



AUDITOR-GENERAL
SOUTH AFRICA

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FINAL MANAGEMENT REPORT

THEMBELIHLE LOCAL MUNICIPALITY

30 JUNE 2015





MANAGEMENT REPORT

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30 June 2015

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE THEMBELIHLE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2015

INTRODUCTION

1. Our responsibility is to:
 - express an opinion on the financial statements
 - express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected objectives and report the material findings in the auditor's report
 - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

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

2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2015. These findings were communicated to management, and the report also details management's response to these findings. The report also includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. The management report consists of an executive summary and annexures containing the detailed audit findings.

EXECUTIVE SUMMARY

SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE

4. During the audit cycle, we met with the following key stakeholders who are responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Stakeholder	Number of interactions
Council	0
Municipal public accounts committee (MPAC)	0
Mayor of the municipality	0
Municipal Manager	1
Audit committee	0

5. At these interactions, none of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2, which deals with the assessment of assurance providers.



SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

6. We identified material misstatements in the financial statements during the audit, which are detailed in the table below. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the MFMA.
7. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes / No)	R current year	R prior year
Material misstatements not corrected				
Fines – revenue from non-exchange transactions	Fines not recognised in accordance with GRAP 23 (ex.161 of 2013/2014) Ex.70	Yes	Unknown	Unknown
Receivables from non-exchange transactions	Fines not recognised in accordance with GRAP 23 (ex.161 of 2013/2014) Ex.70	Yes	Unknown	Unknown
Operating expenditure	Legacy issue: Operating Expenditure - limitation of scope. No information provided for two years in a row. Ex.106	Yes	None	R1,432,952.62
Irregular expenditure	SCM: Competitive bidding (Understatement of	No	R360,000	



Irregular expenditure	irregular expenditure) Ex.143	No	199 886	
Irregular expenditure	SCM: 3 Quotations not obtained (Ex. 16)	Yes	None	718 767
Irregular expenditure	Legacy issue: Irregular expenditure S& T not provided (Ex. 87) (EX.172)	No	237 176	
Fines – revenue from non-exchange transactions	Expenditure: Subsistence and Travel - Discrepancies (Ex.146)	No	1 121 894.54	
Receivables from non-exchange transactions	Revenue Fines - Possible Overstatement Ex.193	No	1 121 894.54	
Material misstatements corrected				
Ex.41	Revenue - Completeness of Traffic Fines cannot be verified	No	R3,913,136	
Ex.74	Restatement of opening balances cannot be traced to supporting documentation (Limitation)	Yes	Unknown	
Ex.76	Opening balances used to recalculate depreciation cannot be relied upon	No	R11,423,454	
Ex.77	Understatement of work in progress	No	R1,973,599	
Ex.77	Overstatement of accumulated depreciation on infrastructure assets	No	-R1,085,479	



Ex.77	Overstatement of infrastructure assets	No	-R888,119.59	
Ex.95	Mini-substation cannot be traced back to the asset register (Completeness)	No	Unknown	
Ex.92 and Ex.123	SCM: Tax clearance certificate and tender not advertised for 30 days	No	R11,271,197	
Ex.102	Investment property: Opening balance restated for which no supporting documentation is available	No	R7,035,000	
Ex.105	Legacy issues: Receivables - Journals without adequate support (Ex.118 of 2013/2014)	Yes		R1,675,588.47
Ex.109	Commitments - incorrect contract amount (Ex. 109)	No	12,250,836.48	
Ex.111	Bank and cash: Standard Bank no 06 336 2309 not included under bank and cash	No	R35,013	
Ex.112	Investment property: Item listed in asset register not listed in the expert valuator's report	No	R1,572,300	
Ex.113	Fair value gain cannot be recalculated as opening balances cannot be confirmed (limitation)	No	R775,400	
Ex.117	Non-current assets: Sewerage items cannot be traced to the asset register (Completeness)	No	Unknown	
Ex.121	Non-current assets: Non cash item recorded in the cash flow statement (Understatement of cash and cash equivalent)	No	R80,227	



