(1)(a) of the Local Government Municipal Systems Act No. 19 of 2008 (MSA), states that:

66. Staff establishments —

- (1) A municipal manager, within a policy framework determined by *the municipal council and subject to any applicable legislation, must—*
 - (a) *develop a staff establishment for the municipality, and submit the staff establishment to the municipal council for approval;*
 - (b) *provide a job description for each post on the staff establishment;*
 - (c) *attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation; and*
 - (d) *establish a process or mechanism to regularly evaluate the staff establishment and, if necessary, review the staff establishment and the remuneration and conditions of service.*
- (2) *Subsection (1) (c) and (d) do not apply to remuneration and conditions of service regulated by employment contracts referred to in section 57.*
- (3) *No person may be employed in a municipality unless the post to which he or she is appointed, is provided for in the staff establishment of that municipality.*
- (4) *A decision to employ a person in a municipality, and any contract concluded between the municipality and that person in consequence of the decision, is null and void if the appointment was made in contravention of subsection (3).*
- (5) *Any person who takes a decision contemplated in subsection (4), knowing that the decision is in contravention of subsection (3), may be held personally liable for any irregular or fruitless and wasteful expenditure that the municipality may incur as a result of the invalid decision.*

Section 67(1)(a) of the Local Government Municipal Systems Act No. 19 of 2008 (MSA), states that:

“Human resource development: A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72(1)(c), to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.”

At a general council meeting of 23 August 2018 the contract of the Credit Liaison Officer, Mr. Adams was extended from 1 September to 31 December 2018. The position of Debt collector was again advertised on 29 April 2019 and Mr. Adams was appointed to this position from June 2019.

An inspection of the staff establishment revealed that the posts of Credit liaison officer and Debt collector do not exist on the current staff establishment.

This results in non-compliance with section 66(3) of the MSA and will be reported in the management report.

Internal control deficiency

Leadership

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Confirmation was not obtained that this position exists on the staff establishment before the position was filled.

Recommendation

Leadership should ensure that posts exists on the staff establishment before appointments are made. In addition, management should evaluate their staff establishment to ensure that it caters for their operational needs.

In addition, the matter should be dealt with in terms of sections 66(4) and (5) of the MSA.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

22. Minimum Competencies (CoMAF 44)

Audit Finding

Section 119 (1) and (2) of the Municipal Finance Management Act (MFMA), No. 56 of 2003, states as follows—

“Competency levels of officials involved in municipal Supply Chain Management. -

- (1) The accounting officer and all other officials of a municipality or municipal entity involved in the implementation of the supply chain management policy of the municipality or municipal entity must meet the prescribed competency levels.*
- (2) A municipality must for the purposes of subsection (1) provide resources or opportunities for the training of officials referred to in that subsection to meet the prescribed competency levels.”*

In addition, the exemption from regulations 15 and 18 of the Municipal Regulations on Minimum Competency levels, 2007 as promulgated in Government Gazette No. 40593 of 3 February 2017 states the following:

1. *Subject to the conditions in paragraph 2, municipalities and municipal entities are exempted from regulations 15 and 18 of the Regulations, in that a municipality or a municipal entity may-*
 - (a) continue to employ an official; and*
 - (b)*

who does not meet the minimum competency level in the unit standards for each competency area as required for the position in terms of the Regulations.
2. *When applying paragraph 1, a municipality or municipal entity must implement the following conditions:*
 - (a) in the case of -*
 - (i) an existing official, the official must attain the minimum competency level in the unit standards for each competency area within 18 months from the date of publication of this Notice; and*
 - (ii)*
 - (b) in the case of -*
 - (i) an existing official, the condition contemplated in subparagraph (a)(i) must be included as a performance target in that official's performance agreement, if such agreement is required. If no such agreement is required, the municipality or the municipal entity must conclude an agreement with the official giving effect to the condition; and*
 - (ii)*

During the testing of compliance relating to employee cost, it was found that one SCM official did not complete the LGSETA course in order to meet the required minimum competencies as per section 119 of the MFMA. Based on inquiries with management, it was established that the SCM official did start the course, however still has some outstanding modules that need to be completed in order to meet the required minimum competencies.

Details of the SCM official referred to is as follows:

No	Employee code	Name	Surname
1	81	Keith	Gertse

Although the relevant official had to obtain the minimum competencies by 31 July 2018, he has not yet successfully completed the outstanding modules. In addition, no evidence could be provided for audit purposes that the municipality concluded an agreement with the official to give effect to the condition as stipulated in the Regulations.

Consequently, this results in non-compliance with section 119 of the MFMA on Minimum Competency Levels.

Internal control deficiency

Leadership -

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Management neglected to timeously conclude an agreement with the effected employee in order to ensure that the required minimum competencies are obtained.

Recommendation

Management should conclude an agreement with the effected employee in order to enforce the regulations. In addition, monthly reports must be tabled at council meetings to enable council to enforce the regulations and the exemption notice.

Management response

No management response was received

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

Procurement and contract management

23. Control deficiencies (CoMAF 5)

Audit Findings

During the process of assessing the internal control procedures within the procurement process as implemented by the municipality, the following deficiencies were identified:

- The municipality does not have an approved annual procurement plan in place to eliminate risks pertaining to irregular expenditure being incurred due to inadequate planning.
- There are no controls in place to ensure that goods or services are not deliberately split into parts or items of a lesser value merely to avoid complying with the requirements of the SCM policy - due to no procurement plan being available.
- The SCM unit does not apply the CIDB requirements to the maintenance of assets but only applies it to building/additional construction assets.
- The SCM only applies the CIDB requirements for acquisitions above R200 000 whereas it should also be applied for contracts/quotations above R30 000.
- The SCM unit does not appropriately apply the CIDB requirements when a contract is divided into a portion that contains construction and a portion that contains professional fees, as the whole contract should adhere to the CIDB requirements.
- The SCM unit does not have any risk registers in the unit and no action plans to address those risks identified.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Processes and procedures within the SCM environment are not sufficiently designed due to not having the capacity within the SCM unit and no support being obtained from internal audit unit.

Recommendation

Management should perform a risk assessment on their supply chain management system in order to identify weaknesses in internal control measures and compile an action plan to address the deficiencies listed above.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received, the matter will be reported in the management report under other important matters.

IT environment

24. IT control environment control deficiencies (CoMAF 4)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

- “(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—*
- ii) that the resources of the municipality are used effectively, efficiently and economically;*
 - (c) that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control; and....”*

Section 78 of the Municipal Finance Management Act (MFMA) states:

- “(1) Each senior manager of a municipality and each official of a municipality exercising financial management must take all reasonable steps within their respective areas of responsibility to ensure—*
- (e) that the system of financial management and internal control established for the municipality is carried out diligently;*
 - (f) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;”*

Section 165 of the MFMA states:

- (2) “The internal audit unit of a municipality or municipal entity must—*
- (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—*
- (ii) internal controls;*

Audit finding

During the review of the information technology (IT) control environment the following issues were identified:

Issue 1: Information Technology Governance

The IT governance framework does not have all of the following as a minimum criteria included in the IT governance framework:

- Accountability structures for IT
- IT governance processes
- IT reporting structures
- IT policies and procedures
- IT compliance
- IT controls and risk mitigation
- Information security management practices
- Business and disaster recovery
- Information technology strategy as part of the strategic business planning process
- Project management principles
- IT benefits realisation processes
- IT value and performance measurement processes
- IT acquisition and disposal processes

Furthermore, it was found that the municipality does not have an approved IT strategic plan in place that supports the municipality's requirements and ensures that IT spending remains in line with the approved IT strategic plan.

