

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Borrowings & long-term loans

1. External loans - Short term portion not disclosed as current liabilities (CoA 2)

Audit finding

Section 59 ,60 and 65 of GRAP 1 states that :

"59 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement financial position in accordance with paragraphs .65 to .75 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity."

"60 Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled
(a) no more than twelve months after the reporting date; and
(b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve"

"65 An asset shall be classified as current when it satisfies any of the following criteria:
(a) it is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realised within twelve months after the reporting date; or
(d) it is cash or a cash equivalent asset (as defined in the Standard of GRAP on Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date."

The current portion of long term loans (repayments due within 12 months after 30 June 2013) has not been separately disclosed in the financial statements as current liabilities for the current as well as the prior year.

30 June 2012

Loan	Amount at 30 June 2012 per confirmation (R)	Payable within 12 months - 2012 (R)	Payable > 12 months - 2012 (R)	Comments
INCA (PARY-00-001-417)	2,691,945.20	2,691,945.20		Loan matured in 2011 - therefore entire balance repayable within 12 months
INCA (VDF-111Z-SS-778)	49,588.83	49,588.83		Loan matured in 2011 - therefore entire balance repayable within 12 months
DBSA	12,750,302.58	2,848,441.24	9,901,861.34	Only maturing in 2018, therefore split between current & non-current
DWA	32,923.47	32,923.47		Loan matured in 2010 - therefore entire balance repayable within 12 months

5,622,898.74 9,901,861.34



Difference between recalculation above and disclosure included in the financial statements:

	Amount recalculated (R)	Amount per AFS (R)	Difference (R)
Current portion	5,622,898.74	-	5,622,898.74
Non-current portion	9,901,861.34	22,951,719.00	(13,049,857.66)
	15,524,760.08	22,951,719.00	(7,426,958.92)

Above difference between the loan confirmation and the financial statements is mainly due to COGTA monies received for R5 000 000 for payment of outstanding Eskom account incorrectly recognised as a long term loan as well as DBSA repayments made not deducted from outstanding loan balance

30 June 2013

Loan	Amount at 30 June 2013 per confirmation (R)	Payable within 12 months - 2013 (R)	Payable > 12 months - 2013 (R)	Comments
INCA (PARY-00-001-417)	740,827.40	740,827.40	-	Loan matured in 2011 - therefore entire outstanding balance should be accounted for as current assets
INCA (VDF-111Z-SS-778)	57,217.56	57,217.56	-	Loan matured in 2011 - therefore entire outstanding balance should be accounted for as current assets
DBSA	10,777,515.05	2,848,441.24	7,929,073.81	Only maturing in 2018, therefore split between current & non-current
DWA	-	-	-	Loan was paid off in January 2013.
		3,646,486.20	7,929,073.81	

Difference between recalculation above and disclosure included in the financial statements:

	Amount recalculated (R)	Amount per AFS (R)	Difference (R)
Current portion	3,646,486.20	-	3,646,486.20
Non-current portion	7,929,073.81	20,919,863.00	(12,990,789.19)
	11,575,560.01	20,919,863.00	(9,344,302.99)

Above difference between the loan confirmation and the financial statements is mainly due to COGTA monies received for R5 000 000 for payment of outstanding Eskom account incorrectly recognised as a long term loan as well as DBSA repayments made not deducted from outstanding loan balance

This matter may have resulted due to proper controls not in place to ensure accurate and complete record keeping regarding long-term loans.

This matter will result in the overstatement of non-current liabilities and understatement of current liabilities in the financial statements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that the disclosures included for long term loans in the financial statements are GRAP compliant - the necessary adjustments should be made to the financial statements.

Management response

Management agrees with the recommendation. Management will put through the necessary adjustments to the financial statements after obtaining all the necessary information and investigating the reason for the undisclosed amounts.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will be resolved with the correction of the financial statements

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Cash flow statements

2. Cash flow statement - Adjustments to the corresponding balances (CoA 33)

Audit finding

GRAP implementation guide 1.5 Cash Flow Statement section 1.5.2 states that: "The objective of a cash flow statement is to provide information about the historical changes in cash and cash equivalents of an entity and provide detail of the cash inflows and outflows of the entity during the period from operating, investing and financing activities."

We compared the corresponding balances with the prior year audited financial statements and identified the following differences, which could not directly be linked to the prior period errors:

Differences on the face of the Cash Flow Statement:

	2012 Cash Flow Statement (R)		
	2013 AFS	2012 AFS	Difference
Receipts			
Services	155,398,966.00	343,314,053.00	(187,915,087.00)
Other receipts	(5,259,017.00)	-	(5,259,017.00)
Payments			
Employee costs	(166,169,163.00)	(127,887,861.00)	(38,281,302.00)
Suppliers	(170,209,962.00)	(187,214,857.00)	17,004,895.00
Finance costs	(8,994,567.00)	(10,383,922.00)	1,389,355.00
Cash flows from investing activities			
Proceeds from sale of financial assets	7,842,094.00	-	7,842,094.00
Cash flows from financing activities			
Repayment of other financial liabilities	22,951,719.00	(206,811.00)	23,158,530.00
Finance lease payments	-	(217,002.00)	217,002.00

Differences in the note of the Cash Flow Statement:

Note 35 Cash generated from operations

	2012 Cash Flow Statement (R)		
	2013 AFS	2012 AFS	Difference
Surplus / (Deficit)	(103,083,432.00)	(101,043,862.00)	(2,039,570.00)
Adjustments for:			
Fair value gains	7,800,879.00	-	7,800,879.00
Movement in provisions	(63,909,022.00)	5,043,873.00	(68,952,895.00)
Current service cost	-	3,164,205.00	(3,164,205.00)
Changes in working capital			
Receivables from non-exchange	(68,029,199.00)	(60,409,971.00)	(7,619,228.00)
Consumer debtors	(8,175,353.00)	(31,932,028.00)	23,756,675.00

Consumer deposits	(2,912,635.00)	194,777.00	(3,107,412.00)
Long service award	25,627,720.00	-	25,627,720.00

The above is mainly due to a lack of time prohibiting management from a proper review of the financial statements before submission thereof.

This matter may result in a misstatement of the cash flow statement of the municipality.

Internal control deficiency

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

Recommendation

Management should provide supporting evidence for the differences identified. Management should perform a reconciliation between the 2012 cash flow statement per the 2012 and the 2013 financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

3. Cash flow statement - Misstatements identified (CoA 33)

Audit finding

GRAP implementation guide 1.5 Cash Flow Statement section 1.5.2 states that: "The objective of a cash flow statement is to provide information about the historical changes in cash and cash equivalents of an entity and provide detail of the cash inflows and outflows of the entity during the period from operating, investing and financing activities."

We recalculated the cash flow statement and identified the following differences:

1. Differences on the face of the Cash Flow Statement:

	R		
	Calculated	Disclosed	Difference
Cash inflow from operating activities			
Receipts	383,225,705	453,212,718	(69,987,013)
Sale of goods	178,653,968	223,625,726	(44,971,758)
Other receipts	-	5,007,232	(5,007,232)
Grants	203,137,013	203,137,013	-
Interest income	1,434,724	21,442,747	(20,008,023)
Payments	(358,353,161)	(433,021,685)	74,668,524
Employee costs	(177,082,714)	(154,798,866)	(22,283,848)
Suppliers	(181,268,996)	(274,949,004)	93,680,008
Finance costs	(1,451)	(3,273,815)	3,272,364
Net cash flows from operating activities	24,872,544	20,191,033	4,681,511
Cash outflow from investing activities	(1,341,731)	(1,406,584)	64,853
Additions to PPE	(1,341,731)	(1,341,734)	3
Proceeds from other financial assets	-	(64,850)	64,850
Cash outflow from financing activities	(6,778,220)	(2,031,856)	(4,746,364)
Repayment of other financial liabilities	(5,304,220)	(2,031,856)	(3,272,364)
Retirement benefits paid	(1,474,000)	-	(1,474,000)

2. Difference identified relating to Note 37, Cash generated from operations:

	R		
	AGSA	Client	Difference
Adjustment for:			
Leave pay provision movement	9,148,146	-	9,148,146
Retirement benefit - interest	3,446,000	-	3,446,000
Retirement benefit - actuarial gains and losses	10,951,000	-	10,951,000
Retirement benefit - current service cost	2,384,000	-	2,384,000
Interest received	(20,008,023)	-	(20,008,023)
Finance charges	3,272,364	-	3,272,364
Debt impairment	59,460,672	-	59,460,672
Fair value adjustment	(105,339)	(105,539)	200
Other financial assets	-	20,244	(20,244)

Long service award - current service cost	1,206,000	18,612,000	(17,406,000)
Long service award - interest	681,000	-	681,000
Long service award - actuarial gains and losses	1,418,000	-	1,418,000
Movement in Current Assets			
(Increase) in Receivables from non-exchange	(14,852,205)	(81,254,582)	66,402,377
(Increase) in Receivables from exchange	(105,855,026)	-	(105,855,026)
(Increase) in Other non cash	-	(275,541)	275,541
Increase in Trade and Other Payables	46,225,520	55,694,014	(9,468,494)
			<u>4,681,513</u>

The limitations placed on the specific audit sections (assets, liabilities, income and expenditure), also impacts on the cash flow statement.

This matter may have resulted due to inadequate reviews performed on the financial statements before submission for audit purposes.

The risk of the above is that the Cash Flow Statement as set out in the Financial Statements could not be audited.

Internal control deficiency

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

Recommendation

Management should apply the cash flow statement as suggested by GRAP2. Non cash flow items should be excluded from the cash flow.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Commitments

4. Commitments - Documentation not submitted (CoA 66)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "(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-(a) 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;*".

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The contracts for the projects listed below were not submitted for audit purposes (RFI 72 refers):

Project	Project Code	Project amount per Commitment register	Amount contracted as per MIG Commitments	Ref & Contractor
Heilbron: Upgrading of sewer treatment works	MIG/FS0623/S/08/10	56,430,000	7,900,000.00	Proper
			9,574,808.00	CMS
			13,838,827.00	WAMESA
Parys: Upgrading of sewer treatment works	MIG/FS0624/S/08/10	85,500,000	11,250,000.00	Proper
			25,061,018.00	CMS
			2,342,415.00	Bryn
Parys: Refurbishment and upgrading of Water treatment works Phase 3	MIG/FS0714/W/09/09	31,895,731	9,414,384.00	CMS
			4,224,522.00	Phumaf

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the above is that a limitation of scope is placed on the audit work relating to the audit of the Commitments disclosure note 38. We are unable to confirm the accuracy of the disclosure without the contracts for the relevant projects.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

5. Commitments - Contracts not submitted (CoA 40)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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"

Contracts for the following projects (which were also requested in the prior year) could not be submitted for audit purposes:

Fezile Dabi	R40 007 420
Parys paving	R16 615 085
Heilbron of sewer treatment plant	R7 428 741
Parys water treatment	R23 250 000
Koppies upgrading of sewer treatment plant	R1 542 759
Parys upgrading of sewer treatment plant	R76 183 840
Parys upgrading and refurbishment of waste water treatment	R258 082

The above-mentioned is due to the fact that management does not implement proper controls to ensure that all the required information is available for audit purposes.

This matter places a limitation on the scope of the audit of commitments.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

6. Commitments - Contract register incomplete (CoA 40)

Audit finding

Section 115 of the MFMA Act No 56 of 2003 states :

"The accounting officer of a municipality or municipal entity must—

115.1(a) implement the supply chain management policy of the municipality or municipal entity; and

115.2(b) take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices."

The Municipality did not maintain a tender register. We could only obtain a contract register, but it was noted that the contract register is not filled in correctly as it does not contain any amounts. The basic information of some contracts is also not complete. The following contracts did not have all the required information disclosed in the contract register, consequently could the commitment amount regarding these contracts not been accurately calculated:

Contract Reference #	Contract Title	Our Contract Manager (Municipal Official Responsible)	Business Unit	Name of supplier	Supplier's Contract Manager	Supplier's telephone	Supplier's Goods / Services	Category (UNSPSC)	Name of supplier	Start date	End date	Term	Selection Process	SLA (Signed and Filed)	Contract (Signed and Filed)	Comment
	Supply and Delivery of water from Heilbron to Edenville	Edenville Regional Manger	Community Services	Dosima Construction and Trading	Maribe Setshego		Services	48 - Service Industry Machinery & Equipment & Supplies	Dosima Construction and Trading				Competitive Bidding Process	No	No	
	Water Supply	Director Technical Services	Heilbron Unit	Rand Water	016 429 3964	Rand Water Project Manager	Services	48 - Service Industry Machinery & Equipment & Supplies	Rand Water	Not indicated	Not indicated	Not indicated	Direct purchase	No	No	
				ITEC Bloem Consumables			Services		ITEC Bloem Consumables				Direct purchase	No	No	
	Telkom cost calculations	Chief Financial Officer	Ngwathe Municipality (all units)	NetCash-Telehouse			Services		NetCash-Telehouse				Direct purchase	No	No	
	Cash Management Services	Revenue and Debt Collection	Revenue and Debt Department	G4 S			Services		G4				Direct purchase	No	No	
No Contract				CDI Billing			Services		CDI Billing				Direct purchase	No	No	
				Stancom			Services		Stancom				Direct purchase	No	No	
	Listing of Municipal Contact Numbers on yellow page book	Director Corporate	Corporate Services	Auto Page			Services		Auto Page				Direct purchase	No	No	

The Insurance Contract agreement with Walton Alexander Financial Services CC is outdated as it expired in September 2009.

This is a result of the management not implementing controls over the supply chain management process.

This matter may result in commitments not being complete.

Internal control deficiency

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

Recommendation

Management should keep the register up to date by documenting all contracts, tenders and quotes within the contract register. The above should be assessed to determine if there should be commitments disclosed, and the necessary adjustments should be made to the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

7. Commitments - Deficiency in commitment register (CoA 40)

Audit finding

Section 121 of GRAP 1 states: *"Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities: (i) contingent liabilities (see the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets) and unrecognised contractual commitments;"*

The commitment register shows the total amount approved for the project as well as the expenditure to date but does not show the following amounts:

- The amount contracted for the project
- The amount not yet contracted for the project
- The expenditure for the current financial year incurred

The commitment register does not split the total commitment between:

- Total contracted commitment
- Total commitment not yet contracted

We tested the expenditure to date as per the commitment register and found the expenditure to be overstated by R 4 626 682.

The above is mainly due to insufficient control over contractual commitments and lack of proper recordkeeping at the municipality.

This matter may result in commitments not being properly accounted for in the financial statements. The expenditure may possibly be overstated by R 4 626 682.

Internal control deficiency

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

Recommendation

Management should compile a complete contractual commitment register, which is supported by sufficient supporting documentation (eg appropriate approval of commitments and contracts entered into). The register should include the following:

- The amount contracted for the project
- The amount not yet contracted for the project

- The expenditure for the current financial year incurred

The commitment register should split the total commitment between:

- Total commitment contracted
- Total commitment not yet contracted

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

8. Commitments - Commitments not complete (CoA 40)

Audit finding

Section 121 of GRAP 1 states : *"Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities: (i) contingent liabilities (see the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets) and unrecognised contractual commitments;"*

a) Through inspection of the disclosure in the financial statements, it was noted that prior year commitments were no longer included in the disclosure for the current year. We have noted that following difference between the commitments disclosed and the commitments as indicated on the commitment register:

Total commitment disclosed	40,872,092.20
Total commitments as per Commitments Register	178,709,810.00
Difference	(137,837,717.80)

b) Furthermore, we have noted that the following projects were discussed during management/council meetings of the municipality, however we could not obtain confirmation why some of these were not included in the disclosed commitment balance:

Project	Disclosed
Bucket Eradication project	Yes
Tumahole EXT 6 Sanitation project	No
Heilbron Outfall Sewer Upgrade	No
Phiritona Bulk electricity Upgrade Phase 1	No

c) The disclosure note states that the following projects are contracted but not provided for:

Mokwallo: Construction of water connection for 1625 stands - MIG/FS0979/W/13/13

6,555,997.50

Koppies: Paving of internal roads 1KM - MIG /FS0955/RST 13/14

6,558,951.35

Edenville: Paving of internal roads 1KM - MIG/FS0954/R,ST/13/14

6,558,951.35

Tumahole: Upgrading of the Mandela low level bridge

2,500,000.00

As per the commitment register these projects will only be contracted by earliest on 2 September 2013.

The above is mainly due to insufficient control over contractual commitments and the disclosure thereof in the financial statements.

This matter may result in commitments being materially misstated in the financial statements.

Internal control deficiency

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

Recommendation

Management should compile a complete contractual commitment register, which is supported by sufficient supporting documentation (e.g. appropriate approval of commitments and contracts entered into). Management should adjust the financial statements in order to reflect all contractual commitments at year-end.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Contingent liabilities

9. Contingent liabilities - External confirmations not obtained (CoA 50)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "(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-(a) 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;"

We could not obtain external confirmations from the following attorney's for which contingent liabilities were disclosed in the financial statements:

Khang Incorporated
Rampai Attorneys
Ponoane Attorneys
ADW van Berg attorneys
JC Burger Attorneys
Cengcani and Associates
T Hadebe Attorneys

This matter may have resulted due to proper procedures not followed to obtain external confirmations in the process of compiling the financial statements.

The risk of the above is a limitation of scope regarding the Occurrence, Rights & obligations, Completeness, Classification and understand ability and Accuracy and valuation as well as Compliance of Contingent liabilities, per note 40 to the Financial Statements.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Management does not agree with the finding in that The municipality submitted a comprehensive list of all attorneys with all the contact details including cell phone numbers, facsimile and office lines and e-mails. Management is continuously ensuring that all documentation for financial records is safeguarded, properly managed and readily available and the information was provided within requested timeframe. The management will also follow it up with the said attorneys regarding external confirmations from them for which contingent liabilities were disclosed in the financial statements.

Auditor's conclusion

Management does not agree with the finding however the confirmations were not received.

10. Contingent liabilities - Disclosure not complete (CoA 50)

Audit finding

GRAP 19 states: ".95 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs .41 to .57;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

.104 Where any of the information required by paragraphs .95 and .100 is not disclosed because it is not practicable to do so, that fact shall be stated."

a) We evaluated the disclosure of contingent liabilities in terms of GRAP 19 and noted that the disclosure is incomplete (and no statement is made as to why some liabilities are not disclosed was included). The information disclosed is incomplete, as amounts were neglected and non-relevant information should be removed from the financial statements.

i) The following legal matters were identified from attorneys confirmations but were not disclosed:

Attorney	Matter Name / Description	Estimated Cost
Lebea& Associates	TJ Mokoena vs NLM	120 000,00
Lebea& Associates	SAMWU obo Manentza	180 000,00
Du Toit Mandelstam Attorneys	Telkom vs NLM	240 420,00

ii) After inspecting the relevant attorneys confirmations we found that some contingent liabilities were disclosed while they were actually already finalised. We identified the following finalised legal proceedings which should not be disclosed as contingent liabilities:

Attorney	Legal Fees Outstanding	Case status
Shongwe Attorneys	25 000,00	Finalised
Lebea& Associates	86 524,00	Finalised
Du Toit Mandelstam Attorneys	0	Finalised

iii) After inspecting media reports we found the following:

- Raw sewerage flows into the Vaal River which could lead to legal liabilities.
- Some contractors are not paid within 30 days which could lead to legal liabilities.

None of these were disclosed.

The above is mainly due to management not ensuring that all relevant disclosures required by the applicable financial reporting framework is adhered to.

The impact of the above is non-compliance with the requirements of GRAP19 which may result in a misstatement of contingent liabilities.

Internal control deficiency

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

Recommendation

Management should ensure that all disclosure requirements of the relevant accounting framework is adhered to. The necessary corrections should be made to the financial statements.

Management response

i. **Management does not agree with the finding in that** -Lebea & Associates-TJ Mokoena. No feedback has been received from the attorneys on the progress made since civil instructions were given to this attorneys hence it was not disclosed. Follow up letters have been sent to them without any success.

- Lebea & Associates-SAMWU obo Manentza. It appears the matter was dealt with in 2009, however despite requests to the attorneys to provide documentation to us regarding the matter, nothing has been forthcoming except the invoice was submitted in January and payment has not been effected due to lack of paperwork

-Du Toit Mandelstam Inc-Telkom matters. There were various claims brought against the municipality for damage to infrastructure and Du Toit Mandelstam Inc initially dealt -with only one matter, only recently were they appointed to handle all Telkom claims on behalf of the municipality after initial attorney of record withdrew from the matter hence it was not disclosed.

ii. -Shongwe matter- agree with a finding

-Lebea & Associates the municipality is not in agreement with Lebea & Associates as we believe that payment was finalized. The dispute is not yet resolved hence it is captured as a contingency

-Du Toit Mandelstam Inc assisted with the Misphe matter on a pro bono basis, although the attorneys indicated that they were going to bill the municipality. They have not submitted any claim for services rendered hence it was captured as a contingency.

Auditor's conclusion

Management does not agree with the finding however:

i) Although management did not manage to contact the attorneys the legal proceedings are still ongoing and thus contingent liabilities have to be recognised. This this matter remains unresolved for the period under review.

ii) Management does not disagree with the finding that these legal proceedings are finalised. Management disagrees with the amount of legal fees outstanding. These legal fees that are outstanding are not contingent liabilities but rather payables. Thus the finding that these cases should not have been disclosed remains unresolved for the year under review.

Employee costs

11. Employee costs - Supporting documentation for leave taken not in files (CoA 51)

Audit finding

Section 62 of the 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"

a) For the following leave transactions, information was not on the employee's file to substantiated the transaction:

Employee code	Name	Date of leave taken	Total days
10056	MR MJ MOKOTEDI	20130303	10
10061	MR M E LETSABA	20130618	10
10086	MR PP KHUMALO	20130301	10
10098	MR ES DZANIBE	20120801	10
10100	MR J MNGUNI	20121001	10
10118	ME NA MOFOKENG	20120901	10
10125	MR RS LEGODI	20121227	7
		20120901	10
10137	MR ST MOFURUTSI	20130612	3
		20120821	10
40222	Me L B LODADA	20130402	1
		20130424	1
		20130507	1
		20130125	1
40431	MR MYJ HLATI	20130328	1
		20120716	-1
		20120827	-1
		20120831	-2
		20120831	-2
		20120831	-2
201009	MR MJ MOKOENA	20121101	10
201077	MR T S MOFOKENG	20120825	30
201107	MR T S BUCIBO	20130322	30

The above is mainly due to information is not filed and safeguarded in a manner which ensures that information is available for reference and audit purposes.

The risk of the above is that the occurrence, accuracy, completeness and compliance of leave could not be tested. This could have a possible misstatement of the leave accrual and/or employee costs.

Internal control deficiency

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

Recommendation

Management should develop internal controls to ensure that all documents and information is filed in a manner that allows easy access thereto and is readily available for audit purposes. The above-mentioned information should be submitted for audit purposes.

Management response

Management agree. The leave forms were not as yet filed by the time the files were issued to the auditors. Management will ensure that filing of all employee related costs are filed immediately after capturing.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

12. Employee costs - Information not submitted (CoA 59)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

The following documentation regarding employee costs have not been submitted for audit purposes:

a) Documentation to support the following manual payments (RFI 99)

Month	Name	Description	Amount
Jul-12	Mokoena TJ	Leave days	92,015.40
May-13	Jinika MJ	Overtime	1,714.08
May-13	Pali M	Standby	5,584.57
Jun-13	Selebeleng PE	Overtime	1,056.23

b) Written authorization for the overtime worked relating to the following payments (RFI 76):

Employee Number	Employee Name	Month	Overtime Amount
10203	PHOTOLO IT MR	February	2,255.25

c) Supporting documentation regarding the municipality's skills development payments/obligation (including the payment vouchers, supporting calculations, budgeted information etc) (RFI 79).

d) Employee files for the following appointments (RFI 49):

Employee Number	Employee Name	Appointment Date
45534	ME NA LEBOKO	01/02/13
45544	MR MS TALIWE	01/02/13
45554	ME NG NCAMANE	01/02/13
45576	ME MK KUMALLO	01/02/13
45583	MR D SCHOLTZ	01/02/13
45606	MR JS CHOCHOE	01/02/13

200011	MS DJ SITHOLE	01/02/13
210598	ME NE MTHEMBU	01/02/13
210602	MS LM MONYANE	01/02/13
210607	MR P MAFANYA	01/02/13
210611	ME JM MOKOENA	01/02/13
210616	MR TF RADEBE	01/02/13
210621	MS PM KHESWA	01/02/13
300789	MR L Z MATOLO	01/02/13
300805	ME JD PARTA	01/02/13

e) Information regarding the audit of the payroll expenses, which included the following: (RFI 69):

- i) Monthly payroll reconciliation between the Payday system and the financial system – which indicates differences which have not been cleared, explanations on differences etc.
- ii) Signed agreements of section 57 managers in order to structure their remuneration packages. The following latest agreements were not on file:

- No signed agreements for remuneration packages received

Employee Number	Employee Name	Job title
40741	OL LEEUW	Chief financial Officer (01 March 2013 - 30 June 2013)
40474	S T G MKHUMA	Acting Chief financial Officer (01 July 2012 - 28 February 2013)
45503	KT MALEBANE	Director of technical services (01 September 2012 - 30 June 2013)
45588	LD KAMOLANE	Director of Community services (01 April 2013 - 30 June 2013)

- No support substantiating allowances

Employee Number	Employee Name	Job title
40741	OL LEEUW	Chief financial Officer (01 March 2013 - 30 June 2013)
45503	KT MALEBANE	Director of technical services (01 September 2012 - 30 June 2013)
45588	LD KAMOLANE	Director of Community services (01 April 2013 - 30 June 2013)

- iii) A comparison of budgeted payroll expense to actual payroll expense per department.

f) The employee file for the following employee (RFI 25):

Employee No	Employee Name	Details
300900	BM HADEBE	GENERAL WORKER

g) The following information regarding the municipality's PAYE (RFI 67):

- i) Supporting documentation for the accrual of PAYE
- ii) Annual tax reconciliations compared to the salary system
- iii) A list of all subcontractors and proof that PAYE is withheld from their fees.
- iv) And all valid contracts for these subcontracts.

The nature of this exception raised is mainly due to management's failure to respond to the audit request as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of Employee related cost per note 27; and Remuneration of councilors per note 28 to the Financial Statements could not be verified and thus increasing the risk that employee cost could be either over-/ understated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraphs are proposed:

- a) Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by section 66(3) of Municipal Systems Act.
- b) Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of Municipal Systems Act.

13. Employee costs - Prior year matters not resolved (CoA 59)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. *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—(a) 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;*"

Prior year limitations have tried to be resolved, but the following supporting documentation could still not be provided:

- a) No employee contract or employee file could be provided for the following employees (Exception 54 of 2012):

Emp. No.	Emp. Name	Type	Month	Net Amount
10187	MRS EM MAKGASA	Net amount	Jul	6,386.61
40114	MR J BRUWER	Net amount	Nov	26,876.73
40507	MR L J SENOAMA	Net amount	Jul	26,239.38
200024	MS NS BEZU	Net amount	Apr	5,399.50

b) Following employees did not present themselves for physical verification (Exception 176 of 2012):

Employee number	Employee Name
10056	MR MJ MOKOTEDI

c) Documentation to support the following journals could still not be submitted (Exception 208 of 2012):

Vote number	Description	Journal type	Supp Doc Number	Date processed	Dr/Cr
1105051015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 455,010.31
1105101015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 7,610.10
1110051015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 523,842.32
1110101015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 192,654.37
1115051015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 986,397.18
1115151015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 36,821.75
1120051015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 746,304.72
1120101015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 250,906.90
1120151015410	SALARIES & WAGES	Ledger Journals	1373	20111116	R 7,615.66
1120201015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 319,938.68
1120251015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 91,331.76
1120301015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 62,582.92
1120351015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 185,615.27
1120401015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 318,656.36
1120451015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 340,047.99
1125051015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 171,446.46
1125151015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 34,900.79
1125251015410	SALARIES & WAGES	Ledger Journals	1374	20111116	R 47,467.73
1125301015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 191,112.91
1125451015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 149,738.70
1125501015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 229,521.39
1125601015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 557,388.17
1125801015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 549,460.84
1125851015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 112,038.25
1125901015410	SALARIES & WAGES	Ledger Journals	1375	20111116	R 27,065.98
1125901015410	SALARIES & WAGES	Ledger Journals	11/12/02RECON	20120618	R 15,410.84
1125901015410	SALARIES & WAGES	Ledger Journals	11/12/02RECON	20120618	R 8,213.64
					<u>R 6,619,101.99</u>

Vote number	Description	Journal type	Supp Doc Number	Date processed	Dr/Cr
9100088010006	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	1373	20111116	R -5,761,079

9100088010006	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	1374	20111116	R -2,710,165
9100088010006	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	1375	20111116	R 759.11
9100088010006	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	1375	20111116	R -3,103,828
9100088010007	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/01RECON	20120618	R 26,683.56
9100088010008	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/02RECON	20120618	R -44,807
9100088010008	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/02RECON	20120618	R -23,029
9100088010008	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/02RECON	20120618	R -93,224
9100088010008	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/02RECON	20120618	R -15,411
9100088010008	SALARY SUSPENSE CONTROL ACCOUNT	Ledger Journals	11/12/02RECON	20120618	R -8,214
					<u>R -11,732,314</u>

d) PAYE deducted from the following employees as selected in the prior year, still do not agree to the PAYE recalculated (Exception 220 of 2012):

Employee Number	Employee Name	Month	Net Amount	Recalculated PAYE	Difference
10109	MR AT LEGODI	May	R 9,376.92	R 9,192.02	R 184.90
10211	MR R MALAMULE	Sep	R 12,521.01	R 13,818.46	(R 1,297.45)
40001	MR EC PULE	Dec	R 7,979.81	R 7,836.58	R 143.23
40113	Me SN MAGASHUL	Dec	R 2,681.25	R 2,789.60	(R 108.35)
40143	MR TA MPINDO	Sep	R 49,997.55	R 54,657.30	(R 4,659.75)
40143	MR TA MPINDO	Nov	R 7,449.54	R 7,328.67	R 120.87
40504	MR S S MADONDO	Feb	R 35,194.40	R 30,665.17	R 4,529.23
40546	MRS TME KHUMAL	JUL	R 833.14	R 955.18	(R 122.04)
40630	MR TJ MOKOENA	Dec	R 17,250.29	R 18,708.59	(R 1,458.30)
407980	MR L J MOSALA	Dec	R 11,548.20	R 18,274.46	(R 6,726.26)

The nature of this exception raised is mainly due to management's failure to respond to the audit request as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of the prior year Employee related cost per note 27; and Remuneration of councilors per note 28 to the Financial Statements could not be verified and thus increasing the risk that the prior year employee cost could still be either over-/ understated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to

supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Informal response: MJ Mokotedi was verified, other outstanding

Auditor's conclusion

MJ Mokotedi was verified.

Management response is outstanding.

14. Employee costs - Inadequate records on file (CoA 83)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

The following discrepancies were identified during the audit:

Salary structures not on file:

Emp No.	Employee Name	Details
45587	A T HLONGWANE	SUPPLY CHAIN MANAGER
45507	TS MOKOENA	Municipal Manager

No employee contracts on file:

Emp No.	Employee Name	Details
508734	E SEHLOHO	GENERAL WORKER
400067	J SEBALO	DRIVER
400589	N E NONDALA	CUSTOMER CARE/SCORPION
45588	LD KAMOLANE	Director Community

Documentation regarding employees' latest approved remuneration packages not in files:

Emp No.	Employee Name	Details	Month
40001	EC PULE	PARTICIPATION MANAGER	Des
40431	MYJ HLATI	PROJECT MANAGER	Nov
10211	R MALAMULE	REVENUE ASSISTANT MANAGE	Des
10354	S K D MTIMKULU	REVENUE & DEBT COL. MANA	Oct
210009	MI TLADI	GENERAL WORKER	Sep
508734	E SEHLOHO	GENERAL WORKER	Aug
201367	F M MELATO	GENERAL WORKER	Nov
40740	G T MOSIA	GENERAL WORKER	Jul

508704	IM MOFOLO	GENERAL WORKER	Jul
509419	J LETSOARA	GENERAL WORKER	Jan
400067	J SEBALO	DRIVER	Des
509072	KB MOFOKENG	DRIVER	Feb
210033	LF RADEBE	GENERAL WORKER	Aug
10055	LM MNDEBELE	GENERAL WORKER	Jul
210039	M I DLAMINI	GENERAL WORKER	Jul
42053	ML MSIBI	CUSTOMER CARE/ACCOUNTS	Feb
400072	MS MOKHOANA	GENERAL WORKER	Nov
300351	ND BAYANA	OPERATOR	Oct
510031	NR SENOOE	GENERAL WORKER	Oct
300208	P KHAILE	GENERAL WORKER	Aug
40436	P S LECHALABA	GENERAL WORKER	Feb
45503	KT MALEBANE	Director Technical Service	April
45586	L M BOPALAMO	Director corporate Service	March
201412	HC MINNIES	GENERAL WORKER	March
201205	L J MAKUTSO	OPERATOR	April
201262	M C RADEBE	GENERAL WORKER	June
42080	MMS TLAKE	PAYROLL OFFICER	April
42068	MP MOSIA	GENERAL WORKER	March
40402	NL KHUSE	CLERICAL ASSIST (ASSETS)	March
510037	PE SELEBELENG	ASSISTANT ELECTRICIAN	June
40451	PS KGOTLE	GENERAL WORKER	April
10261	MH CHUTA	FIRE MAN	Aug
40741	OL LEEUW	CHIEF FINANCIAL OFFICER	Feb
300393	M M MOFOKENG	Financial Manager	June
40004	PA MOTHA	Special Projects Manager	May

No supporting documentation on file regarding temporary employment:

Emp No.	Employee Name	Details	Month
407991	E MTIYETWA	GENERAL WORKER	Nov
45590	K MACHOTOLA	GENERAL WORKER	Aug
300788	JR SEBE	GENERAL WORKER	Nov
510041	MM MOKHANELI	GENERAL WORKER	Nov
300802	R MPHEQEKE	GENERAL WORKER	Aug

No signed documentation authorising deductions on file:

Emp No.	Employee Name	Details	Month
45587	A T HLONGWANE	SUPPLY CHAIN MANAGER	March
300780	FT LENKA	GENERAL WORKER	Feb
45503	KT MALEBANE	Director Technical Service	April
510045	ML MOETI	GENERAL WORKER	June
40451	PS KGOTLE	GENERAL WORKER	April

Salary per pay slip does not agreed to employee contracts, contracts stipulate annual package and therefore monthly rates and deductions could not be verified:

Emp No.	Employee Name	Details	Month
45598	HP MEKGWE	GENERAL WORKER	Jan
45713	MM SKOSANA	GENERAL WORKER	Sep
45583	D SCHOLTZ	GENERAL WORKER	Des
41004	DL SETSHEDI	GENERAL WORKER	Oct
300780	FT LENKA	GENERAL WORKER	Feb
45553	JK THULO	GENERAL WORKER	Jul
45546	KM TSHABALALA	GENERAL WORKER	Oct
45582	L NYAMELA	GENERAL WORKER	Sep
300393	M M MOFOKENG	Financial Manager	June
40004	PA MOTHA	Special Projects Manager	May
510045	ML MOETI	GENERAL WORKER	June
300806	MA SHEBE	GENERAL WORKER	May
200010	MJ MOFOKENG	GENERAL WORKER	May
45557	MT TAKALO	GENERAL WORKER	June

This is as a result of inadequate record keeping by the municipality's management.

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of Employee related cost per note 27; and Remuneration of councilors per note 28 to the Financial Statements could not be verified and thus increasing the risk that employee cost could be either over-/ understated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

15. Employee costs - Differences between ledger and financial statements (CoA 32)

Audit finding

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

We identified the following differences between the amount per the general ledger and the financial statements:

Current Year			
Description	Amount per GL	Amount per AFS	Difference
OVERTIME	12,856,175.51	16,161,176.00	3,305,000.49
PENSION FUNDS	14,517,164.38	29,824,164.00	15,306,999.62
SALARIES & WAGES	85,646,401.18	82,169,702.00	(3,476,699.18)
ALLOWANCE - MAYOR	452,158.15	757,297.00	305,138.85
Councillors	6,256,267.20	7,123,989.00	867,721.80
PENSION FUND contribution – Councillors	305,139.43	-	(305,139.43)
Total			16,003,022.15

Prior Year			
Description	Amount per GL	Amount per AFS	Difference
SALARIES & WAGES	70,027,329.49	66,035,969.00	3,991,360.49
ALLOWANCE - MAYOR	393,816.45	812,579.00	-418,762.55
PENSION FUND contribution – Councillors	418,763.26	0	418,763.26
Total			3,991,361.20

The above is mainly due to senior management not performing all required duties to ensure accurate and complete record keeping

This matter may result in the misstatement of employee costs in the financial statements.

Internal control deficiency

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

Recommendation

Management should 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.

Management response

No reasons could be provided.

Auditor's conclusion

No explanations could be given, exception stands

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Control environment

16. Control environment - Lack of reporting by the internal audit section (CoA 1)

Audit finding

Section 165 of the MFMA states that (2) the internal audit unit of a municipality must:

- a) prepare a risk-based audit plan and internal audit programme 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
- c) perform such other duties as may be assigned to it by the accounting officer.

The following deficiencies were identified during the evaluation of the internal audit department:

- a) No quality reviews (internal or external) have been performed on the internal audit activities
- b) Due to the late appointment of the joint audit committee the Internal Audit Charter as well as the Audit Plan for 2012/2013 was not approved.

Also due to the late appointment of the audit committee the internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- it did not report to the audit committee on the implementation of the internal audit plan.
- it did not report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
- it did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation

- c) The internal audit section only consisted out of an internal audit manager and two interns for most of the financial year. The capacity constraints experienced in this section therefore also hampered the effective functioning thereof.
- d) No audits were performed on fixed assets and CIS environment during the 4th quarter as per internal audit plan

The lack of reporting to the audit committee is due to the fact that this committee was only appointed late in the financial year and also only met once during the year under review (at year-end).

These matters constitutes non-compliance with the MFMA and will be reported on in the audit report.

Internal control deficiency

The municipality did not ensure that the internal audit 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 laws and regulations.

Recommendation

The accounting officer should assist the internal audit as to ensure that proper communication lines are established between the audit committee and the internal audit. Furthermore, the internal audit section should ensure that proper reporting takes place to the audit committee on a continuous basis regarding the matters referred to in the MFMA.

Management response

Management agrees with the finding. We have started with the process of appointing Audit Committee. This process has the intention of ensuring that all the processes of the internal audit section are complied with.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

The following is the proposed audit report paragraphs:

The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- it did not report to the audit committee on the implementation of the internal audit plan.
- it did not report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.

17. Control environment - Audit committee not fully functional for the year under review (CoA 1)

Audit finding

Section 166 of the MFMA states that:

(1) Each municipality must have an audit committee, subject to subsection (6);

(2) An audit committee is an independent advisory body which must-

(a) advise the municipality council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the entity, on matters relating to-

(i) Internal financial control and internal audits;

(ii) Risk management;

(iii) Accounting policies;

(iv) The adequacy, reliability and accuracy of financial reporting and information;

(v) performance management;

(vi) effective governance;

(vii) compliance with this Act, the annual Division of Revenue Act, and any other applicable legislation;

(viii) performance evaluation; and

(ix) any other issues referred to it by the municipality or municipal entity.

(b) review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipal and the board of directors on the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

(c) respond to the council on any issues raised by the Auditor-General in the audit report;

(d) carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of an municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and

(e) perform such other functions as may described."

(3) In performing its functions, an audit committee-

- (a) has access to the financial records and other relevant information of the municipality or municipal entity; and
- (b) must liaise with-
 - (i) the internal audit unit of the municipality; and
 - (ii) the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.

(4) An audit committee must-

- (a) consist of at least three persons with appropriate experience, of whom the majority may not be in the employee of the municipality or municipal entity, as the case may be; and
- (b) meet as often as is required to perform its functions, but at least four times a year.

(5) The members of an audit committee must be appointed by the council of the municipality or, in the case of a municipality entity, by the council of the parent municipality. One of the members who are not in the employ of the municipality or municipal entity, must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee.

(6) A single audit committee may be established for-

- (a) a district municipality and the local municipalities within that district municipality; and
- (b) a municipal and municipal entities under its sole control."

Furthermore, regulation 14 of the Municipal Planning and Performance Management Regulations, 2001, states:

(2)(a) A municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of which may not be involved in the municipality as a councillor or an employee.

(b) A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management.

(c) A municipality may utilise any audit committee established in terms of other applicable legislation as the performance audit committee envisaged in paragraph (a), in which case the provisions of this sub regulation, read with the necessary changes, apply to such an audit committee.

(d) The council of a municipality must designate a member of the performance audit committee who is not a councillor or an employee of the municipality as chairperson of the committee.

(e) If the chairperson of the performance audit committee is absent from a specific meeting of the committee, the members present must elect a chairperson from the members present to act as chairperson for that meeting.

(f) In the event of a vacancy occurring amongst the members of the performance audit committee, the municipality concerned must fill that vacancy for the unexpired portion of the vacating member's term of appointment.

(g) A municipality must provide secretariat services for its performance audit committee.

(h)(i) A local municipality may in stead of appointing a performance audit committee elect to make use of the performance audit committee of the district municipality in whose area it falls, and that performance audit committee is to be regarded as the performance audit committee of the local municipality in question.

(ii) A local municipality that elects to make use of the performance audit committee of the district municipality in whose area it falls, must notify that district municipality of its decision and make suitable arrangements with the district municipality regarding the availability of that performance audit committee.

(i) A member of the performance audit committee who is not a councillor or an employee of the municipality concerned, may be remunerated taking into account the tariffs determined by the South African Institute of Chartered Accountants in consultation with the Auditor-General.

(3)(a) A performance audit committee must meet at least twice during the financial year of the municipality concerned.

(b) A special meeting of the performance audit committee may be called by any member of the committee.

(c) A performance audit committee may determine its own procedures after consultation with the executive mayor or the executive committee of the municipality concerned, as the case may be.

(4)(a) A performance audit committee must—

- (i) review the quarterly reports submitted to it in terms of sub regulation (1) (c) (ii);
- (ii) review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and
- (iii) at least twice during a financial year submit an audit report to the municipal council concerned.

(b) In reviewing the municipality's performance management system in terms of paragraph (a) (ii), the performance audit committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.

(c) A performance audit committee may—

- (i) communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;
- (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
- (iii) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers."

Contrary to the requirements the municipality did not have a fully functioning audit committee in place for the year, due to the joint audit committee with the district municipality only being appointed on 29/11/2012. The audit committee also only held one meeting for the year under review, on 26 June 2013. Due to their late appointment, the audit committee did not fulfill the following duties as required by the MFMA (proof could not be obtained that the following were performed):

1) Advised the council/accounting officer on matters relating to:

- a) internal financial control and internal audit;
- b) risk management;
- c) accounting policies;
- d) effective governance;
- e) performance management.
- f) performance evaluation.

2) Advise the council/accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information.

3) Advised the council/accounting officer on matters relating to compliance with the MFMA/ DoRA/ any other applicable legislation.

4) Responded to the council on the issues raised by the Auditor-General in the prior year audit report

5) Meet at least 4 times a year

6) Reviewed the annual financial statements

7) The municipality also did not have a fully functional performance audit committee in place for the year (due to the joint audit committee appointed also fulfilling this function)

This matter may have resulted due to the late appointment of the shared audit committee by council as well as the fact that the governance structures at the municipality were not prioritised.

The fact that the audit committee did not function for the year may result in inadequate monitoring of internal controls, risks, accounting policies and performance management as well as non-compliance with the aforementioned requirements of the MFMA, which will be reported on in the audit report.

Internal control deficiency

The municipality did not 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 laws and regulations.

Recommendation

The accounting officer should ensure that an audit committee and performance audit committee are established that are fully functional as required by the MFMA and the Municipal Planning and Performance Management Regulations.

Management response

Management agrees with the finding. The Council of the Municipality appointed a task team made up of the following members: Cllr Mandelstam (chairperson), Cllr Ranthako, Cllr van der Merwe, Adv Thabo Mokoena (Municipal Manager), Mr Lucas Leeuw (CFO) to deal with the appointment of an Audit Committee. An advertisement has been placed on the newspapers and a short listing of prospective candidates has been developed. Interviews are scheduled to take place on the 10 October 2013.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

The proposed audit report paragraphs are:

- a) The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
- b) The audit committee did not advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
- c) The audit committee did not advise the accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
- d) The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
- e) The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
- f) The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Compliance

18. Compliance - Failure to prevent unauthorised, irregular and fruitless and wasteful expenditure (CoA 67)

Audit finding

According to the Municipal Finance Management Act:

62. 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;

95. General financial management functions of accounting officers.—The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—

(d) that irregular and fruitless and wasteful expenditure and other losses are prevented;

Contrary to the requirements, irregular expenditure of R15 679 547 (Note 42) and fruitless and wasteful expenditure of R48 050 763 (Note 45) was disclosed in the financial statements for the current year. No unauthorised expenditure was disclosed in the financial statements for the current year, however through testing performed it was found that unauthorised expenditure of R187 185 223 was incurred for the year (refer CoA 27)

The Municipal Manager therefore did not comply with section 62(1)(d) and 95(d) of the Municipal Finance Management Act

This matter may have resulted due to proper controls not in place at the municipality for the prevention of unauthorised, irregular and fruitless and wasteful expenditure

Non-compliance with section 62(1)(d) and section 95(d) of the Municipal Finance Management Act

Internal control deficiency

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

Recommendation

Management should implement controls in in order to prevent irregular, unauthorised and Fruitless and Wasteful expenditure to ensure compliance with the requirements of the Municipal Finance Management Act.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraph is:

Reasonable steps were not taken to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

19. Compliance - Management and accounting system regarding expenditure (CoA 67)

Audit finding

Section 65(2) of the MFMA states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

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

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

- i) recognises expenditure when it is incurred;
- ii) accounts for creditors; and
- iii) accounts for payments made.

During the audit of expenditure at the municipality, the following shortcomings were noted:

- a) Expenditure transactions were classified incorrectly on the general ledger;
- b) Expenditure transactions were accounted for in incorrect financial year's;
- c) Payments were not made within 30 days after receiving the invoice;
- d) All creditors were not accounted for at year-end, and some creditors were accounted for at the incorrect value.

These matters were all reported on in other communications issued. Based on this, it can be concluded that the municipality has not complied with section 65(2) of the MFMA.

This matter resulted due to weaknesses in the internal control environment regarding expenditure management.

This matter constitutes non-compliance with the MFMA.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should assess, based on all the findings raised during the audit, the total extent of the shortcomings noted in the expenditure/payment system. These control weaknesses should be addressed as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

- a) An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

20. Compliance - No competency assessments performed (CoA 82)

Audit finding

Municipal Regulations on Minimum Competency Levels regulation 13 require that competencies of financial and supply chain management officials are assessed in a timely manner in order to identify and address gaps in competency levels

No competency assessments were performed for the following officials during the year as required:

- ~ Chief financial Officer
- ~ Head Supply Chain
- ~ All financial officials and supply chain officials

Competency assessments were not performed by the municipality in the prior as well as the current year to ensure compliance with the relevant regulations

This matter constitutes non-compliance with Municipal Regulations on Minimum Competency Levels reg 13

Internal control deficiency

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

Recommendation

The municipality must perform competency assessments on all financial and supply chain management officials to identify and address possible gaps in competency levels

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding

The following audit report paragraph is proposed:

a) The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.

21. Compliance - Performance management (CoA 82)

Audit finding

According to the Municipal Systems Act:
67. Human resource development.—

(1) A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective and transparent personnel administration, including—

(d) the monitoring, measuring and evaluating of performance of staff;

GNR 805 of 1 August 2006: Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to the Municipal Manager, 2006 states:

26(5) The criteria upon which the performance of the employee must be assessed consist of two components, both of which must be contained in the performance agreement. The employee must be assessed against both components, with a weighting of 80:20 allocated to the Key Performance Areas (KPAs) and the Core Competency Requirements (CCRs), respectively. Each area of the assessment will be weighted and will contribute a specific part to the total score. KPAs covering the main areas of work will account for 80% and CCRs will account for 20% of the final assessment.

27 Evaluating performance-

(4) The annual performance appraisal must involve:

(d) For purposes of evaluating the annual performance of the Municipal Manager, an evaluation panel constituted of the following persons must be established

- (i) executive Mayor or Mayor;
- (ii) chairperson of the performance audit committee or the audit committee in the absence of a performance audit committee;
- (iii) member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council; and
- (v) municipal manager from another municipality.

(e) For purposes of evaluating the annual performance of managers directly accountable to the Municipal Manager, an evaluation panel constituted of the following persons must be established -

- (i) municipal manager
- (ii) chairperson of the performance audit committee or the audit committee in the absence of a performance audit committee;
- (iii) member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council; and
- (v) municipal manager from another municipality.

Through inspection of random selected employee files the signed performance agreements were not included. It could therefore not be determined if signed performance agreements were in place and if performance assessments were done during the year to evaluate the performance of officials for the 2011-12 financial year. The information was requested, but no documents were received up to date (CoA73)

It could also not be determined for audit purposes if an evaluation panel was established by the municipality for the evaluation of the performance of senior managers

The Municipal Manager as well as all the section 57 managers' performance assessments/evaluations, as well as documentation/spreadsheet of evaluation done by the evaluation panel for the 2011-12 performance cycle could not be obtained for audit purposes.

This matter may have resulted due to proper controls not in place over performance management as well as the safekeeping of supporting documentation

This matter places a limitation of scope on audit

Internal control deficiency

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

Recommendation

Management should provide the above information as a matter of urgency

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraph is proposed:

Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by MSA sec 67(d).

22. Compliance - Accuracy of the financial statements (CoA 45)

Audit finding

Section 122(1) of the MFMA states that the municipality must prepared and submitted annual financial statements which fairly presented the state of affairs of the municipality, 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 included the required disclosures."

Contrary to this requirement, it was noted that the financial statements submitted for auditing were not prepared in all instances in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and supported in all instances by full and proper records as required by section 122 of the MFMA. Material misstatements of certain components were identified by the auditors in the submitted financial statements and were communicated to management. Certain supporting records were also not provided for audit purposes.

This matter may have resulted due to time constraints when the financial statements were compiled, which was resulted due to the late appointment of the consulting firm which assisted the municipality in the compilation of the financial statements.

This matter constitutes non-compliance with the MFMA and will be reported as such in the audit report.

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that proper controls are implemented as to ensure the accuracy of the financial statements before submission thereof for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraph is:

a) The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of **[non-current assets/ current assets/ liabilities/ revenue/ expenditure/ disclosure items]** identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently], but the **[uncorrected material misstatements and/ or supporting records that could not be provided]** resulted in the financial statements receiving a **[qualified/ disclaimer/ adverse] audit opinion.**

23. Compliance - Shortcomings noted with the budget process (CoA 82)

Audit finding

a) Paragraph 20(2)(a) of the Municipal budget and reporting regulation 393 of 17 April 2009 states that, " *The municipal manager must submit to the National Treasury and the relevant provincial treasury , in both printed and electric form - the supporting documentation within ten working days after the municipal council has approved the annual budget*"

b) Paragraph 18 of the Municipal budget and reporting regulation 393 of 17 April 2009 - (Government Gazette No. 32141) states that, "*Within ten working days after the municipal council has approved the annual budget of a municipality, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentations and the resolutions referred to in section 24(2)(c) of the Act.*"

c) Paragraph 26(1) of the Municipal budget and reporting regulation 393 of 17 April 2009 states that, " *Within ten working days after the municipal council has approved an adjustment budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustment budget and supporting documents as well as the resolution 25(3)*"

d) Section 71(1) of the MFMA, states that, "*The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month*"

e) Section 15 of the MFMA, states that, " A municipality may, except where otherwise provided in this Act, incur expenditure only - (a) in terms of an approved budget (b) within the limits of the amounts appropriated for the different votes in an approved budget.

f) In terms of section 52(d) of the MFMA, " *The mayor of a municipality must, within 30 days of the end of each quarter, submit a report to the Council on the implementation of the budget and the financial state of affairs of the municipality.*"

a) Through inspection of the minutes of council meetings, it was noted that the adjustment budget of the municipality was approved on 31 January 2013. An external confirmation received from National Treasury (List of all documents and returns) indicated that the adjustment budget was submitted on 19 March 2013, which is not within 10 working days as required by the MFMA.

b) Contrary to the requirements of the regulations, the municipal manager did not make public the approved annual budget and supporting documentations and the resolutions.

c) Contrary to the requirements of the regulations, the municipal manager did not make public the approved adjustment budget and supporting documentations and the resolutions.

d) Through inspection of the council minutes, it was noted that monthly reports were not submitted to the Mayor and the relevant provincial treasury.

e) The actual expenditure as per the financial statements was compared to the adjusted budget as follows (we excluded depreciation, amortisation and impairment loss as these items represents non cash expenses)

Expenditure	Final adjusted budget per council minutes	Actual amount per Statement of Financial Performance	Difference
Personnel	(128 245 000.00)	(177 184 026.00)	(48 939 026.00)
Remuneration of councillors	(9 138 000.00)	(9 046 834.00)	91 166.00
Finance costs	(3 707 000.00)	(3 273 815.00)	433 185.00
Repairs and maintenance	(20 068 065.00)	(18 581 748.00)	1 486 317.00
Bulk purchases	(142 203 000.00)	(128 865 523.00)	13 337 477.00
Contracted services	(14 458 000.00)	(8 506 519.00)	5 951 481.00
General expenses	(87 781 935.00)	(164 575 396.00)	(76 793 461.00)
Total expenditure	(420 044 000.00)	(607 228 783.00)	(104 432 861.00)

f) Through inspection of the council minutes, it was noted that the quarterly report as required by the section of the Act were not submitted.

g) Proof could not be obtained that quarterly reports were submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act.

This may have resulted due to management not ensuring that the necessary monitoring controls are in place and are implemented as required by the relevant laws and regulations.

The impact of these findings are:

- a) Monitoring by the National Treasury and the relevant provincial treasury will be compromised.
- b-c) Less inputs from the public which results in limited public participation.
- d) Non compliance with applicable laws and regulations.
- e) This could result in unauthorised expenditure.
- f) Non compliance with applicable laws and regulations

Internal control deficiency

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

Recommendation

Management should ensure that the requirements of the Act are complied with. Where there is proof of compliance, then this should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

- a) Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

24. Compliance - Oversight committee not functioning (CoA 67)

Audit finding

The municipal council, by no later than two months from the date on which the annual report was tabled in the council in terms of section 127 of the MFMA, adopted an oversight report containing the council's comments on the annual report, which included a statement whether the council:

- a) had approved the annual report with or without reservations;
- b) had rejected the annual report; or
- c) had referred the annual report back for revision of those components that can be revised.

Section 129(3) of the MFMA states that the accounting officer must make public the oversight report within seven days of its adoption.

Through inspection of minutes of council meetings it was noted that an oversight report was not tabled and adopted by the municipal council, regarding the 2011/12 annual report. Furthermore, proof could not be obtained that such a report was made public.

This matter may have resulted due to the fact that the oversight committee of the municipality is not functioning.

This matter constitutes non-compliance with the MFMA.

Internal control deficiency

The municipality did not 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 laws and regulations.

Recommendation

Council should establish an oversight committee and ensure that this committee is functioning.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

- a) Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2011/12 annual report was tabled, as required by section 129(1) of the MFMA.
- b) The council's oversight report on the 2011/12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

25. Compliance - Shortcomings noted with the draft annual report for 2013 (CoA 11)

Audit finding

Section 121(3) of the MFMA requires that the following information should be included in the annual report of the municipality:

- (e) an assessment by the accounting officer of any arrears on municipal taxes and service charges.
- (f) the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote.
- (g) particulars of any corrective action taken or to be taken in response to issues raised in the audit report.
- (j) the report of the audit committee.

Through inspection of the draft annual report for the 2012/13 financial year, the following shortcomings were noted:

- a) It was noted that the Revenue Collection Performance by Vote (Appendix K(i)) has not yet been completed;
- b) With regard to the requirement that particulars of any corrective action taken or to be taken in response to issues raised in the audit report should be included in the annual report, it was noted that the municipality has included such information in Chapter 6 of the draft annual report. It was however noted that the one heading incorrectly refers to the 2012/13 financial year: "Auditor-General Report on Financial Performance: Year 2012-2013". It was also not clear how the municipality decided on which audit report paragraphs to include in this section, seeing that it seems that all the qualification areas were not included, and also that qualification and compliance paragraphs were mixed, with no specific sequence.
- c) It was noted that a report from the audit committee is currently not included in the draft annual report.
- d) It was not evident that the annual report includes an assessment by the accounting officer of any arrears on municipal taxes and service charges.

These matters may have resulted due to the fact that the municipality was still in process to compile the annual report and could not finalise all sections by the time that the draft was submitted for audit purposes.

These matters constitute non-compliance with the MFMA and will be reported on in the audit report.

Internal control deficiency

The municipality did not 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 laws and regulations.

Recommendation

Management should ensure that the above-mentioned matters are corrected in the annual report, before finalisation thereof. A proper review process should be implemented as to ensure that all the required information is included in the annual report and that all the sections are properly completed.

Management response

Management agrees with the finding. Municipality is correcting Annual Report and ensuring all required information as per s121 of the MFMA is included in the Annual Report to be tabled in council on January 2014.

Auditor's conclusion

Management is in agreement with the audit finding. Management should submit the adjusted annual report for audit purposes, in order to clear this matter. If not corrected, the following will be reported on:

The proposed audit report paragraphs are:

a) The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote and particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by sections 121(3)(e), (f) and (g) of the MFMA.

CONFIDENTIAL

Unauthorised, irregular and fruitless & wasteful expenditure

26. Irregular expenditure - Irregular expenditure incorrectly condoned by council (CoA 55)

Audit finding

The Municipal Finance Management Act states the following:

170. Departures from treasury regulations or conditions.—

(1) The National Treasury may on good grounds approve a departure from a treasury regulation or from any condition imposed in terms of this Act.

(2) Non-compliance with a regulation made in terms of section 168, or with a condition imposed by the National Treasury in terms of this Act, may on good grounds shown be condoned by the Treasury.

Through inspection of Note 42 - Irregular expenditure as well as the list of irregular expenditure at year end it was found that the council condoned irregular expenditure of R7 120 624 during the year. This is therefore in contravention with the requirements of the Municipal Finance Management Act which states that irregular expenditure may only be condoned by National Treasury.

The above amount should therefore be written back as irregular expenditure

This matter may have resulted due to the incorrect interpretation of the requirements of the MFMA.

This matter may result in the understatement of irregular expenditure (Note 42) in the financial statements as well as non-compliance with the requirements of the MFMA.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls

Recommendation

Amount incorrectly condoned by council should be written back as irregular expenditure in the financial statements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraph is:

a) The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.

27. Irregular expenditure - Deficiencies noted (CoA 55)

Audit finding

Chapter 1 of the MFMA defines "irregular expenditure", in relation to a municipality or municipal entity, means—

(a) 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;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

a) No irregular expenditure register was maintained by the municipality during the year. A list of irregular expenditure was compiled by the consultants responsible for the financial statements, this however only included the items per deviation register.

b) The following unexplained difference was noted between the "List of irregular expenditure" and Note 42 of the financial statements:

	Per irregular expenditure list	Per Note 42 of the Financial Statements	Difference between list and financial statements
Amounts not condoned	R7 074 535,49	R8 558 923,00	R-1 484 387,51

c) When compared to the "List of irregular expenditure" it was found that the following item was incorrectly included under "Deviated from SCM requirements - rental of equipment as municipality does not own required assets for operation" category instead of the "Deviated from SCM requirements, due to urgency of expense" category in Note 42 of the financial statements for the "Details of irregular expenditure condoned":

SUPPLIER NAME	SERVICES RENDERED	TRANSACTION DATE	CHEQUE NUMBER	AMOUNT	DETAIL OF CASE	REASON FOR DEVIATION
INTEGRATED MARKETING	WHEEL EXCHANGE MACHINE	SEPTEMBER 2012	26332	R 30 831.30	Purchase of workshop equipment-	Deviated from SCM requirement (3 quotes and advertisement), due to specialist nature of equipment.

d) Cases of irregular expenditure that were not included in the financial statements of the municipality were identified under various sections tested during the current year audit. A detail list of these cases will be provided to management at a later stage when all management responses on these sections were evaluated

e) The following deviations disclosed as part of "irregular expenditure" is regarded to be valid deviations and should therefore not have been disclosed as part of Note 42 - Irregular expenditure. Deviations were requested by officials to ensure continuous service delivery to the community (refer below for details). Also details of these deviations should have been included as part of Note 44 - Deviations from supply chain management deviations.

Supplier name	Details of service rendered	Amount	Details of each case	Reason for deviations	Comments	Cheque reference no
CMS WATER ENGINEERING CC	REPAIR AND INSTALLATION OF A MOTOR PUMP	R141 132.00	repair and installation of burned or broken motor pumps at water or sewer pumps - in order to supply the community with water	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. Supply of water was disrupted as a result of burned motor and motor panel. The replacement of panel and motor was therefore urgent to supply the community with water	30053
MILLENNIUM PUMP	PUMPS AND INSTALLATION AT KOPPIES	R100 662.00	repair and installation of burned or broken motor pumps at water or sewer pumps - in order to supply the community with water	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. Koppies Town did not have water because the pumps could not function; the pumps were old and rusted to such extent that they could not support each other until it is all affected by the power flow or pressure of the water	25995
MILLENNIUM PUMP	PUMPS AND INSTALLATION AT KOPPIES	R89 826.30	repair and installation of burned or broken motor pumps at water or sewer pumps - in order to supply the community with water	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. The water pump motor at the Koppies Water Works burnt out. The technical department was unable to fix this motor and the panel	26263
VAAL TRANSFORMER	ELECTRICAL MATERIAL	R195 937.50	repair of transformers when there was a power failure due to bad weather condition	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. A heavy storm affected the community badly, due to electrical poles that fell. The damage was serious to the extent that transformers blew and left the community in darkness	28186
KATLEGO TECHNICAL SERVICE	REPAIR PUMP	R58 240.00	repair and installation of pumps at water/sewer pumps whenever the motor pump has burned or broken	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. There was a water crisis at Parys Water Works Treatment Plant at Pump 03. The water could not be supplied to other reservoirs due to burnt contractor and overload protector which ultimately damaged the pump. As a result the community did not have access to water and the matter was treated as an emergency	27053

NDALAMA ARMURE WINDERS	REPAIR AND INSTALLATION OF MOTOR PUMP	R109 062.66	repair and installation of burned or broken motor pumps at water or sewer pumps - in order to supply the community with water	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. Motor pumps were needed urgently at Vredefort Water Works in order to supply water to various households. The pump burst and the pump needed to be replaced immediately, the matter was therefore treated as an emergency	29171
RESCUE ROAD	SUNCTION TANKER	R197 051.97	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. There was a sewer spillage in Mbeki section (Parys) and the overflow was running inside people's houses. The spillage was caused by sewer main pipes that were blocked. The matter was therefore treated as an emergency	27074
Boerefort MF	Diesel	R30 000.00	repair of municipal vehicle- strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	Deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. Boerefort MF is the sole supplier of diesel in Vredefort	28848

Overstatement of irregular expenditure: R921 912,43

f) VAT were incorrectly included in the following amounts disclosed as irregular expenditure in Note 42 - Irregular expenditure of the financial statements, resulting in an overstatement of the amount:

Supplier name	Details of service rendered	Amount	Details of each case	Reason for deviations	Amount that should be included as irregular expenditure	Difference	Cheque reference no
BASIENG TRADING AND PROJECTS	REPAIR AND SERVICE OF SEPTIC TANK	R 33 198.62	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 29 121.60	R -4 077.02	25594

FAKA ENGINEERING	REPAIR	R 174 431.40	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 153 010.00	R -21 421.40	28072
Hydro Care	Flocculant	R 171 735.68	Water/ Chemicals - unable to advertise because the water needs to purified immediately and supplied to the community	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	R 150 645.33	R -21 090.35	30611
THEBE SUPPLIERS	HIRED TIPPER TRUCKS	R 60 135.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 52 750.00	R -7 385.00	28933
Komatsu	Repair	R 184 889.95	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 162 184.17	R -22 705.78	29471
THEBE SUPPLIERS	HIRED TLB	R 57 000.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 50 000.00	R -7 000.00	27940
Makume Construction	Hired Grader	R 54 720.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 48 000.00	R -6 720.00	29404
VAAL TRANSFORMER	TRANSFORMERS	R 131 876.34	repair of burned transformers due to bad weather conditions	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	R 115 681.00	R -16 195.34	27391
Aqua Agri Solutions	Sodium Hypo	R 47 059.20	Water/ Chemicals - unable to advertise because the water needs to purified immediately and supplied to the community	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	R 41 280.00	R -5 779.20	30434
Aqua Agri Solutions	Poly Electrolytes	R 125 400.00	Water/ Chemicals - unable to advertise because the water needs to purified immediately and supplied to the community	Deviated from SCM requirement (3 quotes and advertisement), due to urgency of expense.	R 110 000.00	R -15 400.00	30451

Makume Construction	Tipper Trucks	R 47 424.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 41 600.00	R -5 824.00	30439
FAKA ENGINEERING	Repairs of Vehicle	R 42 978.00	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 37 700.00	R -5 278.00	26311
FAKA ENGINEERING	Repairs of Vehicle	R 48 060.00	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 42 157.91	R -5 902.09	26201
THEBE SUPPLIERS	HIRED TIPPER TRUCKS	R 42 750.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 37 500.00	R -5 250.00	30188
THEBE SUPPLIERS	HIRED FRONT END LOADER	R 92 340.00	rental of heavy duty vehicle - the municipality does not have some of heavy vehicle to perform other other task for the whole regions	Deviated from SCM requirement, rental of equipment as municipality does not own required asset for operations.	R 81 000.00	R -11 340.00	28447
KOMATSU	TLB	R 179 063.70	repair of municipal vehicle-strip and quote system and it is practically impossible to get other quotations	Deviated from SCM requirement (3 quotes and advertisement), due to costs involved in obtaining additional quotes.	R 157 073.42	R -21 990.28	27677
		<u>R 1 493 061.89</u>			<u>R 1 309 703.43</u>	<u>R -183 358.46</u>	

These matters may have occurred due to sufficient controls not in place at the municipality for the identification of irregular expenditure. Also no register/schedule of irregular expenditure was maintained by the municipality during the year.

This may result in the misstatement of irregular expenditure in the financial statements

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate all items identified above and make the necessary adjustments where necessary to the financial statements. Also management should ensure that proper controls are implemented for the identification of irregular expenditure and that a register of these expenses are maintained throughout the year to ensure the accuracy and completeness of the amount disclosed in the financial statements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

28. Irregular expenditure - No proof of investigations or recovery from liable person (CoA 55)

Audit finding

According to the Municipal Finance Management Act

32. Unauthorised, irregular or fruitless and wasteful expenditure.—

(1) Without limiting liability in terms of the common law or other legislation—

(c) any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or

(2) A municipality must 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 the council.

No proof could be obtained that any official was held liable for recovery of irregular expenditure incurred as per Note 42 or that any investigations were conducted by committee of council during the year for write-off of irregular expenditure as irrecoverable

This matter may have resulted due to proper controls not in place to ensure adherence to all acts and regulations

This constitutes non-compliance with the requirements of the MFMA.

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

If available management should provide proof of the above. Also sufficient controls should be put in place to ensure adherence to all requirements relating to irregular expenditure

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

a) Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

29. Irregular expenditure - Prior year items not included (CoA 55)

Audit finding

Chapter 1 of the MFMA defines "irregular expenditure", in relation to a municipality or municipal entity, means—

(a) 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;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Through inspection of the financial statements (Note 42) and the list of irregular expenditure the following prior year irregular expenditure items were not included for follow-up by the municipality:

~ Grant expenditure not properly authorised for payment (CoA 4/Exception 148)

Project Number	Supplier Name	Amount Paid (Inc VAT)
MIG/FS/0123/S/06/09	JAMPE CONSTRUCTION	R167 548,54
MIG/FS/0123/S/06/09	CEMFORCE CC	R729 600,00
MIG/FS/0123/S/06/09	REKHUDITSE BRYN	R1 710 000,00
MIG/FS/0623/08/10	WAMESA	R2 804 563,02
MIG/FS/0624/08/09	PROPER CONSULTING	R2 602 419,18
		<u>R8 014 130,74</u>

~ All required supporting documentation not attached to payment vouchers (CoA 5/Exception 165)

Vote number	Description	Supplier Name	Date	Supporting Document Number	Amount per GL (VAT excl)	Documents not attached
1120201280810	EQUIPMENT - R&M	Century and Elegance Joint Venture	21/06/2013	1010717	R15 930,00	Invoice
1130051282410	VEHICLES - R&M	Parys hydraulics	09/09/2011	1009324	R16 000,00	Quote
1115051280910	FURNITURE & EQUIPMENT - R&M	Makro	23/02/2012	1009743	R42 976,32	Quote

1125051281210	INFRASTRUCTURE - R&M	Heilbron Massey	27/09/2011	1009381	R265 000,00	Invoice
						<u>R339 906,32</u>

The above mentioned resulted due to prior year issues raised by the auditors not being followed-up by the municipality

The above mentioned will have the following impact on the department and the financial statements:

- (a) Irregular expenditure as disclosed in the financial statements might not be complete.
- (b) Non-compliance to the relevant laws and regulations.

Internal control deficiency

The municipality does not develop and monitor the implementation of action plans to address internal control deficiencies. Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Recommendation

Management should investigate the above mentioned mentioned and make the necessary corrections to the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

30. Fruitless & wasteful expenditure - Investigations not conducted (CoA 80)

Audit finding

Section 32 of the MFMA states that the council should investigated all instances of fruitless and wasteful expenditure to determine if any person is liable for the expenditure.

We have noted that the municipality incurred fruitless and wasteful expenditure of R48 050 763 (2012: R27 084 680) as disclosed in note 45 to the financial statements.

This matter may have resulted due to the fact that management has not implemented controls to ensure that all these instances are investigated.

This constitutes non-compliance with the requirements of the MFMA.

Internal control deficiency

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

Recommendation

Steps should be taken to ensure that these instances are investigated in terms of the legislative requirements and that the necessary action is taken.

Management response

The municipality council appointed a committee tasked to investigate and deal with all identified deviations related to Fruitless and wasteful expenditure on the 12 July 2013. The following members were recommended to the committee:

1. Cllr. Mandelastam (Chairperson)
2. Cllr. De Beer
3. Cllr. Sothoane
4. Cllr. Kau
5. Cllr. Van der Merwe
6. OL Leeuw (CFO)
7. T Ntshingila (MFIP advisor)

Auditor's conclusion

Management comment noted. However no investigations were performed during the 2012-13 year

The proposed audit report paragraph is:

a) Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

31. Unauthorised expenditure - Completeness (CoA 27)

Audit finding

Chapter 1 of the MFMA defines "unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

Section 125(2)(d) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditures, any unauthorised expenditure, that occurred during the financial year, and whether these are recoverable; and any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures.

a) The total expenditure as per the financial statements was compared to the total expenditure in terms of the approved budget, and it was noted that the municipality has overspent its budget as follows:

	Budget	Actual AFS	Unauthorised
Expenditure	420 043 560,00	607 228 783,00	(187 185 223,00)

There were however no unauthorised expenditure disclosed in the notes to the financial statements.

b) There were no reporting done on unauthorised expenditure for the year under review, as required by the MFMA.

c) There were no investigations done regarding the unauthorised expenditure incurred for the current and the prior financial year.

d) It was noted that the following was omitted from the definition of unauthorised expenditure included in the accounting policies:

- expenditure of money appropriated for a specific purpose, otherwise that for that specific purpose;
- spending of an allocation otherwise that in accordance with any conditions of the allocations; or
- a grant by the municipality otherwise that in accordance with the MFMA.

e) Unauthorised expenditure of R116 060 646 identified in the prior year were not disclosed as such in the notes to the financial statements.

These matters may have resulted due to proper controls not being implemented to ensure that unauthorised expenditure is correctly calculated and disclosed accordingly.

This matter may result in a material misstatement of the financial statements.

Internal control deficiency

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

Recommendation

Management should calculate the total unauthorised expenditure incurred for the current and prior year, and make the necessary corrections to the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

a) Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

b) Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Long service award

32. Long service award - Journals not processed and understatement (CoA 62)

Audit finding

GRAP 25.64 states: *The amount recognised as a defined benefit liability shall be the net total of the following amounts:*

- (a) the present value of the defined benefit obligation at the reporting date (see paragraph .77);*
- (b) minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 - .115);*
- (c) plus any liability that may arise as a result of a minimum funding requirement (see paragraphs .71 - .73)*

We found that the long service award accrual was understated in the prior year as well as in the current year, when comparing the amount disclosed with the actuarial report obtained by the municipality:

<u>Balance sheet</u>	<u>R</u>
Prior year balance per AFS	7,173,000.00
2012 balance per report	8,640,000.00
Difference	<u>(1,467,000.00)</u>
Current year balance per AFS	10,478,000.00
2013 balance per report	11,183,000.00
Difference	<u>(705,000.00)</u>

b) It was furthermore identified that no journals to account for the long service award accrual were processed in the general ledger. The only journals processed were the financial statements level journals which were still understated (with reference to the above-mentioned differences noted).

The above is mainly due to the journal not being processed by management

Due to the journal only being passed on a financial statement level, there is a risk that the liabilities in the prior year, per the financial statements, are understated by R1 467 000 and the current year liabilities understated by R705 000. There is also a risk is that the liabilities in the prior year, per the general ledger, are understated by R8 640 000 and in the current year understated by R2 543 000. The service cost, interest cost, actuarial gains/losses and benefits paid have also not been recorded in the general ledger. These have however, been recorded at a financial statement level.

Internal control deficiency

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

Recommendation

Management should ensure that the long service accrual is recorded at its present value per the actuarial report. Management should also ensure that all journals are processed in the general ledger as well as at a financial statement level.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

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Procurement and contract management

33. Procurement - Listing requirements not complied with (R10 000 - R30 000) (CoA 34)

Audit finding

MUNICIPAL SUPPLY CHAIN POLICY STATES THE FOLLOWING:

4.3 WRITTEN PRICE QUOTATIONS: ESTIMATED VALUE R 2 001 to R 30 000 (VAT included)

The Accounting Officer or duly delegated official shall invite and accept written price quotations for goods and services from above R 2 001 (VAT included) to R 30 000 (VAT included) from as many suppliers as possible, preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy to the extent feasible, providers must be requested to submit such quotations in writing.

4.4.1 General Pre-Conditions for Consideration for written Quotations or Bids

A written quotation or bid may not be considered unless the prospective provider who submitted the quotation or bid has furnished the following:

- ~ Full name (legal and trading name where possible)
- ~ Identification number, company or other registration number.
- ~ Tax reference number and VAT registration number, if any.

LISTING REQUIREMENTS AS PER VENDOR APPLICATION FORM TO BE REGISTERED AS SUPPLIER ON THE MUNICIPALITY'S DATABASE

- ~ BEE Certificate
- ~ Fax number (compulsory)
- ~ Proof of company registration
- ~ Original Valid Tax Clearance Certificate (above R30 000)
- ~ CIDB Certificate - applicable to construction related services
- ~ PSIRA - applicable to security related services
- ~ Copies of identity documents for all directors or members of company as listed on the company registration document
- ~ Wireman's license - applicable to electrical related services
- ~ Accreditation certificate - applicable to computer hardware and software distributors
- ~ Proof of SETA and/or SAQA accreditation - applicable to training related services
- ~ Certified proof of disability if owners are people with disability

The following quotations sourced from suppliers not registered on the municipality's supplier database did not comply with the necessary listing requirements:

Votenummer	Vote Description	Reference	TranDate	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee
1125801280810	EQUIPMENT - R&M	1012546	20130103	13 450.00	28100	16 650.00	BUCKS BROTHER G TR
1105051095415	TRAINING STAFF	1011880	20121003	21 475.00	26620	24 481.50	CRUSADERS ARMS & AMMUNITION
1110101096520	WOMAN & CHILDREN ABUSE CAMPAIGN	1012492	20121220	16 900.00	27939	16 900.00	QETA TRADING

A - Refer details below:

Supplier name	Listing requirements not met
Crusader Arms and Ammunitions (winning quotation) - Registered supplier on the database	

Airbag Trading and Projects	~ No tax reference number ~ No proof of company registration attached
Siza Kanoane Trading Enterprise	~ No VAT registration number ~ No tax reference number

B - Refer details below:

Supplier name	Listing requirements not met
Crusader Arms and Ammunitions (winning quotation) - Registered supplier on the database	
Airbag Trading and Projects	~ No tax reference number ~ No proof of company registration attached
Siza Kanoane Trading Enterprise	~ No VAT registration number ~ No tax reference number

C - Refer details below:

Supplier name	Listing requirements not met
Qeta Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
TJ Seetsa	~ No tax reference number ~ No fax number

This matter may have resulted due to staff not ensuring that the sourced quotations comply with the listing requirements

This constitutes non-compliance with the requirements of the Supply Chain Management Policy, resulting in possible irregular expenditure

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that all sourced quotations comply with the necessary listing requirements.

Management response

Management Agree with the none compliance on accredited prospective providers, Supply Chain Management currently source quotations from Financial Management System E-Venus, however Supply Chain Management system has been procured for Supplier Database in order to have a list of accredited prospective providers which the municipality must keep in terms of Regulations 14 of Municipal Supply Chain Management Regulations published in Government Gazette 27636 of 30 May 2005.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

The following audit report paragraph is proposed:

a) Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).

34. Procurement - Suppliers with interest by persons in service of the state (CoA 64)

Audit finding

According to Municipal Supply Chain Management Regulations

13. General preconditions for consideration of written quotations or bids_ 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_

(c) 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 last 12 months

(ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholders 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 previous twelve months

The following suppliers with interest in persons in service of the state were identified:

SUPPL_NAME	TOTAL PAYMENTS FOR THE YEAR	CIPC_ MEMBER_ TYPE	CIPC_ MEMBER_ STATUS	CIPC_ MEMBER SIZE INTEREST	EMPL_DEPT	EMPL_NO	EMPL_NAME
MATUBENG TRADING	R768 116,04	Member	Active	50	Transnet Limited		Bethuel Phasha
QETA TRADING		Member	Active	40	Free State: Education	13747444	RTE MOHLAHLELI
QETA TRADING	R42 530,00	Member	Active	60	Free State: Education	14793857	SS MOHLAHLELI

It could not be determined if the interest was declared by the supplier as the declaration of interest forms completed with the vendor application form could not be obtained for audit purposes, resulting in a limitation of scope.

These matters may have resulted due to management not implementing control procedures to ensure compliance with laws and regulations. Suppliers do not declare their interest in suppliers.

Non-compliance with the Municipal Supply Chain Management Regulations, resulting in possible irregular expenditure. This may also be indicative of possible fraud

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should investigate above mentioned. If the interest was declared by the supplier this should be submitted as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraph is proposed:

a) Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44.

35. Procurement - Deficiencies identified (R30 000 - R200 000) (CoA 52)

Audit finding

According to the municipality's Supply Chain Policy:

4.4 PROCUREMENT OF GOODS AND SERVICES: EQUAL TO OR ABOVE R30 000 UP TO R 200 000 (VAT included)

The Accounting Officer shall apply the prescripts of the Preferential Procurement Policy Framework Act, Act No 5 of 2000 and its associated regulations for all procurement equal to and above R30 000 (VAT included). These prescripts shall also be applied for procurement with a value of less than R30 000 (VAT included) if and when appropriate. All procurement requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must be advertised for at least seven days on the municipality's website and an official notice boards of the municipality.

Where quotations have been invited via the official notice boards and website of the municipality, no additional quotations need to be obtained should the number of responses be less than three.

4.3 WRITTEN PRICE QUOTATIONS: ESTIMATED VALUE R 2 001 to R 30 000 (VAT included)

The Accounting Officer or duly delegated official shall invite and accept written price quotations for goods and services from above R 2 001 (VAT included) to R 30 000 (VAT included) from as many suppliers as possible, preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy to the extent feasible, providers must be requested to submit such quotations in writing.

4.4.1 General Pre-Conditions for Consideration for written Quotations or Bids

A written quotation or bid may not be considered unless the prospective provider who submitted the quotation or bid has furnished the following:

- ~ Full name (legal and trading name where possible)
- ~ Identification number, company or other registration number.
- ~ Tax reference number and VAT registration number, if any.