Ex.129	Employee rental erf numbers cannot be traced to the asset register (Completeness)	No	Unknown	
Ex.135	Commitment- Amount per commitment schedule does not agree to the amount on the annual financial statements	Yes	R8,391,765	R135,997,946
Ex.139	Related Parties amounts not recognised at the correct value	No	R300,000	
Ex.141	Provisions: Presentation and disclosure	No	R997,962	
Ex.145	Receivables: Balance outstanding at year end for arrangements could not be agreed to the Municipalities system	No	Unknown	
Ex.149	Consumer deposits register does not agree to Consumer deposits general ledger vote	No	Unknown	
Ex.154	Legacy issues: Journals (Limitation of scope) (Ex.204 of 2013/2014)	Yes	Unknown	Unknown
Ex.155	Legacy issues: Related Parties non-disclosure (Ex.160 of 2013/2014)	Yes		R270,652
Irregular expenditure	Legacy issue: Irregular expenditure S& T not provided (Ex. 87) (EX.172)	Yes		R718,767.71
Trade payables	Revenue: TVS Traffic Fines - no creditor accounted for at year end. Ex.158	No	Unknown	

Ex.176	Legacy issue: Bad debts written off not disclosed (Ex.176)			R573 616.06
Ex.185	NC Assets: Infrastructure Assets	No	Unknown	



2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

Emphasis of matter paragraphs

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

Restatement of corresponding figures

9. As disclosed in note 50 to 51 of the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Unauthorised expenditure

10. Unauthorised expenditure incurred during 2014 -15 was disclosed as R14 904 549 (2014: R12 606 468) in note 55 of the financial statements. This unauthorised expenditure must still be investigated and reported to council. The unauthorised expenditure was still awaiting authorisation or to be written off.

Material losses

11. As disclosed in note 60 and 61 to the financial statements, material losses were reported at 58% (2014: 52%) and 39% (2014: 42%) incurred as a result of distribution losses relating to unaccounted water and electricity, respectively.

Additional matter paragraphs

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

Unaudited supplementary schedules

13. The supplementary information set out in appendix A to E(2) does not form part of the financial statements and is presented as additional information. We have not audited these schedules and accordingly. We do not express an opinion thereon.

Unaudited disclosure notes

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

2.3 REPORT ON PREDETERMINED OBJECTIVES

15. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, our responsibility is to express a conclusion on the usefulness and reliability of selected objectives presented in the annual performance report.
16. We were unable to conclude on the usefulness and reliability of the reported performance information, as the annual performance report of the municipality was not presented for auditing, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA.
17. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the general notice issued in terms of the PAA. This



framework deals with the planning, management, monitoring and reporting of performance against predetermined objectives. The accounting officer is also responsible for internal controls determined by management as necessary to enable the preparation of an annual performance report that is useful and reliable.

18. Although the annual performance report was not submitted for auditing, we audited performance information in respect of the following selected material objectives is contained in the strategic planning and performance management documents:
 - a. KPA2 :Basic Services
19. We assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the FMPPI.
20. The material findings in respect of the selected development objectives are as follows:

KPA2 : Service Delivery

Usefulness of performance information

Measurability of Targets

21. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 98% of targets were not specific.
22. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 99% of the targets.
23. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 100% of targets were not time bound.
24. Performance indicators and measures should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 64% of the indicators were not well defined.
25. The processes and systems that produced the indicator or measure should be verifiable, as required by the FMPPI. A total of 100% of the indicators and measures were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes with regards to performance management.

Basis for qualified of conclusion

26. Performance targets were not specific in clearly identifying the nature and required level of performance, were not measurable and the period or deadline for delivery of targets was not specified, as required by the FMPPI.

And

27. Performance measures were not clearly defined so that data can be collected consistently and is easy to understand and use. Performance measures were also not verifiable.
28. The measurability of planned targets and indicators could not be assessed due to a lack of proper systems, processes and documented system descriptions.



Audit findings in the auditor's report

29. We will report all the audit findings included in this report in the auditor's report.

2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION

30. Included below are material findings on compliance with specific requirements in key applicable legislation.

Strategic planning and performance management

31. The adopted integrated development plan (IDP) did not reflect and identify the key performance indicators and targets and financial plan, as required by sections 26 and 41 of the Municipal Systems Act, as well as Municipal planning and performance management regulation 2(1) and 2(3)(a-c).
32. The municipality did not conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
33. The performance management system did not provide for policies and procedures to take steps of improvement where performance targets were not met, as required by section 41 (1)(d) of the Municipal Systems Act,.
34. Measurable performance targets for the financial year were not set in the IDP, for each of the key performance indicators and with regard to each of the development priorities or objectives, as required by section 41(1)(b) of the Municipal Systems Act, and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
35. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the Municipal Systems Act.