In addition, it was found that the municipality did not perform any IT risk assessments during the 2018/19 financial year.

Internal control deficiency

Leadership

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

Financial management

Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management did not have capacity to do an IT risk assessment due to the ICT Steering Committee only being established late in the financial year.

Management was not aware of all the minimum criteria which should be included in the IT governance framework.

Recommendation

The municipality should ensure that an IT risk assessment is performed on an annual basis.

The IT governance framework should include all of the minimum criteria requirements and all amendments should be approved by council.

An IT strategic plan that supports the municipality's requirements should be compiled and approved by council and should ensure that IT spending remains in line with the approved IT strategic plan.

Management response

Management comment on audit finding		
<i>Management does agree with the audit finding.</i>		
Management comment on internal control deficiencies		
<i>Management does agree with the internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management does agree with the recommendations.</i>		
Remedial action		
<i>Management will convene a meeting with the ICT Steering Committee</i>	By whom R Pedro	By when 31 October 2019

Auditor's conclusion

Since management is in agreement with the finding the matter will be reported in the management report under other important matters.

Audit finding**Issue 2: Security management**

Security management within a computerized information system environment prevents unauthorized access to the application system that generates the information used to prepare the financial statements and enable personnel to access and utilize information system resources and information.

No evidence could be provided for audit purposes that there is a process in place to ensure up-to-date security of all systems software (patch management processes).

Internal control deficiency*Financial management -*

Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management does not have the necessary capacity and knowledge to design standard operating procedures in this regard.

Recommendation

The municipality should implement processes and procedures to ensure the up-to-date security of all systems software.

Management response

Management comment on audit finding		
<i>Management does agree with the audit finding.</i>		
Management comment on internal control deficiencies		
<i>Management does agree with the internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management does agree with the recommendations.</i>		
Remedial action		
Management will engage with the service provider to ensure that the necessary updates and upgrades are filed and documented.	By whom R Pedro	By when 30 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
N/A		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO

If yes, please indicate the accounting entry N/A
If no, please provide the reason why such a conclusion has been reached

Auditor's conclusion

Since management is in agreement with the finding the matter will be reported in the management report under other important matters.

Audit finding

Issue 3: User Access Management

User access management ensures that only valid and authorized users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved.

During the review of the IT user access management process, the following were found:

- No formal access request documentation for registering users, changing access rights, password resets and termination of access on all financial and performance information systems could be provided for audit purposes.
- No process is in place for the independent reviews of activities of the person responsible for granting users access to the network, application systems and performance reporting systems.
- No processes in place to ensure that users' access and privileges on all financial systems are periodically reviewed to confirm that such access and privileges are still commensurate with their job responsibilities.

Internal control deficiency

Financial management -

Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management has no formal process in place to manage the process of granting users access, changing access rights, password resets and termination of access.

Management did not have capacity to do an independent review of the activities of the person who grants the user access although an ICT Steering committee was established during June 2018 to address this issue.

Recommendation

The municipality should implement processes and procedures to manage the process of granting users access, changing access rights, password resets and termination of access.

The municipality should implement a process for the independent reviews of activities of the person responsible for granting users access to the network, application systems and performance reporting systems.

Management response

Management comment on audit finding		
<i>Management does agree with the audit finding</i>		
Management comment on internal control deficiencies		
<i>Management does agree with the internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management does agree with the recommendations.</i>		
Remedial action		
The IT manager will take review documents to the ICT steering Committee for approval of the processes and procedures to manage the process of granting users access, changing access rights, password resets and termination of access.	By whom R Pedro	By when 15 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
N/A		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Since management is in agreement with the finding the matter will be reported in the management report under other important matters.

Audit finding

Issue 4: Program change management

Program change management ensures that any proposed changes to the existing information system environment are coordinated, scheduled, authorized and tested to prevent unnecessary disruptions, erroneous changes and inappropriate access.

During the review of the Program change management process, the following were found:

- There are no formally documented and approved processes in place to manage upgrades/updates made to all financial / performance information systems.
- There is no formal change request documentation completed indicating the changes to be made and the reasons for all the changes to the financial systems.
- Although vendors have access to the live environment (ProMun, Collaborator and Ignite), no evidence could be provided that their access are monitored.

Internal control deficiency

Financial management -

Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management does not have the necessary capacity and knowledge to design standard operating procedures in this regard.

Recommendation

The necessary processes and procedures should be implemented to ensure that proposed changes to the existing information system environment are coordinated, scheduled, authorized and tested.

Management response

Management comment on audit finding <i>Management does agree with the audit finding</i>
Management comment on internal control deficiencies <i>Management does agree with the internal control deficiencies.</i>
Management comment on recommendation <i>Management does agree with the recommendations.</i>
Remedial action

<i>Management will convene a meeting with the ICT Steering Committee for approval of draft change management policy</i>	By whom R Pedro	By when 15 November 2019
If the above finding affects an amount(s) disclosed in the financial statements: N/A		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Since management is in agreement with the finding the matter will be reported in the management report under other important matters.

Audit finding**Issue 5: IT Service continuity**

IT service continuity controls ensure the availability and recoverability of financial and performance information systems in instances of data loss or a disaster.

During a review of the IT Service continuity process, the following were found:

- Although backups are performed on a daily basis, there is no evidence indicating that the back-ups are verified and checked for successful completion.
- The municipality does not have an approved disaster recovery plan (DRP) that include all systems.

Internal control deficiency*Financial management -*

Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management does not have the necessary capacity and knowledge to design standard operating procedures in this regard.

Recommendation

Management should compile and approve a disaster recovery plan (DRP) which should include all systems. In addition, backups should be verified and checked for successful completion by way of signing back-up logs or keeping back-up registers.

Management response

Management comment on audit finding		
<i>Management does agree with the audit finding</i>		
Management comment on internal control deficiencies		
<i>Management does agree with the internal control deficiencies.</i>		
Management comment on recommendation		
<i>Management does agree with the recommendations.</i>		
Remedial action		
Management will compile a draft disaster recovery plan (DRP) to cover all systems. A back-up register will be put in place for the current back-up system	By whom R Pedro	By when 30 April 2020 for DRP

If the above finding affects an amount(s) disclosed in the financial statements: N/A		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Since management is in agreement with the finding the matter will be reported in the management report under other important matters.

Audit committee

25. Inconsistencies in the information provided by internal audit and duties not performed by the audit committee (CoMAF 9)

Audit Findings

The functioning of audit committees in the public sector are regulated by The Public Sector Audit Committee Forum (PSACF): Terms of Reference and Annual Planner for National and Provincial Government Audit Committees, and section 166 of the Municipal Finance Management Act 56 of 2003 (MFMA). Upon evaluation of the audit committee the following deficiencies were identified:

1. Audit committee minutes

Upon inspection of the minutes of 14 November 2018 it was found that paragraphs 8, 12 and 14 are exactly the same paragraphs as those in the minutes of 29 August 2018.

