

FINAL MANAGEMENT REPORT 30 JUNE 2016 : PRINCE ALBERT MUNICIPALITY : CORRECTIVE AUDIT ACTION PLAN

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

1. Non-compliance with the Municipal Systems Act

Audit finding

Per section 46 (1)(b) of the Municipal Systems Act. 2000 (Act No.32 of 2000),
"A municipality must prepare for each financial year a performance report reflecting a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial."

The Prince Albert Municipality Performance Management Framework section 7.2.8 states:
"Please note that KPI targets may not be adjusted downwards"

Finding 1:

Per inspection of the Annual Performance Report submitted for audit purposes inconsistencies were noted whereby the comparisons of the current year performances with performances in the previous financial year hadn't been included in the report.

Finding 2:

The following detailed targets were adjusted downwards during the year

: Key Performance Indicator	Initial Planned Target	Target Amended
[TL6] Number of Residential account holders connected to the municipal electrical infrastructure network (credit and prepaid electrical metering)	3 065	2 110
[TL11] Provide 6kl free basic water per household per month to registered indigent account holders	2 232	870

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls to ensure that the 2015/16 financial year annual performance report complies with all the requirements as set out in the Municipal Systems Act.</p> <p>Management did not ensure that adjustments to targets is performed as prescribed in the Performance Management Framework and as per Framework for Managing Programme Performance Information</p>	<p>Management should in future ensure that the Annual Performance Report meet all the requirements as set out in the Municipal Systems Act and should ensure that the adjustment of performance targets during the year should be completed as prescribed in the municipality's Performance Management Framework and the Framework for Managing Programme Performance Information.</p>	<p>Management concur with the finding.</p> <p>Concur. Will take remedial steps in current financial year.</p>	<p>Appoint PMS official</p> <p>Undergo PDO training</p> <p>Review all KPI's in November</p>	<p>1 February 2017</p> <p>Nov 16</p> <p>Nov 16</p>	<p>Corporate Service manager in tandem with all managers</p>	<p>IDP/PMS manager appointed to start if conditions accepted on 1 February 2017</p> <p>Training postponed to March 2017</p> <p>KPIs to be reviewed after acceptance of Adjustment budget</p>

2. Invalid reasons for deviations

Audit finding

Supply Chain Management (SCM) regulation 36: Deviation from, and ratification of, minor breaches of procurement processes

(1) The accounting officer may –

(a) dispense with the official procurement processes established by this policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –

- (i) in an emergency;
- (ii) if such goods or services are produced or available from a single provider only;
- (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile; or
- (iv) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
- (v) acquisition of animals for zoos.

(b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.

The following deviations were considered invalid, with the reasons stated below:

Supplier name	Payment number	Amount awarded (R)
VODACOM	1750	29 000.00
BOOM GATE SYSTEMS	1126	17 091.80
AUTACS SIGNS	1020	12 252.24
KAROO MOTORS WERKSWINKEL	1718	17 350.00
KAROO MOTORS WERKSWINKEL	1142	8 705.00
MMA OFFICE FURNITURE	49914	9 690.00
Total:		94 089.04

Vodacom

Vodacom was awarded the amount of R29 000 through a deviation as only two quotes were provided for audit purposes (Vodacom and Cell C). There was no evidence presented as part of the procurement documentation to support any other suppliers having been approached to quote.

Boom Gate Systems

A deviation was recorded as a result of only two suppliers giving quotes to the municipality. As a result, the deviation was approved due to it being an emergency. This explanation does not seem reasonable as the supplier selected is situated in Cape Town. There is no evidence of more suppliers being contacted to obtain the required number of quotes.

Autacs Signs

A deviation was recorded as a result of only two suppliers giving quotes to the municipality. As a result, the deviation was approved due to it being an emergency. This explanation does not seem reasonable as transaction # 1642 with Western Cape Signs revealed that 3 other suppliers could have been contacted to provide quotes.

Karoo Motors Werkswinkel (1718)

Inspected approved request for deviation from procurement process document and confirmed that the deviation was as a result of only one supplier giving quotes to the municipality and as a result the deviation was approved due to the Beaufort west roadworthy centre being the closest in the Leeugamka area. This explanation does not seem reasonable as more suppliers in Oudtshoorn could have quoted to assess where the least amount of money would have been spent.

Karoo Motors Werkswinkel (1142)

A road worthiness test and the subsequent repairs required were performed on vehicle CCA 4495 at Karoo Motors Werkswinkel. No other suppliers were quoted regarding the repairing of the vehicle.

MMA Office Furniture

A deviation was approved due to only two suppliers being able to provide fold-in tables. This explanation does not seem reasonable as the supplier is situated in George where more suppliers could definitely have quoted.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p><u><i>Financial management - compliance monitoring</i></u></p> <p>Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the deviation process within supply chain management.</p>	<p>Appropriate controls should be implemented to monitor and ensure compliance with SCM regulations and the municipality's SCM policy.</p>	<p>Management agrees with finding</p> <p>Management will scrutinize future deviations more diligently Vodacom and Boomgate systems were also findings by internal audit and disclosed as irregular</p>	<p>None</p>	<p>N/A</p>	<p>Christa Baadjies</p>	<p>Investigate all deviations from 1 July 2016 and corrected if necessary.</p>

3. Deviations not recorded

Audit finding

Supply chain management (SCM) regulation 23 (c) requires the accounting officer to - Regulation 17(a) of the Municipal Supply Chain Management (SCM) regulations indicates that, quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality and that if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the Chief Financial Officer or an official designated by the Chief Financial Officer.

Regulation 16(d) of the Municipal Supply Chain Management (SCM) regulations indicates that, the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices.

Two instances were identified where the municipality procured services without obtaining three quotations from suppliers as required by the municipality's supply chain policy. A request for deviation from procurement was completed, however, a review of the deviations for the year revealed that the municipality did not record these procurements as a deviation

No.	Supplier name	Payment number	Total rand value of the award (R)
1	WALTONS	904	2 302.60
2	TYRES TREADS	1086	9 645.00

There is a lack of adequate controls in place to monitor compliance with SCM regulations and the municipality's approved policies. The municipality's SCM process may not be fair and equitable and may result in the municipality not receiving value for money on the award. This is non-compliance with municipal SCM regulation 17(a), 16(d).

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to supply chain management.	Appropriate controls should be implemented to monitor and ensure compliance with SCM regulations and the municipality's SCM policy.	Management agrees with finding regarding Waltons Management disagrees with finding regarding Tyre's and Treads since quotations were requested from 4 suppliers. Management will scrutinize future deviations more diligently	Investigate all deviations	1 July 2016	C.Baadjies	Investigate all deviations from 1 July 2016 and corrected if necessary.

ANNEXURE B: OTHER IMPORTANT MATTERS
Unauthorised, Irregular, Fruitless and Wasteful Expenditure

4. Inaccurate disclosure with unauthorised expenditure

Audit finding

Section 62(1)(b) of the Municipal Finance Management act, 2003 (Act no 56 of 2003) (MFMA) states that: *“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure — (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 disclosure errors were identified during comparison of prior year reported amounts (2015-16 Annual Financial Statements, note 39) for unauthorised expenditure with the current year comparative amounts:

- Unauthorised expenditure incident has been disclosed even though there have been no incidents in the 2016 financial period.
- Current year unauthorised expenditure written off has incorrectly been disclosed as unspent grants utilised to fund operating expenditure.

Description	Amount (2016)
Opening Balance	R48 268 010
Unauthorised expenditure current year- capital	-
Unauthorised expenditure current year- operating	-
Unauthorised expenditure current year- Unspent grants utilised to fund operating expenditure	-R48 268 010
Written off by council	-
-	-

The actual expenditure total disclosed in note 39.1 unauthorised expenditure does not agree to the total expenditure on the statement of financial performance. This results in a difference of R2 635 302.

Description	Amount (2016)
Note 39.1 Unauthorised expenditure	R53 270 765
Statement of financial performance	R50 635 463
Difference	R2 635 302

This inaccurate disclosure could be misleading to the users of the Annual Financial Statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance Management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information in terms of disclosures of Unauthorised Expenditure.	Management should perform a detailed review of the financial statements before submission to ensure the information disclosed is accurate. The financial statements should be adjusted accordingly.	Management agrees with audit finding. The mentioned notes will be amended to address error.	Adjustment to note in the annual financial statements	25/10/2016	Mubesko CFO	Review the financial statements in advance

5. Inaccurate disclosure in the Annual Financial Statements

Audit finding

Commitments as per Note 41 in the Annual Financial Statements amounting to R6 310 218 was disclosed, however there is no note whether the amount includes or excludes VAT.

The entity is committed to the external party for the entire amount inclusive of VAT.

The non-disclosure of the VAT implication can mislead the users of the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance Management: The amounts in the financial reports are not accurately supported by the evidence and information obtained. A process to review the accuracy of the underlying information was not in place.	The municipality can either include a note that those amounts exclude VAT or change the disclosure to include VAT.	Management agrees with finding	Include not in AFS that commitments are VAT exclusive	31 October 2016	Mubesko CFO	Review the financial statements in advance

6. Vetting of tax clearance not obtained prior to s32 award

Audit finding

SCM Policy 13 requires that a written quotation or bid may not be considered unless the provider who submitted the quotation or bid – (b) has authorised the municipality to obtain a tax clearance from the South Africa Revenue Services that the provider's tax matters are in order;

The following contracts awarded by other organs of state were subsequently further awarded by the Prince Albert Municipality during 2016 through the facility of SCM policy s32.

The municipality had requested confirmations of validity of the awards from the respective organs of state, however there is no evidence that the municipality had requested tax clearance certificates from either supplier or SARS relating to the 2016 award, to assess the current 2016 good standing of the suppliers:

Item Description	Supplier	Tender number	Expenditure (Payments current year)
Financial framework	Mubesko	SCM8/2016	130,860.71
Printing and distribution of monthly municipal accounts	CAB Holdings	SCM52/2015	156,744.00
Supply and delivery of photocopier machine	Konica Minolta	SCM7/2016	36,798.08
			324,402.79

This results in irregular expenditure to the value of R324 402.79.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMEN-DATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPON-SIBLE PERSON	PROGRES S TO 15/01/2017
Financial management – compliance monitoring Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the vetting of tax clearances prior to the issue of s32 awards.	The disclosure for irregular expenditure would need to be updated to include the above. Appropriate controls should be implemented to monitor and ensure compliance with SCM regulations and the municipality's SCM policy.	Management disagrees with finding regarding irregular expenditure. Please find attached tax clearance certificates for above-mentioned vendors. So no award was made to persons whose tax clearance is not in order. SCM will check the tax status of all awards made with the Central Supplier Database before making award.	Confirm that all awards made are made to persons whose tax matters are in order.	30/11/2016	C Baadjies	Implemented

Additional Management Comments

In support of the management comments raised during the discussion of the draft management report on 10 November 2016, we hereby submit our additional management comments for consideration by the Office of the Auditor General on the following conclusion as contained in the draft management reported, dated 28 October 2016, Page 9, paragraph 29:

“I could not obtain sufficient appropriate audit evidence that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by supply chain management (SCM) regulation 43.”

The above conclusion relates to the finding “Vetting of tax clearance not obtained prior to s32 award”, as per pages 37 – 38 of the draft management report.

In addition to the management comments already provided to you, we now submit the following additional comments on the said finding.

A. Additional Management Comments on AG finding:

As per our interpretation of Section 32 (refer extraction below from the Prince Albert Municipality SCM Policy), **the award was made by the other organ of state, NOT the Prince Albert Municipality**. As clearly stated below, the accounting officer may procure goods or services under a contract secured by another organ of state (**i.e. awarded by the other organ of state**).

“32. Procurement of goods and services under contracts secured by other organs of state

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

One of the biggest benefits of utilising section 32 of the SCM regulations, is in fact the time that is saved by **NOT having to repeat all the onerous and time-consuming procedures that have to be followed in terms of the SCM regulations when an award was made**.

We therefore did not consider it necessary to again obtain a tax clearance certificate when we opted to utilise the contract secured by the other organ of state - **this was the responsibility of the respective organ of state who has made the award, and not the Prince Albert Municipality, who has, per our interpretation, not made the award ourselves, but instead utilised the contract secured by another organ of state to procure**.

We consequently also did not consider it necessary to obtain the following, which as per the SCM regulations, should also be obtained prior to any awards being made:

- a) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services for which payment is overdue for more than 30 days as per SCM Regulation 21 (d) (ii);
- b) particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material noncompliance or dispute concerning the execution of such contract as per SCM Regulation 21 (d) (ii);
- c) The winning bidder's account for municipal rates and taxes and municipal service charges were not in arrears for more than 3 months at the time of awarding the contract as per SCM Regulation 28 (1) (c);
- d) The winning provider submitted a declaration of interest and the following was declared as per SCM Regulation 13 (1) (c);
- e) i) Whether he/she is in the service of state or has been in the service of state for the previous twelve (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 (12) months;
- iii) Whether the spouse, child or parent of the provider or a director, manager, shareholder or stakeholder of a provider who is a company or cc, is in the service of the state or has been in the service of the state for the previous twelve (12) months.

Clearly, none of the above is necessary, as it all should have been obtained, as per the SCM Regulations, **PRIOR TO THE AWARD BEING MADE**, i.e. when the other organ of the state has awarded the contract **AND NOT WHEN THE PRINCE ALBERT MUNICIPALITY HAS OPTED TO PROCURE THE GOODS ALREADY SECURED BY ANOTHER ORGAN OF STATE.**

We therefore strongly disagree with the AG's interpretation of when the award was made. Refer the following section as included in the finding of the AG:

"The following contracts awarded by other organs of state were subsequently further awarded by the Prince Albert Municipality during 2016 through the facility of SCM policy s32."

It is respectfully submitted that an award cannot be "further awarded" as per the AG's finding. As per our interpretation, both the tender process, as well as the award being made, can only be done once.