Financial statements, performance and annual reports

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets; current assets; liabilities; revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
37. The 2013/14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Audit committees

38. An audit committee was not in place, as required by section 166(1) of the MFMA.
39. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).

Internal audit

40. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
41. The internal audit unit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.



42. Internal audit unit did not report to the audit committee on the implementation of the internal audit plan.
43. The internal audit unit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management.
44. Sufficient appropriate audit evidence could not be obtained that the internal audit unit advised the accounting officer on matters relating to compliance with the MFMA, the Division of Revenue Act (DoRA) and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Procurement and contract management

45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
47. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).

Human resource management and compensation

48. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.
49. The acting corporate service manager was appointed without having met the prescribed minimum competency levels as required by section 56(1)(b) of the Municipal Systems Act.

Expenditure management

50. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
51. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants and transfers

52. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DoRA.
53. Sufficient appropriate audit evidence could not be obtained that the Municipal Infrastructure Grant allocation was spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.
54. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DoRA.

Revenue management

55. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
56. Asset management
57. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.



58. An effective system of internal control for assets was not always in place, as required by section 63(2)(c) of the MFMA.

Consequence management

59. Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

60. Council certified unauthorised, irregular, fruitless and wasteful expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.

2.5 INTERNAL CONTROL

61. Below is our assessment of the implementation of the drivers of internal control, based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements or the annual performance to be materially misstated and material instances of non-compliance with legislation to occur.



















62. When the required preventative or detective controls are in place, it is assessed with a 😊; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a 😐; while 😞 indicates that internal controls are not in place and/or implemented and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions (namely financial statements, performance reporting, and compliance with legislation) under the three fundamentals of internal control (namely leadership, financial and performance management, and governance), with ↑ (improved), ↔ (unchanged) or ↓ (regressed).

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment	↔		↔		↔	
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity	😞	😞	😞	😞	😞	😞
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	😞	😞	😞	😞	😞	😞