In addition, in paragraph 2 of November 2018's minutes an apology is rendered for Mr. Williams while in paragraph 18 of this minutes it is documented that Mr Williams closes the meeting.

Furthermore, it is documented in the minutes of November 2018 that the meeting commenced at 14:00 while in paragraph 18 of this minutes the meeting was adjourned at 10:35.

2. Audit committee charter

No evidence could be provided for audit purposes that the charter for the 2018/2019 financial year has been reviewed annually and updated to ensure relevance and consistency with the MFMA, Municipal Systems Act (No 32 of 2000) and other related regulations, guides and best practices.

3. Declarations of interest by audit committee members

An inspection of the audit committee minutes for the year under review revealed that, with the exception of the meeting of 14 November 2018, the audit committee members did not declare their interest at every meeting.

4. Roles and responsibility of the audit committee

During inspection the audit committee minutes for the financial year under review, the following were identified:

- No assessment was performed by audit committee to satisfy itself of the appropriateness of the expertise and adequacy of resource of the auditee's finance function.
- No evidence could be obtained from the minutes that any internal audit related issues were discussed at the audit committee as required by section 166(2)(a)(i) of the MFMA. Furthermore, no evidence could be obtained that the audit plan was submitted to and approved by the audit committee.
- No evidence was found that the audit committee responded to the council on any issues raised by the Auditor-General in the audit report as required by section 166(2)(c) of the MFMA.
- The audit committee did not assist in reviewing the functioning and effectiveness of information technology security and control.
- No evidence could be provided that the audit committee reviewed the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance

with the MFMA, the annual Division of Revenue Act and any other applicable legislation as required by section 166(2)(b) of the MFMA.

- The audit committee did not review and comment on the 2017/18 annual report.
- The audit committee did not advise council on any matters relating to performance management as required by section 166(2)(v) of the MFMA and did not review the municipality's performance management system as required by the Municipal Planning and Performance Management Regulations (GNR 796 of 24 August 2001), regulation 14(4)(a)(ii)
- Based on the above deficiencies, the combined assurance plan was also not implemented and subsequently not reported to the audit committee.

Internal control deficiency

Governance

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively

The accounting officer ensuring that the internal audit was functioning effectively as internal reports directly to the accounting officer based on the structure. This was due to the accounting officer not being permanent during the year under review.

The oversight that is provided by the audit committee is mainly dependent on the work performed by internal audit. Since minimal work was performed by the internal audit function during the financial year under review, the audit committee could not fulfill their oversight responsibility.

Recommendation

The accounting officer should take the necessary steps to ensure that the internal audit unit perform their required duties. This will lead to the audit committee receiving the necessary information to enable them to fulfil their oversight responsibility.

Management response

Management comment on audit finding

In agreement.

However, regarding Audit Committee Minutes:

It was typed over the previous minuted template and therefore the minutes were never typed until completion. Error from our side.

However, regarding the Audit Committee Charter:

It was tabled at the Council meeting held on Wednesday, 27 February 2019, agenda item 7.3.2 for approval. Audit Committee does not approve the Audit Committee Charter but Council.

However, regarding the declaration of interest of audit committee members:

We will ensure that all members declare their interest at the start of every audit committee meeting.

However, regarding the roles and responsibilities of the audit committee:

We will review and ensure that the audit committee carry out their responsibility with due diligence.

Management comment on internal control deficiencies

In agreement.

Management comment on recommendation		
In agreement		
Remedial action		
1. Capture meeting minutes on an empty template and review for completion.	By whom PD Post	By when Quarterly
2. Ensure Audit Committee Members sign the declaration of interest before the meeting proceeds.	PD Post	Quarterly
3. Implement the roles and responsibilities of the Audit Committee on a quarterly and annually.	PD Post	Quarterly
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted. The matter will be reported in the management report under other important matters

Internal audit

26. Internal audit: Non-compliance and control deficiencies (CoMAF 11)

Audit finding

In terms of section 165 (1) and (2) of the Municipal Finance Management Act, 56 of 2003 (MFMA):

(1) Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3).

(2) The internal audit unit of a municipality or municipal entity must -

(a) prepare a risk-based audit plan and an internal audit program for each financial year;

(b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—

(i) internal audit;

(ii) internal controls;

(iii) accounting procedures and practices;

(iv) risk and risk management;

(v) performance management;

(vi) loss control; and

(vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and ...”

During the evaluation of the internal audit function and inspection of the Audit Committee minutes for the year under review, the following was found:

- The draft 2018/2019 Internal audit charter was not presented and approved by the Audit Committee.
- Although an internal audit plan for the 2018/19 was submitted for audit purposes no evidence could be provided for audit purposes that this plan was presented and approved by the Audit Committee. Furthermore, it appears that none of the planned internal audit work was completed during the financial year under review since no final reports could be submitted for audit purposes.
- The internal audit function of the municipality only consists of the head internal auditor and an intern. The head of internal audit confirmed that the internal audit function is not adequately staffed due to financial constraints.
- No evidence could be provided that any training was provided for the internal audit function during the year under review.
- Through enquiry from the Institute of Internal Audit of South Africa, no evidence could be provided that the head of internal audit was still a member of this Institute. According to the institute's records the internal auditor's membership expired in 2014.
- Internal audit did not perform any work regarding Supply Chain Management for the current year under review. This is concerning due to the fact that there were significant findings regarding supply chain management identified in the prior years and no action plans were implemented. Internal audit failed to prioritise a significant component such as Supply Chain Management and as a result failed to perform a very critical function.

- No evidence could be provided for audit purposes that the internal audit function has quality control policies in place.
- No evidence could be provided that the internal audit function has internal audit procedures and an approved methodology. No documented plan or working papers per engagement could be provided, including the engagement's objectives, scope, timing, and resource allocations.

Consequently, this results in non-compliance with section 165 of the MFMA.

Internal control deficiency

Leadership –

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Leadership has not been able to source adequate and sufficiently skilled staff for the internal audit function due to the financial constraints experienced by the municipality.

Develop and monitor the implementation of action plans to address internal control deficiencies.

Although most of these deficiencies were already reported during the prior years (since 2016/17), the action plan compiled and implemented by management was not sufficient to successfully address the issues raised since it was not monitored on a regular basis by council and the audit committee.

Governance –

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

As mentioned above, the internal audit function is not adequately resourced. This could lead to a further regression in the municipality's internal control environment. The council and audit committee did not monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Leadership should take ownership of the deficiencies identified and implement credible plans to address them.

Leadership should consider the staff establishment, particularly those with the appropriate set of skills, qualifications and experience required to fulfil the function. Alternatively, the municipality may want to consider outsourcing more internal audit work to the current external service provider, to ensure that the significant internal control deficiencies are identified and corrective actions recommended for consideration by management.

Leadership should ensure that the internal audit function establish quality control policies and procedures or quality control requirements in order to comply with the applicable standard and improve compliance.

The audit committee should oversee the effective functioning of the internal audit unit and make suitable recommendations to management relating to the improvements required.