LISTING REQUIREMENTS AS PER VENDOR APPLICATION FORM TO BE REGISTERED AS SUPPLIER ON THE MUNICIPALITY'S DATABASE

- ~ BEE Certificate
- ~ Fax number (compulsory)

- ~ Proof of company registration
- ~ Original Valid Tax Clearance Certificate (above R30 000)
- ~ CIDB Certificate - applicable to construction related services
- ~ PSIRA - applicable to security related services
- ~ Copies of identity documents for all directors or members of company as listed on the company registration document
- ~ Wireman's license - applicable to electrical related services
- ~ Accreditation certificate - applicable to computer hardware and software distributors
- ~ Proof of SETA and/or SAQA accreditation - applicable to training related services
- ~ Certified proof of disability if owners are people with disability

10. DEVIATION FROM OFFICIAL PROCUREMENT PROCESSES

The Accounting Officer may dispense with the official procurement processes established in terms of this policy to procure any required goods or services through any convenient process, which may include direct negotiations, but only under the following circumstances:

- a) In an emergency situations
- b) If such goods and services are produced or available from a single provider only.
- c) For the acquisition of special works of art or historical objectives where specifications are difficult to compile.
- d) Acquisition of animals for zoos and/or nature and game reserves.
- e) In any other exceptional case where it is impractical to follow the official procurement processes. e.g procurement from restaurants or for accommodation due to availability, distance etc.

In any event, the Accounting Officer must record the reasons for such deviation and report them to the next council meeting following the date of the transaction and ensure that such deviations are properly disclosed in the notes to the annual financial statements of the municipality.

(a) For the items below no proof could be obtained that a request was advertised to source three written quotation as per the requirements of the Supply Chain Management Policy, resulting in non-compliance:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee
1125051281210	INFRASTRUCTURE - R&M	1011838	20121009	32 720.00	26891	42 645.12	AUTOMOTOR TRAFFIC SIGNAL
1120201090615	CHEMICALS	1011292	20120710	51 662.52	25447	57 462.52	GALETSIPA CONSTRUCTION AND ENGINEERING
1105051094525	PROFESSIONAL FEES (CONS)	1012805	20130215	141 091.00	28603	160 843.74	KHAYA IBHUBESI
1125051091550	FUEL & OIL	1012023	20121016	29 534.40	26968	109 544.00	MOTHOTHA TRADING ENTERPRISES
1125601094740	RENT - PLANT & VEHICLES	1011737	20120913	21 600.00	26300	31 372.80	ITHUTENG CONSULTANCY CC
1125051093685	MUNICIPAL MERKETING PLAN	1011483	20120822	29 000.00	25885	192 660.00	JAMESON CONSULTING
1110101095445	TRAINING OF WARD COMMITTEES	1011374	20120727	26 840.00	25593	87 750.00	PHAHAMANG MANUFACTURERS C.C

(b) For the following items three written quotations were not sourced as required by the supply chain management policy, resulting in possible irregular expenditure:

Vote number	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee	Comments
1125051281810	RADIO EQUIPMENT - R&M	1012603	20130118	42 400.00	28204	48 336.00	BRYN CONSTRUCTION CC	Only one quotation was attached to the payment voucher. However no indication was given by the municipality that only one quotation was received after advertising
1125051093685	MUNICIPAL MERKETING PLAN	1011483	20120822	29 000.00	25885	192 660.00	JAMESON CONSULTIMG	Only one quotation attached to the payment voucher. Also no proof could be obtained that a request for written quotations was advertised
1105051094525	PROFESSIONAL FEES (CONS)	1012805	20130215	141 091.00	28603	160 843.74	KHAYA IBHUBESI	Only one quotation attached to the payment voucher. Also no proof could be obtained that a request for written quotations was advertised
1125051094525	PROFESSIONAL FEES (CONS)	1012789	20130219	18 352.10	28607	58 460.55	MOLEFI SM TRADING CC	Only one quotation was attached to the payment voucher. However no indication was given by the municipality that only one quotation was received after advertising
1105051165420	SECURITY (MONITORING OF ALARMS)	1012718	20130212	54 000.00	28525	199 500.00	P.P NHLAPO I.T SERVICE	Only one quotation was attached to the payment voucher. However no indication was given by the municipality that only one quotation was received after advertising
1115051094420	PRINTING & STATIONERY - FMG	1013569	20130627	197 000.00	30401	197 000.00	TAFITA	No quotations were attached to the payment voucher, only the invoice of Tafita and the copy of the request that was advertised
1105051095415	TRAINING STAFF	1013595	20130627	95 000.00	30404	195 000.00	AMBER TOWER TRAINING	Only one quotation was attached to the payment voucher. However no indication was given by the municipality that only one quotation was received after advertising
1125601094740	RENT - PLANT & VEHICLES	1013479	20130621	127 499.02	30148	127 499.02	DERNOC DISTRIBUTION & PROOJECTS CC	Only one quotation was attached to the payment voucher. However no indication was given by the municipality that only one quotation was received after advertising

(c) The following sourced quotations did not comply with the necessary listing requirements, resulting in possible irregular expenditure:

Vote number	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee	
1125051281210	INFRASTRUCTURE - R&M	1011838	20121009	32 720.00	26891	42 645.12	AUTOMOTOR TRAFFIC SIGNAL	A
1105051165420	SECURITY (MONITORING OF ALARMS)	1012718	20130212	54 000.00	28525	199 500.00	P.P NHLAPO I.T SERVICE	B
1125051094525	PROFESSIONAL FEES (CONS)	1012789	20130219	18 352.10	28607	58 460.55	MOLEFI SM TRADING CC	C
1110101095445	TRAINING OF WARD COMMITTEES	1011374	20120727	26 840.00	25593	87 750.00	PHAHAMANG MANUFACTURERS C.C	D
1105051095415	TRAINING STAFF	1013595	20130627	95 000.00	30404	195 000.00	AMBER TOWER TRAINING	E
1130051282410	VEHICLES - R&M	1012619	20130123	30 134.50	28245	34 353.33	BASIENG TRADING PROJECTS	F
1125601096505	WEED KILLERS	1013650	20130628	47 000.00	30475	47 000.00	LEBEKO PLANT HIRE AND GENERAL SERVICE (PTY) LTD	G

A - Refer to details below:

Supplier name	Listing requirements not met
Automotor Traffic Signals (winning quotation) - Registered supplier on the database	
Trial link	~ No tax reference number ~ No proof of company registration attached ~ No tax clearance certificate
Sincrolec Controls	~ No VAT registration number ~ No proof of company registration attached ~ No tax clearance certificate

B - Refer details below (only one quotation was attached to the payment voucher):

Supplier name	Listing requirements not met
Basieeng Trading and Projects (winning quotation) -Not a registered supplier on the database	~ No tax reference number ~ No tax clearance certificate attached

C - Refer details below:

Supplier name	Listing requirements not met
Lebeko Plant Hire and General (winning quotation) - Not a registered supplier on the database	~ No tax reference number ~ No proof of company registration attached ~ No tax clearance certificate
Montso Trading services	~ No tax reference number ~ No company registration number ~ No proof of company registration attached ~ No tax clearance certificate
Value suppliers	~ No tax reference number ~ No proof of company registration attached ~ No tax clearance certificate

D - Refer details below (only one quotation was attached to the payment voucher):

Supplier name	Listing requirements not met
Nhlapo P IT Services (winning quotation) -Not a registered supplier on the database	~ Proof of company registration not attached ~ No tax clearance certificate attached

E - Refer details below (only one quotation was attached to the payment voucher):

Supplier name	Listing requirements not met
Molefi SM Trading (winning quotation) -Not a registered supplier on the database	~ Registration number of company not on quotation ~ Proof of company registration not attached ~ No tax clearance certificate attached ~ No tax reference number

F - Refer details below:

Supplier name	Listing requirements not met
Phahamang Manufacturers (winning quotation) -Not a registered supplier on the database	~ No tax reference number ~ No proof of company registration attached ~ No tax clearance certificate ~ No fax number
Castehill Trading - Registered supplier on the database	
Coalition Trading - Registered supplier on the database	

G - Refer details below (only one quotation attached to the payment voucher):

Supplier name	Listing requirements not met
Amber Tower (winning quotation) - Not a registered supplier on the database	~ Proof of company registration not attached ~ No tax clearance certificate attached ~ No tax reference number ~ SITA compliance certificate or applicable on training service not attached

(d) The reasons for the following deviations were not deemed to be valid. Procurement processes should therefore have been followed. Through inspection of Note 42 of the financial statements it was found that the items were already disclosed as irregular expenditure. Items will therefore only be reported as a non-compliance:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee
1120201090615	CHEMICALS	1013837	20130715	143 160.00	30611	171 735.68	HYDROCARE
1120101282410	VEHICLES - R&M	1012487	20130107	178 046.15	28114	178 046.15	DOMA HYDRAULICS SERVICES CC
1120101282410	VEHICLES - R&M	1012484	20121227	48 000.00	28072	174 431.40	FAKA ENGINEERING AND HYDRAULIC SERVICES CC
1115051094555	PURCHASES OTHER	1012847	20130311	52 750.00	28933	60 135.00	THEBE SUPPLIERS CC T/A VALUE SUPPLIES

(e) The reasons for the following deviation was not deemed to be sufficient. Normal procurement processes should thus have been followed. Also confirmed through inspection of Note 42 that item was not included as part of the disclosure note, resulting therefore in an understatement of irregular expenditure

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee
1120201281210	INFRASTRUCTURE - R&M	1012252	20121120	28 421.04	27449	39 599.99	PARTUMA TRADING AND PROJECTS

(f) For the following suppliers not registered on the municipality's database a completed declaration of interest form was not attached to payment vouchers below, resulting in possible irregular expenditure:

Vote number	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee
1130051282410	VEHICLES - R&M	1012619	20130123	30 134.50	28245	34 353.33	BASIENG TRADING PROJECTS
1105051165420	SECURITY (MONITORING OF ALARMS)	1012718	20130212	54 000.00	28525	199 500.00	P.P NHLAPO I.T SERVICE
1125051094525	PROFESSIONAL FEES (CONS)	1012789	20130219	18 352.10	28607	58 460.55	MOLEFI SM TRADING CC
1110101095445	TRAINING OF WARD COMMITTEES	1011374	20120727	26 840.00	25593	87 750.00	PHAHAMANG MANUFACTURERS C.C
1115051094420	PRINTING & STATIONERY - FMG	1013569	20130627	197 000.00	30401	197 000.00	TAFITA
1105051095415	TRAINING STAFF	1013595	20130627	95 000.00	30404	195 000.00	AMBER TOWER TRAINING

This matter may have resulted due to sufficient controls not in place for implementing processes that monitors and enforces compliance with the supply chain management policy

Non-compliance with the supply chain management policy, resulting in possible irregular expenditure

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should implement sufficient procedures and processes that monitors and enforces compliance with the supply chain management policy

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

ADDITIONAL IDENTIFIED

(d) The reasons for the following deviations were not deemed to be valid. Procurement processes should therefore have been followed. Through inspection of Note 42 of the financial statements it was found that the item was already disclosed as irregular expenditure. Item will therefore only be reported as a non-compliance:

Basieeng Trading Projects (cheque voucher no: 28245) - R34 353,33

Lebeko Plant Hire and General Service (cheque voucher no: 30475) - R47 000

Follow-up testing performed

(b) For the following items three written quotations were not sourced as required by the supply chain management policy, resulting in possible irregular expenditure:

BRYN CONSTRUCTION - Four written quotations were obtained by the municipality. However only the bid documentation for the winning supplier was submitted for audit purposes, resulting in a limitation of scope

PP Nhlapo IT Service - item can be cleared from exception based on follow-up testing performed

MOLEFI SM TRADING CC - Through follow-up testing performed it was confirmed that 3 written quotations were obtained. One supplier was however disqualified due to the fact that no quotation was attached to the bidding documentation. Only the bidding documentation for the winning supplier was obtained. Bidding documentation for unsuccessful suppliers was not submitted, resulting in a limitation of scope as correct evaluation of bids could not be determined

TAFITA - it could not be determined if more than one written price quotation was received by the municipality. Also only the winning supplier's bid documentation was submitted for audit purposes.

AMBER TOWER TRAINING - Through follow-up testing performed it was confirmed that 2 written quotations were obtained. Only the bidding documentation for the winning supplier was obtained. Bidding documentation for unsuccessful suppliers was not submitted, resulting in a limitation of scope as correct evaluation of bids could not be determined

DERNOC DISTRIBUTION & PROJECTS - item can be cleared from exception based on follow-up testing performed

(c) The following sourced quotations did not comply with the necessary listing requirements, resulting in possible irregular expenditure:

PP Nhlapo IT Service - item can be cleared from exception based on follow-up testing performed
MOLEFI SM TRADING CC - item can be cleared from exception based on follow-up testing performed

TAFITA - it could not be determined if more than one written price quotation was received by the municipality. Also only the winning supplier's bid documentation was submitted for audit purposes
AMBER TOWER TRAINING - Only the bid documentation for the winning supplier was submitted for audit purposes. It could therefore not be determined if the other supplier (Peakford Management Consultant) complied with the necessary listing requirements. Also unsuccessful bidder was also not registered on the municipality's supplier database

(f) Based on follow-up testing performed the following items can be cleared from the exception:

- PP NHLAPO IT SERVICE
- MOLEFI SM TRADING
- TAFITA
- AMBER TOWER TRAINING

The following audit report paragraphs are proposed:

a) Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) & (c).

Sufficient appropriate audit evidence could not be obtained that contracts [and quotations] were awarded only to bidders who submitted 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).

36. Procurement - Vendor applications could not be obtained (R30 000 - R200 000) (CoA 52)

Audit finding

Section 62(1) of MFMA state that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality , and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

The following vendor applications of suppliers that are registered on the database could not be obtained for audit purposes:

SUPPLIER NAME
AUTOMOTOR TRAFFIC SIGNAL
BRYN CONSTRUCTION CC
MOTHOTA
GALETSIPA CONSTRUCTION AND ENGINEERING
KHAYA IBHUBESI
ITHUTENG CONSULTANCY CC
JAMESON CONSULTING
DERNOC DISTRIBUTION & PROJECTS CC
HYDROCARE
DOMA HYDRAULIC SERVICES
FAKA ENGINEERING
THEBE SUPPLIES
PARTUMA TRADING

It could therefore not be determined if all information as per the listing requirements were submitted and if a declaration of interest form was completed by the supplier

This matter may have resulted due to sufficient controls not in place over the safekeeping of documentation

This matter places a limitation on the scope of the audit of procurement.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls

Recommendation

Management should submit the above documents as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Based on follow-up testing performed the following items can be cleared from the exception:

- Bryn Construction CC
- Dernoc Distribution & Projects

The following audit report paragraph is proposed:

- a) Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
- b) Sufficient appropriate audit evidence could not be obtained that contracts [and quotations] were awarded only to bidders who submitted 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).

37. Procurement - Bid documentation not submitted (CoA 64)

Audit finding

Section 62(1) of MFMA state that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality , and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.
- (c) that the municipality has and maintains effective, efficient and transparent systems-
- (i) of financial and risk management and internal control

According to the municipality's Supply chain management policy:

4.5.1 Process for competitive bidding

The process for competitive bidding shall have the following eight (8) distinct stages:

- a) The compilation of bid documentation.
- b) The public invitation of bids.
- c) Site meetings or briefing sessions, where applicable.
- d) The handling of bids submitted in response to the public invitation.
- e) The evaluation of bids.
- f) The award of contracts.
- g) The administration of contracts.
- h) Proper record keeping.

During the audit ALL the bid documentation (which includes bid advertisements, tender registers, tender documentations for successful bidders, tender documents for unsuccessful bidders, minutes of bid specification committee meetings, minutes of bid evaluation committee meetings and minutes of bid adjudication committee meetings **OR** approval for deviation from normal procurement procedures) was requested for the following suppliers utilised by the municipality during the year. However none of the information requested was submitted .

Supplier name and details of services rendered	Payments made during the year (R)
LYON AND PARTNERS - UPGRADING OF MBEKI PUMP STATION	198 879



- PARYS	
NEW VAAL MOTORS -PURCHASE OF VEHICLES	283 816
AQUA AGRI SOLUTIONS - CHEMICALS	1 196 467
ACTOM - UPGRADING OF MBEKI PUMP STATION - PARYS	1 200 000
DAGNE TRADING AND PROJECTS - CHEMICALS	2 344 124
DELOITTE & TOUCHE - FINANCIAL SERVICES	619 080
ELEBONE MULTIPURPOSE -BUILDINGS - R&M	341 631
KATLEGO TECHNICAL SERVICE - INFRASTRUCTURE - RM	349 211
KOMATSU - VEHICLES - R&M	927 887
MAKUME CONSTRUCTION CC - RENT - PLANT & VEHICLES	777 872
MATREX ROAD PRODUCTS S.A - INFRASTRUCTURE - R&M	509 190
NEW TEAM CONSTRUCTION - RENTALS	860 652
PHUMELELA AFRICA - UPGRADE WATER BOOSTER PUMP STATION - VREDE	495 966
RCH TRADING CC - INFRASTRUCTURE - R&M	234 806
REMMOHO MAINTENANCE/RANDEES ELECTRICAL JV - UPGRADING OF MBEKI PUMP STATION - PARYS	1 874 929
RESCUE ROAD - INFRASTRUCTURE - R&M	273 816
SNEDIENS AUTO SERVICE CENTRE - VEHICLES - R&M	388 859
VAAL TRANSFORMERS - INFRASTRUCTURE - R&M	645 008
PROPER CONSULTING - HEILBRON SEWER PLANT	1 801 545
WAMESA CIVIL CONSTRUCTION CC - HEILBRON SEWER PLANT	1 532 946
BAKUBUNG TRADING ENTERPRISES CC - FUEL & OIL	1 185 445
CURA CRAFT (PTY) LTD - HIRE GENERAL	497 274
DOSIMACONSTRUCTION & TRADING - RENT - PLANT & VEHICLES	1 047 000
ARMCOIL AFRIKA PTY LTD - HEILBRON SEWER PLANT	1 100 960
MAXIMUM PROFIT RECOVERY (PTY) LTD - VAT RECALCULATION	726 690
MORABE SIBISI CONSTRUCTION & LABOUR BROKERS - RENT - PLANT & VEHICLES	748 626
RETROLEX 195 CC - METER READINGS	457 779
SKHOKHO CIVILS AND CONSTRUCTIONS - UPGRADING OF MBEKI PUMP STATION - PARYS	364 541
CMS WATER ENGINEERING - UPGRADING OF MBEKI PUMP STATION - PARYS	14 989 377
DINATLA ADVISORY SERVICES - GOVERNMENT ACCOUNT RECONCILIATION (PROPERTY RATES)	1 791 849
ISINTU PROJECTS - BILLING & METER READING FEES	4 682 340
MATUBENG TRADING - UNIFORMS AND PROTECTIVE CLOTHING	673 786
SEZANANE GENERAL PROJECTS BRYN CONSTRUCTION - UPGRADING OF MBEKI PUMP STATION - PARYS	559 273
SEZANANE GENERAL PROJECTS BRYN CONSTRUCTION - UPGRADE WATER BOOSTER PUMP STATION - VREDE	848 906
BUSINESS CONEXION - SUPPLY, INSTALLATION AND MAINTENANCE OF FINANCIAL MANAGEMENT SYSTEM	1 439 958
	<u>47 970 485</u>

Matter may have resulted due to proper record keeping processes not in place as per requirements of the MFMA and the municipality's supply chain management policy

This matter places a limitation on the scope of the audit of procurement and contract management, and may also result in irregular expenditure.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls

Recommendation

Management should provide above documentation as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following are the proposed audit report paragraphs:

- a) Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, due to management not being able to timeously provide me with all the supporting documentation.
- b) Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
- c) Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
- d) Sufficient appropriate audit evidence could not be obtained that contracts [and quotations] were awarded only to bidders who submitted 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).

38. Procurement - Contract management (CoA 72)

Audit finding

As per the Municipal Finance Management Act 116. Contracts and contract management.—

(1) A contract or agreement procured through the supply chain management system of a municipality or municipal entity must—

(a) be in writing;

(2) The accounting officer of a municipality or municipal entity must—

- (a) take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity 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 or municipal entity—
 - (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.

According to the CIDB Act

Register of projects

22 (3) All construction contracts above the prescribed tender- value must be recorded in the register.

According to the CIDB Regulations

Registration of projects

18. (1A) Despite the values determined in Government Notice No. 692 of 9 June 2004, every project consisting of a single construction works contract-

(a) for the public sector of which the value exceeds R200 000.00; or

(b) for the private sector and a public entity listed in Schedule 2 of the Public Finance Management Act, 1 of 1999, of which the value exceeds R10 million, must be registered in accordance with this Part.

(a) Signed copies for the following contracts entered into by the municipality could not be obtained for audit purposes:

- Walton Alexander Financial Services
- Sevas Properties (Pty) Ltd

(b) Contract and tender information for the following project could not be obtained for audit purposes:

- Fencing of the MUNMEC sports facility: Vredefort

(c) For the list of suppliers below no proof that the following was in place/done during the financial year could be obtained for audit purposes:

(i) Measures to monitor contract performance and delivery have been defined and implemented

(ii) The performance of the provider is monitored on a monthly basis

(iii) The contract performance measures and the methods whereby it is monitored are sufficient to ensure effective contract management.

(iv) If it is apparent that the provider is not performing in accordance with the contract/ service level agreement the applicable penalties have been invoked and/or the contract terminated for default

List of suppliers

- Maximum Profit Recovery (Pty) Ltd (VAT)
- Dinatla Advisory Services (Recovery of government debt)
- Municipal Support Services (VAT on indigent billings)
- Isintu Projects (Meter readings)

(d) Through inspection of the CIDB website it could not be determined if the following projects were registered in the register of construction contracts with the CIDB within 21 working days:

- Heilbron: Upgrading of the sewer treatment works
- Parys: Refurbishment and upgrading of the Water Treatment Works - Phase 3
- Parys: Upgrading of sewer treatment works
- Refurbishment of the tennis court in Koppies
- Vredefort: Fencing of the MUNMEC sports facility
- Refurbishment of the Schonkenville sports complex
- Construction of the Heilbron sport facility

This matter may have resulted due to sufficient controls not in place over contract management

This matter may result in non-compliance with the relevant acts and regulations

Internal control deficiency

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

Recommendation

Management should investigate the above matters. Where information is available this should be submitted as a matter of urgency

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraph is proposed:

a) The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

39. Procurement - Interest in suppliers (CoA 52)

Audit finding

According to the Municipal Supply Chain Management Regulations:

13. General preconditions for consideration of written quotations or bids_ 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_

(c) 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 last 12 months

(ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholders 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 previous twelve months

45. Awards to close family members of persons in the service of the state _The notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in 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

The following employees were identified to whom awards to close family members were made during the year:

SUPPL_NAME	PAYMENTS MADE DURING THE YEAR	SPOUSE NAME	CIPC_SURNAME	CIPC_ MEMBER_ STATUS	CIPC_ MEMBER SIZE INTEREST	EMPL_ NO	EMPL_ NAME	EMPL_TITLE
SEZANANE GENERAL PROJECT	R1 442 893,87	LEHLOHONOLO SOLOMON	NTAOPANE	Active	100	40030	MI SS SJ MARUMO	SUB- ACCOUNTANT- EXPENDITURE
KAMO AND LESEGO CIVIL CONSTRUCTION	R7 700,00	ENIE MONTHO	MOLETE	Active	100	300018	MR S C MAKOATLE	OPERATOR

No proof could be obtained that the above employees as well as the suppliers declared the interest. Also the above awards made were not disclosed in the notes to the financial statements as required by the Municipal Supply Chain Management Regulations

These matters may have resulted due to management not implementing control procedures to ensure compliance with laws and regulations. Employees do not declare their interest in suppliers.

Non-compliance with the Municipal Supply Chain Management Regulations, resulting in possible irregular expenditure

This may also be indicative of possible fraud

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should investigate above mentioned. If the interest was declared by the employee and the supplier this should be submitted as a matter of urgency. Also awards made to close family members of persons in the service of the state should be disclosed in the notes of the financial statements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraph is proposed:

a) Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act.

Post retirement benefits

40. Post retirement benefit - Disclosure not complete (CoA 78)

Audit finding

GRAP 25 paragraph 136 states:

"An entity shall disclose the following information:

(k) The principal actuarial assumptions used as at the reporting date, including, when applicable:

(ii) the basis on which the discount rate has been determined;

(vi) medical cost trend rates; and

(vii) any other material actuarial assumptions used.

(l) The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs

(m) The amounts for the current annual reporting period and previous four annual reporting periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan

The following disclosures were not made:

1. The basis on which the discount rate has been determined

The above is mainly due to a lack of controls to ensure that all of the required information is disclosed in the financial statements

The risk of the above is that the Post Retirement Benefit liability information, as set out in note 15 to the Financial Statements, were not disclosed in accordance with GRAP.

Internal control deficiency

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

Recommendation

Management should ensure that all the Post Retirement Benefit liability information is correctly disclosed in the financial statements

The following additional disclosures need to be made:

Defined benefit liability:

Medical Scheme Arrangements

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Subsidy Arrangements

The municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- 45% or 50% or 60% or 100% to current continuation pensioners and 60% in post-employment for currently employed staff.

- Widow(er)s and orphans of current continuation pensioners are entitled to continue, at 45% or 50% or 60% or 100%, the subsidy upon the death of the pensioner.

Key assumptions used:

Discount Rate

The discount rate was therefore set as the yield of the R186 South African government bond as the valuation date. In the event that the valuation is performed prior to the effective valuation date. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. The actual yield on the R186 bond was sourced from the RMB Global Markets website on the 15th of May 2013.

Medical Aid Inflation:

The health care cost inflation was taken at a discount of 0.5% to the discount rate of 7.25%. We have used a lower discount because of the drastic drop in the yields. This was done in an effort to keep the health care cost inflation above the consumer price inflation, as has been the experience in South Africa since 1999.

Average Retirement Age:

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Other Assumptions

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on the following would be:

	One percentage point increase	One percentage point decrease
Total accrued liability	(68,981,000)	(49,012,000)
Interest Cost	(4,941,000)	(3,494,000)
Service Cost	(4,931,000)	(3,108,000)

Present value of retirement benefit obligation for current and previous years

- 30 June 2013 = (57,813,000)
- 30 June 2012 = (42,506,000)
- 30 June 2011 = (39,070,000)
- 30 June 2010 = (28,974,497)
- 30 June 2009 = (XXXXXXXX)

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Disclosure

41. Disclosure - Assessment of going concern (CoA 80)

Audit finding

GRAP 1 paragraph 31 states that when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so.

Contrary to the requirement management did not make a formal assessment of the going concern state of the entity for the 12 months after year end.

This is due to management not taking auditor's recommendation into considerations due to the fact that the same exception was raised in the prior year.

The risk of the above limitation of scope is that we were not able to verify the municipality's compliance with the applicable laws and regulations

Internal control deficiency

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

Recommendation

Management should assess the going concern ability of the entity at year end.

Management response

We agree with the finding. We commit to investigating the identified weakness and implement the recommended approach.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

Inventory

42. Inventory - Completeness of amount disclosed (CoA 60)

Audit finding

GRAP 12.14 states that inventory shall be recognised as an asset if, and only if (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) the cost of the inventories can be measured reliably.

GRAP 12.17 states that inventories shall be measured at the lower of cost and net realisable value, except where paragraph 18 applies.

- a) Through inspection of the financial statements it was noted that the municipality has not disclosed any water inventories.
- b) It was furthermore noted that the municipality has not disclosed any vacant stands (used for housing developments) as inventory.

This matter may have resulted due to the fact that the municipality has not implemented proper controls to account for all types of inventory on their financial records.

This matter will result in the understatement of inventory as disclosed in the financial statements.

Internal control deficiency

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

Recommendation

Management should implement controls as to ensure that all inventory is accounted for on the financial records of the municipality. The necessary adjustments should be processed.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Investment property

43. Investment property - Support for classification not provided (CoA 24)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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"

Information request 65 refers. The following information was not submitted for audit purposes:

Classification of property as investment property:

Per inspection of the "Note"-field, regarding investment property, we have found the following:

Total value of all investment property	152,718,000
Lease assets	86,849,000
Assets that are not leased	65,869,000

Please provide us with supporting documents as to why these assets are classified as investment property. Indicate what the current situation of these assets are (leased or not leased).

In your response, please include special reference to the property not leased, indicating what the purpose of these properties are.

Please provide us with the necessary supporting documentation (calculations, invoices, minutes etc).

For the leased property, provide the up-to-date lease contracts.

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

This matter will place a limitation on the scope of the audit of investment property and PPE.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Agree with the findings Management will ensure that all disclosures are correctly classified and that supporting documents are submitted and safeguarded for future purposes.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

44. Investment property - Change in accounting policy (CoA 3)

Audit finding

GRAP16 paragraph 37 states:

"The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation."

GRAP16 paragraph 38 states:

"This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued."

During the current year management changed the accounting policy for measuring investment property from the fair value model to the cost model, without indicating a change in accounting policy.

Therefore:

- the accounting policy is not consistent with the prior period
- the change in accounting policy was not appropriately disclosed in terms of GRAP 3.
- there were no clear reason for the change in accounting policy as required by GRAP16.38
- no disclosure of fair values as required by GRAP16.38

This matter may have resulted due to the fact that management has not implemented proper controls to ensure compliance with the GRAP reporting requirements.

This matter will result in a misstatement in the disclosure made in the financial statements.

Internal control deficiency

Management did not review and monitor compliance with applicable accounting standards.

Recommendation

Management should ensure they disclose investment property in accordance with GRAP requirements.

Management response

Management agree with the finding. Investment property: The accounting policy for investment property was incorrect in the financial statements and the property should have indicated that it is measured at fair value. Although the policy was incorrect on the financial statements, there is no effect on the amount disclosed in the financial statements. We are willing to amend and correct the financial statements requested to do so.

Auditor's conclusion

Management is in agreement with the audit finding. This matter will only be resolved with the correct accounting policy being disclosed in the financial statements and the necessary corrections, where applicable, has been made.

45. Investment property - Not measured at fair value (CoA 24)

Audit finding

GRAP 16 paragraph 39 states: *"After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value."*

GRAP 16 paragraph 44 states: *"The fair value of investment property shall reflect market conditions at the reporting date."*

GRAP 16 paragraph 45 states: *"Fair value is time specific as of a given date"*

As the reporting date is 30 June 2013, the investment property should have been measure at fair value on 30 June 2013, reflecting the market conditions as on 30 June 2013.

- the municipality measured the investment property according to the values of properties per the valuation roll.
- as the valuation roll is updated every 4 years, and the current valuation roll was compiled in the 2010/11 financial year, it is clear that investment properties were not measured at fair value at 30 June 2013.

The above is mainly due to management not measuring investment properties in accordance with the requirements of GRAP 16.

The risk of the above is that valuation of Investment property per note 10 to the financial statements could not be audited.

Internal control deficiency

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

Recommendation

Management should measure investment properties at fair value on 30 June 2013 in accordance with GRAP 16. In future, management should implement controls to ensure that they comply with the requirements of GRAP.

Management response

Agree, Management will ensure that all investments are disclosed as per the requirements of GRAP 16.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

46. Investment property - Information not submitted (CoA 24)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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"

Information request 92 and 108 refers. The following information were not submitted for audit purposes:

- title deeds
- Supporting documents regarding the cost/valuation of investment properties.
- information supporting the classification of these properties as investment properties.

UNIQUE NUMBER	BARCODE	FULL DESCRIPTION	ERF_NUMBER	SURVEY_GENERAL_REFERENCE_NO	NBV_2012_2013
00078277	Investprop281	Property	2263	F02500010000226300000	25,420,000.00
00080337	Investprop2341	Property	1596	F02500010000159600000	4,100,000.00
00078694	Investprop698	Property	00000986	F02000050000098600000	2,790,000.00
00080377	Investprop2381	Property	445	F02500000000044500000	1,790,000.00
00080362	Investprop2366	Property	1455	F02000000000145500000	1,590,000.00
00078012	Investprop16	Property	460	F02500010000046000000	1,540,000.00
00078001	Investprop5	Property	342	F02500010000034200000	1,300,000.00
00078046	Investprop50	Property	1289	F02500010000128900000	1,280,000.00
00078279	Investprop283	Property	2270	F02500010000227000000	1,280,000.00
00078290	Investprop294	Property	2373	F02500010000237300000	1,150,000.00
00078291	Investprop295	Property	2383	F02500010000238300000	1,140,000.00
00080351	Investprop2355	Property	79	F01900000000007900000	1,110,000.00
00078574	Investprop578	Property	00000277	F01600020000027700000	1,095,000.00
00080372	Investprop2376	Property	220	F02500000000022000000	1,070,000.00
00080336	Investprop2340	Property	835	F02500010000083500000	860,000.00
00080335	Investprop2339	Property	1495	F02500010000149500000	600,000.00
00080360	Investprop2364	Property	538	F02000000000053800000	600,000.00
00078405	Investprop409	Property	2591	F02500010000259100000	530,000.00
00080330	Investprop2334	Property	159	F02500010000015900001	530,000.00
00078411	Investprop415	Property	2597	F02500010000259700000	420,000.00
00078412	Investprop416	Property	2598	F02500010000259800000	420,000.00
00078605	Investprop609	Property	00000348	F01600070000034800000	390,000.00
00080323	Investprop2327	Property	326	F02500010000032600000	390,000.00
00080345	Investprop2349	Property	1700	F01600000000170000000	380,000.00
00078055	Investprop59	Property	1531	F02500010000153100000	370,000.00
00080322	Investprop2326	Property	00000657	F03800020000065700000	300,000.00
00078408	Investprop412	Property	2594	F02500010000259400000	290,000.00
00078492	Investprop496	Property	00000067	F02500040000006700000	242,000.00
00078769	Investprop773	Property	00001335	F01600020000133500000	240,000.00
00080318	Investprop2322	Property	00000971	F01600020000097100000	200,000.00
00080303	Investprop2307	Property	835	F02500010000083500000	160,000.00
00079771	Investprop1775	Property	00010256	F02500050001025600000	140,000.00

00080243	Investprop2247	Property	1319	F02500010000131900000	100,000.00
00078626	Investprop630	Property	00000513	F01900010000051300000	95,000.00

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the above-mentioned is that existence and valuation of investment property per note 10 to the financial statements could not be audited.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Agree with the findings. Management had challenges with obtaining title deeds from deeds office together local attorneys, the process of appointing valuation roll service provider is at an advanced stage and management will ensure that the valuation roll reconciles to the assets register.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

47. Investment property - Completeness (CoA 46)

Audit finding

Section 62 of the MFMA states:

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

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

We compared a list of properties leased by the municipality with the fixed asset register and identified a number of properties which could not be identified on the fixed asset register due to the following reasons:

- the list of rental properties were not appropriately completed, properties cannot be traced as the necessary information (e.g. an erf number), were not included.
- the fixed asset register were not appropriately compiled, a number of investment properties do not have locations.

The following properties could not be traced to the fixed asset register:

Erf Number	Description	Place/Address	Occupation	Lease Agreement
Open Area	Municipality Property	De Pontes Fruit & Veg	De-Pontes	Till 2019
506 459/R 460	Mimosa Garden	Boom Street	Municipality	None
325	Voortrekker Commando	Van Coller	Dept. of Public Works	
725	Water Works House	Bree Street	Mxolisi Pali	Month - month 10% esc
4303	Educare Centre	Vuka Location	Itireleng Preschool	Leased- Lentsoe Stereo
6823/24/25	Day Care Centre	Tokoloho Section	Lehlohonolo Centre	Lease to be entered into
323/Res 1	Commando Flats	Luyt Street	Employees/CommuniTy	Lease Agreement
461/R	Mimosa House	Kruis/Boom Streets	Residential	Lease not yet expired
342/4/6	Mimosa Part	Boom Street	File 7/1/4/1/1	Lease expire 2011
67	Municipal House	12 Chart Street	Tenant	Leased
144	Two Municipality Flats	22A & 22 Charl Cilliers Str	Tenants	Leased
145	Two Municipality Flats	24A & 24 Charl Cilliers Str	Tenants	Leased
146	Two Municipality Premises	26A & 26 Charl Cilliers Str	Tenants	Leased
163	Municipal Premises	25A & 25 Mark Street	Tenants	Leased
7/2 40	Seven Municipality Flats	Church Street	Tenants	Leased
7/2 40	Amazing Pre-School	Church Street	Tenants	Leased
159	Old Hostel Building	Ellof Street	MaMogoera Pre-School	Leased
Lincorn Farm	Nine room house	Municipality commonage	Mr. MTVK Rantsaila	Leased but expired
Licorn	RDP House	Municipality commonage	Mr. Petrus Nzunga	No lease signed
636/7	Two roomed building	Boikgutso Street	Leasedi Crèche and Edenville Body	Leased monthly payment
802	Kwakwatsi Old Clinic	Ipolokeng Disability	Monthly payment	Leased
1221	Bachelor Room 3	Kwanda Project	Basic Services	No lease agreement
1781	Old Phiritona Clinic	Mbete Street	Paballong Educare Centre	Lease until 2005 expired
1781	Old Surge Building	Mbete Street	Paballong Edure Centre	Lease until 2004-30
1550	Municipal House	Kruis Street	SPCA	pay service
Wildehondekop	Mun. House and stores	Road to Weiveld	Tjhebelo Pele Project	vandalized
1055	Crèche	Matsie/Mopeloa Str	Ntataise Crèche	
2405	Municipality Property			

The above is mainly due to management not compiling a fixed asset register with the appropriate information.

Based on the aforementioned findings the investment property per note 10 to the financial statements is understated by an unknown amount. The aforementioned matter places a limitation of scope on the completeness investment property per note 10 to the financial statements.

Internal control deficiency

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

Recommendation

Management should also perform timely physical verification of assets and ensure that the verification process is overseen by a independent senior official, and that the fixed asset register is appropriately updated.

Management response

Agree with the finding

Management will ensure that a physical verification is conducted and that all necessary additions and adjustments are made to the asset register.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

48. Investment property - Duplication and valuation of assets (CoA 24)

Audit finding

Section 48 of the GRAP Framework states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent"*

We have identified the following assets on the fixed asset register which seems to be duplicated:

The valuation of erf 2263 were done including the following erven, which was also indicated separately on the fixed asset register. These erven were therefore included in the valuation of erf 2263, as well as separately recognised.

Category	SG code	Erf no	Location	Description	Valuation (R)	Comment
Investment property	F0250001000022650000	2265	PARYS EXT 15	NGWATHE LOCAL MUNICIPALITY	220,000	REFER TO ERF 2263
Investment property	F025000100002270000	2270	PARYS EXT 15	NGWATHE LOCAL MUNICIPALITY	1,280,000	REFER TO ERF 2263
Land	F0250001000022630000	2263	Land - Parys -Erf 2263		1,906,500	Note 1

3,406,500

These assets were included in erf 2263 indicated as follows on both the fixed asset register and the valuation roll:

Category	SG code	Erf no	Location	Description	Valuation(R)	Comment
Investment property	F02500010000226300000	2263	PARYS EXT 15	PUBLIC BENEFIT ORGANISATION	25,420,000	VALUED TOGETHER WITH ERF 1568, 2264,2265,2270 & 2721

Only erven 1568, 2265 and 2270 were duplicated, the other erven were not indicated separately on the fixed asset register.

Note 1: the classification of the land is therefore incorrect, as the building that is situated on the land is held to earn rentals and not for the ordinary course of business (or administration).

The above is mainly due to management not implementing proper controls over reconciliations of the valuation roll to the detailed asset register.

The risk of the above is that investment property per note 7 to the Financial Statements is overstated by R3,406,500

Internal control deficiency

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

Recommendation

Management should implement proper controls over reconciliations to ensure that the market/fair value of investment property, per the detailed asset register, agrees to the valuation roll.

Management response

Agree with findings, Management will appoint a service provider that will assist with the compilation of the valuation roll and in that process the service provider will have to ensure that the valuation roll is reconciled to the assets register.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Movable assets

49. PPE - Completeness of property on the fixed asset register (CoA 17)

Audit finding

Section 48 of the GRAP Framework states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent"*

We agreed a sample of properties, indicated as owned by the municipality, from the valuation roll to the fixed asset register and identified the following differences where the properties were either not on the fixed asset register or at another value:

SG CODE	ERF NUMBER	REGISTERED SUBURB	PROPERTY CATEGORY	Valuation roll (R)	Fixed asset register (R)	Difference (R)
F03800010000256200000	00002562	MOKWALLO EXT 2	EDUCATIONAL	11 058 710 000	-	11 058 710 000
F0250001000007250000	725	PARYS	MUNICIPAL	6 230 000	-	6 230 000
F0190001000002780000	00000278	KOPPIES	MUNICIPAL	750 000	-	750 000
F0190003000007620000	00000762	KOPJES SETTLEMENT	AGRICULTURAL HOLDING	420 000	168,667	251 333
F0250001000023310000	2331	PARYS EXT 15	UNDEVELOPED LAND	200 000	-	200 000
F0160002000005910000	00000591	HEILBRON	UNDEVELOPED LAND	120 000	37,000	83 000
F0250001000015310000	1531	PARYS EXT 11	MUNICIPAL	370 000	-	370 000

11 066 594 333

The above is mainly due to management not implementing proper controls over reconciliations of the valuation roll to the detailed asset register.

The risk of the above is that property, plant and equipment per note 11 and investment property per note 10 to the financial statements is understated.

Internal control deficiency

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

Recommendation

Management should implement proper controls over reconciliations to ensure that the market/fair value of investment property, per the detailed asset register, agrees to the valuation roll. The above-mentioned differences should be investigated and explanations provided for audit purposes (and where applicable, the necessary corrections should be made).

Management response

Agree:

Management will ensure that a reconciliation of assets is compiled and maintained on monthly basis, an updated valuation roll will be available in the new financial year and however all assets as reflected in the valuation roll will reconciled to the asset register also ensuring that their fair / market value on investment property are investigated and adjusted.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

50. PPE - Assets duplicated on the fixed asset register (CoA 17)

Audit finding

Section 48 of the GRAP Framework states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent"*

Per inspection of the fixed asset register, we identified the following assets which seems to be duplicated:

Unique Number	Full description	Category _2	Location_1	Location_2	Erf Number	Survey General Reference No	Cost 2013 (R)	Acc depr 2013 (R)	NBV 2013 (R)
77878	Buildings - Koppies - Erf 278	Buildings	Koppies	278	278	F01900010000027800000	403,750	106,250	297,500
77891	Buildings - Koppies - Erf 278	Buildings	Koppies	278	278	F01900010000027800000	403,750	106,250	297,500
77893	Buildings - Koppies - Erf 278	Buildings	Koppies	278	278	F01900010000027800000	403,750	106,250	297,500
77877	Land - Koppies - Erf 278	Land	Koppies	278	278	F01900010000027800000	56,250	-	56,250
77890	Land - Koppies - Erf 278	Land	Koppies	278	278	F01900010000027800000	56,250	-	56,250
77892	Land - Koppies - Erf 278	Land	Koppies	278	278	F01900010000027800000	56,250	-	56,250

80361	Property	Investment Property	Kroonstad Rd	Townlands Of Edenville 552	552	F02000000000055200000	930,000	-	930,000
77746	Buildings - Edenville - Erf 552	Buildings	Edenville	552	552	F02000000000055200000	500,650	131,750	368,900
77745	Land - Edenville - Erf 552	Land	Edenville	552	552	F02000000000055200000	69,750	-	69,750

77810	Land - Heilbron - Erf 678	Land	Heilbron	678	678	F03800020000067800000	160,875	-	160,875
77812	Land - Heilbron - Erf 678	Land	Heilbron	678	678	F03800020000067800000	160,875	-	160,875

77837	Buildings - Parys - Erf 886	Buildings	Parys	886	886	F02500010000088600000	1,076,667	283,333	793,333
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77853	Buildings - Parys -Erf 886	Buildings	Parys	886	886	F02500010000088600000	1,076,667	283,333	793,333
77836	Land - Parys -Erf 886	Land	Parys	886	886	F02500010000088600000	150,000	-	150,000
77852	Land - Parys -Erf 886	Land	Parys	886	886	F02500010000088600000	150,000	-	150,000

78042	Property	Investment Property	Cnr Wes & Ockert Van Rooyen Street		990	F02500010000099000000	20,000	-	20,000
77839	Buildings - Parys -Erf 990	Buildings	Parys	990	990	F02500010000099000000	10,767	2,833	7,933
77838	Land - Parys -Erf 990	Land	Parys	990	990	F02500010000099000000	1,500	-	1,500

77861	Buildings - Parys -Erf 1098	Buildings	Parys	1098	1098	F02500050000109800000	2,153	567	1,587
77871	Buildings - Parys -Erf 1098	Buildings	Parys	1098	1098	F02500050000109800000	2,153	567	1,587
77860	Land - Parys -Erf 1098	Land	Parys	1098	1098	F02500050000109800000	300	-	300
77870	Land - Parys -Erf 1098	Land	Parys	1098	1098	F02500050000109800000	300	-	300

77875	Buildings - Parys -Erf 1227	Buildings	Parys	1227	1227	F02500040000122700000	23,148	6,092	17,057
77901	Buildings - Parys -Erf 1227	Buildings	Parys	1227	1227	F02500040000122700000	16,150	4,250	11,900
77874	Land - Parys -Erf 1227	Land	Parys	1227	1227	F02500040000122700000	3,225	-	3,225
77900	Land - Parys -Erf 1227	Land	Parys	1227	1227	F02500040000122700000	2,250	-	2,250

77849	Buildings - Parys -Erf 1298	Buildings	Parys	1298	1298	F02500010000129800000	398,367	104,833	293,533
77857	Buildings - Parys -Erf 1298	Buildings	Parys	1298	1298	F02500010000129800000	398,367	104,833	293,533
77848	Land - Parys -Erf 1298	Land	Parys	1298	1298	F02500010000129800000	55,500	-	55,500
77856	Land - Parys -Erf 1298	Land	Parys	1298	1298	F02500010000129800000	55,500	-	55,500

80363	Property	Investment Property	Kroonstad Rd	Uelzen 1994	1994	F02000000000199400000	530,000	-	530,000
77744	Buildings - Edenville -	Buildings	Edenville	1994	1994	F02000000000199400000	285,317	75,083	210,233



	Erf 1994								
77743	Land - Edenville - Erf 1994	Land	Edenville	1994	1994	F02000000000199400000	39,750	-	39,750

78290	Property	Investment Property	Cnr Coenie Steyl & President Kruger Street	Improved	2373	F02500010000237300000	1,150,000	-	1,150,000
77842	Land - Parys -Erf 2373	Land	Parys	2373	2373	F02500010000237300000	86,250	-	86,250

78291	Property	Investment Property	Unknown		2383	F02500010000238300000	1,140,000	-	1,140,000
77845	Buildings - Parys -Erf 2383	Buildings	Parys	2383	2383	F02500010000238300000	613,700	161,500	452,200
77844	Land - Parys -Erf 2383	Land	Parys	2383	2383	F02500010000238300000	85,500	-	85,500

On the above, we identified that these assets had the same erf number in the same town and had the same survey general reference number. As we were unable to determine which assets should be included and which assets should be removed from the fixed asset register, it imposed a scope limitation on the existence of the property, plant and equipment and investment property amounting to R3,504,926.

The above is mainly due to a lack of control over the fixed asset register.

This matter may result in an overstatement of property, plant and equipment per note 11 to the financial statements of R3,504,926.

Internal control deficiency

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

Recommendation

Management should implement proper control over the fixed asset register to ensure that all assets exist (through physical verification) and that no assets were duplicated. Senior management should review the fixed asset register for completeness and existence. The above-mentioned matters should be investigated and explanations submitted for audit purposes.

Management response

Management agree:

Asset Management Unit has been established whereby verifications will be done quarterly, management will also ensure that asset register is corrected and all assets duplicated are investigated and adjusted accordingly. Management undertakes to correct the financial statements should there be a need to do so

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

51. PPE - No review of residual values and useful lives (CoA 4)

Audit finding

GRAP 17 paragraph 61 states:

"The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors."

GRAP 17 paragraph 71 states:

"The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors."

On the fixed asset register, there were 1764 assets which have been fully depreciated with no remaining useful life, but were still in use. This indicated that management had not re-assessed the remaining useful lives of assets on an annual basis.

Additionally:

As the FAR was not updated from the prior year, except for the calculation of depreciation, it provides evidence that the following requirements of GRAP 17 were not met:

- no annual review of residual values and useful lives.
- as none of the assets have residual values, residual value accounting were not applied.
- no review of the depreciation methods applied.

The above resulted mainly due to the fixed asset register not being kept up to date.

The risk of the above is non compliance with GRAP 17, Property, plant and equipment which will result in a misstatement in the financial statements.

Internal control deficiency

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

Recommendation

Management should review the residual values, depreciation methods and useful lives at year end. In future, management should ensure compliance with the requirements of GRAP 17 (proof of such reviews should be retained for audit purposes).

Management response

Management agree. We will review the fixed assets register and determine the correct useful live of assets disclosed in our financial statements.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

52. PPE - Register does not agree to the financial statements and trial balance (CoA 4)

Audit finding

The GRAP Framework paragraph 48 states the following:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."

The following differences were noted when the asset register amount was compared to the financial statements and the trial balance.

a) Cost

	Cost (R)		
	Detailed asset roll forward [A]	Trial balance [B]	Difference [C = A - B]
Motor Vehicles	12 534 557	11 998 761	535 795
Infrastructure	1 532 095 660	1 431 173 310	100 922 350

b) Accumulated depreciation

	Accumulated depreciation (R)		
	Detailed asset roll forward [D]	Trial balance [E]	Difference [F = D - E]
Motor Vehicles	(7 224 019)	(7 356 228)	132 210
Infrastructure	(451 156 257)	(453 893 003)	2 736 746

c) Closing carrying value

	Carrying value (R)		
	Detailed asset roll forward [D]	Trial balance [E]	Difference [F = D - E]
Motor Vehicles	5 310 538	4 642 533	668 005
Infrastructure	1 080 939 403	977 280 307	103 659 096

The differences in the opening and closing balances were the same. Therefore, the differences relates to the opening balances.

The above is mainly due to management not performing timely reconciliations between the detailed asset register and the trial balance.

The risk of the above is that Property, plant and equipment balance per note 11 to the Financial Statements is understated by R 104 327 101.

Internal control deficiency

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

Recommendation

Management should perform monthly reconciliations between the detailed asset register and the trail balance. Management should ensure that these reconciliations are reviewed by an independent senior official and follow-up work performed on variances.

Management response

Management agree. We have established an asset management unit that is tasked with the responsibility of ensuring that additions and disposals are correctly accounted for in the general ledger. Management will ensure that reconciliations are performed and reviewed monthly through this section.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

53. PPE - Disclosure not in accordance with GRAP (CoA 4)

Audit finding

GRAP 1 paragraph 76 states:

*"As a minimum, the face of the statement of financial position shall include line items that present the following amounts:
(d) heritage assets"*

GRAP 1 paragraph 83 states:

"An entity shall disclose, either on the face of the statement of financial position or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations."

GRAP 17 states the following:

".80 The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

- (a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;*
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;*
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment;*
- and*
- (d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit."*

The municipality did not present the heritage assets as a separate line item on the face of the statement of financial position. The fixed asset register, also does not have a category for heritage assets.

- none of the disclosure of heritage assets as required by GRAP 103 were therefore made.

The municipality did not disclosed the following sub-classifications in the notes to the financial statements (the fixed asset register also did not include such classifications):

- Community assets
- Bins and containers
- Emergency equipment
- Housing development fund
- Leased infrastructure
- Projects in progress (WIP)

The above may have resulted due to the fixed asset register not being reviewed on a regular basis.

The risk of the above is the property, plant and equipment as set out in note 11 to the financial statements, were not disclosed in accordance with GRAP.

Internal control deficiency

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

Recommendation

Management should implement proper controls to ensure that all assets in the fixed asset register are accurately recorded, classified and reviewed by a independent senior official. Management should ensure the property, plant and equipment is correctly disclosed in the financial statements.

Management response

Agree:

Management has established the assets unit, whereby they will ensure that all assets and additions are recorded on the asset register, also ensure that verification takes place quarterly Management will investigate the matter and will however start with the process of verifying the assets also ensuring that all the disclosures meets the GRAP requirements.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

54. PPE - Understatement of work-in-progress (CoA 31)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

As the fixed asset register has not been updated during the year under review, we compared the work-in-progress per the fixed asset register to the commitment register (obtained from PMU) and identified the following differences:

Expenditure per:		
Commitment register (R)	Fixed asset register (R)	Difference (R)

Heilbron: Upgrading of sewer treatment works	32 113 393,93	18 428 740,60	13 684 653,33
Parys: Upgrading of sewer treatment works	37 528 455,85	8 816 160,30	28 712 295,55
Parys: Refurbishment and upgrading of water treatment works phase 3	8 220 522,53	258 082,17	7 962 440,36
Koppies: Refurbishment of the tennis courts	415 576,17	-	415 576,17
Fencing of sport facility	129 310,00	-	129 310,00
Phiritona: Construction of sport complex	240 252,64	-	240 252,64
Schonkenville: Refurbishment of sport complex	109 651,70	-	109 651,70
	<u>78 757 162,82</u>	<u>27 502 983,07</u>	<u>51 254 179,75</u>

The difference of R51 254 179,75 were not recognised in the assets general ledger accounts and we are unable to determine where these amounts were recognised, which imposes a limitation of scope on completeness of Property, plant and equipment and existence of expenses.

The above is mainly due to no control over the processing of capital expenditure on a timely basis throughout the financial year under review.

The risk of the above is that completeness of property, plant and equipment per note 11 to the financial statements and classification of expenses could not be audited.

Internal control deficiency

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

Recommendation

Management should inspect the general ledger to identify where these capital expenditure were recognised and make the necessary adjustment to ensure that work-in-progress is complete. Management should perform monthly reconciliations between the commitment register compiled by PMU and the fixed asset register.

Management response

Agree with the finding, Management will implement the recommendation of the Auditor General and ensure that the process of reconciling does takes place on monthly basis.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

55. PPE - Work-in-progress not updated (CoA 41)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

Per inspection of the commitment register obtained from PMU, we identified that the following projects (which were still indicated on the fixed asset register) were no longer on the commitment register and have therefore been completed.

- as the fixed asset register were not updated during the year, the amounts incurred to complete these projects were unknown.
- it can also not be confirmed to which accounts these expenditures were processed.

Unique Number	Barcode	Full description	NBV 2013 (R)
00071531	None 5482	Fezile Dabi	58,992,579.58
00071532	None 5483	Parys Paving	15,384,914.76
00071534	None 5485	Parys Water Treatment	1,500,000.00
00071535	None 5486	Koppies Upgrading Of Sewer Treatment Plant	1,542,759.22
			<u>77,420,253.56</u>

As these projects have all ready been completed, it should be reclassified from Work-in-Progress to Infrastructure (Property, plant equipment).

The above is mainly due to no control over the processing of capital expenditure on a timely basis throughout the financial year under review.

The risk of the above is that completeness of property, plant and equipment per note 11 to the financial statements and classification of expenses could not be audited.

Internal control deficiency

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

Recommendation

Management should implement internal controls over the entire fixed asset process. The required information should be obtained and the necessary adjustments made to ensure that the correct balances are reflected in the financial statements for work-in-progress and infrastructure assets.

Management response

Agree with the finding,
Management will ensure that both the asset office and the PMU reconciles their assets to ensure that progress made by PMU is also registered or captured and reviewed on the asset register. Furthermore, please note the methodology used the final payment certificate and bill of quantity list as evidence to determine that the project is in fact complete. Please also refer to our asset policy as it will also indicate when assets should be recognized. The same counts for projects done by the District on your behalf – here we also use final payment certificates and if available the handover certificate from the district.

The audit files with all the necessary supporting documentation are available to provide the AG with all the required supporting documents for the projects capitalized.

Necessary adjustments will therefore be implemented to correct the balances in the AFS.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

56. PPE - Lack of control over the fixed asset register (CoA 4)

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—...

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

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

During the current year, the following deficiencies existed with regards to the fixed asset register:

- proof could not be obtained that the fixed asset register was reviewed by a senior official.
- the fixed asset register was not updated during the current year (only current year depreciation was added)
- the fixed asset register does not reconcile to the financial statements and financial system of the municipality.
- no assets replaced or damaged were taken of the fixed asset register.
- only insignificant additions were included on a separate additions register (no additions were included in fixed asset register)

The above is mainly due to a lack of control over property, plant and equipment and investment property.

A lack of control over the fixed asset register may result in assets being lost or not being accounted for correctly.

Internal control deficiency

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

Recommendation

Management should implement actions plans over property, plant and equipment control environment. Management should ensure that the fixed asset register is kept up to date and reconciles to the trial balance.

Management response

Agree:

Management has established the assets unit and movable assets verification is conducted quarterly while the municipality will ensure that fixed assets are verified twice a year,

Management will ensure that all damaged assets are removed from the asset register and disposed of according to the asset management policy and be approved by the council.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

The proposed audit report paragraph is:

- a) An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- b) An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

57. PPE - Classification of projects (CoA 31)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We identified that the following projects were incorrectly recognised as part of expenses, the expenditure of the above projects were incorrectly allocated to the following accounts:

Vote	Description	Amount (R)
1105051095415	VREDEFORT: FENCING OF MUNMEC SPORTS FACILITY	10,750.00
1120054020602	VREDEFORT: FENCING OF MUNMEC SPORTS FACILITY	104,000.00
1120204010901	BUCKET ERADICATION - TUMAHOLE	566,190.95
1120204020902	HEILBRON SEWER PLANT	7,652,250.37
1120354010004	UPGRADING OF MBEKI PUMP STATION - PARYS	22,510,868.67
1120354010005	UPGRADE WATER BOOSTER PUMP STATION - VRE	11,450,264.98
1120451144515	PURCHASE OF ELECTRICITY	1,117,899.65
		43,412,224.61

The above is mainly due to a lack of control over projects and the allocation of the expenditure.

The risk of the above is the property, plant and equipment per note 11 is understated by R43,412,225 and general expenses per note 33 to the financial statements is overstated the same amount.

Internal control deficiency

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

Recommendation

Management should ensure they account for capital expenditure as additions to assets. Management should perform a reconciliation of projects between the fixed asset register and general ledger, which should agree to the commitment register and grant schedule of projects. The necessary correcting journals should be process to correct the above-mentioned matter.

Management response

Agree with the finding, Management will ensure correct allocations of vote, acting assets officers with the supervision of senior management will ensure a proper reconciliation of assets is performed and integrated to the financial system. The municipality will also ensure that the asset register is linked to the financial system and reviewed on monthly basis.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

58. PPE - Error in disclosure (CoA 31)

Audit finding

GRAP 17 paragraph 79 states: "The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements: (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period"

Per inspection of the financial statements note 11, Property, plant and equipment, we identified that management deducted the current year depreciation charge from the cost of the assets, causing the following differences:

	Cost (R)		
	AFS	Recalculated	Difference
Airports	2,093,000	2,264,000	-171,000
Buildings	47,636,982	50,466,529	-2,829,547
Furniture and fittings	7,827,729	9,088,482	-1,260,753
Infrastructure	1,340,670,774	1,431,173,310	-90,502,536
IT equipment	3,356,421	3,853,235	-496,814
Land	4,370,075	4,370,075	-
Motor vehicles	10,630,021	11,998,761	-1,368,740
Office equipment	884,024	1,009,017	-124,993
Plant and machinery	3,651,470	4,092,012	-440,542
	1,421,120,496	1,518,315,422	-97,194,926

	Accumulated depreciation (R)		
	AFS	AGSA	Difference
Airports	-684,000	-855,000	171,000
Buildings	-11,314,570	-14,144,117	2,829,547
Furniture and fittings	-5,609,446	-6,870,199	1,260,753
Infrastructure	-363,390,467	-453,893,006	90,502,539
IT equipment	-1,758,466	-2,255,280	496,814
Land	-	-	-
Motor vehicles	-5,987,488	-7,356,228	1,368,740
Office equipment	-539,956	-664,948	124,992
Plant and machinery	-1,717,744	-2,158,285	440,541
	-391,002,137	-488,197,063	97,194,926

The above is mainly due to no reconciliation performed by management between the financial statements and the fixed asset register.

The risk of the above is that property, plant and equipment per note 11 to the financial statements are not accurately disclosed.

Internal control deficiency

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

Recommendation

Management should perform monthly reconciliations between the detailed asset register and the trail balance. Management should ensure that these reconciliations are reviewed by an independent senior official and follow-up work performed on variances. The above-mentioned difference should be investigated and the necessary correcting journals processed.

Management response

Agree with the finding, Management will ensure that after the completion of the asset register, physical verification is made, reconciliation is performed on monthly basis to ensure that the asset register reconciles with the monthly TB

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

59. PPE - Documentation to support values not submitted (CoA 31)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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"

Information request 82 refers. Supporting documentation for the cost prices (values) of the following assets could not be submitted for audit purposes:

#	Unique Number	Barcode	Full description	SerialNo	Category_1	Category_2	Purchase Cost (R)
1	8863	None 5369	Transformer 200Kva		Infrastructure	Electricity	56,500.00
2	59817	Ptrans-26	Pole Mounted Transformer		Infrastructure	Electricity	41,790.08
3	59851	Ptrans-60	Pole Mounted Transformer		Infrastructure	Electricity	41,790.08
4	68318	Rstrct-2834	Roads-Structures		Infrastructure	Roads	53,808.00
5	70248	BRG-4	Bridge		Infrastructure	Roads	16,500,000.00
6	70249	BRG-5	Bridge		Infrastructure	Roads	16,500,000.00
7	70251	BRG-8	Bridge		Infrastructure	Roads	1,061,400.00
8	70252	BRG-9	Bridge		Infrastructure	Roads	16,500,000.00
9	70253	BRG-10	Bridge		Infrastructure	Roads	16,500,000.00
10	70254	BRG-11	Bridge		Infrastructure	Roads	16,500,000.00
11	70255	BRG-13	Bridge		Infrastructure	Roads	16,500,000.00
12	70256	BRG-15	Bridge		Infrastructure	Roads	6,600,000.00
13	70257	BRG-16	Bridge		Infrastructure	Roads	9,432,500.00
14	70258	BRG-17	Bridge		Infrastructure	Roads	11,550,000.00
15	72740	Slight-2482	High Mast		Infrastructure	Roads	102,000.00
16	73217	Slight-2959	High Mast		Infrastructure	Roads	153,000.00
17	75096	Oroad-1837	Storm Water		Infrastructure	Roads	1,555.72
18	77813	None 5597	Buildings - Heilbron - Erf 678		Land & Buildings	Buildings	1,154,725.00
19	77841	PROP-B-P-2263	Buildings - Parys -Erf		Land &	Buildings	13,684,433.33



			2263		Buildings		
20	77843	PROP-B-P-2373	Buildings - Parys -Erf 2373		Land & Buildings	Buildings	619,083.33
21	77917	None 5402	Mechanical Equipment		Infrastructure	Sewer	244,896.25
22	77924	None 5409	Mechanical Equipment		Infrastructure	Sewer	923,310.90
23	77927	None 5412	Mechanical Equipment		Infrastructure	Sewer	546,508.78
24	1382	00528	Microline 5521 D22210B Line Printer	54DV4012690 K	Other Assets	Computer Equipment	6,037.33
25	1755	00985	Wood 2 Sliding Door Credenza		Other Assets	Furniture & Fittings	4,125.26
26	5193	07455	Metal 1 Glass Door Server Cabinet		Other Assets	Furniture & Fittings	12,374.45
27	6997	10005	Krurek Pro Skid Unit		Other Assets	Plant & Equipment	77,196.29
28	7177	10206	Wm39Hi Eco Aire Air Con	E13401	Other Assets	Office Equipment	10,613.18
29	8927	13785	Bowls Clubhouse		Buildings	Non Residential Dwellings	5,698,000.00
30	9690	WatLine-112	Water Pipes 90 Mm	WatLine-112	Infrastructure	Water	190,845.93
31	9710	WatLine-132	Water Pipes 50 Mm	WatLine-132	Infrastructure	Water	222,344.79
32	9929	WatLine-352	Water Pipes 90 Mm	WatLine-352	Infrastructure	Water	19,091.34
33	9993	WatLine-417	Water Pipes 400 Mm	WatLine-417	Infrastructure	Water	7,764,262.66
34	10014	WatLine-439	Water Pipes 110 Mm	WatLine-439	Infrastructure	Water	10,091.49
35	10060	WatLine-486	Water Pipes	WatLine-486	Infrastructure	Water	3,637,524.00
36	10426	WatLine-869	Water Pipes 160 Mm	WatLine-869	Infrastructure	Water	1,415,985.96
37	10448	WatLine-891	Water Pipes 200 Mm	WatLine-891	Infrastructure	Water	543,484.01
38	10809	12716	Reservoir	Fac-53	Infrastructure	Water	21,715,200.00
39	10831	12738	Fencing	Yard-473	Infrastructure	Water	589,665.95
40	10895	12786	Reservoir		Infrastructure	Water	12,702,033.41
41	10907	None 5387	Dam		Infrastructure	Water	3,410,400.00
42	10936	12868	Channel Section		Infrastructure	Water	657,459.98
43	10938	12870	Channel Section		Infrastructure	Water	162,597.85
44	10946	12878	Channel Section		Infrastructure	Water	511,828.61
45	10949	12881	Channel Section		Infrastructure	Water	381,750.79
46	10953	12885	Channel Section		Infrastructure	Water	346,403.78
47	10957	12889	Channel Section		Infrastructure	Water	728,154.57
48	33211	28232788	Water Meter		Infrastructure	Water	591.19
49	39339	12501	Hoist		Infrastructure	Sewer	11,400.00
50	39768	SewLine-363	Sewer Pipe		Infrastructure	Sewer	8,066.58
51	40296	SewLine-899	Sewer Pipe		Infrastructure	Sewer	8,189.13
52	40443	SewLine-1053	Sewer Pipe		Infrastructure	Sewer	38,387.49
53	40753	SewLine-1378	Sewer Pipe		Infrastructure	Sewer	11,589,158.37
54	41224	12383	Sewer Drying Bed		Infrastructure	Sewer	36,848.22
55	41241	12400	Sewer Drying Bed		Infrastructure	Sewer	36,848.22
56	41442	13733	Old Dosing Building		Infrastructure	Sewerage Pump Stations	549,818.18
57	41479	Ecable-28	Electricity Cable		Infrastructure	Electricity	48,156.52
58	41516	Ecable-65	Electricity Cable		Infrastructure	Electricity	25,222.51
59	41891	Ecable-440	Electricity Cable		Infrastructure	Electricity	54,772.55
60	42786	Ecable-1335	Electricity Cable		Infrastructure	Electricity	870,473.53



61	42848	Ecable-1399	Electricity Cable		Infrastructure	Electricity	79,599.30
62	44685	Ecable-3237	Electricity Cable		Infrastructure	Electricity	586,776.20
63	44687	Ecable-3239	Electricity Cable		Infrastructure	Electricity	2,395,888.31
64	44691	Ecable-3243	Electricity Cable		Infrastructure	Electricity	676,061.54
65	44717	Ecable-3269	Electricity Cable		Infrastructure	Electricity	682,213.38
66	44719	Ecable-3271	Electricity Cable		Infrastructure	Electricity	966,696.97
67	44727	Ecable-3279	Electricity Cable		Infrastructure	Electricity	312,926.70
68	44742	Ecable-3294	Electricity Cable		Infrastructure	Electricity	163,069.87
69	44749	Ecable-3301	Electricity Cable		Infrastructure	Electricity	2,567,173.40
70	44758	Ecable-3310	Electricity Cable		Infrastructure	Electricity	5,011,624.43
71	44775	Ecable-3327	Electricity Cable		Infrastructure	Electricity	169,724.65
72	44797	Ecable-3349	Electricity Cable		Infrastructure	Electricity	236,132.01
73	45634	Ecable-4186	Electricity Cable		Infrastructure	Electricity	3,878,589.98
74	45813	Ecable-4365	Electricity Cable		Infrastructure	Electricity	109,158.25
75	46109	Ecable-4662	Electricity Cable		Infrastructure	Electricity	180,745.77
76	46119	Ecable-4672	Electricity Cable		Infrastructure	Electricity	116,072.06
77	46180	Ecable-4733	Electricity Cable		Infrastructure	Electricity	173,516.92
78	48658	Ecable-7211	Electricity Cable		Infrastructure	Electricity	2,528,748.44
79	48664	Ecable-7217	Electricity Cable		Infrastructure	Electricity	449,938.25
80	49068	Ecable-7621	Electricity Cable		Infrastructure	Electricity	1,002.92
81	49194	Ecable-7747	Electricity Cable		Infrastructure	Electricity	98,511.30
82	49203	Ecable-7756	Electricity Cable		Infrastructure	Electricity	1,060,148.10
83	49211	Ecable-7764	Electricity Cable		Infrastructure	Electricity	391,552.71
84	49213	Ecable-7766	Electricity Cable		Infrastructure	Electricity	269,520.70
85	49227	Ecable-7780	Electricity Cable		Infrastructure	Electricity	29,969.74
86	49281	Ecable-7835	Electricity Cable		Infrastructure	Electricity	830,635.74
87	49390	Ecable-7956	Electricity Cable		Infrastructure	Electricity	1,071,122.60
88	50197	Ecable-8772	Electricity Cable		Infrastructure	Electricity	1,094,594.75
89	50198	Ecable-8773	Electricity Cable		Infrastructure	Electricity	370,234.86
90	50303	Ecable-8878	Electricity Cable		Infrastructure	Electricity	125,960.66
91	50392	Ecable-8975	Electricity Cable		Infrastructure	Electricity	869,277.13
92	50410	Ecable-8993	Electricity Cable		Infrastructure	Electricity	626,708.15
93	50454	Ecable-9037	Electricity Cable		Infrastructure	Electricity	92,282.29
94	50471	Ecable-9054	Electricity Cable		Infrastructure	Electricity	117,389.24
95	50532	Ecable-9115	Electricity Cable		Infrastructure	Electricity	390,269.06
96	50545	Ecable-9128	Electricity Cable		Infrastructure	Electricity	77,154.78
97	50574	Ecable-9158	Electricity Cable		Infrastructure	Electricity	400,661.05
98	50595	Ecable-9179	Electricity Cable		Infrastructure	Electricity	565,070.15
99	50611	Ecable-9195	Electricity Cable		Infrastructure	Electricity	395,251.55
100	50621	Ecable-9205	Electricity Cable		Infrastructure	Electricity	455,024.90
101	50984	Ecable-9568	Electricity Cable		Infrastructure	Electricity	113,423.42
102	51069	Ecable-9653	Electricity Cable		Infrastructure	Electricity	53,892.70
103	51071	Ecable-9655	Electricity Cable		Infrastructure	Electricity	61,109.76
104	51121	Ecable-9705	Electricity Cable		Infrastructure	Electricity	315,025.49
105	51146	Ecable-9730	Electricity Cable		Infrastructure	Electricity	948,030.70
106	51741	Ecable-10325	Electricity Cable		Infrastructure	Electricity	246,538.34
107	51824	Ecable-10408	Electricity Cable		Infrastructure	Electricity	19,997.23



108	51861	Ecable-10445	Electricity Cable		Infrastructure	Electricity	91,715.61
109	53113	Ecable-11697	Electricity Cable		Infrastructure	Electricity	315,984.51
110	53129	Ecable-11713	Electricity Cable		Infrastructure	Electricity	870,095.04
111	53181	Ecable-11765	Electricity Cable		Infrastructure	Electricity	325,669.48
112	53192	Ecable-11776	Electricity Cable		Infrastructure	Electricity	126,132.07
113	60111	06944	Minisub		Infrastructure	Electricity	122,148.16
114	60119	06952	Minisub		Infrastructure	Electricity	227,448.29
115	60132	06965	Minisub		Infrastructure	Electricity	227,448.29
116	60278	07817	Building		Land & Buildings	Buildings	279,531.69
117	60560	09810	Transformer		Infrastructure	Electricity	69,600.00
118	63728	RD-13	Roads-Gravel		Infrastructure	Roads	271,240.55
119	63783	RD-68	Roads-Gravel		Infrastructure	Roads	251,613.16
120	63795	RD-80	Roads-Gravel		Infrastructure	Roads	180,985.20
121	63929	RD-220	Roads-Gravel		Infrastructure	Roads	61,349.23
122	63970	RD-270	Roads-Tar		Infrastructure	Roads	796,226.02
123	64038	RD-342	Roads-Tar		Infrastructure	Roads	120,150.67
124	64044	RD-348	Roads-Tar		Infrastructure	Roads	643,334.36
125	64061	RD-365	Roads-Tar		Infrastructure	Roads	951,007.91
126	64069	RD-373	Roads-Tar		Infrastructure	Roads	161,274.66
127	64106	RD-410	Roads-Tar		Infrastructure	Roads	592,896.05
128	64181	RD-495	Roads-Gravel		Infrastructure	Roads	162,415.13
129	64197	RD-511	Roads-Tar		Infrastructure	Roads	297,730.31
130	64214	RD-528	Roads-Tar		Infrastructure	Roads	560,763.95
131	64349	RD-663	Roads-Tar		Infrastructure	Roads	267,982.67
132	64391	RD-705	Roads-Tar		Infrastructure	Roads	152,815.13
133	64433	RD-747	Roads-Tar		Infrastructure	Roads	163,585.86
134	64967	RD-1295	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	1,406,499.78
135	64979	RD-1307	Roads-Tar		Infrastructure	Roads	407,919.77
136	65218	RD-1546	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	820,447.98
137	65243	RD-1571	Roads-Gravel		Infrastructure	Roads	139,515.60
138	65324	RD-1652	Roads-Gravel		Infrastructure	Roads	454,868.83
139	65413	RD-1747	Roads-Gravel		Infrastructure	Roads	48,438.58
140	65774	RD-2146	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	452,388.19
141	65779	RD-2151	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	468,193.64
142	65836	RD-2208	Roads-Tar		Infrastructure	Roads	346,060.16
143	65995	RD-2367	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	1,386,420.32
144	66049	RD-2421	Roads-Tar		Infrastructure	Roads	419,126.29
145	66087	RD-2459	Roads-Tar		Infrastructure	Roads	907,704.48
146	66115	RD-2493	Roads-Gravel		Infrastructure	Roads	65,856.44
147	66205	RD-2587	Roads-Gravel		Infrastructure	Roads	95,919.45
148	66315	RD-2717	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	101,994.13
149	66435	RD-2840	Roads-Tar		Infrastructure	Roads	511,010.73
150	66676	RD-3081	Roads-Gravel		Infrastructure	Roads	105,883.66
151	66888	RD-3293	Roads-Tar		Infrastructure	Roads	780,099.57



152	66956	RD-3361	Roads-Tar		Infrastructure	Roads	78,728.97
153	67010	RD-3415	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	294,490.97
154	67051	RD-3456	Roads-Tar		Infrastructure	Roads	2,789,054.83
155	67075	RD-3480	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	367,402.67
156	67084	RD-3489	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	109,570.02
157	67098	RD-3503	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	294,648.54
158	67211	RD-3616	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	257,301.65
159	67217	RD-3622	Roads-Tar		Infrastructure	Roads	107,667.41
160	67283	RD-3688	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	558,598.94
161	67421	RD-3826	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	490,964.22
162	67521	RD-3926	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	149,837.32
163	67566	RD-3971	Roads-Tar		Infrastructure	Roads	387,393.27
164	67582	RD-3987	Roads-Tar		Infrastructure	Roads	197,597.06
165	67588	RD-3993	Roads-Tar		Infrastructure	Roads	3,845,518.11
166	67632	RD-4037	Roads-Tar		Infrastructure	Roads	169,266.39
167	67654	RD-4059	Roads-Tar		Infrastructure	Roads	161,553.25
168	67723	RD-4128	Roads-Tar-Incl. Strmwater		Infrastructure	Roads	147,111.33
169	68392	Rstrct-2978	Roads-Parking		Infrastructure	Roads	42,000.00
170	68541	Rstrct-3317	Roads-Parking		Infrastructure	Roads	168,000.00
171	71531	Slight-1273	Streetlight		Infrastructure	Roads	1,800.00
172	71532	Slight-1274	Streetlight		Infrastructure	Roads	1,800.00
173	71533	Slight-1275	Streetlight		Infrastructure	Roads	2,700.00
174	71534	Slight-1276	Streetlight		Infrastructure	Roads	2,700.00
175	71535	Slight-1277	Streetlight		Infrastructure	Roads	6,000.00
176	71536	Slight-1278	Streetlight		Infrastructure	Roads	1,800.00
177	73479	Oroad-219	Traffic Light		Infrastructure	Roads	25,060.00
178	77907	None 5392	Sewer		Infrastructure	Sewer	1,381,464.38
179	77928	None 5413	Sewer Pipes		Infrastructure	Sewer	3,539,619.00
180	77933	None 5418	Road		Infrastructure	Roads	4,743,606.07
181	77934	None 5419	Road		Infrastructure	Roads	3,100,000.00
182	77936	None 5421	Road		Infrastructure	Roads	6,855,633.15
183	77952	None 5437	Pump		Infrastructure	Sewer	1,183,454.88
184	71533	None 5484	Heilbron Of Sewer Treatment Plant		Wip	Infrastruct ure	18,428,740.60
185	71534	None 5485	Parys Water Treatment		Wip	Infrastruct ure	1,500,000.00
186	71535	None 5486	Koppies Upgrading Of Sewer Treatment Plant		Wip	Infrastruct ure	1,542,759.22
187	71536	None 5487	Parys Upgrading Of Sewer Treatment Plant		Wip	Infrastruct ure	8,816,160.30
188	8813	CZN226FS	Toyota Land Cruiser Bakkie	JTELJ71J500 007726	Other Assets	Motor Vehicles	358,380.00
189	8847	FBK696FS	Toyota Land Cruiser Bakkie	JTELB71J107 092858	Other Assets	Motor Vehicles	477,840.00
190	549	None 4993	Camera Fuji Finepix C25	Other Assets	Plant & Equipment	Audio Visual Equipment	2,192.98
191	974	07275	Ryobi Brush Cutter	Other Assets	Plant &	Gardening	3,650.00



					Equipment	Equipment	
192	8754	BGS813FS	Toyota Hilux	Other Assets	Motor Vehicles	Motor Vehicles	223,470.00
193	8767	BPZ437FS	Ford F350 Bakkie	Other Assets	Motor Vehicles	Motor Vehicles	241,573.00
194	8771	BPZ486FS	Fiat 640 Tractor	Other Assets	Motor Vehicles	Trucks	73,377.25
195	8772	BPZ488FS	Nissan 1400 Bakkie	Other Assets	Motor Vehicles	Motor Vehicles	73,377.25
196	8791	CKX192FS	Ford Bakkie	Other Assets	Motor Vehicles	Motor Vehicles	226,271.11
197	8806	CXN991FS	Nissan Almera Sedan	Other Assets	Motor Vehicles	Motor Vehicles	264,240.00
198	8814	DBM469FS	Ford 2200 Ranger Bakkie	Other Assets	Motor Vehicles	Motor Vehicles	172,998.00
199	8833	DNF801FS	Audi Q7 Suv	Other Assets	Motor Vehicles	Motor Vehicles	535,795.05
200	8913	13771	Squash Court	Buildings	Non Residential Dwellings	Recreational Facilities	1,862,000.00
201	60263	07804	Building	Land & Buildings	Buildings	Non-Residential Dwellings	29,352.27
202	60554	09804	Building	Land & Buildings	Buildings	Non-Residential Dwellings	756,000.00
203	77736	PROP-B-E-513	Buildings - Edenville - Erf 513	Land & Buildings	Buildings		51,141.67
204	77745	PROP-L-E-552	Land - Edenville -Erf 552	Land & Buildings	Land		69,750.00
205	77889	PROP-B-K-323	Buildings - Koppies -Erf 323	Land & Buildings	Buildings		121,125.00
206	8862	None 5368	Submersible Pumps 5.5 Kw	Infrastructure	Electricity		68,137.80
207	8943	WatPoint-3	Water Valves	Infrastructure	Water	Underground Chambers	1,404.29
208	9648	WatLine-70	Water Pipes	Infrastructure	Water	Supply/Reticulation	27,406.24
209	40214	SewLine-817	Sewer Pipe	Infrastructure	Sewer	Sewers / Reticulation	11,050.54
210	40589	SewLine-1214	Sewer Pipe	Infrastructure	Sewer	Sewers / Reticulation	54,607.22
211	41228	12387	Sewer Drying Bed	Infrastructure	Sewer	Waste Purification Works	36,848.22
212	45830	Ecable-4382	Electricity Cable	Infrastructure	Electricity	Supply & Reticulation	468,954.94
213	48665	Ecable-7218	Electricity Cable	Infrastructure	Electricity	Supply & Reticulation	909,647.46
214	50597	Ecable-9181	Electricity Cable	Infrastructure	Electricity	Supply & Reticulation	481,781.63
215	59929	Ptrans-138	Pole Mounted Transformer	Infrastructure	Electricity	Transformers	30,036.83
216	60166	07714	Battery Control Unit	Infrastructure	Electricity	Substations	43,562.38
217	60290	None 3223	Vt"S	Infrastructure	Electricity	Substations	38,618.15
218	60398	None 3253	Transformer	Infrastructure	Electricity	Transformers	31,900.00
219	61009	53124518	Electricity Meter	Infrastructure	Electricity	Meters	369.60



220	64101	RD-405	Roads-Unsurfaced	Infrastructure	Roads	Municipal Roads	10,769.62
221	64431	RD-745	Roads-Tar	Infrastructure	Roads	Municipal Roads	160,282.58
222	64796	RD-1124	Roads-Unsurfaced	Infrastructure	Roads	Municipal Roads	2,338.41
223	68350	Rstrct-2936	Roads-Parking	Infrastructure	Roads	Parking	18,000.00
224	70250	BRG-7	Bridge	Infrastructure	Roads	Bridges	4,245,600.00
225	70774	Slight-516	Streetlight	Infrastructure	Roads	Street Lighting	9,000.00
226	72285	Slight-2027	High Mast	Infrastructure	Roads	Street Lighting	102,000.00
227	73289	Oroad-29	Storm Water	Infrastructure	Roads	Storm Water	2,374.52
228	74447	Oroad-1187	Storm Water	Infrastructure	Roads	Storm Water	2,374.52
229	77906	Lfill-7	Landfill Site	Infrastructure	Landfill	Landfill Site	1,694,408.00
230	77922	None 5407	Mechanical Equipment	Infrastructure	Sewer	Pump Stations	838,972.18
231	77965	None 5450	Mv Anchors	Infrastructure	Electricity	Supply/Ret iculation	40,137.21
232	77977	None 5462	Transformer	Infrastructure	Electricity	Transform ers	121,980.00
233	71531	None 5482	Fezile Dabi	Wip	Infrastructure		58,992,579.58
234	71532	None 5483	Parys Paving	Wip	Infrastructure		15,384,914.76
235	71537	None 5488	Parys Upgrading And Refubishment Of Wastet Water Treatment	Wip	Infrastructure	Sewer	258,082.17

The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality.