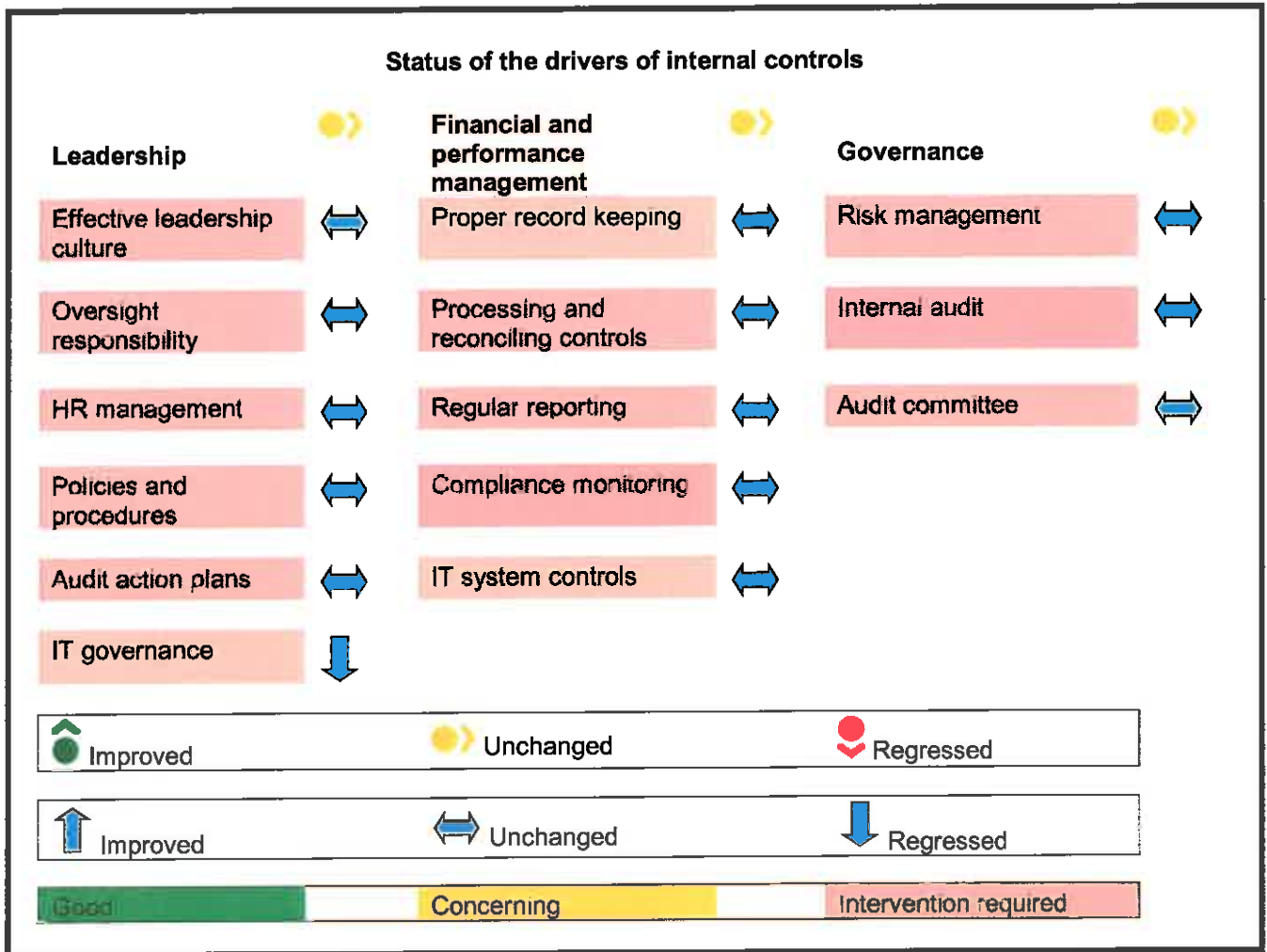


	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling of transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
Governance						
Overall movement from previous assessment						



	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 						

63. The table below provides the overall status of the drivers of key controls and is followed by detail on the significant deficiencies identified.



LEADERSHIP

Effective leadership culture

64. The municipality did not have a code of ethical conduct signed by the municipality staff. There was no approved delegation of power by council for the 2014/2015 financial year. No reports are submitted within 10 days after the end of each quarter, on the implementation of the SCM policy to the Mayor of the municipality. The municipality does not have a gift declaration register and policy in place. There are no properly implemented controls for vendor acceptance to prevent and detect fictitious suppliers.

Oversight responsibility

65. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls, as the Annual report was not tabled for the 2013/2014.

66. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective actions.

67. Oversight committees did not ensure that all employees are held accountable for their actions.



68. The municipality did not hold employees accountable for shortcomings identified during the internal and external audit processes.

Human resource management

69. An assessment of human resource management has identified the following deficiencies:

Human resource planning and organisation

- A human resource plan based on the strategic plan of the municipality was not in place. .
- Job descriptions did not exist for each post or group of posts.
- No controls were put into place to ensure that all section 57 members' qualifications are verified.

Management of vacancies

- The overall vacancy rate at year end increased from 29% in the previous year to 33.53% in the current year.
- The senior management vacancy rate at year end increased from 25% in the previous year to 40% in the current year.
- An acting technical manager and corporate services was appointed for a period of more than six months in contravention of section 54A(2A) of the Municipal Systems Act.

Appointment processes

- New appointees did not have the required qualifications and experience for the position.
- The prescribed selection and approval processes were not followed for all appointments.
- The verification process for new appointments did not take place and did not cover criminal record checks, citizenship verifications, financial record checks, qualification verifications, reference checks.

Competencies of key officials

- No assessment evaluation for competencies were performed for the following key positions
 - CFO
 - Municipal Manager
 - Acting Corporate services manager

Policies and procedures

70. The municipality does not have a disciplinary policy in place.
71. Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
72. There is no risk Management strategy in place.

Action plans to address internal control deficiencies

73. Management did not develop and monitor the implementation of action plans to address internal control deficiencies.



Information technology governance framework

74. The lack of IT governance framework was as a result of the municipality not having adequate resources such as budget and skills due to heavy reliance solely on the service provider to provide critical IT services leaving management to focus on operational issues.
75. Furthermore, lack of monitoring of SLAs with service providers was not done due to the SLA not having been developed. In addition, the municipality had not assigned and/or delegated the function of ensuring that the service provider is monitored.

FINANCIAL AND PERFORMANCE MANAGEMENT

Proper record keeping

76. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within five working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances: Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting, as information for non-current assets, grants, investment property and employee cost was not provided.