Management response

Management comment on audit finding		
In agreement		
Minutes were typed over the previous minuted template and therefore the minutes were never typed until completion. Error from our side that the Internal Audit Charter and Audit Plan does not reflect on the minutes.		
Management comment on internal control deficiencies		
In agreement		
The Management Report for 2017/2018 was issued during May 2019 and the formulated Action Plan for 2017/2018 was not given adequate time for implementation.		
Management comment on recommendation		
In agreement		
Remedial action		
	BY WHOM	BY WHEN
1. Consider the staff establishment for the Internal Audit Activity.	Accounting Officer	30 June 2020
2. Establish quality control policies and procedures in order to comply with the applicable standards and improve compliance.	PD Post	30 June 2020
3. Obtain membership from the Institute of Internal Auditors of South Africa.	PD Post	30 June 2020
4. Develop internal audit procedures and methodology.	PD Post	30 June 2020
5. Attend IIA(SA) and accredited training.	PD Post	30 June 2020

Auditor's conclusion

Management's response is noted. The matter will be reported in the management report under other important matters.

27. Internal audit: No external assessments performed on internal audit (CoMAF 10)

Non-compliance

Audit finding

The Municipal Finance Management Act, 2003 (Act no 56 of 2003) (MFMA) section 62(1)(c)(ii) 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 the reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards.

According to the Institute of Internal Auditors Standards (IIA) Practice advisory 312-1: External Quality Assessments, the following is required:

- external quality assurance review/assessment must be performed on the internal audit activity
- the review/assessment results concluded there is general or partial conformance
- the external Quality assurance reviews/assessments of an internal audit activity be done by a qualified, independent reviewer or review team from outside the organization
- The external Quality assurance review/assessment must be conducted at least once every five years.

Audit work performed on the Internal audit activity revealed that the external quality assurance review/assessment of the internal audit function was not performed to adhere to the standards set by the IIA.

No evidence could be provided to confirm that an external quality assurance review/assessment was performed on the internal audit activity within in the current year or in the preceding four years as required by IIA standard 1312-1.

Cognisance is taken of the National Treasury quality assurance state of readiness review of the internal audit activity of June 2013 and Western Cape Provincial Treasury PTR of 10 September 2018.

The above mentioned finding results in non-compliance with MFMA (Act no 56 of 2003) section 62(1)(c)(ii) as result of prescribed norms and standards of the IIA not being complied with.

The non-compliance is not regarded as material for reporting purposes.

Internal control deficiency

Governance

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislations.

A review has not taken place due to the cost involved to do an external quality check.

Recommendation

The audit committee should interact with internal audit and management of the municipality to discuss alternative ways that is cost effective over a 5-year period to ensure external quality

reviews are performed. Progress should be monitored at each audit committee meeting held during the year to prevent a similar finding in the next financial year.

Management response

<u>Management comment on the audit finding:</u>			
In agreement			
<u>Management comment on the root cause identified within the audit finding:</u>			
In agreement However, Provincial Treasury will assist in this regard.			
<u>Management comment on the recommendation:</u>			
In agreement			
<u>Remedial action:</u>			
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>	
1. Discussions and resolution on the review to be conducted by when, and possible procurement processes to be followed.	PD Post	Quarterly	
2. Continuous monitoring and reporting of the issue.	PD Post	Quarterly	
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Auditor's conclusion

Management's response is noted. The matter will be reported in the management report under other important matters.

Cash and cash equivalents

28. Disclosure of bank accounts (CoMAF 14)

Audit finding

Section 125 of the Municipal Finance Management Act (MFMA) states:

“(2) The notes to the financial statements of a municipality or municipal entity must disclose the following information —

- iii) In respect of each bank account held by the municipality or entity during the relevant financial year-*
 - (i) The name of the bank where the account is or was held, and the type of account; and*
 - (ii) Year opening and year end balances in each of these bank accounts.*

During the audit of cash and cash equivalents it was identified that the following bank account held by the municipality has not been disclosed in note 13 to the annual financial statements:

<u>Bank</u>	<u>Account number</u>	<u>Amount</u>
ABSA	40-7433-6029 (Sweeping account)	R 0

This results in non-compliance with the MFMA and will be reported as such in the management report.

Internal control deficiency

Financial and performance management –

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not perform a proper review of the annual financial statements to ensure that the disclosures are complete prior to it being submitted to the auditors.

Recommendation

Management should ensure that all bank accounts are disclosed in accordance with the MFMA.

In addition, disclosure note 13 should be amended accordingly to reflect the abovementioned bank account.

Management response

Management comment on audit finding In agreement
Management comment on internal control deficiencies In agreement

Management comment on recommendation		
In agreement		
Remedial action		
1. Amend of Disclosure Note 13 for the addition of ABSA (swooping) bank account.	By whom Mr. G Bothma	By when 19 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
No		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO X
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		
Only amendment of Note 13 of the financial statements		

Auditor's conclusion

The financial statements has since been updated and the matter will be reported in the management report under other important matters.

Disclosure

29. Distribution losses (CoMAF 22)

Audit finding

According to MFMA circular 71 issued by the National Treasury, the following table indicates the guidelines for the acceptable range for water distribution losses.

Water distribution losses	15% - 30%
Electricity distribution losses	7% - 10%

According to note 59 to the financial statements, the municipality suffered water and electricity distribution losses of 63,48% (2018: 61,36%) and 11,15% (2018: 9,19%) respectively during the financial year.

These losses are regarded as significant and will be reported in the audit report under emphasis of matter.

Internal control deficiency

Financial and performance management –

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

Faulty water meters (pre-paid and conventional) are not replaced as soon as it reported to management leading to water being consumed without it being billed to consumers.

Management was not aware that the electricity distribution loss was above the acceptable norm indicating that the distribution loss is not monitored on a regular basis.

Recommendation

Management should implement processes and procedures to ensure that faulty meters identified, are inspected and fixed in a timely manner.

Management should develop action plans to drastically reduce the abnormally high water and electricity distribution losses.

Management response

Management comment on audit finding		
Management agrees with the audit findings		
Management comment on internal control deficiencies		
Management agrees with the internal control deficiencies		
Management comment on recommendation		
Management noted the Auditor-General's recommendation.		
Remedial action		
<p>What actions will be taken</p> <p>New prepaid- and credit water meters were purchased and it will be installed during this financial year. The first 40 credit meters were installed and it was found that the present vending system (Syntell) can handle the coding of the new meters.</p> <p>Actions plans will be put in place to monitor faulty meters and replace it on a timely manner.</p>	<p>By whom</p> <p>Mr J Komanisi</p>	<p>By when</p> <p>31 Jan 2020</p>
If the above finding affects an amount(s) disclosed in the financial statements:		
None		

Auditor's conclusion

Management's response is noted and the matter will be reported in the management report under other important matters.

30. Contingent liabilities (CoMAF 57)

Audit Finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

(a) that the resources of the municipality are used effectively, efficiently and economically;

*(c) that the municipality has and maintains effective, efficient and transparent systems —
(i) of financial and risk management and internal control;*

During the audit of contingent liabilities, the following was identified:

	Name of claim	Estimated amount	Legal counsels remark	Auditors Assessment
1	Laingsburg Municipality Our Ref: LAI1/10054	R20 000	Trial date 13 November 2019	Enquired from G Bothma (Senior Accountant) on 07/11/2019 and confirmed that the case relates to Martha Adams that is suing the municipality for legal costs. However, the municipality have a court date on 13 November 2019. This event occurred before 30 June 2019 and as a result it meets the definition of a contingent liability as an estimate could be made for the possible liability that could arise.
2	Laingsburg Municipality Our Ref: LAI1/10061	R30 000	Applicant on the brink to bring an Spoliation Application	Inspected the attorney's letter with regards to the complaint received and confirmed the municipality is being sued for obstructing the flow of water in the Buffels River that provides water to the farmers' crops. It was determined that this has been an ongoing case that existed at year end. The municipality estimated that a possible liability of R30 000 would be payable to the applicant. Management therefore needs to disclose a contingent liability.