The risk of the abovementioned is that existence and valuation of investment property per note 10 to the financial statements could not be audited.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

60. PPE - Assets that could not be verified (CoA 79)

Audit finding

Section 62 of the MFMA states:

"General financial management functions.—

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

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

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

GRAP Framework paragraph 48 states:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."

We selected a sample of 279 assets for physical verification, of which 100 assets could not be verified due to the following:

- Location of the assets was unknown.
- The assets were not at the indicated locations.
- The asset description were not clear enough to identify the asset (descriptions too general, e.g. water meter, electricity meter, antivirus, electricity cable, electricity pole, property, roads, sewer pipe, Storm Water, streetlight, valve, water pipes, water valves)
- Assets not bar-coded

#	Unique Number	Barcode	Full description	Category_1	NBV 2013
1	8863	None 5369	Transformer 200Kva	Infrastructure	53,198.69
2	77841	PROP-B-P-2263	Buildings - Parys -Erf 2263	Land & Buildings	10,083,266.67
3	78277	Investprop281	Property	Investment Property	25,420,000.00

#	Unique Number	Barcode	Full description	Category_1	NBV 2013
4	6997	10005	Krurek Pro Skid Unit	Other Assets	40,082.69
5	7177	10206	Wm39Hi Eco Aire Air Con	Other Assets	4,716.97
6	9690	WatLine-112	Water Pipes 90 Mm	Infrastructure	157,941.46
7	9710	WatLine-132	Water Pipes 50 Mm	Infrastructure	184,009.48
8	9929	WatLine-352	Water Pipes 90 Mm	Infrastructure	15,799.73
9	9993	WatLine-417	Water Pipes 400 Mm	Infrastructure	6,425,596.68
10	10014	WatLine-439	Water Pipes 110 Mm	Infrastructure	8,351.58
11	10060	WatLine-486	Water Pipes	Infrastructure	3,010,364.69
12	10426	WatLine-869	Water Pipes 160 Mm	Infrastructure	1,171,850.45
13	10448	WatLine-891	Water Pipes 200 Mm	Infrastructure	449,779.87
14	10936	12868	Channel Section	Infrastructure	553,101.25
15	10938	12870	Channel Section	Infrastructure	136,788.66
16	10946	12878	Channel Section	Infrastructure	430,585.97
17	10949	12881	Channel Section	Infrastructure	321,155.43
18	10953	12885	Channel Section	Infrastructure	291,419.05
19	10957	12889	Channel Section	Infrastructure	612,574.48
20	39768	SewLine-363	Sewer Pipe	Infrastructure	6,880.32
21	40296	SewLine-899	Sewer Pipe	Infrastructure	6,984.84
22	40443	SewLine-1053	Sewer Pipe	Infrastructure	32,742.27

23	40753	SewLine-1378	Sewer Pipe	Infrastructure	9,884,870.37
24	44685	Ecable-3237	Electricity Cable	Infrastructure	408,965.23
25	44687	Ecable-3239	Electricity Cable	Infrastructure	1,669,861.55
26	44691	Ecable-3243	Electricity Cable	Infrastructure	471,194.41
27	44717	Ecable-3269	Electricity Cable	Infrastructure	475,482.05
28	44719	Ecable-3271	Electricity Cable	Infrastructure	673,758.50
29	44727	Ecable-3279	Electricity Cable	Infrastructure	218,100.43
30	44742	Ecable-3294	Electricity Cable	Infrastructure	113,654.76
31	44749	Ecable-3301	Electricity Cable	Infrastructure	1,789,242.07
32	44758	Ecable-3310	Electricity Cable	Infrastructure	3,492,950.36
33	44775	Ecable-3327	Electricity Cable	Infrastructure	118,292.94
34	44797	Ecable-3349	Electricity Cable	Infrastructure	164,576.86
35	45634	Ecable-4186	Electricity Cable	Infrastructure	2,703,259.68
36	45813	Ecable-4365	Electricity Cable	Infrastructure	76,079.99
37	46109	Ecable-4662	Electricity Cable	Infrastructure	125,974.32
38	46119	Ecable-4672	Electricity Cable	Infrastructure	80,898.71
39	46180	Ecable-4733	Electricity Cable	Infrastructure	120,936.04
40	48658	Ecable-7211	Electricity Cable	Infrastructure	1,762,461.03
41	48664	Ecable-7217	Electricity Cable	Infrastructure	313,593.33
42	49068	Ecable-7621	Electricity Cable	Infrastructure	699.01
43	49194	Ecable-7747	Electricity Cable	Infrastructure	68,659.39
44	49203	Ecable-7756	Electricity Cable	Infrastructure	738,891.10
45	49211	Ecable-7764	Electricity Cable	Infrastructure	272,900.37
46	49213	Ecable-7766	Electricity Cable	Infrastructure	187,847.76
47	49390	Ecable-7956	Electricity Cable	Infrastructure	746,539.99
48	50545	Ecable-9128	Electricity Cable	Infrastructure	53,774.54
49	51071	Ecable-9655	Electricity Cable	Infrastructure	42,591.65
50	51146	Ecable-9730	Electricity Cable	Infrastructure	660,748.67
51	77928	None 5413	Sewer Pipes	Infrastructure	3,385,977.08
52	77933	None 5418	Road	Infrastructure	4,168,161.09
53	77936	None 5421	Road	Infrastructure	6,023,979.00
54	80321	Investprop2325	Property	Investment Property	250,000.00
55	80330	Investprop2334	Property	Investment Property	530,000.00

#	Unique Number	Barcode	Full description	Category_1	NBV 2013
56	8847	FBK696FS	Toyota Land Cruiser Bakkie	Other Assets	278,740.00

#	Unique Number	Full description	Category_1	Category_2	NBV 2013
57	162	Gigajet Jet Blaster PX70/130	Other Assets	Plant & Equipment	172,298.67
58	234	Antivirus For 250Users Symatec	Other Assets	Computer Equipment	27,936.67
59	165	Hot Boitumen Sprayer/ GX160 HH	Other Assets	Plant & Equipment	17,342.00
60	83	Kudu 750 Honda GX390 Petrol	Other Assets	Plant & Equipment	16,820.00
61	245	Laptop HP 17 Processor	Other Assets	Plant & Equipment	15,650.33



Unique Number	Unique Number	Barcode	Full description	Category_1	NBV 2013
62	549	None 4993	Camera Fuji Finepix C25	Other Assets	1,847.56
63	8767	BPZ437FS	Ford F350 Bakkie	Other Assets	107,365.78
64	8791	CKX192FS	Ford Bakkie	Other Assets	127,892.37
65	8814	DBM469FS	Ford 2200 Ranger Bakkie	Other Assets	76,888.00
66	60263	07804	Building	Land & Buildings	22,193.18
67	77889	PROP-B-K-323	Buildings - Koppies -Erf 323	Land & Buildings	89,250.00
#	Unique Number	Barcode	Full description	Category_1	NBV 2013
68	8862	None 5368	Submersible Pumps 5.5 Kw	Infrastructure	63,938.84
69	8943	WatPoint-3	Water Valves	Infrastructure	978.75
70	9648	WatLine-70	Water Pipes	Infrastructure	22,681.03
71	40214	SewLine-817	Sewer Pipe	Infrastructure	9,425.46
72	40589	SewLine-1214	Sewer Pipe	Infrastructure	46,576.75
73	45830	Ecable-4382	Electricity Cable	Infrastructure	326,847.38
74	60166	07714	Battery Control Unit	Infrastructure	32,098.59
75	61009	53124518	Electricity Meter	Infrastructure	257.60
76	70250	BRG-7	Bridge	Infrastructure	3,513,600.00
77	77906	Lfill-7	Landfill Site	Infrastructure	677,492.59
78	77965	None 5450	Mv Anchors	Infrastructure	35,938.32
79	77977	None 5462	Transformer	Infrastructure	115,038.58

Projects in progress

80	71532	None 5483	Parys Paving	Wip	15,384,914.76
81	71537	None 5488	Parys Upgrading And Refurbishment Of Wastet Water Treatment	Wip	258,082.17

#	Unique Number	Barcode	Full description	Category_1	NBV 2013
82	78012	Invest prop1 6	Property	Investment Property	1,540,000.00
83	78081	Invest prop8 5	Property	Investment Property	10,000.00
84	78152	Invest prop1 56	Property	Investment Property	10,000.00
85	78279	Invest prop2 83	Property	Investment Property	1,280,000.00
86	78399	Invest prop4 03	Property	Investment Property	260,000.00

87	78486	Invest prop4 90	Property	Investment Property	20,000.00
88	78642	Invest prop6 46	Property	Investment Property	21,000.00
89	78771	Invest prop7 75	Property	Investment Property	48,000.00
90	79911	Invest prop1 915	Property	Investment Property	31,000.00
91	80361	Invest prop2 365	Property	Investment Property	930,000.00
92	80362	Invest prop2 366	Property	Investment Property	1,590,000.00
93	80379	Invest prop2 383	Property	Investment Property	630,000.00

#	Unique Number	Barco de	Full description	Category_1	NBV 2013
94	77917	None 5402	Mechanical Equipment	Infrastructure	230,526.82
95	77924	None 5409	Mechanical Equipment	Infrastructure	869,135.11
96	77927	None 5412	Mechanical Equipment	Infrastructure	514,442.07
97	77922	None 5407	Mechanical Equipment	Infrastructure	789,745.01

#	Unique Number	Barco de	Full description	Category_1	NBV 2013
98	41224	12383	Sewer Drying Bed	Infrastructure	29,171.51
99	41241	12400	Sewer Drying Bed	Infrastructure	29,171.51
100	41228	12387	Sewer Drying Bed	Infrastructure	29,171.51

121,515,572.43

The above is mainly due to management not performing timely review of the detailed asset register, including review of additions made, and did not perform timely physical verifications of assets included in the detailed asset register.

The risk of the the above is that the existence and valuation Property, plant and equipment per note 11 to the financial statements of R121,515,572 could not be audited

Internal control deficiency

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

Recommendation

Management should ensure that information on the fixed asset register is accurate and complete and that all the assets on the fixed asset register exist.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

61. PPE - Impairment indicators identified (CoA 79)

Audit finding

Section 48 of the GRAP Framework states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

The following impairment indicators regarding property, plant, equipment and investment property have been identified during our procedures:

- The detailed asset register includes a significant balance relating to assets under construction ("WIP"), amounting to R104 923 237; and
- A number of assets have been identified those physical condition was worse than that listed in the detailed asset register (e.g. damaged and small bridges largely overvalued, tar roads without tar, potholes, old small neglected investment property largely overvalued).

We identified assets that were impaired, i.e. their physical condition was worse than that stated in the detailed asset register. Note that these assets form part of a sample of assets selected for physical verification:

#	Unique Number	Barcode	Full description	Category_1	NBV 2013
1	70248	BRG-4	Bridge	Infrastructure	14,625,000.00
2	70249	BRG-5	Bridge	Infrastructure	14,625,000.00
3	70251	BRG-8	Bridge	Infrastructure	878,400.00
4	70252	BRG-9	Bridge	Infrastructure	14,625,000.00
5	70253	BRG-10	Bridge	Infrastructure	14,625,000.00
6	70254	BRG-11	Bridge	Infrastructure	14,625,000.00
7	70255	BRG-13	Bridge	Infrastructure	14,625,000.00
8	70256	BRG-15	Bridge	Infrastructure	5,850,000.00
9	70257	BRG-16	Bridge	Infrastructure	8,360,625.00
10	70258	BRG-17	Bridge	Infrastructure	10,237,500.00
11	78694	Investprop698	Property	Investment Property	2,790,000.00
12	64038	RD-342	Roads-Tar	Infrastructure	77,239.72
13	64044	RD-348	Roads-Tar	Infrastructure	413,572.09
14	64069	RD-373	Roads-Tar	Infrastructure	103,676.57
15	64391	RD-705	Roads-Tar	Infrastructure	98,238.30
16	64433	RD-747	Roads-Tar	Infrastructure	105,162.34
17	64979	RD-1307	Roads-Tar	Infrastructure	262,234.14
18	65218	RD-1546	Roads-Tar-Incl. Strmwater	Infrastructure	527,430.84
19	66087	RD-2459	Roads-Tar	Infrastructure	583,524.31
20	66676	RD-3081	Roads-Gravel	Infrastructure	30,252.47
21	67010	RD-3415	Roads-Tar-Incl. Strmwater	Infrastructure	189,315.62

22	8813	CZN226FS	Toyota Land Cruiser Bakkie	Motor Vehicles	159,280.00
					<u>118,416,451.40</u>

The above is mainly due to management not performing timely review of the detailed asset register, including re-assessment of assets' remaining useful lives, and did not perform timely physical verifications of assets included in the detailed asset register.

The risk of the above is that Valuation of Property, plant and equipment per note 11 to the financial statements and Completeness of Impairment loss per note 30 to the Financial Statements could not be audited.

Internal control deficiency

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

Recommendation

Management should also perform timely physical verification of assets, including re-assessing assets' remaining useful lives, and ensure that the verification process is overseen by a independent senior official.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding

62. PPE - Useful lives not considered to be reasonable (CoA 4)

Audit finding

Section 95 of the MFMA, General financial management functions of accounting officers, states the following:

"The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Useful lives applied in the fixed asset register are not deemed reasonable for the following reasons:

- no review of useful lives during the year under review.
- useful lives are not in line with the Asset Management Policy.
- useful lives applied in the fixed asset register are not in line with the accounting policy.

Useful lives as per accounting policies

We compared the useful lives in terms of the accounting policy to the useful lives used in the fixed asset register, to determine whether the useful lives are in line. For the following classes of assets the useful lives in terms of the accounting policy is not in line with the useful lives used in the fixed asset register:

#	Category of Assets	Useful live per accounting policy disclosed in the AFS	Useful live per asset register
1	Buildings	5 - 30 years	7 - 28 years
2	Plant and Machinery	3 - 30 years	4.4 - 12 years
3	Furniture and fixtures	3 - 15 years	4.25 - 9 years
4	Motor Vehicles	4 - 15 years	4.5 - 14 years
5	Office equipment	3 - 15 years	4 - 9 years
7	Infrastructure	5 - 100 years	5 - 60 years
8	Equipment	5 - 10 years	-
9	Airport	5 - 20 years	10 - 14 years
10	Computer equipment	3 - 15 years	4 - 9 years

a) On the fixed asset register and the financial statements, there is also no category equipment (number 8).

2. The useful lives of infrastructure assets should be more specific and be split into the following categories to provide more useful information in the financial statements:

- Water
- Electricity
- Landfill
- Pump stations
- Roads
- Sewerage

This matter may have resulted due to the accounting policy not being considered when the asset register was compiled.

This matter may result in the municipality not complying with its accounting policy on depreciation (relating to useful lives).

Internal control deficiency

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

Recommendation

Management should investigate the reason as to why the useful lives in terms of the accounting policy are inconsistent with the useful lives used in the fixed asset register. Management should take appropriate action to correct the matter by ensuring that a correction is made to either the accounting policy or the useful lives in the fixed asset register.

Management response

Agree. As per the previous responses management has established an asset unit to ensure that such corrections are in the assets recorded are performed. We will initiate a process to investigate the identified weakness and correct it as per the recommendations.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

63. PPE - Completeness of the fixed asset register (CoA 4)

Audit finding

Section 62 of the MFMA states:

*"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—...
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control."*

A. During the prior year, we identified the following:

The consultants responsible for reviewing and updating the fixed asset register have not yet completed this task and an unknown number of assets are currently not included. It was also confirmed by means with a meeting with I-Chain that they were unable to include the following areas in the asset register due to time constraints:

Parys

- Sports Facilities
- Outdoor Switchgear
- Fuse Stations

Vredefort

- Outdoor Switchgear
- Sewage Pump Stations
- Municipal Buildings
- Boreholes

Koppies

- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations
- Sports Facilities
- Reservoirs
- Pressure Towers
- Boreholes

Edenville

- Roads, Road Furniture, Electricity Poles & Streetlights
- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations
- Sports Facilities
- Reservoirs
- Pressure Towers
- Boreholes

Heilbron

- Roads, Road Furniture, Electricity Poles & Streetlights
- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations

- Sports Facilities
- Minisubs
- Pole Mounted Transformers
- Reservoirs
- Pressure Towers
- Boreholes

As there were no amendment of the fixed asset register in the current year, these locations and assets have still not been verified and are still not included on the fixed asset register.

B. Heritage assets

We obtained the South African Heritage Resources Agency list of heritage assets and identified the following heritage assets that falls under the Ngwathe region, but were not included in the fixed asset register:

Site Reference	Full Site Name	Site Type	Archive Status	Declaration Type	Province
9/2/317/0001	Weilbach House, Leeuwpoot, Heilbron District	Building	National monument	Provincial Heritage Site	Free State
9/2/317/0002	Vegkop Battlefield, Heilbron District	Place	National monument	Provincial Heritage Site	Free State
9/2/317/0003	Old farmhouse, Leeuwpoot, Heilbron District	Building	National monument	Provincial Heritage Site	Free State
9/2/317/0004	Railway station, Heilbron	Building	National monument	Provincial Heritage Site	Free State
9/2/323/0002	Vredefort Road Concentration Camp Cemetery, Prospect, Koppies District	Burial Grounds & Graves	National garden of remembrance	Provincial Heritage Site	Free State
9/2/324/0013	Corrugated iron house, Wessels Street, Edenville, Kroonstad District	Building	Provisional monument	Provisional Protection	Free State
9/2/329/0004	Old magistrate's office, Liebenbergtrek Street, Parys	Building	National monument	Provincial Heritage Site	Free State
9/2/329/0007	Nederduitse Gereformeerde Mother Church, Hefer Street, Parys	Building	National monument	Provincial Heritage Site	Free State
9/2/344/0002	Post Office, 15 Oranje Street, Vredefort	Building	National monument	Provincial Heritage Site	Free State
9/2/344/0003	Nederduitse Gereformeerde Church, Church Street, Vredefort	Building	Register	Heritage Register	Free State
9/2/344/0004	Nederduitse Gereformeerde Church Hall, Church Street, Vredefort	Building	Register	Heritage Register	Free State
9/2/344/0005	30 Charl Cilliers Street, Vredefort	Building	Register	Heritage Register	Free State

The above is mainly due to management not performing regular review of additions and disposals/impairments of assets and did not perform timely physical verifications of assets included in the detailed asset register.

Based on the aforementioned findings the property, plant and equipment per note 11, investment property per note 10 and depreciation per note 29 to the financial statements are understated by an unknown amount. The aforementioned matter places a limitation of scope on the completeness

of property, plant and equipment per note 11, investment property per note 10 and depreciation per note 29 to the financial statements.

Internal control deficiency

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

Recommendation

Management should implement proper controls to ensure that all additions and disposals/impairments are accurately recorded and reviewed by a independent senior official. Management should also perform timely physical verification of assets and ensure that the verification process is overseen by a independent senior official.

Management response

Agree:

Management will through the establishment of the assets unit, ensure that all assets and additions are recorded on the asset register, also ensure that verification takes place quarterly

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

64. PPE - No assessment of impairment (CoA 4)

Audit finding

GRAP 21 "IMPAIRMENT OF NON-CASH-GENERATING ASSETS" states the following:

"21 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.*
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates. Internal sources of information*

(c) Evidence is available of physical damage of an asset.

(d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.

(e) A decision to halt the construction of the asset before it is complete or in a usable condition.

(f) Evidence is available from internal reporting that indicates that the service performance"

GRAP 26 "IMPAIRMENT OF CASH-GENERATING ASSETS" states the following:

"22 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.*

(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially. Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset.

(e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected."

Management did not perform an assessment to identify assets with carrying values greater than the estimated recoverable amount, that should be impaired.

The above is mainly due to management not implementing the necessary controls to assess whether assets with book values greater recoverable amounts that need to be impaired.

The risk of the above is that the valuation of property, plant and equipment, per note 8 to the financial statements, and investment property, per note 7 to the financial statements, may be overstated by an unknown amount.

Internal control deficiency

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

Recommendation

Management should implement the necessary controls to ensure that an impairment assessment is done regarding assets on an annual basis. This should be done by comparing assets recoverable and carrying amounts. This assessment should be reviewed by an independent senior official.

Management response

Management agree with the finding. We have completed the preparation of a fixed assets register for the municipality assets in the current financial year. This implies that management is in a position to perform impairment assessments after the review and correction of the weaknesses identified with the current fixed assets register.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

65. PPE - Disclosure of WIP (CoA 17)

Audit finding

GRAP 17 states the following: ".80 The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

- (a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
- (d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit."

Contrary to the above requirement, management did not disclose the amount of expenditure recognised in the carrying amount of property, plant and equipment in the course of its construction (Work-In-Progress) separately, amounting to R104 923 237.

The above is mainly due to management not performing all required duties to ensure accurate and complete financial statements for the users.

The risk of the above is non-compliance with GRAP 17

Internal control deficiency

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

Recommendation

Management should review the financial statements to ensure that all the disclosure requirements of GRAP are met.

Management response

Management agree with the finding:

A reconciliation will be performed and adjustment to the AFS will be made when required to do so.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

66. PPE - Impaired assets identified (CoA 17)

Audit finding

Section 62 of the MFMA states:

"General financial management functions.—

- (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—...
- (c) that the municipality has and maintains effective, efficient and transparent systems—
- (i) of financial and risk management and internal control."

Section 48 of the GRAP Framework states:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."

Contrary to the above-mentioned requirements, we identified assets that were impaired, i.e. their physical condition was worse than that stated in the detailed asset register. Note that these assets form part of a sample of assets selected for physical verification:

UNIQUE_NUMBE R	BARCOD E	FULL_ DESCRIPTIO N	CONDITIO N	LIFE_REMAINING_2011_201 2	NBV_2011_201 2
64044	RD-348	Roads-Tar	Fair	120	459 524,54
64433	RD-747	Roads-Tar	Fair	120	116 847,04
					<u>576 371,58</u>

The above is mainly due to management not performing timely review of the detailed asset register, including re-assessment of assets' remaining useful lives, and did not perform timely physical verifications of assets included in the detailed asset register.

The risk of the above is that property, plant and equipment per note 11 is overstated by R576 371,58 and Impairment loss/Reversal of Impairments per note 30 to the financial statements is understated by the same amount.

Internal control deficiency

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

Recommendation

Management should also perform timely physical verification of assets, including re-assessing assets' remaining useful lives, and ensure that the verification process is overseen by a independent senior official.

Management response

Agree:

Management will ensure that verification of assets is performed on quarterly basis and half yearly for fixed assets, whereby the conditions of the assets together with the life span will be reviewed and adjusted accordingly.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Operating expenditure

67. Finance costs - Interest incurred on late payments (CoA 18)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

Through inspection of the financial statements Note 45 - Fruitless & Wasteful expenditure it was found that the following interest amounts below were incurred on late and outstanding payments to suppliers during the current and prior years. The amounts were however not included as part of Finance costs - Note 31 of the financial statements, resulting in an understatement of finance costs and an overstatement of general expenditure. Also the completeness of the amounts below could not be confirmed due to the municipality not keeping a separate general account for all interest incurred on late and outstanding payments to suppliers

Supplier name	Current year - Amount (R)	Prior year - Amount (R)
Eskom	15 893 896.00	9 570 900.00
Rand Water	2 085 815.00	2 027 431.00
Data M	420.00	791.00
Urban Econ	-	121 168.00
Pension Fund	13 639.00	179 080.00
Provident Fund	-	64 129.00
WAMESA	-	546 591.00
Proper Consulting	-	584 319.00
Friedshelf 863 (Pty) Ltd	-	33 646.00
CHM Vumani (Pty) Ltd	-	39 350.00
The phonebook company	68 332.00	-
Ponoane Attorneys, Notaries & Conveyancers	77 442.00	-
Jansen Prokureurs	2 032.00	-
Symington De Kock Attorneys	53 650.00	-
Gous Vertue & Ass Ing	29 702.00	-
ADW van den Berg Attorneys	87 973.00	-
Shongwe Attorneys	83 085.00	-
L Mnguni & Associates	38 451.00	-
Rampai Attorneys	440 662.00	-
Steyn Lyell Maeyane	192 000.00	-
Cengcani & Associates	97 440.00	-
Lebea & Associates Attorneys	385 745.00	-
Cornelius & Partners	25 000.00	-
Lomas Walker Attorneys	83 237.00	-
JC Burger Attorneys	20 395.00	-
SALGA	18 764.00	-

Insintu Projects	255 342.00	-
Telkom	641.00	-
Water Affairs & Forestry	34 221.00	-
Kriek van Wyk Inc	98 118.00	-
	20 086 002.00	13 167 405.00

This matter may have resulted due to sufficient time not available for management to do a proper review of the financial statements and also due to the fact that a separate general ledger account is not kept for all interest incurred on late and outstanding payments to suppliers

This matter may result in the misstatement of finance costs and general expenditure in the financial statements.

Internal control deficiency

The municipality do not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should disclose all interest incurred on late and outstanding payments to suppliers under finance costs in the financial statements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

68. Repairs & maintenance - Payments not made within 30 days (CoA 7)

Audit finding

Section 65(2)(e) of the MFMA states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

Contrary to this requirement, we have noted that the following payments were not made within the required period:

Payment nr	Supplier	Amount R	Invoice date	Payment date	Days until payment
27776	New Team Construction	226 483,22	16-Jul-12	10-Dec-12	147
27872	Lyon & Partners	97 750,91	22-Oct-12	14-Dec-12	53
28186	Vaal Transformers	195 937,50	29-Nov-12	14-Jan-13	46

The above may have resulted due to cash flow constraints at the municipality.

This matter constitutes non-compliance with the MFMA.

Internal control deficiency

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

Recommendation

Management should ensure that relevant controls are in place and properly implemented to ensure that money owing by the municipality is paid within 30 days after receiving the invoice or statement.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

69. Bulk purchases - Prior year matters not resolved (CoA 35)

Audit finding

a) The MFMA and Standards of GRAP state the following:

"That financial statements need to be prepared on an accrual basis of accounting.

Chapter 8, section 65. Expenditure management of the MFMA states that: (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

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

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

- 1) recognizes expenditure when it is incurred;*
- 2) accounts for creditors of the municipality; and*
- 3) accounts for payments made by the municipality"*

b) Section 65 of the MFMA states the following:

"65. 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— that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;"

c) Section 62 of the MFMA states the following:

"62. 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;"

d) Section 1 of the MFMA states the following:

"fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised"

a) The following differences were identified between the general ledger and supporting documentation, regarding bulk purchases:

Rand Water:

Difference(s) Identified	R
Statement of Financial Performance	
Per Trial Balance expense	9,563,933
Per Rand Water Statement	9,459,971
Difference Trial Balance vs Statement	103,962
Adjustments (Other misstatements identified)	
VAT not Claimed (Included in Bulk Purchase expense)	981,181
Interest recognized as bulk purchase expense	10,299
Final Difference between Expense (Bulk Purchase) recognised and statement	887,517
Statement of Financial Position	
Initial difference between supplier statement and Trail Balance	940,116
Expense not recognized (Actual difference above)	887,517
Unexplained difference (Limitation of scope)	52,598

ESKOM:

Difference(s) Identified	R
Statement of Financial Performance	
Per Trial Balance expense	104,505,530
Per Eskom Statement	105,362,844
Difference Trial Balance vs Statement	857,315
Adjustments	
VAT not Claimed (Included in Bulk Purchase expense)	8,091,953
Interest recognized as bulk purchase	9,562,828
Final Difference between Expense (Bulk Purchase) recognised and statement	18,512,096
Statement of Financial Position	
Initial difference between supplier statement and Trail Balance	48,239,315
Expense not recognized (Actual difference above)	18,512,096
Unexplained difference (Limitation of scope)	29,727,219

b) Interest expense (on overdue accounts) was incorrectly allocated to the bulk purchases expense account.

Interest should have been classified as part of finance costs. The total interest amount should be reclassified to finance costs. Refer to the table below:

Account	Amount
Water	10,299.16
Electricity	9,562,828.38
Total	9,573,127.54

c) Regarding Bulk purchases, the following undisclosed Fruitless and wasteful expenditure was identified.

Description	Rand Water
Interest per Audit work	10,299.16
Per Financial Statements	1,364.00
Undisclosed Fruitless and Wasteful Expenditure	8,935.16

These matters may have resulted due to the following

- expenses being incorrectly recognised in general ledger when paid, and not when invoiced. Supplier reconciliations are also not accurately performed and followed up on;
- management not performing all required duties to ensure that accurate and complete record keeping regarding bulk purchases; and
- interest is charged on overdue accounts, due to the fact that the accounts were not paid within 30 days. There is no control in place to ensure that invoices are paid when they are due.

a) The risk of the above is:

- Bulk purchases per note 29 to the Financial Statements is overstated by R 991,480, Finance Cost per note 27 to the Financial Statements is understated by R 10,229 and VAT Payable per the Financial Statements is overstated by R 981,181.
- Bulk Purchases per note 29 to the Financial Statements is understated by R 887,517 and Payables from non-exchange transactions as per note 11 to the Financial Statements is understated by the same amount.
- Limitation of scope on Payables from non-exchange transactions per note 11 to the Financial Statements of R 52,598.
- Bulk purchases per note 29 to the Financial Statements is overstated by R 17,654,781, Finance Cost per note 27 to the Financial Statements is understated by R 9,562,828 and VAT Payable per the Financial Statements is overstated by R 8,091,953.
- Bulk Purchases per note 29 to the Financial Statements is understated by R 18,512,096 and Payables from non-exchange transactions as per note 11 to the Financial Statements is understated by the same amount.
- Limitation of scope on Payables from non-exchange transactions per note 11 to the Financial Statements of R 29,727,219.

b) The risk of the above mentioned is that Bulk purchases per note 29 to the Financial Statements is overstated by R9 573 127.54; and Finance cost as per note 27 of the Financial Statements is understated with the same amount.

c) The risk of the above is that Fruitless and wasteful expenditure per note 42 to the Financial Statements is misstated by R 8 935.16 and that the municipality has not complied with the requirements of section 62 of the MFMA.

Internal control deficiency

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

Recommendation

a) Management should implement the necessary controls to ensure that bulk purchases are recognised in the general ledger on the date which the risk and rewards transfer to the municipality, and not the date of payment. Management should also implement the necessary controls to ensure that supplier reconciliations are performed on a monthly basis, and that

differences identified are followed up on a timely basis. These controls are to be reviewed by a senior independent official.

b) Management should correct the misstatement identified above, and ensure that interest on overdue accounts is included in Finance cost and not Bulk Purchases.

d) Management must ensure that the amounts disclosed as fruitless and wasteful expenditure as per note 42 of the Financial Statements is accurate and complete.

Management must implement proper controls to pay the bulk purchases accounts in the relevant timeframe in order to avoid fruitless and wasteful expenditure.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

70. General expenses - Classification of bad debts (CoA 48)

Audit finding

GRAP 1 paragraph 100 states: *"An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant."*

Bad debts were classified under general expense in the financial statements. Based on the nature of bad debts, it relates to the line item, impairment loss and should rather have been disclosed as part of this line item.

The above is mainly due to expenses not being classified based on the line item to which it relate.

The risk of the above is that impairment loss per note 30 to the financial statements is understated by R59,460,672 and general expenses per note 33 to the financial statements is overstated by the same amount.

Internal control deficiency

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

Recommendation

Management should disclose expenses either by nature or by function within the municipality. The necessary adjustments should be made to the disclosure in the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

71. Repairs & maintenance - Incorrect classifications (CoA 14)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

During the audit of repairs and maintenance, we have noted that following payments which were incorrectly classified as repairs and maintenance:

a) Assets incorrectly classified as repairs and maintenance:

Vote number	Detail Description 1	Supporting Document Number	Amount Excl. VAT (Per General Ledger)
1105051280910	DIR13795 : ELEGANCE AIR CONDITIONER	1011685	36,000.00
1125851280340	A000000019 : AIRCONDITIONER AND INSTALLATION	1012184	23,230.00
1125801280810	DIR113 : FIRE FIGHTING EQUIPMENT	1011525	19,120.00
1125801280810	DIR10888 : HP B960 LAPTOP	1011672	15,999.98
1125801282030	DIR3795 : CONCRETE SAW-13HP 350MM B LADE PETROL	1013143	14,800.00
1125801280810	DIR3072 : CHAIN SAW	1011679	11,500.00
1120301280810	DIR11440 : COMPUTER	1013538	11,315.79
1115051280910	L000010006 : LAPTOPS	1011746	7,999.99
1125801280810	DIR10888 : LAPTOP	1012296	7,214.50
1125851280340	A000000019 : AIRCONDITIONER	1013015	6,900.00
1120051280910	A000000019 : AIRCONDITIONER	1012852	6,900.00
1125801280810	DIR11704 : LAPTOP	1011823	6,750.00
1130051281810	DIR10888 : HP OFFICE LAPTOP COMPUTER	1012485	5,800.00
1120451280810	M000011001 : WOOPER MACHINES	1011899	22,485.00
1130051281810	DIR10936 : INSTALLATION: AIR-CON	1011835	19,200.00
1125801280810	DIR13553 : HP LASEJET P2015 (DISCONTINUED)	1012004	18,000.00
1125151281810	M000011001 : GRASS CUTTER MACHINE	1013075	13,499.85
1120051280810	DIR14619 : RYOBI BRUSH CUTTER 52CC	1012994	9,210.50
1105051280910	DIR10455 : HP OFFICE JET 6500A 4 IN 1 PRINTER	1011685	8,700.00
1125851280340	DIR8928 : VISITOR ARM CHAIR	1013242	5,096.00
1120301280810	G000006003 : OFFICE PRO 2013	1013538	4,385.09
1125801280810	DIR10455 : PRINTER SAMSUNG	1012296	4,324.15
1125801280810	DIR10455 : HP PRINTER 4 IN 1 LASERJET	1012412	3,900.00
1115051280810	DIR184 : SHREDDER	1012137	3,867.00
1115051281210	G000006003 : OFFICE TELEPHONE	1013433	1,979.94
Total:			288,177.79

b) Other expenses incorrectly classified as repairs and maintenance:

Vote number	Detail Description 1	Supporting Document Number	Amount Excl. VAT (Per General Ledger)
1125851280340	DIR15649 : CONSULTATION	1013191	9 250,00
1125051281810	DIR10757 : VIDEO SHOOTING	1013231	39 173,50

This matter may have resulted due to management not implementing proper controls to ensure that expenses are correctly classified on the financial system of the municipality.

These matters will result in an overstatement of repairs and maintenance and understatement in assets, depreciation and other expenditure.

Internal control deficiency

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

Recommendation

Management should implement the necessary controls to ensure the following:

- the correct classification of the Repairs and Maintenance, Property, Plant and Equipment and General Expenses;
- that Repairs and Maintenance is only capitalised when it meets the definition of an asset.

Management should inspect the entire population as to identify all instances of expenses not correctly classified. The necessary correcting journals should be processed.

Management response

Outstanding

Auditor's conclusion

Management response is outstanding.

72. Bulk purchases - Overstatement of bulk purchases (CoA 129)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

a) Assets incorrectly classified as bulk purchases: The assets indicated below were incorrectly classified as bulk purchases expense:

Vote number	Description	Supporting Document Number	Supplier Name	Amount per GL (VAT excl.)
1120451144515	PURCHASE OF ELECTRICITY	FIN90100027876	Remmoho Electrical	1 117 899,65

b) Bulk purchases recorded in the incorrect period: We have identified the following expense items which relates to the prior year, which were incorrectly accounted for as current year expenditure.

Vote number	Description	Supporting Document Number	Supplier Name	Amount per GL (VAT excl.)
1120451144515	PURCHASE OF ELECTRICITY	FIN90100027389	Eskom	8 771 929,82
1120451144515	PURCHASE OF ELECTRICITY	FIN90100029254	Eskom	5 216 380,05
1120451144515	PURCHASE OF ELECTRICITY	1013867	Eskom	15 863 742,19
1120451144515	PURCHASE OF ELECTRICITY	10020260015	Eskom	438 596,49
1120451144515	PURCHASE OF ELECTRICITY	10021170015	Eskom	438 596,49
1120451144515	PURCHASE OF ELECTRICITY	1013553	Eskom	(9 163 748,47)
Total				21 565 496,57

The above is mainly due to senior management not performing all required duties to ensure that accurate and complete record keeping relating to Assets and Bulk purchases.

Assets incorrectly classified as bulk purchases:

The risk of the above is that Property, plant and equipment per note 11 to the Financial Statements is understated by a projected amount of R2 389 711,41; and Bulk purchases per note 32 in the Financial Statements is overstated of the same projected amount.

Bulk Purchases in the current year is overstated by R21 565 496.57 and understated in the prior year by the same amount.

Internal control deficiency

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

Recommendation

Management should implement the necessary controls to ensure the following:

- the correct classification of the Bulk purchases and Property, Plant and Equipment;
- that Bulk purchases is only capitalised when it meets the definition of an asset.

Management should perform a reconciliation between the capital purchases made and the fixed asset register to ensure that the fixed asset register is accurate and complete. Managements should ensure that invoices are captured in the correct financial period and ensure that the accrual basis of accounting and not cash basis is enforced. The necessary adjustments should be processed as well.

Management response

Management agrees with the finding.

We are implementing a internal controls where sectional managers in finance reports monthly to the CFO. This process will involves the process of reviewing the general ledger and ensuring that all transactions are correctly classified and allocated.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

73. Contracted services - Payments not made within 30 days (CoA 38)

Audit finding

Section 65(2)(e) of the MFMA states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

We have identified the following payments, which were made during the year under review, where the suppliers were not paid within the 30 day period:

Vote number	Description	Supporting Document Number	Date	Supplier Name	Description of goods	Amount per GL (VAT excl.)
1120451165415	BILLING & METER READING FEES	1012627	20130121	ISINTU PROJECTS	DIR10041 : METER READING FOR DECEMBER 2010	235,248.61
1120451165415	BILLING & METER READING FEES	1012628	20130121	ISINTU PROJECTS	DIR10227 : METER READING FOR APRIL 2011	230,505.07

The above may have resulted due to cash flow constraints at the municipality.

This matter constitutes non-compliance with the MFMA.

Internal control deficiency

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

Recommendation

Management should ensure that relevant controls are in place and properly implemented to ensure that money owing by the municipality is paid within 30 days after receiving the invoice or statement.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

74. General expenses - Incorrect classification of finance cost on landfill closure liability (CoA 63)

Audit finding

GRAP framework paragraph 48 states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

Management incorrectly classified the finance cost on the landfill closure liability as general expenses in the prior year.

Prior year (2011/12):

Interest on the landfill closure liability were correctly recognised as part of finance cost.

Management then processed an adjustment the landfill closure liability with the other leg of the journal in general expenses as follows:

Dr	Landfill closure liability	R 6,340,343
Cr	Rehabilitation cost - landfill (general expenses)	(6,340,343)

The R6,340,343 recognised in general expenses, should have been recognised as follows:

Finance cost	R (2,446,033)
Accumulated surplus	(3,894,310)
	<u>(6,340,343)</u>

The above is mainly due to adjustments being processed without ensuring the correct classification thereof.

Prior year (2011/12): The risk of the above is that General expenses per note 34 to the financial statements is understated by R6,340,343 and Finance cost per note 31 is overstated by R2,446,033 and Accumulated surplus (opening balance) is understated by R3,894,310.

Internal control deficiency

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

Recommendation

Management should classify interest on landfill closure liability as finance cost. Management should review all adjustments processed to ensure accuracy and classification.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

75. General expenses - Difference between TB and ledger (CoA 63)

Audit finding

Section 62 of the MFMA states: "General financial management functions.—

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

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

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

It was noted that the adjustment to Landfill Closure Liability was only processed on Caseware and not in the general ledger, causing a difference of R9,591,051 between the general ledger (and the trial balance) and the financial statements.

The above matter resulted due to the fact that adjustment journals were not processed on the financial system of the municipality.

This matter may result in a misstatement of general expenses and provisions.

Internal control deficiency

Management did not prepare regular, accurate and complete financial reports.

Recommendation

Management should ensure that the general ledger agrees with the trial balance and the financial statements. In future, management should ensure that general ledger is updated with all adjustment journals (not only process these journals on caseware).

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

76. General expenses - Prior period exceptions not resolved (CoA 71)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

1. The following documentation regarding prior period general expenses have not been submitted for audit purposes:

a) Information supporting the following journals (IR13)

PERIOD	DESCRIPTION	SUPP_ DOC_ NUMBER	DATE_ PROCESSED	DR/(CR)	DETAIL_ DESCRIPTION_1
201206	SARS - PENALTIES & INTEREST	FIN11/12 ADJ	20121205	10,484,803	final adjustments afs 11/12
201206	AUDIT FEES METERS	FIN11/12 ADJ	20121205	3,806,699	final adjustments afs 11/12
201206	RENT - PLANT & VEHICLES	FIN11/12 ADJ	20121205	2,762,935	final adjustments afs 11/12
201206	FUEL & OIL	JR820	20120716	1,487,985	MISALLOCATION - (WRONGLY BANKED CODED) ALLOCATED TO FLEET
201206	LEGAL FEES	FIN11/12 ADJ	20121205	1,388 421	final adjustments afs 11/12
201206	HIRE GENERAL	FIN11/12 ADJ	20121205	1,238,715	final adjustments afs 11/12
201206	AUDIT FEES (EXTERNAL)	FIN11/12 ADJ	20121205	1,102,224	final adjustments afs 11/12
201206	CHEMICALS	FIN11/12 ADJ	20121205	92,762	final adjustments afs 11/12

201206	PAUPER BURIALS	FIN11/12 ADJ	20121205	19,300	final adjustments afs 11/12
201206	FLEET MANAGEMENT	JR820	20120716	-1,489,449	MISALLOCATION - (WRONGLY BANKED CODED) ALLOCATED TO FLEET

b) Information regarding prior period cut-off of general expenses (IR13)

Description	Transaction Type	Reference	Date processed (Edited)	Amount
RENT - PLANT & VEHICLES	Reverse Returns To Supplier	1011120	30/06/2012	235 600.00
RENT - PLANT & VEHICLES	Order Payments	1011091	30/06/2012	390 150.00
RENT - PLANT & VEHICLES	Credit Note	1011092	30/06/2012	-390 150.00
RENT - PLANT & VEHICLES	Credit Note	1011120	30/06/2012	-235 600.00
HIRE GENERAL	Returns To Supplier	1001197	30/06/2012	-235 600.00
RENT - PLANT & VEHICLES	Returns To Supplier	1001182	30/06/2012	-390 150.00
AUDIT FEES (EXTERNAL)	Reverse Deliveries	1011067	30/06/2012	-1 102 224.20
RENT - PLANT & VEHICLES	Reverse Deliveries	1011119	30/06/2012	-235 600.00
INSURANCE GENERAL	Bank Transactions	10019200040	7/3/2012	153 446.07

c) Information regarding prior period existence sample of general expenses (debits):

Description	Type	Reference	Date	Amount
BANK CHARGES	Bank Transactions	10015840015	7/9/2011	47,647.75
FLEET MANAGEMENT	Bank Transactions	10015840045	7/9/2011	123,591.79
FLEET MANAGEMENT	Bank Transactions	10016140005	7/9/2011	125,545.83
FLEET MANAGEMENT	Bank Transactions	10018580360	7/5/2012	130,285.10
INSURANCE GENERAL	Bank Transactions	10015840050	7/9/2011	153,446.07
INSURANCE GENERAL	Bank Transactions	10017070040	12/12/2011	153,446.07
INSURANCE GENERAL	Bank Transactions	10017680040	8/2/2012	153,446.07
FLEET MANAGEMENT	Bank Transactions	10019200035	3/7/2012	156,557.30
AUDIT FEES METERS	Order Payments	1010788	6/28/2012	38,387.28
RENT - PLANT & VEHICLES	Order Payments	1010748	6/28/2012	118,524.00
CHEMICALS	Order Payments	1010818	6/28/2012	165,000.00
LEGAL FEES	Order Payments	1010794	6/28/2012	229,543.93
INSURANCE GENERAL	Order Payments	1010146	3/19/2012	308,594.80
RENT - PLANT & VEHICLES	Order Payments	1009284	6/9/2011	352,631.58
RENT - PLANT & VEHICLES	Order Payments	1011091	6/30/2012	390,150.00
AUDIT FEES (EXTERNAL)	Order Payments	1011067	6/30/2012	1,102,224.20
SUBSISTENCE AND TRAVELLING	Sundry Payments	FIN90100021417	10/21/2011	1,653.95
LEGISLATION	Sundry Payments	FIN90100020647	8/24/2011	500,000.00

d) Information regarding prior period existence sample of general expenses (credits):

Description	Type	Supp Doc Number	Date processed (Edited)	Amount
PRINTING & STATIONERY	Credit Note	1010805	6/28/2012	1,002.00
AUDIT FEES (EXTERNAL)	Credit Note	1011068	6/30/2012	1,102,224.00
AUDIT FEES METERS	Credit Note	1010759	6/28/2012	170,592.00



HIRE GENERAL	Credit Note	1011118	6/30/2012	235,600.00
HIRE GENERAL	Credit Note	1011122	6/30/2012	235,600.00
GRAVE - DIGGING	Credit Note	1011124	6/30/2012	228,000.00
RENT - PLANT & VEHICLES	Credit Note	1010742	6/28/2012	154,645.00
RENT - PLANT & VEHICLES	Credit Note	1011092	6/30/2012	390,150.00

2. The following capital assets were incorrectly expenses in the prior period:

Vote #	Description	Supp Doc #	Process date	Amount per general ledger	Amount per supporting documentation inspected
112020 1 090615	CHEMICALS : Purchasing Voucher 0001009553 DIR7171 : PIPE	1009553	30/1/2012	R 5,500	R 42, 700
112005 4 020602	PROJECT MANAGEMENT UNIT : Purchasing Voucher 0001010665 DIR10455 : PRINTER	1010665	15/06/2012	R150,719	R 150,719
110505 1 094415	PRINTING & STATIONERY : Cheque No : 23826 Bank No : 901 MNOGT3 : MNO GENERAL TRADING	FIN 90100023826	16/03/2012	R80,999	R 80,999
Total factual misstatement					R 274,418

3. During the prior year, the municipality incorrectly claimed input VAT on the following invoices where the suppliers were not a register VAT vendor

Details of findings :				Amount per invoices inspected	
Vote number	Description	Date	Amount per GL (Excl VAT)	Including VAT	VAT
112560 1094740	RENT - PLANT & VEHICLES DIR1000 : POP Purchasing Voucher 0001009433	10/4/2011	R165,600	R 224,568	R58,968
111010 1093865	OPERATION CLEAN AUDIT DIR10165 :CONSULTING Purchasing Voucher 1009237	31/8/2011	R535,000	R 609,900	R74,900

4. The following expenses were recognised in the incorrect financial period during the prior year:

Vote number	Description	Type	Supp Doc Number	Date processed (Edited)	Dr	Detail Description 1	Detail Description 2
112560 1094740	RENT - PLANT & VEHICLES	Order Payments	1009433	10/4/2011	165,600.00	DIR1000 : POP	Purchasing Voucher 0001009433
112515 1091830	GRAVE - DIGGING	Order Payments	1010453	5/10/2012	212,800.00	DIR10196 : WATER TANK	Purchasing Voucher 0001010453
112560 1094740	RENT - PLANT & VEHICLES	Order Payments	1010455	30/5/2012	235,600.00	DIR16161 : WATER	Purchasing Voucher



						TRUCKS	0001010455
111505 1092420	INSURANCE GENERAL	Order Payments	1009738	29/2/2012	308,594.80	DIR20330 : INSURANCE	Purchasing Voucher 0001009738
111010 1093865	OPERATION CLEAN AUDIT	Order Payments	1009237	31/8/2011	535,000.00	DIR10165 : CONSULTING	Purchasing Voucher 0001009237
110505 1094415	PRINTING & STATIONERY	Sundry Payments	FIN 90100021912	23/11/2011	27,600.00	VAL001 : VALUE OFFICE SUPPLIES CC	Cheque No : 21912 Bank No : 901
112005 1094525	PRO- FESSIONAL FEES (CONS)	Sundry Payments	FIN 90100021432	27/10/2011	39,350.00	ANNE : ANNE MARIE DUTOIT ATT	Cheque No : 21432 Bank No : 901
111005 1093305	LEGAL FEES	Sundry Payments	FIN 90100020760	31/8/2011	45,372.00	AURECO : AURECON SOUTH AFRICA (PTY) LTD	Cheque No : 20760 Bank No : 901
110505 1090010	ADVER- TISEMENTS	Sundry Payments	FIN 90100020250	19/7/2011	47,488.00	CIT003 : CITY PRESS	Cheque No : 20250 Bank No : 901
111505 1090015	AUDIT FEES (EXTERNAL)	Sundry Payments	FIN 90100021375	10/6/2011	377,047.82	AUD000 : AUDITOR GENERAL	Cheque No : 21375 Bank No : 901

The nature of this exception raised is mainly due to management's failure to respond to the audit requests and exceptions as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above limitation is that the Occurrence and Accuracy as well as Compliance of General expenses per note 34 to the Financial Statements could not be verified and thus increasing the risk that general expenses could be either overstated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

77. Bulk purchases - Outstanding information (CoA 129)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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."

a) With regard to information request 18, documentation to support the following transactions was not submitted for audit purposes:

Period	Vote number	Vote Description	Transaction Type	Reference	TOTAL	Tran Date	Cheque Amt	Payee
201212	1 120 451 144 515	PURCHASE OF ELECTRICITY	Sundry Payments	FIN90100027770	7,894,736.84	20121207	9,000,000.00	ESKOM (PARYS)
201306	1 120 451 144 515	PURCHASE OF ELECTRICITY	Year End Sundry Payments	FIN90100030838	16 875 577.04	20130718	19,238,157.83	ESKOM (PARYS)
201304	1 120 451 144 515	PURCHASE OF ELECTRICITY	Sundry Payments	FIN90100029255	1,754,385.96	20130405	2,000,000.00	ESKOM (PARYS)
201306	1 120 451 144 515	PURCHASE OF ELECTRICITY	Order Payments	1013873	1,489,149.62	20130715		
201302	1 120 451 144 515	PURCHASE OF ELECTRICITY	Bank Transactions	10021790020	500,000.00	20130305		
201304	1 120 451 144 515	PURCHASE OF ELECTRICITY	Bank Transactions	10022380010	438,596.49	20130502		
201305	1 120 451 144 515	PURCHASE OF ELECTRICITY	Bank Transactions	10022680005	438,596.49	20130613		
201210	1 120 451 144 515	PURCHASE OF ELECTRICITY	Sundry Payments	FIN90100026844	69,685.66	20121008	79,441.65	ESKOM (VREDEFORT)
201306	1 120 451 144 515	PURCHASE OF ELECTRICITY	Cancel DEL/INV	1013667	(7,345,151.96)	20130715	-	ESKOM
							Total debits:	29 460 728,10
							Total credits:	-7 345 151,96

b) With regard to the following transactions, the documentation submitted does not include information regard the approval of this transaction (authorisation):

Vote number	Description	Supporting Document Number	Supplier Name	Amount per GL (VAT excl.)
1120451144515	PURCHASE OF ELECTRICITY	1013869	Eskom	18,906,733.36

The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality.

The risk of the abovementioned is a limitation of scope regarding the occurrence, accuracy as well as compliance of bulk purchases per note 32 to the financial statements.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time

Management response

The management agrees with the finding

Root cause

Lack of proper records management and weak filing

Action

The management will tighten the filing system/ records management. Will also improve in safeguarding, properly managing and making them readily available for audit purposes.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

78. Repairs & maintenance - Prior year exceptions not addressed (CoA 7)

Audit finding

Section 122(1)(a) of the MFMA states: *"of the MFMA 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 or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."*

Section 64 of the MFMA states the following:

"(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure: ...

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

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue; ...

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

Contrary to the requirement the following matters that were raised in the prior year regarding the Repairs and Maintenance disclosure were still not corrected under the prior year 2012 in the current year's financial statement:

- Repairs and Maintenance could not be corroborated as insufficient support was available. Projected R -8 809 927
- Assets incorrectly classified to Repairs and Maintenance of R 220 945.16, extrapolated to an overstatement of R 6 739 296.63
- Security expenses incorrectly classified to Repairs and Maintenance of R 30 499.59, extrapolated to an overstatement of R 856 662.78

The expense vouchers which resulted in the above-mentioned include the following:

a) Vouchers that could not be submitted:

Date	Description	Date	Supplier Name	Date	Supporting Document Number	Amount per GL (VAT excl.)	Documents not attached
06/21/2012	EQUIPMENT - R&M	6/21/2012	Century and Elegance Joint Venture	6/21/2012	1010717	15 930,00	Invoice
09/09/2011	VEHICLES - R&M	9/9/2011	Parys hydraulics	9/9/2011	1009324	16 000,00	Quote
02/23/2012	FURNITURE & EQUIPMENT - R&M	2/23/2012	Makro	2/23/2012	1009743	42 976,32	Quote
09/27/2011	INFRASTRUCTURE - R&M	9/27/2011	Heilbron Massey	9/27/2011	1009381	265 000,00	Invoice

It was therefore not possible to evaluate whether or not the transaction qualified as valid repairs and maintenance or if these items should have been capitalized as fixed assets.

b) Assets incorrectly classified as repairs and maintenance:

Description	Ref:	Supplier	Description of Expense per Supporting documentation	Amount Excl. VAT R
FURNITURE & EQUIPMENT - R&M	1010527	M3 Professionals	Computer monitor	3 368,42
BUILDINGS - R&M	1010233	Mchango Consulting	Pallisade Fencing	9 600,00
EQUIPMENT - R&M	1009797	Fest Fire Security	Fire fighting equipment - hoses etc	11 450,00
INFRASTRUCTURE - R&M	1010369	Bluegingner (Pty)Ltd	Battery chargers	53 720,00
EQUIPMENT - R&M	1009711	Mica	Lawnstart LSB 5220 Brushcutter	15 789,42
EQUIPMENT - R&M	1010717	Century and Elegance Joint Venture	Fox Cable	15 930,00
FURNITURE & EQUIPMENT - R&M	1009743	Makro	Laptop	42 976,32
INFRASTRUCTURE - R&M	1010505	Water engineering	Water pump valves	68 111,00

c) Security expenses incorrectly classified as repairs and maintenance:

Vote number	Description	Ref:	Supplier	Description per sup doc	Amount Excl. VAT
1120451280810	EQUIPMENT - R&M	1009865	Molog stores Security	Security guards	30,499.59

These matters may have resulted due to the fact proper controls were not implemented and maintained over supporting documentation as well as the correct classification of expense items.

These matters may result in the misstatement of the corresponding balances in the financial statements.

Internal control deficiency

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

Recommendation

Management should ensure that proper controls are implemented to correct prior period matters.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

79. Repairs & maintenance - Incorrect classification regarding assets (CoA 7)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

We have identified the following transactions (asset additions) which were incorrectly recorded as repairs and maintenance:

Description	Supporting Document Number	Date	Description of goods	Amount per GL (VAT excl.) R
INFRASTRUCTURE - R&M	1012683	20130212	New pump and motor	189 610,00
INFRASTRUCTURE - R&M	1012578	20130115	5 x Transformers	171 875,00
INFRASTRUCTURE - RM	1012528	20121227	2 x Gate valves	165 000,00
EQUIPMENT - R&M	1011786	20120912	25 Computers purchased	162 500,00
INFRASTRUCTURE - R&M	1011724	20120914	2 x Transformers	105 263,16
INFRASTRUCTURE - R&M	1012211	20121115	3 x Transformers	94 125,00
INFRASTRUCTURE - R&M	1011653	20120831	Replace old pump	88 300,00
INFRASTRUCTURE - R&M	1012890	20130327	Supply and install new pump	81 599,00
EQUIPMENT - R&M	1011656	20120906	Repairs pump 3 + new pump	78 795,00
EQUIPMENT - R&M	1011825	20120926	Parys WTW Pump and pipeline	68 786,00
Total:				1 205 853,16

The above may have resulted due to management not performing all required duties to ensure that accurate and complete record keeping relating to repairs and maintenance.

This matter will result in an overstatement in repairs and maintenance and understatement in property, plant and equipment and depreciation.

Internal control deficiency

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

Recommendation

Management should inspect the entire population for repairs and maintenance and ensure that all the incorrect classifications are corrected.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

80. General expenses - Payments not made within 30 days (CoA 63)

Audit finding

Section 65 of the Municipal Finance Management Act, No. 56 of 2003 requires the following:

"(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:

(e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice of statement, unless prescribed otherwise for certain categories of expenditure."

We identified the following expenses, for which payments was not made within 30 days from invoice date:

Vote Number	Reference	Tran Date	Supplier's Name	Amount (Excl vat)	Invoice date	Payment date	Days until payment
11150510 90800	10134 71	20130 606	POST OFFICE BDN	98,090.88	30/04/ 2013	06/06/ 2013	37
11100510 93810	10114 83	20120 822	JAMESON CONSULTING	140,000.00	08/06/ 2012	22/08/ 2012	75
11101010 93865	10117 33	20120 906	SALGA SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION	216,074.00	01/07/ 2011	07/09/ 2012	434
11200510 96515	10128 18	20130 404	WRP CONSULTING ENGINEERS PTY LTD	174,556.80	16/08/ 2012	18/02/ 2013	186
11050510 94405	10118 68	20120 928	POST OFFICE BDN	99,010.04	01/08/ 2012	05/09/ 2012	35
11250510 92058	10112 77	20120 710	CURA CRAFT (PTY) LTD	60,562.00	01/08/ 2011	10/07/ 2012	344
11256010 94740	10112 88	20120 710	DOSIMA CONSTRUCTION & TRADING	235,600.00	26/05/ 2010	10/07/ 2012	776
11150510 94555	10131 73	20130 418	FAKA ENGINEERING AND HYDRAULIC SERVICES CC	9,500.00	25/02/ 2013	18/04/ 2013	52
11203540 10005	10126 84	20130 204	MEDIA 24.	17,221.60	28/11/ 2012	04/02/ 2013	68

11150510 94555	10131 73	20130 418	FAKA ENGINEERING AND HYDRAULIC SERVICES CC	8,800.00	25/02/ 2013	18/04/ 2013	52
11256010 94740	10134 60	20130 606	PARYS FITMENT CENTRE(PTY)LTD	10,709.52	23/04/ 2013	06/06/ 2013	44

Management did not implement proper controls to ensure that trade creditors are paid within 30 days as required by the MFMA.

The risk of the above is non-compliance with the MFMA and late payment of creditors may result in interest being charged on outstanding balances, which would constitute fruitless and wasteful expenditure.

Internal control deficiency

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

Recommendation

Management should implement controls to ensure that outstanding creditors are followed up before the 30 days payment regulation as stated in MFMA 65 (2).

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Payable

81. Payables - Supplier statements do not reconcile to creditors' age analysis (CoA 54)

Audit finding

MFMA paragraph 62 (b) states: "General financial management functions.— (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

a) There were no age analysis/detailed breakdown available for the following ledger accounts, consequently could we not reconcile the balances to the supplier statements that make up the totals of the general ledger accounts.

CREDITOR PREV YEAR	R58,797,488.87
Creditors Control account No.2	R20,534,343.22

b) Based on the Age Analysis that was received from management, the municipality owes Eskom R92 155 192,34 as at 30 June 2013. We have however obtained the statement from Eskom as at 30 June 2013, and it indicated the outstanding balance as R164 974 820,88. The difference can be set out as follows:

Eskom balance per age analysis	92,155,192.34
Balance as per Eskom Statements	164,974,820.88
- Eskom(Parys) 895	164,880,156.17
- Eskom Edenville	3,636.10
- Eskom Vredefort	91,028.61
Difference	(72,819,628.54)

c) As reported in the prior year's management report, management could not provide us with the following creditor statements:

CURACRAFT
DOSIMA
Transport

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

The matters places a limitation on the scope of the audit of payables. Furthermore, payables as disclosed in the notes to the financial statements is also understated.

Internal control deficiency

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

Recommendation

Management should ensure that all supporting documents used to compile the AFS are accurate and complete by reviewing work performed of junior employees. Management should perform a reconciliation between the financial statements and supporting schedules. Management should perform a detailed reconciliation between the creditor age analyses and the creditor statements. The necessary correcting journals should also be processed to correct the matters referred to above.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraphs are:

- a) An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- b) An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

82. Payables - Creditors not paid within 30 days (CoA 81)

Audit finding

Section 65(2)(e) of the MFMA states that: *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure"*.

1. A consolidated invoice was issued to Nghwathe from the Auditor General for the period 31/10/2011 - 31/05/2013. The invoice was only paid on 2013-07-23.
2. We inspected two invoices from Deloitte amounting to R735 885.53 (R490 200+R245 685.53). The invoices date was 30-04-2012 but the payment was only made on 20/08/2013.
3. An invoice dated 26/02/2013 from Eskom amounting to R9 997 166.61 was only paid on 19/09/2013.
4. An invoice dated 28/06/2013 from Water Engineering CC amounting to R 1614 792.16 was only paid on 06/08/2013.

The late payment of creditors may have resulted due to cash flow constraints at the municipality.

This matter constitutes non-compliance with the MFMA and may also result in interest and penalty charges.

Internal control deficiency

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

Recommendation

Management should implement controls over the payment of creditors to ensure creditors are paid on time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

83. Payables - Liability not raised at year-end (CoA 54)

Audit finding

Accrual basis: GRAP 1.37 In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government.

We have identified the following payment made subsequent to the financial year-end, which relates to the financial year under review, but were not accounted for:

Supplier	Invoice dates	Payment date	Amount
AGSA	31/10/2011 – 31/05/2013	23/07/2013	R2 857 011,90

This matter may have resulted due to the fact that the municipality has not implemented a proper system to account for all payables at year-end.

This matter may result in the understatement of both payables and expenditure.

Internal control deficiency

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

Recommendation

Management should investigate the entire population as to determine other unrecorded liabilities at year-end. The necessary correcting journals should then be processed to account for all these payables.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

84. Payables - Invoices not recorder in the correct period (CoA 54)

Audit finding

Accrual basis: GRAP 1.37 In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government.

Contrary to this requirement, we have identified the following invoices which relates to the 2012/13 financial year, however we could not obtain evidence that these invoices were accrued at year-end:

Supplier	Invoice date	Amount R
Deloitte's	30/04/2012	735 885,53
Randwater	28/06/2013	1 039 230,56
Water Engineering	28/06/2013	1 614 792,16

This matter may have resulted due to the fact that the municipality has not implemented a proper system to account for all payables at year-end.

This matter may result in the understatement of both payables and expenditure.

Internal control deficiency

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

Management should investigate the entire population as to determine other unrecorded liabilities at year-end. The necessary correcting journals should then be processed to account for all these payables.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

85. Payables - Substantive evidence for journals not received (CoA 54)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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"

a) Supporting documentation relating to the following journals were not submitted for audit purposes:

Vote number	Account name	Description	Amount
9100033020102	TRF FROM NON-CURRENT PROVISIONS	Auditors Journals	(8,725,944.41)
9100033038502	CONTRIBUTIONS RECEIVED	Auditors Journals	(7,699,060.13)

Vote number	Vote Description	Transaction Type	Reference	Trans Date	Debit Amt
9100088010017	SALARY SUSPENCE VOTE (TREE)	Salaries	1702	20130204	490,421.14
9100088010018	SALARY SUSPENCE VOTE (SPECIAL PROJECTS)	Salaries	1705	20130204	372,216.39

b) The following journals processed in the prior year, could still not be submitted for audit purposes:

Vote number	Date processed	Description	Amount
9100033030102	20120630	CREDITOR PREV YEAR	-39,225,882.06
9100033030102	20121205	CREDITOR PREV YEAR	-38,902,361.02
9100033030101	20111213	CREDITORS CONTROL ACCOUNT	12,677,638.19
9100033030101	20120703	CREDITORS CONTROL ACCOUNT	-10,446,673.26
9100033030102	20120711	CREDITOR PREV YEAR	-10,000,000.00
9100033030101	20120703	CREDITORS CONTROL ACCOUNT	-9,906,584.14
9100033030101	20120703	CREDITORS CONTROL ACCOUNT	-8,373,473.23
9100033030102	20121017	CREDITOR PREV YEAR	8,315,227.40
9100033030102	20120801	CREDITOR PREV YEAR	-8,315,227.40
9100033030102	20121204	CREDITOR PREV YEAR	-8,315,227.40
9100033030102	20120711	CREDITOR PREV YEAR	-8,084,666.10
9100033030101	20120703	CREDITORS CONTROL ACCOUNT	-8,000,326.57
9100033030101	20110829	CREDITORS CONTROL ACCOUNT	6,944,340.59
9100033030101	20110829	CREDITORS CONTROL ACCOUNT	6,377,272.86
9100033030101	20110719	CREDITORS CONTROL ACCOUNT	6,340,522.49
9100033030101	20120630	CREDITORS CONTROL ACCOUNT	6,217,406.98
9100033030101	20111213	CREDITORS CONTROL ACCOUNT	5,780,685.31
9100033030101	20110719	CREDITORS CONTROL ACCOUNT	5,362,193.84
			-91,555,133.52

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

This matter places a limitation on the scope of the audit of payables.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

86. Payables - Unidentified deposits (CoA 81)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. *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—(a) 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*"

Where more than four (4) months have passed since the receipt of the overpayment or a deposit, and the consumer does not have an outstanding account against which the available funds can be utilised, ensure that output VAT is declared on the available amount (it is a 'deemed supply' per section 8(27) of the VAT Act, which deems the overpayment to be consideration received for a supply of services performed by the vendor).

Account: 9100033030404 - Sundry Creditors - Unknown Deposits with a R21 027 902.59 balance at year end.

This account is used for debtor receipts that weren't correctly referenced by the debtor and therefore could not be allocated to the correct debtor account. The amount received that could not be allocated to the correct debtor was accounted for as a Creditor. This causes both the creditors and debtors to be overstated in the financial statements. This specific account should be included in the debtors balance on the financial statements.

Furthermore, proof could not be obtained that VAT was declared on these deposits, as required by the VAT act.

This matter may have resulted due to inadequate record keeping at the municipality as well as a lack of control over unidentified deposits.

This may result in payables and receivables being overstated.

Internal control deficiency

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

Recommendation

Management should implement procedures to ensure that this account is cleared on a timely basis.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

87. Payables - Retention money not accounted for (CoA 54)

Audit finding

Accrual basis: GRAP 1.37 In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government.

The file with all the projects that were running during the financial year were inspected and a sample was selected from the file to test retention money. The following retention were not accounted for as payables and were not disclosed in the financial statements:

Project number	Project description	Service Provider	Payment Certificate date	MIG Number	Retention Amount to Date
NGW/07/2012	Parys: Refurbishment and upgrading of the water treatment works.	CMS Water projects	5/6/2013	MIG/FS0714/W/09/09	524,089.17
PCE 02/2009	Upgrading of Heilbron waste water treatment works	CMS Water engineering	31/05/2013	MIG/FS/0623/S/08/10	461,241.84
PCE 01/2011	Upgrading of Parys Waste Water Treatment works (Mechanical and Electrical)	CMS Water engineering CC Contractors	31/05/2013	MIG/FS0624/S/08/10	1,591,479.59
02/2011	Parys: Upgrading of the sewer treatment works: Fencing and civil works	Sezanne General Projects/ Bryn Construction JV	14/06/2013	MIG/FS0624/S/08/10	184,652.97
PCE 02/2009	Heilbron: Upgrading of the sewer treatment works	Wamesa Construction CC	29/10/2012	MIG/FS/0623/S/08/10	1,317,867.91

This matter may have resulted due to the fact that management has not implemented a proper system to account for all retention monies.

This matter will result in the understatement of both payables and property, plant and equipment (work-in-progress).

Internal control deficiency

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

Recommendation

Management should determine the total extent of retention money on payments which were already made. The necessary correcting journals should be process to account for these.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

88. Payables - Accounts with no movements (CoA 81)

Audit finding

MFMA paragraph 62 (b) states: "General financial management functions.— (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

The following accounts had no movement during the current financial year, which leads to a risk over the existence of the creditors.

Account number	Description	B Preliminary amounts per General ledger/ Trial balance
9100033030103	Creditors Control account No.2	-20,534,343.22
9100033030401	SUNDRY CREDITORS - UNCLAIMED DEPOSITS	-28,215.80
9100033038501	STAFF LEAVE RATES & GENERAL	-8,803,972.62
9100033030406	SUNDRY CREDITORS - ACCRUED INTEREST EXT	-204,815.94
9100033030501	DEPOSITS - LIBRARY	-6,898.22
9100033030504	DEPOSITS - SCHONK/DAMAGE	-7,736.85
9100033030505	DEPOSITS - MIM. RESTAUR.	121.00
9100033030506	DEPOSITS - CANDIDATES	3,900.00
9100033030507	DEPOSITS - HOSTEL	-3,900.00
9100088010019	SALARY SUSPENCE	94,291.46
9100088018077	AUDIT FEES	-1,017,969.09
9100057030163	SUNDRY DEBTORS - HEALTH CLAIMS	-6,338.14
9100033030412	DEFERRED PRE-PAID ELECTRICITY	-3,988,448.93
9100046010201	DEBTORS LOAN - LUCERN TRANSPORT	-3,024.23
9100046010230	LOAN DEBTORS - BOWLS PITCH VREDEFORT	-1,400.00
9100088010005	REFUND CONTROL ACCOUNT	-20,366.50
9100088010013	STALE CHEQUES CO	-2,724,290.79
9100088010015	TRANSFER BETWEEN	-1,940,993.73

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

This matter will result in the overstatement of payables if the existence cannot be confirmed as disclosed in the financial statements.

Internal control deficiency

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

Recommendation

Management should follow up on accounts which did not have any movements during the year to ensure the existence of payables.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

89. Payables - Misstatement in corresponding balance (CoA 81)

Audit finding

MFMA paragraph 65 (B)(ii) states: *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which accounts for creditors of the municipality"*

During the 2012 audit we selected a sample on creditors as at 30 June 2012. Differences were noted and communicated to Ngwathe management. During the 2013 financial year we could not obtain any evidence that these differences were corrected. We requested the supplier statements for above mentioned creditors and agreed the amount in the creditors age analysis to the amount on the statement. We found the following differences:

Supplier name	Amount as per Age analysis	Amount as per suppliers statement	Difference
BUSINESS CONNEXION	307,509.30	307,150.20	359.10
ESKOM	41,245,730.05	89,485,045.10	(48,239,315.05)
HAMBA NATHI TRAVEL	29,148.00	26,056.00	3,092.00
ISINTU PROJECTS	5,698,269.70	6,608,746.37	(910,476.67)
AUDITOR GENERAL	1,256,535.59	3,041,104.95	(1,784,569.36)
FASTVENTS	308,271.30	40,242.00	268,029.30
	50,195,966.50	100,858,851.18	(50,662,884.68)

The above is mainly due to senior management not performing all required duties to ensure accurate and complete record keeping regarding Creditors.

The risk of the above is that the payables corresponding balance is misstated

Internal control deficiency

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

Recommendation

The financial statements should be corrected with the understatement. Management must ensure that supplier statements are received monthly that creditor reconciliations can be performed to ensure Trade Payables in the financial statements are complete, and accurate.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Predetermined objectives

90. Predetermined objectives - No performance agreements for section 57 managers (CoA 19)

Audit finding

Section 57(1)(a) of the Municipal Systems Act (Act no. 32 of 2000) (MSA) states:

"A person to be appointed as the Municipal Manager of a municipality, and a person to be appointed as a manager directly accountable to the Municipal Manager, may be appointed to that position only - in terms of written employment contract with the municipality complying with the provisions of this section."

Section 57(1)(b) of the MSA states: *"A person to be appointed as the Municipal Manager of a Municipality and a person to be appointed as a Manager accountable to the Municipal Manager, may be appointed to the position only - subject to a performance agreement concluded annually as provided for in subsection (2)".*

Section 57(2)(a) of the MSA states: *"The performance agreement referred to in subsection 1(b) must - be concluded within a reasonable time after a person has been appointed as the Municipal Manager or and as a Manager directly accountable to the Municipal Manager and thereafter within a month after the beginning of the financial year of the Municipality".*

Section 57(5) of the MSA states: *"The performance objectives and targets referred to in subsection (4) (a) must be practical, measurable and based on the key performance indicators set out from time to time in the municipality's integrated development plan."*

With the evaluation of the employment contracts and performance agreements of the section 57 managers, the following have been identified:

(a) The signed contract of employment and the signed annual performance agreement for the period 1 July 2012 to 30 June 2013 for the Municipal Manager (T Mokoena) and the Director Technical Services (TK Malebane) were filed on the official's personnel files. In the performance agreements reference were made to the Performance Plan (Annexure A) which sets out the performance objectives and targets that must be met and the time frames within which those performance objectives and targets must be met. These Performance Plans were, however, not attached to the performance agreements or filed on the official's personnel files. It could, therefore, not be determine if the performance objectives and targets have been based on the key objectives, key performance indicators and targets as stated in the IDP/SDBIP of the municipality.

(b) The personnel files of the following officials were scrutinised and no signed contract of employment or annual performance agreements could be found on their files:

Director Community Services - LD Kamolane

Chief Financial Officer - OL Leeuw (Appointment date 2 January 2013)

Director Corporate Services - LM Bopalamo (Appointment date 4 February 2013)

No monitoring controls were in place to ensure that contract of employments and performance agreements were entered into or were properly completed and agreed upon.

The above mentioned has the following impact on the municipality and the financial statements:

(a) Non-compliance with the relevant laws and regulations.

(b) Irregular expenditure might occur when performance bonuses are paid out without having performance agreements.

(c) Due care might not be taken and the objectives of the municipality might not be achieved if performance agreements are not concluded with officials.

Internal control deficiency

The municipality did not promote accountability and service delivery through providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

Recommendation

Management should indicate why employment contracts and performance agreements were not concluded within a reasonable time after a person has been appointed as required by the relevant laws and regulations.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The following audit report paragraph is proposed:

The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.

91. Predetermined objectives - Lack of effective, efficient and transparent systems and internal controls (CoA 53)

Audit finding

Section 62(1)(c)(i) of the Municipal Finance Management Act No.56 of 2003 states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

(a) Contrary to the requirements, it was noted that the draft Performance Management System Framework for 2012/13 (PMS) was not adopted by Council before or at the same time as the process of setting KPIs and targets in accordance with its IDP.

Due to the above the PMS were not applied by management during the year under review to serve as an early warning indicator of under-performance. The PMS could also not have been monitored and reviewed by the internal audit section during the year under review.

(b) With the evaluation of the performance management processes of the selected development priorities/focus areas it was noted that effective mechanisms, systems and processes have not been implemented for the collecting, recording, processing, monitoring and reviewing of the performance of the planned performance indicators and targets which resulted in performance information not being reliable. The following weaknesses were identified:

(i) With the comparison of the 2012/13 SDBIP with the 2012/13 Annual Report, the planned objectives, performance indicators and targets stated in the SDBIP have not been reported on in the Annual Report. This is an indication that the reported performance information was not properly monitored and reviewed by an independent official.

(ii) With the evaluation of the 2012/13 Mid-term Performance Assessment Report, it was noted that planned performance indicators and targets stated in the SDBIP have not been reported on in the mid-term report, while in other instances actual performance of performance indicators and targets have been reported on in the mid-term report which were not stated in the SDBIP. This is also an

indication that the reported performance information were not properly monitored and reviewed by an independent official.

(iii) For all the planned performance indicators of the selected development priorities/focus areas, manual systems were used for the collecting and recording of the information and in instances where documentation were provided, a proper filing system were not used and the completeness of the available documentation could not be confirmed. Data assurance procedures such as data collection, processing and monitoring procedures were, therefore, not in place.

(iv) The reviewing of the performance information was not effective as sufficient evidence could not be obtained to serve as proof that the supervisors/managers verify reported figures with the supporting documentation.

(v) Supporting documentation to verify the reported performance information could not be provided in all instances for audit purposes.

The weaknesses were due to the Performance Management System Framework not been approved to provide the necessary guidance.

Possible misstatement of performance information in the annual report of the municipality.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

(a) Steps should be taken by management to ensure that the performance management policy framework are approved and implemented throughout the municipality to ensure that mechanisms, systems and processes are in place for collecting, recording, processing and reporting of performance information.

(b) The officials responsible for collating the performance information should be provided with proper guidance on how and which information should be collated for each indicator to ensure that adequate supporting documentation are kept to support the reported performance.

(c) Management should ensure that the review process at all levels are properly performed to ensure accurate and complete reported performance information.

Management response

Management agree with the findings. However, PMS framework was adopted by Council.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

92. Predetermined objectives - Performance targets were not specific and measurable (CoA 53)

Audit finding

Paragraph 3.3 of Chapter 3 of the Framework for Managing Programme Performance Information states that a target should be specific so that the nature and the required level of performance can be clearly identified and should be measurable so that the required performance can be measured.

With the evaluation of the 2012/13 Service Delivery and Budget Implementation Plan (SDBIP), the following planned performance targets were not specific so that the nature and the required level of performance could be clearly identified and were not measurable so that the required performance can be measured:

Focus area	Planned objective	Planned indicator	Planned target	Comment
Water	To ensure water reliability provision	Reduction of no water complaints (Strategy: Repair/replacement of non-functional items at the WTW)	Upgrading of Parys Water Treatment Works	Target not specific as the target set was refer to the upgrading of Parys Water Treatment Works and should have stated the number of reduction in complaints. Target not measurable as supporting documentation could not be provided.
	To ensure reliability of water provision.	Failure/Unplanned interruption of services	Number of interruptions exceeding 48 hours to be reduced to 200	Target not measurable as supporting documentation could not be provided.
	To ensure that every drop of potable water is contained in the system. To minimize total consumption	Implementation of Water Conservation/ Water Demand Management (Strategy: Water purchased vs. water billed)	Volume of water purchased (kl) reduced by 20%	Target not specific as the target set only refer to the volume of water purchased to be reduced by 20%, but the target should actually refer to the percentage of the water distribution losses which should be reduced. Target not measurable as flow meters have not been install and water meters at households have not been install to measure water usage.
Sanitation	To improve the effluent quality discharged into the stream to comply with DWA standards	Reduced No of non compliance directives from DWA (Strategy: Upgrading of Parys and Heilbron Waste Treatment Works)	Compliance with Waste water quality discharge SANS 0421	Target not specific as the target did not indicated the percentage that should be achieve.
Electricity	To ensure electricity service reliability	KPI not indicated (Strategy: Prevent cable and copper theft)	10 arrests leading to conviction	Target not measurable as supporting documentation could not be provided.
	To ensure electricity service reliability	Replacement of non energy efficient bulbs (Strategy: Energy Efficiency)	1000 street lights replaced with efficient luminaries	Target not measurable as supporting documentation could not be provided.

		Replacement of non energy efficient bulbs (Strategy: Energy efficient lights in all NLM buildings – number of lamps replaced)	100 lamps replaced	Target not measurable as supporting documentation could not be provided.
Roads and storm water	To Implement Stormwater Management systems through the cleaning of Stormwater conduits.	Procure hydro blasting jet truck. (Strategy: Cleaning of stormwater conduits measured by length)	1 km cleaned	Target not measurable as supporting documentation could not be provided.
	Resurface and rehabilitate paved roads to reduce maintenance backlog.	Ordering of pothole material (Strategy: Repairing of potholes according to standard)	3000m2 of the surface area repaired	Target not measurable as supporting documentation could not be provided.
	Surfaced roads according to standards	Provincial department to appoint service providers (Strategy: Tared roads according to the approved standards)	2 km paved roads	Target not measurable as supporting documentation could not be provided.