Daily and monthly processing and reconciling of transactions

77. Management did not implement controls over reconciling of transactions with regards to output VAT.
78. Controls over daily and monthly processing and reconciling of transactions were not implemented for VAT, non-current assets and revenue.

Regular, accurate and complete financial and performance reports

79. As indicated in section 2, part A of this report, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.
80. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information for revenue, non-current assets, unauthorized expenditure.
81. The financial statements were not adequately reviewed by management for fruitless and wasteful expenditure, grants, non-current assets, prior period note, unauthorized expenditure.
82. Management did not implement proper controls regarding the accuracy of the Commitments schedule.

Compliance monitoring

83. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.
84. Insufficient review and monitor compliance with applicable laws and regulations.
85. Insufficient controls in place to address the short comings of the SCM Function.
86. Management did not put proper controls in place to ensure that the reporting was done within the legislated deadlines...
87. A formal compliance officer was not in place for the year under review.



Information technology systems

88. The weaknesses surrounding security management, user account management and IT service continuity were due to the following:
89. The municipality had not implemented adequate IT controls around user access management, IT service continuity and IT security management due to the municipality not having adequate skilled IT officials. The municipality does not have sufficient budgetary means to employ an IT unit. Due to this reason, the municipality does not have staff who are aware of the formal processes that should be followed. This had led to lack of implementation of IT controls.

Governance

Risk management activities and risk strategy

90. No risk management strategy in place.

Internal audit

91. The internal audit only provided 1 quarter report during the 2014/2015 year and thus did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Audit committee

92. The audit committee was not established and did not function throughout the year. Thus all the functions to be performed by the audit committee have not taken place.

SUMMARY

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

Leadership

94. The leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity. The municipality did not enforce compliance with applicable laws and regulations. And there was no consequence management for those that did not conduct the business of the municipality in line with the rules and regulations.
95. The leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Lack of management oversight on preparing, approving and implementing the policies such as fraud prevention, code of conduct, fraud hotline, risk management strategy and draft recruitment policy.
96. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Financial reporting was given to the external service provider and there was not report for performance information.
97. The leadership did not always have established and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

98. The municipality did not develop and monitor the implementation of action plans to address internal control deficiencies. Internal and audit committee were not effectively used or functional as oversight. Consultants were utilised for the compilation of financial reports, however this is not sufficient to address internal control deficiencies.
99. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

100. There were no proper and effective systems and controls in place as evidenced by:
 - Weekly and monthly reconciliations that were not always adequately prepared for financial items during the year including payroll, taxation, creditors, debtors; and fixed assets. This has resulted in the municipality being required to rely on manual reconciliation at year end. Due to the significant increase in volume of manual reconciliation required, assurance processes were not implemented timely to ensure information is accurate and complete. As a result, a number of errors in the reconciliations were identified by the external auditors.
 - Municipal documents were not always easily accessible when needed.
 - No annual performance report.
101. The municipality did not prepare regularly, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Numerous changes had to be made to the records during the audit and the results of the changed that could not be made resulted in the audit opinion.
102. The municipality did not always review and monitor compliance with applicable legislation.
103. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

104. The financial and risk unit was not established. The municipality did not conduct risk assessment and did not identify the risks relating to the achievement of the financial and performance reporting objectives. Controls were not always developed to prevent, detect and correct material misstatement in the financial and performance reporting.
105. The internal audit unit did not function as required by section 165(2) of the MFMA and also did not have the guidance from the Audit Committee as it was not established.
106. An audit committee was not in place, as required by section 166(1) of the MFMA. Numerous findings were reported on compliance, financial and performance reporting that could have been minimised by the guidance from the audit committee. The municipality did not utilise the shared services available at the district municipality.

2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

107. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance, and one of the important oversight functions of the legislature and council is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report as well as on the auditee's compliance with legislation.
108. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.5) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below

Assurance levels	
Senior management	<i>Provides no assurance</i>
Municipal manager	<i>Provides no assurance</i>
Mayor	<i>Provides no assurance</i>
Internal audit	<i>Provides no assurance</i>
Audit committee	<i>Not established</i>
Municipal council	<i>Provides no assurance</i>
MPAC	<i>Provides no assurance</i>

Senior Management

109. Senior management did not adequately review the financial statements and they did not submit a properly completed annual performance report as numerous errors were identified that were not resolved. Internal controls regarding expenditure, revenue and supply chain management were not monitored to ensure that the financial statements are free from error.