	Name of claim	Estimated amount	Legal counsels remark	Auditors Assessment
3	Laingsburg Municipality Our Ref: LA11/10090	R60 000	Summons was issued against Laingsburg Municipality in the amount of R289430,24. There is possibility that matter can be settled out of court.	Inspected the summons: provisional sentence received from the office of the chief Justice Western Cape High Court dated 20/09/2019 and confirmed that a possible liability is pending the municipality which can be reliably estimated by the Municipality's legal counsel of R60 000. This case is as a result of events that occurred prior to year-end. A contingent liability must be disclosed in this regard.

Internal control deficiency

Financial and performance management -

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

The financial statements should be adjusted in accordance with the source documentation.

In addition, the municipality should implement processes to ensure that financial statements are not received on the day on which it should be submitted to the Auditor-general, in order to have sufficient time to properly review the financial statements against supporting financial records.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

Use of consultants

31. Use of consultants: Deficiencies identified (CoMAF 22)

Audit finding

Section 62 of the Municipal Finance Management, Act 56 of 2003, (MFMA) states:

- (1) *“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:*
- (a) That the resources of the municipality are used effectively, efficiently and economically.”*

In addition, MFMA Circular No 82 - Cost Containment Measures - 30 March 2016 states:

Engagement of Consultants -

- Accounting Officers must only contract with consultants after a gap analysis report has confirmed that the municipality does not have the requisite skills or resources in its permanent employment to perform the services required.
- Evidence of acute planning of the project must be visible to all relevant persons including the administration and political oversight mechanisms in place at the municipality.
- Municipalities are urged to develop consultancy reduction plans.
- Ensure an exacting “specification” of the work to be accomplished accompanies the tender and is used as a monitoring tool, are appropriately recorded and monitored.

1. Lack of consultant’s policy/strategy:

During the audit of compliance procedures relating to the municipality’s use of consultants; the following was identified:

- The municipality does not have a consultant’s policy/strategy that defines the main purpose and objective for appointing consultants; measures to address over reliance on consultants.
- A gap analysis report as required by the Circular has not been prepared before appointing all consultants to confirm whether the municipality does not have the requisite skills or resources in its permanent establishment before procuring the services of consultants.
- The municipality has also not developed a consultancy reduction plan that will assist it in identifying areas where it can reduce the use of consultants and capacitate its own establishment to perform the functions currently being performed by the consultants.

The above will be reported as an internal control deficiency in the management report.

2. Appointment of consultant

During testing performed in this regard, it was found that consultants are being appointed on a continuous basis to address the needs of the municipality as no related jobs were advertised to avoid the recurring appointment of consultants.

The above will be reported as an internal control deficiency in the management report.

3. Transfer of skills

Furthermore, it was found that the terms of reference in the consultants' contracts did not mention the transfer of skills, including the nature, scope and goals of the training programmes. No contract clause for the transfer of skills was evident in the contracts. As a result, no measures to monitor the transfer of skills in the projects were implemented.

The above will be reported as an internal control deficiency in the management report.

4. Monitoring of consultant's performance:

In addition, it was identified that the performance of the consultants was not monitored by the municipality. Furthermore, during the testing of the use of consultants for contract no: S32/03/2017 (Consulting Engineers for various municipal infrastructure and building projects), it was found that the deliverables per the contract are not linked to milestones and timelines. This exposes the municipality to a risk of poor performance by consultants which is not timeously identified and rectified leading to possible loss of financial resources.

The above will be reported as an internal control deficiency in the management report.

Internal control deficiency

Leadership

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

The accounting officer did not establish and communicate a strategy for the use of consultants for implementation by the municipality.

Financial and performance Management

Review and monitor compliance with applicable laws and regulations.

Management did not ensure that all consultants' contracts are appropriately tailored and monitored to prevent poor performance and that skills are transferred to the municipality's own officials.

Recommendations

The municipality should establish a strategy for the use of consultants as well as a consultancy reduction plan.

Furthermore, a gap analysis for all the departments in the municipality should be performed to determine if some of the skills or resources relating to work performed by consultants are not already available within the municipality. Furthermore, provision should be made in the consultants' contracts for the transfer of skills to the municipality's own officials.

In addition, the municipality should ensure that the performance of consultants is monitored. This can be achieved by, for example, ensuring that all deliverables are linked to milestones and timelines which should facilitate the monitoring of performance.

Management response

Management comment on audit finding		
Management agrees with the finding.		
Management comment on internal control deficiencies		
Management noted the Auditor-General's comment on internal control deficiencies.		
Management comment on recommendation		
Management noted the Auditor-General's recommendation.		
Remedial action		
The Accounting Officer will establish a strategy for the use of consultants as well as a consultancy reduction plan. All contracts will in future be adjusted to provide for the compulsory transfer of skills to municipal employees. The Accounting Officer will ensure that the performance of consultants is monitored.	By whom Mr P Williams Ms N Gouws	By when 31 January 2020
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management response is noted and the matter will be reported in the management report under other important matters.

Value Added Tax (VAT)

32. Misstatement of VAT receivable (CoMAF 23)

Audit finding

Section 17 of the Value Added Tax Act No 89 of 1991 stipulates the following:

Permissible deduction in respect of input tax –

17 (1) Where goods or services are acquired or imported by a vendor partly for consumption, use or supply in the course of making taxable supplies and partly for another intended use, the extent to which any tax which has become payable in respect of the supply to the vendor or the importation by the vendor, as the case may be, of such goods or services in respect of such goods under section 7(3) or any amount determined in accordance with paragraph (b) or (c) of the definition of “input tax” in section 1, is input tax, shall be an amount which bears to the full amount of such tax or amount, as the case may be, the same ratio (as determined by the Commissioner in accordance with a ruling as contemplated in Chapter 7 of the Tax Administration Act or section 41B) as the intended use of such goods or services in the course of making taxable supplies bears to the total intended use of such goods or services: Provided that—

(i) where the intended use of goods or services in the course of making taxable supplies is equal to not less than 95 per cent of the total intended use of such goods or services, the goods or services concerned may for the purposes of this Act be regarded as having been acquired wholly for the purpose of making taxable supplies;

(ii) where goods or services are deemed by section 9 (3) (b) to be successively supplied, the extent to which the tax relating to any payment referred to in that section is input tax may be estimated where the calculation cannot be made accurately until the completion of the supply of the goods or services, and in such case such estimate shall be adjusted on completion of the supply, any amount of input tax which has been overestimated being accounted for as output tax in the tax period during which the completion occurs and any amount of input tax which has been underestimated being accounted for as input tax in that period; and

(iii) where a method for determining the ratio referred to in this subsection has been approved by the Commissioner, that method may only be changed with effect from a future tax period, or from such other date as the Commissioner may consider equitable and such other date must fall—

(aa) in the case of a vendor who is a taxpayer as defined in section 1 of the Income Tax Act, within the year of assessment as defined in that Act, or

(bb) in the case of a vendor who is not a taxpayer as defined in section 1 of the Income Tax Act, within the period of twelve months ending on the last day of February, or if such vendor draws up annual financial statements in respect of a year ending other than on the last day of February, within that year, during which the application for the aforementioned method was made by the vendor.