The weakness occurred as a result of oversight from management side.

This constitutes non-compliance with the framework for managing programme performance information.

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over non-financial reporting.

Recommendation

Management should ensure that the set targets are specific so that the nature and the required level of performance can be clearly identified and should be measurable so that the required performance can be measured.

Management response

Management agree. We undertake to put in place proper controls to ensure that ongoing monitoring and supervision are undertaken.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

93. Predetermined objectives - Measurable indicators were not set (CoA 53)

Audit finding

Paragraph 3.2 of Chapter 3 of the Framework for Managing Programme Performance Information states:

A good performance indicator should be:

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

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

With the evaluation of the 2012/13 Service Delivery and Budget Implementation Plan (SDBIP), the following planned indicators as stated in the SDBIP were not well-defined as the indicator did not have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use and were not verifiable as it was not possible to validate the processes and systems that produce the indicator:

Focus area	Planned objective	Planned indicator	Planned target	Comment
Water	To ensure water reliability provision	Reduction of no water complaints (Strategy: Repair/replacement of non-functional items at the WTW)	Upgrading of Parys Water Treatment Works	Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
	To ensure reliability of water provision.	Failure/Unplanned interruption of services	Number of interruptions exceeding 48 hours to be reduced to 200	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
	To ensure that drinking water quality supplied within NLM meets National norms and standards	Compliance with SANS 0241 (Strategy: Monitoring of water quality samples)	To achieve 70% percentage compliance	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use.
	To ensure that every drop of potable water is contained in the system. To minimize total consumption	Implementation of Water Conservation/ Water Demand Management (Strategy: Water purchased vs. water billed)	Volume of water purchased (kl) reduced by 20%	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
Sanitation	To improve the effluent quality discharged into the stream to comply with DWA standards	Reduced No of non compliance directives from DWA (Strategy: Upgrading of Parys and Heilbron Waste Treatment Works)	Compliance with Waste water quality discharge SANS 0421	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use.

Electricity	To ensure the proper protection of electricity meters	Buying of electricity meters (Strategy: Meter protection structures/boxes installed)	3000 meters protected.	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use.
	To ensure electricity service reliability	KPI not indicated (Strategy: Prevent cable and copper theft)	10 arrests leading to conviction	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
	To ensure electricity service reliability	Replacement of non energy efficient bulbs (Strategy: Energy Efficiency)	1000 street lights replaced with efficient luminaries	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
		Replacement of non energy efficient bulbs (Strategy: Energy efficient lights in all NLM buildings – number of lamps replaced)	100 lamps replaced	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
Roads and storm water	To Implement Stormwater Management systems through the cleaning of Stormwater conduits.	Procure hydro blasting jet truck. (Strategy: Cleaning of stormwater conduits measured by length)	1 km cleaned	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
	Resurface and rehabilitate paved roads to reduce maintenance backlog.	Ordering of pothole material (Strategy: Repairing of potholes according to standard)	3000m2 of the surface area repaired	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.
	Surfaced roads according to standards	Provincial department to appoint service providers (Strategy: Tarred roads according to the approved standards)	2 km paved roads	Indicator not well-defined as it does not have a clear, unambiguous definition so that it will be easy to understand and use. Indicator not verifiable as supporting documentation could not be provided and it is not possible to validate the processes and systems that produce the indicator.

The weakness occurred as a result of oversight from management side.

This constitutes non-compliance with the framework for managing programme performance information.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

(a) Management should ensure that indicators are well-defined which are clear, have an unambiguous definition so that data will be collected consistently and be easy to understand and used.

(b) Management should ensure that indicators are verifiable so that it will be possible to validate the processes and systems that produce the indicators.

Management response

Management agree with the finding. Please note as well that some of the indicators were not clearly sat as well. Management will request clarity and explanation relating to such indicators

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

94. Predetermined objectives - Inconsistencies between planned and reported objectives, indicators and targets (CoA 53)

Audit finding

Section 72(1)(a)(ii) of the Municipal Finance Management Act (No.56 of 2003) states that the accounting officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan.

Section 36 of the Municipal Systems Act (No.32 of 2000) (MSA) states that a municipality must give effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.

Section 41 of the MSA states that:

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

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

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

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

(i) monitor performance; and

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

(a) With the evaluation of the 2012/13 SDBIP and the 2012/13 Annual Report, the following planned objectives, performance indicators and targets of the selected development priorities/focus areas as stated in the SDBIP were not reported on in the Annual Report:

Focus area	Planned objective	Planned indicator	Planned target
Water	To ensure water reliability provision	Reduction of no water complaints (Strategy: Repair/replacement of non-functional items at the WTW)	Upgrading of Parys Water Treatment Works
	To ensure reliability of water provision.	Failure/Unplanned interruption of services	Number of interruptions exceeding 48 hours to be reduced to 200
	To ensure that drinking water quality supplied within NLM meets National norms and standards	Compliance with SANS 0241 (Strategy: Monitoring of water quality samples)	To achieve 70% percentage compliance
	To ensure that every drop of potable water is contained in the system. To minimize total consumption	Implementation of Water Conservation/ Water Demand Management (Strategy: Water purchased vs. water billed)	Volume of water purchased (kl) reduced by 20%
	Provision of water to all households	Eradication of communal water taps. (Strategy: Water and sewer connections in Tumahole)	920 house hold provided water with house connections
Sanitation	To improve the effluent quality discharged into the stream to comply with DWA standards	Reduced No of non compliance directives from DWA (Strategy: Upgrading of Parys and Heilbron Waste Treatment Works)	Compliance with Waste water quality discharge SANS 0421
	To eradicate buckets in Tumahole	Eradication of buckets (Strategy: To provide sewer household connections)	Eradicate 900 buckets
Electricity	To ensure the proper protection of electricity meters	Buying of electricity meters (Strategy: Meter protection structures/boxes installed)	3000 meters protected.
	To ensure electricity service reliability	KPI not indicated (Strategy: Prevent cable and copper theft)	10 arrests leading to conviction
	To ensure electricity service reliability	Replacement of non energy efficient bulbs (Strategy: Energy Efficiency)	1000 street lights replaced with efficient luminaries
		Replacement of non energy efficient bulbs (Strategy: Energy efficient lights in all NLM buildings – number of lamps replaced)	100 lamps replaced
Roads and storm water	To Implement Stormwater Management systems through the cleaning of Stormwater conduits.	Procure hydro blasting jet truck. (Strategy: Cleaning of stormwater conduits measured by length)	1 km cleaned

	Resurface and rehabilitate paved roads to reduce maintenance backlog.	Ordering of pothole material (Strategy: Repairing of potholes according to standard)	3000m2 of the surface area repaired
	Surfaced roads according to standards	Provincial department to appoint service providers (Strategy: Tarred roads according to the approved standards)	2 km paved roads

(b) As the reported performance for the planned objectives, performance indicators and targets were not reported on in the Annual Report, it could not be determine if the information reported in the Annual Report was reported consistently throughout the Annual Report.

It seems that the inconsistencies occurred as a result of oversight from management side.

The impact is that the development priorities/focus areas and objectives in the IDP may not be appropriately addressed, resulted in appropriate resources were not allocated to execute these development priorities and objectives. Furthermore, the activities of the municipality may not all be recorded and reported to the relevant stakeholders.

Internal control deficiency

The municipality does not review and monitor compliance with applicable laws and regulations.

Recommendation

(a) Management should ensure that all the planned objectives, indicators and targets as stated in the SDBIP are reported on in the Annual Report.

(b) Management should ensure that all the information reported in the Annual Report is reported consistently throughout the Annual Report.

Management response

Management agree. The inconsistencies were indeed noted and corrected.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

95. Predetermined objectives - Reported performance not reported in Annual Report (CoA 53)

Audit finding

Section 46(1) of the Municipal Systems Act No.32 of 2000 states that a municipality must prepare for each financial year a performance report reflecting, (a) the performance of the municipality and of each external service provider during that financial year, (b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous year, and (c) measures taken to improve performance.

(a) With the evaluation of the 2012/13 Annual Report it was noted that the actual performance of the following planned objectives, performance indicators and performance targets of the selected development priorities/focus areas as stated in the 2012/13 SDBIP were not reported on in the 2012/13 Annual Report:

Focus area	Planned objective	Planned indicator	Planned target
Water	To ensure water reliability provision	Reduction of no water complaints (Strategy: Repair/replacement of non-functional items at the WTW)	Upgrading of Parys Water Treatment Works
	To ensure reliability of water provision.	Failure/Unplanned interruption of services	Number of interruptions exceeding 48 hours to be reduced to 200
	To ensure that drinking water quality supplied within NLM meets National norms and standards	Compliance with SANS 0241 (Strategy: Monitoring of water quality samples)	To achieve 70% percentage compliance
	To ensure that every drop of potable water is contained in the system. To minimize total consumption	Implementation of Water Conservation/ Water Demand Management (Strategy: Water purchased vs. water billed)	Volume of water purchased (kl) reduced by 20%
	Provision of water to all households	Eradication of communal water taps. (Strategy: Water and sewer connections in Tumahole)	920 house hold provided water with house connections
Sanitation	To improve the effluent quality discharged into the stream to comply with DWA standards	Reduced No of non compliance directives from DWA (Strategy: Upgrading of Parys and Heilbron Waste Treatment Works)	Compliance with Waste water quality discharge SANS 0421
Electricity	To ensure the proper protection of electricity meters	Buying of electricity meters (Strategy: Meter protection structures/boxes installed)	3000 meters protected.
	To ensure electricity service reliability	KPI not indicated (Strategy: Prevent cable and copper theft)	10 arrests leading to conviction
	To ensure electricity service reliability	Replacement of non energy efficient bulbs (Strategy: Energy Efficiency)	1000 street lights replaced with efficient luminaries
		Replacement of non energy efficient bulbs (Strategy: Energy efficient lights in all NLM buildings – number of lamps replaced)	100 lamps replaced

Roads and storm water	To Implement Stormwater Management systems through the cleaning of Stormwater conduits.	Procure hydro blasting jet truck. (Strategy: Cleaning of stormwater conduits measured by length)	1 km cleaned
	Surfaced roads according to standards	Provincial department to appoint service providers (Strategy: Tarred roads according to the approved standards)	2 km paved roads

(b) It was also noted that the 2012/13 Annual Report was compiled according to the new Annual Report Template as prescribe by MFMA Circular no. 63 dated 26 September 2012. According to Chapter 3 (Service Delivery Performance) of the new Annual Report Template, prescribe tables for each of the development priorities/focus areas should be used to report on the performance of the municipality, which includes comparisons of the performance with set targets and comparisons with the previous financial year. With the evaluation of the 2012/13 Annual Report it was noted that for the selected development priorities/focus areas these tables were not included and that management only provide comments on the overall performance of some of the development priorities/focus areas. The following comments were the only comments management provided on the selected development priorities/focus areas:

Focus area	Planned indicator stated in SDBIP	Planned target stated in SDBIP	Comments on performance overall stated in Annual Report
Sanitation	Eradication of buckets (Strategy: To provide sewer household connections)	Eradicate 900 buckets	The municipality has eradicated the bucket system by introducing 780 waterborne sanitation system in Parys in this financial year.
Roads and storm water	Ordering of pothole material (Strategy: Repairing of potholes according to standard)	3000m2 of the surface area repaired	We have done gravel road maintenance in all towns during the financial year. The challenge was that the municipally had to hire road construction plant which was used in the maintenance because the municipality does not have the necessary plant. We also have a significant challenge with potholes, this problem was not addressed as there was no funding to do this.

(c) Contrary to section 46(1)(c) of the MSA, it was also noted that measures taken to improve performance for those actual performance reported were also not indicated in the 2012/13 Annual Report.

Non-compliance occurred as a result of oversight from management side.

The impact is that the municipality did not report on the performance of the municipality and indicates a lack of governance.

Internal control deficiency

The municipality does not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information.

Recommendation

Management should ensure that the performance of the municipality are reported in the annual report as prescribe by the relevant laws and regulations.

Management response

Management agree. This matter came as a result of the new template issued for compiling the annual report.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

96. Predetermined objectives - Performance Management Framework not approved (CoA 19)

Audit finding

Section 38 of the Municipal Systems Act (Act No.32 of 2000) (MSA) states that a municipality must:

- (a) establish a performance management system that is—
 - (i) commensurate with its resources;
 - (ii) best suited to its circumstances; and
 - (iii) in line with the priorities, objectives, indicators and targets contained in its integrated development plan;
- (b) promote a culture of performance management among its political structures, political office bearers and councillors and in its administration; and
- (c) administer its affairs in an economical, effective, efficient and accountable manner.

Section 39 of the MSA states that the executive committee or executive mayor of a municipality or, if the municipality does not have an executive committee or executive mayor, a committee of councillors appointed by the municipal council must—

- (a) manage the development of the municipality's performance management system;
- (b) assign responsibilities in this regard to the municipal manager, and
- (c) submit the proposed system to the municipal council for adoption.

Section 41 of the MSA states that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—

- (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)—
 - (i) monitor performance; and
 - (ii) measure and review performance at least once per year;
- (d) take steps to improve performance with regard to those development priorities and objectives where performance targets are not met; and
- (e) establish a process of regular reporting to—
 - (i) the council, other political structures, political office bearers and staff of the municipality; and
 - (ii) the public and appropriate organs of state.

(2) The system applied by a municipality in compliance with subsection (1) (c) must be devised in such a way that it may serve as an early warning indicator of under-performance.

Regulation 7 of the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) states that:

- (1) A municipality's performance management system entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role-players.
- (2) In developing its performance management system, a municipality must ensure that the system—

- (a) complies with all the requirements set out in the Act;
- (b) demonstrates how it is to operate and be managed from the planning stage up to the stages of performance and reporting;
- (c) clarifies the roles and responsibilities of each role-player, including the local community, in the functioning of the system;
- (d) clarifies the processes of implementing the system within the framework of the integrated development planning process;
- (e) determines the frequency of reporting and the lines of accountability for performance;
- (f) relates to the municipality's employee performance management processes; and
- (g) provides for the procedure by which the system is linked to the municipality's integrated development planning processes.

Regulation 8 of the MPPMR states that a performance management system must be adopted before or at the same time as the commencement by the municipality of the process of setting key performance indicators and targets in accordance with its integrated development plan.

Contrary to these requirements evidence could not be obtained that the municipality had adopted the draft Performance Management System Framework for 2012/13 (PMS), which was provided by the IDP Manager, before or at the same time as the commencement by the municipality during the process of setting key performance indicators and targets in accordance with its integrated development plan. Due to the absence of an approved PMS, the following could, therefore, not be determined:

- (a) Whether the municipality established a PMS that is
 - Commensurate with its resources;
 - Best suited to its circumstances; and
 - In line with the priorities, objectives, indicators, and targets contained in its integrated development plan
 - Promote a culture of performance management among its political structures, political office bearers and councillors and in its administration; and
 - Administer its affairs in an economical, effective, efficient and accountable manner.
- (b) Whether the PMS of the municipality provides for the
 - Monitoring of performance; and
 - Measurement and review of performance at least once per year with regard to each of the development priorities and objectives and against the key performance indicators and targets set in the IDP.
- (c) Does the PMS of the municipality provide for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met.
- (d) Whether the PMS established a process of regular reporting to:
 - The council, other political structures, political office bearers and staff of the municipality; and
 - The public and appropriate organs of state.
- (e) Whether the PMS applied by the municipality was devised in such a way that it serves as an early warning indicator of under-performance.
- (f) Whether the executive committee/executive mayor/committee of councillors appointed by the municipal council performed the following:
 - Manage the development of the municipality's PMS;
 - Assign responsibilities in this regard to the municipal manager; and
 - Submit the proposed system to the municipal council for adoption
- (g) Whether the PMS of the municipality entailed a framework (i.e. policies and procedures) that describes and represents the following:

- How the system is to operate and be managed from the planning stage up to the stages of performance review and reporting,
- Clarify the role and responsibilities of each role-player (including the local community) in the functioning of the system,
- Clarify the processes of implementing the system within the framework of the IDP process,
- Determine the frequency of reporting and the lines of accountability for performance,
- Relate to the municipality's employee performance management processes link to performance contracts.

It seems that the non-compliance occurred as a result of lack oversight from management side.

The impact is that the municipality did not comply with the relevant laws and regulations and indicates a lack of governance.

Internal control deficiency

Management did not establish, with oversight by the accounting authority, structures, reporting lines and appropriate delegations of authority and responsibilities in pursuit of objectives.

Recommendation

An institutional performance management system should be compiled and approved by the Council to ensure compliance with the relevant laws and regulations.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

Provisions

97. Provisions - Incorrect presentation and disclosure (CoA 28)

Audit finding

The GRAP Framework for the preparation and presentation of financial statements, paragraph .50 states: *"To be reliable, information must represent faithfully the transactions and other events it purports to either represent, or could reasonably be expected to represent. Thus, for example, a statement of financial position should represent faithfully the transactions, conditions and other events that result in assets, liabilities and net assets of the entity at the reporting date which meet the recognition criteria."*

We found that the notional interest on the landfill provision of R9 591 051 is presented as other expenditure in the Annual Financial Statements. We do not consider this presentation to fairly represent the nature of the interest amount.

The above is mainly due to senior management not performing all required duties to ensure accurate and complete presentation of the financial statements.

The risk of the above is that users of the financial statements may be misled and that the financial statements may not comply with the fair presentation qualitative characteristics.

Internal control deficiency

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

Recommendation

Management should correct the incorrect line item and ensure that the financial statements are correctly represented

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

98. Provisions - Incorrect disclosure in the statement of financial performance (CoA 28)

Audit finding

The GRAP Framework for the preparation and presentation of financial statements, paragraph .50 states: *"To be reliable, information must represent faithfully the transactions and other events it purports to either represent, or could reasonably be expected to represent. Thus, for example, a statement of financial position should represent faithfully the transactions, conditions and other events that result in assets, liabilities and net assets of the entity at the reporting date which meet the recognition criteria."*

We found that the provision for rehabilitation of the landfill site was recorded as a current liability and not as a non-current liability on the face of the Statement of Financial Position. We do not consider this presentation to fairly represent the nature of the provision.

The above is mainly due to senior management not performing all required duties to ensure accurate and complete presentation of the financial statements.

The risk of the above is that users of the financial statements may be misled and that the financial statements may not comply with the fair presentation qualitative characteristic.

Internal control deficiency

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

Recommendation

Management should correct the incorrect line item and ensure that the financial statements are correctly represented

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

99. Provisions - Overstatement of site to be rehabilitated (CoA 28)

Audit finding

The principle set out in Appendix C to GRAP 19, example 3, states: *"The provision should be measured as the best estimate of the expenditure required to settle the present obligation, resulting from a past event, at the reporting date. This means that only the portion of the land that has been utilised and damaged should be provided for at reporting date, as the obligating past event is the utilisation of / damage to the land."*

We found that the calculation of the experts was performed on the assumption that 100% of the area of each landfill site will be utilised. However, according to Appendix C to GRAP 19, states that that only the portion of the land that has been utilised and damaged to date should be provided for at reporting date. We could not estimate the financial effect of the assumption that 100% of the area of the landfill sites will be utilised on the calculation of the landfill rehabilitation provision, as we could not determine the area that was actually utilised to date for each landfill site.

This matter may have resulted due to the incorrect interpretation of the requirements outlined in the standard.

This matter may result in the incorrect valuation of the provision.

Internal control deficiency

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

Recommendation

Management should ensure that provisions are calculated accurately and correctly recorded in the financial statements. The necessary adjustments should be made to ensure that provisions are accounted for at the correct value.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

100. Provisions - Non-compliance with legislation (CoA 28)

Audit finding

The Environment Conservation Act 73 of 1989, section 20(1) states the following:

"(1) No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and that minister may-

- (a) issue a permit subject to such conditions as he may deem fit;*
- (b) alter or cancel any permit or condition in a permit;*
- (c) refuse to issue a permit;*

Provided that such Minister may exempt any person or category of persons from obtaining a permit, subject to such conditions as he may deem fit."

We inspected the Jan Palm Consulting Engineers Landfill Closure provision document and confirmed that the Vredefort and Heilbron waste sites have not been permitted in accordance with the Environment Conservation Act 73 of 1989, section 20(1).

The above is mainly due to senior management not performing all required duties to ensure accurate and complete record keeping.

The risk of the above is that the municipality has not complied with the requirements of the Environment Conservation Act 73 of 1989.

Internal control deficiency

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

Recommendation

Management should implement the necessary controls to ensure that it complies with the requirements of the Environment Conservation Act 73 of 1989, and that future compliance with the relevant laws and regulations are monitored by management on an ongoing basis.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

101. Provisions - Contingent liability not raised (CoA 42)

Audit finding

Section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) states that a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made in terms of the National Environmental Management Act.

During our audit we could not get proof that the municipality have licenses to operate the following landfill sites:

- Heilbron Landfill
- Koppies Landfill
- Vredefort Landfill
- Edenville Landfill

We also noted that the municipality has not raised a contingent liability for the possible penalties that could be charged in terms of the non-compliance with the act.

This matter may have resulted due to management not ensuring that the requirements of the act are adhered to.

This matter constitutes non-compliance with the act. This may also result in an understatement of contingent liabilities in the financial statements.

Internal control deficiency

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

Recommendation

Management should follow the required processes in terms of the act to ensure that licenses are obtained for the mentioned landfill sites. If licenses were obtained, then proof thereof should be submitted for audit purposes. Management should also consider the possible impact of fines that can be imposed and should raise a contingent liability accordingly.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

102. Provisions - Leave pay accrual information outstanding (CoA 42)

Audit finding

Section 74(1) of the MFMA states *"That the accounting officer of a municipality must submit to the AGSA such information, returns, documents, explanations and motivations as may be prescribed or as may be required."*

The leave pay accrual information as requested in RFI 95 was not obtained. The following information were requested:

- a list of all staff members that have leave balances available at year end with the rand value of these balances.

The total balance disclosed as leave pay accrual in the financial statements amounts to R16 503 033 (2012: R11 920 990)

Management did not take due care in providing information requested by the auditors and as required by section 74(1) of the MFMA.

The risk of the above we are unable to verify the Occurrence, Completeness and Accuracy of leave pay accrual.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Receivables

103. Receivables - Valuation of debtors (CoA 12)

Audit finding

GRAP 104 states:

"57. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired."

"61. If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit."

"62. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment."

Per inspection of the debtors age analysis, we identified that debtors amounting to R329 606 517 were outstanding for more than 90 days, while the total allowance for impairment from the prior year is only R211 168 681. Management also did not consider the recoverability of long outstanding debtors.

- objective evidence of impairment of receivables therefore exist and management should have made an assessment of impairment of receivables.
- management only rolled forward the prior year allowance, without considering impairment in the current year.

In addition, the prior year allowance were calculated on an overall basis.

- management should first assess impairment individually for financial assets and not on an overall portfolio basis.

The above is mainly due to management not applying the requirements of GRAP104.

The risk of the above is a limitation of scope on Impairment loss per note 30 to the Financial Statement and a limitation of scope of valuation on Receivables from non-exchange transactions per note 7 and Receivables from exchange transactions per note 8 to the Financial Statements.

Internal control deficiency

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

Recommendation

Management should consider impairment of receivables on an annual basis. When performing the impairment calculation, management should apply the requirements of GRAP 104 and consider impairment of receivables on an individual basis.

Management response

Management agrees with the finding. Management is in the process of analyzing the municipal debtors' book. After this has been completed, adequate impairment will be provided for going forward.

We do agree with the findings because most of the time we write letters to the debtor and if they do not respond we do not implement the cut off due to lack of resources.

Auditor's conclusion

Management agrees with the finding. This matter is therefore not resolved for the year under review.

104. Receivables - Debt collection policy not adequately implemented (CoA 21)

Audit finding

MFMA paragraph 62(f)(iii) states: *"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a credit control and debt collection policy referred to in section 96 (b) of the Municipal Systems Act"*

MFMA paragraph 64 (3) states:

"The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days."

MFMA paragraph 97(3) states:

"The accounting officer must immediately inform the parent municipality of any payments due by an organ of state to the entity in respect of service charges, if such payments are regularly in arrears for periods of more than 30 days."

During our testing we noted several government entities on the age analysis with balances outstanding for more than 90 days, which amounted to R15 432 204.66 at year-end. As the debt has been long outstanding it seems that management is not actively implementing a debt collection policy to recover these debt.

The above is mainly due to management not implementing action plans to recover debt owed to the municipality.

The matter may contribute to irrecoverable debt increasing at the municipality.

Internal control deficiency

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

Recommendation

Management should implement a debt collection policy. Recoverability of long outstanding debt should be evaluated at year end and impaired if the debt will not be recovered.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

The proposed audit report paragraph is:

- a) A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
- b) An adequate management, accounting and information system which accounts for [revenue / debtors / receipts of revenue] was not in place, as required by section [64(2)(e) / 97(h)] of the Municipal Finance Management Act.
- c) An effective system of internal control for [debtors / revenue] was not in place, as required by section [64(2)(f) / 97(e)] of the Municipal Finance Management Act.

105. Receivables - Existence of trade receivables (CoA 21)

Audit finding

MFMA section 64 paragraph 2 states:

"(2) The accounting officer must for the purposes of subsection 1 take all reasonable steps to ensure:

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

(ii) accounts for debtors

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

(3) The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services if such payments are regularly in arrears for periods of more than 30 days"

The existence of the following debtors could not be verified by either confirming it with supporting documentation (application forms, arrangements or any other correspondence) or subsequent payments made by these debtors:

Account nr	Debtor name	Balance year end
10538007	H W SENWES LTD VREDEFORT	12,258,974.33
10638455	LR&JF JARDIM	8,106,518.87
10580866	M S THAISI INDIGENT	8,079,584.87
10580400	PP&MS TOKONYE PENSIONER	8,056,435.23
10593994	M A MODIBEDI PENSIONER	8,044,732.43
10573893	MD MAKUME-LERATO MINI MARKET ARRA	2,519,039.70
10563989	DEPT WATERWESE (TOEVOER PUNT&WHITE	2,445,699.84
10248234	TUMAHOLE CLINIC	1,942,529.80
10493952	I POONYANE***	1,416,790.46
10668921	UP ON POINT PROPERTIES5 PTY LT	47,620.31
10574764	T A DHLOMO DECEASED	38,757.17
10558681	CE CLARK	38,663.72
10215344	D MAQWANE	25,397.43
10215744	JT NTLABA	25,397.07
11125324	TJ MABE	25,392.48
11077735	SHEIK GENERAL DEALER	25,389.32
10656269	M BESTER	10,187.19
10054502	ROLBALKLUB	10,187.02
11136826	F F E LEEB	10,156.10

10263335	LN KRAMER	ER	10,156.10
10458150	SAVD		7,885.49
11044528	S M W SMIT		7,879.62
11317664	S L RANTSHO		7,872.83
10201256	DM THAKATHAYO	ER	2,780.58
10246903	S NDWENI		2,742.05
11096315	T J SEFATE		1,972.33
10184593	NL TS MOKOALEDI	X oor E	1,972.28
10626543	M M MAKATE		1,972.02
11128493	H J ELSE		1,971.96
10221379	EM NKALA		1,971.82
10412643	M L POLANE		1,971.79
10258932	RW MARUMO	ER	1,121.13
11323055	FISH AND CHIPS		988.34
10267331	ML MASILO	ER	988.27
10498324	M E SEBOHUDE		987.68
11284009	T FRIEMELT		587.48
10644652	M L TLADI		587.38
10413681	PMV KHESWA		586.59
10186852	ML NDLOVU ***	X	586.39
10436990	S MPHASANE		584.99
10475021	M E MAKAPE		432.48
10608545	M E NOLONOLO		340.04
10441171	M L GAVU		339.97
10265466	ZJ AT MAZIBUKO/THABETHE	E	339.89
11259022	J PRINSLOO		339.48
			53,187,412.32

The existence of Receivables amounting to R28 286 354.35 could not be confirmed in 2011/2012.

The above is mainly due to management not enforcing a debt collection policy to ensure regular payments of debtors.

The risk of the above is that trade and other receivables from exchange transactions as set out in note 8 in the financial statements is overstated and impairment as set out in note 30 of the financial statements could be understated.

Internal control deficiency

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

Recommendation

Management should implement a debt collection policy to ensure recoverability of debtors. Long outstanding debt should be evaluated at year-end and impaired if it is not recoverable. If management has any information to substantiate the existence of the above-mentioned debtors, then this should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

106. Receivables - Incorrect classification of work-in-progress (CoA 21)

Audit finding

GRAP 17 paragraph 6 states: *"Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period."*

Management incorrectly classified all projects-in-progress amounting to R104 923 237 (2012: R104 923 237) as sundry debtors.

This matter may have resulted due to the incorrect classification of ledger accounts on caseware.

The risk of the above is that Property, plant and equipment per note 11 to financial statements is understated by R104,923,237 and sundry debtors per note 6 is overstated by the same amount.

Internal control deficiency

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

Recommendation

Management should reclassify projects-in-progress to property, plant and equipment.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

107. Receivables - Prior year exceptions not resolved (CoA 69)

Audit finding

a) Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: *"15. 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— (a) 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;"*

b) Section 62(1)(b) of the MFMA : *"The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"*

The following requests regarding the prior year could still not be resolved:

- a)
 - The indigent application forms
 - The Supporting documentation supporting the application
 - The name of registered owner
 - The ERF number of the property

Number	Account #
1	10217881
2	10171332
3	10502860
4	10503769
5	10118271
6	10187373
7	10490649
8	11117602
9	10236150
10	11119533
11	10577211
12	11118101
13	10415556
14	10500395
15	10561197
16	10570629
17	10515843
18	10209319
19	10224943
20	10403238
21	10251295
22	10431706
23	10180981
24	10208793
25	10365642
26	10593344
27	10239746
28	10208965
29	10268430
30	10197637
31	10258126
32	10200591
33	10511481
34	10486812
35	10217875
36	10227373
37	10388767
38	10482999
39	11104730
40	10390691
41	10407806
42	11298719

43	10208993
44	10226935
45	10472613
46	10237126
47	11095383
48	10648153
49	10204769
50	10241814
51	11283655
52	10255663
53	10205674
54	10221307
55	10206901
56	10481945
57	10242624
58	10270364
59	10466511
60	10526717
61	10579281
62	10179489
63	10578598
64	10492219
65	10493952

CONFIDENTIAL

Information request

Supporting information for debtors journals

Date	Account Number	Account Name	Reference 1	Reference 2	Reference 3	Amount
201206	9100057022102	DEBTORS - ELECTRICITY SERVICES	Auditors Journals	FIN11/12 ADJ	20121205	1,697,868.08
201206	9100057022104	DEBTORS - REFUSE SERVICES	Auditors Journals	FIN11/12 ADJ	20121205	8,052,157.95
201206	9100057022101	DEBTORS - WATER SERVICES	Auditors Journals	FIN11/12 ADJ	20121205	8,289,238.80
201206	9100057022105	DEBTORS - PROPERTY TAX	Auditors Journals	FIN11/12 ADJ	20121205	18,567,899.06
201206	9100057022103	DEBTORS - SEWERAGE SERVICES	Auditors Journals	FIN11/12 ADJ	20121205	18,865,377.48

Date	Account	Reference	Account Number	Debit	Credit
30/06/2012	Property Rates	FIN11/12 ADJ	2015052031040	1 004 283.00	
	Income forgone	FIN11/12 ADJ	2015052452505	800 237.00	
	Sundry Debtors	FIN11/12 ADJ	9100057030101		1 804 520.00
30/06/2012	Provision for bad debts - Rates	FIN11/12 ADJ	9100057023101	81 263 375.77	
	Provision for bad debts - Water	FIN11/12 ADJ	9100057023201		23 166 501.67
	Provision for bad debts - Electricity	FIN11/12 ADJ	9100057023301		11 639 378.39
	Provision for BA	FIN11/12 ADJ	9100057029998		22 636 266.24
	Provision for BA	FIN11/12 ADJ	9100057029999		23 821 229.47
30/06/2012	Debtors Payments in Advance				14 215 805.50
	Debtors - Water Services		9100033030201		2 027 136.91
	Debtors - Electricity Service		9100057022101		4 032 399.03
	Debtors - Sewerage Service		9100057022102		1 043 231.09
	Debtors - Refuse Services		9100057022103	1 803 148.14	
	Debtors - Property tax		9100057022105	19 515 424.39	



b)

The value of the impairment per supporting calculation, done in the prior year, does not agree to the value as indicated in the financial statements

	Disclosed in financial statements	Impairment per supporting calculation	Difference	
Impairment (Note 7,8 AFS)	R 206,214,629	R 212,112,968	R 5,898,339	N1

N1 – Impairment understated by R 5,898,339

a) The above is mainly due to a lack of sufficient recordkeeping at the municipality.

b) Management did not exercise due care in ensuring the value of the calculation was correctly transferred to the financial statements.

a) The risk of the above is a limitation of scope regarding the Occurrence, Completeness, Classification and Accuracy and valuation as well as Compliance of Consumer deposit , per note 6,7 and 8 to the Financial Statements.

b) Misstatement :

Impairment loss : Disagreement – The impairment loss as disclosed in note 30 to the financial statements is understated by R 5,898,339 and the receivables from exchange and non exchange transactions as disclosed in note 7,8 is overstated by R 5,898,339

Internal control deficiency

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

Recommendation

a) Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time

b) Management should implement controls over the processing of information on the financial statements and the general ledger.

Management response

We agree with the findings and management will ensure the indigent register will be updated and reconciled. We will ensure the supporting document are safely kept for audit purposes.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Reserves

108. Prior period errors - Unexplained prior period adjustments (CoA 30)

Audit finding

GRAP 3 paragraph 51 states:

"In applying paragraph .44, an entity shall disclose the following:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected."

We identified the following prior period adjustments that were not disclosed:

A. Unexplained adjustments on the face of Statement of financial performance:

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
Fair value adjustment	-	(7,800,879)	7,800,879

B. Unexplained adjustments in the notes to the financial statements:

4. Other financial assets

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
Available -for-sale	184,156	72,161	111,995
Unlisted shares	473,776	236,209	237,567
	657,932	308,370	237,567
Held to maturity			
Other financial assets	8,277,785	415,938	7,861,847
Total other financial assets	8,935,717	724,308	8,099,414
Non-current assets	8,277,785	724,308	7,553,477
Current assets	657,932	410,532	247,400
	8,935,717	1,134,840	7,800,877

27. Employee related cost

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
Basic	70,027,329	66,035,969	3,991,360

Remuneration of the Chief Financial Officer (1 July 2011 to 30 April 2012)			
Annual remuneration	621,248	621,248	-
Acting allowance	-	33,966	(33,966)
Car allowance	217,638	217,638	-
Performance bonuses	1,281	1,281	-
	<u>840,167</u>	<u>874,133</u>	<u>(33,966)</u>
Remuneration of the Chief Financial Officer (1 May 2012 to 30 June 2012)			
Acting allowance	33,966	-	33,966

33. Contracted services

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
Specialist Services	-	7,996,512	(7,996,512)

34. General expenses

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
Consulting and professional fees	9,384,933	1,388,421	7,996,512

36. Commitments

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
This expenditure is financed from:			
Government grant	148,127,184	-	148,127,184
District council grant	40,007,420	-	40,007,420
Other	5,382,159	-	5,382,159
	<u>193,516,763</u>	<u>-</u>	<u>193,516,763</u>

40. Additional disclosures in terms of Municipal Finance Act

Councillors' arrear consumer accounts

	2012 figure per 2012 AFS [A]	2012 figure per 2013 AFS [B]	Difference [A - B]
<u>Outstanding less than 90 days</u>			
Bocibo	-	698	(698)
Choni	-	928	(928)
GP Mandelstam	-	1,812	(1,812)
RI Masike	-	606	(606)
LZ Mareletse	-	24	(24)
NA Ndlovu	-	797	(797)

	-	4,865	(4,865)
<u>Outstanding more than 90 days</u>			
Bocibo	-	13,194	(13,194)
Choni	-	8,653	(8,653)
GP Mandelstam	-	23,803	(23,803)
RI Masike	-	5,475	(5,475)
LZ Mareletse	-	1,581	(1,581)
NA Ndlovu	-	392	(392)
	-	53,098	(53,098)

The above is mainly due to management not complying with the requirements of GRAP 3.

The risk of the above is that Prior Period Errors per note 39 to the financial statements could not be audited, imposing a scope limitation on prior period figures.

Internal control deficiency

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

Recommendation

Management should disclose all prior period adjustment as part of note 39, Prior period errors. Management should provide supporting documents for all prior period adjustments.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

109. Accumulated surplus - Statement of changes in net assets (CoA 47)

Audit finding

GRAP 1 paragraph 109 states: *An entity shall present a statement of changes in net assets as required by paragraph .11. The statement of changes in net assets includes the following information: (d) for each component of net assets, the effects of changes in accounting policies and the corrections of errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.*"

Contrary to the above requirement regarding the presentation of the Statement of Changes in Net assets, we identified that management did not disclose separately the prior period adjustments. We also identified that the prior period adjustment were not correctly split between adjustment relating to the 2011/12 financial year and adjustment relating to the opening balance of the 2011/12 year.

The above caused the following differences in the Statement of Changes in Net Assets:

	Accumulated surplus (R)		
	Calculated	Disclosed	Difference
Balance at 01 July 2011	1,320,069,687.00	1,302,529,391.00	17,540,296.00
Prior period adjustment of opening balance	(21,446,866.00)	-	(21,446,866.00)
Balance at 01 July 2011 (restated)	1,298,622,821.00	1,302,529,391.00	(3,906,570.00)
Changes in net assets			
Fair value gains, net of tax: Land and buildings	(980,483.00)	(980,483.00)	-
Surplus for the year	(101,043,862.00)	(103,083,432.00)	2,039,570.00
Prior period errors	1,867,000.00	-	1,867,000.00
Balance at 30 June 2012	1,198,465,476.00	1,198,465,476.00	-
Changes in net assets			
Surplus for the year	(73,482,615)	(73,482,615)	-
Balance at 30 June 2013	1,124,982,861.00	1,124,982,861.00	-

This matter has resulted due to inadequate review of the financial statements before submission.

The risk of the above is that the Statement of Changes in Net Assets is misstated.

Internal control deficiency

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

Recommendation

Management should adjust the Statement of Changes in Net Assets to ensure that the disclosure agrees with the requirement of GRAP 1. Management should ensure that all prior period adjustment are presented in the correct period.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Revenue

110. Service charges - Overstatement of service income (CoA 9)

Audit finding

GRAP 9 paragraph 15 states: "Revenue shall be measured at the fair value of the consideration received or receivable".

We compared the different service charges on a month to month basis and noted that May 2013 was significantly higher than the previous months for water and electricity charges. Through discussion with management it was noted that for this month, exception reports were not reviewed and corrections were not made before the accounts were levied. No correction has been processed before the year end of June 2013 which could cause that service charges and receivables are overstated at year-end:

	May-13 levied R	Average previous 10 Months levied R	Difference R
Electricity	15 500 676,44	6 020 093,57	9 480 582,87
Water	25 030 170,44	3 478 902,26	21 551 268,18
Possible overstatement			<u>31 031 851,05</u>

The above is mainly due to inaccurate meter readings being captured and proper internal controls not in place to detect and correct incorrect meter readings.

The risk of the above is that service charges and consumer debtors are overstated at year-end.

Internal control deficiency

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

Recommendation

Management should ensure that proper internal controls are implemented to prevent, detect and correct incorrect meter readings. Management should provide supporting documentation/explanations for the above finding.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

111. Property rates - Discounts incorrectly accounted for (CoA 26)

Audit finding

Section 122(1)(a) of the MFMA states: "of the MFMA 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 or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."

Paragraph 46 of GRAP 23 states that revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets recognised by the entity.

Through inspection of the financial statements, it was noted that consumer incentive for property rates amounting to R28 962 645,10 was incorrectly disclosed as part of the service charges note. Based on our interpretation of GRAP 23, this amount should have been net off against the amount disclosed in note 25 for property rates, and only the net amount should have been recognised as income.

This matter may have resulted due to the incorrect classification of ledger accounts in the financial statements.

This matter will result in the overstatement of property rates income and understatement of service charges income.

Internal control deficiency

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

Recommendation

Management should review the financial statements in detail, prior to submission for audit purposes. The necessary adjustments should also be made to ensure that all the information is disclosed in the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

112. Service charges - Limitation regarding completeness (CoA 36)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "5. *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— (a) 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;*"

Information request 95 refers. The following information has not yet been submitted for audit purposes:

a) Supporting documentation regarding the following transactions relating to debit transactions posted to service charges:

Account nr	Ref		Date	Amount
<u>Refuse</u>				
11226910	BJ71733305	JB	20130310	124,853.77
				124,853.77

Sewerage				
	DEPT783284	JB	20130626	237,640.48
11226910	BJ71733305	JB	20130310	131,549.73
11055436	BJ71780994	JB	20130613	128,198.44
				497,388.65
Electricity				
10663698	BJ71733489	JB	20130314	1,190,221.20
10458605	BJ71637415	JB	20120822	1,070,175.44
10433598	BJ71637245	JB	20120817	1,067,050.01
10633677	M013780803	JB	20130531	1,056,965.88
10163454	BJ71733263	JB	20130307	295,200.00
10416211	BJ71648247	JB	20120829	225,904.20
10381070	BJ71693325	JB	20121129	214,684.66
10381070	BJ71733687	JB	20130319	203,389.30
10487822	BJ71648247	JB	20120829	175,670.10
10444101	BJ71648308	JB	20120831	168,055.20
10453950	493050	L	20120825	165,664.80
10448363	BJ71762900	JB	20130429	149,295.33
10381070	BJ71733687	JB	20130319	136,966.25
10365036	BJ71637246	JB	20120817	129,884.00
11085946	7610657	L	20120719	125,985.09
11077779	BJ71763288	JB	20130520	120,098.30
11105867	7820	L	20120720	112,445.80
10535716	BJ71676208	JB	20121031	109,997.65
10643719	BJ71637417	JB	20120822	107,017.54
10374552	BJ71718579	JB	20130205	106,000.00
				6,930,670.75
Water				
10145028	ZZR582	L	20130217	2,740,244.74
10145028	YZR695	L	20130121	1,407,797.81
10505690	M013779705	JB	20130531	700,688.65
	DEPT783254	JB	20130626	487,821.06
10408400	111347	L	20120720	142,914.58
10652057	BJ71662256	JB	20120919	126,572.90
10408400	171147	L	20120720	115,311.00
10646816	ZPN16	L	20130422	111,275.32
10181468	769933D	L	20130422	74,421.70
10496304	M013778814	JB	20130531	70,446.85

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of above is that we could not obtain sufficient appropriate audit evidence over the completeness of service income.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Kindly take note that the above said request has been submitted to Marcel Naude.

Auditor's conclusion

We did receive some of the journals but there were still some outstanding. Refer to the Nature of the exception for outstanding journals.

113. Grants income - Prior year issues still unresolved (CoA 74)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following:

"15. 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:

(a) 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"

Information regarding the following requests (relating to prior year outstanding information requests) was not received within the agreed upon period.

- Information request 7 (Re-issued request for prior year request no 104)
- Information request 100 (Combined re-issued request for prior year request no 33, 115, 124, 129A, 134 and 146)

Per current year - request 7:

Information requested (per prior year RFI 104) was as follows:
Please supply us with tender documentation, including contracts or agreements, for the following projects:

PROJECT DESCRIPTION	PROJECT NUMBER	SUPPLIER NAME
HEILBRON:BUCKET ERADICATION	MIG/FS/0123/S/06/09	JAMPE CONSTRUCTION
HEILBRON:BUCKET ERADICATION	MIG/FS/0123/S/06/09	CEMFORCE CC
HEILBRON:BUCKET ERADICATION	MIG/FS/0123/S/06/09	REKHUDITSE BRYN

Per current year - request 100:

1. Requested information (per prior year RFI 33) was as follows:

a) Reconciliation

Provide the period-end reconciliation as on 30 June 2012 between:

- the unspent grants register and
- the general ledger (amounts relating to unspent grants)

Provide supporting documentation for reconciling items

b) Register of conditional grants for the 2011/12 financial period indicating:

- Nature of the grant project for which grant is utilized
- Amount received
- Amounts spent
- Unspent amount at year end.

c) Retention of Unspent funds

- Motivation or application that was provided to National Treasury by the receiving officer relating to the retention of unspent funds as at 30 June 2012.
- Confirmation from National Treasury approving the retention of unspent funds as at 30 June 2012.
- An application of the retention of unspent funds as at 30 June 2012.

2. Requested information (per prior year RFI 115) was as follows:

Description	Amount
1. Please supply us with supporting documentation for total expenses amounting to R790 000 that were funded through the Municipal Systems Improvement Grant.	790,000.00
2. Please supply us with supporting documentation for total expenses amounting to R324 988 that were funded through the Financial Management Grant as indicated below: - Salaries = R280 000	324,988.00
3. Please supply us with supporting documentation for expenses amounting to R500'000 that were funded through the Operation Hlasela Project	500,000.00

3. Requested information (per prior year RFI 124) was as follows:

Correspondence from local or provincial government which confirms the balances of grants from Human Settlements and SETA as indicated below:

Grant Name	Description	Amount
LGSETA	Receipts from the relevant entities for the 2011/2012 financial year	87,025.00
	Closing balances of the unspent liabilities as at 30 June 2012	1,120,750.72
Human Settlements	Receipts from the relevant entities for the 2011/2012 financial year	26,000.00
	Closing balances of the unspent liabilities as at 30 June 2012	1,716,000.00

4. Requested information (per prior year RFI 129A) was as follows:

Explanations about the nature of capital items disclosed in note 20 of the 2011/2012 financial statements, amounting to R337'508.

5. Requested information (per prior year RFI 134) was as follows:

Supporting documentation for the following expenses pertaining to Municipal Infrastructure Grant for the 2010/2011 period

Date Paid	Project description	Project number	Supplier name	Amount
18/02/2011	Heilbron: Bucket Eradication	MIG/FS/0123/S/06/09	Jampe Construction	349,447.00
15/07/2010	Heilbron: Upgrading of wastewater treatment works	MIG/FS/0623/S/08/10	Wamesa civil construction	762,470.00
20/08/2010	Upgrading of pumps and pipelines between reservoir and additional reservoir	MIG/FS/0711/W/09/09	Structa Technology	549,414.00
14/02/2011	Heilbron: Paving of streets	MIG/FS0568/RST/07/08	Molprocon	3,549,914.00
15/02/2011	Koppies: Paving of streets	MIG/FS0571/R,ST/07/09	Molprocon	1,672,129.00
24/12/2010	Parys: Paving of streets	MIG/FS0826/R,ST/11/11	Aphane Molprocon consulting	2,000,000.00
14/02/2011	Parys: Paving of streets	MIG/FS0826/R,ST/11/11	Aphane Molprocon consulting	4,864,618.00
24/05/2011	Tumahole Bucket eradication	MIG/FS/0126/S/06/06	Fastvents 15 CC	622,894.00
4/6/2011	Ulti: Ultimate Dynamic civils	FIN90100018749		957,066.04
10/7/2010	Ulti: Ultimate Dynamic civils	FIN90100015916		435,867.02
2/22/2011	Ulti: Ultimate Dynamic civils	FIN90100017853		285,303.64

6. Requested information (per prior year RFI 146) was as follows:

The supporting tender documentation pertaining to the sample as indicated below were not received within the agreed upon time period

Project number	Project description	Supplier name
MIG/FS/0123/S/06/09	Heilbron: Bucket Eradication	Betram (Amalooloo)
MIG/FS/0123/S/06/09	Heilbron: Bucket Eradication	Water Africa

MIG/FS/0711/W/09/09	Upgrading of pumps and pipelines between reservoir and additional reservoir	Structa Technology
MIG/FS0568/RST/07/08	Heilbron: Paving of streets	Molprocon
MIG/FS0572/R,ST/07/09	Edenvale: Paving of streets	Molprocon
MIG/FS0571/R,ST/07/09	Koppies: Paving of streets	Molprocon
MIG/FS0826/R,ST/11/11	Parys: Paving of streets	Alphane Molprocon Consulting
MIG/FS/0126/S/06/06	Tumahole: Bucket Eradication	Fastvents 15 CC
FIN90100018749		Ulti: Unlimate Dynamics Civils
1007119		Dir18008: Electrical Material
FIN90100016833		Lyo000: Lyon & Partners
FIN90100017581		Randee: Randeess Electrical CC

The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality

The risk of the above mentioned is that the opening balance of unspent conditional grants and receipts (As set out in note 26 to the Financial Statements) could not be audited, because of a limitation of scope.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof.
Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

114. Grants income - Outstanding compliance information (CoA 74)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following:

"15. 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—

(a) 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"

Information regarding information request 117, was not received within the agreed upon period. The information requested read as follow:

Supporting documentation to show that the following compliance requirements (for conditional grants) have been adhered to:

General requirements	
1. The municipality reported to the transferring national officer, the relevant provincial treasury and the National Treasury as part of its monthly budget statement: a) the amount received by the municipality; b). the amount of funds stopped or withheld from the municipality; c) the extent of compliance with the DoRA and with the conditions of the allocation; and d) an explanation of material problems experienced by the municipality and a summary of the steps taken to deal with such problems.	DoRA 12(2)(b) DoRA 12(4) MFMA sec.71
2. Within 30 days after the end of each quarter, the municipality submitted quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury.	DoRA 12(2)(c)
3. Conditional grant funds unspent at year end, were surrendered to the National Revenue Fund, unless the unspent funds were committed to identifiable projects and the National Treasury approved its retention.	DoRA 21(1) DoRA 21(3)

The following requirements are specific to the following grants:

- MIG (Municipal Infrastructure Grant)
- INEG (Integrated National Electrification Programme (Municipal) Grant)
- FMG (Local Government Financial Management Grant)
- MSIG (Municipal Systems Improvement Grant)

Specific	
Within two months after the end of the financial year the municipality: a) evaluated its performance in respect of programmes funded by the allocation; and b) submitted the evaluation to the transferring national officer.	DoRA 12(5)
The municipality tabled a three year capital budget as part of its 2012/13 financial year's budget. <i>Note:</i> 1. Compliance is achieved by inspecting the 2012/13 budget tabled in council. 2. Additional source of evidence, inspection of council minutes to identify tabling of the capital budget.	DoRA Grant Framework, (Gazette no 35399)
By 1 August 2012, the municipality submitted all project registration forms, for projects to be implemented in 2013/14, to the provincial department of local government.	DoRA Grant Framework, (Gazette no 35399)

By 31 October 2012, the municipality submitted its detailed project implementation plan for projects to be implemented in 2013/14 and 2014/15 financial years, to the national department (CoGTA).	DoRA Grant Framework, (Gazette no 35399)
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The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality

The risk of the above mentioned is that compliance relating to conditional grants could not be audited, because of a limitation of scope.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof.
Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

In the absence of the above-mentioned, the following is the proposed audit report paragraphs:

- a) Unspent conditional grant funds [not committed to identifiable projects and/or not approved by the National Treasury for retention], were not surrendered to National Revenue Fund, as required by section 21(1) of the Division of Revenue Act.
- b) The municipality did not [evaluate its performance in respect of programmes funded by the MSIG, FMG, Integrated National Electrification Programme Grant, MIG / submit the evaluation to the transferring national officer] within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
- c) The municipality did not submit its signed activity plan and/or in the prescribed format to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399 with regard to the MSIG.
- d) The municipality did not submitted, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399 with regard to the MSIG.
- e) The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399 with regard to the FMG.
- f) The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, Gazette No.35399.

- g) Projects funded by the Integrated National electrification Programme grant were not implemented in line with the details contained in the Integrated Development Plan, as required by the Division of Revenue Grant Framework, Gazette No.35399.
- h) The municipality did not table a three year capital budget as part of its 2012/13 financial year's budget, as required by the Division of Revenue Grant Framework, Gazette No.35399.
- i) The municipality did not timeously submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.
- j) The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.
- k) The municipality did not submit quarterly performance reports to the transferring national officer, the (relevant provincial treasury) and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act.

115. Service charges - Information regarding pre-paid electricity not submitted (CoA 65)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: *"15. 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—(a) 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;"*

Request for information number 111 refers. Management did not provide us with a system printout of the pre-paid electricity units sold by BTI on 30 June 2013 and 30 June 2012. Furthermore, management did not provide us with a summary of the total sales per month by BTI for the financial year under review.

The nature of this exception raised is mainly due to management's failure to respond to the audit request as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of Pre-paid electricity as per note 22 to the Financial Statements could not be verified and thus increasing the risk that Service charges could be either over-/ understated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Management agree with the finding. However, the following documents were submitted for audit purposes as was requested:

1. Duplicate receipts for 30 JUNE 2013 from BIT
2. Monthly reports from BIT as at 30 June 2013 indicating the commission earned by BIT

We will ensure that all documents supporting future transactions with BIT are safeguarded and made available for audit purposes.

Auditor's conclusion

We received the information from BIT, but not from the system (therefore, nothing to compare the BIT reports with). Matter will therefore remain unresolved for the year under review.

116. Service charges - Prior year exceptions not resolved (CoA 70)

Audit finding

A

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following:

"15. 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—
(a) 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;"

B

The MFMA, Section 97: Revenue management, states the following:

"The accounting officer of a municipal entity must take all reasonable steps to ensure—
(a) that the entity has and implements effective revenue collection systems to give effect to its budget;
(b) that all revenue due to the entity is collected;
(h) that the municipal entity has and maintains a management, accounting and information system which—
(i) recognises revenue when it is earned;
(ii) accounts for debtors; and
(iii) accounts for receipts of revenue;
(i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed"

The following information regarding prior year exceptions were still not resolved:

A

The information requested was as follows:

No.	Service Charges (79)
1	Service Charges Printout (Service listing) for the 2011/12 financial period
2	Daily Sales report for the 2011/12 financial period
3	Revenue Collection report for the 2011/12 financial period.
4	Water meter readings for the 2011/12 financial period
5	Billing report for the 2011/12 financial period
6	Monthly exception reports on service charges
7	Approved Service charge rates for the 2011/12 financial year.

Per audit work performed, it was noted that the following transactions were not supported by sufficient supporting documentation:

Electricity - Debits

RFI #	Account No.	Reference	Date	Amount (Excl VAT)
1	10595786	JUNE189104	20110721	186.89
2	10624828	JUNE189970	20110721	186.89
3	10190217	BJ71191448	20110729	61,804.00
4	11113484	BJ71282228	20110830	25,638.75
5	10135558	BJ71312753	20110914	94,500.00
6	10558003	BJ71313129	20110929	944,155.60
12	10136029	332916	20120127	3,687.22
13	10537053	20089	20120127	621.30
14	10528759	10224	20120127	3,932.25
15	10635336	4002100	20120127	147.60
16	11109580	82	20120228	18,100.00
17	11291155	BJ71462540	20120229	324,065.00
19	10581365	BJ71482908	20120308	25,384.00
20	10444101	BJ71483243	20120315	751,204.75
				<u>2,253,614.25</u>

Water - Debits RFI

RFI #	Account No.	Reference	Date	Amount (Excl VAT)
1	10408400	111347	20110831	110,403.58
4	10380565	15383	20111204	519.20
5	11045516	VAT438	20120127	2,090.64
6	10464480	2590	20120127	935.32
10	10576223	BJ71482853	20120307	536,960.18
17	10262125	BJ71482926	20120308	53,905.46
18	10231227	BJ71482965	20120309	53,782.48
19	10205468	BJ71483013	20120309	53,825.00
20	10645006	BJ71483060	20120312	4,890,149.44
21	10204531	BJ71483158	20120313	54,040.20
66	10604905	BJ71564675	20120619	1,066,405.87
67	10640951	BJ71564676	20120619	963,679.45
69	10188044	BJ71588475	20120626	53,870.02
				<u>7,840,566.84</u>

Total

10,094,181.09

Meter readings for the month of Decmber2011 and June 2012 were not submitted as requested

Please provide the following information for the attached transactions:

Credit transactions



1. Supporting documentation supporting the Transactions (e.g statement/ Invoice issued to the client)

Debits

RFI Item Number	Account No.	Ref	Date	Amount (Excl VAT)
7	10388989	3556	20120127	1,496.04
8	11083310	424087	20120228	1,114.32

Credits

RFI Item Number	Account No.	Ref	Date	Amount (Excl VAT)
16	10228200		20111204	32.00
82	10557493	BJ71564174	20120531	3,217,336.07
92	10553653	BJ71564174	20120531	818,117.50
101	10556261	BJ71564174	20120531	5,666,547.67

B

For Service charges, the following audit differences were identified between the Debtors system and the supporting documentation:

Refuse Removal

RFI #	Acc No.	Ref	Date	Amount per Debtors system (Excl VAT)	Recalculation (Audited amount)	Audit Differences
13	10671487	N/A	20111221	771.12	64.26	(706.86)
15	10469179	N/A	20120130	3,998.60	399.86	(3,598.74)
20	10134760	N/A	20120426	339,855.53	64.26	(339,791.27)
				344,625.25	528.38	(344,096.87)

Electricity - Credits

RFI #	Acc No.	Ref	Date	Amount per Debtors system (Excl VAT)	Recalculation (Audited amount)	Audit Differences
7	10162599	139615070	20110830	18,525.00	370.50	18,154.50
22	10493952	30354	20111003	1,068,771.64	799,081.60	269,690.04
42	10389561	101262REN	20111204	888,888.88	56,968,159.20	(56,079,270.32)
54	10361163	8401383	20120130	34,542.00	1,151.40	33,390.60
				2,010,727.52	57,768,762.70	(55,758,035.18)

Water - Credits



RFI #	Acc No.	Ref	Date	Amount per Debtors system (Excl VAT)	Recalculation (Audited amount)	Audit Differences
14	11076119	N/A	20111109	32.00	67.99	(35.99)
21	10469563	957	20111204	53,344.68	53,323.82	20.86
25	10552910	2022600	20111205	1,831.84	1,894.42	(62.58)
27	10562868	2149000	20111205	5,379,952.90	5,379,973.76	(20.86)
36	10167250	CLKK081	20120127	3,391.38	3,433.10	(41.72)
39	10581365	1063900	20120127	5,379,538.64	5,379,559.50	(20.86)
44	10448785	529	20120130	532,137.12	532,157.98	(20.86)
52	10476170	N/A	20120330	32.00	102.78	(70.78)
59	10543672	1006100	20120526	5,379,852.66	5,379,936.10	(83.44)
60	10552360	1006400	20120526	5,339,734.66	5,339,838.96	(104.30)
62	10552871	1009500	20120526	5,331,105.14	5,331,209.44	(104.30)
63	10553819	1012100	20120526	5,379,821.04	5,379,925.34	(104.30)
64	10554324	1014400	20120526	5,379,842.56	5,379,946.86	(104.30)
65	10545058	1017000	20120526	5,379,858.70	5,379,963.00	(104.30)
66	10661862	1017900	20120526	5,379,621.98	5,379,726.28	(104.30)
68	11092931	1026900	20120526	5,379,766.58	5,379,850.02	(83.44)
71	10579469	102785	20120526	6,459,425.06	6,459,870.80	(445.74)
74	10556411	1028404	20120526	5,379,320.70	5,379,425.00	(104.30)
76	10618865	1037400	20120526	5,379,691.92	5,379,796.22	(104.30)
				71,518,301.56	71,520,001.37	(1,699.81)

Sewerage

RFI #	Acc No.	Ref	Date	Amount per Debtors system (Excl VAT)	Recalculation (Audited amount)	Audit Differences
8	11110410	N/A	20111204	10,044.32	114.14	(10,044.32)
				10,044.32	114.14	(10,044.32)

Total 73,939,443.55 129,289,006.73 (56,114,276.04)

A

The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality.

B



- 1) Reconciliations are not performed between electricity and water sold to consumers, and electricity and water purchased from Rand Water and Eskom on a monthly basis. Furthermore there are no controls over the sewerage and refuse processes.
- 2) Reconciliation controls are not implemented to ensure that income is accurate, complete, and had indeed been received (occurrence).
- 3) The municipalities outdated infrastructure (e.g. Old water plant, outdated meter readers, damaged pipelines and illegal connection by the public for water and electricity) makes it difficult for the municipality to accurately determine units consumed.
- 4) Meters are not read on a monthly consistent basis, thus resulting in meters exceeding their reading threshold. In such circumstances, it is difficult to determine consumption.

The above results inaccurate revenue recognised based on inaccurate consumption data.

A

The risk of the abovementioned is a limitation of scope on Occurrence, Completeness and Accuracy as well as compliance of Service Charges as per note 22 to the Financial Statements regarding the prior period.

B

The risk of the above is that Service charges per the prior year as disclosed in Note 22 to the financial statements is factually understated by R 56,114,276.04 and Accounts Receivable is understated by the same amount.

The above also constitutes a non-compliance with section 64 of the MFMA.

The lack of controls impacts the completeness and accuracy of property rates revenue, revenue from service charges and other income as disclosed in statement of financial performance, and may also result in financial losses being incurred by the municipality. Reticulation losses are furthermore not recorded and accounted for. Excessive losses are also not identified and investigated to ensure that they don't re-occur in future.

Internal control deficiency

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

Recommendation

A

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time

B

- 1) The units of electricity and water sold should be reconciled to the number of units purchased to ensure that all units are accounted for and to assess the reasonability of estimated units to be invoiced;

2) Meters should be read on a monthly consistent basis. The Municipality should include a clause in their service level agreement with Isinto Consultants (the consultants who read the municipality's meters) whereby if meters are not read on a monthly basis, the municipality would not be liable for payment.

3) In order to assist the above process management should ensure that through the municipality's capital expenditure programs that key equipment is not only upgraded when needed but an effective maintenance and monitoring program is implemented in order to protect property of the municipality, to ensure that the above controls can be performed.

4) In addition it is evident that staff members who have been given the responsibility of performing these controls need the support from managers in order for the control to be effectively and accurately performed. For example:

- training provided to understand the system used in order to understand what to reconcile and how to follow any discrepancies identified.

It is important that the communication between the various role players (e.g meter readers and finance section) be improved in order to ensure that staff work together to ensure all damaged meters are timeously fixed and all revenue due to the municipality is collected.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

117. Property rates - Prior year disclosure misstatements not corrected (CoA 5)

Audit finding

Section 122(1)(a) of the MFMA states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Contrary to the requirement the following matters that were raised in the prior year regarding the property rates disclosure were still not corrected in the corresponding balances for the current year's financial statement:

- Property rates in the prior year is overstated by R11 703 170 - Consumer incentive account is disclosed under service charges of which part of that amount of consumer incentive account relates to property rates.
- Property rates revenue was understated with R66 150.80 in the prior year's financial statements due to the incorrect tariff rates being used to calculate the property rates:

FARM #	REGISTRATION DIVISION	REGISTERED FARM NAME	Amount per the system	Recalculated rates B = A* 0.00889	difference
000001	HEILBRON RD	ROOI-POORT 1	6,133.44	9,242.52	(3,109.08)
000001	HEILBRON RD	ROOI-POORT 1	1,777.56	2,666.11	(888.55)
000003	HEILBRON RD	RUSTDEEL 3			

			10,845.36	12,530.73	(1,685.37)
000004	HEILBRON RD	ABERDEEN 4	9,957.24	14,841.36	(4,884.12)
000006	HEILBRON RD	ABERDEEN 6	6,666.84	8,087.21	(1,420.37)
000006	HEILBRON RD	ABERDEEN 6	7,378.92	7,820.60	(441.68)
000006	HEILBRON RD	ABERDEEN 6	7,467.60	8,531.56	(1,063.96)
000010	HEILBRON RD	BOSCHKRANS 10	5,867.40	11,464.28	(5,596.88)
000010	HEILBRON RD	BOSCHKRANS 10	10,934.04	13,419.43	(2,485.39)
000011	HEILBRON RD	BLAAUWBOSCH BANK 11	1,511.52	2,666.11	(1,154.59)
000012	HEILBRON RD	BAVIAANKRANS 12	3,111.72	6,220.93	(3,109.21)
000015	HEILBRON RD	MARIA 15	2,755.68	4,443.52	(1,687.84)
000017	HEILBRON RD	RUSTHOF 17	19,647.12	26,838.86	(7,191.74)
000018	HEILBRON RD	BUFFELSVLEY 18	2,310.96	5,509.96	(3,199.00)
000019	HEILBRON RD	BLESBOK FONTEIN 19	13,067.64	16,618.76	(3,551.12)
000021	HEILBRON RD	PALESTINA 21	6,768.00	6,398.67	369.33
000021	HEILBRON RD	PALESTINA 21	3,822.48	4,799.00	(976.52)
000022	HEILBRON RD	WELTEVREDEN 22	1,332.84	15,285.71	(13,952.87)
000023	HEILBRON RD	LETTIES RUST 23	3,556.44	4,265.78	(709.34)
000024	HEILBRON RD	BLYVOORUITZICHT 24	11,912.16	14,219.26	(2,307.10)
000024	HEILBRON RD	BLYVOORUITZICHT 24	8,711.76	10,042.36	(1,330.60)
000025	HEILBRON RD	BRAK SPRUIT 25	5,600.04	6,754.15	(1,154.11)
000026	HEILBRON RD	SCHAAPRAND 26	1,600.20	3,199.33	(1,599.13)
000027	HEILBRON RD	BERLYN 27	3,911.16	4,354.65	(443.49)
000029	HEILBRON RD	BRAKLAAGTE 29	2,755.68	4,443.52	(1,687.84)
000030	HEILBRON RD	B S RUST 30	7,733.64	9,864.61	(2,130.97)
000030	HEILBRON RD	B S RUST 30	1,332.84	2,932.72	(1,599.88)
000031	HEILBRON RD	BLESBOKFONTEIN 31	4,711.92	9,420.26	(4,708.34)
000031	HEILBRON RD	BLESBOKFONTEIN 31	4,089.84	7,020.76	(2,930.92)
000031	HEILBRON RD	BLESBOKFONTEIN 31	1,511.52	2,132.89	(621.37)
000031	HEILBRON RD	BLESBOKFONTEIN 31	1,600.20	3,199.33	(1,599.13)
000031	HEILBRON RD	BLESBOKFONTEIN 31	4,889.28	10,842.19	(5,952.91)
000032	HEILBRON RD	BRAK FONTEIN 32	2,310.96	4,976.74	(2,665.78)
000034	HEILBRON RD	CIJFERKUIL 34	2,489.64	3,554.82	(1,065.18)
000035	HEILBRON RD	CANAAN 35	7,644.96	10,042.36	(2,397.40)
000040	HEILBRON RD	DRIEFONTEIN 40			(11,369.55)



			17,602.20	28,971.75)
000043	HEILBRON RD	DRUPFONTEIN 43	2,310.96	2,754.98	(444.02)

This fact that the prior year matters were not resolved in the current year can be due to the late appointment of the consultants.

These matters will result in a misstatement of property rates income.

Internal control deficiency

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

Recommendation

Management must correct the corresponding balance in the financial statements, and where necessary, ensure that the correct tariffs are levied with regard to property rates.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

118. Service charges - Meter readings could not be verified (CoA 6)

Audit finding

MFMA section 62 states:

"The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

We could not confirm the following meter readings in the meter reading books:

Water

#	ACCOUNT-NUMBER	REF	TYPE	DATE	UNIT-NUMBER	Amount
1	10076762	685943	LF	20120906	1010000000075700000000000000	-
2	11299113	866822	LF	20120906	1010000000114600000000000000	(75.35)
3	10159083	331494	LF	20130118	1010000000267400000000000000	-
4	10655382	889007	LF	20130118	1010000000157000000000000000	-
5	10620349	CRAD6473	LF	20130118	1010000000006700000000000000	-
6	11101338	BYBS054	LF	20130415	1010000000007800000000000000	-
7	10014233	100283	LF	20130118	1010000000009200000000000000	(27.40)
8	11109774	771309	LF	20130415	1010000000108600000000000000	-
9	11117030	36205993	LF	20130415	1010000000307400000000000000	-
10	10672431	36205978	LF	20130415	1010000000295400000000000000	(376.90)
11	10657041	CRAD6766	LF	20130415	10100000000765000RE00000000	(34.25)



12	10479588	6281	LF	20120906	20100000000096000000000000	-
13	10645434	102	LF	20120906	20100000001174000000000000	(475.35)
14	10410728	300461	L	20130627	90000000000461000000000000	(151.50)
15	10465989	400470	L	20130627	90000000000470000000000000	(2,964.25)
16	10372126	300499	L	20130627	90000000000499000000000000	(34.25)
17	10402634	300544	L	20130627	90000000000544000000000000	(200.65)
18	10430691	400577	L	20130627	90000000000577000000000000	(34.25)
19	10439431	300633	L	20130627	90000000000633000000000000	(34.25)
						(4,408.40)

Electricity

#	ACCOUNT-NUMBER	REF	TYPE	DATE	UNIT-NUMBER	Amount
1	10003925	E73703	L	20121213	10100000000010000000000000	(6,770.22)
2	10003925	E73703	L	20130322	10100000000010000000000000	(1,573.04)
3	11039797	418195	L	20130322	10100000000030000000000000	(1,299.56)
4	10103878	532089	L	20130322	10100000000856000000000000	(209.88)
5	10103878	E272839	L	20130322	10100000000856000000000000	(319.06)
6	11044134		LF	20130315	10100000000380000000000000	(796.97)
7	10556883	2005401	L	20121214	40200000000054000000000000	(123.20)
8	10632289	2008200	L	20121214	40200000000082000000000000	(84.00)
9	10556538	2003400	L	20121214	40200000000034000000000000	(19.03)
10	10664547	2004000	L	20121214	40200000000040000000000000	(171.29)
11	10459421	59199	L	20130627	20100000001313000000000000	(1,484.00)
12	10367539	59716	L	20130627	20100000001313000000000000	(1,484.00)
13	10370556	15722	LF	20120801	20100000000581000000000000	(11,765.34)
14	10376099	9421	LF	20120802	20100000000543000000000000	(2,373.05)
15	10395629	437505	LF	20120802	20100000000608000000000000	(155.82)
16	10622369	8364	LF	20120802	20100000000627000000000000	(410.38)
17	10424488	202222	LF	20120802	20100000000673000000000000	-
18	10421458	7870	LF	20120802	20100000000386000000000000	-
19	10395629	437505	LF	20120802	20100000000608000000000000	-
20	11287934	353343	LF	20120806	20100000001289000000000000	-
21	10426686	569129	L	20120825	20300000009225000000000000	(185.56)
22	10467371	569133	L	20120825	20300000009227000000000000	(233.14)
23	10386169	569127	L	20120825	20300000009228000000000000	(785.07)
24	10483987	569454	L	20120825	20300000009230000000000000	(457.96)
25	10489953	569451	L	20120825	20300000009232000000000000	(327.11)
26	10618754	7995	L	20130627	20100000001316000000000000	(814.81)
27	10469535	70253	L	20130627	20100000001309000000000000	(234.33)
28	10469535	33973	L	20130627	20100000001309000000000000	-
29	10469535		L	20130627	20100000001309000000000000	(149.88)
30	10458605		L	20130627	20100000001310000000000000	(1,308.45)
						(33,535.15)

The above is mainly due to the fact that the service provider did not want to provide the information and the municipality does not have any records of the meter reading books.

The risk of the above is that the accuracy and cut-off of service charges as set out in note 22 of the financial statements could not be audited.



Internal control deficiency

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

Recommendation

Management should ensure that all meter reading books are available for audit purposes. The above-mentioned should be obtained and submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

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Taxes

119. VAT - Difference between movement in VAT receivable account and VAT 201s (CoA 49)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We compared the movement per the VAT 201 documentation to the movement per account 9100033030342 (VAT PAID/RECEIVED SARS), and noted the following difference:

Description	Amount	Calculation reference
Opening balance per sub-ledger. (VAT payable)	8,021,653.09	(A)
Closing balance per trial balance and financial statements. (VAT receivable)	8,021,653.09	(B)
Movement total (Net Increase in VAT receivable)	0.00	(C=B-A)
Total VAT receivable per VAT 201's inspected	12,471,863.82	(D)
Total difference:	12,471,863.82	(E=D-C)

The above is mainly due to management not implementing proper controls over the completion and submission of accurate VAT 201's; and the reconciliation between the VAT 201's and the VAT general ledger accounts.

The risk of the above is that the VAT receivable is understated

Internal control deficiency

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

Recommendation

Management should implement proper controls over the completion and submission of VAT201's to ensure the accuracy thereof. Management should ensure that reconciliation's between VAT supporting documents and the general ledger accounts are performed and reviewed on a monthly basis.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

120. VAT - No monthly reconciliations performed (CoA 49)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

a) Monthly reconciliations between the VAT 201 and the following general ledger accounts could not be obtained:

Vote number	Vote Description
9100033030301	OUTPUT VAT INCOME FROM DEBTORS (PAYABLE)
9100033030302	OUTPUT VAT INCOME FROM SUNDRY INCOME
9100033030331	INPUT VAT OF CAPITAL NATURE (COLOM 14)
9100033030332	INPUT VAT OF OTHER NATURE (COLOM 15)
9100033030342	VAT PAID/RECEIVED SARS
9100033030410	DEBTORS VAT ACCRUED
9100057021006	DEBTORS CONTROL - VAT (BILLED)
9100088010012	YEAR END VAT RECLAIMABLE

b) The reconciliation between the general ledger and the VAT 201s at the year end could also not be obtained.

c) A comparison was done between the abovementioned general ledger accounts and the VAT 201s that were submitted. The following differences were identified:

Month	Net VAT payable/(receivable) per the general ledger	Net VAT payable/(receivable) per the VAT 201	Difference
July	1 516 195.09	(983 832.23)	2 500 027.32
August	1 456 348.88	(607 811.37)	2 064 160.25
September	1 042 348.37	(665 448.31)	1 707 796.68
October	1 112 682.86	(749 566.56)	1 862 249.42
November	1 179 811.73	(1 052 013.65)	2 231 825.38
December	735 881.37	(2 139 615.07)	2 875 496.44
January	760 307.60	648 785.21	111 522.39
February	1 215 472.06	814 163.19	401 308.87
March	975 290.43	(207 949.72)	1 183 240.15
April	473 461.57	(7 537 217.33)	8 010 678.90
May	1 038 418.05	8 642.03	1 029 776.02
June	(13 544 039.29)	-	(13 544 039.29)

This matter may have resulted due to the fact that proper internal control procedures were not implemented to ensure that monthly reconciliations are performed, reviewed and reconciling items followed-up and cleared.

The risk of the above limitation of scope is that VAT receivable per the Statement of Financial Position could not be audited.

Internal control deficiency

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

Recommendation

Management should perform monthly reconciliations between the general ledger and VAT 201 returns. Management should also perform a year end reconciliation between the trail balance and the outstanding balance per the VAT 201 returns. These reconciliations should be reviewed by an independent senior official on a timely basis

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

121. VAT - VAT 201 incorrectly completed (CoA 49)

Audit finding

VAT 201s must be completed in compliance with the VAT Act in its entirety.

It was found that the output VAT per the VAT 201 forms are split between taxable supplies, zero rated and exempt supplies. However, this split is not done accurately by the municipality. The following differences were identified:

	Per AFS	Per VAT 201	Difference
Zero rated supplies	252 018 407.13	245 522 551.00	6 495 856.13
Exempt supplies	21 442 747.00	1 976 569.00	19 466 178.00
Taxable supplies	231 210 682.00	141 355 257.00	89 855 425.00

The following differences were identified with regards to the input VAT:

	Per AFS	Per VAT 201	Difference
Taxable supplies	321 870 920.00	213 080 581.07	108 790 338.93

The above is mainly due to returns not being completed and reviewed by an independent senior official.

The risk of the above is non-compliance with the VAT Act

Internal control deficiency

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

Recommendation

Management should ensure that all income received and all expenditure is correctly declared on the VAT 201 returns. The VAT 201 returns should be reviewed by a independent senior official, and signed as proof thereof. Explanations for the above-mentioned differences should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

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ANNEXURE B: OTHER IMPORTANT MATTERS

Borrowings & long-term loans

122. External loans - Loan agreements could not be obtained (CoA 2)

Audit finding

Section 62(1) of MFMA state that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality , and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

The signed loan agreements for the following long term loans disclosed in the financial statements could not be obtained for audit purposes:

Loan Description
INCA Loan (PARY-00-001-417)
INCA Loan (VDF-111Z-SS-778)
DBSA Loan (61000147)
DWA Loan (Loan 144)

This matter may have resulted due to sufficient safekeeping measures not in place over financial records

Matter places a limitation of scope over external loan testing, it could therefore not be confirmed if the terms and conditions of loans were adhered to by municipality.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level

Recommendation

Management should ensure that all contracts entered into by the municipality are reviewed and adhered to. Management should also submit the loan agreements for audit purposes.

Management response

Management agrees with the finding. An official has been assigned to request signed copies of all the contracts entered into by the Municipality. A file has been prepared and will be monitored by the senior official to ensure that it complies with all requirements of a contract.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

123. External loans - Differences noted (CoA 2)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

The following was noted with the testing of long-term loans:

(a) **DBSA loan - 9100022041401**

(i) The balance as per general ledger/trial balance and financial statements was last updated in 2010/2011 with repayments made and interest paid, resulting in an overstatement of loan amount in the current year as well as the prior year. Refer below for detail

	2012/2013	2011/2012
Amount per financial statements/ Trial balance	R15 182 705,11	R15 182 705,11
Amount per DBSA loan confirmation	R10 777 515,05	R12 750 302,58
Opening balance	R12 750 302,58	R15 082 705,11
Less: Repayments during the year	R -3 200 000,00	R-3 400 093,65
Add: Interest charged	R1 221 069 ,55	R1 067 691,12
Add: Accrued interest	R6 142,92	-
Difference	R 4 405 190,06	R2 432 402,53

(ii) The entire repayment of R3 200 000 that was made during 2012/2013 was recorded in the "Interest - External loans" account, resulting in an overstatement of "Finance costs" in the financial statements and the general ledger/trial balance. The amount should have been split as follows between capital and interest paid:

Capital repayment: R1 627 371,69

Interest paid: R1 572 628,31 (including prepayment of R351 558,76 that was made during the year)

Interest paid on external loans is therefore overstated with R1 627 371,69 in the general ledger.