Municipal manager

110. The municipal manager is involved in the audit process to a limited extent.

Mayor of municipality

111. The mayor was not involved in the audit process. Policies and procedure were approved during the meetings where the mayor was present and those policies are in the process of being implemented.



Internal audit

112. Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the municipality as they have an important role in the monitoring activities of the municipality. Internal audit provides an independent assessment of governance, risk management and internal control processes of the municipality.
113. The internal audit unit of a municipality must prepare a risk based audit plan and internal audit program for each financial year, and advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
114. An internal audit report was only compiled for Quarter 1
115. No meetings have been held for internal audit for the 2014/2015 period under review.
116. No risk assessment has been completed by management, as indicated per the response to request for information no 1.
117. No internal audit plan prepared by internal audit

Audit Committee

118. The audit committee is an independent advisory body to the municipal council accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; with the MFMA, DORA and any other applicable legislation; performance evaluation; and any other issues.
119. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
120. The audit committee was not established and did not function throughout the year. Thus all the functions to be performed by the audit committee has not taken place.

Municipal council

121. This committee has not provided oversight to the municipality over a number of years. This could be evidenced by the audit outcomes on financial reporting, focus areas and rules and regulations. No improvement noted and this is the most established and active committee in the municipality.

MPAC

122. The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider. There was no impact from this committee as no proof of meetings held was obtained.

Status of implementation of commitments and recommendations

123. No specific commitments were recorded, as we had reported no significant deficiencies in internal control.



SECTION 3: SPECIFIC FOCUS AREAS

3.1 PROCUREMENT AND CONTRACT MANAGEMENT

124. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

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

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

126. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

127. R7,416,312 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation

Procurement processes

128. The following findings on procurement processes result from the testing of 5 contracts with a total value of R28,549,681 and 40 price quotations with a total value of R504,017

Procurement processes – General

- 16 awards to the total value of R 152,580 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
- 1 contract with the total value of R360 000 was procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.

Internal control deficiencies

129. SCM officials are not aware of the SCM policies and procedures and understand their individual roles and responsibilities pertaining to internal control in the acquisition of goods/ services process.

130. There are no properly implemented controls for vendor acceptance to prevent and detect fictitious providers.

131. No fraud prevention plan in place



3.2 WATER AND SANITATION

PART B – SERVICE DELIVERY MATTERS

Water and sanitation

132. The audit included an assessment of specific service delivery aspects relevant to the municipality. For the financial year under review, we focused on the following:

Water projects

133. Water projects in progress in 2014-15 do not address the cause of the water backlog.

134. 1 of 1 water infrastructure projects has exceeded their planned completion date.

Water infrastructure maintenance and water losses

135. The municipality does not have an approved policy in place that addresses routine maintenance of water infrastructure.

136. Appropriate steps to prevent over spending of the budget allocation for routine water infrastructure maintenance were not taken.

Performance management for water infrastructure projects

137. Backlogs for the provision of water services were not reported in the section 71 reports to national treasury.

Roads infrastructure

Policy, planning and budgeting for routine maintenance and renewal of roads infrastructure

138. The municipality does not have an approved policy in place for the planning, management and reporting of roads infrastructure.

139. The municipality does not have an approved RMP/priority list in place for the renewal and routine maintenance of roads infrastructure.

140. The municipality did not perform condition assessments for all roads infrastructure under their control to inform the RMP/Priority list.

141. The municipality does not have an approved priority list of roads infrastructure renewal and routine maintenance projects.

142. The municipality's roads infrastructure routine maintenance budget was inadequate as it did not provide for 120% of the planned routine maintenance projects included in the priority list for 2014-15

143. The municipality's roads infrastructure renewal budget was inadequate as it did not provide for 100% of the planned renewal projects included in the priority list for 2014-15

The delivery of roads infrastructure maintenance and renewal projects

144. The municipality overspent their 2014-15 roads infrastructure repair and maintenance budget by 120% due to increased costs on the project.

3.4 FINANCIAL VIABILITY INDICATORS

145. Management is responsible for the sound and sustainable management of the affairs of the municipality and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.