Section 28 of the Value Added Tax Act, No 89 of 1991 stipulates the following:

Returns and payments of tax

28. (1) Every vendor shall, within the period ending on the twenty-fifth day of the first month commencing after the end of a tax period relating to such vendor or, where such tax period ends on or after the first day and before the twenty-fifth day of a month, within the period ending on such twenty-fifth day(a) furnish the Commissioner with a return (in such form as the Commissioner may prescribe) reflecting such information as may be required for the purpose of the calculation of tax in

terms of section 16; and 5 (b) calculate the amounts of such tax in accordance with the said section and pay the tax payable to the Commissioner or calculate the amount of any refund due to the vendor: Provided that where payment of the full amount of the tax is effected by means of an electronic transfer on or before the last business day of the month during which 10 the said twenty-fifth day falls, the period within which the return is required to be rendered and the tax is required to be calculated and paid shall be deemed to end on the day on which such payment is received. (2) Every vendor who is registered in terms of the provisions of Part III shall within the period allowed by subsection (1) of this section furnish the return 15 referred to in that subsection in respect of each tax period relating to such vendor, whether or not tax is payable or a refund is due in respect of such period. (3) The Commissioner may, having regard to the circumstances of any case but subject to the provisions of section 39, extend the period within which such return is to be furnished or such tax is to be paid. (4) For the purposes of this section "month" means any of the twelve portions into which any calendar year is divided.

During procedures performed in respect of VAT the following irregularities were identified:

Apportionment of VAT

During the testing of the apportionment of VAT, it was found that although an apportionment calculation for VAT was performed by the consultants, the necessary journal entry was not processed in this regard. Since the input tax should have been claimed at 13,15% (according to the consultants) instead of 15% the VAT receivable is estimated to be overstated by R741 084.

Fringe benefits

During the testing of VAT on fringe benefits, it was found that no input VAT was claimed on any of the MTN telephone contracts. Therefore, VAT receivables is understated by R39 390.

VAT reconciliations and monthly VAT returns 201

VAT reconciliations were not performed on a monthly basis and VAT 201 returns were submitted late to SARS. This resulted in penalties and interest being raised by SARS which is regarded as fruitless and wasteful expenditure. Refer to the table below for a summary in this regard.

Summary VAT 201		
Month	VAT 201	Date approved by CFO
1	Jul-18	22-Nov-18
2	Aug-18	22-Nov-18
3	Sep-18	22-Nov-18
4	Oct-18	22-Nov-18
5	Nov-18	19-Aug-19
6	Dec-18	19-Aug-19
7	Jan-19	19-Aug-19
8	Feb-19	19-Aug-19
9	Mar-19	19-Aug-19
10	Apr-19	19-Aug-19
11	May-19	30-Aug-19
12	Jun-19	30-Aug-19

To date penalties and interest to the value of R114 273,12 were raised and paid which have been disclosed as fruitless and wasteful expenditure in note 57 to the financial statements.

Internal control deficiency*Financial and performance management –*

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

The municipality was under the impression that the journal was passed by the consultant, while the consultant thought that the municipality was going to process the journal.

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Various incorrect VAT allocations existed within the general ledger accounts of the department due to the mSCOA issues that were encountered by the municipality. The municipality could therefore only do the VAT 201s once the necessary corrections were made to VAT allocations by the consultants.

Recommendation

Work to be performed by the consultants should be specified in order to ensure that work is not duplicated (as raised per COMAF 17) or not done at all.

It is noted that the necessary corrections have been made to the financial system from July 2019 to ensure that VAT is allocated correctly. Management should therefore ensure that the VAT 201s are submitted on a timely basis in order to avoid penalties and interest.

Management response

Management comment on audit finding
Management agrees with the finding.
Management comment on internal control deficiencies
Management agrees with the internal control deficiencies.
Management comment on recommendation
Management takes note of the recommendations.
Remedial action

Management will: <ul style="list-style-type: none"> • Correctly calculate the apportionment of the VAT and a journal will be passed to correct the VAT account. • VAT on MTN accounts will be calculated and a correcting journal will be passed • A process will be put in place to submit VAT201 returns on a monthly basis 	By whom GS Bothma E Hermanus	By when 18 November 2019 31 December 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry Will be calculated on 18 November 2019		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

The adjusted financial statements were inspected and it was found that no correction was made in this regard. Therefore, the matter will be reported in the management report under other important matters.

Provisions

33. Provision for Insurance Workmen's Compensation Act (CoMAF 25)

Audit Finding

Section 84 of the Compensation for occupational Injuries and Diseases Act, Act No. 130 of 1993 states the following"

84. Certain employers exempt from assessment — (1) No assessment in favour of the compensation fund shall be payable in respect of employees—

- (a) in the employ of—*
 - (i) the national and provincial spheres of government, including Parliament and provincial legislatures;*
 - (ii) a local authority which has obtained a certificate of exemption in terms of section 70 (1) (a) (ii) of the Workmen's Compensation Act and has notified the Director General in writing within 30 days after the commencement of this Act that it desires to continue with the arrangements according to the said certificate of exemption; and*
 - (iii) a municipality contemplated in section 10B of the Local Government Transition Act, 1993 (Act No. 209 of 1993), to which exemption has been granted in terms of subsection (2);*
 - (b) whose employer has with the approval of the Director General obtained from a mutual association a policy of insurance for the full extent of his potential liability in terms of this Act to all employees employed by him, for so long as he maintains such policy in force.*
- (2) The Director General may upon application exempt any local authority referred to in subsection (1) (a) (ii) or any municipality referred to in subsection (1) (a) (iii) from the obligations of an employer in terms of this Act on such conditions as he or she may think fit.*

Since no certificate of exemption in terms in this Act could be provided, a provision to the amount of R698 781 has been made in the financial statements for workmen compensation insurance.

It was however found that this provision showed no movement from the previous year while workmen compensation insurance is payable on an annual basis and no assessment has been performed to indicate that this amount was still reasonable in the current period.

Therefore, the provision in respect of workmen compensation insurance is understated as at 30 June 2019.

Internal control deficiency

Financial and performance management –

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements.

This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor - General.

Recommendation

Management should approach the Workmen Compensation Commissioner to obtain clarity if they have been granted exemption in the past, and if not, obtain the assessments that are due by the municipality. In addition, until such time that clarity is obtained, the provision in this regard should be adjusted and the financial statements amended accordingly.