For the prior year the total repayment of R3 400 093,65 was recorded in the general ledger account for interest on external loans. The amount should have been split as follows:

Capital repayment: R1 697 462,44

Interest paid: R1 702 631,21 (including prepayment of R634 940,09 that was made during the year)

Account for interest paid on external loans is therefore overstated with R1 627 371,69 in the general ledger

Summary of misstatement identified: **2011/2012**

- Loan balance in AFS and general ledger/trial balance (9100022041401) overstated with R2 432 402,53

- Interest ledger/ trial balance account for interest paid on external loans (1115051242430) as well as AFS overstated with R1 697 462,44

2012/2013

- Loan balance in AFS and general ledger/trial balance (9100022041401) overstated with R4 405 190,06
- General ledger/ trial balance account for interest paid on external loans (1115051242430) as well as AFS overstated with R1 627 371,69

(b) INCA Loans

(LOAN: PARY-00-0001-417) - 9100022041001/2

	Amount per general ledger/trial balance (R)	Amount per Financial statements (R)	Amount per loan confirmation (R)	Difference between general ledger and financial statements (R)	Difference between general ledger and loan confirmation (R)
Opening balance 1 July 2012	2,703,390.00	2,703,390.00	2,691,945.20		
	-	-	-		
Capital repayment	2,070,000.00	2,070,000.00	2,070,000.00		
Interest incurred	164,654.57	38,144.00	118,882.36		
	<u>798,044.57</u>	<u>671,534.00</u>	<u>740,827.56</u>	<u>126,510.57</u>	<u>57,217.01</u>
Reference				x1	x2

x1 - Difference due to journals for interest incurred reversed on Caseware after being posted in eVenus, resulting in an understatement of the loan balance in the financial statements. However refer to x2 below for details on outstanding capital amount as well as interest incurred for another INCA loan (LOAN: VDF-111Z-SS-778) incorrectly included in above loan balance

x2 - Difference due to the following amount relating to INCA loan VDF-111Z-SS-778 incorrectly recorded against the above loan:

Prior year interest amount incorrectly captured again above loan:

	Amount (R)
Prior year interest amount incorrectly captured against above loan:	R11 445,18
Current year interest amount incorrectly captured against above loan	R7 628,73
Outstanding capital portion incorrectly accounted for as interest	R38 143,65
	<u>R57 217,56</u>

Summary of misstatements

2011/2012

- INCA loan (LOAN: PARY-00-0001-417) in AFS overstated with R11 445,18
- INCA loan (LOAN: PARY-00-0001-417) in general ledger/trial balance (9100022041002) overstated with R11 445,18

2012/2013

- INCA loan (LOAN: PARY-00-0001-417) in AFS understated with R69 293,56
- INCA loan (LOAN: PARY-00-0001-417) in general ledger/trial balance(9100022041002) overstated with R57 217,56
- General ledger account for interest on external loans (1115051242430) overstated with R38 143,65

(LOAN: VDF-111Z-SS-778) - 9100022040201

	Amount per general ledger/trial balance	Amount per Financial statements	Amount per loan confirmation	Difference between general ledger and financial statements	Difference between general ledger and loan confirmation
Opening balance 1 July 2012	R35,079.62	R35,080.00	R49,588.83		
Capital repayment	-	-	-		
Interest incurred	-	-	R7,628.73		
	<u>R35,079.62</u>	<u>R35,080.00</u>	<u>R57,217.56</u>	<u>-R0.38</u>	<u>-R22,137.94</u>

Above difference is mostly due to interest incurred during prior and current year not recorded against the loan account in the general ledger

Summary of misstatements 2011/2012

- INCA loan balance in the AFS and general ledger/trial balance (9100022040201) understated with R14 509,21 (capital portion: R3 064,03 and interest amount of R11 445,18)

2012/2013

- INCA loan balance in the AFS and general ledger/trial balance (9100022040201) understated with R7 628,73

(c) DWA loan (Loan 144) - 9100022040601

	Amount per general ledger/trial balance	Amount per Financial statements	Amount per loan confirmation	Difference between general ledger and financial statements	Difference between general ledger and loan confirmation
Opening balance 1 July 2012	R30,544.15	R30,544.15	R32,923.47		
Capital repayment	-	-	R-34,220.82		
Interest incurred	-	-	R1,297.35		
	<u>R30,544.15</u>	<u>R30,544.15</u>	<u>-</u>	<u>-</u>	<u>R30,544.15</u>

Difference due to interest paid for prior and current years as well as redemption payment of R34 220,82 not recorded against the loan balance in the general ledger. The redemption payment of R34 220,82 was recorded in the interest paid account, resulting in an overstatement of finance charges at year end



Summary of misstatements
2011/2012

- DWA loan balance in the AFS and general ledger/trial balance (9100022040601) understated with R2 416,96
- General ledger account for interest paid on external loans (1115051242430) understated with R2 416,96

2012/2013

- DWA loan balance in the AFS and general ledger/trial balance (9100022040601) understated with R1 297,35
- DWA loan balance in the AFS and general ledger/trial balance (9100022040601) overstated with R34 220,82
- General ledger account for interest paid on external loans (1115051242430) understated with R1 297,35
- General ledger account for interest paid on external loans (1115051242430) overstated with R34 220,82

(d) **COGTA loan - 9100022040902**

It was found in the prior year that the COGTA loan is not a loan but a conditional grant that was received to pay arrears to ESKOM

	Amount per general ledger/trial balance	Amount per Financial statements	Difference between general ledger and financial statements
Opening balance 1 July 2012	R5 000 000	R5 000 000	
Correcting journal	R-5 000 000	-	
Interest incurred	-	-	
	-	R5 000 000	R5 000 000

Difference is due to correcting auditor's journal that was posted in eVenus reversed on Caseware. Long terms loans are therefore overstated with R5 000 000 for the current as well as the prior year

Summary of misstatements
2011/2012

- COGTA loan balance in the AFS and general ledger/trial balance (9100022040901) overstated with R5 000 000
- Conditional grants understated with R5 000 000

2012/2013

- COGTA loan balance in the AFS overstated with R5 000 000
- Accumulated surplus overstated with R5 000 000

This may have resulted due to incorrect allocations made in the general ledger as well as the fact that an updated loan register was not kept by the municipality.

This matter will result in the misstatement of long-term loans in the general ledger/trial balance as well as the financial statements

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above findings and make the necessary adjustments where applicable

Management response

The Municipality agrees with the findings. Loans register has been implemented for the new financial year and will be reconciled on monthly basis and all prior year the differences will be investigated and adjusted.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

124. External loans - Prior year journals not submitted (CoA 58)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- (c) that the municipality has and maintains effective , efficient and transparent systems-
- (i) of financial and risk management and internal control

The journals below could not be obtained during the prior year and was therefore requested again during the current year audit for follow-up testing. Journals was however still not provided for audit purposes:

Vote number	Journal description	Type	Document number	Date processed	DR/(CR)	Detail description
1115051242430	Interest external loans	Auditors journals	FIN11/12 ADJ	20121205	R(206 811,00)	final adjustments afs 11/12
1115051242435	Interest - Internal	Auditors journals	FIN11/12 ADJ	20121205	R4 685,96	final adjustments afs 11/12

Vote number	Description	Supp Doc Number	Date processed	DR	CR
9100022040202	Auditors Journals	FIN11/12 ADJ	20121205	-	(R10,609)

9100022040402	Auditors Journals	FIN11/12 ADJ	20121205	-	(R43,953)
9100022040602	Auditors Journals	FIN11/12 ADJ	20121205	R 4.04	-
9100022041002	Auditors Journals	FIN11/12 ADJ	20121205	R 5,930,000	-
9100022041402	Auditors Journals	FIN11/12 ADJ	20121205	-	(R5,585,611)

This matter may have resulted due to proper controls not in place to ensure safekeeping of supporting documentation

This matter constitutes a limitation on the scope of the audit assignment.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Journals should be provided for audit purposes as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

125. External loans - Journals not obtained (CoA 58)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- (c) that the municipality has and maintains effective , efficient and transparent systems-
- (i) of financial and risk management and internal control

The following journals could not be obtained for audit purposes, resulting in a limitation of scope:

Vote number	Vote Description	Transaction Type	Reference	Trans Date	Debit Amt (R)	Credit Amt (R)	Transaction Description
1115051242430	INTEREST EXTERNAL LOANS	Auditors Journals	OTHER FINANC	20130630	-	R1 070 000,00	DJUSTING JOURNAL OF PAYMENTS ON THE INCA LOAN



							POATED TO
1115051242430	INTEREST EXTERNAL LOANS	Auditors Journals	OTHER FINANCIA	20130630	R164 654,57	-	PENALTY INTEREST ON THE INCA LOAM NOT PAID PER AGREED
9100022041002	RECEIVED DURING THE YEAR	Auditors Journals	OTHER FINANC	20130630	R2 070 000,00	-	DJUSTING JOURNAL OF PAYMENTS ON THE INCA LOAN POATED TO
9100022041002	RECEIVED DURING THE YEAR	Auditors Journals	OTHER FINANCIA	20130630	-	R38 143,65	PENALTY INTEREST ON THE INCA LOAM NOT PAID PER AGREED
9100022041002	RECEIVED DURING THE YEAR	Auditors Journals	OTHER FINANCIA	20130630	-	R759 901,31	PENALTY INTEREST ON THE INCA LOAM NOT PAID PER AGREED
9100022040902	RECEIVED DURING THE YEAR	Auditors Journals	EQUITABLE2	20130630	R5 000 000,00	-	JOURNAL 02 2012/2013 YEAR MOVEMENTS

This matter may have resulted due to proper controls not in place to ensure safekeeping of supporting documentation

This matter places a limitation on the scope of the audit assignment.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Journals should be provided as a matter of urgency

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

126. External loans - Deficiencies identified (CoA 2)

Audit finding

Section 62 of the MFMA stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following matters regarding long-term loans were identified during the audit:

a) The loan register for 2012/2013 was not complete and updated with all interest and repayments made for the year;

b) It was identified that the municipality does not reconcile the loan register, confirmations/loan statements and general ledger on a monthly basis;

c) The descriptions for the following loans under Note 18 should be changed to the following as to ensure easier identification thereof:

LOAN 144 - DWA loan

LOAN 73 IFC - INCA loan VDF-111Z-SS-778

d) No controls and procedures were in place at the municipality to ensure the accuracy and completeness of long-term loans disclosed in the financial statements (refer various audit communications that were issued on long term loans as example). Also a "Borrowings" policy was only implemented from the 2013/2014 financial year.

This matters may have resulted due to an updated loan register not kept, monthly reconciliations not performed for the financial year.

Sufficient controls and procedures were not in place over long term loans may result in the misstatement of long term loans disclosed in the financial statements

Internal control deficiency

The municipality do not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

The necessary changes should be made to the financial statements. Also management should ensure that a complete and updated loan register is in place for the next financial year and that monthly reconciliations are done between the loan register, loan confirmations/statements and the general ledger to ensure proper management of long-term loans.

Management response

Management agrees with the recommendation and will implement the necessary changes as proposed from the current audit. Management has started with the compilation of loan register and it will available in the 2013/14 financial year, reconciliation together confirmations will be done on monthly basis.

Auditor's conclusion

Management agrees with the audit finding. Matter will therefore remain unresolved for the year under review

127. External loans - Default on repayments not disclosed (CoA 2)

Audit finding

GRAP 104 requires the following:

Defaults and breaches

.113 For loans payable recognised at the end of the reporting period, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

The municipality defaulted on the repayments of its loans held with **INCA** (LOAN: VDF-111Z-SS-778 & LOAN: PARY-00-0001-417) as well as with **DWA** (Department of Water Affairs). No disclosure on this was however made under Note 18 - Other financial liabilities in the financial statements as required by GRAP 104. Refer below for details:

INCA LOAN: VDF-111Z-SS-778 (LOAN 73 IFC) - The loan already matured in 2011 and the municipality last made payment in 2009. Interest was also incurred on the arrears amount.

INCA LOAN: PARY-00-0001-417 - The loan already matured in 2011 and the municipality incurred interest on the arrears amount. The outstanding capital portion was paid during the year in two instalments of R1 000 000 on 18/09/2012 and R1 070 000 on 05/11/2012, however interest amount is still outstanding

DWA loan (LOAN 144) - The loan already matured in 2010 and the municipality incurred interest on the arrears amount. The total outstanding capital portion as well as the interest incurred on the arrears amount was paid on 16/01/2013

This matter may have resulted due to sufficient time not available for management to do a proper review of the financial statements

This matter constitutes non-compliance with the disclosure requirements outlined in GRAP 104.

Internal control deficiency

The municipality do not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that the financial statements are adjusted to include all details on defaults and breaches regarding long term loans as required by GRAP 104.

Management response

Management agrees with the finding. We have started a process of verifying all the loans that are currently owed by the municipality as part of completing the loan register. The financial statement will be adjusted in accordance with the noted finding.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will be resolved with the correction of the financial statements

Cash and cash equivalents

128. Cash and cash equivalents - Recording of petty cash transactions (CoA 39)

Audit finding

Section 78(a) of the MFMA states: *“Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently.”*

Through inspection of the general ledger accounts for petty cash, we have noted that there were no transactions captured in these accounts for the year under review. We could also not obtain monthly or an annual reconciliation that was performed between the petty cash registers and the general ledger. It is therefore not clear if all the expense transactions incurred through petty cash were recorded only the ledger.

This matter may have resulted due to inadequate controls over the record of petty cash transactions onto the ledger accounts.

The risk is that all the expense transactions are not correctly accounted for on the general ledger of the municipality, therefore resulting in an understatement of expenditure.

Internal control deficiency

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

Recommendation

The petty cash accounts should be updated with all petty cash transactions. Monthly reconciliations should be performed between the petty cash register and the general ledger. These reconciliations should be reviewed by a senior member of management. If these transactions have been captured onto the general ledger, then management should please provide us with a list of these transactions, as well as the accounts to which they were allocated to on the general ledger.

Management response

The municipality agrees with the finding.

A new account for petty cash will be opened and monitored and a reconciliation be done on monthly basis. The register will also be done.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Contingent liabilities

129. Contingent liabilities - Claims are disclosed that are already closed (CoA 50)

Audit finding

GRAP19 paragraph 110 states the following

Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs .49 to .65;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

We have identified the following cases, which were disclosed as contingent liabilities, but they are already closed or based on the information obtained it seems that the possibility of a cash outflow is remote:

Mispha
TJ Bosman
SAMWU obo 78 others
Vlaklaagte Slaghuis

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the abovementioned is a possibility that Contingent Liabilities per note 40 to the Financial Statements may be overstated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof.

Management response

Management does not agree with the finding in that:

- Mispha matter involves Emolument attachment orders wherein the orders are continuously sent to the municipality for implementation and deductions to be effected from employees' salaries and thus not yet closed.
- TJ Bosman is finalized in court, however the attorney that was appointed had not submitted his invoice.
- SAMWU obo 78 – matter finalized at private arbitration but there is a disputed amount of R 86 524 submitted by Lebea and associates.
- Vlaklaagte – Management agrees with finding

Auditor's conclusion

Management does not agree with the findings however:

1. Misphe - After follow up this matter was resolved.
2. TJ Bosman - The matter is finalised. The only outstanding amounts is the legal cost which will be identified when the invoice is received. This will not constitute a contingent liability and should not be disclosed as a contingent liability but rather a provision.
3. SAMWU obo 78 others - This matter is also finalised. The legal costs are under dispute. As the amount and timing of this expense is not unsure it should be recognised as a provision and not as a contingent liability.

Management agrees with the Vlaklaagte finding. Thus the Vlaklaagte, TJ Bosman and SAMWU obo 78 others matters will therefore remain unresolved for the year under review.

130. Contingent liabilities - No amounts disclosed (CoA 50)

Audit finding

GRAP19 paragraph 110 states the following

Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs .49 to .65;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

a) Through inspection of the disclosure of contingent liabilities in the financial statements, it was noted that no estimate of the financial effect was disclosed - the list of contingent liabilities obtained from management does not contain any amounts.

b) For the following instances, we identified details where it was disclosed that the in house legal counsel handled the legal proceedings but after receiving the attorneys confirmations we determined that external attorneys handled the cases.

Confirmation	Attorney	Legal Fees Outstanding	Case status
SAMWU obo DTR Mosai	Shongwe Attorneys	25 000,00	Finalised
SAMWU obo 78 others	Lebea& Associates	86 524,00	Finalised

The above is mainly due to a lack of sufficient recordkeeping at Ngwathe Local Municipality.

This matter may result in a misstatement of contingent liabilities as disclosed in the financial statements.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. The necessary adjustments should be made to the amounts disclosed in the financial statements.

Management response

Management agrees with the finding.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

CONFIDENTIAL

Employee costs

131. Employee costs - Authorisation and accuracy of leave taken (CoA 51)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

a) The following leave application forms were found to be inadequately authorized as approval occurred after leave was taken or support not attached to the form:

Employee code	Name	Date of leave taken	Total days	Days per form
10125	MR RS LEGODI	20130516	2	2
		20130412	1	1
		20130308	1	1
		20130304	1	1
		20130110	1	1
		20130402	1	1
		20121001	20	20
		20120720	30	30
40222	Me L B LODADA	20120731	2	2
		20120829	1	1
		20120709	1	1
40594	MS SJ MALEBO	20120709	5	5

b) The following leave application forms were not accurately captured (the days indicated on the form differs from the days captured onto the system):

Employee code	Name	Date of leave taken	Total days	Days per form
10023	MR MT THABANE	20121113	6	5
40222	Me L B LODADA	20130404	1	2
		20130227	0.25	2
		20121023	0.17	2
		20120712	0.17	2
40571	ME A NORKEE	20130402	2	1
40601	MR TG MBELE	20130307	2	4

The above is mainly due to inadequate controls over the capturing and authorization of leave forms

Inaccurate records of leave days available, leading to a possible misstatement over leave accruals. Unauthorized leave is taken and leave is taken with insufficient leave day balances available.

Internal control deficiency

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

Recommendation

Management should monitor the effective implementation of policies and ensure that employees are performing their functions accordingly. Management should exercise their responsibility relating to internal controls to ensure that an effective control environment exists.

Management response

Management agree with the recommendations. The Acting HR Manager is investigating all the discrepancies between the physical documentation and the figures captured on the payday system. We will correct all the mistakes identified and avoid recurrence in future.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

132. Employee costs - Number of leave days paid out (CoA 51)

Audit finding

4. ACCRUAL OF LEAVE

4.1 All leave accrued shall be dealt with as follows, and any encashment shall be in line with the encashment of leave policy:

4.1.1 An employee is entitled to retain a maximum of forty-eight (48) days of accrued leave.

4.1.2 Any leave in excess of forty-eight (48) days may be encashed should the employee be unable to take such leave as a result of operational requirement. If, despite being afforded an opportunity to take leave, an employee fails, refuses or neglects to take the remaining leave due to him or her during this period, such remaining leave shall fall away.

4.1.3 In the event of the termination of service, an employee shall be paid his or her leave entitlement calculated in terms of the relevant provisions of the Basic Conditions of Employment Act.

During our audit, we have identified the following employees which were paid more than 48 days' worth of leave on termination of employment:

Employee number	Employee name	Calculated days paid out
300390	S G LEEUW	70.72
508709	S N KHAMBULE	89.58
300202	R J MOFOKENG	60.32
10265	M A TSALE	65.52
40052	R. PJ DHLAMINI	65.52
509320	MW KOALEPE	80.22
201215	T CUNNINGHAM	65.52

It was not evident from the calculations if management used the correct remuneration level for the number of days in excess of 48.

The above is mainly due to a lack of internal control by management over the compliance of laws and policies.

This matter may result in the incorrect amount being paid out to employees.

Internal control deficiency

The accounting officer does not exercise oversight for the development and performance of internal controls.

Recommendation

Management should ensure that policies and procedures are adhered to by implementing proper internal controls and ensuring that the controls are implemented effectively. Management should provide proof that the above-mentioned payments was done within the requirements of the municipality's policy, read with the local bargaining council resolutions.

Management response

Management agree finding. Due to operational constraints created by the shortage of staff, management could not allow the abovementioned employees to take leave. The policy and the collective agreement states that if an employee cannot take leave because of operational requirements, the leave days above 48 days can be encashed.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

133. Employee costs - Lack of proper record keeping regarding unpaid leave (CoA 32)

Audit finding

Section 62 of the 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"*

The following unpaid leave application forms were not kept in employee leave file or inadequate support kept:

No application for leave on file

No	Employee code	Name	Date of leave taken
1	10055	MR LM MNDEBELE	11/22/2012
			8/2/2012
2	10056	MR MJ MOKOTEDI	2/11/2013
3	10060	MR VC DABI	12/2/2012
4	10086	MR PP KHUMALO	5/8/2013
6	40614	MR TB THEBETHE	1/2/2013
7	45563	ME JS KHWESI	2/21/2013
8	45599	MR L MOLALUGI	2/4/2013

No explanations or support for leave taken

No	Employee code	Name	Date of leave taken
2	10056	MR MJ MOKOTEDI	7/26/2012
3	10060	MR VC DABI	11/7/2012
			10/14/2012
5	10132	MR JM MATJAMA	5/24/2013
			1/25/2013
			11/23/2012
			7/31/2012
			7/26/2012
6	40614	MR TB THEBETHE	1/28/2013

The above is mainly due to information is not filed and safeguarded in a manner which ensures that information is available for reference and audit purposes.

The risk of the above is that the accuracy and compliance of unpaid leave could not be tested. This could have a possible misstatement of the leave accrual and/or employee costs.

Internal control deficiency

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

Recommendation

Management should develop internal controls to ensure that all documents and information is filed in a manner that allows easy access thereto and is readily available for audit purposes. The above-mentioned information should be submitted for audit purposes.

Management response

Informal response: Management stated that leave files were provided.

Auditor's conclusion

Leave files provided, but applications for leave not in file, and inadequate support on file. Issues remain.

134. Employee costs - Shortcomings noted with promotions (CoA 32)

Audit finding

Section 62 of the 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"

a) For the following promotions, we could not obtain supporting documentation regarding the approval thereof:

Employee Name	New Salary level	Promotion Date
Moilola DN	L11/4	Apr-13
Mohapi SE	L11/4	Apr-13
Mokoena MS	L10/4	Jan-13
Mokayane J	L11/4	Mar-13
Maduna MN	L7/4	Mar-13

b) With regard to the following promotion, we have noted that the promotion date (in terms of the approval) differs from the effective date of the salary increase on the system, resulting in the following overpayment:

Employee Number	Employee name	Termination date	Overpayment
21	Mkhuma TG	12/1/2012	R3 195,72

The above is mainly due to information is not filed and safeguarded in a manner which ensures that information is available for reference and audit purposes. The overpayment is mainly due to inadequate oversight of controls

The risk of the above is that the compliance of promotions could not be tested. This could have a possible misstatement on employee costs. The overpayments could result in possible financial losses and misstatements on employee costs

Internal control deficiency

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. Management did not properly oversee and implement proper internal controls over employee costs to ensure accurate and valid entries.

Recommendation

Management should develop internal controls to ensure that all documents and information is filed in a manner that allows easy access thereto and is readily available for audit purposes. The above-mentioned information should be submitted for audit purposes. Management should develop internal controls to ensure that all accounting and financial information is done accurately and is valid.

Management response

Management provided details for promotions.

Auditor's conclusion

Information not complete, MS Mokoena approval not received. Overpayment not resolved.

135. Employee costs - No reconciliation regarding third party payments (CoA 51)

Audit finding

Section 65 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA) states the following: *"(1) the accounting officer of a municipality is responsible for the management of the expenditure of the municipality."*

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

a. that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;

b. that the municipality has and maintains a management, accounting and information system which:

i. recognises expenditure when it is incurred;

ii. accounts for creditors of the municipality; and

iii. accounts for payments made by the municipality;

c. that the municipality has and maintains a system of internal control in respect of creditors and payments."

During the audit we have noted that separate control accounts for third party payments are not used. All payments are allocated through the Salary suspense account and no reconciliation is performed on this account to ensure that third parties are paid on a timely basis (and to prevent possible duplicate payments).

The above is mainly due to a lack of control over payments.

The above may cause unnecessary penalties or interest as late payments or no payments are made. Duplicate payments are also possible as no reconciliation is performed.

Internal control deficiency

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

Recommendation

Management should ensure that a reconciliation of third party payments are done on a monthly basis to ensure that parties are paid on a timely basis.

Management response

Management agree. We are in discussion with the system administrators (BCX) to create links between the different 3rd party accounts payments, this process is intended to be completed by 30 November 2013.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

136. Employee costs - Overtime authorisation (CoA 51)

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

a) We have identified the following overtime payments, which were not authorised prior to the overtime being worked:

No.	Employee Number	Employee Name	Month	Overtime Amount
1	10249	MASISO ME MISS	December	871.08
2	40623	NCULU M P MR	December	3,039.30
3	40481	LEEMISA DJ MS	December	2,361.38
4	201211	ELS C Me	December	1,700.36
5	40587	KOCK LD MR	December	4,897.90
6	210033	RADEBE LF MS	December	1,921.28
7	40009	HLUNGU MA MR	December	2,829.26
8	201132	MATEKANE S T MR	December	1,517.36
9	10058	ROTANI GS MR	December	4,585.63
10	300018	MAKOATLE S C MR	December	1,683.36
11	40014	FORD A B MR	October	3,366.72
12	201343	NTSALA P T MR	October	350.70
13	42050	MOSIBI MM MS	October	1,189.11
14	201350	MOTIEA B MS	October	414.32
15	40495	MATHUMO M M MR	October	5,025.85
16	40462	NTSALA M MR	October	5,625.34
17	300016	KOAH S E C MS	October	3,033.36
18	40600	MBELE JT MR	October	429.66
19	300438	MACHE SJ MR	October	1,798.91
20	10090	MOREKI RW MR	October	2,440.76
21	501024	MOTAUNG MJ MR	February	1,080.06
22	45557	TAKALO MT MR	February	814.32
23	40037	MOTSITSI S R MR	February	2,033.36
24	40595	MAMASELI MM MS	February	1,388.25
25	300005	PULE MV MS	February	724.08
27	40486	MALATA M V MR	February	7,740.00
28	300026	KABA T A MR	February	5,937.82
29	200023	MOTAUNG LN MS	February	452.40
30	201406	CHALALE G L MR	February	2,086.07

b) The following employee's overtime was capture incorrectly with 0,5 hours too many

Employee Number	Employee Name	Month
40462	NTSALA M MR	October

The above is mainly due to a lack of proper oversight of controls by management.

The risk of the above is that overtime could be worked without authorisation and unnecessary payments made to remunerate the employees.

Internal control deficiency

Management did not implement and oversee the controls regarding authorisation of overtime to be worked

Recommendation

Management should ensure that the proposed controls are implemented as planned and that overtime is authorised prior to overtime being worked. If there is proof of prior approval for the above-mentioned instances, then this should be submitted for audit purposes.

Management response

Management agree. The acting HR manager is currently investigating all discrepancies related to the payments of overtime. Correcting adjustments will be performed after the process is complete.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

137. Employee costs - Physical verification (CoA 59)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

a) The following employees have not presented themselves for verification as per information request 48:

Empl No.	Employee Name	Details	ID	Area
45587	A T HLONGWANE	SUPPLY CHAIN MANAGER	7401010639089	Parys
40431	MYJ HLATI	PROJECT MANAGER	7401010639089	Parys
45598	HP MEKGWE	GENERAL WORKER	7401010639089	Parys
210009	MI TLADI	GENERAL WORKER	7401010639089	Mimosa
45583	D SCHOLTZ	GENERAL WORKER	7401010639089	Tumahole
300788	JR SEBE	GENERAL WORKER	7401010639089	Vredefort
400589	N E NONDALA	CUSTOMER CARE/SCORPION	7401010639089	Koppies
300802	R MPHEQEKE	GENERAL WORKER	7401010639089	Vredefort
45557	MT TAKALO	GENERAL WORKER	7401010639089	Parys

b) The following employees were selected as possible fictitious employees based on their ID numbers. They could not be verified to confirm the accuracy and existence of the employee.

Emp No.	Employee Name	Details	ID	Area
45598	HP MEKGWE	GENERAL WORKER	8710255710082	Parys
210009	MI TLADI	GENERAL WORKER		Mimosa

This matter may have resulted due to management not ensuring that all the relevant employees avail themselves for physical verification.

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of Employee related cost per note 27 of the financial statements

Internal control deficiency

Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Recommendation

Management should provide proof of the physical existence of these employees.

Management response

Informal response: The following employees were presented:
AT Hlongwane

The others are still pending

Auditor's conclusion

Management response is outstanding.

138. Employee costs - Documentation regarding resignations (CoA 32)

Audit finding

Section 62(1)(b) of the 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

No letter of resignation or notice within 30 days of termination was included in the the following employee files:

Employee Number	Employee name	Termination date	Reason for termination
40489	MBP MOTHIBI	31/08/12	Resignation
300215	J MAKATE	5/12/2012	Resignation
42255	JP POTSE	2/4/2013	Resignation
509320	MW KOALEPE	30/04/13	Resignation
45505	K NKETU	26/06/13	Resignation

The above is mainly due to senior management not performing all duties to ensure accurate and complete record keeping regarding employee terminations.

The risk of the above limitation of scope is that we were not able to verify whether the municipality has complied with Section 37(4) and section 37(5) of the Basic Conditions of Employment Act, 1997.

Internal control deficiency

Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

Recommendation

Management should ensure that all supporting documentation regarding the termination of an employee is filled in the appropriate employees personnel files.

Management response

Informal response: Management provided resignation letters for J Makate, K Nketu and MW Koalepe.

Auditor's conclusion

Not all issues resolved.

Resignation letters nor received: MBP Mothibi and JP Potse

Notice of terminations not exceeding 30 days: J Makate, K Nketu

139. Employee costs - Differences regarding disclosure of allowances (CoA 51)

Audit finding

Section 124(1)(a) of the MFMA states that the notes to the annual financial statements of a municipality must include particulars of the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

We have identified differences between the Payday system and the AFS in regarding allowances paid to the Mayor, Speaker and members of the executive committee. The differences were calculated as follows:

Mayor allowance	R
Amount per AFS	757 297,00
Amount per the Payday system	635 109,00
Difference	122 188,00
Speaker allowance	R
Amount per AFS	333 422,00
Amount per the Payday system	514 904,00
Difference	(181 482,00)
Executive committee	R
Amount per AFS	832 126,00
Amount per the Payday system	1 367 076,00
Difference	(534 950,00)

The above may have resulted due to proper review procedures not implemented to ensure that the disclosure in the financial statements regarding councillor allowances are correct and complete.

This may result in a misstatement of the financial statements.

Internal control deficiency

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

Recommendation

Management should 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. The above-mentioned differences should be investigated, and where required, the necessary adjustments should be made to the financial statements.

Management response

Agree. An investigation will be conducted to discover the reason leading to the identified weaknesses. Management makes a commitment to restate the financial statements in line with the finding, when required to do so.

Auditor's conclusion

Management agreed with the finding. The matter will therefore remain unresolved for the year.

140. Employee costs - March salary run does not agree with the GL (CoA 20)

Audit finding

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

We noted that the March Salary run does not agree to the different GL accounts. We calculated the difference as follows:

	Total as per salary run	Total as per GL	Difference
March salary run	8 012 409,97		
Salaries and wages (March)		7 882 442,15	
Councillors allowance (March)		388 843,49	
Mayor allowance (March)		38 906,80	
Speaker allowance (March)		28 716,62	
Other allowances (March)		502 113,65	
Vehicle Allowance (March)		399 340,24	
Standby allowance (March)		107 106,12	
Overtime (March)		1 098 219,23	
Total	8 012 409,97	10 445 688,30	2 433 278,33

The above is mainly due to senior management not performing all required duties to ensure accurate and complete record keeping regarding other financial liabilities.

This matter may result in a misstatement of employee related cost.

Internal control deficiency

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

Recommendation

Management should 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. The above-mentioned difference should be investigated and explanations provided for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

141. Employee costs - Monthly report not generated for master file changes (CoA 20)

Audit finding

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

Monthly exception reports, detailing changes to the payroll master file data, are not generated on a monthly basis and are not reviewed by an independent senior official.

Management has not implemented adequate internal control systems as no monthly exception report are generated, and reviewed.

The risk of the above is that unauthorised changes being made to the payroll master file, which could result in the misappropriation of municipal assets as fraudulent unauthorised payments could be made. The risk of the above is also non-compliance with Section 62(1)(c)(i) of the MFMA.

Internal control deficiency

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

Recommendation

Management should ensure that monthly exception reports are generated over changes to the payroll master file. Furthermore this exception report should be reviewed by a senior official of the municipality independent of the preparation process. The report should be signed as evidence of review and any exceptions identified should be sufficiently followed up and addressed by the senior official.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

142. Employee costs - PAYE was paid late to SARS (CoA 32)

Audit finding

Paragraph 14(3)(a) of the Fourth Schedule of the Income Tax Act: "14 (3) Every employer shall— (a) by such date or dates as prescribed by the Commissioner by notice in the Gazette; and (b) if the employer ceases to carry on any business or other undertaking in respect of which the employer has paid or becomes liable to pay remuneration to any employee or otherwise ceases to be an employer, within 14 days after the date on which the employer has so ceased to carry on that business or undertaking or to be an employer, as the case may be, or within such longer time as the Commissioner may approve, render to the Commissioner a return."

The municipality did not submit and pay the PAYE returns for the 2012/13 financial year within the designated timeframe.

Month	Due date	Date declared	Payment date	
July	7/8/2012	6/8/2012	6/10/2012	Late payment
August	7/9/2012	7/9/2012	6/10/2012	Late payment
September	7/10/2012	4/10/2012	6/11/2012	Late payment
October	7/11/2012	5/11/2012	8/11/2012	Late payment
November	7/12/2012	4/12/2012	12/12/2012	Late payment
December	7/1/2013	7/2/2013	Not paid	Late declaration
January	7/2/2013	7/2/2013	Not paid	
February	7/3/2013	22/5/2013	Not paid	Late declaration
March	7/4/2013	15/8/2013	Not paid	Late declaration
April	7/5/2013	15/8/2013	Not paid	Late declaration
May	7/6/2013	15/8/2013	Not paid	Late declaration
June	7/7/2013	15/8/2013	Not paid	Late declaration

Management did not exercise due care in submitting and making payments of PAYE as required by legislation.

The risk of the above is that municipality did not comply with the requirements of paragraph 14(3)(a) of the Fourth Schedule of the Income Tax Act, which can result in penalty charges (fruitless and wasteful expenditure).

Internal control deficiency

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

Recommendation

Management should address these delays and implement controls to ensure compliance with the relevance laws. PAYE and SITE must be paid within the legislated timeframes. The accounting officer should follow up and ensure such deadlines are not missed.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

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Control environment

143. Performance audit - Weaknesses identified on water and sanitation services

Audit finding

Section 63(1)(a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Section 16 of the Water Services Act, (Act No. 108 of 1997) states that a water services authority must prepare and adopt a new development plan at intervals determined by the Minister in consultation with the Minister for Provincial Affairs and Constitutional Development, in accordance with the procedure set out in sections 12 to 15.

Regulation 10 of the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) states that the following general key performance indicators are prescribed in terms of section 43 of the Act:

"(a) The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal."

The Government's delivery agreement for outcome 9, output 2 are to improve access to basic services. In this regard the following sub-outputs were identified:

Improve universal access to basic services by 2014 as follows:

- (a) Water from 92% to 100%
- (b) Sanitation from 69% to 100%.

(a) Contrary to section 16 of the Water Service Act, the municipality has not yet adopted a Water Services Development Plan (WSDP).

(b) Contrary to regulation 10 of the MPPMR and the Government delivery agreement, the following have been identified:

(i) With the evaluation of the 2012/13 and 2013/14 SDBIP (for 2011/12 a SDBIP was not compiled) it was noted that the general key performance indicator **"The percentage of households with access to basic level of water"** were not set in none of the mentioned SDBIPs. It was, however, noted that a performance indicator stated **"Eradication of communal water taps (house hold provided water with house connections)"** has been set for the 2012/13 and 2013/14 financial years. Despite these targets set by the municipality, the municipality has not set its target for the 2013-14 financial years to eradicate all basic water backlogs in line with the national targets to achieve 100% access to basic water by 2014. The remaining basic water backlog after the target that was set for 2014 is 5078.

Households - water service delivery levels below minimum	Total
Formal settlements	
Backlog as reported in 2012/13 Annual Report	4218
Informal settlements	
Backlog as reported in 2012/13 Annual Report	1620
Total backlog	5838
Less: Target set in 2013/14 SDBIP for eradication of communal water taps	760
Remaining backlog by 2014	5078

(ii) With the evaluation of the 2012/13 and 2013/14 SDBIP (for 2011/12 a SDBIP was not compiled) it was noted that the general key performance indicator **"The percentage of households with access to basic level of sanitation"** were not set in none of the mentioned SDBIPs. It was, however, noted that a performance indicator stated **"Eradication of buckets (Eradicate 900 buckets)"** has been set for the 2012/13 and 2013/14 financial years. Despite these targets set by the municipality, the municipality has not set its target for the 2013-14 financial years to eradicate all basic sanitation backlogs in line with the national targets to achieve 100% access to basic sanitation by 2014. The remaining basic sanitation backlog after the target that was set for 2014 is 4066.

Households - Sanitation service delivery levels below minimum	Total
Formal settlements	
Backlog as reported in 2012/13 Annual Report	3346
Informal settlements	
Backlog as reported in 2012/13 Annual Report	1620
Total backlog	4966
Less: Target set in 2013/14 SDBIP for eradication of communal water taps	900
Remaining backlog by 2014	4066

The above resulted due to the following:

- (a) Lack of resources is the main cause for a WSDP not yet been developed.
- (b) Non-compliance occurred as a result of oversight from management side.

The above mentioned will have the following impact on the municipality:

- (a) The non-compliance with section 16 of the Water Services Act could have an impact on service delivery.
- (b) The non-compliance with laws and regulations will result that the national target of 100% access to water and sanitation by 2014 as set in the Government delivery agreement will not be met.

Internal control deficiency

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

Recommendation

- (a) As a water services authority management should ensure that they comply with the stipulations of the Water Service Act.
- (b) Management should ensure that the performance indicators and targets set by the municipality should comply with the relevant laws and regulations and should be in line with the national targets set in the Government delivery agreement.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

144. Performance audit - Weaknesses identified on road infrastructure

Audit finding

Section 63(1)(a) of the MFMA states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Contrary to the requirements, the following weaknesses were identified with regard to the management of the road infrastructure in the municipal area:

- (a) The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
- (b) The municipality did not set a performance indicator or target for the construction of new roads.
- (c) The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year.
- (d) The municipality does not have a plan to address the backlogs relating to roads infrastructure.
- (e) The municipality does not have a road asset management system.

Lack of resources is the main cause for neglecting the proper management of the road infrastructure.

The lack of the relevant policies and plans could result in poor service delivery.

Internal control deficiency

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

Recommendation

Management should develop and implement the relevant policies and plans to ensure compliance with the MFMA and appropriate service delivery to the community.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

145. Control environment - Internal control deficiencies identified (CoA 80)

Audit finding

1. Section 62(1) of the 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:

- (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)(i) that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls;
- (d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;
- (e) that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15."

2. Section 70 of the Municipal Systems Act states: "Code of Conduct should be provided to staff members and communicated to local community:

- (a) The municipal manager of a municipality must—
 - (i) provide a copy of the Code of Conduct to every member of the staff of the municipality; and
 - (ii) provide every staff member with any amendment of the Code of Conduct.
- (b) The municipal manager must—
 - (i) ensure that the purpose, contents and consequences of the Code of Conduct are explained to staff members who cannot read; and
 - (ii) communicate sections of the Code of Conduct that affect the public to the local community."

3. Section 63(2)(c) of the MFMA states: "The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed."

4. Section 64(2)(f) of the MFMA states: "The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed."

5. Section 65(2)(c) of the MFMA states: "The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of creditors and payments."

6. Section 78(1)(a) of the MFMA states: "Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently."

7. Section 79(1)(a) of the MFMA states: "The accounting officer of a municipality 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."

8.(a) Section 79(1)(c) of the MFMA states: "The accounting officer of the municipality must regularly review delegations issued in terms of paragraph (b) and, if necessary, amend or withdraw any of those delegations."

(b) Section 59(2) of the Municipal systems act states: "A delegation or instruction in terms of subsection (1) must be reviewed when a new council is elected or, if it is a district council, elected and appointed."

9. Section 40 of the Municipal systems act states: "A municipality must establish mechanisms to monitor and review its performance management system."

10. Section 67(1)(g) of the Municipal systems act states: "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 grievance procedures."

11. Section 67(1)(i) of the Municipal systems act states: "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 investigation of allegations of misconduct and complaints against staff."

12. Section 66(1)(b) of the Municipal systems act states: "A municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must provide a job description for each post on the staff establishment."

13. Section 83(1) of the MFMA states: "The accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels."

14. Section 83(2) of the MFMA states: "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 competence levels."

(1) Although the municipality does have policies and procedures in place to address ethical and moral behavioural standards, no proof could be found that these codes were periodically acknowledged by signature from all employees and that the necessary steps were taken to ensure that the purpose, contents and consequences of the code of conduct were explained to staff members.

(2) It was determined that management does not take appropriate disciplinary actions in response to departures from approved policies and procedures or violations of the code of conduct (no actions taken against any official responsible for incurrence of irregular expenditure during the year).

(3) From the evaluation of the internal audit function as well as the re-occurrence of audit finding by the Auditor-General, it is clear that management does not place a high degree of importance on the work of internal audit and external audits, and are not responsive to recommendations made.

(4) The current organisational structure is outdated. It is however noted that a new organisational structure was compiled, but not yet approved and implemented during the financial year

(5) All policies were not reviewed by management during the current year. It could also not be determined how policies and procedures are communicated to staff, due to website not updated with all policies. The following serve as examples of policies that were not reviewed during the current year:

- ~ *Recruitment policy*
- ~ *Performance management policy*
- ~ *Delegations of authority matrix*
- ~ *Supply Chain Management Policy*

(6) The municipality had no risk committee in place for the year under review

(7) Risk register, risk management strategy and fraud prevention plan obtained was not formally approved (draft format) for implementation by the municipality

It could also not be determined if all of the following was considered for identification of risks for 2012/2013 by the municipality:

- ~ Risks associated with technological advancements and developments
- ~ Risks arising from the changing needs or expectations of Parliament, entity officials, and the public
- ~ Risks posed by new legislation or regulations
- ~ Risks as a result of possible natural catastrophes or criminal actions were taken into account
- ~ Risks resulting from business, political, and economic changes
- ~ Risks associated with major suppliers and contractors
- ~ Risks resulting from its interactions with various other government entities and parties outside the government
- ~ Risks associated with business process reengineering or redesign of operating processes
- ~ Risks posed by disruption of information systems processing and the extent to which backup systems are available and can be implemented
- ~ Possible risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained
- ~ Risks resulting from heavy reliance on contractors or other related parties to perform critical entity operations
- ~ Risks resulting from unusual employee access to vulnerable assets considered
- ~ Do risk identification activities consider certain human capital-related risks, such as the inability to provide succession planning and retain key personnel who can affect the ability of the entity or programme activity to function effectively, and the inadequacy of compensation and benefit programmes to keep the entity competitive with the private sector for labour
- ~ Risks related to the availability of future funding for new programmes or the continuation of current programmes
- ~ Consideration of any risks relating to past failures to meet entity missions, goals, or objectives or failures to meet budget limitations

(8) No procedures in place at the municipality to ensure that subsequent events are identified.

(9) Action plan compiled by management to address the prior year audit report matters were not implemented and monitored by management

(11) From minutes of the audit committee it was identified that financial reports submitted by the municipality is not relevant and adequate and is also not in the prescribed Treasury format. This may result in non-compliance matters

(12) No controls and procedures in place to ensure that timely refunds are made to receivables of inactive accounts with credit balances

(13) Municipality does not pay creditors within 30 days as required by the MFMA

(14) During the planning of the audit, while obtaining an understanding of the municipality's transaction cycles, it was found that a formalised policy, procedures, techniques, and control mechanisms have not been developed and are not in place for fruitless and wasteful, unauthorised and irregular expenditure (policy only implemented in 2013/2014)

(15) It has been identified that the municipality does not have sufficient control processes in place to ensure the adequate safeguarding and management of all of the documentation that support its financial and performance information or information on compliance with laws and regulations. Documentation issues have been identified in respect of almost all of the classes of

transactions, account balances and disclosures that are contained in the financial statements and in certain instances performance information.

(16) No specific controls in place for the identification of all fruitless and wasteful expenditure incurred during the year for inclusion in the disclosure note of the financial statements

(17) Municipality's website was not fully functional and updated with all required information during the year

(18) No proof could be obtained that there is an effective internal monitoring system in place to determine, on the basis of a retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved

(19) No adequate evidence could be obtained to serve as proof that management trained employees involved in financial and performance reporting processes and provided them with appropriate tools and resources to perform their responsibilities in the current period under review.

(20) No adequate evidence could be obtained to serve as proof that management analysed the tasks that need to be performed for particular jobs and given consideration to such things as the level of judgment required and the extent of supervision necessary in the current period under review. Also it could not be determined if formal job descriptions have been established for all positions and are up-to-date

(21) No adequate evidence could be obtained to serve as proof that management implemented and monitored an appropriate training programme to ensure that the needs of all municipal employees are met in the current period under review.

(22) No adequate evidence could be obtained to serve as proof that the municipality emphasises the need for continuing training and has a control mechanism in place to ensure that all employees actually receive appropriate training.

(23) No adequate evidence could be obtained to serve as proof that supervisors in the municipality have the necessary management skills and have been trained to provide effective job performance counselling.

(24) No adequate evidence could be obtained to serve as proof that employees were provided with candid and constructive job performance counselling in the current period under review

(25) No proof could be obtained that management look to the information management function for critical operating data .Also no evidence that the municipality send its employees to Venus workshops.

(26) No adequate evidence could be obtained to serve as proof that a training programme has been established in the municipality that includes orientation programmes for new employees and ongoing training for all employees.

(27) No adequate evidence could be obtained to serve as proof that the necessary vetting was performed on all the applications for employment in the current period under review (e.g criminal record check, educational and professional certifications confirmed etc)

(28) No adequate evidence could be obtained to serve as proof that employees of the municipality receive guidance, review and on the job training from supervisors to help ensure proper work flow and processing of transactions and events, reduce misunderstandings and discourage wrongful acts.

(29) No adequate evidence could be obtained to serve as proof that supervisory levels ensure that staff are aware of their duties and responsibilities and management expectations.

(30) No adequate evidence could be obtained to serve as proof that management have a strategy to ensure that ongoing monitoring of financial and performance control activities are effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable.

(31) Adequate evidence could not be obtained to serve as proof that management used customer complaints to identify deficiencies in internal controls of the municipality and undertook the necessary corrective action to ensure that internal controls are strengthened or established where appropriate.

(32) No asset counts were performed by the municipality during the year

(33) Sufficient evidence could not be obtained to serve as proof that separate evaluations of internal controls were performed by the municipality in the current period under review to ensure that the municipality has appropriate systems of internal controls capable of mitigating potential risks

(34) Based on the prior period errors identified on the annual financial statements of the municipality it was identified that automated edits and checks as well as clerical activities used to help control accuracy and completeness of transaction processing in the municipality were not adequate to ensure that the annual financial statements of the municipality are not materially misstated at year-end.

(35) No sufficient evidence could be obtained to serve as proof that relevant issues, information, and feedback concerning internal controls raised at training seminars, planning sessions and other meetings were captured and used by management to address problems or strengthen the internal control structure in the current period under review.

(36) It was found that for various components reconciliations are not performed to ensure critical internal control functions. No reconciliations were performed for VAT, payables, consumer deposits, investments etc

The above mentioned resulted due to management not ensuring that the required internal controls are in place and implemented and that the necessary monitoring controls are in place and are implemented as required by the relevant laws and regulations.

The above mentioned will have the following impact on the municipality:

- (a) Possible non-compliance with the relevant laws and regulations.
- (b) Weak control environment.
- (c) Possible fraud and errors will not be detected or corrected.
- (d) Not being able to meet its reporting objectives.

Internal control deficiency

1. Control environment

- The municipality does not demonstrate commitment to integrity and ethical values (tone at the top and throughout the organisation).
- The accounting officer does not exercise oversight for the development and performance of internal controls.
- Management did not review delegations of authority when a new council was elected.
- The municipality does not demonstrate commitment to attract, develop and retain competent individuals in alignment with objectives.
- The municipality does not hold individuals accountable for their internal control responsibilities.

2. Monitoring activities

- The municipality did not select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- The municipality did not evaluate and communicate internal control deficiencies in a timely manner to the parties responsible for taking corrective action.

Recommendation

Management should investigate listed control weaknesses identified.

Management response

Management agrees with the finding. The municipality has finalized the appointment of all senior managers with the exception of the Director: Technical Services who resigned in the 2013-14 financial year. This process will ensure that the top management of the municipality is enhanced and proper decision making and the control environment is stabilized. Management accepts the deficiency and will implement the recommendation as outlined.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

Compliance

146. Compliance - Investment portfolio not submitted (CoA 45)

Audit finding

Municipal investment regulation (GNR.308 of 01 April 2005) section 9 states: *"The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month."*

We obtained the section 71 reports for all 12 months, but it did not contain any information regarding the Municipality's investment portfolio.

- a report describing the municipality's investment portfolio were therefore not submitted to the mayor.

The above is mainly due to management not complying with the requirements of the Municipal Investment Regulation.

The risk of the above is non-compliance with the Municipal Investment Regulation.

Internal control deficiency

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

Recommendation

Management should include a report describing the investment portfolio as part of the Section 71 report.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

147. Compliance - Disclosure of budget differences (CoA 67)

Audit finding

As per GRAP 24 - Presentation of Budget Information in Financial Statements

Presentation of a comparison of budget and actual amounts

PAR12 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:

- (a) the approved and final budget amounts;
- (b) the actual amounts on a comparable basis; and
- (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.

The final budget amounts included per financial statements were agreed to the final adjusted budget amounts attached to the council meeting that was held where this was approved
Refer below for differences that were noted:

Item	Final budget (R)	Final adjusted budget per council minutes (R)	Difference (R)
Service charges	196 663 699.00	202 114 000.00	5 450 301.00
Rental of facilities and equipment	3 655 199.00	1 131 000.00	(2 524 199.00)
Other income	5 830 866.00	2 530 000.00	(3 300 866.00)
Interest received	5 481 947.00	4 972 000.00	(509 947.00)
Property rates	41 149 507.00	41 150 000.00	493.00
Government grants and subsidies	152 283 973.00	157 276 000.00	4 992 027.00
Gains on disposal of PPE		1 578 000.00	1 578 000.00
Fines	1 200 000.00	1 200 000.00	-
Total revenue	406 265 191.00	411 951 000.00	5 685 809.00
Personnel	(126 267 440.00)	(128 245 000.00)	(1 977 560.00)
Remuneration of councillors	(9 066 428.00)	(9 138 000.00)	(71 572.00)
Depreciation and amortisation	(2 118 000.00)	(2 118 000.00)	-
Debt impairment		(12 325 000.00)	(12 325 000.00)
Finance costs	(3 759 450.00)	(3 707 000.00)	52 450.00
Repairs and maintenance	(20 068 064.00)	(20 068 065.00)	(1.00)
Bulk purchases	(142 202 622.00)	(142 203 000.00)	(378.00)
Contracted services	(9 937 597.00)	(14 458 000.00)	(4 520 403.00)
General expenss	(99 732 197.00)	(87 781 935.00)	11 950 262.00
Total expenditure	(413 151 798.00)	(420 044 000.00)	(6 892 202.00)
Operating deficit	(6 886 607.00)	(8 093 000.00)	(1 206 393.00)

This matter may have occurred due to the final adjusted budget as approved by council not used for inclusion in the financial statements

This may result in a misstatement of the financial statements

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should follow-up on the above differences and ensure the final adjusted budget amounts are reflected in the financial statements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

148. Compliance - Information regarding performance bonuses outstanding (CoA 73)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: *"15. 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—(a) 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;"*

Information requested per RFI 119:

Please provide us with the following information:

Performance files (containing the signed performance agreement, annual performance evaluations and performance bonuses paid) for the following employees:

Municipal Manager

Chief financial Officer

Supply Chain Manager

All Other Section 56/57 senior managers

Employees, other than stated above, that are entitled to Performance bonuses

The nature of this exception raised is mainly due to management's failure to respond to the audit request as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above is that compliance over Human resources was not adhered to.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

149. Compliance - MEC local government not informed within 14 days (CoA 82)

Audit finding

The Municipal Systems Act states the following:

54A. Appointment of municipal managers and acting municipal managers.—

(7) (a) The municipal council must, within 14 days, inform the MEC for local government of the appointment process and outcome, as may be prescribed.

No proof could be obtained that the MEC for local government was informed of the following appointments within 14 days of date of appointment as required by the Municipal Systems Act:

- ~ Chief Financial Officer - Mr OL Leeuw (appointment date - 14/01/2013)
- ~ Director Corporate Services - Me LM Bopalamo (appointment date - 01/02/2013)
- ~ Director Community Services - Mr LD Kamolane (appointment date - 01/04/2013)

This matter may have resulted due to proper controls not in place to ensure adherence to laws and regulations

This matter constitutes non-compliance with the Municipal System Act

Internal control deficiency

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

Recommendation

Management should ensure that the MEC of local government is informed of the appointment of section 57 managers within 14 days of date of appointment

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

150. Compliance - Vacancies (CoA 82)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

No information pertaining to vacancies could be obtained for the 2012-13 year. The following could therefore not be obtained/performed:

- (1) Overall vacancy rate for current and prior year
- (2) Senior management vacancy rate for current and prior year
- (3) Vacancy rate for the finance department
- (4) Vacancy rate for the internal audit section
- (5) Vacancy rate for components with significant impact on service delivery (e.g water and electricity department)
- (6) It could also not be determined if post for Chief Financial Officer was advertised within 6 months of becoming vacant
- (7) It could not be determined if other vacant posts at year end were advertised within 6 months of becoming vacant
- (8) It could not be determined which positions were vacant for more than 12 months

Also the information included in the draft annual report submitted with the financial statements could not be used to obtain above required information

This matter may have occurred due to information on vacancies not submitted for audit purposes

This matter may result in a limitation of scope on the audit

Internal control deficiency

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

Recommendation

If information on the above is available this should be submitted as a matter of urgency

Management response

Outstanding

Auditor's conclusion

Management response is outstanding.

151. Compliance - Inadequate budgeting for certain revenue and expenditure items (CoA 11)

Audit finding

According to the MFMA section 18:

- (2) Revenue projection in the budget must be realistic, taking into account-
 - (a) projected revenue for the current year based on collection levels to date;
 - (b) actual revenue collected in previous financial years

(a) Amounts budgeted for the following revenue accounts are not deemed to be realistic when compared to prior year and current year income:

Account description	2012-13 Actual	2011-12 Actual	2012-13 Budget
Interest received	R21 442 747	R17 678 084	R4 973 000
Property rates	R77 688 011	R68 562 318	R41 150 000

Although MFMA states that the amount budgeted for should be based on actual revenue collected during prior years, it could not be confirmed that this was taken into account during the budgeting process for the revenue accounts

(b) Also for the following expenditure accounts the amounts budgeted for are not deemed to be realistic when compared to prior and current year expenditure incurred:

Account description	2012-13 Actual	2011-12 Actual	2012-13 Budget
Depreciation & amortisation	R97 194 922	R98 144 384	R2 118 000
Impairment loss	-	R49 058 191	R12 325 000
Contracted services	R8 506 519	R9 880 093	R14 458 000
General expenditure	R164 575 396	R83 511 330	R78 558 935

x1

x1 - Total amount budgeted for other expenditure per adjusted budget: R98 627 000 (an amount of R20 068 065 budgeted in respect of repairs and maintenance)

This may have resulted due to prior years' revenue and expenditure amounts not taken into account when projections were made for revenue and expenditure in the budget

This may constitute non-compliance with the MFMA.

Internal control deficiency

Actions are not taken to address risks to the achievement of financial reporting objectives.

Recommendation

When budgeting for revenue and expenditure management should take into account prior years' actual income as well as prior years' expenditure to ensure projections included in the budget are realistic

Management response

Management agrees with the findings, however below is the explanations of each item raised as a finding:

Revenue

The 2012/13 revenue budget was based on the actual revenue collected in the previous financial year and not the actual billed amounts. The figures shown above are the billed (Operating budget) figures for the 2012/13 financial year and not the cash flow (actual amounts collected for revenue). This has been corrected in the 2013/14 budget.

Expenditure

Depreciation – The municipality together with the provincial treasury is investigating the discrepancy in the depreciation amount provided for in the budget. This finding will be corrected as soon as that exercise is completed.

Impairment loss – The debt impairment budget was grossly under provided.

Contracted services – There are amounts that are disclosed under other expenditure such as R2.7 million (Insurance) and R4.4 million (Security) that were included in the contracted services budget and should have been disclosed as such and not as other expenditure. Taking this into account expenditure incurred on contracted services actually amounts to R15.6 million, indicating a slight over spending of around 7 percent.

General expenditure – There is an amount of R34.1 million for upgrade of pump station disclosed under note 34. This is incorrect as this is a capital project and should not be disclosed under general expenses, the error must be corrected on the AFS, further the amount of R59.4 million for bad debts, should have been disclosed as debt impairment as per budget. Therefore the correct amount for general expenditure should be R63.9 million taking into account the above and the point made under contracted services.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

152. Compliance - Unfavourable ratios (CoA 11)

Audit finding

Section 62 (1) (a) 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 that the resources of the municipality are used effectively, efficiently and economically;"

Although the total assets (R1 549 841 523) of the municipality significantly exceed the total liabilities (R424 858 665), the following ratios were considered unfavourable:

Description	2012/2013	Ratio	2011/2012	Ratio	
	Amount (R)		Amount (R)		
Current ratio:					
<u>Current assets</u>	366 195 762	109%	261 726 926	96%	(a)
<u>Current liabilities</u>	337 357 152		271 753 939		
Gross debtors to annual revenue Ratio:					
<u>Current consumer debtors</u>	295 960 216	96%	229 557 839	103%	(b)
Total revenue billed for services during the year	307 170 922		223 680 450		
Gross debtor days Ratio:					
<u>Current consumer debtors</u>	295 960 216	351.67873	229 557 839	374.59068	(b)
Total revenue billed for services during the year x 365	307 170 922 x 365 days		223 680 450 x 365 days		
Debtors impairment Ratio:					
<u>Bad debt provision</u>	155 509 266	51%	155 509 266	70%	(b)
Billed revenue	307 170 922		223 680 450		
Receivables turnover Ratio:					
<u>Billed revenue levied on consumers</u>	307 170 922	286%	223 680 450	349%	(c)
Average debtor balance	107 249 761.50		64 038 897		
<u>Fruitless and wasteful expenditure (current year)</u>	20 966 083	3.45%	2 066 781	0.41%	(d)
Total expenditure	607 228 783		502 871 715		

(a) This is an indication that the municipality will not be able to meet its current liabilities with the available current assets. (Norm: >2:1)

(b) Ratios improved from the prior year, due to the fact that impairment of consumer debtors were not reviewed during the current year. It can therefore be confirmed that the municipality does not have an effective revenue collection system in place as debtors are not recovered timeously.

(c) Ratio decreased due to an increase in service tariffs during the year as well as an increase in net debtors, due to the fact that the provision for bad debts was not reviewed during the year

(d) Ratio is above the norm of 2,5%. Increase in fruitless and wasteful expenditure is mainly due to cash constraints experienced by the municipality, resulting in interest levied on long outstanding supplier accounts

This matter may have resulted due to proper management not taking place.

The unfavourable ratios may cast doubt on the ability of the Municipality to settle its short term obligations as they become due in the ordinary course of business as well as cash flow problems as a result of debt not being recovered timely or not being recovered at all .

Internal control deficiency

Actions are not taken to address risks to the achievement of financial reporting objectives with respect to identifying unfavourable key financial ratios and ensuring that they are appropriately addressed.

Recommendation

Management should ensure that they monitor their financial ratios and take corrective action where necessary.

Management response

Management agrees with the unfavorable ratios identified. The Municipality is currently facing cash flow problems due low revenue collection caused by a number of issues such as, non-payment for services by residents, electricity theft. The municipality has plans in place to rectify the situation. Municipality is currently installing new split meters that will curb the electricity theft problem.

The above normal ration of 3.45 for fruitless and wasteful expenditure is due to poor financial planning. The municipality has started to implement a cash flow management process where monthly expenditure is planned for a month in advance.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

Unauthorised, irregular and fruitless & wasteful expenditure

153. Fruitless & wasteful expenditure - Deficiencies noted (CoA 13)

Audit finding

The Municipal Finance Management Act states the following:

"fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

The following was noted with the testing of fruitless and wasteful expenditure:

(a) Through inspection of Note 45 as well as testing of other components the following was noted:

Detail of item	Amount	Year	Reference
Water Affairs & Forestry - interest paid on overdue account	R34 221,00	2013	(i)
Employee tax - penalty and interest	R2 027 431,00	2012	(ii)
Prior period error on finance costs	R2 027 431,00	2012	
INCA loan penalty interest	R759 901,00	2013	(iii)

(i) Through inspection of the DWA loan statement the following was confirmed:

Capital portion outstanding	R28 136,51	
Interest - current year	R1 297,35	
Interest – 2012	R2 398,14	
Interest - prior to 2012	R2 407,16	
	<u>R34 239,16</u>	
Amount per AFS above	R34 221,00	
Difference	R18,16	<i>Difference deemed to be immaterial</i>

From the above it can be seen that fruitless and wasteful expenditure for the current year is overstated with R32 941,81, prior year understated with R2 398,14 and prior year opening balance understated with R2 407,16

(ii) Amount relating to SARS penalties were included twice in the prior year disclosure of Note 45, resulting in an overstatement of R2 027 431 of current year opening balance as well as the prior year fruitless and wasteful expenditure amount

(iii) Through inspection of the INCA loan confirmation the following was confirmed.

Current year penalty interest incurred on loan	R126 510,92
Prior years penalty interest incurred on loan	<u>R633 390,08 (x1)</u>
	R759 901,00

x1 - Also refer to prior period error disclosed under Note 39.2 of the financial statements

Fruitless and wasteful expenditure amount for the current year is therefore overstated with R633 390,08 and the prior year amount understated with R633 390,08

(b) Cases of fruitless and wasteful expenditure that were not included in the financial statements of the municipality were identified under various sections tested during the current year audit. A detail list of these cases will be provided to management at a later stage when all management responses on these sections were evaluated

(c) Also the following was noted during completeness testing performed:

(i) Councillor Kruger was suspended from the DA on 17 May 2012 and therefore effectively stopped being a councillor member from this day. The official was however paid up to July 2012. No evidence could however be obtained that allowance payments for the period 17 May - 31 July 2012 was recovered from the official. If overpayment is not going to be recovered from official it should be disclosed as fruitless and wasteful expenditure in the financial statements. Also no evidence was found that a debtor was raised for the amount

Net amount paid in July 2012 per Payday system: R18 648,12

(ii) A drunken fireman damaged the municipal Land Cruiser in an accident when he took it without the necessary permission. The official's name did not appear on the list of suspensions for the year, therefore it could not be determined if the necessary disciplinary action was taken against the official. Also no evidence could be obtained that the repair costs for the vehicle was recovered from the official. If the municipality is not planning to recover these costs from the official the amount should be disclosed as fruitless and wasteful expenditure

(d) The following fruitless and wasteful expenditure identified during the prior year audit was not included in the list or disclosure not for fruitless and wasteful expenditure:

	Amount per prior year exception	Amount per AFS	Difference
Fine for late payment of vehicle licensing fees to Free State provincial Government	R51 395,00	-	R51 395,00
Rand Water - interest on overdue accounts	R10 299,16	R1 364,00	R8 935,16
			<u>R60 330,16</u>

(e) The following differences were noted during the prior year when amounts disclosed were compared to supporting documentation. No evidence could be obtained that the municipality followed-up on these differences and made the necessary adjustments where applicable

Description	Amount as per supporting schedules	Amount disclosed	Difference
Eskom interest on overdue account	R9 083 782,00	R9 570 900,00	R-487 118,00
Urban Econ - legal fees not disclosed	R48 038,00	R121 168,00	R-73 130,00
Pension Fund - interest paid on overdue account	R114 799,00	R179 080,00	R-64 281,00
TOTAL	R9 246 619,00	R9 871 148,00	R-624 529,00

These matters may have occurred due to sufficient controls not in place at the municipality for the identification of fruitless and wasteful expenditure. Also no register/schedule of fruitless and wasteful expenditure was maintained by the municipality during the year.

This will result in the misstatement of fruitless and wasteful amount in note 45 of the financial statements

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate all items identified above and make the necessary adjustments where necessary to financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

154. Fruitless & wasteful expenditure - Required reports not submitted (CoA 13)

Audit finding

The Municipal Finance Management Act states the following:

32. Unauthorised, irregular or fruitless and wasteful expenditure.—(1) Without limiting liability in terms of the common law or other legislation—

(4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—

- (a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- (c) the steps that have been taken—
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure.

No proof could be obtained that the municipality submitted reports as per section 32(4) to the mayor, the MEC for local government in the province and the Auditor-General on instances of fruitless and wasteful expenditure that was identified during the year

Also no schedule/register of fruitless and wasteful expenditure was maintained by the municipality during the year. The list of fruitless and wasteful expenditure disclosed in note 45 of the financial statements were only prepared by the consultants with the compilation of the financial statements

This matter may have occurred due to the fact that the municipality have no controls in place for the identification of fruitless and wasteful expenditure and also due to the fact that no schedule/register of fruitless and wasteful expenditure was maintained during the year

This matter may result in non-compliance with the MFMA and will be reported as such in the audit report.

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that sufficient controls are in place for the identification of fruitless and wasteful expenditure. Also a register/schedule should be maintained during the year and all instances identified should be reported to relevant parties as per MFMA requirements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

155. Irregular expenditure - Submission of section 32(4) reports (CoA 55)

Audit finding

The Municipal Finance Management Act states the following:

32. Unauthorised, irregular or fruitless and wasteful expenditure.—(1) Without limiting liability in terms of the common law or other legislation—

(4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—

- (a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- (c) the steps that have been taken—
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure.

No proof could be obtained that the municipality submitted reports as per section 32(4) to the mayor, the MEC for local government in the province and the Auditor-General on instances of irregular expenditure that was identified during the year

This matter may have occurred due to the fact that the municipality have no specific controls in place for the identification of irregular expenditure and also due to the fact that no schedule/register of irregular expenditure was maintained during the year

This matter may result in non-compliance with the MFMA and will be reported as such in the audit report.

Internal control deficiency

The municipality did not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that sufficient controls are in place for the identification of irregular expenditure. Also a register/schedule should be maintained during the year and all instances identified should be reported to relevant parties as per MFMA requirements

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Long service awards

156. Long service award - Incomplete disclosure (CoA 62)

Audit finding

GRAP 25.136(k) states that an entity shall disclose the following:

(k) The principal actuarial assumptions used as at the reporting date, including, when applicable:

(i) the discount rates;

(ii) the basis on which the discount rate has been determined;

(iii) the expected rates of return on any plan assets for the reporting periods presented in the financial statements;

(iv) the expected rates of return for the reporting periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph .116;

(v) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);

(vi) medical cost trend rates; and

(vii) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

We found that the basis on which the discount rate was determined was not disclosed in the financial statements relating to long-service awards.

The above is mainly due to management not performing all required duties to ensure accurate and complete presentation of the financial statements.

The risk of the above is that users of the financial statements may be misled and that the financial statements may not comply with the fair presentation qualitative characteristics.

Internal control deficiency

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

Recommendation

Management should correct the incorrect line item and ensure that the financial statements are correctly represented.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Procurement and contract management

157. Procurement - SCM policy (CoA 22)

Audit finding

Per section 112(1)(c) of the Municipal Finance Management Act 56 of 2003 states that

"112(1) The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost effective and comply with the prescribed regulatory framework for municipal supply chain management, which must cover at least the following:

(c) procedures and mechanisms for each type of process"

Furthermore section 15, 18(d), 33(1), 34, 46(3) and 50(1) of the Municipal Finance Management Act 2003, Supply Chain Management Regulations state that;

(15) A supply chain management policy must stipulate the conditions of procurement of goods by means of petty cash purchases referred to in regulation 12(1)(a), which must include conditions-
(a) determining the terms on which a manager may delegate responsibility for petty cash to an official reporting to the manager

(b) limiting the number of petty cash purchases or the maximum amounts per month for each manager;

(c) excluding any types of expenditure from petty cash purchases, where this is considered necessary; and

(d) requiring monthly reconciliations reports from each manager to the Chief Financial Officer, including:

(i) the total amount of petty cash purchases for that month; and

(ii) receipts and appropriate documents for each purchase.

(18) Procedures for procuring goods and services through written and or verbal quotations and formal written price quotations - A supply chain management policy must determine the procedure for the procurement of goods and services through written or verbal quotations or formal written price quotations, and must stipulate

(d) that the accounting officer or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub delegation

33(1) A supply management policy must restrict the acquisition and storage of goods in bulk (other than water) which necessitate special safety arrangements, including grasses and fuel.

(34) A supply chain management policy must stipulate to what extent the municipality or municipal entity supports the proudly SA campaign.

46(3) A supply chain management policy must -

(a) determine that all declarations in terms of sub regulations (2)(d) and (e) must be recorded in a register which the accounting officer must keep for this purpose.

(b) determine that all declarations by the accounting officer must be made to the mayor of the municipality or the board of directors of the municipal entity who must ensure that such declarations are recorded in the register

(c) contain measure to ensure that appropriate action is taken against any official or other role player who commits a breach of the code of ethical standards.

50(1) the supply chain management policy of a municipality or municipal entity must provide for the appointment by the accounting officer of an independent and impartial person not directly involved in the supply chain management processes of the municipality or municipal entity-

- (a) to assist in the resolution of disputes between the municipality or the municipal entity and other persons regarding -*
- (i) any decisions or actions taken by the municipality or municipal entity in the implementation of its supply chain management system; or*
- (ii) any matter arising from a contract awarded in the course of its supply chain management system; or*
- (b) to deal with objections, complaints or queries regarding such decisions or actions or any matters arising from such contract"*

The supply chain management policy of the municipality did not adhere to the following:

Petty Cash

The municipality's policy did not determine how the municipality should deal with purchases that are made from petty cash.

Acting officials

The municipality's policy did not provide for reporting requirements to the accounting officer or chief financial officer in instances of officials acting in terms of a sub delegation

Restrictions

The municipality's policy did not restrict the storage of bulk goods.

Proudly SA campaign

The municipality's policy does not state how the municipality is supporting the proudly SA campaign

Declaration of interest

Declaration of interests are not provided for in the supply chain management policy

Disputes

Appointment of an independent and impartial individual is also not dealt with in the supply chain management policy.

These deficiencies may have resulted due to the fact that the SCM policy was not properly evaluated against all the legislative requirements before approving this policy.

Not only does these matters constitute non-compliance with the SCM Regulations, but an "inadequate" policy can also result in the municipality incurring irregular expenditure.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

It is recommended that the municipality review the Supply Chain Management policy for the inclusion of the above to ensure compliance with the Municipal Finance Management Act as well as the Municipal Supply Chain Regulations

Management response

Management agrees with the finding. The SCM policy has been reviewed, however management will ensure that all the identified weaknesses in the policy are corrected.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

158. Procurement - Performance of other remunerative work by employees (CoA 22)

Audit finding

Section 4(2)(c) of schedule 2 to the Systems Act states that except with the prior consent of the council of a municipality a staff member of the municipality may not be engaged in any business, trade or profession other than the work of the municipality.

For the following employee no proof could be obtained that he/she applied for approval to perform remunerative work outside the public sector:

SUPPL_NAME	SUPPL_ENT	AMOUNT_PAID	CIPC_APPOINT_DATE	CIPC_MEMBER_STATUS	CIPC_MEMBER_SIZE_INTEREST	EMPL_NO	EMPL_NAME	EMPL_TITLE
TSHIFEMA CONSTRUCTION & PROJECTS	FS: Sport Arts and Culture	R62 500,00	2008/05/26	Active	50	45508	MS SA POONYANE	TRAFFIC OFFICER

These matters may have resulted due to management not implementing control procedures to ensure compliance with laws and regulations. Employees do not declare their interest in suppliers.

The above mentioned will result in non-compliance with the Systems Act.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should investigate above mentioned. If approval was obtained it should be submitted as a matter of urgency. The requirement of the Systems Act must be enforced by informing employees of the requirement and implementing a processes that monitors and enforces compliance.

Management response

Management agree. We undertake to investigate the matter identified and implement corrective measure.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

159. Procurement - Shortcomings with the supplier database (CoA 34)

Audit finding

Section 14 of the Municipal Supply Chain Regulations

(14) List of accredited prospective providers

(3) The list must be compiled per commodity and per type of service

The Ngwathe supplier database is done on the e-Venus system and the following deficiencies were noted as confirmed with management:

- (a) The system is unable to classify service providers per commodities each provide
- (b) The system cannot indicate if a service provider is duplicated
- (c) Service providers cannot be deleted from the system
- (d) The system cannot indicate if a service provider's tax clearance certificate has expired
- (e) Database is inclusive of names and details of individuals, institutions and organisations who are refunded, paid for bursaries etc rather than consisting just out of the service providers and they are all clarified under "general"

Also it was noted that the system does not make provision to indicate details of interest declared by the suppliers

This matter may have resulted due to shortcomings with the current supplier database used by the municipality

This matter may result in non-compliance with the relevant laws and regulations as well as possible occurrence of irregular expenditure.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Cognisance is taken of the fact that management is currently in the process of implementing a new supplier database. Management should however implement controls to ensure that the relevant laws and regulations are complied with.

Management response

Management agrees. Management is in the process of investigating the possibility of buying a compatible supply chain management system that incorporates all the elements detailed in this finding.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

160. Procurement - Not complying with listing requirements (R2 000 - R10 000) (CoA 34)

Audit finding

MUNICIPAL SUPPLY CHAIN POLICY STATES THE FOLLOWING:

4.3 WRITTEN PRICE QUOTATIONS: ESTIMATED VALUE R 2 001 to R 30 000 (VAT included)

The Accounting Officer or duly delegated official shall invite and accept written price quotations for goods and services from above R 2 001 (VAT included) to R 30 000 (VAT included) from as many suppliers as possible, preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy to the extent feasible, providers must be requested to submit such quotations in writing.

4.4.1 General Pre-Conditions for Consideration for written Quotations or Bids

A written quotation or bid may not be considered unless the prospective provider who submitted the quotation or bid has furnished the following:

- ~ Full name (legal and trading name where possible)
- ~ Identification number, company or other registration number.
- ~ Tax reference number and VAT registration number, if any.

LISTING REQUIREMENTS AS PER VENDOR APPLICATION FORM TO BE REGISTERED AS SUPPLIER ON THE MUNICIPALITY'S DATABASE

- ~ BEE Certificate
- ~ Fax number (compulsory)
- ~ Proof of company registration
- ~ Original Valid Tax Clearance Certificate (above R30 000)
- ~ CIDB Certificate - applicable to construction related services
- ~ PSIRA - applicable to security related services
- ~ Copies of identity documents for all directors or members of company as listed on the company registration document
- ~ Wireman's license - applicable to electrical related services
- ~ Accreditation certificate - applicable to computer hardware and software distributors
- ~ Proof of SETA and/or SAQA accreditation - applicable to training related services
- ~ Certified proof of disability if owners are people with disability

The following quotations sourced from suppliers not registered on the municipality's supplier database did not comply with the listing requirements:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee	Ref
1125051281810	RADIO EQUIPMENT - R&M	1012913	20130307	4 018.44	28867	4 581.02	AGRI MEKKA	A
1105051280910	FURNITURE & EQUIPMENT - R&M	1011805	20120918	3 750.00	26388	3 750.00	B3 PRINTERS	B
1110101095430	TRANSPORTATION - MAYOR	1011751	20120914	2 500.00	26318	3 000.00	BATJHA ITSOSENG CATERING & PROJECTS	C
1110101095415	TRAINING STAFF)	1013038	20130404	3 600.00	29210	3 600.00	BEN GOEIEMAN	D
1110101090030	ACCOMODATION COST MAYOR	1011410	20120803	6 275.00	25781	11143.5	BASIENG TRADING PROJECTS	E
1105051094415	PRINTING & STATIONERY	1013094	20130418	6 052.63	29347	9 999.00	DIAMOND CORNER	F
1105051095425	TRANSPORTATION COST	1013002	20130325	3 000.00	29021	3 000.00	QETA TRADING	G

1110101095425	TRANSPORTATION COST	1011467	20120816	3 000.00	25831	3 000.00	QETA TRADING	H
1110101095425	TRANSPORTATION COST	1011493	20120822	4 400.00	25891	4 400.00	QETA TRADING	I
1110101095430	TRANSPORTATION - MAYOR	1011833	20121015	5 000.00	26940	5 000.00	QETA TRADING	J
1110101095430	TRANSPORTATION - MAYOR	1012288	20121126	3 420.00	27462	3 420.00	QETA TRADING	M
1110101095445	TRAINING OF WARD COMMITTEES	1012491	20121227	2 080.00	28075	2 080.00	QETA TRADING	L
1125051090050	ARTS AND CULTURE MARKETS	1012388	20121207	2 250.00	27751	2 250.00	QETA TRADING	K

A - Refer details below:

Supplier name	Listing requirements not met
Agri-Mekka (winning quotation) - Registered supplier on the database	
Vicor Building materials	~ No tax reference number ~ No VAT registration number ~ No proof of company registration attached
Senwes - Registered supplier on the database	

B - Refer details below:

Supplier name	Listing requirements not met
b3 Printers (winning quotation) - Registered supplier on the database	
Z-Unit express	~ No tax reference number ~ No proof of company registration attached
Miyeka Kameya Trading and Projects	~ No tax reference number ~ No fax number ~ No proof of company registration attached

C - Refer details below:

Supplier name	Listing requirements not met
Batjha (winning quotation) - Registered supplier on the database	
First Women Multi-Purpose Primary Co-Operative Ltd	~ No proof of company registration attached
Basadi ba Tumahole Catering - Registered supplier on the database	

D - Refer details below:

Supplier name	Listing requirements not met
Ben Goeieman (winning quotation) - Registered supplier on the database	
DM Mabe Taxi	~ No tax reference number ~ No fax number

4820 New Location	~ No tax reference number ~ No fax number
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E - Refer details below:

Supplier name	Listing requirements not met
Basieeng Trading and Projects (winning quotation)	
Nkile construction and projects - Registered supplier on the database	
Selekane Sa Bo-Mme Trading	~ No tax reference number ~ No proof of company registration attached

F - Refer details below:

Supplier name	Listing requirements not met
Diamond Corner (winning quotation) - Registered supplier on the database	
Z-Unit Express	~ No tax reference number ~ No proof of company registration attached
It's Ink	~ No tax reference number

G - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
Papi Nyama	~ No tax reference number ~ No fax number

H - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
TJ Seetsa	~ No tax reference number ~ No fax number

I - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
SV Mhlominyana	~ No tax reference number ~ No fax number

J - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
MS Letshoenyo	~ No tax reference number ~ No fax number

K - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
TJ Seetsa	~ No tax reference number ~ No fax number

L - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database	
Teboho B Tlale	~ No tax reference number ~ No fax number
MS Letshoenyo	~ No tax reference number ~ No fax number

M - Refer details below:

Supplier name	Listing requirements not met
QETA Trading (winning quotation) - Registered supplier on the database R3 420	
Teboho B Tlale R3 800	~ No tax reference number ~ No fax number
New Location R3 250	~ No tax reference number ~ No fax number

It was also found that the provider (New Location) with the lowest price quote was not selected by the municipality to render the service. No reason was included as part of the supporting documentation attached to the payment voucher as to why this service provider was not selected

This matter may have resulted due to staff not ensuring that the sourced quotations comply with the listing requirements

This constitutes non-compliance with the requirements of the Supply Chain Management Policy, constituting possible irregular expenditure

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that all sourced quotations comply with the necessary listing requirements

Management response

Management agrees with the finding.

We will ensure that all future transactions processed through the general ledger are reviewed and signed off by the relevant manager. Management will also investigate and correctly allocate all transactions that were incorrectly allocated in the general ledger.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

161. Procurement - Incorrect classification (R2 000 - R10 000) (CoA 34)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

(a) The following items were incorrectly classified. Refer below for details:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee	
1110101095430	TRANSPORTATION - MAYOR	1011751	20120914	2 500.00	26318	3 000.00	BATJHA ITSOSENG CATERING & PROJECTS	A
1125051281810	RADIO EQUIPMENT - R&M	1012913	20130307	4 018.44	28867	4 581.02	AGRI-MEKKA	B
1110101090030	ACCOMODATION COST MAYOR	1011410	20120803	6 275.00	25781	11 143.50	BASIENG TRADING PROJECTS	C
1120101094740	RENT - PLANT & VEHICLES	1011947	20121016	3 850.00	26973	3 850.00	FERIC STEEL FURNITURE	D
1105051094415	PRINTING & STATIONERY	1013094	20130418	6 052.63	29347	9 999.00	DIAMOND CORNER	E
1130051282410	VEHICLES - R&M	1012030	20121024	3 868.16	27081	4 409.70	PARYS NEWS AGENCY	F
1110101095430	TRANSPORTATION - MAYOR	1011833	20121015	5 000.00	26940	5 000.00	QETA TRADING	G

A - Expense was incurred for catering costs

B - Amount is in respect of purchase of cement for Koppies Toilet Supply Project from the EPWP Incentive grant and should therefore be capitalised against the project (Work in Progress)

C - Expenditure relates to funeral costs incurred for one of the councillors

D - Service rendered was for a water burst repair and not the renting of plant and vehicles

E - Item relates to a voice recorder that was purchased and should be capitalised as an asset

F - Printing cartridges were purchased which were incorrectly classified as repairs and maintenance

G - Expenses were incurred to transport 5 students that were identified to study medicine in Cuba to the Office of the Premier for the occasion of orientating them for this scholarships. Expenses incurred is therefore not in the mandate of the municipality and these expenses should have been paid by the Premier's Office or by the Department of Health - costs should therefore be recovered Also item was incorrectly allocated to "Transportation - Mayor" account

(b) The following payment vouchers were not approved by the relevant officials to verify the accuracy of amounts as well as the correct allocation in the general ledger accounts:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee	Comments
1125051281810	RADIO EQUIPMENT - R&M	1012913	20130307	4 018.44	28867	4 581.02	AGRI MEKKA	Not approved by "Manager Expenditure"
1105051280910	FURNITURE & EQUIPMENT - R&M	1011805	20120918	3 750.00	26388	3 750.00	B3 PRINTERS	Not approved by "Manager Expenditure"
1110101090030	ACCOMODATION COST MAYOR	1011410	20120803	6 275.00	25781	11143.5	BASIENG TRADING PROJECTS	Not approved by "Accountant" and "Manager Expenditure"
1105051094415	PRINTING & STATIONERY	1013094	20130418	6 052.63	29347	9 999.00	DIAMOND CORNER	Not approved by "Accountant" and "Manager Expenditure"
1120101094740	RENT - PLANT & VEHICLES	1011947	20121016	3 850.00	26973	3 850.00	FERIC STEEL FURNITURE	Not approved by "Manager Expenditure"
1130051282410	VEHICLES - R&M	1012030	20121024	3 868.16	27081	4 409.70	PARYS NEWS AGENCY	Not approved by "Manager Expenditure"
1110101095425	TRANSPORTATION COST	1011467	20120816	3 000.00	25831	3 000.00	QETA TRADING	Not approved by "Manager Expenditure"
1110101095430	TRANSPORTATION - MAYOR	1011833	20121015	5 000.00	26940	5 000.00	QETA TRADING	Not approved by "Accountant" and "Manager Expenditure"
1125051090050	ARTS AND CULTURE MARKETS	1012388	20121207	2 250.00	27751	2 250.00	QETA TRADING	Not approved by "Manager Expenditure"
1110101095445	TRAINING OF WARD COMMITTEES	1012491	20121227	2 080.00	28075	2 080.00	QETA TRADING	Not approved by "Accountant" and "Manager Expenditure"

This matter may have occurred due to proper reviewing procedures not in place to ensure amounts are posted to the correct general ledger accounts

This may result in the misstatement of the financial statements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above items and make the necessary corrections. Also management should ensure that proper reviewing controls are in place to ensure that amounts are allocated to the correct general ledger accounts

Management response

Management agrees with the finding.