The Prince Albert Municipality merely approved the decision to procure the goods or services under the contracts **already secured (i.e. awarded) by the other organ of state.**

B. Additional Management Comments on AG Root Cause:

We disagree that management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations.

The following monitoring controls were in fact implemented to ensure compliance monitoring with applicable laws and regulations when the S32 mechanism is utilised:

- The Prince Albert Municipality only utilised the S32 mechanism for Municipalities who have a track record of clean audits and good governance;

- All the other organs of state which we have used when the S32 mechanism was utilised, were in fact registered on the Western Cape Supplier Database. As per the MOU between these Municipalities and the Western Cape Treasury (refer Section 8 as per the MOU attached), Provincial Treasury was in fact responsible for obtaining the tax clearance certificates (as from 1 July 2016, this will now be the responsibility of National Treasury).

Proof that all of these suppliers are in fact registered on the Western Cape Database, is also attached.

It is submitted that, bearing in mind that the respective organs of state were not even required to obtain the tax clearance certificates (as this responsibility was transferred to the Western Cape Treasury, as administrators of the database), how can the Prince Albert Municipality now be regarded as incurring irregular expenditure?

As correctly stated by the AG in the finding, we have requested confirmation of the validity awards made by the respective organs of state. Positive confirmation was received in all instances.

- Since the time of your AG query, we have obtained Tax clearance certificates applicable to the timing of the contract being secured by the PAM. All of these suppliers' tax matters were in fact in order at the said time.

The above is summarised below. Proof of confirmation received, as well as the tax clearances received, is also attached.

Item description	Supplier	Municipality who has awarded the tender	Timing of approval by BAC to utilise SCM regulation 32 to procure the said services	Confirmation received from respective organ of state to confirm supply chain matters were in fact adhered to when award was made	Tax clearance available on file for date when PAM BAC has approved the utilisation of the SCM Reg 32 mechanism	Supplier Registered on Western Cape Supplier database
Financial Framework	Mubesko	Knysna Municipality	10 February 2016	Yes – in order	Yes – in order	Yes – in order
Printing and distribution of monthly municipal accounts	CAB Holdings	George Municipality	10 September 2015	Yes – in order	Yes – in order	Yes – in order
Supply and delivery of photocopy machine	Konica Minolta	Eden District Municipality	11 March 2016	Yes – in order	Yes – in order	Yes – in order

We therefore kindly request the Office of the Auditor-General to take the above into consideration when the conclusion on whether the said expenditure should in fact be regarded as irregular, is finalised.

7. Annual Financial Statements Note 19 Property Rates - Incorrect property values

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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 prior year information reflected in Note 19 of the annual financial statements does not agree to the 2015 annual financial statements or the 2015 supplementary valuation roll.

VALUATIONS - GENERAL VALUATIONS 1 JULY 2012			
	Per the 2015 AFS/ Valuation roll (R)	Per 2016 AFS (2015 comparative) (R)	Difference (R)
Leeu-Gamka - Land and Buildings	25 280 200	25 345 200	65 000
Klaarstroom - Land and Buildings	10 229 400	13 384 900	3 155 500
Prince Albert - Land and Buildings	611 919 300	617 638 700	5 719 400
Rural - Land and Buildings	689 091 100	687 856 100	-1 235 000
Welgemoed - Land and Buildings	8 809 500	8 811 500	2 000
	1 345 329 500	1 353 036 400	7 706 900

Management did not take into account the signed prior year financial statements and the prior year valuation roll when completing note 19 of the annual financial statements.

The incorrect information is reflected in note 19 of the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p><i>Financial and Performance management –</i></p> <p>Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p> <p>The financial statements were not adequately reviewed to ensure that the information presented and disclosed is accurate prior to being submitted for audit purposes.</p>	<p>Management should prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information and that a detailed review of financial statements should be performed.</p>	<p>Management agrees with the recommendation.</p> <p>Note 19 in the AFS will be amended with the correct amount</p>	<p>Correction of note 19 in the AFS</p>	<p>15 September 2016</p>	<p>CFO</p>	<p>Review the financial statements in advance</p>

8. Late submission of reports

Audit finding

Section 52 (d) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states:

"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."

The following had been noted with regards to the quarterly reports on the implementation of the budget and financial state affairs of the municipality that were prepared and submitted during the 2015/16 financial year:

- Quarter 1 Report – The reported was submitted on 6 November 2015 which is not with the 30 days' period as prescribed by the legislation.
- Quarter 4 Report – No proof of the report prepared was obtained for audit purposes and if the submission of the report was done timeously as per the legislation.

This results in non-compliance with laws and regulations.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Leadership Management did not exercise oversight responsibility regarding performance reporting and compliance and related internal controls to ensure that the Quarter 1 and Quarter 4 reports for the 2015/16 financial year had been submitted timeously as prescribed by the legislation.	Management should in future ensure that all the quarterly reports are prepared and submitted timeously as required by the legislation.	Management agrees with finding of late submission. Management disagrees with finding of none submission and attach e-mail sent to PT and NT on 29 July 2016. Management agrees with recommendation, but due to lack of staff will be unable to implement	None	Continuously	Municipal manager	Q1 performance report audited and will be submitted to Audit committee in February

9. Annual Financial Statements Note 23 Other Income – Balance of VAT on grants does not reconcile to VAT

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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 current year balance reflected in Note 23 – Other Income (VAT on grants) of the annual financial statements does not agree to the VAT balance in the Appendix B Disclosures of Grants and Subsidies in terms of Section 123 of MFMA, 56 of 2003. Please refer to the reconciliation below:

VAT on Grants:	
VAT on Grants – Note 23	2 127 727
VAT recognised – Appendix B	2 080 447
Unreconciled differences	47 280

Management did not reconcile the information when completing note 23 and appendix B of the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial management - Regular, accurate and complete financial reports The financial statements were not adequately reviewed to ensure that the information presented and disclosed in terms of grants is accurate prior to being submitted for audit purposes.	Management should perform a detailed review of financial statements to ensure that they are accurate.	Management agrees with finding. Management agrees with recommendation. An recon of the VAT per appendix B and the income vote will be included in the monthly grant journal	Add recon to monthly grant journal	19/10/2016	CFO	Implemented

10. Financial risk management - Inaccurate disclosure

Audit finding

Disclosure deficiencies were identified in the Annual Financial Statements, as stated below:

Note 43 (d):

The comparative information relating to the allocation between the different classes of exchange debtors refers to 0.5% for the category "other", however upon recalculation, this % is in fact 1.72%.

The column total also does not cast to 100%.

The total of R8 972 218 also does not reconcile to the amount reflected in Note 15, being R9 110 999. The below details the issues noted, as indicated in bold:

	2016 %	2016 R	2015 %	2015 R
Exchange Debtors				
Electricity	5.83%	700 396	4.79%	429 438
Water	46.65%	5 609 186	44.48%	3 991 221
Refuse	22.55%	2 710 830	23.62%	2 119 378
Sewerage	22.78%	2 738 858	25.38%	2 277 553
Other	2.19%	263 724	1.72%	154 628
	100.00%	12 022 994	100.00%	8 972 218

Note 43 (e):

There is currently no disclosure relating to the liquidity risk surrounding non-current provisions. The comparative information is also different to that which was disclosed in the prior year signed Annual Financial Statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial management – Compliance monitoring The amounts in the financial reports are not accurately supported by the evidence and information obtained. A process to review the accuracy of the underlying information was not in place.</p>	<p>Management should review the notes to the Annual Financial Statements before submission to ensure that all information is accurate and complete.</p>	<p>Management agrees with finding</p>	<p>Adjust AFS</p>	<p>2016/10/31</p>	<p>Mubesko</p>	<p>AFS will be reviewed in advance</p>

11. Inaccurate disclosure in the Annual Financial Statements

Audit finding

Disclosure deficiencies were identified in the Annual Financial Statements, as stated below:

1. Statement of Changes in Net Assets:

Accumulated surplus as per 2015 AFS – Balance at 1 July 2014	R79 851 296
Accumulated surplus as per 2016 AFS – Balance at 1 July 2014	R79 815 672
Difference	R35 624

2. Note 34 Correction of errors in terms of GRAP 3

Statement of Financial Position:

Accumulated surplus – 2015 Previously reported – As per 2015 AFS	R92 934 738
Accumulated surplus – 2015 Previously reported – As per note 34	R92 899 114
Difference	R35 624

Property, plant and equipment – 2015 Previously reported – As per 2015 AFS	R86 441 698
Property, plant and equipment – 2015 Previously reported – As per note 34	R86 406 068
Difference	R35 630

3. Note 34 Correction of errors in terms of GRAP 3

Expenditure:

The total expenditure as per note 34 (previously reported) does not cast. The amount in the AFS is R61 208 998 - but should be R69 530 776.

4. Note 34 Correction of errors in terms of GRAP 3

Net (deficit)/surplus for the year:

The net surplus/(deficit) as per note 34 (previously reported) does not cast. The amount in the financial statements is shown as R21 405 220 - but should be R13 083 442.

5. Note 34 Correction of errors in terms of GRAP 3

Note 34.3 Error on calculation of commission for motor vehicle licences

The R4 565 journal should be disclosed the other way around, i.e. Accumulated surplus should be disclosed as a debit and trade and other payables should be disclosed as a credit.

The inaccurate disclosures could be misleading to the users of the Annual Financial Statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial management – Compliance monitoring</p> <p>The amounts in the financial reports are not accurately supported by the evidence and information obtained in terms of the disclosures of funds and reserves. A process to review the accuracy of the underlying information was not in place.</p>	<p>Management should review the notes to the Annual Financial Statements before submission to ensure that all information is accurate and complete.</p>	<p>Management's response is as follows:</p> <p>Notes 1 & 2 We do not agree with finding. A correcting journal was that did not reconcile with the ledger, but, the correcting processed the journal in the 2015-2016 ledger so that</p> <p>Notes 3 & 4 We agree with the audit finding. The error in note 34 has</p> <p>Note 5 We agree with audit finding. The error in note 34 has b</p>	<p>Note 3,4 and 5 corrected.</p>	<p>24/10/2016</p>	<p>Mubesko CFO</p>	<p>Completed</p>

12. Incomplete disclosure of bank accounts

Audit finding

In terms of Section 125 (2)(a) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003), (MFMA) that the notes to the financial statements must disclose in respect of each bank account held by the municipality during the financial year the name of the bank where the account is or was held, type of account and year opening and year end balances in each of these bank accounts.

Five accounts were included on the bank confirmation as active, however only four accounts were disclosed in the financial statements.

The following account was not disclosed in the financial statements:

Account number	Account name	Balance (R)
9074051846	32 Day Notice	0.00

This results in non-compliance with laws and regulations as prescribed by the MFMA.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management Management did not review and monitor compliance with applicable legislation as all active bank accounts were not disclosed in the financial statement.</p> <p>There are no adequate controls in place to monitor compliance with laws and regulations.</p>	<p>Management should establish a checklist to ensure all required compliance matters are adhered to with disclosures in the Annual financial statements.</p>	<p>Management agrees with the finding.</p>	<p>AFS will be amended</p>	<p>24/10/2016</p>	<p>CFO</p>	<p>Completed</p>

13. Bank Reconciliation not in agreement with financial statements

Audit finding

In terms of section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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 cash book balance as per bank reconciliation differs to the cash balance as depicted in the financial statements.

The following amounts per the annual financial statements did not agree to the bank reconciliation as at 30 June 2016:

Account number	Description	Amount as per Financial statements(R)	Amount as per bank reconciliation (R)	Difference (R)
2640560064	Primary Bank Account	2 018 465.00	2 317 074.62	298 609.62
4086370253	Smart Meter Bank Account	108 258.00	107 258.08	- 999.92
				297 609.70

The bank reconciliation at 30 June 2016 was not adequately reviewed and timeously updated to ensure that the information as disclosed in the annual financial statements agrees to the reconciliation.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial management Management did not implement controls over daily and monthly processing and reconciling to ensure the bank reconciliation at 30 June 2016 was timeously updated to ensure balances as per the reconciliation agrees to amounts as disclosed in the financial statements.	Management should ensure reconciliation to the financial statements are timeously performed, correct and agree to the details as disclosed in the financial statements.	Management agrees with finding and starting with October 2016 recons will be performed and reviewed on a weekly basis	Revised period 13 bank recon	N/A	N/A	Will be implemented in the future

14. Inaccurate disclosure of Contingent Liabilities

Audit finding

GRAP 19 Para 9 and 10 states:

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or and Contingent Assets (ii) the amount of the obligation cannot be measured with sufficient reliability.

The current disclosure in the annual financial statements refers: Refer note 47 in the financial statements below:

Name of claimant	Nature of liability	Estimate effect	Possibility of reimbursement
Markotter Attorneys	Claim for damages	Unknown	Unknown
Cost relating to the transfer of 252 houses for the beneficiaries, which the attorney alleges should have been allocated to this firm. The municipality is disputing the claim.			

The only correspondence from the claimant is dated 10 September 2015. No further correspondence or claim is evident. There is furthermore no written or verbal contract between the claimant and the municipality. The current legal representative confirmed no pending litigations. Hence there does not appear to be a possible obligation in terms of GRAP 19.

This inaccurate disclosure could be misleading to the users of the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial management</p> <p>The amounts in the financial reports are not accurately supported by the evidence and information obtained. A process to review the accuracy of the underlying information was not in place.</p>	<p>Management should consider removing this contingent liability from the financial statements at year end, as was disclosed in the 2014/15 year end.</p>	<p>Management agrees with the finding and note 47 will be amended to no contingent liability.</p>	<p><i>Note 47 will be amended</i></p>	<p>24/10/2016</p>	<p>Mubesko/CFO</p>	<p>Completed</p>

15. No performance contracts for lower level staff

Audit finding

Section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) indicates that, "A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72(1)(c), to ensure fair, efficient, effective and transparent personnel administration, including the monitoring, measuring and evaluating of performance of staff."

The municipality has limited its performance contracting to only entering into performance agreements with the municipal manager and managers directly reporting to the municipal manager. Performance agreements are not in place with lower level staff and thus performance cannot be measured.