Management response

Management comment on audit finding		
Management agrees with the Auditor-General's finding.		
Management comment on internal control deficiencies		
Management noted the Auditor-General's comment on internal control deficiencies.		
Management comment on recommendation		
Management noted the Auditor-General's recommendation.		
Remedial action		
Management will approach the Workmen Compensation Commissioner to get clarity of any exemption for a Local Government. A calculation for 2018/2019 will be is performed to calculate whether the current provision is still reasonable. A journal will be passed to correct the provision if found to be insufficient provided.	By whom GS Bothma	By when 18 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry Will be calculated		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

The adjusted financial statements were inspected and it was found that no correction was made in this regard. Therefore, the matter will be reported in the management report under other important matters.

Other receivables

34. Other receivables incorrectly classified (CoMAF 34)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA) states:

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

iv) that the resources of the municipality are used effectively, efficiently and economically;

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

(j) of financial and risk management and internal control; and....”

Section 122(1) of the MFMA states:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

Incorrect classification

Included under other receivables (receivables from non-exchange transactions) of R792 244 is an amount of R309 256,80 for which no detail could be provided.

Based on an enquiry from management it appears that this is an invalid debtor.

Furthermore, the following amounts which do not relate to receivables were also included under other receivables of R792 244:

GL Account number	Amount	Description
633232535100	-R108.84	This money was recovered from the customer, but it must be paid over to library services (This was allocated incorrectly hence it is included in debtors)
655252012201	R18 925.64	Error between SARS reconciliation and the municipality account.
655252012202	R7 464.97	Error between SARS reconciliation and the municipality account.
655353613800	R10 771.32	Debtor D Bezuidenhout paid R10 771.32 in terms of an agreement he had with the municipality. However, when he paid the amount was received on his current account and not on the agreement account. Therefore, it must be transferred to the agreement account (655252012107)
655353624100	R9 317.93	No detail could be provided
633232535140	R38.45	This money was recovered from the customer, but it must be paid over to library services (This was mapped

GL Account number	Amount	Description
		incorrectly hence it is included in debtors)
633232535143	-R472.10	This money was recovered from the customer, but it must be paid over to library services (This was mapped incorrectly hence it is included in debtors)
Total	R45 937.37	

There receivables from non-exchange transactions are overstated with R355 194,17.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the financial statements after it was drafted by the consultants in order to identify misstatements before the submission of the financial statements. This was due to fact that management did not have sufficient review time as the financial statements was completed by the consultants on the same day that it had to be submitted to the Auditor-general.

Recommendation

Although the annual financial statements are compiled by a consultant on behalf of the municipality, management should ensure that amounts are correctly allocated, classified and mapped for financial statement purposes.

The necessary adjustments should be made to the general ledger and the financial statements should be updated accordingly.

Management response

No management response was received.

Auditor's conclusion

Although no management response was received the amount of R309 256 was corrected. The matter will be reported in the management report under other important matters.

Control deficiencies in the overall control environment

35. Fraud prevention plan (CoMAF 36)

Audit finding

Section 62 of the Municipal Finance Management Act (MFMA), states:

- “(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—*
- (a) that the resources of the municipality are used effectively, efficiently and economically;*
 - (b) that the municipality has and maintains effective, efficient and transparent systems —*
 - (i) of financial and risk management and internal control; and....”*

Upon inspection of the municipality's fraud prevention plan, it was found that the last time that the fraud prevention plan was circulated to employees was on 12 March 2012. Not only does this imply that all employees appointed after 12 March 2012 have not read the fraud prevention plan, but also that the fraud prevention plan has not been updated/reviewed since 2012.

Internal control deficiency

Leadership –

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

Management does not have processes in place to ensure that the fraud prevention plan is circulated to newly appointed staff. In addition, management neglected to regularly review the fraud prevention plan to ensure that it is still applicable in the ever changing environment.

Recommendations

The fraud prevention plan should be reviewed to ensure that it is still applicable to the ever changing environment. The plan should also be shared with the Audit and Risk Committee for their inputs before submission to council.

Furthermore, management should implement policies and procedures to ensure that all employees are made aware of the fraud prevention plan. Staff should be made aware of the steps to be taken and to whom it should be reported, when fraud is suspected.

Management response

Management comment on audit finding Not in agreement. I refer to the attached document regarding the reviewed of the Fraud Prevention Plan. The Plan was reviewed as per the Thursday, 28 June 2018 Council Agenda, item 6.7 Draft Fraud Prevention Plan for Laingsburg Municipality 2017. Additionally, all staff members were workshopped on the Fraud Prevention Plan as per the attachment, on 19 and 20 June 2018. Thus, all staff appointed prior the last mentioned dates underwent the workshop.		
Management comment on internal control deficiencies Not in agreement. Refer to the explanation above for the finding.		
Management comment on recommendation Not in agreement; Fraud Prevention Plan was reviewed as per the attachments. Fraud Prevention Plan was made aware amongst staff members, refer to the attachment above.		
Remedial action		
1. None	By whom	By when
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Although these documents were requested during the audit as well as a ComAF was issued in this regard to obtain the information, these documents were only provided for audit purposes subsequent to the issuance of the draft management report indicating that the document were not easily retrievable. The matter will therefore be reported in the management report under other important matters.

36. No delegations exist (CoMAF 43)

Audit finding

Section 79 Delegations of the Municipal Finance Management Act (MFMA) states

- (1) *The accounting officer of a municipality*
 - (a) *must, for the proper application of this Act in the municipality's administration, develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration*
 - (b) *may, in accordance with that system, delegate to a member of the municipality's top management referred to in section 77 or any other official of the municipality—*
 - (i) *any of the powers or duties assigned to an accounting officer in terms of this Act; or*
 - (ii) *any powers or duties reasonably necessary to assist the accounting officer in complying with a duty which requires the accounting officer to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act; and*
 - (c) *must regularly review delegations issued in terms of paragraph (b) and, if necessary, amend or withdraw any of those delegations.*
- (2) *The accounting officer may not delegate to any political structure or political office-bearer of the municipality any of the powers or duties assigned to accounting officers in terms of this Act.*
- (3) *A delegation in terms of subsection*
 - (1) —
 - (a) *must be in writing;*
 - (b) *is subject to such limitations and conditions as the accounting officer may impose in a specific case;*
 - (c) *may either be to a specific individual or to the holder of a specific post in the municipality*
 - (d) *may, in the case of a delegation to a member of the municipality's top management in terms of subsection (1) (b), authorise that member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility; and*
 - (e) *does not divest the accounting officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.;*
- (4) *The accounting officer may confirm, vary or revoke any decision taken in consequence of a delegation or sub-delegation in terms of this section, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.*

82. Delegations —

- (1) *The chief financial officer of a municipality may sub-delegate any of the duties referred to in section 81 (1) (b), (d) and (e) —*
 - (a) *to an official in the budget and treasury office;*
 - (b) *to the holder of a specific post in that office; or*
 - (c) *with the concurrence of the accounting officer, to —*
 - (i) *any other official of the municipality; or*
 - (ii) *any person contracted by the municipality for the work of the office.*

- (2) *If the chief financial officer sub-delegates any duties in terms of subsection (1) to a person who is not an employee of the municipality, the chief financial officer must be satisfied that effective systems and procedures are in place to ensure control and accountability.*
- (3) *A sub-delegation in terms of subsection (1) —*
 - (a) *must be in writing;*
 - (b) *is subject to such limitations or conditions as the chief financial officer may impose; and*
 - (c) *does not divest the chief financial officer of the responsibility concerning the delegated duty.*
- (4) *The chief financial officer may confirm, vary or revoke any decision taken in consequence of a sub-delegation in terms of subsection (1), but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.*

The assessment of the internal control environment control revealed that delegations for the SCM processes and council have been approved.