We will ensure that all future transactions processed through the general ledger are reviewed and signed off by the relevant manager. Management will also investigate and correctly allocate all transactions that were incorrectly allocated in the general ledger.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

162. Procurement - Incorrect classification (R10 000 - R30 000) (CoA 34)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

(a) The following items were incorrectly classified. Refer below for details:

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee
1125801280810	EQUIPMENT - R&M	1011895	20121008	10 800.00	26849	24 300.00	COALITION TRADING 1347 CC
1125801280810	EQUIPMENT - R&M	1011895	20121008	13 500.00	26849	24 300.00	COALITION TRADING 1347 CC

The above expense was incurred for the purchase of chain blocks and should therefore be capitalised as assets

(b) The following payment vouchers were not approved by the relevant officials to verify the accuracy of amounts as well as the correct allocation in the general ledger accounts:

Vote Number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee	
1125801280810	EQUIPMENT - R&M	1012546	20130103	13 450.00	28100	16 650.00	BUCKS BROTHER G TRADING	Not approved by "Accountant" and "Manager Expenditure"



1110101096520	WOMAN & CHILDREN ABUSE CAMPAIGN	1012492	20121220	16 900.00	27939	16 900.00	QETA TRADING	Not approved by "Manager Expenditure"
1130051282410	VEHICLES - R&M	1013409	20130530	13 986.95	29946	20 022.94	CASTLEHILL TRADING 314	Not approved by "Manager Expenditure"

This matter may have occurred due to proper reviewing procedures not in place to ensure amounts are posted to the correct general ledger accounts

This may result in the misstatement of the financial statements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above items and make the necessary corrections. Also management should ensure that proper reviewing controls are in place to ensure that amounts are allocated to the correct general ledger accounts

Management response

Management agrees with the finding.

We will ensure that all future transactions processed through the general ledger are reviewed and signed off by the relevant manager. Management will also investigate and correctly allocate all transactions that were incorrectly allocated in the general ledger.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

163. Procurement - Vendor applications not obtained (R10 000 - R30 000) (CoA 52)

Audit finding

Section 62(1) of MFMA state that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality , and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.
- (c) that the municipality has and maintains effective, efficient and transparent systems-
- (i) of financial and risk management and internal control

The following vendor applications of suppliers that are registered on the database could not be obtained for audit purposes:

SUPPLIER NAME
CHOLOTA CATERING AND CONSTRUCTION CC
BUCKS BROTHER G TRADING
CASTLEHILL TRADING 314

INYAMEKO
COALITION TRADING 1347 CC
CRUSADERS ARMS & AMMUNITION
QETA TRADING

It could therefore not be determined if all information as per the listing requirements were submitted and if a declaration of interest form was completed by the supplier

This matter may have resulted due to sufficient controls not in place over the safekeeping of documentation

This matter places a limitation on the scope of the audit regarding the testing of procurement.

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should submit the above documents as a matter of urgency

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

164. Procurement - Classification errors (R30 000 - R200 000) (CoA 52)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

(a) The following items were incorrectly classified. Refer below for details:

Vote number	Vote Description	Reference	Tran Date	Debit Amt	Cheque	Cheque Amt	Payee	
1125051281210	INFRASTRUCTURE - R&M	1011838	20121009	32 720.00	26891	42 645.12	AUTOMOTOR TRAFFIC SIGNAL	A
1125601096505	WEED KILLERS	1013650	20130628	47 000.00	30475	47 000.00	LEBEKO PLANT HIRE AND GENERAL SERVICE (PTY) LTD	B
1105051094525	PROFESSIONAL FEES (CONS)	1012805	20130215	141 091.00	28603	160 843.74	KHAYA IBHUBESI	C

1115051094420	PRINTING & STATIONERY - FMG	1013569	20130627	197 000.00	30401	197 000.00	TAFITA	D
1125051281810	RADIO EQUIPMENT - R&M	1012603	20130118	42 400.00	28204	48 336.00	BRYN CONSTRUCTION CC	E
1115051094555	PURCHASES OTHER	1012847	20130311	52 750.00	28933	60 135.00	THEBE SUPPLIERS CC T/A VALUE SUPPLIES	F
1125051094525	PROFESSIONAL FEES (CONS)	1012789	20130219	18 352.10	28607	58 460.55	MOLEFI SM TRADING CC	G
1110101095445	TRAINING OF WARD COMMITTEES	1011374	20120727	26 840.00	25593	87 750.00	PHAHAMANG MANUFACTURERS C.C	H
1120201281210	INFRASTRUCTURE - R&M	1012252	20121120	28 421.04	27449	39 599.99	PARTUMA TRADING AND PROJECTS	I

A - Expense was incurred for the replacement of robots and should therefore be capitalised as assets

B - Expense was incurred for the hiring of a grater, but item was incorrectly classified as "Weed killers" in the general ledger

C - Expenses were incurred for catering and hiring of venue from Khaya Ibubezi for strategic planning session that was held. Item therefore incorrectly classified as "Professional fees"

D - Expenses were incurred for training of bid committee, therefore incorrectly classified as "Printing and stationery"

E - Expense was incurred for the hiring of a bulldozer, therefore incorrectly classified as "Radio equipment - R&M"

F - Expenses were incurred for the hiring of two tipper trucks, therefore incorrectly classified as "Purchases other"

G - Expense incurred for the purchase of plumbing material. Item incorrectly classified as "Professional fees"

H - Expense was incurred for the purchase of army jackets and caps for the Ward committee, therefore incorrectly classified as "Training of Ward Committee"

I - Expenditure was incurred for the purchase of bricks for the building of toilet structures in Tumahole. The expense should therefore be capitalised against the project

(b) The following payment vouchers were not approved by the relevant officials to verify the accuracy of amounts as well as the correct allocation in the general ledger accounts:

Vote number	Vote Description	Reference	Trans Date	Debit Amt	Cheque	Cheque Amt	Payee	
1125051281210	INFRASTRUCTURE - R&M	1011838	20121009	32 720.00	26891	42 645.12	AUTOMOTOR TRAFFIC SIGNAL	Not approved by "Manager Expenditure"
1130051282410	VEHICLES - R&M	1012619	20130123	30 134.50	28245	34 353.33	BASIENG TRADING PROJECTS	Not approved by "Manager Expenditure"
1125051281810	RADIO EQUIPMENT - R&M	1012603	20130118	42 400.00	28204	48 336.00	BRYN CONSTRUCTION CC	Not approved by "Manager Expenditure"
1125601096505	WEED KILLERS	1013650	20130628	47 000.00	30475	47 000.00	LEBEKO PLANT HIRE AND GENERAL SERVICE (PTY) LTD	Not approved by "Manager Expenditure"
1105051165420	SECURITY (MONITORING OF ALARMS)	1012718	20130212	54 000.00	28525	199 500.00	P.P NHLAPO I.T SERVICE	Not approved by "Manager Expenditure"

1115051094420	PRINTING & STATIONERY - FMG	1013569	20130627	197 000.00	30401	197 000.00	TAFITA	Not approved by "Manager Expenditure"
1125601094740	RENT - PLANT & VEHICLES	1013479	20130621	127 499.02	30148	127 499.02	DERNOC DISTRIBUTION & PROOJECTS CC	Not approved by "Manager Expenditure"
1120201090615	CHEMICALS	1013837	20130715	143 160.00	30611	171 735.68	HYDROCARE	Not approved by "Manager Expenditure"
1120101282410	VEHICLES - R&M	1012487	20130107	178 046.15	28114	178 046.15	DOME HYDRAULICS SERVICES CC	Not approved by "Accountant" and "Manager Expenditure"
1120101282410	VEHICLES - R&M	1012484	20121227	48 000.00	28072	174 431.40	FAKA ENGINEERING AND HYDRAULIC SERVICES CC	Not approved by "Accountant" and "Manager Expenditure"
1115051094555	PURCHASES OTHER	1012847	20130311	52 750.00	28933	60 135.00	THEBE SUPPLIERS CC T/A VALUE SUPPLIES	Not approved by "Manager Expenditure"
1120201281210	INFRASTRUCTURE - R&M	1012252	20121120	28 421.04	27449	39 599.99	PARTUMA TRADING AND PROJECTS	Not approved by "Accountant" and "Manager Expenditure"

(c) The following payments made were not authorised by the Chief Financial Officer and the Municipal Manager:

Vote number	Vote Description	Reference	Trans Date	Debit Amt	Cheque	Cheque Amt	Payee
1125601096505	WEED KILLERS	1013650	20130628	47 000.00	30475	47 000.00	LEBEKO PLANT HIRE AND GENERAL SERVICE (PTY) LTD
1115051094420	PRINTING & STATIONERY - FMG	1013569	20130627	197 000.00	30401	197 000.00	TAFITA
1125601094740	RENT - PLANT & VEHICLES	1013479	20130621	127 499.02	30148	127 499.02	DERNOC DISTRIBUTION & PROOJECTS CC

This matter may have occurred due to proper reviewing procedures not in place to ensure amounts are posted to the correct general ledger accounts and that payments are authorised by the appropriate delegated officials

This may result in the misstatement of the financial statements. Also possible unauthorised payments may be made if not authorised by the appropriate delegated officials

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above items and make the necessary corrections. Also management should ensure that proper reviewing controls are in place to ensure that amounts are allocated to the correct general ledger accounts and that all payments are authorised by the appropriate delegated official

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

165. Procurement - Incorrect classifications (awards above R200 000) (CoA 64)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

(c) that the municipality has and maintains effective , efficient and transparent systems-
(i) of financial and risk management and internal control

According to the Value Added Tax Act 89 of 1991

17(2) Notwithstanding anything in this Act to the contrary, a vendor, shall not be entitled to deduct from the sum of the amounts of output tax and refunds contemplated in section 16 (3), any amount of input tax—

(c)(i) in respect of any motor car supplied to or imported by the vendor: Provided that— this paragraph shall not apply where that motor car is acquired by the vendor exclusively for the purpose of making a taxable supply of that motor car in the ordinary course of an enterprise which continuously or regularly supplies motor cars, whether that supply is made by way of sale or under an instalment credit agreement or by way of rental agreement at an economic rental consideration;

(ii) for the purposes of this paragraph a motor car acquired by such vendor for demonstration purposes or for temporary use prior to a taxable supply by such vendor shall be deemed to be acquired exclusively for the purpose of making a taxable supply; and

(iii) this paragraph shall not apply where—

(aa) that motor car is acquired by the vendor for the purposes of awarding that motor car as a prize contemplated in section 16 (3) (d) in consequence of a supply contemplated in section 8 (13); or

(bb) the supply of that motor car is in the ordinary course of an enterprise which continuously or regularly supplies motor cars as prizes to clients or customers (other than to any employee or office holder of the vendor or any connected person in relation to that employee, office holder or vendor) to the extent that it is in consequence of a taxable supply made in the course or furtherance of an enterprise; or enterprise; or

Municipal Supply Chain Management Policy

10. DEVIATION FROM OFFICIAL PROCUREMENT PROCESSES

The Accounting Officer may dispense with the official procurement processes established in terms of this policy to procure any required goods or services through any convenient process, which may include direct negotiations, but only under the following circumstances:

- In an emergency situations
- If such goods and services are produced or available from a single provider only.
- For the acquisition of special works of art or historical objectives where specifications are difficult to compile.
- Acquisition of animals for zoos and/or nature and game reserves.
- In any other exceptional case where it is impractical to follow the official procurement processes. e.g procurement from restaurants or for accommodation due to availability, distance etc.

In any event, the Accounting Officer must record the reasons for such deviation and report them to the next council meeting following the date of the transaction and ensure that such deviations are properly disclosed in the notes to the annual financial statements of the municipality.

a) The following deviation was incorrectly included as irregular expenditure. Reason for deviation is deemed to be sufficient/valid. The municipality deviated due to a water crisis at Koppies reservoir pump Station. Water could not be supplied to other sections due to burned contractor and overload protector which ultimately damaged the pump. As a result of that the community did not have access to water and the matter was treated as an emergency.

Vote number	Vote Description	Reference	Trans Date	Debit Amt (R)	Cheque	Cheque Amt (R)	Payee
1120401281210	INFRASTRUCTURE - R&M	1012683	20130212	189 610.00	28539	216 155.40	MILLENNIUM PUMP

Deviation should therefore rather have been disclosed under Note 44 of the financial statements. Also vendor application could not be obtained to confirm if supplier declared any interests

b) Expenses incurred below were for the payment of deposit for vehicles purchased for the mayor and speaker. Expenditure was therefore incorrectly classified as "Insurance general"

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee
1115051092420	INSURANCE GENERAL	1013408	20130528	150 482.46	29761	171 550.00	NEW VAAL MOTORS
1115051092420	INSURANCE GENERAL	1013407	20130528	133 333.33	29760	152 000.00	NEW VAAL MOTORS

Also it was found that input VAT was incorrectly claimed on the above payments which is in contravention with the VAT act which states that no VAT may be claimed on passenger vehicles, resulting in an overstatement of input VAT amounting to R39 734,21

c) Maximum Profit Recovery (Pty) Ltd was appointed by the municipality to recalculate VAT and complete VAT 201's. During testing performed on VAT it was found that the consultants did not do any reconciliations/recalculations on VAT. They only generated reports from the system and used this to complete the VAT 201's

Total payments to this consultant should thus be considered for inclusion as possible fruitless and wasteful expenditure as no value for money was received for services rendered to the municipality.

Total payments that were made (excluding VAT): R930 937,86

Also above amount was allocated to the incorrect general ledger accounts. Refer below:

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Cheque	Cheque Amt	Payee
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1115051090015	AUDIT FEES (EXTERNAL)	1013631	20130628	201 248.10	30438	229 422.83	MAXIMUM PROFIT RECOVERY (PTY) LTD
1120451090016	AUDIT FEES METERS	1013632	20130628	729 689.76	30445	831 846.33	MAXIMUM PROFIT RECOVERY (PTY) LTD

d) The following expenditure incurred was for the hiring of plant. Items below were thus allocated to the incorrect general ledger account.

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1012032	20121017	22 554.39	DIR10095 : HIRING TLB FOR 10 DAYS	26990	25 712.00	MAKUME CONSTRUCTION CC
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1012049	20121024	31 449.12	DIR10104 : HIRING TLB	27064	35 852.00	MAKUME CONSTRUCTION CC
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1012050	20121024	36 000.00	DIR8401 : HIRE BULLDOZER	27072	46 740.00	MAKUME CONSTRUCTION CC
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1012050	20121024	5 000.00	DIR8422 : TRANSPORT TO SIDE	27072	46 740.00	MAKUME CONSTRUCTION CC
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1012122	20121107	14 560.00	DIR10104 : HIRING TLB FOR 7 DAYS	27301	16 598.40	MAKUME CONSTRUCTION CC
1115051280810	EQUIPMENT - R&M	1013414	20130530	17 600.00	H000007006 : HIRE TLB FOR 10 DAYS	29967	20 064.00	MAKUME CONSTRUCTION CC
1120054020602	PROJECT MANAGEMENT UNIT	1013606	20130628	18 400.00	DIR10202 : TLB FOR 10 DAYS IN KOPPIES	30430	20 976.00	MAKUME CONSTRUCTION CC
1120054020602	PROJECT MANAGEMENT UNIT	1013627	20130628	41 600.00	DIR10198 : TIPPER TRUCKS IN KOPPIES	30439	47 424.00	MAKUME CONSTRUCTION CC
1120054020602	PROJECT MANAGEMENT UNIT	1013846	20130715	18 400.00	DIR8051 : ROLLER FOR 10 DAYS IN KOPPIES	30597	20 976.00	MAKUME CONSTRUCTION CC
1125051092058	HIRE GENERAL	1013072	20130410	25 760.00	DIR10764 : HIRING OF TLB FOR 14 DAYS AT PARYS	29282	29 366.40	MAKUME CONSTRUCTION CC
1125051092058	HIRE GENERAL	1013141	20130418	40 000.00	DIR14344 : HIRING GRADER FOR 10 DAYS AT HEILBRON	29351	45 600.00	MAKUME CONSTRUCTION CC
1125051092058	HIRE GENERAL	1013142	20130418	41 600.00	DIR10197 : HIRING TIPPER TRUCKS	29376	47 424.00	MAKUME CONSTRUCTION CC
1125151281810	PLANT AND MACHINERY - R&M	1012001	20121019	14 560.00	DIR10041 : HIRING TLB FOR 7DAYS	27009	16 598.40	MAKUME CONSTRUCTION CC
1125151281810	PLANT AND MACHINERY - R&M	1013317	20130503	3 508.77	DIR10001 : TRANSPORT	29672	24 976.00	MAKUME CONSTRUCTION CC

1125151281810	PLANT AND MACHINERY - R&M	1013317	20130503	18 400.00	DIR10202 : TLB FOR 10 DAYS WORKING IN HEILBRON	29672	24 976.00	MAKUME CONSTRUCTION CC
1125151281810	PLANT AND MACHINERY - R&M	1013321	20130503	40 000.00	DIR8050 : GRADER FOR 10 DAYS WORKING IN HEILBRON	29678	45 600.00	MAKUME CONSTRUCTION CC
1125801280810	EQUIPMENT - R&M	1012031	20121017	36 000.00	DIR10764 : HIRING OF BULLDOZER	26988	41 040.00	MAKUME CONSTRUCTION CC
1130051281810	PLANT & EQUIPMENT - R&M	1013125	20130422	47 040.00	DIR8399 : HIRING FRONT LOADER FOR 14DAYYS TO WORK IN PARYS	29395	53 625.60	MAKUME CONSTRUCTION CC
1130051281810	PLANT & EQUIPMENT - R&M	1013189	20130422	48 000.00	DIR8050 : HIRING OF A GRADER	29404	54 720.00	MAKUME CONSTRUCTION CC

e) Expenditure incurred for the items below was in respect of the hiring of plant and was therefore allocated to the incorrect general ledger account

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	1011501	20120817	194 094.87	DIR20568 : HIRING OF MACHINE	25858	221 268.15	NEW TEAM CONSTRUCTION
1105051165425	DELIVERY SERVICE	1011784	20120913	157 466.23	DIR10764 : HIRING OF MACHINE 28MARCH-10APRIL 2011	26297	179 511.50	NEW TEAM CONSTRUCTION
1105051165425	DELIVERY SERVICE	1011785	20120912	120 247.32	DIR10041 : HIRING OF MACHINE(9-19 JUNE)	26294	137 081.95	NEW TEAM CONSTRUCTION
1125851280340	BUILDINGS - R&M	1012400	20121210	198 669.49	DIR10120 : RENTAL OF EXCAVATOR	27776	226 483.22	NEW TEAM CONSTRUCTION

f) Expenditure was incurred for repairs and maintenance work that was done on infrastructure assets and was therefore allocated to the incorrect general ledger account.

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1120451280810	EQUIPMENT - R&M	1012076	20121025	9 243.28	DIR2745 : REPAIR 100KVA TRANSFORMER 6600/380V	27111	10 537.34	VAAL TRANSFORMERS
1120451280810	EQUIPMENT - R&M	1012102	20121102	9 720.74	RE00014239 : REPAIR TRANSFORMER	27274	44 202.31	VAAL TRANSFORMERS
1120451280810	EQUIPMENT - R&M	1012103	20121102	29 053.22	RE00014238 : REPAIR TRANSFORMER	27274	44 202.31	VAAL TRANSFORMERS
1120451280810	EQUIPMENT - R&M	1013637	20130628	10 342.38	DIR13368 : REPAIR TRANSFORMER	30442	11 790.31	VAAL TRANSFORMERS
1120451280810	EQUIPMENT - R&M	1013640	20130628	7 146.27	DIR13368 : 100KVA TRANSFORMER REPAIR	30463	8 146.75	VAAL TRANSFORMERS

g) Expenditure was incurred for the rental of plant. Items below were therefore allocated to the incorrect general ledger account.

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1120101281210	INFRASTRUCTURE - R&M	1012530	20121228	57 200.00	DIR17330 : RENTAL: TRACTOR	28085	127 908.00	DOSIMA CONSTRUCTION & TRADING
1120101281210	INFRASTRUCTURE - R&M	1012530	20121228	55 000.00	DIR17617 : RENTAL: TIPPER TRUCK	28085	127 908.00	DOSIMA CONSTRUCTION & TRADING

h) Expenditure below was incurred for meter readings. Item was therefore allocated to the incorrect general ledger account.

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1120201090615	CHEMICALS	1013856	20130715	229 125.78	DIR19883 : METER READINGS (MAY 2013)	30600	261 203.39	RETROLEX 195 CC

i) Expenditure incurred was for the purchase of uniforms and protective clothing. Items below were thus allocated to the incorrect general ledger account

Votenummer	Vote Description	Reference	TranDate	Debit Amt	Transaction Description	Cheque	Cheque Amt	Payee
1125801282030	REFUSE DUMP - R&M	1012209	20121204	13 838.00	DIR10041 : CONTI ROYAL BLUE D59 (SIZE 30)	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	10 846.00	DIR10042 : CONTI ROYAL BLUE D59(SIZE34)	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	17 952.00	DIR10043 : CONTI ROYAL BLUE D59(SIZE34)	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	23 936.00	DIR10095 : CONTI ROYAL BLUE D59(SIZE36)	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	30 668.00	DIR10104 : CONTI ROYAL BLUE (SIZE38)	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	6 443.00	DIR10116 : CONTI ROYAL BLUE D59 SIZE46	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	11 749.00	DIR10117 : CONTI ROYAL BLUE D59 SIZE48	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	4 927.00	DIR10118 : CONTI ROYAL BLUE D59 SIZE50	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	34 782.00	DIR10120 : CONTI ROYAL BLUE SIZE40	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	29 941.00	DIR10201 : CONTI ROYAL BLUE D59 SIZE44	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	31 790.00	DIR10219 : CONTI ROYAL BLUE D59 SIZE 42	27680	257 989.98	MATUBENG TRADING

1125801282030	REFUSE DUMP - R&M	1012209	20121204	2 274.00	DIR10221 : CONTI ROYAL BLUE SIZE54	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	3 411.00	DIR10291 : CONTI ROYAL BLUE D59 SIZE52	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	758.00	DIR10609 : CONTI ROYAL BLUE D59 SIZE56	27680	257 989.98	MATUBENG TRADING
1125801282030	REFUSE DUMP - R&M	1012209	20121204	2 992.00	DIR11817 : CONTI ROYAL BLUE D59(SIZE 28)	27680	257 989.98	MATUBENG TRADING

This matter may have occurred due to proper reviewing procedures not in place to ensure amounts are posted to the correct general ledger accounts

This may result in the misstatement of the financial statements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above items and make the necessary corrections. Also management should ensure that proper reviewing controls are in place to ensure that amounts are allocated to the correct general ledger accounts

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

166. Procurement - Information relating to consultants not submitted (CoA 64)

Audit finding

Section 62(1)(c)(i) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems:

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

Controls should be in place over the appointment and monitoring of consultants and the municipality.

(a) During the audit information was requested regarding the appointment and use of consultants by the municipality, however, none of the information requested was submitted. The following refers:

1.1 List of all consultants used for financial reporting services as well as other services:

1.2 Proof that the following was considered before appointing the consultants:

- A needs assessments and cost/benefit analyses were compiled.
- Consideration was given to appointing staff on a contract basis rather than as consultants.

- Internal capacity was considered prior to the appointment of consultants.

- The availability of budget was evaluated

- Copy of council minutes where the planned use of consultants were discussed

1.3 Copy of council minutes where the planned use of consultants were discussed

1.4 Copies of quotation / tender documentation for all consultants used listed in par. 1.1 above

1.5 Copies of contracts entered into with all consultants used listed in par. 1.1 above

1.6 Copies of contract extensions if applicable

1.7 Proof that work done by / performance of consultants was properly monitored and indication who was responsible for this

1.8 Copy of close out reports where the consultants' services and products were evaluated and whether the consultancy project's objectives has been met

(b) Also no proof of the following could be obtained:

(i) A policy/ strategy is in place that:

~ defines the main purposes and objective for appointing consultants;

~ includes measures to address over reliance on consultants.

(ii) Management reviews, at least on an annual basis, whether the objectives of the institution are better achieved through use of consultants or permanent staff.

(iii) Consultants are made aware that they should not:

~ recruit or attempt to recruit the employees of the municipality/ municipal entity in preparation of a bid for contract at the auditee;

~ recruit the employees of the municipality during execution of the relevant contract or any part thereof at the auditee

~ Management information is prepared that analyses the extent of the use of consultants, including information on consultants that are appointed to supplement or replace existing capacity to perform normal operational functions

The above mentioned might have resulted due to the information not being made available for audit purposes.

The matter resulted in a limitation of scope over the audit assignment

Internal control deficiency

Control activities are not selected and developed to mitigate risks over financial reporting. The municipality does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

Management should please provide us with the above mentioned information as a matter of urgency.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

167. Procurement - Deviations disclosure note (CoA 64)

Audit finding

GNR.868 of 30 May 2005: Municipal Supply Chain Management Regulations

36(2) The accounting officer must record the reasons for any deviations in terms of sub-delegation 1(a) and (b) and report them to the next meeting of council, or board of directors in case of a municipal entity, and include as a note to the annual financial statements

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

Through inspection of Note 44 - Deviation from supply chain management regulations the following was disclosed in the financial statements

44. Deviation from supply chain management regulations

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

However through discussion with the SCM unit it was confirmed that no buses and gym equipment were procured during the financial year by the municipality. Also inspected the deviation register and no such items were identified.

This matter may have resulted due to proper review not conducted on the financial statements due to time constraints

This matter may result in misstatement of the financial statements

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

The details included in the note to the financial statements should be corrected

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Post employment benefits

168. Post retirement benefit - Classification in Financials incorrect (CoA 78)

Audit finding

GRAP 25 paragraph 136 states:

"An entity shall disclose the following information:

(f) The total expense recognised in the statement of financial performance for each of the following, and the line item(s) in which they are included:

- (i) current service cost;
- (ii) interest cost;
- (v) actuarial gains and losses"

When tracing the effect of the Post Employment benefit adjustment to the trial balance used to compile the financial statements, the following errors were noted in the statement of financial performance, relating to Post Retirement Benefit:

1. The prior year "General expenses" figure was not adequately restated, and
2. In the current year figures, the interest cost was incorrectly included in "General expenses" instead of "Finance cost"

(Note that the amounts were correctly disclosed in Note 15 to the financial statements)

The correction needed on the financial statements is the following:

	<u>2013</u>	<u>2012</u>
	<u>Debit / (Credit)</u>	<u>Debit / (Credit)</u>
Statement of Financial Performance		
- General expenses	1,474,000.00	(1,495,486.00)
- Finance cost	(1,474,000.00)	1,223,691.00
- Total expenditure	-	(271,795.00)
- Operating deficit	-	(271,795.00)
- Deficit for the year	-	(271,795.00)
Statement of Changes in Net Assets		
- Surplus for the year	-	271,795.00
- Balance at 01 July 2012	-	271,795.00
- Balance at 01 July 2013	-	271,795.00
Statement of Financial Position		
- Net assets	271,795.00	271,795.00

The above is mainly due to a lack of controls to ensure that all of the required information is disclosed correctly and consistently in the financial statements

The risk of the above is that the following statements were not disclosed in accordance with GRAP:

- Statement of Financial Performance (regarding "General expenditure" and "Finance cost")
- Statement of Changes in Net Assets (regarding "Surplus for the 2012/2011 year")
- Statement of Financial Position (regarding the "Net assets" balance)

Internal control deficiency

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

Recommendation

It is recommended that management restate the financial statements with the above mentioned amount.

Management should ensure that figures and information disclosed in the financial statements are correct and internally consistent.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Disclosure

169. Disclosure - Other disclosures required in terms of the MFMA (CoA 76)

Audit finding

Section 123 of the MFMA states the following. Disclosures on intergovernmental and other allocations.—

- 1) *The annual financial statements of a municipality must disclose information on—*
 - (a) *any allocations received by the municipality from—*
 - (i) *an organ of state in the national or provincial sphere of government; or*
 - (ii) *a municipal entity or another municipality;*
 - (b) *any allocations made by the municipality to—*
 - (i) *a municipal entity or another municipality; or*
 - (ii) *any other organ of state;*
 - (c) *how any allocations referred to in paragraph (a) were spent, per vote, excluding allocations received by the municipality as its portion of the equitable share or where prescribed otherwise because of the nature of the allocation;*
 - (d) *whether the municipality has complied with the conditions of—*
 - (i) *any allocations made to the municipality in terms of section 214 (1) (c) of the Constitution; and*
 - (ii) *any allocations made to the municipality other than by national organs of state;*
 - (e) *the reasons for any non-compliance with conditions referred to in paragraph (d); and*
 - (f) *whether funds destined for the municipality in terms of the annual Division of Revenue Act were delayed or withheld, and the reasons advanced to the municipality for such delay or withholding.*
- (2) *The annual financial statements of a municipal entity must disclose information on—*
 - (a) *any allocations received by the entity from any municipality or other organ of state;*
 - (b) *any allocations made by the entity to a municipality or other organ of state; and*
 - (c) *any other information as may be prescribed."*

Section 124 of the MFMA states the following. Disclosures concerning councillors, directors and officials.—

- (1) The notes to the annual financial statements of a municipality must include particulars of—(b) any arrears owed by individual councillors to the municipality, or a municipal entity under its sole or shared control, for rates or services and which at any time during the relevant financial year were outstanding for more than 90 days, including the names of those councillors.

Section 125 of the MFMA states the following. Other compulsory disclosures.—

- (1) The notes to the financial statements of a municipality must include—(a) a list of all municipal entities under the sole or shared control of the municipality during the financial year and as at the last day of the financial year;(b) the total amount of contributions to organised local government for the financial year, and the amount of any contributions outstanding as at the end of the financial year; and(c) the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year.
- (2) The notes to the annual financial statements of a municipality or municipal entity must disclose the following information (a) 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; (b) a summary of all investments of the municipality or entity as at the end of the financial year; (c) particulars of any contingent liabilities of the municipality or entity as at the end of the financial year; (d) particulars of— (i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable; (ii) any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures; and (iii) any material losses recovered or written off; (e) particulars of non-compliance with this Act; and (f) any other matters that may be prescribed.

GRAP 1.123(c) states that an entity shall disclose in the summary of significant account policies the other accounting policies that are relevant to an understanding of the financial statements. GRAP 1.125 states that in deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position.

Contrary to these requirements, the following were noted:

- a) The municipality did not disclose particulars of non-compliance with the MFMA in the notes to the financial statements, for the current and corresponding financial year;
- b) The municipality did not disclose contributions to organised local government. It was noted that R1 161 887 was owing to SALGA at the previous year-end (affecting the corresponding balance, which should have been disclosed in the notes). Due to the fact that detailed listings for the current year relating to all payables could not be submitted, it could not be confirmed what the outstanding amount was at year-end. Furthermore, it was noted that payments of R1 173 887,00 was made during the financial year (which included the amount which was outstanding at the beginning of the year) - however this was also not disclosed in the notes to the financial statements.
- c) The municipality has not disclosed an accounting policy with regard to other MFMA disclosures.
- d) The municipality did not disclose distribution losses on water and electricity in the notes to the financial statements (for both the current and corresponding financial year);
- e) The municipality did not disclose how intergovernmental allocations received, were spent (this should have been disclosed on a per vote basis).
- f) The municipality did not disclose whether funds destined for the municipality in terms of the DoRA act were delayed or withheld, and the reasons advanced to the municipality for such delay or withholding, the following information should have been disclosed:

"That R5,879,000 relating to equitable share, were not received due to the following:

Per communication received from National Treasury:

- Roll-over for the unspent portion of three conditional grants for the year ended 2010/2011 were denied,*
- Treasury instructed Ngwathe to off-set the denied portion, against the Equitable share allocation for the year ended 2012/2013.*
- The three conditional grants mentioned above were the Financial Mangement Grant (R160,000), Municipal Infrastructure Grant (R2,670,896) and Integrated National Electrification Program (R3,048,104)."*

- g) The municipality did not disclose the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year. The following information should have been disclosed:

	Audit fees	Taxes
Paid	1,256,535.59	8,777,579.10
Outstanding	2,877,125.63	1,505,659.60

h) The municipality did not disclose the following councillors with accounts in arrears:

Councillor	Disclosed	Amount in arrear
CLLR G MANDELSTAM	No	1,600.03
CLLR MJ MOCHELA	No	669.58
MR ME MOTSUMI	No	1,569.79
MRS A M OLIPHANT	No	25.81
MR A SCHOONWINKEL	No	9,954.99
ME SM VERMAAK	No	1,526.33

15,346.53

i) The following councillors were disclosed, but at different amounts:

Name	Disclosed	Debtors list	Difference
Bocibo CN	16,932.00	(556.86)	17,488.86
Choni PS	3,071.00	252.79	2,818.21
De Beer VE	3,566.00	(39.05)	3,605.05
Magashule	4,922.00	1,841.38	3,080.62
Mafuma MJ	4,185.00	11,676.04	(7,491.04)
Masike IR	19,284.00	19,283.36	0.64
Masooa MJ	3,391.00	-	3,391.00
Mbele MA	2,669.00	-	2,669.00
Mofokeng DM	2,885.00	1,523.60	1,361.40
Mofokeng LM	4,653.00	4,930.28	(277.28)
Moliko LR	10,419.00	3,903.68	6,515.32
Molotsane AM	24,512.00	17,091.20	7,420.80
Mopeli NP	2,636.00	600.19	2,035.81
Mvulane SL	3,622.00	-	3,622.00
Ndayi PR	10,669.00	7,713.98	2,955.02
Ndlovu NA	3,715.00	485.24	3,229.76
Ramabitsa IM	10,855.00	8,792.02	2,062.98
Seabi M	5,132.00	16,271.78	(11,139.78)
Ranthako MC	3,012.00	4,413.65	(1,401.65)
Serathi KM	6,576.00	2,896.82	3,679.18
Sothoane EC	21,641.00	20,506.41	1,134.59
Tladi LL	4,216.00	18,666.04	(14,450.04)
Vandisi TL	3,292.00	-	3,292.00
	175,855.00	140,252.55	35,602.45

j) We identified the following councillors that were disclosed with amounts in arrears, but they were not included as councillors on the salary system:

Councillor
Mafuma MJ
Masike IR
Moliko LR

k) For the following councillors, the detail (name, initials) as disclosed in the note differs from the information obtained from the municipality's salary system:

System	Disclosed	Comments
Mr SP CHONI	Choni PS	Difference between the sequence of the initials
Mr EM MAGASHULE	Magashule	Initials not included in the disclosure
MR. MD MOFOKENG	Mofokeng DM	Difference between the sequence of the initials
CLLR ML MOFOKENG	Mofokeng LM	Difference between the sequence of the initials
CLLR RJ MOLOTSANE	Molotsane AM	Initials differs
ME NP MOPEDI	Mopeli NP	Surname differs
ME L MVULANE	Mvulane SL	Initials differs
CLLR IS SEABI	Seabi M	Initials differs
Me M SERATHI	Serathi KM	Initials differs
CLLR LL TLALI	Tladi LL	Surname differs

The above is mainly due to management not making the necessary disclosures in accordance with the MFMA.

The risk of the above is non-compliance with the MFMA.

Internal control deficiency

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

Recommendation

Management should ensure they comply with the disclosure requirements of the MFMA.

Management response

Outstanding

Auditor's conclusion

In addition to the above, it was noted that the total amount outstanding at year-end for medical aid and pension fund contributions were not disclosed in the financial statements.

Management response is outstanding.

170. Disclosure - Risk management not disclosed in accordance with GRAP104 (CoA 76)

Audit finding

GRAP 104 states: ".122 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period."

"Credit risk

.127 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk (usually the carrying amounts of instruments) at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with paragraphs .91 to .99);

(b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
(c) information about the credit quality of financial assets that are neither past due nor impaired; and
(d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated."

"Financial assets that are either past due or impaired

.128 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and
(c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements."

"Collateral and other credit enhancements obtained

.129 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:

(a) the nature and carrying amount of the assets obtained; and
(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations."

"Market risk

Sensitivity analysis

.131 An entity is encouraged to disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
(b) the methods and assumptions used in preparing the sensitivity analysis; and
(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

If the quantitative data disclosed as at the end of the reporting period is unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative."

".132 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph .131. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the data provided; and
(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved."

Through inspection of the financial statements it was noted that the financial statements do not comply with the above GRAP104 disclosure requirements in regards to risk management of financial Instruments.

The following amounts were not disclosed as part of credit risk:

	2013	2012
Receivables from exchange transactions	140,450,950	74,048,573
Receivables from non-exchange transactions	65,557,568	50,705,363
Cash and cash equivalents	46,652,605	29,900,012
Trade and other payables	-248,249,020	-204,718,315
	4,412,103	-50,064,367

The above is mainly due to GRAP104 not being implemented by management in the current and prior financial periods.

The risk of the above is that the municipality has not complied with GRAP 104 disclosure requirements.

Internal control deficiency

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

Recommendation

Management should review the financial statements for compliance with GRAP 104 disclosure requirements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Investment property

171. Investment property - Disclosures not made (CoA 3)

Audit finding

GRAP 16 paragraph 84 states:

"An entity shall disclose:

(a) whether it applies the fair value model or the cost model;

(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

(c) when classification is difficult (see paragraph .17), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;

(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) the amounts recognised in surplus or deficit for:

(i) rental revenue from investment property;

(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and

(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements."

GRAP 16 paragraph 88 states:

"In addition to the disclosures required by paragraph .84, an entity that applies the cost model in paragraph .64 shall disclose:

(a) the depreciation methods used;

(b) the useful lives or the depreciation rates used;

(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

(i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;

(ii) additions resulting from acquisitions through entity combinations;

(iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and other disposals;

(iv) depreciation;

(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with the Standard of GRAP on Impairment of Cash-generating Assets;

(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(vii) transfers to and from inventories and owner-occupied property; and

(viii) other changes."

GRAP 16 paragraph 89 states:

"Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount."

Contrary to these requirements, it was not that the above-mentioned were not disclosed in the financial statements of the municipality.

This matter may have resulted due to an oversight from management.

This will result in the financial statements not containing all the disclosure requirements, as outlined in GRAP.

Internal control deficiency

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

Recommendation

Management must ensure compliance with all the requirements of GRAP and other regulations.

Management response

Management agree with the finding. Management will ensure that in future all the relevant GRAP disclosures are included on the financial statements.

Auditor's conclusion

Management is in agreement with the audit finding. This matter will only be resolved if the necessary disclosure is made in the financial statements.

Investments

172. Investments - Prior period error incorrectly disclosed (CoA 61)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

Through inspection of Note 39.4 - Prior period error relating to investments, it was found that the line items affected as well as amounts included in the note were incorrect. A total adjustment of R7 800 877,55 was made to the prior year investment balance during the year. This was also discussed with consultants responsible for compilation of financial statements and they were in agreement

This matter may have resulted due to proper review not conducted on the financial statements due to time constraints

This may result in a misstatement of the financial statements

Internal control deficiency

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

Recommendation

Management should ensure that the prior year error note for investments is corrected

Management response

Agree with the finding, Management will ensure that adequate time is allocated in future for the AFS to properly reviewed and corrected where necessary, to avoid set of financial that are submitted without proper reviewed,

Management will correct the errors found on the investments

Auditor's conclusion

Management is in agreement with the audit finding. Matter will only be resolved with the correction of the financial statements

173. Investments - Differences identified (CoA 8)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
(c) that the municipality has and maintains effective , efficient and transparent systems-
(i) of financial and risk management and internal control.

(a) The following differences were noted when investment balances per external confirmations, financial statements and general ledger/trial balance were compared:

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Investment	Balance per external confirmation on 30 June 2013 (R)	Balance per AFS (R)	Balance per Trial balance (R)	Differences between confirmation and AFS (R)	Reference	Differences between confirmation and Trial balance (R)	Reference	Differences between AFS and Trial balance (R)	Reference
FNB Parys - 71037431386	39 761.39	39 761.00	35 935.15	0.39	<i>nm</i>	3 826.24	<i>x1</i>	3 825.85	<i>x1</i>
FNB - 71038146801	14 251.22	14 992.00	12 729.93	(740.78)	<i>x2</i>	1 521.29	<i>x1</i>	2 262.07	<i>x1</i>
Momentum life policy 091420370	430 775.77	430 776.00	400 576.98	(0.23)	<i>nm</i>	30 198.79	<i>x1</i>	30 199.02	<i>x1</i>
Heilbron - Sanlam shares	307 372.00	307 372.00	184 155.90	-		123 216.10	<i>x1</i>	123 216.10	<i>x1</i>
Senwes - S02295	45 454.50	45 455.00	41 991.30	(0.50)	<i>nm</i>	3 463.20	<i>x1</i>	3 463.70	<i>x1</i>
Senwes - SB02295	33 200.00	33 200.00	31 208.00	-		1 992.00	<i>x1</i>	1 992.00	<i>x1</i>
Heilbron - Sanlam policy 11209914X8 (Life policy)	76 698.28	76 698.00	64 704.03	0.28	<i>nm</i>	11 994.25	<i>x1</i>	11 993.97	<i>x1</i>
Heilbron - Sanlam policy 040571573X1	<i>x3</i>	291 924.00	291 923.85	<i>x3</i>	<i>x3</i>	<i>x3</i>	<i>x3</i>	0.15	
PARYS - INCA	-	-	7 863 998.00	-		(7 863 998.00)	<i>x1</i>	(7 863 998.00)	<i>x1</i>
SENWES MEMBERS INVESTMENT FUND	-	-	8 494.41	-		(8 494.41)	<i>x1</i>	(8 494.41)	<i>x1</i>
				<u>(740.84)</u>		<u>(7 696 280.54)</u>		<u>(7 695 539.55)</u>	

x1 - Differences due to the fact that adjusting journals were only posted on Caseware and not in the general ledger/trial balance

x2 - Difference due to the fact that the amount per financial statements do not agree with the amount as per external investment confirmation obtained, resulting in an overstatement of the investment balance included in the financial statements

x3 - No external confirmation could be obtained from the financial institution to confirm the accuracy of the amount included in the financial statements, resulting in a limitation of scope

nm - Differences identified were deemed to be immaterial and were due to the rounding of the financial statements

From the above it can therefore be confirmed that investments per general ledger/trial balance are overstated due to the fact that adjusting journals were only posted on Caseware

(b) The following was noted with regard to "Note 4 - Other financial assets" in the financial statements:

- Number of Senwes shares were incorrectly stated as 6 682 instead of 4 329
- Number of Senwesbel shares were incorrectly stated as 4 329 instead of 6 640
- Number of Sanlam shares were incorrectly stated as 6 640 instead of 6 682
- "Saambou investment" should be changed to "FNB Parys - 71037431386" for easier identification
- As mentioned above the balance for the FNB deposit were incorrectly stated as R14 992 instead of R14 252

This may have resulted due to adjusting journals not posted in the general ledger as well as the fact that an updated investment register was not kept by the municipality.

This matter will result in the misstatement of investments in the general ledger/trial balance as well as the financial statements

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above findings and make the necessary adjustments where applicable

Management response

Management agrees with the finding: With the development of the investment register, management will ensure that it investigate the above matter and do necessary adjustments on the financial system.

Auditor's conclusion

(a) The trial balance/general ledger containing all auditors journals was obtained on 14/10/2013. Amounts per trial balance, financial statements and external confirmations were again agreed and the following differences were found:

Investment	Balance per external confirmation on 30 June 2013 (R)	Balance per AFS (R)	Balance per Trial balance (R)	Differences between confirmation and AFS (R)	Differences between confirmation and Trial balance (R)	Differences between AFS and Trial balance (R)
FNB Parys - 71037431386	39 761.39	39 761.00	39 761.39	0.39	-	0.39
FNB - 71038146801	14 251.22	14 992.00	14 992.29	740.78	741.07	0.29
Momentum life policy 091420370	430 775.77	430 776.00	430 775.77	0.23	-	0.23
Heilbron - Sanlam shares	307 372.00	307 372.00	307 372.00	-	-	-
Senwes - S02295	45 454.50	45 455.00	45 454.50	0.50	-	0.50
Senwes - SB02295	33 200.00	33 200.00	33 200.00	-	-	-
Heilbron - Sanlam policy 11209914X8 (Life policy)	76 698.28	76 698.00	76 698.28	0.28	-	0.28

Leases

174. Leases - Inadequate lease register (CoA 16)

Audit finding

Section 65 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA) states the following:
"(1) the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

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

- a. that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;*
- b. that the municipality has and maintains a management, accounting and information system which:*
 - i. recognises expenditure when it is incurred;*
 - ii. accounts for creditors of the municipality; and*
 - iii. accounts for payments made by the municipality;*
- c. that the municipality has and maintains a system of internal control in respect of creditors and payments."*

The list of leases had the following deficiencies:

- no amounts were included on the register;
- there were no calculation indicating the straight-lining of leases;
- some of the leases indicated on the list were not signed as proof of authorisation (see N1 and N2 below);
- certain contracts indicated as leases, were not a lease, but a service provided to the municipality (e.g. Order Form and Software licence agreement and E-fuel system)

N1

Per inspection of the contract file, we identified a lease between Ngwathe Local Municipality and Sevas Property (Pty) Ltd, whereby Ngwathe will lease a property for 3 years from Sevas. The lease started on 1 January 2011 and Ngwathe will have the option to renew the contract for an additional 3 years.

- per inspection of the contract, we identified that the contract was not signed by a Ngwathe representative as proof of authorisation; and
- we could also not identify any expenses or payments recognised with regards to this lease.

N2

We performed a physical inspection of the premises and identified a Gestetner machine (Ricoh - MPC2050), which was still in use by the Municipality. The machine was purchased from Fintech.

- per inspection of the lease contract, we identified that the contract was not completed in full and not signed as proof of authorisation.
- on the supporting documents, the words "rental" was replaced by "cash", the machine was therefore bought not leased.
- we inspected the fixed asset register and could not identify such a machine.
- we inspected the general ledger, and could not identify a monthly expense relating to this machine.
- no expenditure could therefore be linked to this machine.

The above is mainly due to a lack of control over leases.

The above mentioned will have the following impact on the leases:

- (a) Possible non-compliance with the relevant laws and regulations.

- (b) Weak control environment.
- (c) Possible fraud and errors will not be detected or corrected.
- (d) Not being able to meet its reporting objectives.

Internal control deficiency

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

Recommendation

Management should ensure that all leases entered into are appropriately approved. In future, management should ensure that a proper lease register is kept, which is supported by approved lease contracts.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

175. Leases - Completeness of operating leases (CoA 44)

Audit finding

Section 62 of the MFMA states:

"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—...
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control."

We performed a physical inspection of the premises and identified the following two copy machines which we could not trace the a contract, we could also not determine whether the municipality are still making lease payments with regards to these machines:

Make	Models	Location
Toshiba	eStudio850	HR
Toshiba	eStudio850	HR

The above is mainly due to management not keeping a proper lease register in place.

The risk of the above is the completeness of general expenses per note 34 to the financial statements could not be confirmed.

Internal control deficiency

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

Recommendation

Management should compile a proper lease register, indicating all items held under a lease, differentiate between operating and finance leases, indicating details of the machine leases, as well as the monthly payments relating to the lease.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

176. Leases - Information not submitted (CoA 44)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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"

Information request 85 and 110 refers. The following information were not submitted for audit purposes:

IR85 - For the following leases, please provide us with a current contract with the supplier and indicate whether the machine is still in use and whether we are still making lease payments with regards to these machines:

Supplier	Models	Description	Start date
Nashua	FAX 1900 L		13.01.2001
Nashua	SCX 6345 N	Digital copier	01.05.2009
Nashua	SCX FAX 101	Facsimile	01.05.2009
Nashua	SCX 56345 A	Paper Casette	01.05.2009
Nashua	SCX FIN 105	Finisher/ Stappler	01.05.2009
Nashua	ML MEM 140	Memory Produce	01.05.2009
Nashua	SCX DSK 101	Tall Stand	01.05.2009

IR110 - supporting documents for the lease payments indicated below:

Period	Vote number	Transaction Type	Reference	Tran Date	Debit Amt	Transaction Description
201303	1115051091540	Bank Transactions	10021930055	20130402	148,920.00	(EFF: 13/02/28) NGWATHE LOABSA FLEET
201306	1125601094740	Order Payments	1013541	20130621	971.36	DIR10188 : MONTG RENTAL
201209	1125601094740	Order Payments	1011681	20120904	6,250.00	DIR10188 : RENTAL DUE FOR AUGUST 2012
201207	1125601094740	Order Payments	1011367	20120727	194,094.87	DIR20568 : HIRING OF MACHINE
201207	1125601094740	Order Payments	1011366	20120727	190,173.75	DIR20568 : HIRING OF MACHINE
201305	1120101094740	Order Payments	1013405	20130530	19,800.00	DIR10217 : WATER



						TANK FOR 10 DAYS AT HEILBRON
201306	1105051095405	Bank Transactions	10023120765	20130715	278.94	AUTOPAGE 130628 00347401
201306	1105051095405	Bank Transactions	10023110955	20130715	950	NETCASH 51442441 TELEHOUSE
201306	1105051095405	Bank Transactions	10023101240	20130715	11,769.04	TELKOM SA 620041220001524709
201306	1105051095405	Bank Transactions	10022980285	20130715	64,290.13	TELKOM SA 620687250001490955
201305	1105051095405	Bank Transactions	10022840640	20130613	14,121.11	NASHUA MBL 62899380
201305	1105051095405	Bank Transactions	10022840635	20130613	56,002.37	NASHUA MBL 62907537
201304	1105051095405	Bank Transactions	10022530940	20130502	51,132.04	NASHUA MBL 62587730
201304	1105051095405	Bank Transactions	10022530930	20130502	21,631.54	NASHUA MBL 62583949

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the above-mentioned is that occurrence and accuracy of operating leases per note 34 to the financial statements could not be audited.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Movable assets

177. PPE - Location of asset not included in detailed asset register (CoA 4)

Audit finding

Section 63 of the MFMA states:

"Asset and liability management.—

(1) The accounting officer of a municipality is responsible for the management of—

(a) the assets of the municipality, including the safeguarding and the maintenance of those assets;

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

(a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;

(b) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and

(c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed."

Management did not apply the requirements of the Fixed Asset Management and Maintenance policy, by not properly completing the fixed asset register with regard to the location of assets. On the fixed asset register we identified 870 assets without locations and with the designation of "unknown" in the location column. These assets have a total carrying value on 30 June 2012 of R2 475 469. Examples include the following:

Unique Number	Barcode	Full description	Location_1	Fin Year	NBV 2011 - 2012
00008866	None 5372	Install Of Meter Boxes	Unknown	2011-2012	400 116,56
00008860	None 5366	Streetlights Cable	Unknown	2010-2011	181 067,26
00000563	None 5007	Sharp Mx453U Print Machine	Unknown	2011-2012	149 398,83
00008870	None 5376	200Kva Transformer	Unknown	2011-2012	122 528,41
00008855	None 5361	200Kva Transformer	Unknown	2010-2011	100 418,39
00008856	None 5362	200Kva Transformer	Unknown	2010-2011	82 449,61
00008861	None 5367	Pre Paid Meters	Unknown	2011-2012	69 817,31
00008857	None 5363	200Kva Transformer	Unknown	2010-2011	64 629,84
00008858	None 5364	200Kva Transformer	Unknown	2010-2011	64 936,69
00008862	None 5368	Submersible Pumps 5.5 Kw	Unknown	2011-2012	66 210,10
00008864	None 5370	200Kva Transformer	Unknown	2011-2012	65 115,71
00008863	None 5369	Transformer 200Kva	Unknown	2011-2012	55 082,02

1 421 770,73

The above could have resulted due to management not performing timely reviews of the detailed asset register, including review of additions made, and did not perform timely physical verifications of assets included in the detailed asset register.

The risk of the above is that existence of Property, plant and equipment per note 11 to the financial statements of R 2 475 469 could not be verified.

Internal control deficiency

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

Recommendation

Management should implement proper controls to ensure that all additions are accurately recorded and reviewed by a independent senior official. Management should also perform timely physical verification of assets and ensure that the verification process is overseen by a independent senior official.

Management response

Agree with finding. We will perform a review of the fixed assets register to ensure that it is compliant with the requirements of assets management. Management will implement a process of performing independent reviews of recorded assets transactions.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

178. PPE - Difference between 2011/12 depreciation on the AFS and FAR (CoA 17)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We identified following difference in 2011/12 depreciation between the financial statements and the fixed asset register:

Depreciation:	2011/12 R
- per the fixed asset register	97 636 984
- per the financial statements	98 144 384
Difference	<u>-507 400</u>

The above is mainly due to management not performing timely reconciliations between the detailed asset register and the trial balance.

The risk of the above is that the corresponding balance for depreciation per note 29 to the financial statements is overstated by R507 400.

Internal control deficiency

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

Recommendation

Management should perform monthly reconciliations between the detailed asset register and the trail balance. Management should ensure that these reconciliations are reviewed by an independent senior official and follow-up work performed on variances.

Management response

Agree:

Management will ensure that reconciliations are performed and maintained on a monthly basis. As indicated, asset unit has been established to perform all reconciliations monthly. The unit will be capacitated to handle such reconciliations.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

179. PPE - Assets not adequately insured (CoA 31)

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—...

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

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

A. Under insurance of assets

Per inspection of the insurance contract and per discussion with Walton Alexander, we identified that:

- infrastructure is not insured (which constitutes the largest portion of fixed assets)

In addition, as there is a high risk of completeness of fixed assets, it adds to the possibility of assets not being adequately insured.

B. Over insurance of property, plant and equipment currently insured

The assets that are insured, are over insured as follows:

	R
Total amount insured per contract	473,810,633
Carrying values of fixed assets	205,556,052
- PPE (excluding infrastructure)	52,838,052
- investment property	152,718,000
Over insured	<u>268,254,581</u>

The above is mainly due to management not having control over fixed assets, causing assets to be inadequately insured.

A lack of control over insurance of assets may result in possible losses of fixed assets.

Internal control deficiency

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

Recommendation

Management should implement actions plans over property, plant and equipment control environment. Management should ensure that the fixed assets are adequately insured.

Management response

Agree with the finding. Management was in a process of finalizing the infrastructure assets through a service provider (Market Demand), it will be the management's priority to ensure that on completion of the assets register, a complete schedule of all assets that needs to be insured will be sent to Walton Alexander or any other company appointed for insurance.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

180. PPE - Leased assets not accounted for (CoA 31)

Audit finding

GRAP 17 paragraph 6 states:

"Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period."

GRAP 13 paragraph 6 states:

"A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time."

"A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred."

Management purchased the following vehicles from New Vaal Motors, without recognising the vehicles as property, plant and equipment and without recognised the relating liability.

Vehicle	Cost (R)
Mercedes Benz ML350 BE	852,250.00
Mercedes Benz CLS/E E350 BE Avant A/T	753,575.51
	<u>1,605,825.51</u>

The deposit paid on the purchase of the vehicles was recognised as part of insurance, as follows:

Vehicle	Cost (R)
Mercedes Benz ML350 BE	171,550.00
Mercedes Benz CLS/E E350 BE Avant A/T	152,000.00
	<u>323,550.00</u>

Finance cost of R9,083 and depreciation of R13,382 was not recognised.

This matter may have resulted due to inadequate controls to identify and account for leased assets.

The risk of the above is that property, plant and equipment per note 11 is understated by R1,592,444, depreciation per note 29 is understated by R13,382, finance lease obligation is understated by R1,291,358, general expenses per note 34 is overstated by R323,550 and finance cost per note 31 is understated by R9,083, as per the financial statements.

Internal control deficiency

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

Recommendation

Management should recognise these motor vehicles as part of property, plant and equipment, as well as the relating liability. In future, management should ensure that they recognise the entire transaction in accordance with GRAP.

Management response

Agree with the finding, Management will in future ensure that any new asset purchased forms part of the asset register to ensure accuracy and completeness of the asset register, two acting officers have been appointed to deal with addition on monthly basis.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

181. PPE - Duplicate asset numbers (CoA 4)

Audit finding

Section 62 of the MFMA states:

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

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

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

Section 48 of the GRAP Framework 48 states:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."

Contrary to the above requirement the following duplicate unique numbers were identified in the asset register:

Unique Number	Barcode	Full description	Category	NBV 2013 (R)
00071531	Slight-1273	Streetlight	Infrastructure	1 425,00
00071531	None 5482	Fezile Dabi	Wip	58 992 579,58
00071532	Slight-1274	Streetlight	Infrastructure	1 425,00
00071532	None 5483	Parys Paving	Wip	15 384 914,76
00071533	Slight-1275	Streetlight	Infrastructure	2 325,00
00071533	None 5484	Heilbron Of Sewer Treatment Plant	Wip	18 428 740,60
00071534	Slight-1276	Streetlight	Infrastructure	2 325,00
00071534	None 5485	Parys Water Treatment	Wip	1 500 000,00
00071535	Slight-1277	Streetlight	Infrastructure	4 750,00
00071535	None 5486	Koppies Upgrading Of Sewer Treatment Plant	Wip	1 542 759,22
00071536	Slight-1278	Streetlight	Infrastructure	1 425,00
00071536	None 5487	Parys Upgrading Of Sewer Treatment Plant	Wip	8 816 160,30
00071537	Slight-1279	Streetlight	Infrastructure	1 425,00
00071537	None 5488	Parys Upgrading And Refurbishment Of Waste Water Treatment	Wip	258 082,17
				<u>104 938 336,63</u>

The asset descriptions and net book values are different, therefore it is evident that the assets were not duplicated in the fixed asset register, but rather there is a control deficiency in assigning duplicate asset numbers to different assets.

Assigning duplicate asset numbers to assets may result in assets not being account for.

Internal control deficiency

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

Recommendation

Management should be performed timely review of the detailed asset register, including additions and should ensure that unique numbers are assigned to assets.

Management response

Agree:

Management will investigate the matter and will however start with the process of verifying the assets also ensuring that what is on the asset register has been verified with its unique asset number

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Operating expenditure

182. Contracted services - Documentation not submitted (CoA 38)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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."

All the information requested by means of information request 35 has not yet been received, consequently placing a limitation on the scope of the audit of contracted services. The information not yet received include the following:

No.	Sample (For audit purposes)	Vote number	Description	Transaction Type	Supp Doc Number	Date processed (Edited)	Amount
2	Post Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013838	20130715	229,590.60
3	Post Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013840	20130715	215,815.50
5	Post Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013840	20130715	20,285.95
6	Post Year End	1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	Order Payments	1013738	20130715	12,000.00
8	Post Year End	1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	Bank Transactions	10022870610	20130715	9,943.87
9	Post Year End	1105051094730	RENT/HIRE - OFFICE EQUIPMENT & OTHER	Bank Transactions	10022870635	20130715	9,357.62
10	Post Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013838	20130715	9,012.04
14	Pre Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013620	20130628	226,504.50
15	Pre Year End	1120451165415	BILLING & METER READING FEES	Order Payments	1013623	20130628	216,712.02

This matter may have resulted due to inadequate recordkeeping at the municipality.

These matters places a limitation on the scope of the audit of Contracted Services and Collection costs

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Management should submit the above mentioned documents for audit purposes as a matter of urgency. Should some (or all) of the above-mentioned information not be available, and then this should be indicated in management's response to this communication.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

183. Contracted services - Prior period adjustment (CoA 38)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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"

The prior period figures for Contracted Services and Collection Costs as per the current year Financial Statements were adjusted by R7 996 512 when compared to the prior year Financial Statements. We inspected note 39 "Prior **Period Errors**" and found that this adjustment was not included in this note. We have not received any information regarding this adjustment. We requested supporting documentation regarding this adjustment but did not receive any. Refer Information Request 116.

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the abovementioned is a limitation of scope on all assertions regarding the opening balances and comparative figures disclosed in the financial statements, and all assertions regarding note 39, "**Prior period errors**", to the financial statements. The prior period errors may be understated with R 7 996 512.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

184. General expenses - Understatement of general expenses (CoA 63)

Audit finding

GRAP Framework paragraph 48 states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We identified the following expenses incorrectly classified as contracted services, instead of general expenses:

Reference	Description	Classified as	Proposed classification	Amount
1013291	Legal fees	Contracted services	Consulting and professional fees	195,650.81
1012272	Advertising	Contracted services	Advertising	19,957.01
1012021	Accommodation	Contracted services	Accommodation cost	18,600.00
1012805	Accommodation	Contracted services	Accommodation cost	36,315.00
1012805	Meals and beverages	Contracted services	Entertainment	58,536.00
1012805	Conference room	Contracted services	Other expenses	46,240.00
				<u>375,298.82</u>

This matter may have resulted due to adequate procedures not being implemented to ensure that expense transactions are correctly classified on the general ledger.

The risk of the above is that General expenses per note 34 to the financial statements is understated by R375,299 and Contracted services per note 33 is overstated by the same amount.

Internal control deficiency

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

Recommendation

Management should implement a review process over the classification of expenditure.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

185. Repairs & maintenance - Invoices not submitted (CoA 7)

Audit finding

Section 62 of the MFMA outlines the general financial management functions of the accounting officer. Subsection (1)(b) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

For the following payments, the vouchers submitted for audit purposes were not supported by sufficient supporting documents (invoices):

Supporting Document Number	Date	Supplier Name	Amount per GL (VAT excl.) R
1012453	20130107	Pit Stop Auto	47 791,47
1011637	20120830	Faka Engineering & Hydraulic services	43 350,00

The above may have resulted due to management not performing all required duties to ensure that accurate and complete record keeping relating to repairs and maintenance are kept.

The risk of the abovementioned is a limitation of scope of the audit regarding the occurrence, accuracy, classification as well as compliance of repairs and maintenance expenses.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. The above-mentioned invoices should be submitted for audit purposes as soon as possible. If management is not able to submit these documents, then this should please be clearly indicated in management's response to this communication.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

186. General expenses - Incorrect VAT treatment (CoA 63)

Audit finding

VAT Act section 20 states:

"(4) Except as the Commissioner may otherwise allow, and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the Republic and shall contain the following particulars:
a) The words "tax invoice" in a prominent place;

- b) the name, address and VAT registration number of the supplier;
c) the name, address and, where the recipient is a registered vendor, the VAT registration number of the recipient;
d) an individual serialized number and the date upon which the tax invoice is issued;
e) full and proper description of the goods (indicating, where applicable, that the goods are second-hand goods) or services supplied;
f) the quantity or volume of the goods or services supplied;
g) either—
(i) the value of the supply, the amount of tax charged and the consideration for the supply; or
(ii) where the amount of tax charged is calculated by applying the tax fraction to the consideration, the consideration for the supply and either the amount of the tax charged, or a statement that it includes a charge in respect of the tax and the rate at which the tax was charged”

We identified the following expense vouchers included in general expenses, for which VAT was incorrectly claimed:

Reference	Date	Transaction description	Reason VAT incorrect	VAT incorrectly claimed
1011483	20120822	C000002042 : STRATEGIC PLANNING SESSION	No VAT on the invoice	(31,929.82)
1011964	20121012	DIR7488 : LEARNERSHIP(MFA)	Not a valid tax invoice	(30,333.33)
1011373	20120730	DIR20330 : INSURANCE	Not a valid tax invoice (the words "Tax invoice" does not appear on the invoice)	(19,600.00)
				<u>(81,863.15)</u>

We identified the following expense vouchers included in contracted services, for which VAT was incorrectly claimed:

Reference	Date	Transaction description	Reason VAT incorrect	VAT incorrectly claimed
1012021	20121019	A000000001 : ACCOMMODATION FOR LUNGILE HAPPYGIRL MLOUDO	Not a VAT vendor, no VAT on invoice	(2,284.21)
1012623	20130123	DIR19673 : LEGAL FEES:	No VAT on the invoice	(104,545.00)
1011321	20120817	DIR18675 : METER READINGS: APRIL 2012	VAT were recognized on interest	(392.10)
				<u>(107,221.31)</u>

The following was identified while testing the projects' expenditure:

Reference	Date	Transaction description	Reason VAT incorrect	VAT incorrectly claimed
MIG/FS/0952/CF/13/13	09/04/2013	HEILBRON: CONSTRUCTION OF THE SPORTS COMPLEX	Not a VAT vendor, no VAT on invoice	29,504.71

This matter has resulted due to the fact that the municipality has not implemented proper controls to ensure that VAT is only claimed on valid tax invoices.

The risk of the above is that General expenses per note 34 to the financial statements is understated by R81,863, Contracted services per note 33 is understated by R107,221 and VAT receivable is overstated by R189,084.

Internal control deficiency

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

Recommendation

Management should correct the VAT claimed on these payment vouchers. In future, management should only claim input VAT on valid tax invoices.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

187. Repairs & maintenance - Information not submitted (CoA 14)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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."

All the information requested by means of information requests 21 and 33 has not yet been received, consequently placing a limitation on the scope of the audit of repairs and maintenance. The information not yet received include the following:

Information request 21:

Vote number	Detail Description 1	Supporting Document Number	Date	Amount Excl. VAT (Per General Ledger)
1 120 451 281 210	M000011017 : NETWORKING	1013744	20130715	35 000,00
1 130 051 281 810	DIR17256 : MACHINE	1011377	20120727	16 600,00
1 105 051 280 910	DIR10888 : LAPTOP	1013032	20130328	16 190,00
1 130 051 281 810	DIR10757 : CAMERA VIDEO DIGITAL COLOUR	1011594	20120914	6 350,00
1 120 451 280 810	G000006005 : SHEDDER	1013833	20130715	4 813,76
1 120 451 280 810	G000006004 : OFFICE DESKS	1013833	20130715	4 297,80
Total:				83 251,56

Information request 33:

Vote number	Reference	Tran Date	Transaction Description	Debit Amt	Credit Amt
1130051282410	1013719	20130715	DIR10041 : RE-INSTALLATION OF THE OLD PETROL	129,850.00	-
1120401281210	1013765	20130715	DIR17617 : RENTAL: TLB	62,260.00	-
1120451280810	1013859	20130715	DIR13368 : PDBA OCB 6.6KV 400AMP	36,000.00	-
1120451281210	1013714	20130715	DIR10472 : 35MM 3CORE PILC T17 GDSTA	15,500.00	-
1120101282410	1013766	20130715	DIR10108 : OVERHAUL MAIN 3 STAGE CYLINDER	6,500.00	-

1120451281210	1013852	20130715	DIR18894 : 215R15 C/WORLD 4X4	5,350.00	-
1120451281210	1013828	20130715	DIR12589 : SUPPLY AND REPLACE NEW CLUTCH KIT	4,800.00	-
1120451281210	1013845	20130715	DIR11082 : LABOUR	2,850.00	-
1120101281210	1013698	20130715	DIR8412 : 100*50*5MM 6 LENGTH U-CHANNEL	1,663.16	-
1120101282410	1013757	20130715	DIR10969 : REPAIR STEERING PIN	850.00	-
1125151281810	1013490	20130618	DIR10764 : HIRING OF ONE GRADER FOR 10 DAYS AT KOPPIES	40,500.00	-
1120451280810	1013560	20130627	T000017032 : TYRES	17,665.05	-
1120451281210	1013588	20130627	DIR10740 : PVC CABLE 16MMX4 ARMED	10,056.00	-
1120451281210	1013610	20130628	DIR10504 : SUPPLY NEW WATER PUMP	7,850.00	-
1130051282410	1013611	20130628	DIR10652 : SUPPLY AIR FILTER INNER AND OUTER	7,500.00	-
1120451281210	1013572	20130627	DIR10202 : TLB	6,615.00	-
1130051282410	1013611	20130628	DIR10994 : LABOUR REMOVE AND FIT	5,925.00	-
1130051282410	1013611	20130628	DIR10968 : SUPPLY BATTERY	4,600.00	-
1130051282410	1013618	20130628	G000006004 : SUPPLY CRANK SEAL	550.00	-
1120451281210	1013500	20130621	DIR20586 : STRIP AND QUOTE	1,550.00	-
1120201281210	1013672	20130715	Credit Note 0001013672	-	34,900.00
1120201281210	1013678	20130715	Credit Note 0001013678	-	16,500.00
1130051282410	1013681	20130715	Credit Note 0001013681	-	3,982.50
1120201281210	1013678	20130715	Credit Note 0001013678	-	3,900.00
1125851280340	1013679	20130715	Credit Note 0001013679	-	1,973.68
Total:				368 434,21	61 256,18

This matter may have resulted due to inadequate recordkeeping at the municipality.

These matters places a limitation on the scope of the audit of repairs and maintenance.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Management should submit the above mentioned documents for audit purposes as a matter of urgency. Should some (or all) of the above-mentioned information not be available, then this should be indicated in management's response to this communication.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

188. Repairs & maintenance - Incorrect classification regarding VAT and interest (CoA 7)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

We have identified the following transactions which were incorrectly classified as repairs and maintenance:

Vote number	Description	Ref:	Supplier	Description of Expense per Supporting documentation	Amount misstated
1125851280340	BUILDINGS - R&M	1012400	New Team Construction	Interest on late payment	26 157,09
1115051280810	EQUIPMENT - R&M	1012453	Pit Stop Auto	VAT claimed from non vendor	3 283,60
Total:					29 440,69

The above is mainly due to senior management not performing all required duties to ensure that accurate and complete record keeping relating to Repairs and Maintenance.

Fruitless and wasteful expenditure incorrectly classified as repairs and maintenance:

The risk of the above is that Fruitless and wasteful expenditure per note 45 to the Financial Statements is understated by a projected amount of R 188 994.80; and Repairs and maintenance per the Statement of Financial Performance is overstated by the same projected amount.

Internal control deficiency

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

Recommendation

Management should inspect the entire population as to identify all the transactions that were not correctly calculated. An adjustment journal should be processed to correct all these transactions.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

189. Contracted services - Difference between ledger and financial statements (CoA 10)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

We have identified a difference of R769 561,78 between the general ledger (R7 736 957,22) and the financial statements (R8 506 519,00) regarding contracted services.

This differences may have resulted due to all adjustment journals not being processed onto the financial system.

This matter may result in an overstatement of contracted services, as disclosed in the financial statements.

Internal control deficiency

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities

Recommendation

Management should investigate the above-mentioned difference and provide reasons/supporting documentation for the difference.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

190. General expenses - Incorrect classifications within general expenses (CoA 63)

Audit finding

The GRAP Framework paragraph 48 states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We identified the following expenses that were incorrectly classified within general expenses:

Reference	Transaction description	Classified as	Proposed classification	Amount
1012684	ADVERTISEMENTS	Upgrading of pump station	Advertising	17,221.60
1011669	ADVERTISEMENTS	Community development and training	Advertising	8,500.00
1013569	TRAINING	Printing and stationery	Training	197,000.00
1013595	TRAINING	Printing and stationery	Training	100,000.00
1013471	POSTAGE	Telephone and fax	Postage and courier	98,090.88
				<u>420,812.48</u>

This matter may have resulted due to adequate procedures not being implemented to ensure that expense transactions are correctly classified on the general ledger.

The risk of the above is that various expenditure were incorrectly classified within General Expenses per note 34 to the financial statements.

Internal control deficiency

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

Recommendation

Management should implement a review process over the classification of expenditure.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

191. General expenses - Expenditure incorrectly classified (CoA 63)

Audit finding

GRAP Framework paragraph 48 states: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."*

We identified the following expenses, which was incorrectly classified as general expenses:

Reference	Transaction description	Classified as (in general expenses)	Proposed classification	Contracted services	Repairs and maintenance	General expenses
1013508	GUARD NIGHT SHIFT	Staff welfare	Contracted services	35,870.00		(35,870.00)
1013508	GUARDS DAY SHIFT	Staff welfare	Contracted services	22,870.00		(22,870.00)
1011373	REPAIRS OF DAMAGES	Insurance	Repairs and maintenance		247,000.00	(247,000.00)
1013460	TYRE REPAIR	Security (guarding of municipal property)	Repairs and maintenance		10,709.52	(10,709.52)
Other expenses	REBUSH MAIN PIVOT HOUSING X2	Other expenses	Repairs and maintenance		9,500.00	(9,500.00)
Other expenses	SUPPLY 30LT ENGINE OIL	Other expenses	Repairs and maintenance		8,800.00	(8,800.00)
1012262	HIRING OF TLB TO DIG GRAVES IN PARYS	IT expenses	Repairs and maintenance		17,500.00	(17,500.00)
1013293	REVENUE(EXPENDITURE SUPPORT)	Auditors remuneration	Repairs and maintenance		1,055,175.83	(1,055,175.83)
				58,740.00	1,348,685.35	(1,407,425.35)

This matter may have resulted due to adequate procedures not being implemented to ensure that expense transactions are correctly classified on the general ledger.

The risk of the above is that General expenses per note 34 to the financial statements is overstated by R1 407 425; Repairs and maintenance is understated by R1 348 685 and Contracted services per note 33 is understated by R58 740.

Internal control deficiency

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

Recommendation

Management should implement a review process over the classification of expenditure.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

192. General expenses - Expenses not correctly accrued (CoA 63)

Audit finding

GRAP 1 paragraph 31 states: "An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting."

We identified the following expenses that were recognised in the incorrect financial period, included as part of general expenses:

Reference	Date recognised	Date of goods/service delivery	Transaction description	Supplier name	Amount
1011964	20121012	31/08/2009	DIR7488 : LEARNERSHIP(MFA)	SUMMAT TRAINING INSTITUTE PTY LTE	260,000.00
1011733	20120906	2011/2012	M000011008 : MEMBERSHIP FEES	SALGA SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION	216,074.00
1011483	20120822	02/04/2012	C000002042 : STRATEGIC PLANNING SESSION	JAMESON CONSULTING	159,600.00
1011288	20120710	26/03/2010	DIR16161 : WATER TRUCKS	DOSIMA CONSTRUCTION & TRADING	235,600.00
					<u>871,274.00</u>

We identified the following expenses that were recognised in the incorrect financial period, included as part of contracted services, relating to general expenses:

Reference	Date recognised	Date of goods/service delivery	Transaction description	Supplier name	Amount per GL
1013291	20130503	30/09/2009	DIR10160 : LEGAL FEES	KRIEK & VAN WYK	195,650.81
1012623	20130123	2011/12 financial year	DIR19673 : LEGAL FEES:	RAMPAI ATTORNEYS	422,245.00
1011321	20120817	02/04/2012	DIR18675 : METER READINGS: APRIL 2012	ISINTU PROJECTS	216,827.80
					<u>834,723.61</u>

We identified the following included in the projects' expenditure:



Supplier	Invoice date	Amount
TRADE AVAIL 378cc	28-Jun-12	454,122.20
SENZANANE GENERAL	28-Jun-12	165,084.47
Factual Misstatement		619,206.67

The above is mainly due to management not accruing for expenses.

The risk of the above is that General expense per note 34 to the financial statements is overstated by R871,274, Contracted services per note 33 is overstated by R834,724 and accumulated surplus is overstated by the R1,705,998.

Internal control deficiency

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

Recommendation

Management should implement a process to accrue for expense incurred in the correct periods. Management should determine the total extent of the expenses not correctly accrued and process the necessary correcting journals.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

193. General expenses - Three quotations not obtained (CoA 63)

Audit finding

MUNICIPAL SUPPLY CHAIN POLICY STATES THE FOLLOWING:

4.3 WRITTEN PRICE QUOTATIONS: ESTIMATED VALUE R 2 001 to R 30 000 (VAT included)
If it is not possible to obtain at least three written quotations, the reasons must be recorded and approved by the Accounting Officer/Chief Financial Officer.

4.4 PROCUREMENT OF GOODS AND SERVICES: EQUAL TO OR ABOVE R30 000 UP TO R 200 000 (VAT included)

Where quotations have been invited via the official notice boards and website of the municipality, no additional quotations need to be obtained should the number of responses be less than three.

We identified the following expense vouchers, for which there were less than 3 quotes obtained:

VOTE Number	Reference	TranDate	Transaction Description	Supplier's Name	Amount (Excl Vat)	Quotations
1110051093810	1011483	20120822	C000002042 : STRATEGIC PLANNING SESSION	JAMESON CONSULTING	140,000.00	One quotation obtained
1115051094420	1013569	20130627	T000017021 : TRAINING	TAFITA	197,000.00	No quotations obtained



1115051094420	1013595	20130627	T000017021 : TRAINING	AMBER TOWER TRAINING	100,000.00	No quotations obtained
111505109455	1013173	20130418	DIR10967 : REBUSH MAIN PIVOT HOUSING X2	FAKA ENGINEERING AND HYDRAULIC SERVICES CC	10,830.00	One quotation obtained
1120354010005	1012684	20130204	A000000018 : ADVERTISEMENTS	MEDIA 24.	19,632.62	One quotation obtained
111505109455	1013173	20130418	DIR104 : SUPPLY 30LT ENGINE OIL	FAKA ENGINEERING AND HYDRAULIC SERVICES CC	10,032.00	One quotation obtained
1110101093690	1011669	20120906	DIR11647 : ADVERT	PUISANO	8,500.00	One quotation obtained
1105051095415	1013419	20130606	G000006004 : THABISO MATHIBELY	ESOH CONSULTING	12,999.99	No quotations obtained
1125601094740	1013460	20130606	G000006003 : TYRE REPAIR	PARYS FITMENT CENTRE(PTY)LTD	12,208.85	One quotation obtained

The above is mainly due to management not complying with the SCM Policy.

Non-compliance with the supply chain management policy, resulting in possible irregular expenditure

Internal control deficiency

Management does not exercise sufficient oversight responsibility over compliance with laws and regulations and internal controls.

Recommendation

Management should implement sufficient procedures and processes that monitors and enforces compliance with the supply chain management policy

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

194. Contracted services - Limitation misstatement (CoA 10)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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— (a) 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"

We could not obtain supporting documents for the following expenses relating to Stancom and G4S:

Supplier	Amount	Procedures:
G4S 72575	40 626,29	Isintu Projects
G4S 72576	39 750,29	Isintu Projects
STANCOM - COPY TYPE ELEC LT033	10 624,80	Isintu Projects



The above may have resulted due to a lack of sufficient recordkeeping at the municipality.

The risk of the above is that Contracted Services per note 33 to the financial statements amounting to R283,325.00 could not be audited.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

195. Contracted services - Incorrect classification (CoA 10)

Audit finding

Section 62 of the 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— (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."*

We have identified the following payments, which were incorrectly recorded as contracted services. Through inspection of the supporting documentation, it was noted that these transactions relate to assets which were purchased:

Description per GL	Amount	Nature per inspection of invoice
DIR10105 : IND CAM I.R 30M	13 500,00	Indoor camera (10 items)
DIR10221 : INSTALLATION PARTS	54 000,00	Fingerprint reader
DIR10116 : ROUND DOME PTZ CAM COLOUR	21 500,00	Round dome camera
Total	89 000,00	

This matter may have resulted due to inadequate controls implemented at the municipality to ensure the correct classification of transactions on the financial system.

The risk of the above is the Contracted Services per note 33 to financial statements is overstated by R89,000 (projected difference R277,094) and Property, plant and equipment per note 11 to the financial statements is understated by the same amount.

Internal control deficiency

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

Recommendation

Management should implement the necessary controls to ensure the following:

- the correct classification of the Repairs and Maintenance, Property, Plant and Equipment and Contracted Services and Collection Costs;
- that expenses are capitalised when it meets the definition of an asset.

Management should investigate the entire population of contracted services as to identify all the incorrect classifications and then process the relevant correcting journals.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

196. Contracted services - Interest incorrectly classified (CoA 38)

Audit finding

The MFMA section 65 states the following: "65. *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— that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.*"

a) With regard to the following payments made, it was noted that the interest paid on overdue accounts were incorrectly classified as contracted services in the general ledger:

Description	Supplier	Amount
G000006003 : INTEREST	Isintu Projects	R51 427,18
DIR10179 : INTEREST	Isintu Projects	R41 414,20
DIR10179 : INTEREST	Isintu Projects	R14 362,25

b) With regard to the following payments, it was noted that the interest that was charged by the supplier was not separately disclosed, but included in contracted services. This also resulted in the incorrect VAT amount

Supplier	Amount per Invoice (interest excluded)	Amount per GL	Difference
Isintu Projects	181 992,18	235 248,61	53 256,43
Isintu Projects	187 715,88	230 505,07	42 789,19
			96 045,62

The above is mainly due to senior management not performing all required duties to ensure that accurate and complete record keeping regarding Contracted Services and Collection Costs expense.

The risk of the above is that Finance Cost as per note 31 to the Financial Statements is understated by a projected amount of R 632 799; and Contracted Services and Collection Costs is overstated of the same projected amount.