This is non-compliance with section 67(1)(d) of the Municipal Systems Act.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership – Human Resource management Leadership did not implement official processes to monitor performance of all employees, as job descriptions are still being finalised.</p> <p>Financial management – Compliance monitoring Management did not implement controls to ensure that the municipality complied with all laws relating to the monitoring of performance of employees.</p>	<p>Performance agreements be developed for lower level staff and that the process of monitoring employees be formalised.</p>	<p>Management comment on the root cause identified within the audit finding: Cascading of performance agreements to lower levels could not be done due to capacity constraints. Engagements with SALGA took place and other municipalities were approached for assistance. SALGA undertook to provide pro forma performance agreements with SOP's for all positions in Municipalities and to put said agreements on their website for use by municipalities struggling. This will thus be done in the current financial year.</p>	<p>Conclusion of performance agreements with all staff by 31 December 2017.</p>	<p>31 March 2017</p>	<p>Manager: Corporate and Community</p>	<p>Underway</p>

16. Minimum competencies not achieved by the due date and no plan in place

Audit finding

In terms of Section (83) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) and Section 107 of the Municipal Regulations on Minimum Competency Levels regulation 4, 5, 6,8 and 9 (GNR 493), senior managers and key employees should attain the minimum competencies as required by the rules and regulations. Also in terms of Municipal Regulations on Minimum Competency Levels, Exemption from Regulations 15 and 18 of 2007, senior managers and key employees were given an exemption period up to 30 September 2015 to upgrade their skills and achieve the minimum competency levels.

One senior manager and one financial official failed to meet the 30 September 2015 deadline to achieve the minimum competencies. Only two employees had successfully achieved the minimum competencies by this date, being the CFO and MM.

The employment contracts of the officials who did not meet the competencies also do not include a condition that-

1. if the qualifications and minimum competencies are not attained within 12 months from the date of appointment, the officials' appointment will terminate automatically within one month after the end of the 12 month period.
2. The personal development plan of the officials did not include a condition that the qualification and the minimum competencies must be attained within 12 months from the date of appointment.

The draft annual report of the municipality also did not reflect the information on compliance with prescribed minimum competency as at the end of the financial year to which it relates.

This results in non-compliance with laws and regulations as prescribed measures per the MFMA were not followed.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Leadership: The Municipality does not have a proper, implemented HR Management plan and policy in place to ensure the employees are sufficiently skilled in terms of the required the minimum competencies.	Management should develop a detailed plan with specific objectives, goals and timeframes for the employees towards attaining the minimum competencies.	Management concur with findings.	Training plan to be developed	28 February 2017	Manager: Corporate and Community Services	Data assembled and discussion is Management Committee. Resolutions to be formulated in plan and implemented

17. Human resource management

Audit finding

The municipality did not update its organizational structures within the municipality and did not monitor performance during the financial year. The outdated organisational structure resulted in a regression in the vacancy rate from 38% in the prior year (2014/2015) to 43% in the current year (2015/2016). This leads to inefficiencies within the various functions within the municipality. This also resulted in there being insufficient capacity to plan, manage and report on its performance. The approved organisational structure is incomplete as it does not indicate which posts are filled or vacant.

This could result in personnel being unaware of their function within the Municipality. Vacancies and resource requirements within the various departments could go undetected and may result in inefficiencies within the organisation.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership Management has not implemented effective HR management to ensure that the organisational structure is updated and relevant and sufficiently skilled resources are in place.</p>	<p>The implementation of proper organisational structures should be actioned. The maintenance of these structures should be regularly monitored by the Chief Financial Officer and internal audit department.</p>	<p>We did not officially review the organogram, we did conduct discussions with staff members on the organogram. The fact that we did not officially review the organogram did not impact on service delivery at all. Vacancies were advertised where needed as per our policy, but when positions were not filled, we filled the gap with operational changes. Service delivery was not hampered in any way and did not result in any inefficiency except the overall challenges in respect of worker depth that is a result not of a lack of review of the organogram, but financial constraints. Management used effective HR management to ensure continued service delivery through changes in job assignments of existing staff.</p> <p>Prince Albert Municipality has just reviewed and approved their organogram for the 15/16 financial year, so remedial actions were already implemented.</p> <p>Furthermore it is the responsibility of the Municipal Manager to review the organogram and not the CFO.</p> <p>The Municipality did evaluate Section 56 performance, but did not cascade it down to lower levels; we are in the process of doing so.</p>	<p>New organogram approved</p>	<p>17/10/2016</p>	<p>MM</p>	<p>Reviewed and approved by LLF and Council</p>

18. Misallocation of allowances

Audit finding

Travel and subsistence allowances were incorrectly integrated into Abakus from Payday resulting in the allowances to be misallocated by R95,368.53 in the financial statements.

Detail of the incorrect integration for the year is as follows:

Payday standby allowance integrated into Abakus salaries	R53 797.12
Payday travel allowance integrated into Abakus salaries	R41 571.40
Total misallocation	<u>R95 368.52</u>

This could be misleading to the users of the financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Inadequate controls by management over monthly processing and the reconciliation of allowances within the integration process between Payday and Abakus.	Management should closely review the integration between Payday and Abakus, ensuring the integration was correctly processed into the correct salary expense account for each type of salary expense.	Management agrees with finding Management will request payday for a summary report of integration vote totals that can be compared with payday totals. The report will be signed off monthly by the CFO	Report to be requested from Payday	24 October 2016	CFO A.JACOBS	Corrected

19. Housing Subsidies

Audit finding

Housing subsidies schedule did not agree to financial statements. Housing subsidies were incorrectly integrated into Abakus from Payday for a number of employees during the year under review, causing housing subsidies to be overstated by R7 135.23 in the financial statements.

Detail of the incorrect integration for the year is as follows:

1. Back pay of the following employees were integrated into Housing Subsidies in error.	
A Voster	R (7 960.83)
J Lesch	R (7 960.83)
R Smit	R (3 964.38)
Sub-total	R (19 886.04)
2. Housing Subsidy of N.Wicomb integrated into Project Management Unit.	R 4 200.00
Sub-total	R 4 200.00
3. Housing subsidy of the following departments integrated to salaries.	
1501	R 855.00
1601	R 1 014.22
3003	R 855.00
5601	R 6 300.00
5603	R 1 026.59
Sub-total	R 10 050.81
4. Mr.Mettler housing allowance integrated to housing subsidy	R (1 500.00)
Total difference noted	R (7 135.23)

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management</p> <p>Inadequate controls by management over monthly processing, reconciling of transactions within the integration process between Payday and Abakus.</p>	<p>Management should closely review the integration between Payday and Abakus, ensuring the integration was correctly processed into the correct salary expense account for each type of salary expense.</p>	<p>Management agrees with finding</p> <p>Management will request payday for a summary report of integration vote totals that can be compared with payday totals. The report will be signed off monthly by the CFO</p>	<p>Report to be requested from Payday</p>	<p>24 October 2016</p>	<p>CFO A.JACOBS</p>	<p>Corrected</p>

20. Payday and Abakus does not agree

Audit finding

Overtime from the Payday system and Abakus did not agree. Overtime was incorrectly integrated into Abakus from Payday for a number of months in the year under review, resulting in an understatement of R7 994.95 in the financial statements.

Detail of the incorrect integration for the year is as follows:

Month	Abakus	Payday	Difference
July 2015	R33 470.06	R33 470.06	R -
August 2016	R48 794.75	R48 794.75	R -
September 2016	R43 991.58	R44 902.43	R910.85
October 2016	R31 068.69	R31 068.69	R -
November 2015	R36 492.21	R36 492.21	R -
December 2015	R31 863.04	R31 863.04	R -
January 2016	R54 129.99	R55 223.00	R1 093.01
February 2016	R41 759.82	R38 864.59	(R2 895.23)
March 2016	R40 406.31	R42 310.81	R1 904.50
April 2016	R42 341.74	R46 483.66	R4 141.92
May 2016	R38 859.90	R40 168.18	R1 308.28
June 2016	R29 748.66	R31 080.28	R1 331.62
Total Overtime	R472 926.75		R480 721.70
Total Difference			R7 994.95

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial management Inadequate controls by management over monthly processing, reconciling of transactions within the integration process between Payday and Abakus.</p>	<p>Management should closely review the integration between Payday and Abakus, ensuring the integration is correctly processed into the correct salary expense account for each type of salary expense.</p>	<p>Management agrees with finding</p> <p>Management will request payday for a summary report of integration vote totals that can be compared with payday totals. The report will be signed off monthly by the CFO</p>	<p>Report to be requested from Payday</p>	<p>24 October 2016</p>	<p>CFO A.JACOBS</p>	<p>Corrected</p>

21. Non adherence to the Recruitment policy

Audit finding

As per the recruitment process policies of the municipality, the following procedures should be adhered to for each vacant position:

1. The vacant position should be advertised.
2. Shortlist of candidates of suitable candidates should be drawn up.

Two appointments were made that did not follow the recruitment policy of the municipality.

Name	Date of Appointment	Position Held
J.Windgovel	11/4/2016 (subsequently resigned)	Personal Assistant –Mayor
J.Cupido	01/6/2016	Personal Assistant –Mayor

J.Windgovel and J.Cupido were both appointed as personal assistants of the mayor, however the recruitment process was not adhered to. No advert was placed on file nor distributed for the vacant position and no short list of suitable candidates was drawn up.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPON-SIBLE PERSON	PROGRESS TO 15/01/2017
Leadership Management did not communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities within the appointment process.	Management should adhere to the recruitment policies implemented and communicate these policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.	Management note the findings. Please note that the appointment of political appointments is not covered by the recruitment policy. The recruitment policy will be changed to accommodate these types of appointments. Management will adjust their recruitment policy to accommodate political appointments.	Review recruitment policy and amend where necessary	February 2017	Manager: Corporate and Community Services	Underway

22. Non-compliance within the evaluation of Municipal Manager and Senior officials

Audit finding

As per Municipal Performance Regulations reg 27(4)(d) (GNR 805) it states “*For purposes of evaluating the annual performance of the municipal manager, an evaluation panel constituted of the following persons must be established -*

1. *(i) Executive Mayor or Mayor;*
2. *(ii) Chairperson of the performance audit committee or the audit committee in the absence of a performance audit committee;*
3. *(iii) Member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council;*
4. *(iv) Mayor and/or municipal manager from another municipality; and*
5. *(v) Member of a ward committee as nominated by the Executive Mayor or Mayor.*

As per Municipal Performance Regulations reg 27(4)(e) (GNR 805) it states “*For purposes of evaluating the annual performance of managers directly accountable to the municipal managers, 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;*
- iv. and Municipal manager from another municipality.*

Not all required evaluators were present at the performance evaluation of Mr Mettler for the evaluation period July 2015 to December 2015. The attendance was as follows:

- i. The Mayor (Mr Lottering)
- ii. The Chairman of the Audit committee (Mr Dippenaar)
- iii. And a member of the ward committee (Mr Windgovel).

As required a Member of the mayoral or executive committee or in respect of a plenary type municipality, another member of council and Mayor and/or municipal manager from another municipality are required to be in attendance when the performance evaluation of the Municipal manager is being conducted, however these members of the panel were not present.

Not all required evaluators were present at the performance evaluation of Mr Neethling for the evaluation period July 2015 to December 2015. The attendance was as follows:

- i. The Mayor (Mr Lottering)
- ii. The Chairman of the Audit committee (Mr Dippenaar)
- iii. The Municipal manager (Mr Mettler).

Not all required evaluators were present for the performance evaluation of Mrs Vorster for the evaluation period July 2015 to December 2015. Confirmed in attendance were –

- i. The Councillor (M Jaftha)
- ii. The Chairman of the Audit committee (Mr Dippenaar)
- iii. The Municipal manager (Mr Mettler).

As required a municipal manager from another municipality is required to be in attendance when the performance evaluation of senior managers are being conducted, however this member of the panel was not present.

This is non-compliance with section 27(4)(d) of the Municipal performance regulations (GRN 805).

This is non-compliance with section 27(4)(e) of the Municipal performance regulations (GRN 805).

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement controls to ensure that the municipality complied with all laws relating to the monitoring of performance of senior officials.	All evaluators are informed timeously when performance evaluations are to be conducted, and should be in attendance as required by the MPR.	Management acknowledges that another Municipal Manager was not present with the evaluations. This person was invited well in advance and indicated that he will attend. On the morning of the evaluation said Municipal Manager indicated that he cannot attend as arranged. The evaluations continued as everyone else were present.	NONE	N/A	MM	Finding noted

23. Fringe benefit not accounted for resulting in an understatement of PAYE

Audit finding

Paragraph 1 of the Income Tax Act 58 of 1962 defines gross income as *"in relation to any year or period of assessment, means- (i) in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident during such year or period of assessment, excluding receipts or accruals of a capital nature, but including, without in any way limiting the scope of this definition, such amounts (whether of a capital nature or not) so received or accrued as are described hereunder, namely – the cash equivalent as determined under the provisions of the Seventh Schedule, of the value during the year of assessment of any benefit or advantage granted in respect of employment or to the holder of any office, being a taxable benefit as defined in the said schedule."*

The PAYE for employee J.Lesch had been incorrectly calculated due to fringe benefits differences, as follows:

Employees Tax payable (PAYE) – Recalculation (R)	PAYE as per system (R)	Difference (R)
R120 261.76	R134 659.85	R14 398.08

The fringe benefit existed from an employee residing in a farm owned by the municipality as the implications of the rental agreement were not correctly calculated.

This results in an understatement of PAYE by an amount of R14 398.08 due to SARS.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management There are no controls in place to ensure all the financial implications arising from employees contracts along with secondary agreements between the municipality and employees are identified and adequately recorded and maintained.	A detailed review of the employee contracts and any secondary contracts entered into with the municipality must be reviewed at inception with the financial implications being determined and agreed upon by all parties. The matters identified must be submitted to the payroll section for implementation.	Management agrees with audit finding. However, Employee are not in the service of the municipality anymore so no adjustment will be made to the Annual financial statements.	No action will be taken.	2015-2016 financial year.	CFO	NONE

24. Change control

Audit finding

1. IT management had not formally designed change management procedures. Informal controls were in place for change requests and approvals, however these controls could not be enforced.