The delegations in terms of the MFMA section 79 accounting officer and section 82 chief financial officer could however not be provided for audit purposes. These delegations form the backbone of the day to day operations of the municipality and should include, amongst others, signing of cheques, authorisation of electronic payments, approval of leave, overtime and acting allowance, approval of journals and expenditure limits.

Internal control deficiency:

Leadership -

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

Management did not implement a system of delegations to improve the internal control environment and to allow officials to perform and exercise their official duties and financial management responsibilities in terms of their job descriptions.

Recommendation

Management should implement a financial system of delegations and have it approved and rolled out to all official. Officials must acknowledge receipt of the delegation and ensure that the responsibility and accountability of financial management is exercised.

Management response

No management response has yet been received.

Auditor's conclusion

Since no management response has yet been received the matter will be reported in the management report under other important matters.

Sector audit

37. Water and sanitation services (CoMAF 56)

Audit finding

Section 62(1)(b) of the Municipal Finance Management Act (56 of 2003) (MFMA), states:

“The accounting officer of municipality is responsible for managing the financial administration of municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of financial affairs of the municipality are kept in accordance with any prescribed norms and standards.”

Water Services

During the testing of the sector audit focus area relating to water services, it was identified that the municipality did not have the following in place:

- The municipality did not plan for the maintenance of water infrastructure by setting specific timeframes and targets in this regard, but only general timeframes.
- The maintenance plan does not have a specific timeframe to do routine maintenance on the water infrastructure, hence no progress report exists to determine whether the targets and timeframes relating to water infrastructure maintenance was achieved.
- The municipality does not have an approved policy in place for routine maintenance of water infrastructure
- The condition of water infrastructure was not assessed to inform the routine maintenance plan and budget
- The municipality does not have standard procedures in terms of which the condition assessments of water infrastructure is done
- A list of all new water infrastructure projects was not compiled and approved for the year under review
- The municipality did not establish an environmental policy that address the identification and monitoring of environmental risks relating to water provision.

The above weakness in management processes and controls will be reported in the management report.

Sanitation Services

During the testing of the sector audit focus area relating to sanitation services, it was identified that the municipality had no process to determine the need for new sanitation infrastructure projects.

The above weakness in management processes and controls will be reported in the management report.

Internal control deficiency

Leadership -

Develop and monitor the implementation of action plans to address internal control deficiencies.

Action plans to address prior year audit findings raised was not monitored to ensure that corrective measures were taken.

Recommendation

The municipality should plan for the maintenance of water infrastructure by setting specific timeframes and targets.

Management should implement processes by which the need for new sanitation infrastructure projects can be determined.

Management response

No management response was received.

Auditor's conclusion

Since no management response was received the matter will be reported in the management report under other important matters.

38. Support to Local Government (CoMAF 58)

Audit finding

Asset Management Information System

In terms of the revised chapter 9 of the MTSF sub-outcome 1: Members of society have sustainable and reliable access to basic services, and paragraph 5.3 states that Municipalities are encouraged to increase expenditure on maintenance and asset management over the life-cycle of assets:

- Municipalities supported by National DCoG to establish municipal asset management systems such as MISA's Municipal Infrastructure Performance Management Information System (MIPMIS).

Upon testing in this regard, it was identified that no municipal asset management system, such as MISA's Municipal Infrastructure Performance Management Information System (MIPMIS), is being used by the Laingsburg Municipality to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life-cycle of assets at municipal level.

Technical Support Plan

During the testing of focus area Support to Local Government it was identified that Laingsburg Municipality is one of the 85 dysfunctional / distressed municipalities included technical capacity building support initiative of MISA.

It was also found that Laingsburg Municipality could not provide support plans developed to address the gaps or support needs identified and which clearly sets out the roles and responsibilities of various role players in terms of specific support actions required.

Internal control deficiency

Leadership –

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management has neglected to implement the MIPMIS system in order to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life-cycle of assets at the municipality.

Recommendation

Management should implement processes and procedures to ensure the implementation of a municipal asset management system to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life-cycle of assets.

Management response

No management response was received.

Auditor's conclusion

Since no management response has yet been received the matter will be reported in the management report under other important matters.

ANNEXURE C: ADMINISTRATIVE MATTERS

1. Rental of facilities and equipment: Rental was incorrectly levied (ComAF 16)

Audit Finding

During the testing of a sample of 20 municipal properties for the auditing of rental of facilities, one instance was found where the Department of Transport and Public Works was levied R2 662 per month during the financial year under review for an office space within the Thusong Centre.

Enquiry from management however revealed that this department did not occupy the office during the 2018/19 financial year and that the rental was levied incorrectly. Therefore, rental of facilities and equipment and receivables from exchange transactions are overstated with a projected amount of R99 047 which was calculated as follows:

Misstatement (R2 662 x 12 months)	R 31 944
Sample size	R 383 616
Population	R1 189 466
Projected misstatement	R 96 028

Internal control deficiency

Financial and performance management -

Implement controls over daily and monthly processing and reconciling of transactions

The manager at the Thusong Centre did not inform the Revenue Controller that the department vacated the office so that the rental charge can be discontinued.

Recommendation

Management should revisit the population to ensure that no similar cases exist and the financial statements should be adjusted accordingly.

Management response

Management comment on audit finding In Agreement After our investigation on the matter we found that it was only the one (1) contract that was not cancelled. We have a list of all tenants.
Management comment on internal control deficiencies In agreement Will conduct monthly reconciliations
Management comment on recommendation In agreement
Remedial action

1. We will develop a rental register that will be reconciled with the offices available within the Thusong Centre;	By whom G Bothma	By when 19 November 2019
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES X	NO
If yes, please indicate the accounting entry Dr. Rental Received Cr. Rental Debtors		
If no, please provide the reason why such a conclusion has been reached		

Auditor's conclusion

Management's response is noted. Further tests performed did not identify any further findings. Therefore this matter will be reported under administrative matters.

Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - MFMA
 - Municipal Systems Act, 2000 (MSA)
 - Regulations for planning and performance management, 2001, issued in terms of the MSA.
 - Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury (NT). This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
- Circulars and guidance issued by the NT regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria	References to PMRF per institution	
	Municipalities	Municipal Entities
Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.		
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.		
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPI	
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPI	

Criteria	References to PMRF per institution	
	Municipalities	Municipal Entities
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPi	
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPi	
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPi	
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.		
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPi	
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.		
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.		
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA Chapter 5 of the FMPPi	Section 45 of the MSA
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.		Chapter 5 of the FMPPi
3. All actual performance that should have been recorded is included in the reported performance information.		

Annexure E: Auditor-general's responsibility for the audit of the reported performance information

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.
2. We are independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

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

REPORTED PERFORMANCE INFORMATION

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE




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

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




Annexure F: Assessment of internal controls













Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.















































The internal controls were assessed as follows:













	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance			N/A	N/A	N/A	N/A
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			N/A	N/A	N/A	N/A
Governance						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Overall movement from previous assessment						
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	