Internal control deficiency

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

Recommendation

Management should correct the misstatement identified above, and ensure that interest on overdue accounts is included in Finance cost and not in Contracted Services and Collection Costs.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

197. Contracted services - Expense recognised in incorrect period (CoA 10)

Audit finding

GRAP 1 paragraph 05 states the following: "Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners."

GRAP 1 paragraph 31 states: "An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting."

Framework for the Preparation and Presentation of Financial Statements paragraph 37 states: "In order to meet the stated objectives listed in paragraphs .25 - .27, financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash and/or deliver services in the future and of resources that represent cash to be received and/or potential to deliver services in the future. Hence, they provide the type of information about past events and other transactions that is most useful to users to assess the responsibility for accountability of government."

We have identified the following expense transactions which were accounted for in the incorrect financial year (accounted for as an expense for the 2012/13 financial year):

Supplier	Amount	Invoice Date
Isintu Projects	235 248,61	31-Aug-11
Isintu Projects	230 505,07	1-Nov-11
Total	465 753,68	

This matter may have resulted due to the municipality not having implemented proper controls to identify all creditors at year-end and to ensure that expenses are accounted for in the correct financial year.

Current year:

The risk of the above is that Contracted Services per note 33 to the Financial Statements is overstated by R465,754 and Payables from Exchange transactions is overstated by the same amount.

Prior year:

The risk of the above is that Contracted services (opening retained earnings) per note 33 to the Financial Statements is understated by R465,754 and Payables from Exchange transactions is understated by the same amount

Internal control deficiency

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should ensure that the accrual basis of accounting is applied and that expenses are recognised in the correct financial periods. Attention should be paid when processing invoices to ensure they are recorded based on the nature of the transaction. Management should inspect the entire population of expenses for contracted services as to identify all transactions that were processed in the incorrect financial year, and should then process correcting journals.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Payable

198. Payables - Expense transaction classified incorrectly (CoA 54)

Audit finding

The GRAP Framework paragraph 48 states the following: *"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to repress*

ent faithfully that which it either purports to represent, or could reasonably be expected to represent."

a) We have identified an invoice from Deloitte's (R705 751,20), which were made for Management Training (Management Programme: Minimum Competency Training) which were incorrectly classified as bursaries and printing and stationary expenditure. The following are the detail of this transaction in the general ledger:

Vote number	Vote Description	Reference	Trans Date	Debit Amt	Credit Amt
1105051090290	BURSARIES	22653	20130628	328,084.27	-
1115051094420	PRINTING & STATIONERY - FMG	22653	20130628	290,995.73	-
9100033030101	CREDITORS CONTROL ACCOUNT	22653	20130628	-	705,751.20
9100033030380	CREDITORS VAT RECLAIM SUSPENSE	22653	20130628	45,931.80	-
9100033030380	CREDITORS VAT RECLAIM SUSPENSE	22653	20130628	40,739.40	-

This expense should have been allocated to staff training.

b) An invoice from Eskom for electricity purchases, including interest on overdue account was incorrectly allocated as follows in the general ledger:

Vote number	Vote Description	Reference	Trans Date	Debit Amt	Credit Amt
1120451144515	PURCHASE OF ELECTRICITY	22000	20130314	8,769,444.39	-
9100033030101	CREDITORS CONTROL ACCOUNT	22000	20130314	-	9,997,166.61
9100033030380	CREDITORS VAT RECLAIM SUSPENSE	22000	20130314	1,227,722.22	-

The interest portion should have been allocated to the interest expense account.

Management did not apply proper recognition principles in accordance with the GRAP Framework and ensure that transactions are recorded against the correct ledger accounts.

This matter may result in the misstatement of the various expenditure line items in the financial statements.

Internal control deficiency

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

- The expense of R619 080 should be correctly classified as Staff Training.
- The Eskom invoice should be correctly accounted for as follow:

	Debit Amt	Credit Amt
Payables: Eskom		9,997,166.61



Interest on overdue account	1,191,936.43	
Purchase Of Electricity	7,723,886.13	
VAT	1,081,344.05	

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

199. Payables - Suspense accounts not cleared (CoA 54)

Audit finding

Section 65(2)(j) of the MFMA states that : *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all financial accounts of the municipality are closed at the end of each month and reconciled with its records."*

We identified suspense accounts (indicated below) not cleared at year end as required by the MFMA:

Account number	Account description	Final balance as at 30 June 2012	Movement during the year	Balance as at 30 June 2013
9100088010017	SALARY SUSPENSE	2,906,150.11	3,408,912.27	6,315,062.38
9100088010018	SALARY SUSPENSE	2,421,795.50	2,613,011.10	5,034,806.60
9100088010019	SALARY SUSPENSE	94,291.46	0.00	94,291.46
9100088010013	STALE CHEQUES CO	-2,724,290.79	0.00	-2,724,290.79
9100088010015	TRANSFER BETWEEN	-1,940,993.73	0.00	-1,940,993.73
9100033030412	DEFERRED PRE-PAID ELECTRICITY	-3,988,448.93	0.00	-3,988,448.93

Account number	Account description	Balance as at 30 June 2013
9100088010008	SALARY ERROR DEFAULT ACCOUNT	57 668,10

This matter may have resulted due to management not following up on long outstanding items in order to clear suspense accounts in a timely manner.

This not only constitutes non-compliance, but may also result in a misstatement of information disclosed in the financial statements.

Internal control deficiency

The municipality did not implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial reporting .

Recommendation

Management should investigate suspense accounts and follow up on long outstanding items in order to clear suspense accounts in a timely manner. Suspense accounts must be cleared by the end of the financial year. Each transactions should be transferred back to the original documents and corrections processed with sufficient and appropriate supporting documentation attached. Journals should be able to stand alone and make clear sense to reviewer, approvers and auditors.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

200. Payables - Differences between the debtors age analysis and Venus (CoA 54)

Audit finding

Section 62(1)(c)(i) of the 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 that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control."*

Whilst testing debtors with credit balances, we have noticed the following differences between the balances reflected on the age analysis and the balances as per the billing system:

Account nr	Debtor name	Debtors' Age Analysis	Venus	Difference
11094478	BLACK INDEPENDANT TRANSFORMATION	(317,766.46)	(221,266.46)	(96,500.00)
10408400	CLOVER SA BPK LTD/PTY LTD_(W FOUCH	(327,103.00)	(113,414.09)	(213,688.91)
99999991	DEFAULT DEBTOR	(368,709.22)	(368,249.22)	(460.00)
11103647	MUNICIPALITY MIMOSA	(484,152.36)	(478,217.36)	(5,935.00)

The above is mainly due to reconciliations not being performed between the debtors sub ledger and Venus in order to identify and resolve any differences.

This matter may result in the misstatement of payables (debtors with credit balances).

Internal control deficiency

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

Recommendation

Management should investigate the above-mentioned differences and provide reasons for these differences for audit purposes (and where applicable, documentation to support these differences).

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

201. Payables - Monthly reconciliations not performed and reviewed (CoA 54)

Audit finding

Section 62 of the MFMA states: *"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure— (c) that the municipality has and maintains effective, efficient and transparent systems— (i) of financial and risk management and internal control."*

It was noted that the monthly creditor reconciliations are not performed for all trade payables and also subsequently not reviewed by a senior member of staff.

This matter may have resulted due to inadequate controls over the receiving of invoices and the reconciliation thereof with monthly statements, delivery notes etc.

The lack of reconciliations may result in all payables not being accounted for and also in possible double payments.

Internal control deficiency

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

Recommendation

Management should implement controls over daily and monthly processing and reconciling of transactions, which includes performing monthly creditors reconciliations as well as the review thereof.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

202. Payables - Prior year SARS statement balance (CoA 54)

Audit finding

MFMA paragraph 65 (b)(ii) states: *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which accounts for creditors of the municipality."*

We inspected suspense account vote number 9100088010006 Salary Suspense's. We obtained the SARS statement and calculated the amount owed by the end of 30 June 2012.

	2012	2011
Opening balance	-10,429,318.09	-3,872,415.95
Current Year Payroll deduction - PAYE	-12,095,870.39	-9,585,299.69
Current Year Payroll deduction - UIF	-1,523,698.72	-1,401,498.47
Current Year Payroll deduction - SDL	-997,558.66	-770,578.36

Current Year Penalties - PAYE	-1,209,586.96	-833,548.33
Current Year Penalties - UIF	-152,369.88	-140,149.85
Current Year Penalties - SDL	-99,755.87	-76,676.35
Current Year Interest - PAYE	-451,188.81	-285,386.41
Current Year Interest - UIF	-69,499.74	-78,605.71
Current Year Interest - SDL	-45,030.04	-97,487.23
Amount Paid - Current Year	14,496,384.45	6,712,328.26
Balance as at 30 June 2012	-12,577,492.71	-10,429,318.09
Balance per trail balance - 9100088010006	-11,769,872.46	Amount per GL
Difference	807,620.25	

We could not obtain the information to confirm the opening balance of 2011 of R3 872 415.95 therefore we could not give the exact amount by which the suspense account is misstated by.

This matter may have resulted due to inadequate control and reconciliation of suspense accounts.

This matter may result in a misstatement of payables as disclosed in the financial statements.

Internal control deficiency

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

Recommendation

Management should investigate the above-mentioned difference and provide supporting evidence/explanations for the difference.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Predetermined objectives

203. Predetermined objectives - Inconsistencies between IDP and SDBIP (CoA 53)

Audit finding

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

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

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

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

Regulation 1 of the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) states that:

“**input indicator**” means an indicator that measures the costs, resources and time used to produce an output;

“**outcome indicator**” means an indicator that measures the quality and or impact of an output on achieving a particular objective;

“**output indicator**” means an indicator that measures the results of activities, processes and strategies of a program of a municipality.

Regulation 9(1)(a) of the MPPMR states that a municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act.

Regulation 12(2)(e) of the MPPMR states that a performance target set in terms of subregulation (1) must be consistent with the municipality's development priorities and objectives set out in its integrated development plan.

Contrary to the requirements, with the comparison of the planned development priorities/focus areas and objectives set in the 2012/2017 integrated development plan (IDP) with those stated in the 2012/13 Service Delivery and Budget Implementation Plan (SDBIP), the following inconsistencies were identified, resulted in key performance indicators, including input indicators, output indicators and outcome indicators, and performance targets not been set for all the planned development priorities/focus areas and objectives:

INTEGRATED DEVELOPMENT PLAN (IDP)		SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)	
FOCUS AREA	STRATEGIC OBJECTIVES	FOCUS AREA	STRATEGIC OBJECTIVES
KEY PERFORMANCE AREA: BASIC SERVICE DELIVERY AND INFRASTRUCTURE INVESTMENT			
Water	To ensure the sustainable bulk provision of adequate safe and potable drinking water to all communities at all times.	Water	To ensure water reliability provision.
	To implement measures to minimize water losses with at least 10 % per year to be in line with acceptable national standards.		To ensure reliability of water provision.
	To improve on Blue Drop rating.		To ensure that drinking water quality supplied within NLM meets National norms and standards.

			To ensure that every drop of potable water is contained in the system. To minimize total consumption.
			Provision of water to all households.
Sanitation	To eradicate all unacceptable sanitation systems and ensure that all households are provided with an acceptable sanitation system.	Sanitation	To improve the effluent quality discharged into the stream to comply with DWA standards.
	To ensure the effective handling and transportation of all bulk sewer systems and its functional operation at all times.		To eradicate buckets in Tumahole.
Waste Management & Refuse Removal	To provide effective and regular refuse removal service to all households in urban areas.	Waste Management & Refuse Removal	
	To engage and involve the community to maintain a clean environment and healthy sustainable environment.		
	To maintain all landfill and waste dumping sites according to legal and health requirements.		
Electricity	To ensure sustainable provision of bulk electricity through an effective internal network that will be able to supply quality electricity according to consumer demand.	Electricity	To ensure the proper protection of electricity meters.
	To ensure that all households and businesses are provided with sufficient electricity at all times.		To ensure electricity service reliability.
Roads and storm water	To provide continuous maintenance and upgrading of all tar, gravel and unsurfaced roads and storm water networks to keep them in a trafficable condition and to accommodate heavy vehicle transport where required in all urban and rural areas.	Roads and storm water	To Implement Stormwater Management systems through the cleaning of Stormwater conduits.
	To provide road signs, street names, marking and route allocation to all urban and rural streets in the region.		Resurface and rehabilitate paved roads to reduce maintenance backlog.
			Surfaced roads according to standards.

It seems that the inconsistencies occurred as a result of oversight from management side.

The impact is that the development priorities/focus areas and objectives in the IDP may not be appropriately addressed, resulted in appropriate resources were not allocated to execute these development priorities/focus areas and objectives. Furthermore, the activities of the municipality may not all be recorded and reported to the relevant stakeholders.

Internal control deficiency

The municipality does not review and monitor compliance with applicable laws and regulations.

Recommendation

Management should ensure that all the development priorities/focus areas and objectives stated in the IDP are address in the SDBIP of the municipality.

Management response

Management agree. Management will put in place controls to ensure that all the development priorities/focus areas and objectives stated in the IDP are address in the SDBIP of the municipality.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

204. Predetermined objectives - Non-compliance with laws and regulations (Mid-year report) (CoA 19)

Audit finding

A. Section 72 of the Municipal Finance Management Act (Act.56 of 2003) states that:

"(1) The accounting officer of a municipality must by 25 January of each year—

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

(i) the monthly statements referred to in section 71 for the first half of the financial year;

(ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;

(iii) the past year's annual report, and progress on resolving problems identified in the annual report; and

(iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities.

(b) submit a report on such assessment to—

(i) the mayor of the municipality;

(ii) the National Treasury; and

(iii) the relevant provincial treasury.

B. Regulation 33 of the Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations (MBRR) states that a mid-year budget and performance assessment of a municipality referred to in section 72 of the Act must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

Regulation 35 of the MBRR states that the municipal manager must submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form -(a) the mid-year budget and performance assessment by 25 January of each year; and (b) any other information relating to the mid-year budget and performance assessment as may be required by the National Treasury.

C. Section 34(a)(i) of the Municipal Systems Act (Act No.32 of 2000) (MSA) states that a municipal council must review its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41.

Section 36 of the MSA states that a municipality must give effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.

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

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

(i) monitor performance; and

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

(d) take steps to improve performance with regard to those development priorities and objectives where performance targets are not met.

D. Regulation 13(2) of the Municipal Planning and Performance Management Regulations 2001, states that the mechanisms, systems and processes for monitoring in terms of subregulation (1) must—

(a) provide for reporting to the municipal council at least twice a year;

(b) be designed in a manner that enables the municipality to detect early indications of under-performance; and

(c) provide for corrective measures where under-performance has been identified."

(a) Contrary to the requirements the mid-year performance of the municipality was not assessed by 25 January as the mid-year budget and performance assessment report for 2012/13 was only tabled to Council during a Council meeting held on 31 January 2013.

(b) Evidence could also not be provided that the mid-year performance assessment report was submitted to the National Treasury and the provincial treasury.

(c) With the evaluation of the mid-year performance assessment report it was noted that the mid-year performance assessment report was not in the format specified in Schedule C of the Budget and reporting regulations and it did not include all the required tables, charts and explanatory information.

(d) It could also not be determined that the following were taken into account during the assessment of the mid-year performance:

(i) The monthly budget statements for the first half of the year.

(ii) Some of the service delivery targets and performance indicators set in the SDBIP have not been reported on in the mid-year report, while some of the service delivery targets and performance indicators reported on in the mid-year report were not set in the SDBIP.

(iii) The municipality's annual report for the past year and progress on resolving problems identified in the annual report was not taken into account with the mid-year performance assessment.

Non-compliance occurred as a result of oversight from management side.

The risk of the above is that municipality did not comply with the provisions of the aforementioned laws and regulations.

Internal control deficiency

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

Recommendation

Management should ensure that the requirements of the relevant laws and regulations should be adhere to.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

205. Predetermined objectives - Planned indicator and target not relevant (CoA 53)

Audit finding

Section 26 of the Municipal Systems Act (No.32 of 2000) (MSA) states that an integrated development plan must reflect—

*"(b) an assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services;
(c) the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;
(h) a financial plan, which must include a budget projection for at least the next three years; and
(i) the key performance indicators and performance targets determined in terms of section 41."*

Section 41 of the MSA states that:

*"(1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—
(a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
(b) set measurable performance targets with regard to each of those development priorities and objectives."*

As stated in the 2012/2017 IDP the mission statement of the municipality is to provide quality and sustainable services in an efficient, effective & economic manner to all communities through the promotion of community participation, good governance & improved intergovernmental values.

Contrary to the requirements and the mission statement of the municipality, the following planned indicator and target set in the 2012/13 SDBIP for the focus area electricity did not have a direct impact on the service delivery to the community and was, therefore, not relevant to the stated mandate of the municipality:

Objective	Indicator	Target
To ensure electricity service reliability	Replacement of non energy efficient bulbs (Strategy: Energy efficient lights in all NLM buildings – number of lamps replaced)	100 lamps replaced

This was due to oversight from management side.

The impact is that management reporting on issues that do not relate directly to the mandate of the municipality and which do not have a direct impact on the service delivery to the community.

Internal control deficiency

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

Recommendation

Management should ensure that the planned indicators and targets set in the SDBIP should have a direct link to the mandate of the municipality.

Management response

We agree with the finding. Management will ensure that the planned indicators and targets set in the SDBIP have a direct link to the mandate of the municipality as recommended.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

206. Predetermined objectives - Development priorities/focus areas without budget allocations (CoA 19)

Audit finding

In terms of section 17(3)(b) of the MFMA, when an annual budget is tabled in terms of section 16(2), it must be accompanied by measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan (IDP).

In terms of section 21(2)(a) and (b) of the MFMA, when preparing the annual budget, the mayor of a municipality must -

- (a) take into account the municipality's IDP;
- (b) take all reasonable steps to ensure that the municipality revises the IDP in terms of section 34 of the MSA, taking into account realistic revenue and expenditure projections for future years.

In terms of section 53(a) and (b) of the MFMA, the mayor of a municipality must -

- (a) provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
- (b) co-ordinate the annual revision of the IDP in terms of section 34 of the MSA and the preparation of the annual budget, and determine how the IDP is to be taken into account or revised for the purposes of the budget.

Regulation 6(a) of the Municipal Planning and Performance Management Regulations, 2001 states that a municipality's integrated development plan must inform the municipality's annual budget that must be based on the development priorities and objectives referred to in section 26(c) of the Municipal Systems Act and the performance targets set by the municipality in terms of regulation 12."

Contrary to the requirements, it was noted that budget allocations were not allocated to each of the development priorities/focus areas as stated in the 2012/2017 IDP as indicated below:

DEVELOPMENT PRIORITY/FOCUS AREA	ALLOCATED BUDGET
KPA 1: BASIC SERVICE DELIVERY AND INFRASTRUCTURE INVESTMENT	
Water	R 24 558 000
Sanitation	R 20 184 000
Waste Management & Refuse Removal	R 14 092 000
Electricity	R 154 723 000
Roads & Storm Water	R 10 272 000
Cemeteries	No funds allocated
Housing	R 1 236 000
Infrastructure	No funds allocated
Sports, Recreation, Arts and Culture	R 11 839 000
KPA 2: PUBLIC PARTICIPATION AND GOOD GOVERNANCE	
Free State Growth and Development Strategy (FSGDS)	No funds allocated
Audit Committee	No funds allocated
Oversight Functions	No funds allocated
Ward Committees	No funds allocated
Complaints Management System	No funds allocated
Poverty Alleviation	No funds allocated
Fraud Prevention	No funds allocated
Communication	No funds allocated
Stakeholder Mobilization Strategy / Public Participation	No funds allocated
HIV/AIDS	No funds allocated
Youths	No funds allocated
Gender	No funds allocated
People with disability	No funds allocated
Days of historical Significance	No funds allocated
Inter Governmental Relations (IGR)	No funds allocated
KPA 3: FINANCIAL VIABILITY	
Tariff Policy	No funds allocated
SCM	No funds allocated
Rates & Taxes	No funds allocated
Staffing	No funds allocated
Creditors	No funds allocated
Asset Management	No funds allocated
Fleet	No funds allocated
KPA 4: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	
Information Technology (IT)	No funds allocated
Organizational Structure	No funds allocated
Skills development	No funds allocated
Human Resource	No funds allocated
Individual Performance and Organisational Management Systems	No funds allocated
Municipal By Laws	No funds allocated

KPA 5: LOCAL ECONOMIC DEVELOPMENT	
Job Creation	No funds allocated
Economic Activities	No funds allocated
Co operatives/ SMME	No funds allocated
Tourism	No funds allocated
LED Projects	No funds allocated
Education	No funds allocated
SAPS	No funds allocated
Roads	No funds allocated

Management did not ensure that funds have been budgeted for each of the development priorities/focus areas stated in the 2012/2017 IDP.

Development priorities/focus areas could not be implemented as no resources have been allocated to them.

Internal control deficiency

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

Recommendation

Management should ensure that resources are allocated to each of the development priorities/focus areas stated in the IDP.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

207. Predetermined objectives - Planned indicators and targets not set (CoA 53)

Audit finding

Section 26(i) of the Municipal Systems Act (No.32 of 2000) (MSA) states that an integrated development plan must reflect the key performance indicators and performance targets determined in terms of section 41.

Section 41 of the MSA states that:

- (1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—
 - (a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
 - (b) set measurable performance targets with regard to each of those development priorities and objectives.

Contrary to the requirements, with the evaluation of the 2012/2017 IDP and the 2012/13 SDBIP it was noted that key performance indicators and performance targets have not been set for the development priority/focus area - Waste Management & Refuse Removal.

Non-compliance occurred as a result of oversight from management side.

The impact is that the development priority/focus area may not be appropriately addressed, resulted in appropriate resources were not allocated to execute this development priority/focus area. Furthermore, the activities of this development priority/focus area may not be recorded and reported to the relevant stakeholders.

Internal control deficiency

The municipality does not review and monitor compliance with applicable laws and regulations.

Recommendation

Measures should be implemented to ensure the adherence to the provisions of the act.

Management response

Management agree with the finding and we will ensure that proper controls are developed to ensure that adherence to the provisions of the act is maintained.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

208. Predetermined objectives - Non-compliance with laws and regulations (IDP) (CoA 19)

Audit finding

Section 26 of the Municipal Systems Act (No.32 of 2000) (MSA) states that an integrated development plan must reflect—

- "(b) an assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services;*
- (c) the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;*
- (h) a financial plan, which must include a budget projection for at least the next three years; and*
- (i) the key performance indicators and performance targets determined in terms of section 41."*

Section 32(1)(a) of the MSA states that;

"The municipal manager of a municipality must submit a copy of the integrated development plan as adopted by the council of the municipality, and any subsequent amendment to the plan, to the MEC for local government in the province within 10 days of the adoption or amendment of the plan."

Section 43 of the MSA states that:

- "(1) The Minister, after consultation with the MECs for local government and organised local government representing local government nationally, may—*
- (a) by regulation prescribe general key performance indicators that are appropriate and that can be applied to local government generally; and*
- (b) when necessary, review and adjust those general key performance indicators.*

(2) Key performance indicators set by a municipality must include any general key performance indicators prescribed in terms of subsection (1), to the extent that these indicators are applicable to the municipality concerned."

Regulation 10 of the Municipal Planning and Performance Management Regulations, 2001 states that the following general key performance indicators are prescribed in terms of section 43 of the Act:

- "(a) The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal;*
- (b) the percentage of households earning less than R1100 per month with access to free basic services;*
- (c) the percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan;*
- (d) the number of jobs created through municipality's local economic development initiatives including capital projects;*
- (e) the number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan;*
- (f) the percentage of a municipality's budget actually spent on implementing its workplace skills plan; and*
- (g) financial viability as expressed by the following ratios:*
 - (i) $A = (B-C)/D$*

Where—

 - "A" represents debt coverage*
 - "B" represents total operating revenue received*
 - "C" represents operating grants*
 - "D" represents debt service payments (i.e. interest + redemption) due within the financial year;*
 - (ii) $A = B/C$*

Where—

 - "A" represents outstanding service debtors to revenue*
 - "B" represents total outstanding service debtors*
 - "C" represents annual revenue actually received for services;*
 - (iii) $A = (B+C)/D$*

Where—

 - "A" represents cost coverage*
 - "B" represents all available cash at a particular time*
 - "C" represents investments*
 - "D" represents monthly fixed operating expenditure."*

Contrary with the requirements, with the evaluation of the 2012/2017 integrated development plan (IDP) the following weaknesses were identified:

- (a) Contrary to section 26(c) of the MSA, it was noted that in the IDP reference were made to the attached Institutional Organogram. However, the institutional organogram was not attached to the IDP.*
- (b) Contrary to section 32(1) of the MSA, evidence could not be provided that the municipal manager did submit a copy of the 2012/2017 IDP to the MEC for Local Government within 10 days after the adoption of the IDP by the municipal council.*
- (c) Contrary to section 43 of the MSA and regulation 10 of the MPPMR, the following general key performance indicators were not included in the 2012/2017 IDP of the municipality:*

No.	General key performance indicators
(b)	The percentage of households earnings less than R1 100 per month with access to free basic services;
(c)	The percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan;
(e)	The number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan;
(f)	The percentage of a municipality's budget actually spent on implementing its workplace skills plan; and
(g)	Financial viability.

Non-compliance occurred as a result of oversight from management side.

The risk of the above is that municipality did not comply with the provisions of the aforementioned laws and regulations.

Internal control deficiency

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

Recommendation

Management should ensure that the IDP should be compiled as required by the acts and regulations.

Management response

Outstanding.

Auditor's conclusion

Management responses outstanding.

209. Predetermined objectives - Non-compliance with laws and regulations (Budget process) (CoA 19)

Audit finding

Section 22(b)(i) of the Municipal Finance Management Act (No.56 of 2003) (MFMA) states that immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must submit the annual budget in both printed and electronic formats to the National Treasury and the relevant provincial treasury.

Section 24(3) of the MFMA states that the accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

Section 28(7) of the MFMA states that sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

Section 53(1)(c)(ii) of the MFMA states that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.

Section 71(1)(g)(ii) of the MFMA states that the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting particulars for that month and for the financial year up to the end of that month when necessary, an explanation of any material variances from the service delivery and budget implementation plan.

Section 21A of the Municipal Systems Act states that:

(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.

Regulation 18 of the Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations (MBRR) states that:

(1) Within ten working days after the municipal council has approved the annual budget of a municipality, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentation and the resolutions referred to in section 24(2)(c) of the Act.

(3) All information contemplated in sub regulation (2) must cover (a) the relevant financial and service delivery implications of the annual budget.

Regulation 20(1) of the MBRR states that the municipal manager must comply with section 24(3) of the Act within ten working days after the municipal council has approved the annual budget.

Regulation 27(1) of the MBRR states that the municipal manager must comply with section 28 (7) of the Act read together with section 24 (3) of the Act within ten working days after the municipal council has approved an adjustments budget.

(a) The 2012/13 annual budget was adopted by the Council during a Council meeting held on 31 May 2012. Evidence could, however, not be provided by management that the annual budget, in both printed and electronic formats, was submitted to the National Treasury within 10 working days after the Council has approved the annual budget. According to a letter from the Provincial Treasury the 2012/13 annual budget was submitted by the municipal manager to the Provincial Treasury. However, in the letter the date when the annual budget was submitted to the Provincial Treasury was not stated, it could not be determine, in both printed and electronic format, if the annual budget was submitted within 10 working days.

(b) The 2012/13 revised/adjustment budget was adopted by the Council during a Council meeting held on 28 February 2013. Contrary to the requirements, evidence could not be provided by management that the approved adjustment budget, in both printed and electronic formats, was submitted to the National and the Provincial Treasury within ten working days after the Council has approved the adjustment budget.

(c) Contrary to the requirements, evidence could also not be provided that the municipal manager did make public the 2012/13 annual budget and the supporting documentation that were approved with the budget, within 10 working days after the budget has been approved by the Council.

(d) Through inspection of the minutes of the council meetings evidence could not be obtained that the 2012/13 SDBIP was approved by the mayor within 28 days after approval of the 2012/13 annual budget. It could, therefore, also not be determined if the 2012/13 SDBIP was make public within 10 days after the mayor approved the SDBIP. The public notice was requested from the IDP Manager, but could not be provided.

(e) According to a letter from the Provincial Treasury the 2012/13 SDBIP was submitted by the municipal manager to the Provincial Treasury. However, as evidence could not be provided that the 2012/13 SDBIP was approved by the mayor and in the above-mentioned letter the date when the SDBIP was submitted to the Provincial Treasury was not stated, it could not be determine, in both printed and electronic format, if the SDBIP was submitted within 10 working days.

(f) Evidence could not be provided that the monthly budget statement included an explanation of the material variances from the SDBIP.

Non-compliance occurred as a result of oversight from management side.

The impact is that the municipality did not comply with the provisions of the laws and regulations.

Internal control deficiency

The municipality does not review and monitor compliance with applicable laws and regulations.

Recommendation

Measures should be implemented to ensure the adherence to the provisions of the laws and regulations.

Management response

Outstanding.

Auditor's conclusion

Management response outstanding.

Prepayments

210. Consumer deposits - Deposit not paid by consumers (CoA 25)

Audit finding

The MFMA, Section 97: Revenue management, states the following:

“The accounting officer of a municipal entity must take all reasonable steps to ensure—

(a) that the entity has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the entity is collected;

(h) that the municipal entity has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed”

a) Contrary to the requirement the following consumers did not pay the consumer deposit :

Debtors Name	Debtors Account
FP Van Der Walt	11321996
DJ Botha	11318985
EXCLUSIVE FRAMING AND P	11320653
SENCOR STEELWORKS	11319412

b) The following new accounts could not be traced to the consumer deposit register and the accounting system of the municipality:

Debtors Name	Debtors Account
Unknown	11325613
Unknown	11327125
Unknown	11328021

These matters may have resulted due to inadequate control over the payment of consumer deposits for each consumer account.

This may increase the possibility of irrecoverable debt as well as a possible misstatement in consumer deposits.

Internal control deficiency

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

Recommendation

Management must ensure that consumers pay the deposit before they receive the services from the municipality. As a result this will enable the municipality to recover any debt from the consumer deposit should the consumer disconnect their services.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Provisions

211. Provisions - Incorrect classification (CoA 80)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

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

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

(i) of financial and risk management and internal control

The items below were included as part of "Provisions" in Note 17 of the financial statements. The municipality however settled these matters, but have not yet effected payments at year end. A "payable" should therefore have been raised for the items.

Party:	Clover SA vs NLM
Nature/Description:	Clover SA paid the municipality for transfer of certain land in their name. Excess payment was made and the municipality failed to refund them hence they are suing the municipality.
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Amount:	R23 000,00
Party:	Isintu Projects CC
Nature/Description:	Isintu projects rendered meter reading services to the municipality in 2011 and the Municipality has not paid them for services rendered hence they are suing the municipality.
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Amount:	R233 869,98
Party:	A Vosloo
Nature/Description:	Adriaan Vosloo applied for the clearance certificates after he sold his property and the municipality failed to provide the certificates.
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Amount:	R38 000,00
Party:	Phonebook Company
Nature/Description:	Phonebook company rendered advertisement services on behalf of the municipality and the municipality failed to pay as agreed.
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and payment has not been effected yet.
Amount:	R68 000,00

For the item below the municipality settled the matter and effected payment. It could however not be determined if payment was made before or after year end. If payment was made before year end, this item should already have been included as part of expenditure for the year. If payment was however made after year end a "Payable" should have been raised for the item

Party:	Stolen Believes
Nature/Description:	Stolen Believes sold and delivered certain properties to the municipality and the municipality failed to effect payment.
Prospects of success:	There are no prospects of successfully defending the matter, hence the municipality settled the matter and effected payment.
Amount:	R32 229,16

Total possible understatement of "Payables" and overstatement of "Provisions": R395 099,14

Matter may have occurred due to a proper review not done on the financial statements due to time constraints experienced

Misstatement of payables and provisions in the financial statements

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above items and make the necessary adjustments to the financial statements

Management response

Management agree with the finding and recommendation. A detailed investigation will be undertaken and corrections to the financial statements will be performed.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will only be resolved with the correction of the financial statements.

Receivables

212. Receivables - Inconsistent accounting policies (CoA 12)

Audit finding

GRAP 3 paragraph 12 states: *"An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard of GRAP specifically requires or permits categorisation of items for which different accounting policies may be appropriate. If a Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category."*

Per inspection of the accounting policies, we identified that Receivables from Exchange Transaction were categorised as "Financial asset measured at fair value". Per inspection of the prior period accounting policy, we identified that it was categorised as "Financial asset measured at amortised cost".

- this accounting policy is therefore not consistent with the prior period.

The above is mainly due to management not applying accounting policies on a consistent basis.

The risk of the above is non-compliance with GRAP 3.

Internal control deficiency

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

Recommendation

Management should make the necessary disclosures with regards to the inconsistent accounting policy. Management should ensure the financial statements were compiled in accordance with GRAP.

Management response

Management agrees with the finding. We will ensure that in future we apply accounting policies consistently in line with prior year disclosures. Management undertakes to correct the financial statements if there is a requirement to do so from the auditors.

Auditor's conclusion

Management agrees with the audit finding. The matter will only be resolved with either the correction of the accounting policy or disclosure of change in an accounting policy.

213. Receivables - Debtors in the name of the municipality (CoA 12)

Audit finding

GRAP 1 states the following: *".05 Definitions: Assets are resources controlled by the entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity."*

We identified the following debtors in the name of the municipality, which will not lead to an inflow of economic benefits or service potential, and therefore should not be recognised as a asset.

Unit number	Account nr	Debtor name	Net
201 000 00000478 00001 0000 0000	11234032	NGWATHE MUNICIPALITY	69,101.40
101 000 00000461 00001 0000 0001	11110509	NGWATHE MUNICIPALITY	66,604.74
302 000 00003656 00000 0000 0000	11277975	NGWATHE LOCAL MUNICIPALITY	8,019.94
202 000 00002264 00000 0000 0000	11230997	NGWATHE MUNICIPALITY	26,064.00
201 000 00001384 00000 0000 0000	11230597	NGWATHE LOCAL MUNICIPALITY	16,272.36
202 000 00001008 00000 0000 0000	11234632	NGWATHE MUNICIPALITY	16,272.36
106 000 00000445 00000 0000 0000	11165532	NGWATHE LOCAL MUNICIPALITY	8,682.34
102 000 00001821 00000 0000 0000	11267861	NGWATHE LOCAL MUNICIPALITY	9,159.86
402 000 00001595 00000 0000 0000	11267522	NGWATHE MUNICIPALITY	9,122.40
406 000 00000079 00000 0000 0000	11154163	NGWATHE LOCAL MUNICIPALITY	5,383.96
102 000 00003960 00000 0000 0000	11269253	NGWATHE LOCAL MUNICIPALITY	5,655.72
106 000 00000220 00000 0000 0000	11163289	NGWATHE LOCAL MUNICIPALITY	5,190.04
506 000 00000552 00000 0000 0000	11187370	NGWATHE LOCAL MUNICIPALITY	4,510.86
402 000 00000924 00000 0000 0000	11267405	NGWATHE MUNICIPALITY	5,994.72
102 000 00004349 00000 0000 0000	11269275	NGWATHE LOCAL MUNICIPALITY	5,493.66
106 000 00000396 00001 0000 0000	11168845	NGWATHE LOCAL MUNICIPALITY	4,025.89
206 000 00001166 00000 0000 0000	11143077	NGWATHE LOCAL MUNICIPALITY	2,397.27
102 000 00003824 00000 0000 0000	11269025	NGWATHE LOCAL MUNICIPALITY	3,461.20
506 000 00000538 00000 0000 0000	11187231	NGWATHE LOCAL MUNICIPALITY	2,910.17
102 000 00010929 00000 0000 0000	11264203	NGWATHE LOCAL MUNICIPALITY	4,025.91
102 000 00011775 00000 0000 0000	11264247	NGWATHE LOCAL MUNICIPALITY	4,026.66
502 000 00001794 00000 0000 0000	11268354	NGWATHE MUNICIPALITY	3,755.16
103 000 00001227 00000 0000 0000	11273868	NGWATHE LOCAL MUNICIPALITY	3,737.56
102 000 00012041 00000 0000 0000	11273268	NGWATHE LOCAL MUNICIPALITY	3,425.60
102 000 00012056 00000 0000 0000	11273430	NGWATHE LOCAL MUNICIPALITY	3,425.60
103 000 00001220 00000 0000 0000	11273713	NGWATHE LOCAL MUNICIPALITY	2,474.36
103 000 00001224 00000 0000 0000	11272747	NGWATHE LOCAL MUNICIPALITY	2,474.36
106 000 00000396 00000 0000 0000	11165043	NGWATHE LOCAL MUNICIPALITY	2,667.75
401 000 00000638 00000 0000 0000	11266023	NGWATHE MUNICIPALITY	3,581.31
506 000 00001994 00000 0000 0000	11201792	NGWATHE LOCAL MUNICIPALITY	2,570.69
106 000 00000220 00004 0000 0000	11167746	NGWATHE LOCAL MUNICIPALITY	2,522.15
302 000 00000060 00000 0000 0000	11274773	NGWATHE LOCAL MUNICIPALITY	3,388.32
502 000 00000578 00000 0000 0000	11277658	NGWATHE MUNICIPALITY	3,059.76
102 000 00004361 00000 0000 0000	11269431	NGWATHE LOCAL MUNICIPALITY	2,712.06
102 000 00004365 00000 0000 0000	11269542	NGWATHE LOCAL MUNICIPALITY	2,712.06

202 000 00003982 00000 0000 0000	11237634	NGWATHE MUNICIPALITY	2,712.06
302 000 00000405 00000 0000 0000	11267299	NGWATHE LOCAL MUNICIPALITY	2,410.92
202 000 00004639 00000 0000 0000	11273652	NGWATHE LOCAL MUNICIPALITY	2,280.60
202 000 00004661 00000 0000 0000	11274478	NGWATHE LOCAL MUNICIPALITY	1,903.72
206 000 00000156 00044 0000 0000	11134890	NGWATHE LOCAL MUNICIPALITY	1,104.94
102 000 00010280 00000 0000 0000	11273074	NGWATHE LOCAL MUNICIPALITY	6,954.21
103 000 00001228 00000 0000 0000	11273896	NGWATHE LOCAL MUNICIPALITY	2,016.66
202 000 00004158 00000 0000 0000	11239604	NGWATHE MUNICIPALITY	2,016.66
302 000 00001666 00000 0000 0000	11269908	NGWATHE LOCAL MUNICIPALITY	2,016.66
102 000 00012052 00000 0000 0000	11273329	NGWATHE LOCAL MUNICIPALITY	1,981.89
402 000 00001369 00000 0000 0000	11267499	NGWATHE MUNICIPALITY	1,954.80
102 000 00004363 00000 0000 0000	11269536	NGWATHE LOCAL MUNICIPALITY	1,738.50
202 000 00003878 00000 0000 0000	11237373	NGWATHE MUNICIPALITY	1,738.50
302 000 00000968 00000 0000 0000	11269392	NGWATHE LOCAL MUNICIPALITY	1,738.50
101 000 00000552 00001 0000 0000	11258701	NGWATHE LOCAL MUNICIPALITY	1,668.96
102 000 00012059 00000 0000 0000	11273496	NGWATHE LOCAL MUNICIPALITY	1,668.96
102 000 00012051 00000 0000 0000	11273307	NGWATHE LOCAL MUNICIPALITY	1,599.42
106 000 00000220 00003 0000 0000	11167730	NGWATHE LOCAL MUNICIPALITY	1,164.12
202 000 00001794 00000 0000 0000	11228479	NGWATHE MUNICIPALITY	1,495.11
302 000 00003822 00000 0000 0000	11258973	NGWATHE LOCAL MUNICIPALITY	1,425.57
202 000 00003250 00000 0000 0000	11233822	NGWATHE MUNICIPALITY	1,390.80
202 000 00004312 00000 0000 0000	11272981	NGWATHE LOCAL MUNICIPALITY	1,390.80
402 000 00001597 00000 0000 0000	11267538	NGWATHE MUNICIPALITY	1,390.80
506 000 00000517 00000 0000 0000	11187025	NGWATHE LOCAL MUNICIPALITY	1,018.55
502 000 00001376 00000 0000 0000	11272808	NGWATHE MUNICIPALITY	1,356.03
102 000 00001050 00000 0000 0000	11264681	NGWATHE LOCAL MUNICIPALITY	1,321.26
202 000 00002928 00000 0000 0000	11230575	NGWATHE MUNICIPALITY	1,286.49
502 000 00001157 00000 0000 0000	11276698	NGWATHE MUNICIPALITY	1,286.49
102 000 00010074 00000 0000 0000	11268504	NGWATHE LOCAL MUNICIPALITY	1,251.72
303 000 00000052 00000 0000 0000	11252313	NGWATHE LOCAL MUNICIPALITY	1,182.18
106 000 00000064 00080 0000 0000	11166025	NGWATHE LOCAL MUNICIPALITY	873.10
106 000 00000140 00001 0000 0000	11166603	NGWATHE LOCAL MUNICIPALITY	873.10
404 000 00000336 00000 0000 0000	11248964	NGWATHE LOCAL MUNICIPALITY	873.10
202 000 00002239 00000 0000 0000	11230503	NGWATHE MUNICIPALITY	1,147.41
202 000 00004546 00000 0000 0000	11273107	NGWATHE LOCAL MUNICIPALITY	1,147.41
102 000 00003822 00000 0000 0000	11269003	NGWATHE LOCAL MUNICIPALITY	811.44

402 000 00000923 00000 0000 0000	11267394	NGWATHE MUNICIPALITY	1,043.10
506 000 00000520 00000 0000 0000	11187053	NGWATHE LOCAL MUNICIPALITY	776.04
405 000 00000456 00000 0000 0000	11237028	NGWATHE MUNICIPALITY	727.51
102 000 00004367 00000 0000 0000	11269558	NGWATHE LOCAL MUNICIPALITY	973.56
201 000 00001357 00000 0000 0000	11228380	NGWATHE LOCAL MUNICIPALITY	973.56
202 000 00004103 00000 0000 0000	11238650	NGWATHE MUNICIPALITY	973.56
302 000 00001843 00000 0000 0000	11269970	NGWATHE LOCAL MUNICIPALITY	973.56
502 000 00001793 00000 0000 0000	11268348	NGWATHE MUNICIPALITY	973.56
202 000 00002496 00000 0000 0000	11228330	NGWATHE LOCAL MUNICIPALITY	938.79
302 000 00000343 00000 0000 0000	11274717	NGWATHE LOCAL MUNICIPALITY	904.02
502 000 00000587 00000 0000 0000	11277608	NGWATHE MUNICIPALITY	904.02
202 000 00005411 00000 0000 0000	11250571	NGWATHE LOCAL MUNICIPALITY	869.25
106 000 00000064 00052 0000 0000	11166019	NGWATHE LOCAL MUNICIPALITY	630.53
406 000 00000079 00004 0000 0000	11158997	NGWATHE LOCAL MUNICIPALITY	630.53
106 000 00000064 00033 0000 0000	11166003	NGWATHE LOCAL MUNICIPALITY	581.98
302 000 00004287 00000 0000 0000	11256836	NGWATHE LOCAL MUNICIPALITY	764.94
102 000 00004359 00000 0000 0000	11269425	NGWATHE LOCAL MUNICIPALITY	730.17
202 000 00004830 00000 0000 0000	11275238	NGWATHE LOCAL MUNICIPALITY	660.63
502 000 00001375 00000 0000 0000	11272814	NGWATHE MUNICIPALITY	660.63
103 000 00000448 00000 0000 0000	11264431	NGWATHE LOCAL MUNICIPALITY	591.09
202 000 00004663 00000 0000 0000	11274545	NGWATHE LOCAL MUNICIPALITY	591.09
106 000 00000064 00092 0000 0000	11166047	NGWATHE LOCAL MUNICIPALITY	436.50
403 000 00000701 00000 0000 0000	11246033	NGWATHE LOCAL MUNICIPALITY	436.50
302 000 00002365 00000 0000 0000	11270638	NGWATHE LOCAL MUNICIPALITY	556.32
202 000 00003082 00000 0000 0000	11232212	NGWATHE MUNICIPALITY	521.55
302 000 00001919 00000 0000 0000	11270111	NGWATHE LOCAL MUNICIPALITY	521.55
202 000 00005253 00000 0000 0000	11246788	NGWATHE LOCAL MUNICIPALITY	521.28
302 000 00000532 00000 0000 0000	11267972	NGWATHE LOCAL MUNICIPALITY	486.78
406 000 00000034 00000 0000 0000	11153719	NGWATHE LOCAL MUNICIPALITY	339.48
403 000 00000731 00000 0000 0000	11246338	NGWATHE LOCAL MUNICIPALITY	339.48
302 000 00004241 00000 0000 0000	11256375	NGWATHE LOCAL MUNICIPALITY	452.01
406 000 00000058 00433 0000 0000	11234515	NGWATHE LOCAL MUNICIPALITY	290.97
202 000 00004500 00000 0000 0000	11273046	NGWATHE LOCAL MUNICIPALITY	382.47
302 000 00001728 00000 0000 0000	11269942	NGWATHE LOCAL MUNICIPALITY	382.47
106 000 00000064 00082 0000 0000	11166031	NGWATHE LOCAL MUNICIPALITY	242.43

406 000 00000458 00000 0000 0000	11157959	NGWATHE MUNICIPALITY	242.43
203 000 00000150 00000 0000 0000	11229706	NGWATHE LOCAL MUNICIPALITY	312.93
102 000 00007164 00000 0000 0000	11268415	NGWATHE LOCAL MUNICIPALITY	278.16
201 000 00001285 00000 0000 0000	11227920	NGWATHE LOCAL MUNICIPALITY	278.16
402 000 00000881 00000 0000 0000	11235286	NGWATHE MUNICIPALITY	260.64
406 000 00000058 00432 0000 0000	11234521	NGWATHE LOCAL MUNICIPALITY	193.96
206 000 00000156 00017 0000 0000	11134878	NGWATHE LOCAL MUNICIPALITY	160.18
206 000 00000156 00050 0000 0000	11134923	NGWATHE LOCAL MUNICIPALITY	160.18
206 000 00000156 00051 0000 0000	11134939	NGWATHE LOCAL MUNICIPALITY	160.18
206 000 00000156 00063 0000 0000	11134945	NGWATHE LOCAL MUNICIPALITY	160.18
206 000 00001392 00001 0000 0000	11152715	NGWATHE LOCAL MUNICIPALITY	160.18
900 000 00000822 00000 0000 0000	10167533	NGWATHE LOCAL MUNICIPALITY	1,128.34
302 000 00000416 00000 0000 0000	11267477	NGWATHE LOCAL MUNICIPALITY	243.39
900 000 00001224 00000 0000 0000	10127131	NGWATHE LOCAL MUNICIPALITY	1,030.70
202 000 00001809 00000 0000 0000	11228518	NGWATHE MUNICIPALITY	208.62
302 000 00001888 00000 0000 0000	11269992	NGWATHE LOCAL MUNICIPALITY	208.62
102 000 00001456 00000 0000 0000	11264031	NGWATHE LOCAL MUNICIPALITY	691.87
106 000 00000064 00026 0000 0000	11165998	NGWATHE LOCAL MUNICIPALITY	145.56
106 000 00000064 00117 0000 0000	11166075	NGWATHE LOCAL MUNICIPALITY	145.56
403 000 00000752 00000 0000 0000	11246499	NGWATHE LOCAL MUNICIPALITY	145.56
403 000 00000756 00000 0000 0000	11246522	NGWATHE LOCAL MUNICIPALITY	145.56
403 000 00000757 00000 0000 0000	11246538	NGWATHE LOCAL MUNICIPALITY	145.56
403 000 00000761 00000 0000 0000	11246611	NGWATHE LOCAL MUNICIPALITY	145.56
302 000 00004320 00000 0000 0000	11257163	NGWATHE LOCAL MUNICIPALITY	139.08
502 000 00000588 00000 0000 0000	11277575	NGWATHE MUNICIPALITY	139.08
403 000 00000695 00001 0000 0000	11246005	NGWATHE LOCAL MUNICIPALITY	97.05
403 000 00000753 00000 0000 0000	11246500	NGWATHE LOCAL MUNICIPALITY	97.05
403 000 00000755 00000 0000 0000	11246516	NGWATHE LOCAL MUNICIPALITY	97.05
302 000 00000661 00000 0000 0000	11253028	NGWATHE LOCAL MUNICIPALITY	69.54
403 000 00000420 00001 0000 0000	11258151	NGWATHE MUNICIPALITY	48.48
403 000 00000421 00001 0000 0000	11258228	NGWATHE LOCAL MUNICIPALITY	48.48
403 000 00000694 00001 0000 0000	11246027	NGWATHE LOCAL MUNICIPALITY	48.48
403 000 00000751 00000 0000 0000	11246483	NGWATHE LOCAL MUNICIPALITY	48.48
403 000 00000762 00000 0000 0000	11246627	NGWATHE LOCAL MUNICIPALITY	48.48
202 000 00002922 00000 0000 0000	11231985	NGWATHE LOCAL	34.77

		MUNICIPALITY	
302 000 00000962 00000 0000 0000	11269370	NGWATHE LOCAL MUNICIPALITY	34.77
302 000 00002794 00000 0000 0000	11251014	NGWATHE LOCAL MUNICIPALITY	123.63
302 000 00001114 00000 0000 0000	11269736	NGWATHE LOCAL MUNICIPALITY	88.02
101 000 00000459 000RE 0000 0010	11110410	NGWATHE MUNICIPALITY	29,018.50
102 000 00003902 00000 0000 0000	11269031	NGWATHE LOCAL MUNICIPALITY	4.70
302 000 00003025 00000 0000 0000	11260346	NGWATHE LOCAL MUNICIPALITY	(5.00)
302 000 00003063 00000 0000 0000	11260841	NGWATHE LOCAL MUNICIPALITY	(5.00)
302 000 00003141 00000 0000 0000	11263065	NGWATHE LOCAL MUNICIPALITY	(5.00)
302 000 00003166 00000 0000 0000	11263198	NGWATHE LOCAL MUNICIPALITY	(10.00)
302 000 00003248 00000 0000 0000	11263615	NGWATHE LOCAL MUNICIPALITY	(10.00)
302 000 00003630 00000 0000 0000	11279745	NGWATHE LOCAL MUNICIPALITY	(15.00)
302 000 00003043 00000 0000 0000	11260724	NGWATHE LOCAL MUNICIPALITY	(20.00)
302 000 00000958 00000 0000 0000	11269320	NGWATHE LOCAL MUNICIPALITY	(29.30)
302 000 00003654 00000 0000 0000	11277814	NGWATHE LOCAL MUNICIPALITY	(30.00)
302 000 00003054 00000 0000 0000	11260780	NGWATHE LOCAL MUNICIPALITY	(35.00)
302 000 00003169 00000 0000 0000	11263215	NGWATHE LOCAL MUNICIPALITY	(55.00)
102 000 00001437 00000 0000 0000	11267855	NGWATHE LOCAL MUNICIPALITY	(85.00)
405 000 00001015 00000 0000 0000	11257824	NGWATHE LOCAL MUNICIPALITY	(501.63)
202 000 00002715 00000 0000 0000	11260441	NGWATHE MUNICIPALITY	(825.46)
202 000 00004911 00000 0000 0000	11275311	NGWATHE LOCAL MUNICIPALITY	(2,711.30)
302 000 00002782 00000 0000 0000	11250971	NGWATHE LOCAL MUNICIPALITY	(3,490.00)
203 000 00000200 00000 0000 0000	11230886	NGWATHE LOCAL MUNICIPALITY	(7,053.08)

429,907.50

The debtors in the name of the municipality at the end of the 2011/12 financial year R431,133,72.

This matter may have resulted due to the previous accounting framework (IMFO) applied by the municipality, whereby these debtors accounts were raised for the different departments within the municipality.

The risk of the above is that consumer receivables per note 7 and 8 to the financial statements is overstated by R429 907,50.

Internal control deficiency

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

Recommendation

Management should ensure they comply with the requirements of GRAP 1 and not recognise debtors in the name of the municipality. The necessary adjustments should be made to correct this matter.

Management response

Management Agrees with the Finding

The debtors were raised for different departments within the municipality. The municipality will correct the error by correctly implementing and complying with the requirements of GRAP 1.

Kindly take note that the municipality should take this vacant land as asset because they have the market value and if the municipality decided to sell these stands they can generate a lot of money hence we regard them as valuable assets for the municipality.

Auditor's conclusion

Management agrees with the finding, however the misstatements remains unresolved for the year under review.

214. Receivables - Shortcomings regarding indigent debtors (CoA 12)

Audit finding

Section 62 of the 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*"

The following shortcomings were identified when the application forms for indigent debtors were tested:

a) The following application forms for indigent debtors were not provided:

Account nr	Debtor name
10452639	S PHAHLA
10200246	MM KHUMALO
10477168	K J RANTIDI
10415956	M J MADUNA *****
10228638	J MACHALABA

b) Per inspection of the supporting documentation we noted that the name of the supporting documentation does not agree with the name of the debtor according to the list:

Account number	10244000
Name according application form	Lerato Violet Majola
Name according to debtor list and e-Venus	SD Tladi

Account number	11111319
Name according application form	Mpharoane Paul Porogo
Name according to debtor list and e-Venus	B Moola

c) Management indicated that the following debtors are not indigent, even though they were indicated as indigent on the debtor's age analysis:

Account nr	Debtor name
11092331	C HENNECKER
10629006	B MORAKE
10364543	S S MBELE

In addition to the above, it was noted that one of the selected applicants (account number 10396645) earns a net salary of R1 837.35. The requirements for indigence are a gross income less than R1 800. We inspected the system and the account holder was correctly not classified as indigent on the system, however the account holder was indicated as indigent on the debtor list (which may result in inaccurate information being submitted for management purposes).

d) The following debtors are indicated as indigent on the debtors list and met the requirements for indigence but were not captured as indigent debtors on e-Venus:

Account nr	Debtor name
10660824	N M MTHEMBU
10427896	S A & NKITSENG
10209575	RS MM MALATSE X
10471231	N D MQIRA
11095822	B S NHLAPO
10472291	M S MOKOATALA

e) The following applications were not signed by a councillor as proof of authorisation:

Account nr	Debtor name
10187173	GV GOTSO X ER
11112674	VA LETSOSO
10427896	S A & NKITSENG
10209575	RS MM MALATSE X
11095822	B S NHLAPO
10396645	W & B VAN DER MERWE BARRED
10168226	M M MOSIBI
10189365	WE NDWENDWA
10617388	A BAVUMA
10427880	T S SEKESE
10184987	MP MF MALEFANE X

The above is mainly due to inadequate controls implemented over the application and capturing of indigent debtors.

The risk of the above is that there is poor control over indigent debtors which could have an effect on the valuation of receivables of exchange transactions as set out in note 8 of the financial statements.

Internal control deficiency

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

Recommendation

Management should develop internal controls to ensure that all documents and information is filed in a manner that allows easy access thereto and is readily available for audit purposes.

Management should ensure that the application forms for indigent debtors are authorised by an authorised official. Management should review the list of indigent debtors to ensure that the consumers indicated on the list meet the requirements for indigence and that these debtors are correctly captured on the system as indigent. Explanations for the above-mentioned should be submitted for audit purposes.

Management response

- a. The applications forms for indigent were not provided because the owner did not apply for indigence status and they are also not indigent on the system.
- b. The reason for the information not being the same on the system and the application is that in some instances the councillor for that particular ward will write a motivation for the applicant to be indigent where find that the parents were married and the children are using different surname and the parents have passed on, resulting in a situation where the account is in the parents name but the indigent application is on behalf of the children.
- c. Debtors listed under bullet C are not indigent and are shown as non-indigents on the system. Management will investigate further.
- d. Management agrees with the findings, councilors did not sign some applications but in future we will explain to them the importance of their signature. Management is in the process of registering and verifying the current received applications for indigents and we will correct some of the noted findings in the current year (2013-14).

Auditor's conclusion

Management agrees that controls should be implemented over the authorisation of indigent debtors.

Management will investigate the debtor type listing on the age analysis.
The exception remains.

215. Receivables - No controls regarding consumption of indigent debtors (CoA 21)

Audit finding

MFMA section 62 paragraph (c)(i) states: *"The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control"*

During our testing we identified that the total amount outstanding on 30 June 2013 from the indigent debtors is R19 533 424.33.

Based on this, it seems that there are no controls implemented to monitor and limit the usage of water by indigent debtors to the quota of water allocated to them to ensure consumption is not higher than subsidies granted.

The above is due to no controls implemented to monitor water usage by indigents.

The lack of control over the usage may result in an increase in the irrecoverable debt at the municipality.

Internal control deficiency

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

Recommendation

Management should monitor the water usage of indigent debtors on a regular basis. Action plans should be implemented where the consumption is more than the prescribed subsidy.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

216. Receivables - Difference between the debtors age analysis and the AFS (CoA 21)

Audit finding

Section 62(1)(c)(i) of the 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 that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control."*

When comparing the debtors age analysis with the financial statements, the following difference was identified:

	Age analysis	Financial statements	Difference
Gross Amount 2012/2013	413 801 808,14	417 177 199,30	3 375 391,16

The age analysis of 2011/2012 did not agree:

Trade debtors as per age analysis at 30 June 2012	124,492,389.84
Trade debtors as per AFS at 30 June 2012	124,753,936.00
Difference	261,546.16

The above is mainly due to reconciliations are not performed between the debtors sub ledger and general ledger in order to identify and resolve any differences.

The risk of the above is that there is a limitation of scope on the existence, accuracy, completeness, cut-off and presentation and disclosure of trade receivables as set out in notes 7 and 8 of the financial statements.

Internal control deficiency

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

Recommendation

Management should perform the following :

- A reconciliation should be performed between the debtors age analysis and the trial balance on a monthly basis. All differences should be identified, investigated and resolved timeously.
- The reconciliation should be reviewed by an independent senior official and should be signed as evidence of the review.
- The financial statements should be reviewed for accuracy prior to submission for review.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

217. Receivables - Existence of sundry debtor (CoA 21)

Audit finding

GRAP framework paragraph 70 states: *"The future economic benefit or service potential embodied in an asset is the potential to contribute directly or indirectly, to the flow of cash and cash equivalents to the entity or to the rendering of services by the entity."*

The following account was included as part of sundry debtors:

Account no	Account description	Amount (R)
9100088010150	OPERATION HLASELA PROJECT	493,291.79

Per inspection of the working papers, we identified that is balance relates to amounts paid on behalf of the Premier of the Free State during prior years. We could however not obtain evidence regarding the existence of this debtor at year-end.

The above is mainly due to a lack of control over collection of debts.

The risk of the above is that sundry debtors per note 6 to the financial statements is overstated by R493,292 and impairment loss is understated by the same amount.

Internal control deficiency

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

Recommendation

Management should assess the recoverability of the above-mentioned amount. Any documentation to support the existence of this debtor should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

218. Receivables - Recovery of government accounts (CoA 69)

Audit finding

MFMA paragraph 62(f)(iii) states: *"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a credit control and debt collection policy referred to in section 96 (b) of the Municipal Systems Act"*

MFMA paragraph 64 (3) states:

"The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days."

We have identified the following two payments which were made to Dinatla:

Cheque nr	Date	Amount
1012565	20130111	429 063,90
1012617	20130118	1 613 644,51

Through inspection of the contract entered into between this service provided and the municipality it was noted that the service provided appointed "assist with data purification of their debtors account, particularly with specific focus on Government Accounts". It was noted that clause 3.9 of the contracted entered into between the municipality and this service provided states that "Parties agree that the service provider shall be entitled to 25% of every rand paid by government (i.e. Provincial and National) to the municipality. Such cost will include disbursements but excludes vat." It was furthermore stated that the agreement is in effect from 14 August 2012, for a minimum period of 6 months. It is also stated in clause 3.8 of the agreement that the time of completion of the work is 30 September 2012.

The following concerns were noted when the documentation attached to payment nr. 1012565 (R429 063,90) was inspected:

- The amount of fee (25%) which was paid over the the consultants, was based on an amount of R1 716 255,62 (which was included in a total amount of R3 136 008,30 which was deposited by the department into the municipality's bank account on 30/08/2012). The invoice from the consultants however indicates that the reconciliations performed which relates to the R1 716 255,62 was only submitted on 27/09/2012. It is therefore not clear how the consultants could have claimed that the deposit made on 30/08/2012 was as a result of work performed, if they only submitted the reconciliations almost one month later (27/09/2012).
- There is no evidence attached to the payment voucher to indicate that the amount that was paid over by provincial government (of R3 136 008,30) was as a result of the reconciliations performed by the consultants and interaction with the consultants (the only evidence attached is minutes of a meeting between the consultants and the national department)

Other concerns noted:

- It is indicated in the agreement that the consultants should provide the following brief services:
 - a) Implementation of data reconciliation and purification of government accounts (scope limited to government accounts only)
 - b) Debt management and collection
 - c) Advice on effective billing management on municipal accounts.

It was not clear from the one payment voucher inspected (payment nr. 1012565) if these services were all delivered seeing that there were no such proof attached to the payment voucher.

- It is also not clear why the municipality has not taken up these matters directly with the relevant departments themselves, instead of appointing consultants and incurring costs to recover the

outstanding amounts. Based on our knowledge, there is a person at the provincial department specifically designated to deal with these outstanding accounts and the payment thereof.

- The fee charged of 25% also seems to be high. It was not evident if the municipality determined if this is a market related fee for these types of services.

- It should also be noted that payment nr. 1012617 (R1 613 644,51) was not submitted for audit purposes.

This matter may have resulted due to the fact that management has not considered all the options available to them before entering into this agreement as well as the cost implications thereof.

This matter may result in the municipality paying over income which could have been recovered by themselves.

Internal control deficiency

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

Recommendation

Management should re-assess this appointment and consider if the work performed by the consultants cannot be performed in-house by the municipality. We would also request management to respond to the concerns we have highlighted above.

Management response

Management agrees with the finding. The contract of Dinatla has expired. We have established a Municipal Revenue Committee (MRC) and together with the Provincial Government we established an Intergovernmental Debt Steering Committee. The terms of reference of the two committees is to handle all municipal debt including government accounts, thus replacing the functions of Dinatla.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Related parties

219. Related parties - Declarations not obtained (CoA 56)

Audit finding

Section 7 of schedule 1 of the Systems act states that when elected or appointed, a councillor must within 60 days declare in writing to the municipal manager financial interests held by the councillor.

Section 5A of schedule 2 of the Systems act states that a person appointed in terms of section 56 or a municipal manager must within 60 days after his or her appointment declare in writing to the chairperson of the municipal council interest held by that person or municipal manager.

For the following interests identified and disclosed in the financial statements, the nature of the relationship could not be determined for audit purposes:

Councillor's interest:

Councillor Sothoane EC - Sothoane Funeral Services

Key Management:

Kamolane LD - Thabonkululeko (Pty) Ltd

Magashule ME - ME Construction

This matter may have resulted due to inadequate systems in place to ensure that all declarations are obtained and possible related party transactions are identified.

This may have an impact on the completeness of related party disclosure in the financial statements.

Internal control deficiency

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

Recommendation

Management should implement internal controls as to ensure that all declarations are obtained and that all possible related party transactions are identified and properly disclosed.

Management response

Management agree with the finding. The office of the Speaker and the office of the Municipal Manager through the HR office has been tasked with the responsibility to ensure that all the declarations are received.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will only be resolved once all declarations are received, otherwise matter will remain unresolved for the year under review

Reserves

220. Prior period errors - Errors in disclosure (CoA 30)

Audit finding

GRAP 3 paragraph 51 states:

"In applying paragraph .44, an entity shall disclose the following:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected."

We identified the following errors in note 37, Prior period errors:

5. Correction of insurance expenses

Adjustments affecting the statement of financial performance

Decrease in government grants and subsidies	R 3,217,644
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This adjustment was processed to insurance (general expenses), and not government grants and subsidies.

Expenditure

Finance cost	R 10,388,608	R 0	-R 2,027,431	R 8,361,177
General expenses	R 92,603,110	R 0	R 2,027,431	R 94,630,541
Total expenditure	R 102,991,718	R 0	R 0	R 102,991,718

There was no explanation regarding the nature of this error.

The above is mainly due to management not reviewing the financial statements.

The risk of the above the prior period errors are not disclosed in accordance with GRAP 3.

Internal control deficiency

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

Recommendation

Management should disclose all prior period adjustment as part of note 39, Prior period errors.
Management should provide supporting documents for all prior period adjustments

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Revenue

221. Property rates - Monthly reconciliation not performed (CoA 5)

Audit finding

Section 64 of the MFMA, No. 56 of 2003 (MFMA) states:

"Revenue management.—

(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which:

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue

Contrary to the requirement there was no monthly reconciliation performed for property rates between the valuation roll and the rate charges levied.

This matter may have resulted due to the fact that the proper internal controls were not implemented to ensure that such a reconciliation is performed on a monthly basis, reviewed and follow-up work done on variances noted.

This matter constitutes a control deficiency at the municipality. In the absence of such a reconciliation, the municipality may not be able to identify property rates which are not billed, resulting in a loss of income for the municipality.

Internal control deficiency

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

Recommendation

Management must ensure that the reconciliation is performed on a monthly basis, reviewed and follow-up work are done on variances noted.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

222. Service charges - Completeness (CoA 9)

Audit finding

Section 64 of the MFMA states:

"(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

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

- (a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
- (b) that revenue due to the municipality is calculated on a monthly basis;
- (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
- (d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;
- (e) that the municipality has and maintains a management, accounting and information system which—
- (i) recognises revenue when it is earned;
- (ii) accounts for debtors; and
- (iii) accounts for receipts of revenue;
- (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
- (g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and
- (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis."

a) The following account was not levied for water and basic electricity charges for December 2012:

#	Account	Month	Type
1	11040150	Dec-12	Business

Per inspection of the system, it was noted that the account holder is AVBOB. It was however noted that this consumer was indicated as a "business" but residential tariffs were charged. It was noted that this account did not have water and electricity charges for several months for the year under review. As this is a business the basic electricity and water charges should have been levied.

b) The following meter readings were selected from the meter reading book but the meters could not be found on the system:

#	Meter number	Reading on meter book	Findings
1	364455 ME	22836	Could not find the meter on the system
2	829231 MW	1606	No water estimated charge was levied to the account
3	11203 ME	80558	Could not find the meter on the system
4	60211 MW	464	Could not find the meter on the system
5	7072805 ME	78587	Could not find the meter on the system
6	50381 ME	62776	Could not find the meter on the system
7	52011 MW	2116	Last reading recorded 19 Jan 2009. No estimated charge was levied to the account.

c) During the month to month comparison between services charges we noted that refuse charges for March and April are lower in comparison with the other months of the year.

	July	Aug	Sept	Oct	Nov	Des	Jan	Feb	March	April	May	June
Total per month	2,213,791.34	2,190,850.43	2,210,894.72	2,202,919.92	2,213,184.38	2,218,286.02	2,213,535.60	2,205,454.80	1,889,720.73	1,869,034.07	2,208,134.48	2,055,785.40

As March and April are lower than the other months, we calculated an average on the remaining ten months of the year.

Average for remaining ten months: R2 193 283.71

Our expectation is that refuse charges remain fairly consistent during the year.

March and April's consumption is lower than the average usage.

Therefore, there could be a possible understatement of service charges during March and April 2013.

The above is mainly due to management not ensuring that all valid meters are recorded on the meter reading books as well as the system. There seems to be inadequate management review of account to ensure the completeness of services levied.

The above-mentioned can result in not all revenue of the municipality being levied and accounted for.

Internal control deficiency

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

Recommendation

Management should ensure all meters are captured on the meter reading books as well as the system. Management should perform a monthly reconciliation of services billed to identify decreases in revenue. Decreases should be investigated to ensure the completeness of revenue. Management should also provide explanations/supporting evidence for the matters raised above.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

223. Property rates - Differences identified with regard to the amount billed (CoA 68)

Audit finding

The MFMA, Section 97: Revenue management, states the following:

“The accounting officer of a municipal entity must take all reasonable steps to ensure—
(a) that the entity has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the entity is collected;

(h) that the municipal entity has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed”

Contrary to the requirement discrepancies between the amount as per billing integration(GL) and the recalculated property rates:

Account-Number	Date	Market value	Reductions	Tariffs	E Tariff	Amount billed	Recalculated amount	Difference
11163784	20120824	250000	62500	0.0094	VAP006	195,83	146,87	48,96
11168128	20120824	280000	70000	0.0094	VAP006	219,33	164,5	54,83
11164172	20120824	2210000	552500	0.0094	VAP006	1 731,17	1 298,37	432,80
11286863	20120824	2020000	505000	0.0094	VAP006	1 582,33	1 186,75	395,58
11165148	20120824	7600000	1900000	0.0094	VAP006	595,33	4 465,00	⁽³⁾ 869,67)
11219264	20121021	280000	42000	0.0094	VAP001	219,33	186,43	32,90
11223174	20121021	405000	42000	0.0094	VAP001	3 172,5	284,35	2 888,15
10163454	20121021	2090000	42000	0.0094	VAP001	1 637,17	1 604,26	32,90
11159907	20121214	780000	195000	0.0094	VAK006	611,00	458,25	152,75
11159913	20121214	290000	72500	0.0094	VAK006	227,17	170,37	56,80
11155545	20121214	4950000	1237500	0.0094	VAK006	3 877,5	2 908,12	969,38
11168790	20121213	170000	42500	0.0094	VAP006	133,17	99,87	33,30
11164833	20121213	970000	242500	0.0094	VAP006	759,83	569,87	189,96
11168790	20121213	170000	42500	0.0094	VAP006	133,17	99,87	33,30
11164833	20121213	970000	242500	0.0094	VAP006	759,83	569,87	189,96
11215191	20130122	550000	137500	0.0094	VAE006	430,83	323,12	107,71
11215202	20130122	440000	110000	0.0094	VAE006	344,67	258,5	86,17
11268348	20130122	70000	42000	0.0094	VAE001	54,83	263,2	(208,37)
11268354	20130122	150000	42000	0.0094	VAE001	117,5	84,6	32,90
11310955	20130217	520000	42000	0.0094	VAP001	407,33	374,43	32,90
10654477	20130217	290000	42000	0.0094	VAP001	227,17	194,26	32,90
11295006	20130322	580000	42000	0.0094	VAP001	454,33	421,43	32,90
10014572	20130322	440000	42000	0.0094	VAP001	344,67	311,76	32,90
11136298	20130627	1650000	412500	0.0094	VAH006	1 292,5	969,37	323,13
11136309	20130627	1100000	275000	0.0094	VAH006	861,63	646,25	215,38
11131682	20130627	3290000	822500	0.0094	VAH006	2 577,13	1 932,87	644,26

This matter may have resulted due to inadequate controls being implemented to ensure the correct billing of assessment rates.

This matter may result in the misstatement of assessment rates in the financial statements.

Internal control deficiency

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

Recommendation

Management must ensure that the property rates is correctly billed using the approved tariffs for 2012/13. Explanations for the above-mentioned should be submitted for audit purposes and the required adjustments should be made.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

224. Property rates - Discrepancies identified for completeness (CoA 26)

Audit finding

The MFMA, Section 97: Revenue management, states the following:

"The accounting officer of a municipal entity must take all reasonable steps to ensure—

(a) that the entity has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the entity is collected;

(h) that the municipal entity has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed"

a) Contrary to the requirement the category on the valuation roll does not agree with the category in the accounting system of the municipality:

Erf number	Portion	Registered suburb	Registered owner 1	Registered owner 2	Property category as Valuation roll	Property category as per the municipal accounting system	Market value as per accounting system
00000282	00038	PARYS RD	WELBEDACHT 282	AREFF MOHAMED FARHAD	Residential	Farm	1 250 000,00

b) Contrary to the requirement the market value on the valuation roll differs from the market value on the on the municipal system:

Erf number	Portion	Registered suburb	Registered owner 1	Registered owner 2	Market value as per valuation roll	Market value as per accounting system
00000156	00000	KOPJES SETTLEMENT	ELS MATEFINA JOHANNA	ELS JOSIAS RENIER	150 000,00	84 000,00

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c) The following discrepancies were identified between the amount recalculated as per valuation roll and the amount on the accounting system of the municipality:

Erf number	Portion	Registered suburb	Registered owner 1	Registered owner 2	Physical street address	Market value	Reductions for property rate	Approved tariff	Recalculated amount	Amount billed	Difference
00000001	00000	HEILBRON RD	ROOI-POORT 1	SCHEEPERS JOHANNES JACOBUS	AGRICULTURE	690 000.00	172 500	0.0094	405,38	214,50	190,88
00000001	00001	HEILBRON RD	ROOI-POORT 1	SCHEEPERS JACOBUS FREDERIK	AGRICULTURE	200 000.00	50 000	0.0094	117,50	61,87	55,63
00000282	00038	PARYS RD	WELBEDACHT 282	AREFF MOHAMED FARHAD	RESIDENTIAL	1 250 000.00	42 000	0.0094	946,27	193,36	752,91
Total											999,42

This matter may have resulted due to inadequate controls being implemented to ensure that property rates are correctly billed.

This may result in a misstatement of property rates income.

Internal control deficiency

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

Recommendation

Management must ensure that the information on the valuation roll agrees with the information of the accounting system of the municipality. Management must ensure that the property rates is correctly billed using the approved tariffs for 2012/13. The above-mentioned differences should be explained for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

225. Property rates - Improvements not updated on the supplementary valuation roll (CoA 26)

Audit finding

Section 78(3) of Supplementary valuation in the Municipal Property rates Act states that supplementary valuations must reflect the market value of properties determined in accordance with the market conditions that applied as at the date of valuation determined for the purpose of the municipality last general valuation.

Section 79 of Amendments of the valuation roll states that the municipality must regularly cause its valuation roll to be amended to reflect any changes to the particulars on the roll except that changes to the roll in circumstances where sec78 applies may only be effected through a supplementary roll in accordance with that section.

Contrary to these requirements, we have identified the following improvements which were not updated in the supplementary valuation roll:

Owner	Address/ Stan no
L Viljoen	251 Parys
Bosman	1018 Orange Str/1018
EC Voster	43A Shilibach Str Parys/1-599
D Makhene	1160 Tumhele/1160
H Steenkamp	8 Le Roux Street /PRTN 3 Stand 941
BP Pretorius	PO Box 1243/53A Parys
Top Wave Projects	16 Union Street;Parys
ME Hlahane	1 Renoster Revior Vredefort
BJ Harmse	15 Heap Str. Parys/489
TB Robert	10B Derde Lavan/2125

Further more in addition to the above the following improvements were also noted and not updated in the supplementary valuation roll:

Owner	Address/ Stan no
Mr \$ Me E Bortas	31 erste laan. 9585
Mr Daniel Makhene	1160 Tumahole
D Borman	Stand 1079.9585
M Karim	95 Vredefort.9595

This matter may have resulted due to inadequate controls in place to ensure that the supplementary valuation roll is updated.

This matter may result in the correct property rates not being levied (loss of income)

Internal control deficiency

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

Recommendation

Management must ensure that the supplementary valuation roll is updated with the improvement made on the property.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

226. Service charges - Understatement due to incorrect estimations (CoA 15)

Audit finding

Section 64 of the MFMA:

- (1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.
- (2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—
 - (a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
 - (b) that revenue due to the municipality is calculated on a monthly basis;
 - (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
 - (d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;
 - (e) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognise revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
 - (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
 - (g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and
 - (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

During the audit it was noted that the estimates made for water and electricity consumption (where meters could not be read) was not accurate. Based on our calculations, service income on accounts estimated at year end may be overstated by the following amounts:

Service	Total estimation at year end	Possible Rate of error	Possible misstatement
Electricity	238311.15	-25.34%	(60 387,70)
Water	529799.26	-197.20%	(1 044 777,20)
Total			<u>(1 105 164,90)</u>

Error rate was determined by using prior estimates made on accounts and comparing it to actual units for reasonability.

Electricity

#	Account number	Meter number	Estimation reversed on system	Date previous reading	Previous reading	Date current reading	Current reading	Actual Usage	Difference between estimated and actual consumption
1	10003925	E342581	1,188.00	8-May-12	86298	12-Nov-12	88505	2,207.00	(1,019.00)
2	10003925	332998	2,319.00	8-May-12	50962	12-Nov-12	53127	2,165.00	154.00
3	10003925	E73703	10,180.00	8-May-12	94426	12-Nov-12	813	6,387.00	3,793.00
4	11310400	10481	2,786.00	12-Jun-12	44994	24-May-13	48829	3,835.00	(1,049.00)
5	10630425	401221	691.00	13-Apr-12	12097	16-Jul-13	12905	808.00	(117.00)
6	10535855	106282	265.00	21-May-12	45024	9-Jul-12	45253	229.00	36.00
7	10535855	106281	476.00	21-May-12	19169	9-Jul-12	19742	573.00	(97.00)
8	10657807	53124516	2,486.00	5-Apr-12	87699	21-Aug-12	88099	400.00	2,086.00
9	10643458	9658759	7,000.00	1-May-12	53947	13-Nov-12	58652	4,705.00	2,295.00
10	11047964	9105651	700.00	10-Jul-12	94328	12-Sep-12	94984	656.00	44.00
11	11292309	64435847	8,196.00	1-May-11	59108	24-Jan-13	72684	13,576.00	(5,380.00)
12	11321996	66945742	444.00	10-Oct-12	70472	31-Dec-12	70924	452.00	(8.00)
13	11291294	468	17,587.00	5-Nov-10	207443	4-Sep-12	246440	38,997.00	(21,410.00)
14	10659211	24955	5,702.00	20-Apr-12	93373	28-Nov-12	93790	417.00	5,285.00
15	11308354	493541	9,716.00	2-Jun-09	48333	15-Feb-12	60333	12,000.00	(2,284.00)
			69,736.00					87,407.00	(17,671.00)
							Rate of error	-25%	

Rate of error

Difference between the actual usage en estimated usage consumed (A)	(17,671)
Estimated usage reversed on the system (B)	69,736
Possible rate of error (A/B)	-25.34%

Water

#	Account number	Meter number	Estimation reversed on the system	Date previous reading	Previous reading	Date current reading	Current reading	Actual Usage	Difference between estimated and actual consumption
1	10459421	619	45.00	1-Feb-12	6204	2-Aug-12	6743	539.00	(494.00)
2	10657718	828	2.00	13-Aug-12	818	5-Nov-12	1006	188.00	(186.00)
3	10139443	WLD993	182.00	9-Sep-11	3906	10-Oct-12	5102	1,196.00	(1,014.00)
4	10657807	81828	138.00	1-Dec-11	4386	6-Jun-13	6412	2,026.00	(1,888.00)
5	10407545	793	457.00	1-Feb-11	5870	20-Jul-12	6145	275.00	182.00
6	10557243	1030800	88.00	7-Jun-12	8254	23-Jan-13	8468	214.00	(126.00)
7	10643458	20122	2,700.00	2-Jul-10	1100	15-Nov-12	3083	1,983.00	717.00
8	11063653	8018082	2,142.00	22-Nov-10	2097	8-Oct-12	13411	11,314.00	(9,172.00)
9	11320736	480	216.00	13-Sep-12	5914	3-Oct-12	5979	65.00	151.00
10	10645434	102	100.00	3-May-12	1288	6-Sep-12	1375	87.00	13.00
11	10657041	CRAD6766	40.00	3-Oct-12	2189	18-Jan-13	2236	47.00	(7.00)
12	10675227	CRAH8731	8.00	17-Oct-12	1668	18-Jan-13	1682	14.00	(6.00)
13	10410728	300461	56.00	11-Jun-12	2486	10-Sep-12	2561	75.00	(19.00)



14	10652057	826949	37.00	30-Sep-12	18104	30-Nov-12	18140	36.00	1.00
15	10653623	415378	116.00	25-Nov-11	3395	31-Aug-12	4140	745.00	(629.00)
			6,327.00					18,804.00	(12,477.00)
								Rate of error	-197.20%

Rate of error

Difference between the actual usage en estimated usage consumed (A)	(12,477)
Estimated usage reversed on the system (B)	6,327
Possible rate of error (A/B)	-197.20%

The above is mainly due to management not ensuring that accurate estimates are used for consumer accounts when meters are not read.

The risk of the above is that service charges as set out in note 22 in the financial statements could be understated by R1 105 164.90 and receivables from exchange transactions as set out in note 8 of the financial statements understated with the same amount.

Internal control deficiency

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

Recommendation

Management should ensure that estimates are revised from from time to time during the year compared to the increase/decrease in actual consumption to ensure more reasonable estimates

Error reports should be generated to identify accounts with no consumption during the year for follow-up of possible broken or unused meters. This may result in financial losses for the municipality, due to debtors accounts going into credit when estimates are reversed and debtors being never billed for the consumption used

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

227. Service charges - Estimate for unmetered consumption not made (CoA 15)

Audit finding

GRAP 9.20 states: *"When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date"*

Contrary to the requirements of GRAP 9.20 *Revenue from exchange transactions*, the municipality did not account for service income (water and electricity) between the last meter reading date and financial year-end. We based our calculations on an average of 11 days between the meter

readings and the year and date and calculated the possible understatement of service income and receivables of R2 920 815,37

As seen below July 2012 will be overstated by the estimated portion of revenue relating to June 2012 that should have been included in the 2011/2012 financial year and the 2012/2013 financial year will be understated with the estimated portion of revenue relating to June 2013 that will be included in the 2013/2014 financial year.