Without a formal documented process in place for logging, approving and tracking the successful implementation of changes, the municipality may not be able to trace whether the changes that are requested have been appropriately authorised and implemented. This may result in unauthorised changes being implemented without being detected, which could lead to system instability or failure, with an adverse effect on the integrity, availability and confidentiality of the system and the financial data it contains.

2. The vendor has been granted unrestricted access to the production environment in order to support and maintain the system. This access however is not monitored.

If vendor access to the production environment is not restricted or adequately monitored, vendors may be able to change master data or commit fraud on the system without being detected.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>1. Leadership: Implementation of policies and procedures</p> <p>Due to staff constraints management had prioritised operational requirements above the formalisation of a change management procedure.</p> <p>2. Leadership: Formal control over IT systems</p> <p>Due to staff constraints management had prioritised operational requirements above the monitoring of vendor access.</p>	<p>1. IT Management should ensure that change control procedures include the following but not be limited to:</p> <ul style="list-style-type: none"> ☐ The definition of roles and responsibilities; ☐ Classification (e.g. between infrastructure and application software) and prioritisation of all changes; ☐☐ Assessment of impact, authorisation and approval (User Acceptance Testing); and ☐☐ Use of emergency change processes. <p>In addition the procedure be approved and communicated to all relevant staff members.</p> <p>2. Management should ensure that where developer access to the production environment is required they implement adequate mitigating controls such as monitoring access on a regular basis to ensure that only authorised changes are made.</p>	<p>Management agrees with the finding.</p>	<p>Ask for support from Prov. Western Cape</p>	<p>31/12/2016</p>	<p>CFO</p>	<p>None</p>

25. Server continuity and backup procedures

Audit finding

The municipality had still not documented the backup policy for the application system and its infrastructure. Furthermore, backups were not stored at an offsite location.

There is also no offsite storage of backups.

Without formally approved backup procedures, backup processes and controls cannot be consistently implemented and enforced. This could lead to incomplete or inadequate backups being taken. IT staff may also not be held accountable for ensuring that backups are taken as required. Furthermore, backups should be stored at a secure off-site storage location to ensure recovery is possible should primary storage facilities be destroyed.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial & performance management</p> <p>The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to implement the necessary IT controls and processes.</p>	<p>The Municipal Manager should consider requesting the backup procedures from other municipalities (i.e. District municipality etc) for adoption and customise them to ensure that they are in line with the size and complexity of the IT environment of the Laingsburg municipality. The backup procedures should include the following:</p> <ul style="list-style-type: none"> ☐☐ The frequency of backups (daily, weekly, monthly, yearly); ☐☐ Type of backups (incremental, differential, full); ☐☐ Backing up data on all critical systems; ☐☐ Retention periods; ☐☐ Actions to be taken if backups have not been successfully completed; ☐☐ Scheduled verification of the usability of backup media through restore procedures; and ☐☐ Off-site storage of backups. <p>Furthermore, backup tapes/media should be regularly tested to ensure restorability and</p>	<p>Management agrees</p>	<p>Ask for support from service provider and CKDM</p>	<p>28/02/2017</p>	<p>MM</p>	<p>In process</p>

recoverability of the data.

26. Monitoring of Service Level Agreements with IT vendors

Audit finding

No formal processes in place for monitoring performance of IT vendors

Services delivered by the service providers were not monitored against the services agreed in the service level agreement (SLA) to ensure optimal service delivery.

Without formal mechanisms in place to monitor performance of vendors, the effectiveness, efficiency and consistency of the IT services delivered cannot be reviewed and measured against agreed targets. This may lead to poor or degraded services not being identified in a timely manner and result in increased costs incurred for poor delivery of services.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership - Policies and procedures</p> <p>The responsibility for the monitoring of services provided was not delegated to a specific individual due to the lack of capacity and expertise to perform IT-related functions</p> <p>The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to implement the necessary IT controls and processes.</p>	<p>Service performance reviews should regularly be conducted for all external IT service providers and timeous corrective action should be taken to remedy any deficiencies identified</p> <p>Management is encouraged to implement a service level management process to ensure that the levels of service rendered by external service providers are continually identified, monitored and reviewed against those specified in the SLAs.</p> <p>Evidence of these reviews should be maintained for audit purposes.</p>	<p>Management agrees with the finding.</p>	<p>Ask for support from Prov. Western Cape</p>	<p>31/12/2016</p>	<p>CFO/MM</p>	<p>NONE</p>

27. IT Security Management

Audit finding

1. Lack of an Information Security Policy

The security policy is an integral part of the IT environment as it governs and provides guidelines to users who access the municipality's information. As previously reported, the municipality had still not documented a security policy that provides a baseline for managing IT security at the municipality. Furthermore, intrusion reports were not reviewed on a regular basis to monitor access and logon violations on the network.

The lack of a documented and approved IT security policy might lead to the implementation of inadequate security practices for the municipality. Furthermore, if the access and logon violations on the system are not monitored, hacking attempts might not be detected and followed up. This in turn might increase the risk of unauthorised access to systems and data and can lead to loss.

2. Lack of a Patch Management Procedure for the Windows Operating System

Although a process is in place for applying security patches to servers and workstations on the network, management had not formally documented a standard operating procedure to consistently manage patches that are applied to all devices on the network.

Without a documented and approved patch management procedure, patch management processes and controls may not be consistently implemented and cannot be enforced. Security patches may not be applied in a timely manner, which could result in security vulnerabilities being exploited, thereby causing system downtime.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>1. Financial & performance management: Formal control over IT systems The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to implement the necessary IT controls and processes.</p> <p>2. Financial & performance management: Formal control over IT systems</p> <p>Management considered the informal processes currently in place for patch management to be sufficient, and as a result have not prioritised the documentation of formal patch management procedures.</p>	<p>1. Management should consider requesting the IT Policy and procedures from other municipalities (i.e. District municipality etc) for adoption and customise them to ensure that they are in line with the size and complexity of the IT environment of the Prince Albert municipality. This policy/ procedures should include the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Security compliance <input type="checkbox"/> External communications security <input type="checkbox"/> Firewall <input type="checkbox"/> Password parameters <input type="checkbox"/> E-mail security <input type="checkbox"/> An agreement to comply with IS policies <input type="checkbox"/> Laptop/desktop computer security <input type="checkbox"/> Internet usage <input type="checkbox"/> Information Security Awareness, security over general office areas, protection of portable computer equipment, etc.) <p>Once documented and approved, the security policy should be communicated to all users to ensure compliance.</p> <p>2. Management should ensure that patch management procedures are documented and approved. The procedures should include but not be limited to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Roles and responsibilities <input type="checkbox"/> Critical Servers to be patched <input type="checkbox"/> Approval of patches <input type="checkbox"/> Patch deployment <input type="checkbox"/> Status Reports <p>In addition the approved patch management procedures should be communicated to the relevant individuals to ensure compliance.</p>	<p>Management agrees with the finding.</p>	<p>Ask for support from Prov. Western Cape</p>	<p>31/12/2016</p>	<p>CFO/MM</p>	<p>NONE</p>

28. User access control

Audit finding

Inadequate User Account Management Processes for ABAKUS and PAYDAY

As previously reported, the following control weaknesses were identified with respect to user account management:

1. There was no documented user account management policy in place.
2. System administrator activities (i.e. new user setup, maintenance of user accounts and termination of access) were not reviewed for appropriateness.
3. There is a the lack of formal documentation (for new users, changes in access, password resets and termination of access)

Without formally approved user account management procedures, user access processes and controls cannot be consistently implemented and enforced. The municipality may also not be able to hold users accountable for unauthorised activities performed on the system.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial & performance management: Formal control over IT systems The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to implement the necessary IT controls and processes.	Management should consider requesting the user account management procedures from other municipalities for adoption and customise them to ensure that they are in line with the size and complexity of the IT environment of the municipality. Typically, the following items should be incorporated into such procedures: 1. Approval of requests (new user set-up, reset of password, change of access & termination of users 2. Periodic reviews for user profiles and the monitoring of the system administrators' activities.	Management agrees with the finding	Ask for support from Prov. Western Cape	31/12/2016	CFO/MM	NONE

	These procedures should be approved and implemented accordingly to ensure the above weaknesses are addressed.				
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29. Lack of controls over splitting of orders

Audit finding

SCM Regulation 12(3) requires that the supply chain management policy must state:

- (a) that goods or services may not be deliberately split into parts or items of a lesser value merely to avoid complying with the requirements of the policy; and
- (b) that when determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.

No controls are currently in place in order to prevent the deliberate splitting of goods or services.

There is a lack of internal controls in place in order to prevent the deliberate splitting of goods or services in order to avoid complying with the requirements of the SCM policy and regulations.

The municipality’s SCM process may not be fair and equitable and may result in the municipality not receiving value for money on the award.

Where no controls exist to prevent the splitting of goods, it could result in non-compliance with section 12(3) of the SCM regulations.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls over daily and monthly processing and reconciling of transactions Management did not implement adequate controls to prevent the deliberate splitting of the	Management should ensure that controls are put in place to prevent the deliberate splitting of goods and services to avoid non - compliance with the requirements of the SCM regulations. Management should further consider accessing a report summarizing all purchases per category and per supplier to identify any possible discrepancies where procurement should have gone through a competitive	Management agrees with finding The municipality does not have the capacity to implement the controls and in light of the fact that no instances of deliberate splitting of orders were detected, the municipality will not implement the	None	N/A	N/A	N/A

procurement of goods and services.	or formal procurement process. These reports should be scrutinized on a regular basis to ensure discrepancies are identified and followed up on in a timely manner.	controls.				
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30. Non-compliance in terms of prospective providers

Audit finding

Section 14 of the SCM Regulations states:

A SCM policy must-

1. a) instruct the Accounting Officer-

i. to keep a list of accredited prospective providers of goods and services that must be used for procurement requirements of the Municipality through written or verbal quotations and formal written price quotations.

ii. At least once a year through newspaper commonly circulating locally, the website of the Municipality and any other way appropriate, invite prospective providers of goods and services to apply for evaluation and listing as accredited prospective suppliers.

b) Specify the listing criteria for accredited prospective suppliers.

c) Disallow the listing of any prospective suppliers whose names appear on National Treasury's database as a person prohibited from doing business with the public sector.

1) The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers should be allowed to submit applications for listing at any time.

2) The list must be compiled per commodity and per type of service.

Our review of the prospective supplier listing and review of the internal audit findings for the current financial period confirmed that:

- prospective suppliers have not been checked against the national treasury database for prohibited suppliers
- changes to the listing has not occurred quarterly nor are these changes authorised
- the list has not been compiled per commodity and per type service.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial management – compliance monitoring</p> <p>Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the review and documentation of prospective suppliers in terms of supply chain management.</p>	<p>Management should implement controls to ensure that the review and maintenance of the prospective supplier list complies with legislation.</p>	<p>Management agrees with the recommendation, but from 1 July 2016 the supplier list of National Treasury was implemented.</p>	<p>None</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>

31. Policy does not address petty cash compliance requirements

Audit finding

Section 15 of the Municipal Supply Chain Management Regulations states that -

A supply chain management policy must stipulate the conditions for the 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 reconciliation 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.*

Section 15 of the Prince Albert SCM Policy states –

- (a) the Chief Financial Officer must determine the terms on which a manager may delegate responsibility for petty cash to an official reporting to the manager;*
- (b) the Chief Financial Officer must determine the maximum number of petty cash purchases or the maximum amounts per month for each manager;*
- (c) the Municipality must determine any types of expenditure from petty cash purchases that are excluded, where this is considered necessary; and*
- (d) a monthly reconciliation report from each manager must be provided 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.*
- (e) the Accounting Officer may determine conditions on the use of the petty cash*

The above requirements have not been individually defined in the SCM Policy or in any other policy. There is no delegation of authority noted with regards to the following as stipulated in both the SCM Regulations and the municipality's SCM Policy:

1. terms on which a manager may delegate responsibility for petty cash
2. maximum number of petty cash purchases or amounts
3. types of expenditure from petty cash purchases that are excluded

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the disclosure of petty cash requirements in the Municipality's supply chain management policy document.</p>	<p>The SCM policy should be elaborated to include the individual limits and conditions that should be implemented for petty cash purchases.</p>	<p>Management agrees with finding In practice only the finance department has custody over petty cash. The policy will be updated to reflect this.</p>	<p>Revision of policy Approval by council</p>	<p>2016/09/06 2016/09/30</p>	<p>CFO</p>	<p>Completed</p>

32. Deviations recorded exclusive of VAT

Audit finding

Section 12 (1) of the Municipal Supply Chain Management Policy states that the value of an award is inclusive of VAT.

For a sample of awards, the following amounts had been included on the deviation register exclusive of vat.

Supplier	Reference	Value (inc vat) R	Value (exc vat) R	Difference R
COLLABORATOR	2153	575 700.00	505 000.00	70 700.00
ISHS	2151	24 550.06	21 535.14	3 014.92
BOOM GATE SYSTEMS	1126	17 091.80	14 992.80	2 099.00
				75 813.92

There are inadequate controls in place to ensure that deviations are correctly recorded in the deviation register

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance Management: Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the disclosure of awards in the deviation register, in terms of supply chain management.	Management should perform a detailed review of the deviation register to ensure that all deviations have been correctly recorded inclusive of VAT.	Management agrees finding Management will adjust deviation register to include both VAT exclusive and inclusive amounts	Redesign deviation register	20/09/2016	CFO	Completed

33. Register of bids received in time not published on website in a timely manner

Audit finding

Supply chain management (SCM) regulation 23 (c) requires the accounting officer to -

(ii) make the register available to the public

(iii) publish the entries in the register and the bid results on the website of the municipality or municipal entity.

Even though bids were advertised in the newspaper, no evidence could be found on the municipal website archive that all competitive bids were available by the public to view.

Furthermore, the MFMA Circular 62: SCM Enhancing compliance and accountability states the following regarding the publication of names of bidders in respect of advertised competitive bids, above the threshold value of R200 000 (VAT included). After the closure of any advertised competitive bid, municipalities and municipal entities must, further to information to be published in terms of section 75 of the MFMA, publish on their websites, the reference number of the bid, the description of the goods, services or infrastructure project, names of all bidders, the B-BBEE status level of contribution of all bidders, where applicable, the local content percentages of the goods offered and where practical, total price of the bids, by all bidders that submitted bids in relation to that particular advertisement. Copies should be made available at municipal offices and libraries. The municipality / municipal entity should endeavour to publish the aforementioned information within ten (10) working days after closure of the bid and it must remain on the website of the municipality or municipal entity for at least thirty (30) days.

The following was not evident in terms of the above Circular requirements:

- B-BBEE status levels of contribution of all bidders are not entered into the bid register.
- Bid amounts are not always entered in the bid register. No amounts are entered for Section 32 bids.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the publication of bids in terms of supply chain management.	Management should implement controls to ensure that the register of bids received in time and details of the successful bidders are published on the municipal website in a timely manner. The register should be regularly updated for all bids received by the municipality.	Management agrees with finding that bid register not always published timely. Management notes the finding regarding disclosure in terms of the circular requirements, but in terms of section 168 (3) of the MFMA are not required to implement them.	Bids register published on a timely manner	Continuous	C.Baadjies	Continuous

34. Incomplete gift register

Audit finding

Supply chain management regulation 46(1) states that an official or other role player involved with supply chain management may not accept any reward, gift, favour, hospitality or other benefits directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350. These parties must declare to the accounting officer details of the reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person.

Through review of the gift register and internal audit findings on SCM for the 2016 financial period, as well as through representations received from Municipal staff, it was confirmed that officials have not disclosed all gifts received. The gift register also does not contain a column to indicate the value of the gift received.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls over compliance monitoring to ensure compliance with applicable laws and regulations relating to the completion and maintenance of the gift register.	Management should implement controls to ensure that all gifts received are disclosed timeously, and that the gift register correctly reflects the value of the gift.	Management agrees with the recommendation. Attach the amended gift register. No gifts were received in the financial year 2015/16 and the gift register is already amended for the financial year 2016/17.	Amended gift register	15/9/2016	CFO	Completed

35. Contract Management - No evidence of monitoring of the performance of consultants

Audit finding

MFMA s116 (2) (b) and (c) states that the accounting officer of a municipality or municipal entity must:

b) monitor on a monthly basis the performance of the contractor under the contract or agreement

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) to oversee the day-to-day management of the contract or agreement

No evidence was provided to support the monitoring of the following performance of consultants on a monthly basis:

1. Mubesko,

2. Ignite Consulting and
3. Ubertech Consulting.

This lack of evidence does not allow us to assess whether:

1. Use of consultants are inadequately planned,
2. Use of consultants are incorrectly used to replace internal capacity
3. Use of consultants in consultant projects are properly managed and monitored to ensure delivery is in accordance with the contracts,
4. and whether results of consultants work is adequately implemented and skills are efficiently transferred.

This results in non-compliance with the Municipal Finance Management Act.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management has not implemented proper record to evidence the monitoring of consultants.	Management should insure that they implement controls to maintain evidence of performance monitoring of consultants to ensure the use of consultants are adequately planned, the effect of replacement of internal capacity, proper project management to ensure service delivery, results are adequately implemented and skills are transferred.	Management agrees with the finding.	Implement a monthly reconciliation	31/10/2016	MM/CFO C.Baadjies	Register implemented

36. Municipal Management Asset systems

Audit finding

The medium term strategic framework revised chapter 9 requires municipalities to ensure that: "Members of society have sustainable and reliable access to basic services". Central to this understanding is that access to services is constrained by a number of factors not least the absence of sound asset management practice in the local government sphere. There is thus a need to emphasise asset management practice and asset care in the local government sphere. Municipalities encouraged to increase expenditure on maintenance and asset management over the life-cycle of assets. Municipalities supported by National Department of Cooperative Governance and Traditional Affairs are to establish municipal asset management systems such as MISA's Municipal Infrastructure Performance Management Information System (MIPMIS) or a similar system.

The municipality however is not using MISA or Municipal Infrastructure Performance Management Information System (MIPMIS) or a similar system.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership Leadership did not implement official systems to monitor asset management practice and asset care as required by Department of Cooperative Governance.</p>	<p>Management should implement asset management systems to aid the municipality in improved asset maintenance and care, to lead to increased service delivery.</p>	<p>Management comment on the root cause identified within the audit finding: Management will request assistance from COGHTA</p>	<p>Request assistance from Department of Cooperative Government</p>	<p>28 February 2017</p>	<p>MM</p>	<p>Underway</p>

37. Non-compliance with monthly submission of back to basic dashboard

Audit finding

The Department of Cooperative Governance requires that municipalities submit various performance indicators on a monthly basis on the back to basic (B2B) dashboard. The aim was to identify the interventions required to address the key challenges identified for each municipality.

Prince Albert municipality is not reporting on a monthly basis on the B2B to Provincial Department of Cooperative Governance due to capacity constraints of employees. Submissions were not made in the following months in the year under review:

1. July 2015
2. October 2015 to June 2016

It would significantly benefit the municipality as it serves as a platform for municipalities to address obstacles faced. The support is extensive and assistance is readily available.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership Management did not adequately implement adequate controls to ensure monthly submission of its performance indicators on the back to basic dashboard.</p>	<p>Management should adopt the back to basics strategy and make submissions monthly as required by the Department of Cooperative Governance.</p>	<p>Management comment on the root cause identified within the audit finding: Capacity constraints Assign responsibility to Clerk for information gathering and completion; Manager signs off and send off. Report to MM</p>	<p>Assign collating information to Committee Clerk Manager: Corporate to sign off and send off</p>	<p>Immediate</p>	<p>Manager Corporate and Comm Services</p>	<p>Monthly adherence</p>

38. No supporting documentation for inventory movements

Audit finding

Section 62(1)(c)(i) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires 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 movement of inventory is not continuously recorded during the year. The inventory balance is adjusted only at year end with an adjusting journal after the inventory count by comparing the inventory balance at year end to the inventory balance as presented in the prior year financial statements. As inventory is issued during the year, no supporting documentation is maintained detailing the issuing of inventory.

There is no system in place to promote internal control activities over inventory.

This could result in losses to inventory which cannot be substantiated and will not be identified by the municipality.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management There is no system in place to promote internal control activities over inventory.	Controls should be implemented to account for inventory movements during the year with each issuing of inventory being recorded on a register. The register should be reviewed on a monthly basis by senior management with monthly recording of the issued inventory in the general ledger.	Management partly agrees with finding. There is an inventory register, but it is only posted to the general ledger at year end. Management agrees that the risk of loss is increased, but due lack of staff no proper segregation of duties is possible so no additional controls will be implemented. The new mSCOA compliance will require the municipal to use goods received vouchers and stores issues, but it will be done virtually. Inventory will be updated in the general ledger continuously, but only monitored periodically.	None	N/A	N/A	N/A

39. (Un)recorded investment properties

Audit finding

The MFMA s63 (2) states:

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.

GRAP 16 states:

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or*
- (b) sale in the ordinary course of operations.*

Finding 1: Property included in the operating lease register is not reflected on the fixed asset register.

A property owned and leased by the municipality in Leeu-Gamka as recorded on the operating lease register is not included on the fixed asset register.

. Lessee	Property	Location	Reference in Abakus
Leeu-Gamka Landbou Ver.	Welgmoed	Leeu Gamka	90006669

Further details of this property could not be determined.

Finding 2. Properties on the fixed asset register not in the name of the municipality

According to the title deed, the following property is not registered in the name of the municipality, but is registered under a private person - Johan Hendrik Christoffel.

Property description	Rand-value	Erf #
Land :Meentkop	246 000.00	ERF 469

This results in an overstatement in the financial statements in respect of investment property amounting to R246, 000.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPON - SIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management has not prepared accurate and complete financial reports in terms of investment property. The amounts in the financial reports are not accurately supported by the evidence and information obtained.	Management should investigate the property being leased, and determine the details and value. Management should then consider correcting this in the Fixed Asset Register. In addition management should ensure that all assets are recorded accurately and are in the name of the municipality.	Management disagrees with the finding The erf number is not displayed on the lease contract, but the erf is Farm 51 in the Prince Albert Registration District asset number - XL01090 Find attached title deed regarding the transfer – the deeds office made a mistake since the title deed relates to the transfer of erven 664 and 665 Prince Albert and confirms that erf 469 belongs to municipality as well as the water rights to erven 664 and 665 The municipal manager will not enter into any lease agreements if the property being leased is not accurately described in the contract.	Implement control over lease agreements Instruct the council's attorney to follow up with deeds office to correct error in deeds office	30 November 2016	A Vorster	Lease till to be negotiated

40. No evidence of submission of investment details to council

Audit finding

In terms of Section 13 (2) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003), (MFMA) a municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).

As per the council's minutes of meetings for the financial year 2015/16, no discussions or submission of investments details were made to the council for acceptance by the council.

This results in non-compliance with laws and regulations as prescribed by the MFMA.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not review and monitor compliance with applicable legislation in terms of reporting investment details to council.	Management should establish a checklist to ensure adherence to all required compliance matters.	Management disagrees with finding. The council has an BANKING, CASH MANAGEMENT AND INVESTMENT POLICY and are reported to council in the CFO's monthly report	None	N/A	N/A	N/A

41. Valuation does not reconcile to ABAKUS

Audit finding

Per section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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."

There is a difference in the reconciliation of the total value of capital commitments per the valuation calculations to the total value of properties per Annual Financial Statements 2016, which results in the following misstatement.

	Amount (R)
Total Valuation as per Annual Financial Statements Disclosures	6,310,218.31
Total Valuation per ABAKUS Report/General Ledger	6,234,661.20
Un-reconciled Difference	-R 75,557.11

The same unreconciled difference was identified in the audit of PPE – Additions due to retentions not capitalized in the fixed asset register as detailed as follows:

Asset Description and Number	Cost Capitalised as per FAR	Audited Amount	Un-reconciled Difference (R)
P/A AFVALWATER SUIWERING WERKE	3,069,134.55	3,144,691.66	(75,557.11)

Management did not update the capital commitments calculation schedule that was used to support the value of capital commitments per ABAKUS and disclosed in the annual financial statements.

Incorrect disclosure of capital commitments values and understatement of property plant and equipment in the financial statements can mislead the users of the financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</p>	<p>Management should ensure that the capital commitments and the fixed asset register are prepared and reviewed to ensure the value of commitments and the value of property, plant and equipment at year end reconcile to value of commitments per ABAKUS and to the Fixed Asset register respectively. Any differences found should be timeously resolved.</p>	<p>Management does not agree with the audit finding. The error was detected before submission of the Annual Financial Statements for 2015-2016. Please find proof of journal attached dated 30 August 2016, Journal 280.</p>	<p>None. Error detected before submission of Annual Financial Statements for 2015-2016.</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>

42. Inconsistent disclosure of Depreciation rates

Audit finding

Paragraph 55 of GRAP 17 - Property, Plant and Equipment - Depreciable amount and depreciation period states that, "*The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.*"

Paragraph 66 of GRAP 17 - Property, Plant and Equipment – Depreciable method states that, "*The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.*"

Paragraph 67 of GRAP 17 - Property, Plant and Equipment - Depreciable method states that, "*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.*"

The depreciation rates used on the fixed asset register differ from the depreciation rates as per the municipality's accounting policy as disclosed in the annual financial statements. These rates also differ in some cases from the rates as per the municipality's asset management policy.

Incorrect depreciation rates are being disclosed in the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial management The financial statements were not adequately reviewed to ensure that the information presented and disclosed agrees to the supporting documentation.	Management should adequately review the accounting policies in the annual financial statements and ensure that they agree to the municipality's policies, procedures and source documents.	Management agrees with finding	The recommendations will be implemented in the future.	30/6/2017	CFO	Continuous

43. Asset register not correctly updated with locations

Audit finding

Per section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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 assets were identified to be incorrectly recorded in the asset register in terms of locations:

	Asset unique number	Sub	Asset description	Carrying Value
1	24201		Laptop	6,051.93
2	24261		Laptop	6,051.92
3	24202		Office H&B 2013	2,261.62
4	24262		Office H&B 2013	2,261.62
5	LOS 1		Tenk	11,319.07
				27 946.16

This could lead to the inability to adequately monitor and hence safeguard, the assets and as the locations indicated in the asset register are not consistent with the physical locations of assets.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management has not implemented adequate record management processes to facilitate the internal controls around asset management.	The asset register be reviewed to ensure that all assets are assigned correct asset locations.	Management agrees with finding	Update FAR with correct asset locations	17 October 2016	CFO	Completed

44. Fixed asset register includes assets with duplicate asset unique numbers/ barcodes

Audit finding

Per section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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 fixed assets were identified to have duplicate numbers and descriptions:

	Asset unique number	Sub	GIS ID	Asset description	Carrying value
1	XR31810030	0	GIS ID: 184	Roadsign	737.25
2	XR31810040	0	GIS ID: 185	Roadsign	737.25
3	XR31810050	0	GIS ID: 186	Roadsign	737.25
4	XR31810060	0	GIS ID: 187	Roadsign	737.25
5	XR31810070	0	GIS ID: 188	Roadsign	737.25
6	XR31810080	0	GIS ID: 189	Roadsign	737.25
7	XR31810030	0	GIS ID: 184	Roadsign	1 293.85
8	XR31810040	0	GIS ID: 185	Roadsign	1 293.85
9	XR31810050	0	GIS ID: 186	Roadsign	1 293.85
10	XR31810060	0	GIS ID: 187	Roadsign	1 293.85
11	XR31810070	0	GIS ID: 188	Roadsign	1 293.85
12	XR31810080	0	GIS ID: 189	Roadsign	1 293.85

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls to ensure compliance with applicable laws and regulations relating to the content of the fixed asset register. Assets should be allocated unique numbers so that the exact asset can be monitored.	Management should ensure that the capture of items in the fixed asset register is correctly and accurately completed. All assets should have a unique identifying number in the fixed asset register.	Management agrees with finding	Asset register will be checked for duplicates and all duplicates relating to same asset will receive unique number or be consolidated.	17 October 2016	CFO	Completed

45. Missing assets

Audit finding

The MFMA s63 (1) (a) states:

“The accounting officer of a municipality is responsible for the management of the assets of the municipality, including safeguarding and the maintenance of those assets”

The following assets were identified as “not found” on 20 May 2016 by Mubesko Africa Consultants on the [J1] [AM2] Fixed Asset Register, and subsequently written off.