Electricity

July 2012 billing	Amount of days	Average
4 993 956,46	30.00	166 465,22
June 2013 billing	Amount of days	Average
(8 573 419,82)	30.00	(285 780,66)

	11 days average
July 2012 (overstatement)	1 831 117,37
June 2013 (understatement)	(3 143 587,27)
Understatement:	<u>(1 312 469,90)</u>

Water

July 2012 billing	Amount of days	Average
2 371 002,41	30.00	79 033,41
June 2013 billing	Amount of days	Average
(6 757 399,16)	30.00	(225 246,64)

	11 days average
July 2012 (overstatement)	869 367,55
June 2013 (understatement)	(2 477 713,03)
Understatement:	<u>(1 608 345,48)</u>

Total possible understatement (2 920 815,37)

During the audit of the 2011/2012 financial year there is a possible understatement identified of :

Water R1 025 459.33
Electricity R1 239 398.08
Total **R2 264 857.41**

The above is mainly due to management not accruing for the unmetered consumption at year-end.

The risk of the above is that service charges as set out in note 22 of the financial statements is understated by R2 920 815,37 and receivables as set out in note 8 of the financial statements is understated by the same amount.

Internal control deficiency

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

Recommendation

Management should estimate the unmetered consumption at year end and accrue for the consumption at year end.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

228. Interest received - Interest rate not adjusted timeously (CoA 37)

Audit finding

Ngwatho's Credit control policy paragraph 16 states: "All arrears in respect of accounts for rates and municipal services bear interest of bank prime rate plus 2 (two) percentage be levied on all arrears more than 60 days."

We noted the following differences when recalculating the interest on outstanding debtors:

Account number	Date	Amount	Outstanding balance	Interest recalculated (After 60 days)	Difference between interest charged and recalculated	Interest rate used in calculation
11314690	20120719	(18,581.63)	(2,027,087.21)	(17,737.01)	(844.62)	10.50%
10474366	20120719	(123.99)	(13,525.72)	(118.35)	(5.64)	10.50%
10463486	20120719	(47.38)	(5,169.25)	(45.23)	(2.15)	10.50%
10452390	20120719	(17.19)	(1,875.57)	(16.41)	(0.78)	10.50%
10439164	20120719	(12.55)	(1,368.55)	(11.97)	(0.58)	10.50%
11296088	20120719	(10.74)	(1,171.14)	(10.25)	(0.49)	10.50%
10383367	20120918	(461.36)	(50,330.06)	(440.39)	(20.97)	10.50%
10551249	20120918	(461.09)	(50,300.70)	(440.13)	(20.96)	10.50%
10574603	20120918	(402.76)	(43,937.49)	(384.45)	(18.31)	10.50%
10243317	20120918	(226.28)	(24,684.66)	(215.99)	(10.29)	10.50%
10609705	20120918	(108.94)	(11,884.62)	(103.99)	(4.95)	10.50%
11314690	20121021	(16,132.18)	(1,759,873.00)	(15,398.89)	(733.29)	10.50%
10180420	20121021	(402.91)	(43,953.37)	(384.59)	(18.32)	10.50%
10108923	20121021	(226.26)	(24,682.98)	(215.98)	(10.28)	10.50%
11105823	20121021	(108.94)	(11,885.50)	(104.00)	(4.94)	10.50%
10659716	20130322	(10.07)	(1,150.42)	(10.07)	(0.00)	10.50%
10670316	20130422	(461.23)	(52,711.48)	(461.23)	(0.00)	10.50%
10669969	20130422	(268.17)	(30,648.11)	(268.17)	0.00	10.50%
10243767	20130422	(118.34)	(13,524.01)	(118.34)	(0.00)	10.50%
10165480	20130422	(111.19)	(12,707.68)	(111.19)	0.00	10.50%
10638455	20130626	(61,732.82)	(7,055,179.44)	(61,732.82)	0.00	10.50%
10573893	20130626	(19,044.22)	(2,176,482.49)	(19,044.22)	0.00	10.50%
10583763	20130626	(268.18)	(30,649.59)	(268.18)	0.00	10.50%
10441854	20130626	(226.25)	(25,857.67)	(226.25)	0.00	10.50%
10409915	20130626	(158.31)	(18,092.24)	(158.31)	(0.00)	10.50%

10420810	20130626	(141.80)	(16,206.27)	(141.80)	0.00	10.50%
10473590	20130626	(122.35)	(13,983.16)	(122.35)	0.00	10.50%
10439481	20130626	(116.05)	(13,262.98)	(116.05)	0.00	10.50%
10420826	20130626	(111.21)	(12,709.25)	(111.21)	(0.00)	10.50%
10417071	20130626	(100.81)	(11,521.41)	(100.81)	0.00	10.50%
		(120,315.20)			(1,696.56)	

Per further inspection we noted the correct interest rate was implemented In February 2013. Therefore all interest levied since July 2012 to January 2013 was incorrectly levied at 11%

This matter may have resulted due to proper controls not being implemented to ensure that the interest rate charged on the system is timeously updated when the prime interest rate changes.

The risk of the above is that there is non-compliance with the credit control policy which could cause interest received as set out in note 24 of the financial statement is overstated with R549 292.01 and receivables from exchange transactions as set out in note 8 in the financial statements is overstated with the same amount.

Internal control deficiency

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

Recommendation

Management should review the interest rate used to calculate interest on outstanding debtors and ensure it is in accordance with the credit control policy.

Management response

Management agrees with the finding. Incorrect interest rates were used for period, July 2012 till January 2013. The interest rate was corrected as noted in the finding. The interest levied will be corrected.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

229. Interest received - Interest not charged on outstanding debt (CoA 23)

Audit finding

MFMA paragraph 64 2(g) states: *"The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework."*

We have identified the following debtors with long outstanding balances for which interest were not levied after 60 days:

Account number	Debtor name	Month	Outstanding balance in month indicated
11136826	F F E LEEB	Sept	4 353,86
10644907	GERHARD VAN STADEN	Dec	117 133,00
10267331	ML MASILO ER	March	574,08
11144110	L LEO GROMER FAMILIE TRUST	April	522,79
11116820	LJ XABA	June	6 161,90
11116975	NA MOTLOUNG	June	6 141,90

The above is mainly due to management not ensuring that all outstanding balances are charged with interest.

This matter constitutes non-compliance with the municipality's own internal policy regarding interest as well as will result in a loss of income for the municipality.

Internal control deficiency

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

Recommendation

Management should review the debtor accounts on a monthly basis and ensure all balances that are outstanding for more than 60 days are charged with interest at the correct interest rate according to the credit control policy. If there are specific reasons why interest were not levied on these accounts, then these should be submitted with management's response to this communication please.

Management response

Kindly take note that most of the above accounts are the rates and we do not charged the interest on the rates and others are indigents.

Auditor's conclusion

Management comment noted. Through inspection of the eVenus system the following accounts can be cleared from the exception as it relate to property rates accounts and indigents debtors on which no interest is levied according to the municipality's policy:

Account number	Debtor name	Month	Outstanding balance in month indicated
11136826	F F E LEEB	Sept	4 353,86
10644907	GERHARD VAN STADEN	Dec	117 133,00
10267331	ML MASILO ER	March	574,08
11144110	L LEO GROMER FAMILIE TRUST	April	522,79

230. Interest received - Accrued interest not provided for (CoA 23)

Audit finding

GRAP 9 paragraph 34 states: "Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions shall be recognised using the accounting treatments set out in paragraph .35 when: (a) it is probable that the economic benefits or service

potential associated with the transaction will flow to the entity; and (b) the amount of the revenue can be measured reliably."

Interest on outstanding debtor accounts should be accrued up to the last day of the financial year to ensure all interest income is recorded in the correct period. We have noted that the municipality has not accrued for this, and has calculated the possible misstatement as follows:

Jun-13

Total interest for June 2013(A)	1,963,785.05
Average interest per day B (A/30)	65,459.50
Date levied for June 2013	26-Jun-13
Days that should be accrued for (up until last day June 2013) (C)	4
Amount that should have been accrued (B*C)	261,838.01

The effect of interest recognised in July 2012 that should have been recognised in the 2011/2012 year should also be taken into consideration.

Jul-12

Total interest for July 2012(A)	1,896,255.72
Average interest per day B (A/30)	63,208.52
Date levied for June 2012	20-Jun-12
Days that should have been included in 2011/2012 (C)	10
Amount that should have been included in 2011/2012 (B*C)	632,085.24

Overall effect

Amount that should have been accrued for June 2013	261,838.01
Amount that should have been included in 2011/2012	(632,085.24)
Difference	<u>(370,247.23)</u>

The above is mainly due to management not ensuring that interest on outstanding debtors are accrued to the last day of the financial year.

The risk of the above is that interest received as set out in note 24 of the financial statements is overstated by R370 247.23 and accrued income is overstated by the same amount due to a possible cut-off error.

Internal control deficiency

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

Recommendation

Management should perform a calculation at year end to accrue for the interest on outstanding debtors up until the last day of the financial year.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

231. Property rates - Part B not included in the property register (CoA 5)

Audit finding

Section 23 (1) - (4) of Municipal Properties Rates Act, 2004, Act No.6 of 2004 stipulates the following:

- (1) A municipality must draw up and maintain a register in respect of properties situated within that municipality consisting of Part A and a Part B.
- (2) Part A of the register consists of the current valuation roll of the municipality, including any supplementary valuation rolls of the municipality prepared in terms of section 78
- (3) Part B of the register must specify which properties on the valuation roll or any supplementary valuation rolls are subject to:
 - (a) An exemption from the rate in terms of section 15;
 - (b) A rebate on or a reduction in the rate in terms of section 15;
 - (c) A phasing-in of the rates in terms of section 21; or
 - (d) An exclusion referred to in section 17 (1) (a), (e), (g), (h) and (i)
- (5) A municipality must at regular intervals, but at least annually, update Part B of the register. Part A of the register must be updated in accordance with the provisions of this Act relating to the updating and supplementing of the valuation roll.

Contrary to this requirement, the municipality's property register does not include Part B which specify properties that is subject to exemptions, rebates, phasing in of rates or exclusions referred to in section 17 (1)(a), (e),(g),(h) and (i) of the Property Rates Act. (sect 23(1)).

This matter may have resulted due to proper controls not being implemented as to ensure compliance with the legislative requirements.

This matter constitutes non-compliance with the legislative requirements.

Internal control deficiency

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

Recommendation

Management must ensure that the property register of the municipality complies with the requirements of the act.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

232. Rental income - Understatement of rental income (CoA 57)

Audit finding

Section 122(1)(a) 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 or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."

With regard to rental income from Mimosa Park, it was noted that the receipts from this facility is captured against a consumer debtor account which has been created for this purpose (MUNICIPALITY MIMOSA 11103647). It was however noted that this consumer account is then cleared to the relevant rental income account via journals processed, however it was noted that these journals are not done on a frequent basis.

The opening balance of this consumer account was R1 369 565,86 and the closing balance for this account is R484 152,36.

We have identified the following journal which were processed in the financial year under review:

Transaction Type	Reference	Trans Date	Credit Amt	Transaction Description
Integration From Cons/Billing	BR 00716332Z	20130125	1 982 944,36	BILLING INTEGRATION UNTIL: 20130125

Based on the above, it is clear that a portion (R1 369 565,86) should have been recognised as revenue income in the prior year and the closing balance (R484 152,36) should have been recognised as rental income for the current year.

This matter may have resulted due to a lack of oversight from management over the recording of rental income.

This might result in the revenue being understated for both the prior and current year of assessment as well as an overstatement in the payables balance.

Internal control deficiency

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

Recommendation

Management should ensure that rental income from Mimosa Park are accounted for on a frequent basis onto the financial system. The required journals should be processed to correct the above-mentioned.

Management response

Management agree. We have resuscitated the committee that was established to deal with all mimosa matters. This process is intended to ensure that matters related to Mimosa are resolved correctly, including the above mentioned adjustments to the mimosa account.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

233. Rental income - Information not submitted (CoA 57)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: *"15. 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—(a) 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".*

Contrary to the requirement, rental lease agreements between the municipality and the tenants for all the municipal properties could not be obtained.

This matter may have resulted due to inadequate control over the rentals of the properties of the municipality.

This matter places a limitation on the scope of the audit of rental income.

Internal control deficiency

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

Recommendation

Management must ensure that there are contracts between the municipality and the tenants for municipal properties.

Management response

Management agree. The Legal Manager is in the process of obtaining/developing contracts for all municipal rented properties. This process is done in conjunction with the revenue section to ensure that all rentals due to the municipality are collected.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

234. Service charges - Inaccurate meter readings (CoA 6)

Audit finding

GRAP 9 paragraph 15 states:

"Revenue shall be measured at the fair value of the consideration received or receivable".

We selected a sample of water and electricity meters to test the completeness of service charges. We noted the following:

Water meters:

We noted that the meters for the following accounts were read on 16 January 2013 and then again on 21 August 2013 and we noted the following readings:

#	Account number	Name	Nov	Des	Jan	Aug
1	10191500	CHOCHOE	7	5	5	2243
2	10191516	LEHLOO	6	6	No reading	9873
3	10191522	MAKHANANA***	5	7	5	9042
4	10191538	MOCUMI G	4	8	5	708
5	10191611	MOLOANTOA NS	3	9	3	9852
6	10191627	PHETO A	9	3	4	9984
7	10192104	GIBSON NM	6	5	4	9875
8	10218152	SEEKOEI	8	3	3	7752
9	10218168	OLIPHANT	7	4	3	No reading

Based on the preceding three month's readings, the readings captured in August does not seem to be accurate.

The following accounts had no readings for the year:

#	Account number	Name	Meter number
1	10251667	DINGISWAYO NM	B-ZKC864D
2	10251689	NKHI OM	B-ZKD056D
3	10251695	LEFUTSO MS	B-ZKD076D
4	10251734	SECWAMMUNG DM	B-ZKC849D
5	10251740	THEMBA NR	B-ZKD091D
6	10251762	PHOOLO MF	B-ZKC905D

The following account had no meter readings from July 2012 to April 2013 or an estimation charged to the debtor account.

#	Account number	Name	Meter number
1	10569127	KONYA INDIGENT	2192800



We inspected the list of new accounts and reconnections for the account number above. The account number was not included on the lists, therefore it is not a new account.

Electricity meters

No electricity readings were recorded for the following accounts:

#	Account number	Name	Meter number
1	10056372	GEREFORMEERDE KE	778756
2	11105289	DEPARTMENT OF PU	E829663D

The following accounts' readings stayed the same for the entire year:

#	Account number	Name	Meter number	Meter reading	Consumption
1	11105489	TOP MEUBELS T M	3386169	48088	0
2	10654261	J J S EIENDOMME	98656	52908	0

This could be an effect of meter readings not done accurately.

All above findings indicate that meter readings are not done timeously and accurately.

The above is mainly due to management not implementing controls to ensure that the meter readings received from Isintu are accurate and done in proper time.

The risk of the above is that service charges as set out in note 22 in the financial statements could be incomplete and inaccurate due to the poor control environment.

Internal control deficiency

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

Recommendation

Management should implement controls to ensure that meter readings are done on a timely basis. Management should ensure that meter readings which are significantly different from prior months are followed up and investigated.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

235. Rental income - Municipality did not accrue rental income (CoA 57)

Audit finding

Section 122(1)(a) of the MFMA states: "of the MFMA 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 or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."

Contrary to the requirement the municipality did not accrue the following rentals not paid by the tenants for municipal properties in their accounting system.

Erf No	Name of the facility rented	Name of the Debtor	Account No
102	Tumahole Hostel B2	KJ Mofokeng	10270603
301	No2 Charls Cillier Vredefort	MD Makgoe	11086023
1781	Hostel Block C1	MN Makapela	10270819
Room A2	TUMAHOLE-2 Rooms	Sw Mangake	10270336
Room B3	TUMAHOLE-2 Rooms	S Motsie	10270625
Room B11	TUMAHOLE-2 Rooms	SW Mavinjwa	10270764
Room C2	TUMAHOLE-2 Rooms	AO Sello	10655198
24a Charl Celliers Str	VREDEFORT-1 Room	L Leshope	11303271
4 Hoogte Str	VREDEFORT	PC Rocolo	11313496
4 Cheyne	VREDEFORT	TG Mazibuko	11315105

This matter may have resulted due to the fact that management has not implemented a process to ensure the monthly billing of rental income on all properties rented out.

This matter may result in the understatement of rental income and receivables.

Internal control deficiency

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

Recommendation

Management must ensure that the municipality accrue the rentals not paid by tenant for municipal properties in their accounting system. If these accounts have been billed, then the required proof should be submitted for audit purposes. If these have not been billed, then management should determine the total extent thereof, and process the necessary correcting journals as to rectify this matter and ensure that the financial statements are correct.

Management response

We agree. Management will ensure that the recommendation as indicated is fully implemented

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

236. Property rates - Tariffs disclosed differs from the approved tariff list (CoA 68)

Audit finding

Section 122(1)(a) of the MFMA states: "of the MFMA 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 or revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."

Contrary to the requirement the tariffs disclosed in Note 25 of the Property rates differs from the approved tariff list:

PARYS		
Property Rates	Rates disclosed as per Note 25 of the AFS	Rates as per the approved tariff
Agriculture	0.0089	0.0094
Government	0.0222	0.0235
Public Service Infrastructure	0.0089	0.0094
School	0.0222	0.0235
Vacant Stands Residential	0.0089	0.0094
Heilbron		
Property Rates	Rates disclosed as per Note 25 of the AFS	Rates as per the approved tariff
Government	0.0222	0.0235
Public Service Infrastructure	0.0089	0.0094
School	0.0222	0.0235
Vacant Stands Residential	0.0089	0.0094
Vredefort		
Property Rates	Rates disclosed as per Note 25 of the AFS	Rates as per the approved tariff
Government	0.0222	0.0235
Public Service Infrastructure	0.0089	0.0094
School	0.0222	0.0235
Vacant Stands Residential	0.0089	0.0094

Koppies		
Property Rates	Rates disclosed as per Note 25 of the AFS	Rates as per the approved tariff
Government	0.0222	0.0235
Public Service Infrastructure	0.0089	0.0094
School	0.0222	0.0235
Vacant Stands Residential	0.0089	0.0094
Edenville		
Property Rates	Rates disclosed as per Note 25 of the AFS	Rates as per the approved tariff
Government	0.0222	0.0235
Public Service Infrastructure	0.0089	0.0094
School	0.0222	0.0235
Vacant Stands Residential	0.0089	0.0094

b) It's was also identified that note 25 of the financial statement did not clearly outline which tariffs relates to which year.

This matter may have resulted due to adequate procedures not followed to review the financial statements and ensure that the information included are accurate.

The tariffs reflected in the financial statements might not be fairly stated.

Internal control deficiency

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

Recommendation

Management must ensure the financial statements are fairly presented to the users thereof. The necessary corrections should be made to the financial statements to ensure that the correct tariffs are disclosed. Management should also re-assess the need to disclose these tariffs in the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

237. Property rates - Difference between consumer incentive and recalculated amount (CoA 68)

Audit finding

The MFMA, Section 97: Revenue management, states the following:

“The accounting officer of a municipality must take all reasonable steps to ensure—

(a) that the municipality has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the municipality is collected;

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

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

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

Contrary to this requirement, it was noted that for the following consumers, the incentive amount recalculated differs from the amount as per consumer incentive report for property rates:

ACCOUNT-NUMBER	DATE	TARIFF	Market value	Reduction	Tariffs	Difference between recalculations	Amount as per consumer incentives for property rates report	Difference between consumer incentives and the recalculations
10006949	20120719	VAP006	1060000	265000	0.0094	207,58	467,06	(259,48)
11160615	20120720	VAK006	230000	57500	0.0094	45,04	101,35	(56,31)
11147790	20130627	VAH006	820000	205000	0.0094	160,58	481,78	(321,20)
11147845	20120720	VAH006	770000	192500	0.0094	150,79	125,33	25,46
11147906	20120919	VAH006	1720000	430000	0.0094	336,83	1 010,5	(673,67)
11147928	20121118	VAH006	1930000	482500	0.0094	377,95	1 133,87	(755,92)
11143877	20130627	VAH006	1490000	372500	0.0094	291,79	875,35	(583,56)
Total								(2 624,68)

This matter may have resulted due to inadequate controls being implemented to ensure that property rates are correctly billed.

This may result in a misstatement of property rates income.

Internal control deficiency

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

Recommendation

Management must ensure that the consumers are correctly billed according to the approved tariff list. Explanations for the above-mentioned differences should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

238. Property rates - Recalculation of the journal amount (CoA 75)

Audit finding

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

"Revenue management.—

(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which:

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue"

Contrary to the requirement the recalculation of the following journals could not be performed due to insufficient supporting documentation attached:

Date	Journal No	Account credited	Account debited	Service	Authorised by	Amount Dr	Amount Cr
13-07-2012	BJ71611895	11259622	10065410	VAVAP	Stephen Letshaba	9 589,86	9 589,86
12-07-2013	BJ71611793	11270438	10081937	VAVAP	Stephen Letshaba	10 350,96	10 350,96
06-11-2012	BJ71678242	10040092	11322390	BEBEP	Stephen Letshaba	973,99	973,99
06-11-2012	BJ71678242	10040092	11322390	BWBWP	Stephen Letshaba	13 481,93	13 481,93
06-11-2012	BJ71678242	10040092	11322390	INP	Stephen Letshaba	11 447,21	11 447,21
06-11-2012	BJ71678242	10040092	11322390	RFP001	Stephen Letshaba	5 417,78	5 417,78
06-11-2012	BJ71678242	10040092	11322390	SEP001	Stephen Letshaba	6 835,71	6 835,71
06-11-2012	BJ71678242	10040092	11322390	VAP001	Stephen Letshaba	14 224,37	14 224,37
16-07-2012	BJ71611927	11254183	10042240	VAP001	Stephen Letshaba	3 424,00	3 424,00
11-02-2013	BJ71718818	11125702	11323150	VAVAV	R Malamule	67 869,10	67 869,10
02-08-2012	BJ71636967	11225100	11312658	VAP001	Moipone	1 331,03	1 331,03

05-10-2012	BJ71664399	10657263	11268904	VAP001	Stephen Letshaba	9 923,75	9 923,75
12-07-2012	BJ71611829	10664670	11257218	VAP001		4 262,16	4 262,16
05-12-2012	BJ71693404	11125691	11290478	VAV007	Stephen Letshaba	12 930,6	12 930,6
05-12-2012	BJ71693404	11125702	11290478	VAV007	Stephen Letshaba	67 869,10	67 869,10
05-12-2012	BJ71693404	11125718	11290478	VAV007	Stephen Letshaba	30 572,67	30 572,67
19-02-2013	BJ71730946		10051205	VAP001	R Malamule		4 374,16
19-02-2013	BJ71730946		11045683	VAP001	R Malamule		3 058,16
19-02-2013	BJ71730935		11299802	VAP001	R Malamule		3 183,44
19-02-2013	BJ71730935		10093338	VAP001	R Malamule		2 995,44
22-02-2013	BJ71731159		11295884	VAP001	Stephen Letshaba		3 120,8
13-12-2012	BJ71693708	11321413	11125207	VAP001	Matseleng	415,17	415,17
15-03-2013	BJ71733626		10409737	VAP001	Stephen Letshaba		47 990,16
12-03-2013	BJ71733415		10113526	VAP001	Stephen Letshaba		533,92
05-12-2012	BJ71693404	11323194	11290478	VAV007	Stephen Letshaba	17 599,98	17 599,98
26-02-2013	BJ71731207	11319739	11319739	VAV001,VAV007	Stephen Letshaba	1 905,04	3 813,32
02-14-2013	BJ71719016		10112833	VAP001	R Malamule		3 279,01
24-04-2013	BJ71760943	11292159	11292159	VAP001,VAP006	Stephen Letshaba	10 321,31	20 642,62

This matter may have resulted due to inadequate control over journals

This matter places a limitation on the scope of the audit of property rates income

Internal control deficiency

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

Recommendation

Management must ensure that all the supporting documentation is attached to journals.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

239. Fines - Understatement of fines (CoA 77)

Audit finding

GAMAP 9 paragraph 39 and 40 states:

".39 Revenue from the issuing of fines shall be recognised when:

(a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and

(b) the amount of the revenue can be measured reliably."

".40 There are two types of fines: spot fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable."

Contrary to the requirement management did not make estimates for fines at year end expected to be received by the municipality based on the fines issued.

Due to the estimates of fine not being made based on the fines issued, a reconciliation could as a result not be done between the total amount of fines issued and the total amount accounted for on the financial system:

Quarterly reports	Issued fines	Amount of fines issued	Amount recognised in AFS	Difference
July -September 2012	1344	831 100,00		
October-December 2012	1360	894 000,00		
January to March 2013	842	545 300,00		
April to June 2013	549	404 600,00		
Total		2 675 000,00	1 096 771,00	1 578 229,00

This is due to management not taking auditors recommendation into considerations due to the fact that the same exception was raised in the prior year.

This might results in fines being understated

Internal control deficiency

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

Recommendation

Management must ensure that the estimate of fines is made at year end.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

240. Service charges - Review of exception report for services charges (CoA 6)

Audit finding

Section 64 of the MFMA states the following:

"64 Revenue management.—(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

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

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

We obtained the monthly exception report for service charges for December 2012. It was noted that the monthly exception reports (BP421- indicating all meter readings that varied with more than 100 percent from the average consumption of the previous 12 months) had not been signed by the revenue manager as proof that it had been reviewed and that all deviations had been followed up and resolved.

The above is mainly due to management not performing all duties to ensure accurate and complete record keeping regarding service charges.

Deviations on monthly consumption may not be adequately addressed, and may lead to financial losses being incurred by the municipality.

Internal control deficiency

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

Recommendation

The BP421 exception report should be generated on a monthly basis and reviewed by an independent senior official. The following suggested approach should be followed:

- (a) Clearly indicate on the report the reasons for valid deviations, and how the other deviations were followed up and resolved.
- (b) The report must then be submitted to a supervisor to ensure that all unusual consumption is inspected and corrected where necessary.
- (c) Supervisors should sign the report to indicate their satisfaction with the process.
- (d) Management should regularly review the exception reports filed to ensure that the control is functioning properly.

In order to further assist the revenue manager's review of the BP 421 exception report, it is recommend that a summary schedules is completed on a monthly basis and attached to the BP 421 report: The schedules should include details of all work performed. It should indicate on which

exceptions adjustment were processed and the reasons therefore. This schedule should include (but is not limited) to the following key fields

- (a) Account number
- (b) Exception identified
- (c) Description of adjustment made
- (d) Reason for adjustment

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

241. Service charges - Differences between e-Venus and meter reading books (CoA 6)

Audit finding

MFMA section 64 states the following:

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

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

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

b) that revenue due to the municipality is calculated on a monthly basis".

The following differences were noted:

Water

#	ACCOUNT-NUMBER	REF	DATE	Date: Meter reading - current	Meter reading - current	Meter reading per book	Difference in readings	Tariff	Total difference (R)
1	11312569	801737	20130415	14-Apr-13	3400	8433	-5033	6.85	(34,476.05)
2	11090072	W36269137	20120906	6-Sep-12	1100	1099	1	6.85	6.85
3	11281841	XBN388	20120906	6-Sep-12	1246	1252	-6	6.85	(41.10)
4	10062868	806511	20130118	18-Jan-13	2521	2553	-32	6.85	(219.20)
5	10621587	242889	20130415	14-Apr-13	3403	3389	14	6.85	95.90
6	10453827	300610	20130627	7-May-13	1883	1859	24	6.85	164.40
									(34,469.20)

The first entry (account number 11312569) is caused by the meter not read on a timely basis. It was read on 11 December 2011 and then the final reading was taken on 13 April 2013. Per inspection of the debtor's account, water was not charged at all since the previous reading.

We calculated the possible understatement of water charges for the current year as follows:

Number of months	16
Consumption as per meter reading books	-5033
Average consumption per month	-315
Consumption for 2013 (July 2012- April 2013)	-3146
Tariff as per approved tariff list	6.85
Possible understatement for 2013 (315*10*6.85)	(21 547,53)

Electricity

The following differences were noted:

#	ACCOUNT- NUMBER	REF	TYPE	DATE	UNIT- NUMBER	Date: Meter reading - current	Meter reading - current	Meter reading per book	Difference in readings	Tariff	Total difference (R)
1	10396673	568148	L	20120825	203000000092 260000000000 000	4-Jul-12	49760	50313	-553	1.1895	(657.79)
2	10409232	569585	L	20120825	203000000092 340000000000 000	4-Jul-12	31951	32100	-149	1.1895	(177.24)
3	10098283	8773993	LF	20121210	101000000008 240000000000 000	11-Nov-12	4498	5767	-1269	1.1895	(1,509.48)
							86209	88180	(1,971.00)		(2,344.50)

The above could have resulted due to typing errors when readings were recorded electronically from the meter reading books and exception reports that were not investigated.

The risk of the above is that service charges as set out in note 22 of the financial statements is understated with R3 625 381.50 and debtors as set out in note 6 are understated by the same amount.

Internal control deficiency

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

Recommendation

Management should implement controls over the investigation of exceptions listed on the exception reports. Management should ensure that the meters are read on a timely basis by the service provider and that accurate information is provided by the service provider.

Management response

Outstanding.

Auditor's conclusion

Per discussion with management and inspection of the system, we noted the meter readings of 4 July 2012 were recorded as actual meter readings in August. Therefore the difference in readings. Management states there is a possibility that the date on the meter reading book was not correct. We accept the explanation for the difference. The following two issues will be resolved:

	ACCOU NT- NUMBE R	REF	TYP E	DATE	UNIT-NUMBER	Date: Meter readi ng - curre nt	Meter readi ng - curre nt	Meter readi ng per book	Differe nce in reading s	Tarif f	Total difference (R)
1	1039667 3	5681 48	L	20120 825	20300000009226000000 0000000	4-Jul- 12	4976 0	5031 3	-553	1.18 95	(657.79)
2	1040923 2	5695 85	L	20120 825	20300000009234000000 0000000	4-Jul- 12	3195 1	3210 0	-149	1.18 95	(177.24)

242. Service charges - Information not submitted (CoA 6)

Audit finding

Section 62 of the 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"

The municipality could not provide the following application forms relating to new connections for audit purposes:

#	STAND NUMBER	ACCOU T Number	NAME OF OCCUPIER	ADDRESS	O/T	APPL. DATE
1	1010000000045000000000	11320047	SMIT A P	POSBUS 786 FOCHVILLE	T FL	20120821
2	101000000001350000000000	11324704	CLIVE FARMER BAKERY (PT	P.O BOX 29 PARYS	T D	20130131
3	101000000001520000000000	11321780	CHILL NET D	45 BUITEN STREET PARYS	T B	20121011
4	101000000001590000000000	11322578	VIKING PONY PRPROPERTYIES	P.O BOX 1068 SASOLBURG	O D	20121106
5	101000000001690000000000	11323350	SCULLY NP & CL	VILLA RIVIERA UNIT A13NP & C.L SCULLY	O D	20121127
6	101000000004840000000000	11321407	HOUSE TC & LG	P.O BOX 1758 CRESTA	O FL	20121003
7	101000000007780000000000	11326574	FABER F J	21 FLOYD STREET PARYS	O D	20130315
8	101000000007780000000000	11324459	HATTINGH E & A	17 FLOYD STREET PARYS	O D	20130124
9	101000000007850000000000	11327645	ESTERTHUIZEN HD & H	3 RUBIN STREET PARYS	O D	20130412
10	101000000007890000000000	11329059	BLIGNAUT E M	88 B DELVER STREET PARYS	O D	20130619
11	101000000007940000000000	11319745	BEUKES H.E	P O BOX 14284 ZUURFONTEIN	O FL	20120807
12	101000000007940000000000	11320219	VAN DER MERWE L	LLSONHOF 16 VEGLAERSTRAAT	O FL	20120824
13	101000000007940000000000	11327073	STRYDOM M M	POSBUS 5102 KOCKSPARK	O FL	20130327
14	101000000007940000000000	11328372	VAN DER MERWE J A P	POSTNET SUITE 214 PRIVATE BAG X5022	T FL	20130514
15	101000000007940000000000	11328827	SETHABELA SD	UNIT 8 JUANI FLATS 65 NOORDER STR	O FL	20130613
16	302000000029650000000000	11321752	MABULELA L S	2965 MAPETLA SECTION MOKWALLO	O D	20121011
17	302000000029660000000000	11327239	MOTLOUNG K D	2966 MAPETLA SECTION VREDEFORT	O D	20130403
18	302000000029990000000000	11318763	PULE R D	2999 MAPETLA SECTION MOKWALLO	O D	



			20120710
19	30200000003015000000000	11325386	UBANE D M 3015 MAPETLA SECTION MOKWALLO O D 20130212
20	30200000003026000000000	11324809	NTSUKU M O 3026 MAPETLA SECTION MAPETLA SECTION O D 20130206
21	30200000003050000000000	11322423	SHEBE M A 3050 MAPETLA SECTION MOKWALLO O D 20121026
22	30200000003056000000000	11327439	MAHLATSI T S 3056 MAPETLA SECTION VREDEFORT O D 20130404
23	30200000003087000000000	11326229	MASIZA D R 3087 MAPETLA SECTION MOKWALLO T D 20130308
24	30200000003439000000000	11328261	SOMFOLO M J 3439 MAPETLA SECTION MOKWALLO T D 20130508
25	30200000003469000000000	11327273	MTIMKULU M D 3469 MAPETLA SECTION MOKWALLO O D 20130403
26	30200000003571000000000	11327784	MAZIBUKO M A 3571 MAPETLA SECTION MOKWALLO O D 20130416
27	30600000000360000000000	11321029	WIMPIE LOUW TRUST W P.O BOX 195 VREDEFORT O D 20120921
28	30600000000490000000000	11325697	DIAMANT TRUST D POSBUS 179 PARYS O A 20130218
29	30600000000927000000000	11321035	WIMPIE LOUW TRUST W P.O BOX 195 PARYS O A 20120921
30	40100000000480000000000	11324437	A T C A T C P O BOX 650667 BENMORE T B 20130124
31	40100000000113000000000	11319551	MATENA D & NV 11 DIRKIE UYS KOPPIES O D 20120730
32	40100000000129000000000	11318713	REYVENSTEIN L & R 3RD STREET 28 KOPPIES T D 20120709
33	40100000000188000000000	11328916	KOEKEMOER AC 13 SESDE STR KOPPIES O D 20130614
34	40100000000223000000000	11319262	FERREIRA J C P O BOX 37 KOPPIES O D 20120723
35	40100000000352000000000	11322162	RSA-DIENSLAAN DEPT VAN OPENBARE BLOEMFONTEIN T G 20121020
36	40100000000355000000000	11327089	SERFONTEIN DCK POSBUS 402 KOPPIES T CS 20130327
37	40100000000357000000000	11327095	SERFONTEIN DCK POSBUS 402 KOPPIES T CS 20130327
38	40100000000395000000000	11320558	HANCKE BS ROSELAAN 9 KOPPIES T D 20120907
39	40500000000100700000000	11321485	KOEDOE TRUST K P.O BOX 462 KOPPIES O A 20121004
40	40500000000100800000000	11321479	KOEDOE K P.O BOX 462 KOPPIES O A 20121004
41	40500000000100900000000	11321457	KOEDOE TRUST K P.O BOX 462 KOPPIES O A 20121004
42	40500000000101100000000	11321463	KOEDOE TRUST K P.O BOX 462 KOPPIES O A 20121004
43	40600000000030000000000	11320964	VAN ZYL JB P.O BOX 38 KOPPIES O A 20120920
44	40600000000040000000000	11321968	OLIVIER TRUST GF P.O BOX 2228 PARYS T A 20121017
45	40600000000047000000000	11322295	JAN LODEWYK TRUST J P.O BOX 44 KOPPIES O A 20121024
46	40600000000107000000000	11321641	DANMAR TRUST D P.O BOX 333 KOPPIES O A 20121010

The Municipality could not provide forms relating to the following reconnections for audit purposes:

#	Stand number	Account number	Name and address		Date
1	10100000000067000000000	11320653	EXCLUSIVE FRAMING AND P P O BOX 960	PARYS	20121127
2	10100000000078000000000	11101338	VAN DEN BERGH PC 39 PRESIDENT MONTANA	HOPARYS	20130415
3	10100000000107000000000	11312975	COOPER V MIRTE HOF NO 1	VAN DER	20130215
4	10100000000159000000000	11153042	JACOBS & BRINK L. & M.M 7 IL MONTE	390 MUS	20121213
5	10100000000185000000000	11114333	VISAGIE P.J P.O. BOX 1450	PARYS	20130621
6	10100000000186000000000	10021878	ERASMUS S J POSBUS 2073	PARYS	20130315



7	1010000000018600000000	11314589	LE ROUX C P O BOX 1271	PARYS	20121208
8	1010000000020800000000	11309314	MYNHARDT A C PRESIDENT STREET	MONTANA	20120712
9	1010000000024000000000	11319412	SENCOR STEELWORKS P O BOX 283	PARYS	20130621
10	1010000000028500000000	11308354	SPARKLE HEAD AND TOE GE P.O BOX2517	PARYS	20130215
11	1010000000028500000000	11324726	BARAH SPORT V WES STRAAT 14 A	PARYS	20130530
12	1010000000030900000000	11310494	FOURIE AE 49 A KORT STREET	PARYS	20121111
13	1010000000032200000000	11043607	PARYS MUNISIPALITEIT POSBUS 359	PARYS	20120820
14	1010000000032200000000	11064041	LOUW JL BRANDWEER WISTEL B1	LUPARYS	20120912
15	1010000000033100000000	11043768	EVAGO BK POSBUS 372	PARYS	20121018
16	1010000000035400000000	11296422	BOSHOF A.G.S 27 B LOOP STREET	PARYS	20121019
17	1010000000036200000000	10648919	VICTOR P J POSBUS 1453	PARYS	20120810
18	1010000000038000000000	11044134	DU PLESSIS SALOMINA MAG POSBUS 198	PARYS	20130315
19	1010000000048600000000	10051277	LOTRIET e.a. F C 12 WITTEBERG STREET	NOORDHE	20130118
20	1010000000048800000000	10051849	JACOBSZ M S POSBUS 2024	PARYS	20121210
21	1010000000048900000000	11295628	ENSLIN S E PO BOX 833	PARYS	20120912
22	1010000000048900000000	11309164	SIECKER MMS EL VARI WOONSTEL NO	6 15 HEAP	20120820
23	1010000000049000000000	11076208	KOEKEMOER M LAURISSA NO 5	ORANJE	20121208
24	1010000000049000000000	10052643	HURDALL L P F P.O BOX 3602	FREEMAN	20120712
25	1010000000049100000000	10052798	ANDERSON I POSBUS 1202	PARYS	20130215
26	1010000000049200000000	10053219	NEL J P 10 SWALES STR	VANDERB	20120709
27	1010000000051400000000	11046071	THORNE H.E.L P.O BOX 1156	RUSTENB	20130621
28	1010000000051400000000	11119555	STOLTZ S & H.D P.O. BOX 2096	PARYS	20121208
29	1010000000051700000000	11310533	VAN DER MERWE J M POSBUS 833	PARYS	20121208
30	1010000000093300000000	11077824	KOEKEMOER HJJ TWEDELAAN 2C	PARYS	20130118
31	1010000000093700000000	10109199	MOOLMAN A S 2B FIRST AVENUE	PARYS	20120820
32	1010000000094100000000	10109822	MARAI S J J LR POSBUS 441	PARYS	20121210
33	1010000000094400000000	10110546	SCHWIM * C 3 A SCHILBACHSTRA	ATPARYS	20130529
34	1010000000094500000000	10110685	LOUW B F POSBUS 1386	POTCHEF	20130530
35	1010000000094500000000	11318985	BOTHA D J 31 SCHOONWINKEL STRE	ETPARYS	20130415
36	1010000000094800000000	10111451	PRINSLOO P J POSBUS 1153	PARYS	20130215
37	1010000000096100000000	11099145	PENZES TJL LOOP STR 7 B	PARYS	20120820
38	1010000000098100000000	11111719	BADENHORST BJ PO BOX 1455	PARYS	20120823
39	1010000000098900000000	10117627	DE VRIES e.a. A G POSBUS 1952	PARYS	20130314
40	1010000000098900000000	10117605	ERASMUS e.a. M J 2 A OCKERT V ROOY	ENPARYS	20120912
41	1010000000102400000000	10118748	VAN DER MERWE e.a. D E 10 ORTLEPPSTRAAT	PARYS	20130621
42	1010000000103200000000	10638138	HORN e.a. N J POSTNET SUITE 358	PRIVATE	20120709
43	1010000000103600000000	10119108	BOTHA D F P.O.BOX 1088	SCOTTBU	20120712
44	1010000000104100000000	10119431	SNYMAN e.a. J C CHAMFUTI	PRETORI	20130621



			STREET 1157		
45	10100000001046000000000	10653623	PAQUAY *** M P.O BOX 23200	HELDERK	20120822
46	10100000001048000000000	11310400	BOUWER GC P O BOX 12124	BRANDHO	20130530
47	10100000001055000000000	10119986	ESTERHUIZEN e.a. P S 8 FROHLICHSTRAA	T PARYS	20130416

The above is mainly due to information is not filed and safeguarded in a manner which ensures that information is available for reference and audit purposes.

The risk of the above is that the occurrence, accuracy, completeness and compliance with the policy of new and reconnections could not be tested. This could have a possible misstatement of other income.

Internal control deficiency

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

Recommendation

Management should develop internal controls to ensure that all documents and information is filed in a manner that allows easy access thereto and is readily available for audit purposes. The above-mentioned information should be submitted for audit purposes.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

243. Service charges - Distribution losses not monitored (CoA 6)

Audit finding

The MFMA states the following: 62(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;

Reconciliations are not performed between electricity and water sold to consumers, and electricity and water purchased from Rand Water and Eskom on a monthly basis. There is thus no monitoring of units lost when distributed.

The above is mainly due to management not performing all required duties to ensure accurate and complete record keeping regarding revenue.

The risk of the above is that there could be material financial losses due to not monitoring the distribution losses. There is also a risk of non compliance with the MFMA which requires the municipality to prevent and detect financial losses.

Internal control deficiency

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

Recommendation

The units of electricity and water sold should be reconciled to the number of units purchased to ensure that all units are accounted for and to assess the reasonability of estimated units to be invoiced. Distribution losses identified should be recorded and investigated, to ensure they are prevented.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

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Taxes

244. VAT - Non-compliance with the VAT Act (CoA 49)

Audit finding

Section 55 of VAT Act states:

(1) Every vendor shall keep such books of account (which books of account, where generated by means of a computer, shall be retained in the form of a computer print-out) or other records as may enable him to observe the requirements of this Act and enable the Commissioner to satisfy himself that the vendor has observed such requirements, and every vendor shall, in particular, keep the following records and documents—

(a) a record of all goods and services supplied by or to the vendor showing the goods and services, the rate of tax applicable to the supply and the suppliers or their agents, in sufficient detail to enable the goods and services, the rate of tax, the suppliers or the agents to be readily identified by the Commissioner, and all invoices, tax invoices, credit notes, debit notes, bank statements, deposit slips, stock lists and paid cheques relating thereto: Provided that a vendor's records do not have to show the rate of tax where the vendor has been authorised by the Commissioner to calculate the tax payable by him in accordance with a method prescribed by regulation, as contemplated in section 16 (1);

(b) the charts and codes of account, the accounting instruction manuals and the system and programme documentation which describe the accounting system used in each tax period in the supply of goods and services;

(2) Such books of account, records and documents referred to in subsection (1), whether in their original form or in a form authorized by the Commissioner in terms of subsection (4), shall at all reasonable times during the relevant period referred to in subsection (3) be open for inspection by any person acting under the authority of the Commissioner.

(3) All such books of account, records and documents, whether in their original form or in a form authorized by the Commissioner in terms of subsection (4)—

(a) required to be kept in terms of subsection (1) and section 73A of the Income Tax Act, shall be retained and carefully preserved by the vendor for the period referred to in the said section 73A; and

(b) required to be kept in terms of subsection (1), but in respect of which a return referred to in the said section 73A need not be submitted, shall—

(i) where kept in book form, be retained and carefully preserved by the vendor for a period of five years from the date of the last entry in any book; or

(ii) where not kept in book form, be retained and carefully preserved by the vendor for a period of five years after the completion of the transactions, acts or operations to which they relate.

We found that although records were kept, these did not extend as far back as 5 years (refer to various information requests where expenditure information could not be provided for audit purposes). It was also found that no accounting manuals were maintained by the municipality.

The above is mainly due to supporting documentation not being kept and accounting manuals not being generated by the municipality

The risk of the above is non-compliance with Section 55 of the VAT Act.

Internal control deficiency

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

Recommendation

Management should ensure that the required documentation is maintained in order to meet the requirements of the VAT Act.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

245. VAT - VAT 201 submitted late (CoA 49)

Audit finding

Sections 28(1)(a) and (b) of the VAT Act states the following: *“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 furnish the Commissioner with a return reflecting such information as may be required for the purpose of the calculation of tax in terms of section 16; and 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.”*

a) It was noted that the following VAT 201s were submitted late:

Month	Date submitted	Days overdue
July	05/11/2012	72
August	05/11/2012	41
September	17/01/2013	84
October	17/01/2013	53
November	11/02/2013	48
December	11/02/2013	17

Furthermore, the statement of accounts could only be obtained for the period 01/03/2012 to 28/02/2013 and therefore making it not possible to determine whether the remaining VAT 201s were submitted before or on the due date.

b) The VAT 201 for June 2013 could not be submitted for audit purposes.

The above is mainly due to inadequate supervision being on place to ensure that VAT 201s are submitted on the due date and that all the required information is available for audit purposes.

The risk of the above is that the municipality has not complied with the requirements of sections 28(1)(a) and sections 28(1)(b)

Internal control deficiency

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

Recommendation

Management should ensure that the return is submitted within the legislated deadlines. The information not submitted for audit purposes should be obtained and submitted as soon as possible.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

246. VAT - VAT claimed on exempt rated supplies (CoA 49)

Audit finding

The VAT Act states the following: *12. Exempt supplies.—The supply of any of the following goods or services shall be exempt from the tax imposed under section 7(1)(a): The supply of any financial services, but excluding the supply of financial services which, but for this paragraph, would be charged with tax at the rate of zero per cent under section 11*

It was found while performing tests of detail that the finance costs paid on the long term loans and/or overdue accounts is recorded in the general ledger as a taxable supply. Thus, the municipality is claiming VAT on an exempt supply.

The above is mainly due to management not implementing proper controls over the recording of transactions.

The risk of the above is non-compliance with the VAT Act. Further, should SARS perform a VAT Act the input VAT that was claimed may be disallowed.

Internal control deficiency

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

Recommendation

Management should ensure that input VAT deductions are only claimed on valid taxable supplies. Management should further ensure that all transactions are recorded correctly in general ledger.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

247. VAT - Capital assets (CoA 49)

Audit finding

Section 15 of the Public Audit Act states the following:

15. 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—
(a) 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;
(b) any of the assets of or under the control of the auditee; or
(c) any staff member or representative of the auditee.

It was found that management was not available for discussion regarding the Capital Assets and the VAT thereon. It was further found that the fixed asset register did not identify which assets were acquired prior to 1 July 2006 for the purpose of making non-taxable supplies and mixed supplies.

The above is mainly due to a lack of sufficient recordkeeping at the municipality and the unavailability of key management officials.

The risk of the above is that the VAT on the capital assets acquired prior to 1 July 2006 is not being treated in accordance with the VAT Act.

Internal control deficiency

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

Recommendation

Management should ensure that staff are available for discussion throughout the period of the audit. Also the assets that were acquired prior to 1 Jul 2006 with the intention of making non-taxable and mixed supplies need to be separately identifiable.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

248. VAT - Statement of Accounts not obtained (CoA 49)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "*15. 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— (a) 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;*"

The SARS statement of accounts could not be obtained for the January 2013 - June 2013 (as requested in RFI 89).

The above is mainly due proper record keeping not being maintained at the municipality

The risk of the above is that the interest charged on the late submission of the VAT 201s is not accurate nor has it been accurately disclosed in the fruitless and wasteful expenditure note.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Cash and cash equivalents**249. Cash and cash equivalents - Unidentified deposits (CoA 39)****Audit finding**

Section 64(2)(f) of the MFMA paragraph 64(2)(f) states: *“The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.”*

Whilst testing the bank reconciliation we noted that it contains line item with the description "unidentified deposits". This line item relates to debtors that have paid their accounts, but due to a lack of information, regarding the identity of the debtor, the municipality cannot credit the payment to the correct debtors account. The Municipality does not maintain a formal register regarding the unknown payments. There is no formal review by management of the follow up on these unidentified deposits.

The amount at year end is R36 615.

This matter may have resulted due to proper controls not being implemented regarding unidentified deposits.

This matter may result in the overstatement of receivables.

Internal control deficiency

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

Recommendation

A formal register of unknown depositors should be kept indicating the amount and date on which it was followed up with the bank and the bank's response. At the end of the month the register should be reconciled to the unknown depositors vote. A member of senior management should review the register and the reconciliation to the unknown depositors vote.

Management response

We agree with the findings and management will implement deposit identity system (from Absa) it will help us in solving the query.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

250. Cash and cash equivalents - Banking details not submitted to National Treasury (CoA 39)

Audit finding

Section 9(b) of the MFMA section 9(b) states the following: *"The accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General, in writing annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account"*

Contrary to the above requirement, proof could not be obtained that the banking details were submitted to the Provincial Treasury and Auditor General before the start of the financial year ended 30 June 2013.

The above is mainly due management not implementing the necessary controls to ensure compliance with laws and regulations.

The risk of the above is that the municipality does not comply with section 9 of the MFMA.

Internal control deficiency

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

Recommendation

Management should submit the bank account details in writing to the Provincial Treasury and Auditor General before the start of each financial year.

Management response

Management agrees with the finding.

The 2012/13 banking details was not submitted but the 2013/14 Banking details were submitted to NT.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Contingent liabilities

251. Contingent liabilities - Incorrect details disclosed regarding claims (CoA 50)

Audit finding

GRAP 19 states: ".95 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs .41 to .57;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

.104 Where any of the information required by paragraphs .95 and .100 is not disclosed because it is not practicable to do so, that fact shall be stated."

We have identified that following information which were not disclosed correctly in note 40 to the financial statements:

GC van Wyk vs NLM

- The party instituting the claim is not GC van Wyk but GC van Zyl.
- The defending attorney is disclosed as Mhlambi Incorporated but after inspecting the legal documentation we found that ADW van Den Berg Attorneys are defending the case.

P du Plessis vs NLM

- The defending attorney is disclosed as ADW van Den Berg Attorneys while we determined that the in-house legal service is defending the case.

The above is mainly due to management not ensuring that all relevant disclosures required by the applicable financial reporting framework is adhered to.

This matter may result in the misrepresentation in the financial statements.

Internal control deficiency

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

Recommendation

Management should ensure that all disclosure requirements of the relevant accounting framework is adhered to and correctly disclosed. The necessary adjustments should be made to the financial statements.

Management response

Management agrees with the finding and the mistake has been addressed and corrected on the files to ensure that all disclosure requirements of the relevant accounting framework is adhered to and correctly disclosed.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Employee costs

252. Employee costs - Differences regarding key management remuneration disclosure (CoA 32)

Audit finding

GRAP 20, par.35 requires: An entity shall disclose the remuneration of management per person and in aggregate, for each class of management, in the following categories:

- (a) fees for services as a member of management;
- (b) basic salary;
- (c) bonuses and performance related payments;
- (d) other short-term employee benefits;
- (e) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (f) termination benefits;
- (g) other long-term benefits;
- (h) any commission, gain or surplus sharing arrangements; and
- (i) any other benefits received.

The total remuneration paid to key management personnel (Including section 57 and 56 managers) should agree to the amounts disclosed in the financial statements.

a) The following differences were identified when the amounts disclosed in note 27 was compared to the salary system:

Remuneration of Mr. TG Mkhuma - Acting Chief Financial Officer (01/07/2012 - 28/02/2013).
- Contributions to UIF, medical and pension funds should be - R48 789 (disclosed as R44 971)

Remuneration of Adv. TS Mokoena - Municipal Manager (01/07/2012 - 30/06/2013)
- Contributions to UIF, medical and pension funds should be R9 171 (disclosed as R1 713)

b) It was furthermore noted that the disclosure made was only per person, and not also in aggregate as well, as required by the standard.

This matter may have resulted due to the correct information not being available when the financial statements were compiled.

The amounts disclosed in the notes are not accurate and in line with the requirements of the standards.

Internal control deficiency

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

Recommendation

The amounts that are disclosed in the financial statements should be reviewed for accuracy. The necessary adjustments should be made to the financial statements.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

253. Employee costs - Overpayments not raised as debt (CoA 32)

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

The following employees received payments in excess of what was owed to them.

a) PJ Mdungoane (R5 448,30) - October 2012, calculated as follows:

	R
Salary	4 995,19
Salary paid in July (Month after employee passed away)	4 995,19
Bonus paid (13th Cheque)	4 433,25
Bonus recalculated (PRO Rata)	(4 578,92)
Leave paid	10 469,35
Accumulated Leave (August month end) as per Payday system	(9 830,57)
Difference	5 488,30

b) SJ Mache (R757,88) - November 2012, calculated as follows:

	R
Salary	5 284,25
Bonus paid (13th Cheque)	5 284,25
Bonus recalculated (PRO Rata)	(4 990,53)
Leave paid	5 072,80
Accumulated Leave (October month end) as per Payday system	(4 608,64)
Overtime paid	1 920,87
Overtime worked per Payday system	(1 920,87)
Difference	757,88

The above is mainly due to management not implementing proper internal controls regarding payroll

This matter may result in the overstatement of employee cost and understatement of receivables.

Internal control deficiency

Management did not implement and exercise proper control over the validity and accuracy of the payroll function.

Recommendation

Management should implement proper controls over payroll to ensure that accurate and valid salaries are paid to employees. Management should investigate the above-mentioned and if in agreement, then raise the debt.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

254. Employee costs - Incorrect classification (CoA 20)

Audit finding

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

We identified the following unusual journals and requested supporting documents relating to the journals:

Period	Vote number	Vote Description	Transaction Description	Supp Doc Number	Date processed	Dr/Cr
201209	1125801033610	MEDICAL AID SCHEME	DIR11817 : MARS BOOT SIZE 4	1011718	20120914	866,40
201209	1125801033610	MEDICAL AID SCHEME	DIR11818 : MARS BOOT SIZE 5	1011718	20120914	1 732,80
201209	1125801033610	MEDICAL AID SCHEME	DIR11819 : MARS BOOT SIZE 6	1011718	20120914	6 281,40
201209	1125801033610	MEDICAL AID SCHEME	DIR11820 : MARS BOOT SIZE 7	1011718	20120914	3 682,20
201209	1125801033610	MEDICAL AID SCHEME	DIR11821 : MARS BOOT SIZE 8	1011718	20120914	10 180,20
201209	1125801033610	MEDICAL AID SCHEME	DIR11967 : MARS BOOT SIZE 9	1011718	20120914	7 147,80
201209	1125801033610	MEDICAL AID SCHEME	DIR11968 : MARS BOOT SIZE 10	1011718	20120914	1 949,40
201209	1125801033610	MEDICAL AID SCHEME	DIR11969 : MARS BOOT SIZE 11	1011718	20120914	433,20
201209	1125801033610	MEDICAL AID SCHEME	DIR11970 : MARS BOOT SIZE 12	1011718	20120914	433,20
201209	1125801033610	MEDICAL AID SCHEME	DIR11971 : JUPITER MID ST BOOT BLACK SIZE 3	1011718	20120914	399,00
201209	1125801033610	MEDICAL AID SCHEME	DIR11972 : JUPITER MID ST BOOT BLACI SIZE 4	1011718	20120914	2 394,00
201209	1125801033610	MEDICAL AID SCHEME	DIR11974 : JUPITER MID ST BOOT BLACK SIZE 5	1011718	20120914	10 773,00
201209	1125801033610	MEDICAL AID SCHEME	DIR11976 : JUPITER MID ST BOOT BLACK SIZE 6	1011718	20120914	9 177,00
201209	1125801033610	MEDICAL AID SCHEME	DIR13272 : JUPITER MID ST BOOT BLACK SIZE 7	1011718	20120914	4 788,00
201209	1125801033610	MEDICAL AID SCHEME	DIR13389 : JUPITER MID ST BOOT BLACK SIZE 8	1011718	20120914	3 990,00
201209	1125801033610	MEDICAL AID SCHEME	DIR13390 : JUPITER MID ST BOOT BLACK SIZE 9	1011718	20120914	399,00
201209	1125801033610	MEDICAL AID SCHEME	DIR13391 : JUPITER MID ST BOOT BLACK SIZE 10	1011718	20120914	399,00

After inspecting the supporting documents it was noted that the supporting documents relates to protective clothing bought from Jupiter Trades. The journal was posted as medical aid scheme contributions instead of consumables or general expenses and is therefore incorrectly classified.

The above is mainly due to senior management not performing all required duties to ensure accurate and complete record keeping regarding other financial liabilities.

The risk is that employee cost is overstated by R65 025.60 and general expenses are understated by R65 025.60.

Internal control deficiency

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

Recommendation

Management should 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. Management should consider correcting the financial statements with the amount of R65 025.60

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

255. Employee costs - No EFT printout available to trace salary payments to (CoA 20)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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"

We were unable to trace the following salary payments to an EFT proof of payment due to the fact that no EFT printout was available.

Emp No.	Employee Name	Details	Month	Net Amount
45598	HP MEKGWE	GENERAL WORKER	Jan	3 385,50
210009	MI TLADI	GENERAL WORKER	Sep	3 556,27
45713	MM SKOSANA	GENERAL WORKER	Sep	4 153,24
45582	L NYAMELA	GENERAL WORKER	Sep	3 365,04
Total				14 460,05

This matter may have resulted due to inadequate recordkeeping at the municipality.

The risk is that the deficiencies in internal control could lead to material misstatements at the financial statement level.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

256. Employee costs - Journals not submitted (CoA 32)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: "15. 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—(a) 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;"

Information request 23 refers. Supporting documentation for the following journals have not yet been submitted for audit purposes:

Period	Vote number	Vote Description	Transaction Description	Supp Doc Number	Date processed	Amount
201304	1115051014220	OTHER ALLOWANCES	PCNDHL : NDHLOVU P C	FIN90100029298	20130403	1 168,75
201304	1115051014220	OTHER ALLOWANCES	PCNDHL : NDHLOVU P C	FIN90100029298	20130403	200,00
201211	1115151014220	OTHER ALLOWANCES	PCNDHL : NDHLOVU P C	FIN90100027295	20121107	143,00
201209	1110101014220	OTHER ALLOWANCES	DIR16711 : REFUND	1011721	20120913	768,00

The nature of this exception raised is mainly due to management's failure to respond to the audit request as no information was provided. This is as a result of inadequate record keeping by the municipality

The risk of the above limitation is that the Occurrence, Completeness and Accuracy as well as Compliance of Employee related cost per note 27; and Remuneration of councillors per note 28 to the Financial Statements could not be verified and thus increasing the risk that employee cost could be misstated.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to

supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

257. Employee costs - Payments at termination of service (CoA 32)

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

We tested the following sample of employees whom resigned or retired. We noted that no calculations are done to test the accuracy of final payments made to these employees:

Employee Number	Employee name	Termination date	Reason for termination
201079	S A BUANG	28/07/12	Retirement
300390	S G LEEUW	31/07/12	Retirement
40489	MBP MOTHIBI	31/08/12	Resignation
508709	S N KHAMBULE	31/08/12	Resignation
300202	R J MOFOKENG	30/11/12	Retirement
300215	J MAKATE	05/12/12	Resignation
40349	W MAKELENI	31/12/12	Retirement
10265	M A TSALE	31/01/13	Retirement
509277	J MBATHA	31/01/13	Retirement
40052	R. PJ DHLAMINI	28/02/13	Retirement
42255	JP POTSE	02/04/13	Resignation
509320	MW KOALEPE	30/04/13	Resignation
201215	T CUNNINGHAM	25/06/13	Retirement
45505	K NKETU	26/06/13	Resignation

The above is mainly due to a lack of internal control over final payments made to employees.

This matter may result in overpayments made to employees, which may result in irrecoverable debt to the municipality.

Internal control deficiency

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

Recommendation

Management should implement controls over final payments made to employees when they resign/retire to ensure the accuracy of these payments by recalculating these payments and comparing the results to the Payday system. These calculations should be reviewed by senior management.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Procurement and contract management

258. Procurement - Suppliers with shared information (CoA 34)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (c) that the municipality has and maintains effective , efficient and transparent systems-
- (i) of financial and risk management and internal control

(a) The following suppliers with the same bank account number was identified:

SUPPL_NO	SUPPL_NAME	SUPPL_BANK_ACC	SUPPL_AMT (R)
COMMER	COMMERCIAL UNION	1063941898	2 290.89
METROP	METROPOLITAN INSURANCE	1063941898	36 191.62
SAND00	SANDTON SUN	1450000058	84 816.00
SANL01	SANLAM	1450000058	154 042.18
NEUH00	NEUHOH & VAN DEVENTER	41290755	3 191.16
VANTHO	VAN DEVENTER & THOABALA	41290755	5 645.16
CORIS	CORIS CAPITAL	62033877187	110 617.16
TMALEB	MALEBANE T	62033877187	24 188.70
SDCATT	SDC ATT	62036188044	1 697.40
VANHUY	VAN HUUSTEEN & COETZEE INC	62036188044	24 772.09

(b) The following suppliers with the same VAT number were identified:

SUPPL_NO	SUPPL_NAME	SUPPL_VAT_NO	SUPPL_AMT (R)
GLOBE0	GLOBE ELECTRICAL	4000846586	47 554.56
HEI006	HEILBRON MASSEY	4000846586	12 832.94
DUT008	DU TOIT & MANDELSTAM	4870105949	39 700.30
SHW002	SHONGWE ATTORNEYS	4870105949	384 538.00

(c) The following suppliers with the same telephone number was identified:

SUPPL_NO	SUPPL_NAME	SUPPL_TEL_NO	SUPPL_AMT (R)
BIT123	B.I.T CONSULTING & DISTRIBUTION	568114639	2 030 601.84
DERNOC	DERNOC DISTRIBUTION & PROOJECTS CC	568114639	5 600.00
MCHA01	MCHANGO CONSULTING	568114639	3 321 852.20

This matter may have resulted due to shortcomings over the administration of the supplier database

These may be an indication of possible fictitious suppliers.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above finding and provide evidence that the above suppliers are not fictitious

Management response

Management agrees with the finding and undertakes to investigate and correct the identified weakness.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

CONFIDENTIAL

Investments

259. Investments - All disclosures not included in the financial statements (CoA 8)

Audit finding

According to GRAP 104 paragraph 108: *An entity shall disclose:*

- (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph .79(a); and*
- (b) the terms and conditions relating to its pledge.*

Contrary to the requirements of GRAP 104, the following investments have not been adequately disclosed in the annual financial statements. All these investments were pledged as collateral for liabilities but no disclosure has been made in this regard:

- (a) FNB investment no. 71038146801 of R39 761 serves as guarantee for BJ Monyamara.
- (b) FNB investment no. 71037431386 of R14 252 serves as guarantee for Saambou Bank.

This matter may have resulted due to sufficient time not available for management to do a proper review of the financial statements

Non-compliance to the requirements of GRAP 104 will impact the fair representation of the annual financial statements. Users of the financial statements will not be aware that the municipality cannot access all funds reflected on the face of the financial statements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above findings and make the necessary adjustments to the financial statements

Management response

Management Agree: Management has developed a loan and investment register, sourcing of confirmation of balance will be followed up and reconciliations will be performed on a monthly basis, this will also enable the management to investigate the entire municipality's investment and the guarantees thereof.

Proper adjustments will be done once the investigations have been concluded.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

260. Investments - Control weaknesses noted (CoA 8)

Audit finding

(1) According to the "Banking and investment" policy:

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality, including accurate and up-to date investments register. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date.

On an annual basis, the Chief Financial Officer shall reconcile the general ledger with the investment certificates and investments register to ensure accuracy and correctness.

(2) Section 62 of the MFMA stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

(a) Contrary to the requirements as per the "Banking and investment" policy the following was identified:

- No investment register was kept/maintained for the year under review
- No monthly/annual reconciliations were performed between the general ledger, investment register and investment statements/confirmations to ensure the accuracy and completeness of investment balances

(b) No controls and procedures were in place at the municipality to ensure the accuracy and completeness of investments disclosed in the financial statements

This matters may have resulted due to an investment register not maintained, monthly/annual reconciliations not performed for the financial year.

This matter constitutes non-compliance with the legislative requirements.

Internal control deficiency

The municipality does not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should ensure that a complete and updated investment register is in place for the next financial year and that monthly/annual reconciliations are done between the investment register, investment confirmations/statements and the general ledger to ensure proper management of investments.

Management response

Management agree with the finding:

The investment register for 2013/14 financial year has already been developed, there's an official assigned for requesting confirmation of balances which will enable the municipality to maintain a proper register that will be compliant with the legislation.

The investments will also be reconciled on monthly basis.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

CONFIDENTIAL

Leases

261. Leases - Incomplete disclosure (CoA 16)

Audit finding

GRAP 13 paragraph 42 states:

"42 Lessees shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments, make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years;

(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;

(c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and

(d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing."

GRAP 13 paragraph 61 states:

"Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished."

GRAP 13 paragraph 63 states:

"Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue."

GRAP 13 paragraph 67 states:

"Lessors shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments: Disclosure and Presentation, disclose the following for operating leases: (a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following for operating leases: (a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods: (i) not later than one year, (ii) later than one year and not later than five years, and (iii) later than five years, (b) total contingent rents recognised as revenue in the period, and (c) a general description of the lessor's leasing arrangements."

Per inspection of the financial statements, we identified that management did not make the disclosure with regards to GRAP 13 paragraph 42 and 67. Furthermore, there were no accounting policy for operating leases disclosed for the instances where the Municipality is the lessor.

The above is mainly to management not reviewing the financial statements to ensure that all applicable disclosures were made in accordance with GRAP.

This matter may result in a misstatement of the disclosure in the financial statements.

Internal control deficiency

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

Recommendation

Finance and operating leases should be disclosed in accordance with GRAP. Management should review the financial statements to ensure that it complies with the requirements of GRAP.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

Movable assets

262. PPE - Additions not accurately recorded (CoA 17)

Audit finding

GRAP 17 paragraph 17 states:

"An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost."

GRAP 17 paragraph 21 states:

"The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates."

Management recognised the following additions at the gross value, before deducting the necessary discounts obtained:

Unique No	Full description	Supplier Name	Vote Number	Purchase Date	(R)		
					Purchase Cost recognised	Actual purchase cost after discount	Discount received
162	Gigajet Jet Blaster PX70/130	Ian Dickie & Co Pty LTD	1120201280812	10/10/2012	178 240,00	160 416,00	17 824,00
165	Hot Boitumen Sprayer/ GX160 HH	Ian Dickie & Co Pty LTD	1120051280810	05/09/2012	17 940,00	15 249,00	2 691,00
					<u>20 515,00</u>		

The above is mainly due to management not recognising additions in accordance with GRAP 17.

The risk of the above is non compliance with GRAP 17.

Internal control deficiency

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

Recommendation

Management should recognise additions in accordance with GRAP 17, at the cost of the asset. In future, management should implement a control regarding the review of the fixed asset register, ensuring that additions were recognised at the correct amount.

Management response

Agree:

Asset management unit compiles a list of additions on monthly basis, management will however ensure the accuracy of figures captured on the asset register as per the requirements of GRAP 17.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

263. PPE - Error in depreciation calculation (CoA 4)

Audit finding

The GRAP Framework paragraph 48 states the following:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent."

In the calculation of depreciation on additions, management made the following error:
- instead of dividing the total depreciable amount with the useful life of the assets and multiplying by the period in use in the current year, management divided the total depreciable amount with the days in use in the current year and multiplied by the months in use in the current year which resulted in an incorrect formula to calculate depreciation.

This matter may have resulted due to an oversight by management.

The risk of the above is the depreciation, as set out in note 29 to the financial statements is understated by R71 896 and property, plant and equipment, as set out in note 11 to the financial statements is overstated by the same amount.

Internal control deficiency

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

Recommendation

Management should review the current calculation and ensure that the necessary corrections are made.

Management response

Agree:

Management will start with the process of verifying all the assets as contained in the asset register also ensuring that all additions are coded and included in the assets register,

Management will also verify the accuracy of the lifespan of the assets in enabling the Municipality to calculate depreciation as and when required.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review.

Operating expenditure

264. General expenses - Expenses not recorded in the correct period (CoA 71)

Audit finding

MFMA paragraph 65 (b)(ii) states: *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which accounts for creditors of the municipality."*

We performed a subsequent payments test and inspecting the invoice to determine if a liability should be raised at year end. If a liability should be raised we inspected the creditors age analysis to determine if a liability was raised. We also determined if the expense was recognised in the correct accounting period. The following liabilities were not raised at year end and the expenses were not recognised in the correct period.

Supplier	Invoice date	Amount
Waterfront	27/06/2013	700,00
Walsum	26/06/2013	552,00
Sneldiens	26/06/2013	3 099,00
Hamba Nathi	28/05/2013	12 430,00
JEM JEM	31/05/2013	5 150,00
Hamba Nathi	30/04/2013	18 239,00
Hamba Nathi	Monday, June 10, 2013	1 034,00
Boerefort MF	Monday, June 10, 2013	11 057,00
Total		52 262,00

This matter may have resulted due to proper controls not being implemented to ensure that all expenses and payables are accounted for by the municipality.

The risk of the above is that Payables from Exchange transactions as per note 12 as well as General Expenditure as per note 34 may be understated at year end.

Internal control deficiency

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

Recommendation

Proper controls over safe guarding of information should be implemented to ensure all creditors are accounted for at year end. The necessary adjustment journals should be processed to correct these matters.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Payable

265. Payables - Use of suspense accounts (CoA 54)

Audit finding

Section 65(2)(j) of the Municipal Finance Management Act states the following: *"The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all financial accounts of the municipality are closed at the end of each month and reconciled with its records."*

Management was unable to provide us with reasons or supporting information regarding this suspense account.

Account number	Account description	Balance as at 30 June 2013
9100088010008	SALARY ERROR DEFAULT ACCOUNT	57 668,10

This matter may have resulted due the incorrect allocation of a transaction to this suspense account.

This matter may result in payables being misstated.

Internal control deficiency

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

Recommendation

Management should investigate suspense accounts and follow up on long outstanding items in order to clear suspense accounts in a timely manner. Suspense accounts must be cleared by the end of the financial year. Each transactions should be transferred back to the original documents and corrections processed with sufficient and appropriate supporting documentation attached. Journals should be able to stand alone and make clear sense to reviewer, approvers and auditors.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Prepayments

266. Consumer deposits - No reconciliation performed between the register and AFS (CoA 25)

Audit finding

The MFMA, Section 97: Revenue management, states the following:

“The accounting officer of a municipal entity must take all reasonable steps to ensure—

(a) that the entity has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the entity is collected;

(h) that the municipal entity has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed”

The following unexplained difference was noted between the amount disclosed in the financial statements and the amount per consumer deposit register:

Name	Consumer deposit register/list	AFS	Difference
Consumer deposit	4 239 275,00	4 077 106.00	162 169,00

This matter may have resulted due to the fact that the financial system and the supporting registers were not reconciled on a frequent basis.

This might result in consumer deposit being misstated.

Internal control deficiency

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

Recommendation

Management must ensure that the monthly reconciliations between the deposit register and the deposit control account are performed.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

Revenue

267. Service charges - Incorrect tariff charged (CoA 9)

Audit finding

Section 64 of the MFMA:

- (1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.
- (2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—
- (a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
 - (b) that revenue due to the municipality is calculated on a monthly basis;
 - (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
 - (d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;
 - (e) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
 - (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
 - (g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and
 - (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Consumer account 10003814 was charged a business tariff for sewerage but is indicated as "domestic" on the system. The following difference was noted:

Business tariff	232,56
Domestic tariff	71,76
Difference	160,80
For the year 2013 (July 2012- June 2013)	1 929,60

The above is mainly due to management not ensuring that the correct tariffs are charged according to the debtor type.

The risk of the above is that service charges and receivables could be overstated.

Internal control deficiency

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

Recommendation

Management should implement controls over the updating of the debtor master file to ensure that the correct tariffs are allocated to the correct type of debtor. Management should review on a timely basis that the correct tariff are used to ensure the accuracy of service charges.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

268. Interest received - Deficiencies noted (CoA 23)

Audit finding

Section 62(1) of MFMA state that " The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- (c) that the municipality has and maintains effective , efficient and transparent systems-
- (i) of financial and risk management and internal control

a) The total interest/income earned (R104 598,27) on investments for the year was incorrectly reflected as "Fair value adjustments" in the Statement of Financial Performance in the financial statements.

Amount should have been split as follows:

Interest/income earned on investments	R26 941,47
Fair value adjustments	R77 656,80

Difference of R740,73 noted between amount per financial statements (R105 339) and per above (R104 598,27) is due to the fact that the FNB investment per Note 4 of the financial statements were incorrectly disclosed as R14 992 instead of R14 252 as per confirmation obtained from First National Bank

b) Dividends received from Senwes were incorrectly disclosed as part of "Interest received", resulting in an overstatement of "Interest received" and an understatement of "Other income" Refer below for details:

Vote number	Reference	Trans Date	Credit Amt	TOTAL	Transaction Description
1115052200610	10021160005	20130107	956.71	(956.71)	SENWES SENWSDIV24S02295S240
1115052200610	10021160010	20130107	863.20	(863.20)	SENWES SENWSBDIV24SB02295B2
1115052200610	10020250010	20121105	597.60	(597.60)	SENWES SENWSBDIV23SB02295B2
1115052200610	10020250015	20121105	551.95	(551.95)	SENWES SENWSDIV23S02295S232
			2 969.46	(2 969.46)	

c) As per note 24 it was stated that the total amount of "interest charged on trade and other receivables" arisen from exchange transactions. This is incorrect as interest incurred on long outstanding "Property rates" accounts (non-exchange revenue) is also included in the amount of R20 008 023 (R17 103 260 - prior year)

Also, the amount of R20 008 023 (R17 103 260 - prior year) is incorrectly indicated as "Investment revenue" in descriptive detail of note 24

This matter may have resulted due to sufficient time not available for management to do a proper review of the financial statements as well as incorrect allocations that were made in the general ledger

This matter will result in a misstatement of interest received as per note 24 in the financial statements

Internal control deficiency

The municipality do not select and develop control activities over processes and transactions that contribute to the mitigation of risks to the achievement of the objectives, to an acceptable level.

Recommendation

Management should investigate the above findings and make the necessary adjustments where applicable

Management response

Agree with the finding

Management will ensure that investigations are conducted and all necessary adjustments are done.

Auditor's conclusion

Management is in agreement with the audit finding. Matter will therefore remain unresolved for the year under review

269. Service charges - Shortcomings regarding new connections (CoA 6)

Audit finding

Section 62 of the MFMA states:

*"General financial management functions.—(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—
(c) that the municipality has and maintains effective, efficient and transparent systems—
(i) of financial and risk management and internal control."*

We obtained application form number 0150 for new connections and noted the following deficiencies:

- * The new account number was not indicated
- * The form was not signed by the applicant
- * The form was not properly completed by the applicant.
- * The form was not completed by an official of the municipality.
- * The form was not signed by an official of the municipality.

The above is mainly due to the importance of internal controls is not emphasised to employees.

The risk of the above is that these deficiencies may lead to material weaknesses within the internal control environment.

Internal control deficiency

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

Recommendation

Application forms should be signed by the responsible official as indication that the form was captured on e-Venus. Management should investigate on a weekly basis that all new application forms have been uploaded on e-Venus and management should sign the form as proof of review.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

CONFIDENTIAL

VAT

270. VAT - VAT 103 form not submitted (CoA 49)

Audit finding

Paragraph 15 of the Public Audit Act No. 25 of 2004, states the following: *"15. 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— (a) 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;"*

Information request 89 refers. The municipality could not provide us with a VAT103 (Notice of registration).

The above is mainly due to a lack of sufficient recordkeeping at the municipality.

The risk of the above limitation of scope is that we were not able to verify whether the municipality has complied with the VAT registration requirements.

Internal control deficiency

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

Recommendation

Management should ensure that all information supporting the financial records is safeguarded, properly managed and readily available for the users thereof. Should management be unable to supply the information requested in the time specified, they should indicate the reasons for the failure to submit information or the delay in providing the information within reasonable time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

1. SECURITY MANAGEMENT

Audit finding

Security management ensures that security controls are implemented to prevent unauthorised access to the network and information systems that generate the information used to prepare the financial statements.

Key audit findings identified:

- The municipality had still not designed an IT security policy to specify the internal controls required for securing the information resources.
- A firewall had not been implemented to protect the municipality's network against unauthorised access.
- The access controls that should be configured on the network domain to prevent unauthorised access to the municipality's IT resources had not been configured because Active Directory had not been installed. As a result, system users were able to access the network without passwords if they chose to do so
- Antivirus software had still not been installed to prevent viruses from accessing the municipality's IT systems

The potential impact of the findings identified is that security management practices might result in systems being insecurely configured and vulnerable to compromise.

Internal control deficiency

- The internal control deficiency identified was categorised as a Financial and Performance Management deficiency as the absence of the security policy is attributed to the lack of skill at management level to develop IT policies due to the technical nature of the IT internal controls. The candidate appointed to the position of the IT manager did not accept the offer as she found the salary package non competitive.

Recommendation

The Director of Corporate Services is advised to;

- Obtain the required IT skill to develop the IT security policy. Alternatively consult with the district municipality or Cogta for available assistance in this regard.
- Obtain the required IT skill to install the firewall .Implement windows active directory network authentication to enable the system administrator to apply standard security configuration settings on the network that is aligned to the security requirements of the municipality
- Install the antivirus or engage the service of a third party. It should be configured to identify and block the most recently discovered security threats that could compromise the municipality's IT systems

The chief financial officer should make funds available for the network infrastructure to facilitate implementation of the access controls.

Management response

Outstanding

Auditor's conclusion

Management response outstanding

2. USER ACCESS MANAGEMENT

Audit finding

User access management is the systematic process of managing the access of users to an application. The process includes the creation, review, disabling and removal of user accounts.

Key audit findings identified:

The municipality had still not designed the user account management procedures that should define the internal controls to be adhered to in the creation of user accounts, the allocation or modification of access rights and the deactivation of user accounts that are no longer required. Lack of formalised controls resulted in;

- User account management procedures had not been designed.
- Accounts no longer required were not disabled.
- An excessive number of accounts assigned administrator rights. These accounts included the accounts of the billing consultant, chief financial officer and the financial manager.
- No evidence that activities on administrator accounts were being monitored to detect changes made without proper authorisation.
- No evidence was available to confirm that the access rights of ordinary users were periodically verified to confirm the compatibility of these access rights with changes in their job responsibilities and to ensure that accounts no longer required by the users due to resignations, transfers or promotion were removed

The potential impact of the findings identified is that lack of a designed user access controls could lead to system access, data integrity and confidentiality being compromised.

Internal control deficiency

The internal control deficiency identified was categorised as a Financial and Performance Management deficiency as lack the of clearly defined and implemented user account management controls is contributed to the lack of skill in the municipality to design such controls.

Recommendation

The Director of Corporate Services should obtain the required IT skill to develop the user account management policy or procedure. Alternatively consult with the district municipality or Cogta for available assistance in this regard.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.

3. INFORMATION TECHNOLOGY SERVICE CONTINUITY

Audit finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes IT continuity planning, disaster recovery plans and backups.

Key audit finding identified:

- Lack of a backup and retention strategy.
- There was no evidence of backup tapes being tested for restoration.
- An official off-site storage facility had still not been arranged for the backups. The backup tapes were stored in the house of the billing consultant without formal authorisation from the municipality.
- There was no evidence of backups of the human resource and payroll data

The potential impact of the above findings identified is that the availability and completeness of financial information could be negatively impacted.

Internal control deficiency

The internal control deficiency identified was categorised as a Financial and Performance Management deficiency as inadequate backup controls are attributed to the lack of skill at management level to design and implement appropriate backup controls.

Recommendation

The director of corporate service and the CFO should improve the backup controls to ensure that data could be retrieved after a disaster or system malfunction. An official off-site storage facility should be established for backup tapes. Backups should regularly be tested to confirm that the information saved on them could be restored. A backup register should be maintained as evidence of the backups taken and to confirm that they would be available at any given time.

Management response

Outstanding.

Auditor's conclusion

Management response is outstanding.