Asset Description	Asset Main Category	Asset Sub Category	Carrying Value
Computer software	Intangibles	Intangibles	198.52
Air conditioner	Other Assets	Office Equipment	1 896.79
Computer laptop/note book	Other Assets	Computer Equipment	758.57
Computer laptop/note book	Other Assets	Computer Equipment	758.57
Software ms office 2010	Intangibles	Intangibles	203.69
Software ms office 2010	Intangibles	Intangibles	203.69
Carry bag laptop	Other Assets	Computer Equipment	49.17
Carry bag laptop	Other Assets	Computer Equipment	49.17
Carry bag laptop	Other Assets	Computer Equipment	49.17
Chair visitor steel	Other Assets	Furniture and Equipment	114.12
Stand screen projector	Other Assets	Computer Equipment	665.80
Projector data	Other Assets	Computer Equipment	1 220.61
			6 167.87

This indicates a control weakness surrounding the safeguarding of municipal assets.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and Performance Management Management did not adequately monitor the controls over the safeguarding of the physical fixed assets.</p>	<p>Management should monitor the controls currently in place, an example would be to perform spot asset counts monthly on certain sections at a time to identify [J1] [AM2] if municipal assets are being safeguarded. Where the Municipality cannot find the recorded asset, this should be stringently followed up with the responsible person.</p>	<p>Management agrees with the finding.</p>	<p>Regular counts of assets</p>	<p>31/12/2016</p>	<p>MM</p>	<p>Lack of personal</p>

46. Depreciation calculated on completed community assets on the fixed asset register

Audit finding

Paragraph 48 of GRAP 17 - Property, Plant and Equipment - Depreciation states that, "Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."

Paragraph 56 of GRAP 17 - Property, Plant and Equipment - Depreciable amount and depreciation period states that, " 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."

No depreciation charge was calculated on the community assets listed below:

Asnum	asdes	adep	Person	Commission date (start depreciation)	Carrying value at 2015/06/30 (excl. residual value)	Depreciated on for the year 2015/2016
WIP10	WORK IN PROGRESS STORMWATER UPGRADE LEEU GAMKA EPWP	208	ROADS	29 June 2012	9 649.12	-
WIP05	BITTERWATER STORMWATER UPGRADE	115	ROADS	30 June 2012	37 360.44	-
WIP06	NOORD END STORMWATER UPGRADE	115	ROADS	30 June 2012	74 898.27	-

This results in the incorrect depreciation charge being disclosed on the financial statements as a result of the fixed asset register excluding the depreciation.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management The financial statements were not adequately reviewed to ensure that the information presented and disclosed is complete prior to being submitted for audit purposes.	Management should review the depreciation charge of each class of an asset on a regular basis on the fixed asset register and ensure that this depreciation charge is accurately recorded in the accounting records from which the financial statements are prepared.	Management disagrees with the finding. The amounts relate to design fees for projects that will only be completed in 2016/2017 financial years or later depending on funding. The asset register is incorrect in assigning a start date for depreciation. Management agrees with recommendation, but will due to lack of staff will not be able to implement it	Correction of FAR	24 October 2016	CFO	Management agrees with recommendation, but will due to lack of staff will not be able to implement it

47. Incorrect depreciation calculation on other assets

Audit finding

Paragraph 48 of GRAP 17 - Property, Plant and Equipment - Depreciation states that, *"Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."*

Paragraph 56 of GRAP 17 - Property, Plant and Equipment - Depreciable amount and depreciation period states that, *"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."*

A depreciation charge was calculated on other assets where the carrying value of the assets is less than the residual value on the fixed asset register. See the list below for details

No	Asdes	Original Cost to date	ACCUMULATED DEPRECIATION 2015/06/30	Residual value	CARRYING VALUE AT 2015/06/30 (Excl. Residual Value)	DEPRECIATION FOR THE YEAR 2015/2016
8770	TRUCK ISUZU SEWERAGE	18 000.00	15 794.67	16 000.00	2 205.33	367.55
11570	TRUCK TOYOTA HINO SEWERAGE	73 672.00	31 318.98	65 000.00	42 353.02	6 225.50
11650	TRACTOR FORD	32 093.94	10 152.93	30 000.00	21 941.01	2 823.50
12170	TRACTOR INTERNATIONAL	32 093.94	10 152.93	25 000.00	21 941.01	3 656.83

12820	TOYOTA CONDOR ESTATE 2000I	153 070.00	107 953.77	58 000.00	45 116.23	7 019.37
13070	VEHICLE TOYOTA TAZZ 130	83 160.00	61 958.80	24 000.00	21 201.20	3 533.53
12800	LDV NISSAN 1400	30 281.82	21 336.36	12 000.00	8 945.46	1 324.24
8760	TRACTOR MASSEY FERGUSSON	32 093.94	6 080.87	30 000.00	26 013.07	4 335.51
9720	TRACTOR MASSEY FERGUSSON	32 093.94	6 080.87	30 000.00	26 013.07	4 335.51
TOTAL						33 621.54

This results in the incorrect depreciation charge disclosed on the financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management The financial statements were not adequately reviewed to ensure that the fixed asset register and depreciation presented and disclosed is complete prior to being submitted for audit purposes	Management should review the depreciation charge of each class of an asset on a regular basis on the fixed asset register and ensure that this depreciation charge is accurately recorded in the accounting records from which the financial statements are prepared.	Management agrees with finding Management agrees with recommendation, but will due to lack of staff will not be able to implement it	.Correction of FAR Correction of AFS	24 October 2016 31 October 2016	Mubesko CFO	Management agrees with recommendation, but will due to lack of staff will not be able to implement it

48. Misstatements within Expenditure

Audit finding

The following sections of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires that:

“s65(1) - The accounting officer of a municipality is responsible for the management of the expenditure of the municipality;

“s65(2)(a), (c), (f), (j) - 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;*
- that the municipality has and maintains a system of internal control in respect of creditors and payments;*
- that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments*
- that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.*

Finding 1: Repairs and Maintenance

Out of a sample selected, the following findings under Repairs and Maintenance was noted:

1. Cut-off

The following invoices had been recorded in the 2016 financial year, whereas they related to 2015:

	Description	Voucher number	Invoice date	Payment date	Amount recorded, R
1	Karoo Motors Werkswinkel	1718	1 Feb 2015	24 July 2015	17 350.00
2	VSR DIGGING BK	791	13 June 2015	24 July 2015	52 000.00
					69 350.00

2. Excess payment

The following invoice had been overpaid:

	Description	Voucher number	Invoice Date	Invoice Amount	Amount Paid	Audited amount	Difference in amount
1	Kobus frey Landbou Dienste	1033	various	24 682.00	25 163.65	24 682.00	481.65
					25 163.65	24 682.00	481.65

3. Incorrect classification

The invoice details confirmed the total amount does not only relate to repairs and maintenance, part of the amount related to travelling cost.

Supplier's name	Cheque/ Payment	Invoice number	Invoice date	Amount per GL	Amount Audited	Travel portion
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	Voucher number					
Klein Karoo	00001129	DRI48868	15 Sep 15	12 214,68	12 102,54	112.14

The misstatements noted under point 1.1 to 1.3 above results in a total projected misstatement over the entire population of Repairs and Maintenance to the amount of R85 227.76.

Finding 2: General Expenditure

Out of a sample selected, the following findings under General Expenditure were noted:

1. VAT

(i) The supplier as per the invoice was registered for VAT, however no input Vat is being claimed.

	Description	Voucher/ Invoice number	Invoice date	Amount recorded with vat	Amount without vat	Difference
1	Travel and subsistence - VG Stellenbosch	16558	20-Aug-15	3 200.00	2 807.02	392.98
2	The Capetonian Hotel	835	26-Nov-15	1 790.00	1 539.40	250.60
3	Parliamant Hotel	1660	19-Feb-16	3 980.00	3 491.23	488.77
4	Three Top Guest House	1045	29-Sep-15	3 413.33	3 040.00	373.33
5	The Capetonian Hotel	835	03-Aug-15	1 790.00	1 539.40	250.60
6	George Lodge International	1046	29-Sep-15	2 520.00	2 259.65	260.35
7	CSX	1228	10-Nov-15	67 125.00	76 522.50	9 397.50
						11 153.78

Misstatement	11 153.78
Sample Tested	1 143 452.23
Population of General Expenditure	9 585 473.45
Extrapolated Misstatement	<u>93 01.29</u>

(ii) The following suppliers per the inspection of the invoices were not registered for VAT, however VAT is being claimed on the invoice

	Description	Voucher number	Invoice date/ payment date	Amount recorded excluding Vat	Audit Amount	Difference
1	The Dunes	1247	05-Oct-15	2 982.40	3 400.00	417.60
2	Prince Hire t/a Tool Quip Hire	n/a	06-Apr-16	5 600.00	4 480.00	1 120.00
						<u>1 537.60</u>

Misstatement	1 537.60
Sample Tested	1 143 452.23
Population of General Expenditure	9 585 473.45
Extrapolated Misstatement	<u>12 889.58</u>
2. Missing invoices	

Supporting invoices making up each amount as recorded were not provided as follows:

	Description	Voucher number	Payment date	Amount recorded in general ledger	Audit amount,	Difference
1	Leeu Gamka Ultra City	2062	09-Jun-16	5 948.95	5 238.85	710.10
2	Leeu Gamka Ultra City	1001	15-Sep-15	10 006.39	6 983.25	3 023.14
3	Leeu Gamka Ultra City	879	19-Aug-15	10 557.90	8 844.68	1 713.22
4	Leeu Gamka Ultra City	1252	16-Nov-15	9 380.70	7 261.10	2 119.60
						<u>7 566.06</u>

Misstatement	7 566.06
Sample Tested	1 143 452.23

Population of General Expenditure	9 585 473.45
Extrapolated Misstatement	63 425.71

From the issues and misstatements identified above, this results in a total projected misstatement over the entire population of General Expenditure of R126 675.58.

Finding 3: Contracted Service

Out of a sample selected, the following findings under Contracted Services were identified:

1. VAT

(i) VAT claimed twice on an invoice

	Description	Voucher/ Invoice number	Payment date	Amount recorded in general ledger, R	Audit Amount	Difference
1	Nako ILISO	IL15021	30-Jun-16	207 894.74	178 789.48	29 105.26
						29 105.26

Misstatement	29,105.26
Sample Tested	2 351 490.73
Population of Contracted Services	7 705 123.00
Extrapolated Misstatement	95 369.12

(ii) The supplier as per the invoice was registered for VAT, however no input Vat is being claimed

	Description	Voucher/ Invoice number	Invoice date	Amount recorded with vat	Amount without vat	Difference
1	Makukhane Consulting Engineers CC T?A	PR008M	09-Jun-16	199 500.00	175 000.00	24 500.00
2	Mubesko Africa	730INV000822	24-Jun-16	66 932.36	58 712.60	8 219.76
3	MIG:PMU	39829	27-Jul-15	1 790.00	2 040.60	-250.6

32 469.16

Misstatement	32 469.16
Sample Tested	2 351 490.73
Population of Contracted Services	7 705 123.00
Extrapolated Misstatement	<u>106 1.60</u>

(iii) The following suppliers per the inspection of the invoices were not registered for VAT, however VAT is being claimed on the invoice

	Description	Voucher number	Invoice date/ payment date	Amount recorded excluding Vat	Audit Amount	Difference
1	MIG:PMU	1359	23-Mar-16	1 754.39	2 000.00	-245.61

Misstatement	-245.61
Sample Tested	2351 490.73
Population of Contracted Services	7 705 123.00
Extrapolated Misstatement	<u>-804.79</u>

From the issues and misstatements identified above, this results in a total projected misstatement over the entire population of contracted services amounting to **R200,955.94**.

The total misstatements therefore noted across the expenditure is **R412 859.28**

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support expenditure and VAT.	<p>Management should ensure the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> that all the supporting information requested for audit purposes is readily available upon request to support all the information as recorded in the general ledger. <input type="checkbox"/> that payments made to suppliers are based on a valid tax invoice received from the supplier <input type="checkbox"/> Controls should be implemented to account and ensure that the recognition and allocation of VAT is done appropriately as prescribed by the tax legislation and monthly reviews should be done by senior management to ensure recording of invoices and VAT in the general ledger is dealt with correctly. 	<p>1. Management disagrees with finding Karoo motors werkswinkel invoice dated 1 February 2016 and not 2015 as per attached VSR Digging was paid in July 2015, but the expenses were accrued in the year ended 30 June 2015 with journal 204</p> <p>1.2 Management agrees with finding</p> <p>1.3 Management disagrees with finding – the invoice amount was R12,214 and was also transferred to capital purchases with jnl 183.</p> <p>2.1 i Management disagrees with finding – as per the VAT act 16 (2) No deduction of input tax in respect of a supply of goods or services, the importation of any goods or services or any other deduction shall be made in terms of this Act, unless:</p> <p>1. (a) a tax invoice or debit note or credit note in relation to that supply has been provided in accordance with section 20 or 21 and is held by the vendor making that deduction at the time that any return in respect of that supply is furnished; Regarding the VAT on CSX it was corrected and claimed with JNL 79</p> <p>ii. Please find attached tax invoice from the Dunes resort Regarding the Tool Quip find attached GL extract showing the transaction was posted without claiming VAT.</p> <p>2.2 Management agrees with finding</p> <p>3.1 Management disagrees with the finding – the duplicate VAT input was corrected with JNL 235</p> <p>ii: Management disagrees with finding regarding Makuhane – was corrected with journal 262</p> <p>Management agrees with the other 2 findings</p> <p>iii. Management agrees with finding</p>	None	N/A	C.Baadjes D.Plaatjies	Finding noted

49. Internal control deficiencies within expenditure

Audit finding

Control issues identified under Expenditure include:

Finding 1: No purchase order

No purchase order or quote was evident for the following expenditure:

	Description	Voucher number	Invoice date	Payment date	Amount recorded in general ledger (R)
1	KAROO MOTORS WERKSWINKEL	1142	07 Oct 15	19 Oct 2015	8 705.00
					8 705.00

Finding 2: Payment based on quotation

The following payments were made based on a quotation and not an invoice. No supporting invoices were attached together with the other supporting information provided for audit purposes and we were only able verify and confirm the amount as per the GL to the quotation.

	Description	Voucher number	Quotation date	Payment date	Amount recorded in general ledger R
1	MMA Office Furniture	49914	03 Aug 15	31 Jul 15	8 500.00
2	Integrity Control Systems (Pty) Ltd	1807	No invoice	30 Mar 16	10 950.00
3	Conlog (Pty) Ltd	1808	No invoice	30 Mar 16	7 614.60
4	Idube Electrical (Pty) Ltd	1809	No invoice	31 Mar 16	9 866.36
5	The Capetonian Hotel	835	03 Aug 15	31 Jul 15	1 790.00
6	MMA Office Furniture	930	No invoice	31 Aug 15	12 750.00
					51 470.96

The control issues identified increases the risk of incorrect payment for goods received and services rendered.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Leadership Management has not implemented effective expenditure management controls to ensure that the expenditure is always supported by invoices and purchase orders.</p>	<p>The implementation of proper controls should be actioned.</p>	<p>Management agrees with finding Some supplier require payment before delivery, but the municipality will file all payments made on quotation, pro forma invoice etc in a separate file that will be followed up monthly for the Correct tax invoice</p>	<p>File with all payments made before invoice received</p>	<p>30 November 2016</p>	<p>Donovan Plaatjies</p>	<p>Continuous</p>

50. Not stamped as proof of receipt

Audit finding

Section 62(1)(c)(i) of the Municipal Finance Management Act, (Act No. 56 of 2003) (MFMA) of requires 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."*

Of a sample of invoices selected, the following invoices were not consistently stamped as proof of receipt.

Payment date as per bank statement	Invoice date	Invoice number/Payment number	Supplier	Amount per invoice (R)
19 April 16	31 Mar 16	730INV0000751	Mubesko Africa	66 240.00
30 June 16	27 June 16	00119840	Moore Stephens	160 996.50
10 Nov 15	16 Oct 15	130696	Aurecon	74 000.00
30 Sep 15	31 Aug 15	730INV0000463	Mubesko Africa	42 650.00
23 Mar 16	14 Mar 16	1790	Julia's Guesthouse	1 754.39
29 Sep 15	28 Sep 15	1047	The Capetonian	895.00
27 July 15	27 July 15	802	The Capetonian	1 790.00
17 Nov 15	16 Nov 15	1253	Ganzekraal Vakansieoord en Konferensiesentrum	520.30
15 Sep 15	14 Sept 15	999	Church Street Lodge	473.00
20 Jun 16	20 Jun 16	2095	Karoo Lodge	700.00
13 Oct 15	12 Oct 15	1124	Church Street Lodge	508.77
30 Oct 15	29 Oct 15	1160	Edward Charles Manor	4 736.84
13 May 16	13 May 16	1954	Olienhof Rukamy	200.00
11 May 16	03 May 16	1948	Moore Stephens	2 056.00

There are no sufficient monitoring processes in place to ensure that all invoices have attached a recorded date of receipt for monitoring of compliance with section 65(2)(e) of the MFMA.

This could result in invoices not being paid within 30 days which may result in material non-compliance.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance management Management did not implement adequate controls over monitoring of receipt of supplier invoices.	Management should ensure that all documents received are date stamped to ensure effective follow up is made for payments.	Management agrees with audit finding.	Ensure all received documents are date stamped and ensure payments within 30 days.	31/12/2016	D.Plaatjies	Continuous

51. Payments not made within 30 days

Audit finding

Section 65(2)(e) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires 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*”.

Out of a sample selected, payments for the following items were made 30 days after the invoice was received by the municipality:

Identified from Creditors testing:

	Payment Date	Date invoice stamped received	Supplier	Reference/ Invoice Number	Number of days before payment was made
1	06-Jul-15	02-Mar-15	SALGA	INV7844	126
2	06-Jul-15	20-Mar-15	SALGA	INV7844	108
3	31-Mar-16	22-Feb-16	ESKOM	INV108	38
4	29-Apr-16	23-Mar-16	ESKOM	INV116	37
5	08-Jul-16	31-Mar-16	J.K Maree	420	99
6	19-Aug-16	02-Jun-16	Konica Minolta	902288181	78
7	08-Jul-16	02-May-16	Klein Karoo Agri Edms Beperk	PAI 612417 / PAC 11670	67
8	08-Jul-16	04-May-16	Bidvest Waltons	P10760	65
9	14-Jul-16	26-May-16	Hidro Tech Systems (Pty) Ltd	111/2014	49
10	14-Jul-16	30-May-16	Bidvest Waltons	GE000006998151	45
11	08-Jul-16	27-May-16	ASLA Construction	11714	42
12	08-Jul-16	02-Jun-16	Konica Minolta	902288171	36
13	14-Jul-16	30-May-16	Courier Printing	IN107298	45
14	14-Jul-16	30-May-16	Courier Printing	IN107299	45
15	14-Jul-16	03-Jun-16	FKB Leeu-Gamka	ILG12901	41
16	14-Jul-16	03-Jun-16	FKB Leeu-Gamka	ILG12889	41
17	27-Jul-16	17-Jun-16	ISHS (Integrated Safety & Health Systems)	325/16	40
18	12-Jul-16	09-Jun-16	Telkom	606B1003110y	33

Identified from Expenditure testing:

No	Payment number	Payment date	Invoice date	Date invoice stamped received	Supplier	Amount per invoice (R)	Number of days before payment was made
1	1999	27-May-16	22-Apr-16	26-Apr-16	Noecor Elekries & Verkoeling	305	31
2	1893	22-Apr-16	02-Dec-15	24-Feb-16	Ford	5 664.54	58
3	14859	04-Nov-15	21-Sep-15	23-Sep-15	Mooore Stephens	44 154.25	42
4	16005	30-Dec-15	10-Nov-15	23-Nov-15	Mooore Stephens	116 388.53	37
5	2029	03-Jun-16	25-Apr-15	26-Apr-16	Uber Tech	19 000.00	38
6	1897	22-Apr-16	29-Feb-16	23-Mar-16	Moore Stephens	10 518.78	38
7	1879	18-Apr-16	02-Mar-16	15-Mar-16	Salga	5 578.00	33
8	1460	18-Jan-16	14-Dec-15	15-Dec-15	Media24	16 878.72	34
9	1892	22-Apr-16	15-Feb-16	19-Mar-16	Driving License Card Account	2 370.00	34

This results in a material non-compliance with laws and regulations, as prescribed measures per the MFMA were not followed.

Furthermore, should these invoices be overdue the municipality could incur interest charges due to the accounts being overdue which will constitute fruitless and wasteful expenditure as the interest could have been avoided had the municipality managed to pay on time.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance Management Management did not implement adequate controls over monitoring of the process of receiving goods/services and ensuring that payments to suppliers of goods/services received is performed timeously within 30 days as prescribed by the legislation.	Management should ensure that payments are made within the prescribed period of 30 days.	Management agrees with the finding except: Creditors Testing 1 and 2 – SALGA – We received the invoice in March 2015 but it becomes payable in July 2015 for the book year 2015/16. Expenditure Testing 3 and 4 – Moore and Stephans – Moore and Stephans delivered their invoices to CKDM (Shared Service) and	Ensure in future that all payment are made within the 30 days.	24/10/2016	CFO	Continuous

	thereafter we received an invoice from CKDM.				
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52. Failure of submission to Treasury and public notice of amendments to SDBIP

Audit finding

Section 53(2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires that, "*The mayor must promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan (SDBIP) or the signing of the annual performance agreements.*"

Furthermore, section 54(3) states that, "*The mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.*"

No proof of submission to Treasury of the amended SDBIP 2015-16, adopted on 23 March 2016, could be obtained.

Furthermore, a public notice confirming that the amended SDBIP 2015-16 adopted on 23 March 2016 was made public could not be obtained. The document is also not available on the municipality's website.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement adequate controls over compliance monitoring to ensure that the revisions to the SDBIP were communicated to all the relevant users as required by the legislation.	Management should ensure that amendments to the SDBIP are adopted, submitted to Treasury and made public. Additionally, management should ensure that amendments are made during the planning phase of performance management to ensure that the document is further applied in the use of measuring performance of the municipality, and not at the end of the reporting period.	Management concur with finding	.Appointment of PMS official	28 February 2017	Municipal Manager	Date extended from 31 October to 28 February, due to appointment of IDP/PMS manager

53. Indicators inconsistently disclosed in the IDP and SDBIP

Audit finding

The Municipal Systems Act, 2000(Act No. 32 of 2000) par 41 (a) states:

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

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) sec 53 (1)(b) and 53(1)(c)(ii) states:

"The mayor of a municipality must co-ordinate the annual revision of the integrated development plan in terms of section 34 of Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget and [(c)(ii)] take all reasonable steps to ensure that the municipality service delivery and budget implementation plan is approved by the mayor within 28 days after approval of the budget"

The following inconsistencies were detected with regards to an indicator which was disclosed under different strategic objectives in the SDBIP and the IDP as detailed below:

Indicator	SDBIP Strategic Objective	IDP Strategic Objective
[TL8] Provide refuse removal, refuse dumps and solid waste disposal to households within the municipal area	SO5: To maintain financial viability & sustainability through prudent expenditure, and sound financial systems	SO4: To provide quality, affordable and sustainable services on an equitable basis

The indicator should have been disclosed under **Strategic Objective 4 - To provide quality, affordable and sustainable services on an equitable basis.**

The inconsistency of the information reported in the SDBIP and IDP might be misleading to the users of performance information.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and Performance Management Implement controls over daily and monthly processing and reconciling of transactions. There was no adequate review of the performance information to ensure that reported information is consistent throughout the IDP and SDBIP.</p>	<p>Management should in future ensure that adequate reviews of accuracy and consistency of the performance information presented in the IDP and SDBIP.</p>	<p>Management concurs with finding</p>	<p>Appointment of PMS official tasked with monthly oversight and referral to Management</p>	<p>December 2016</p>	<p>Manager: Corporate and Community Services</p>	<p>PMS Official not yet appointed</p>

54. Internal control deficiency identified (water, sanitation and road infrastructure)

Audit finding

Section 62(1)(c)(i) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires 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 findings were identified with regards to water, sanitation and road infrastructure:

- The municipality does not have an approved policy in place that addresses routine maintenance of water, sanitation and road infrastructure.
- The municipality did not plan for the maintenance of water, sanitation and road infrastructure by setting specific timeframes and targets in this regard.

Inadequate controls and plans may result in the inadequate provision of water, sanitation and road infrastructure services to the public.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Leadership Management did not ensure that the necessary policies and procedures or plans were communicated and established with regards to water, sanitation and road infrastructure to enable and support the execution of internal control objectives within water, sanitation and road infrastructure.	Management should ensure that the necessary policies and procedures are in place and that an approved plan is created for the routine maintenance of water, sanitation and road infrastructure.	Please note that Prince Albert Municipality's technical manager resigned resulting in loss of capacity. The Municipality do not have capacity to draft maintenance plans, but did partake in a district assessment of roads to plan for road maintenance.	Rudimentary maintenance plans will be developed	March 2017	MM	Position of Technical manager advertised and will be filled accordingly

55. Misstatements in the calculation of the leave pay provision

Audit finding

In terms of MFMA Act 56 of 2003, par 63(2)(b): The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice;

Differences in the opening and closing provision for leave pay were noted due to the differences in the recalculated leave days as follows:

Assessment of Opening Balance

Employee	Balance at 1 July 2015	Auditor Assessment		
		Balance at 1 July 2015	Difference in Days	R impact
M FEBUARIE	48.00	51	3.00	2 163.95
A MEINTJIES	48.00	50	2.00	1 442.63
B MAY	48.00	56	8.00	3 506.94
C BAADJIES	44.00	44	-	-
H LE KAY	48.00	60	12.00	6 064.85
M GRIEBELAAR	18.00	5	-13.00	(4 495.72)
N TALA	21.00	14	-7.00	(2 199.19)
JT DU PLESSIS	48.00	60	12.00	4 248.92
A SAS	48.00	79	31.00	11 786.08
K PRETORUIS	48.00	62	14.00	4 727.93
K VAN DER MESCHT	48.00	55	7.00	5 961.00
H KELLERMAN	28.00	23	-5.00	(2 465.39)
A MOOS	42.00	43	1.00	345.82
A ABRAHAMS	48.00	99	51.00	17 223.17
G VISAGIE	48.00	55	7.00	3 068.57
				51 379.56

The impact of the above variances identified results in an understatement of provisions in the annual financial statements by R51 379.56 and R21 907.50 at the beginning of the year and as at the year end.

Assessment of Closing Balance

Employee	Balance at 30 June 2016	Auditor Assessment		
		Balance at 30 June 2016	Difference in Days	R impact
M FEBUARIE	48.00	57	9.00	6 491.84
A MEINTJIES	48.00	54	6.00	4 327.89
C BAADJIES	48.00	52	4.00	2 220.62
M GRIEBELAAR	23.00	10	-13.00	(4 495.72)
N TALA	25.00	18	-7.00	(2 199.19)
JT DU PLESSIS	48.00	51	3.00	1 062.23
A SAS	48.00	54	6.00	2 281.18
K PRETORUIS	48.00	58	10.00	3 377.09
K VAN DER MESCHT	48.00	52	4.00	3 406.28
H KELLERMAN	26.00	27	1.00	493.08
A MOOS	48.00	54	6.00	2 074.95
A ABRAHAMS	48.00	50	2.00	675.42
G VISAGIE	48.00	53	5.00	2 191.84
				21 907.50

The impact of the above variances identified results in an understatement of provisions in the annual financial statements by R51 379.56 and R21 907.50 at the beginning of the year and as at the year end.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and Performance Management: Management did not implement proper controls over daily and monthly processing and reconciling of transactions relating to leave provision.	Management should ensure that provisions are calculated accurately, updated and reconciled timeously as and when the leave forms are authorised.	Management concurs with the finding regarding the days as per leave provision not agreeing with register. Regarding the calculation the maximum number of leave days are limited to 48 days as per SALGBC main collective agreement. Monthly reconciliation to be reconciled by Manager	Monthly reconciliation checked by manager	October 2016	A Vorster	Completed

56. Incorrect disclosure in the Annual Financial Statements

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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 current year information reflected in Note 26 – Debt impairment of the annual financial statements does not reconcile to the contribution to provision disclosure in Notes 15 in the annual financial statements. Please refer to the reconciliation below:

Extracted from note 26 of the AFS:	AFS
Trade Receivables from exchange transactions	
Electricity	278 049
Water	1 368 175
Refuse	536 555
Sewerage	422 425
Total	2 605 204
PLUS VAT on service charges	364 729
Subtotal	2 969 933
Movement in debt impairment as per note 15 of the AFS	3 100 829
Differences between subtotal and Movement in note 15	(130 896)
Reclassification of Other debtors to Trade Receivables from exchange transactions	95 700
VAT on Other debtors	13 398

Unreconciled differences	(21 798)
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Management did not reconcile the information when completing note 15 and 26 of the annual financial statements.

The incorrect information is reflected in note 26 of the annual financial statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management The financial statements were not adequately reviewed to ensure that the information presented and disclosed is accurate prior to being submitted for audit purposes.	Management should perform a detailed review of financial statements to ensure that it is accurate.	Management agrees with the finding	Adjust AFS	31 October 2016	Mubesko CFO	The AFS will be reviewed in advance

57. Unmetered consumption at year end

Audit finding

In terms of paragraph 31 of GRAP 1 – Presentation of financial statements: *“An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.”*

In terms of paragraph 5 of GRAP 1: *“Accrual basis means a basis of accounting under which transactions, and other events and conditions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events or conditions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.”*

Unmetered consumption at year end (for the period between the last meter reading and year-end), was not brought into account by the Municipality. Based on the reasonability calculation below the amount is material:

Details	Electricity	Water	Total
July Billing per ABAKUS	R600 304	R363 409	R963 713
Tariff rate increase p.a.	7.64%	8%	
Last Reading Date 2015/2016	08-Jun-16	08-Jun-16	
First Reading 2015/2016	08-Jul-16	08-Jul-2016	
No of days	30	30	
Days in June 2016 unread	22	22	

Rand Amount apportioned	R440 223	R266 500	R706 723
Rand Amount excluding tariff increase	R406 590	R245 180	R651 770
Amount to be accrued for	R406 590	R245 180	R651 770

Electricity and water revenue is understated by R406 590 and R245 180 respectively.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement controls in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	The necessary adjustments should also be made to revenue and consumer debtors.	Management disagrees with the audit finding.	None	N/A	Mubesko CFO	Finding Noted

58. Traffic fine income:

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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."*

Syntell was responsible for the management of traffic fines (average speed over distance and camera fines) for the period July 2015 to January 2016 and Trafosol was responsible for traffic fines (ASOD and camera fines) for the period January 2016 to June 2016.

Monthly reports detailing the fines issued are provided to the Municipality. These reports allow the Municipality to capture the fines into the general ledger.

Fines relating to average speed over distance were not captured for the period July 2015 to November 2015 (5 months of the year). These fines were only captured in the general ledger during the month of January 2016.

Fines relating to camera fines were not captured for the period July 2015 to November 2015 (5 months of the year). These were only captured in the general ledger during the month of January 2016.

Furthermore, spot fines issued by the Municipality were not captured onto the general ledger on a timely basis. Spot fines issued in July 2015 – November 2015 were captured onto the general ledger on 12 January 2016.

The service providers failed to provide the Municipality with the monthly detailed reports in order for the Municipality to capture the fines issued into the general ledger.

There is a loss of revenue relating to average speed over distance fines and camera fines as fines must be issued within 30 days after the traffic offence has occurred.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management Management did not implement controls over daily and monthly processing and reconciling of transactions.</p>	<p>Management should in future ensure that all relevant information is obtained timeously from the service provider. The service provider's performance should be measured on a continuous basis as per the service level agreement. A calendar of important monthly functions should be set up with allocated responsibilities in order that regular tasks are not missed.</p>	<p>The Service Provider (Syntell) did provide monthly statistics up to the end of October 2015 which was captured in the Traffic reports. This included ASOD cameras. Syntell first indicated that they will continue with their service, but later was found that they could not provide the service as their system was not compatible with the changes made by Province (Province did not inform the Municipality of the changes and thus the Municipality was caught unawares. The Municipality then approached Beaufort West Municipality to process the ASOD traffic fines which they did. The Municipality agree that challenges on reporting was experienced and specifically addressed this issue with the new service provider to mitigate any risk of loss of income. Currently the turn over time of fines captured vs fines send out is less than 10 days. The recommendation is agreed to and is currently being implemented.</p>	<p>Per agreement that the reports are provided by the 7th of each month to compile monthly report for inclusion in the General Ledger by the 15th of each month.</p>	<p>Already implemented</p>	<p>A Vorster</p>	<p>Completed</p>

59. Property rates: Valuation roll does not reconcile to Abacus

Audit finding

Per section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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."

There is a difference in the reconciliation of the total value of properties per the valuation roll to the total value of properties per ABAKUS, which results in the following misstatement.

	Amount (R)
Total Value as per Valuation Roll	1 353 036 400
Total Valuation per ABAKUS Report	1 354 893 900
Un-reconciled Difference	(1 857 500)

Management did not prepare monthly reconciliations from the value of properties per the general valuation roll to value of properties per ABAKUS.

Incorrect property values could lead to incorrect property rates being charged.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should ensure that monthly reconciliations are prepared and reviewed to ensure the value of properties per the general valuation roll reconcile to value of properties per ABAKUS. Any differences	Management disagrees with the finding. Refer the attached reconciliation for the difference of R 1 857 500.00.	None	N/A	N/A	Finding Noted

	found can be timeously resolved.					
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60. Water distribution losses

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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 distribution losses were calculated incorrectly by the municipality.

AFS DISCLOSURE - NOTE 39.4			
	2016 PER AFS	PER AUDITOR'S RECALCULATION	Difference
Kl Disinfected/Purified/Purchased	779 111	779 111	-
Kilo Litres Lost During Distribution	132 669	132 669	-
Percentage Lost During Distribution	17.03%	17.03%	-
Value Of Distribution Losses (R)	150 467	170 479	20 011

The cost per unit of water purification was based on the trial balance amounts before 13th period journals were processed.

COST PRICE PER KILOLITRE			
PER AUDITEE (R)	PER FINAL TRIAL BALANCE (R)		Difference(R)
Cost price per KL	883 632	1 001 152	117 520

PURIFIED WATER 2015/16			
	Per Auditors	Per Auditee	Difference
Water in stock as at 30 June 2016	5 299	5 299	-
Kl water purified during the year	778 393	778 393	-

Plus: Stock on hand as at 30 June 2014	-4 511	-4 511	-
TOTAL KL PURIFIED	779 111	779 111	-

	Per Auditors (R)	Per Auditee (R)	Difference (R)
Cost Per Unit	1.285	1.134	0.151

The distribution losses as disclosed in note 39.4 of the financial statements, is understated by R20 011.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management The financial statements were not adequately reviewed to ensure that the information presented and disclosed is accurate prior to being submitted for audit purposes.	Management should perform a detailed review of financial statements to ensure that it is accurate, particularly when information is to be agreed to an external source or report.	Management agrees with the audit finding. The recommendation will be implemented in the future.	The AFS will be amended	30/9/2016	CFO	Noted

61. Prepaid electricity reconciliation between sales per supplier and ABAKUS systems

Audit finding

Per section 62 (1)(b) of the Municipal Financial Management, 2003 (Act No. 56 of 2003) (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."

There is a difference in the reconciliation of the prepaid electricity sales between the Syntell and ABAKUS systems at year end.

Syntell was responsible for the management of prepaid electricity sales for the period July 2015 to June 2016.

Monthly reports detailing the prepaid vouchers issued are provided to the Municipality. These reports allow the Municipality to capture the sales into the general ledger.

These sales are captured into the system monthly and a reconciliation is performed at year end. The following amounts are detailed on this reconciliation:

Amount per the Syntell reconciliation	= R5 550 235
Amount per the general ledger (ac: 5238000)	= <u>R5 740 134</u>
Difference	= <u>R 189 899</u>

The amount stated in the general ledger seems to be overstated.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management 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 monthly detailed reports were not received from the service providers and the municipality did not try to obtain them in the knowledge the fines were potential revenue for the municipality.</p>	<p>Management should in future ensure the reconciliations are performed monthly to avoid differences at year end. Any differences in the reconciliations should be timeously followed up.</p>	<p>Management disagrees with audit finding. Please find attached recon and journal 252.</p>	<p>Monthly recon between Abakus and Syntell</p>	<p>30 November 2016</p>	<p>S Windvoel</p>	<p>Completed</p>

62. Inaccurate disclosure of Taxes in the Annual Financial Statements

Audit finding

Disclosure deficiencies were identified in the Annual Financial Statements, as stated below.

Note 10 Taxes

The VAT receivable account balance as presented and disclosed in the financial statements is overstated by an amount of R169,144. This was attributable to the VAT output on debtors as per note 10.1 that was incorrectly calculated. The initial amount presented in the financial statement of -R87,732 and should have been disclosed as R81,412.

Notes 10.1 and 10.2 were also incorrectly presented and disclosed on the financial statements. Both the VAT output and input is disclosed as VAT output and input on accruals in both instances.

The inaccurate disclosures could be misleading to the users of the Annual Financial Statements.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
Financial and performance management The amounts in the financial reports are not accurately supported by the evidence and information obtained in terms of the disclosures of taxes. A process to review the accuracy of the underlying information was not in place.	Management should review the notes to the Annual Financial Statements before submission to ensure that all information is accurate and complete.	Management agrees with finding. During the calculation of provision for debt impairment VAT was incorrectly included in the interest impaired as per attached working paper	.Correcting journal Adjust AFS	25 October 2016 31 October 2016	Mubesko CFO	Will be implemented in the future

ANNEXURE C: ADMINISTRATIVE MATTERS

63. No assessment of Audit Committee by Council

Audit finding

No evidence of assessment of the Audit Committee by the Council.

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Governance Council should ensure through periodic assessments that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.</p>	<p>The council should assess the Audit Committee on a periodic basis.</p>	<p>Management concurs All minutes of Audit Committee and self-assessment were submitted to Council. Council did not, however do a formal assessment of the Audit Committee.</p>	<p>Formal evaluation of audit committee by Council once a year</p>	<p>February each year</p>	<p>Council – Executive Mayor MM</p>	<p>Will be implemented</p>

64. . Supplier VAT information incorrectly captured

Audit finding

Per section 62(1)(b) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (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 supplier's vat numbers have been omitted or are indicated as the same number as the municipality.

Name	Deficiency
ESKOM	Duplicate VAT no.
MUBESKO AFRICA	Duplicate VAT no.
SYNTELL	Duplicate VAT no.
CAB HOLDINGS (PTY)LTD	Duplicate VAT no.
WALTONS	Duplicate VAT no.
TF TRANSPORT	Duplicate VAT no.
SILVER EARL INVESTMENTS	Duplicate VAT no.
SMME SOLUTIONS	Duplicate VAT no.
FAAN DE WIT BOERDERY	Duplicate VAT no.
VALLEY CONTAINERS	Duplicate VAT no.
ORE ENERGY SOLUTIONS (PTY) LTD	Duplicate VAT no.
THE COOLING COMPANY	Duplicate VAT no.
ACCUSTOMED RISK MANAGEMENT SYSTEM	Duplicate VAT no.
TATA WORCESTER	Duplicate VAT no.
ASLA CONSTRUCTION	No VAT supplier
MAKHUKHANE CONSULTING ENGINEERS	No VAT supplier
HIDRO TECH	No VAT supplier
VIKING PONY AFRICA PUMPS T/A TRICOM AFRICA	No VAT supplier
CSX CUSTOMER SERVICES	No VAT supplier

AG INTERNAL CONTROL DEFICIENCY	AG RECOMMENDATION	MANAGEMENT RESPONSE	CORRECTIVE ACTION PLANNED	TARGET DATE	RESPONSIBLE PERSON	PROGRESS TO 15/01/2017
<p>Financial and performance management Management has not implemented adequate record management processes to facilitate the internal controls around recording of VAT numbers within the supply chain management.</p>	<p>The supplier listing should be reviewed to ensure that all details are correctly captured.</p>	<p>Management agrees with the finding. The recommendation will be implemented.</p>	<p>We already started to review the supplier listing from 1 July 2017 to ensure that all details are correctly captured.</p>	<p>31 October 2016</p>	<p>Christa Baadjies Donovan Plaatjies</p>	<p>Ongoing</p>