146. Our audit included a high-level assessment of selected financial viability indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely corrective action where financial viability may be uncertain. The information should be used to complement, rather than substitute, management's own financial assessment.
147. We assessed the municipality's financial viability indicators according to the following areas:
- Expenditure management
 - Revenue management
 - Asset and liability management
 - Cash management

FINANCIAL VIABILITY INDICATORS			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		AS AT 30 JUNE 2015	AS AT 30 JUNE 2014
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	430.3 Days	304.6Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	54.4 Days	27.3 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	47.2%	49.1%
	<ul style="list-style-type: none"> • Amount of debtors impairment provision • Amount of accounts receivable 	R48 567 349 R2 880 371	R45 165 213 R2 726 093
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes
	<ul style="list-style-type: none"> • Amount of the surplus / (deficit) for the year 	R722 539	-R8 862 798
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	<ul style="list-style-type: none"> • Amount of the net current assets / (liability) position 	R43 407 622	R33 261 552
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	<ul style="list-style-type: none"> • Amount of the net asset / (liability) position 	R176 819 769	R173 778 334
3.4	Percentage of PPE and/or intangible assets impaired	0%	0%
	<ul style="list-style-type: none"> • Amount of PPE and intangible assets impairment provisions 	R0	R0
3.5	Percentage of loan receivables (loans awarded) and/or investments impaired	0%	0%
	<ul style="list-style-type: none"> • Amount of loan receivables (loans awarded) and investments impairment provisions 	R0	R0
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	<ul style="list-style-type: none"> • Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) 	R722 539	R8 862 798
4.2	Net cash flows for the year from operating activities	No	No

FINANCIAL VIABILITY INDICATORS			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		AS AT 30 JUNE 2015	AS AT 30 JUNE 2014
	were negative		
	<ul style="list-style-type: none"> Amount of net cash inflow / (out)flows for the year from operating activities 	R13 535 071	R11 234 591
	Creditors as a percentage of cash and cash equivalents	Bank in overdraft / %	Bank in overdraft / %
4.3	<ul style="list-style-type: none"> Amount of creditors (accounts payable) Amount of cash and cash equivalents / (bank overdraft) at year-end 	R33 262 613 R722 539	R23 341 516 R8 862 798
4.4	Current liabilities as a percentage of net cash inflows for the year from operating activities	[Negative/No] cash flows = 375%	[Negative/No] cash flows =413%
	<ul style="list-style-type: none"> Amount of current liabilities Amount of net cash inflows for the year from operating activities 	R50 788 917 R13 535 071	R46 426 951 R11234 591
OVERALL ASSESSMENT			
Overall, the results of the above financial viability indicator evaluation is assessed as:		Yellow (Unfavourable indicators)	Yellow (Unfavourable indicators)
* <i>This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</i>			

148. As per inspection of the adjustment budget, the municipality has experienced challenges in collecting outstanding amounts from debtors. This has resulted in a large amount for impairments for debtors.
149. Investments decreased significantly from 2013/2014 to 2014/2015.
150. A significant increase has been noted in outstanding creditor balances at 30 June 2015 compared to the prior year. This is due to the municipality's inability to pay trade debts as they fall due. It was also found evident from the interest and penalties charged on AGSA and Eskom accounts, as confirmed per the fruitless and wasteful expenditure note 54, to the value of R2,057,450 which consists of R1 379 077 for Eskom and R678 373 for the AGSA account.

3.5 CONSULTANTS

151. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sector has become important in driving strategic goals to optimise the value of this partnership; we identified areas that needs attention to get the best value for money.

152. The table below shows the extent and nature of the use of consultants:

Type of consultancy services	Number of consultants	Expenditure
Financial reporting services	1	R3,301,398.49
Preparation of performance information	1	R505,404
IT related services	1	R105,600
Total		R3,912,402.49

153. The table below shows the consultancy contracts tested and related audit findings.

Name of consultant	Description of service	Value of contract	Reason for appointing consultant	Material misstatements or findings identified in areas of consultant's responsibilities?	Reasons for findings/ misstatements not prevented by use of consultant	Areas of finding
Sebata Consulting	Compiling Annual Financial Statements	3 301 398	Lack of skills	Yes –in the area of <ul style="list-style-type: none"> • Commitments • Irregular Expenditure • Unauthorised Expenditure • Revenue 	Consultant was appointed too late during the year 2014/2015	Transfer of skills Performance management and monitoring
Liquid Telecom	IT Services	252 702	Lack of Skills	N/A	N/A	Performance management and



Ebersohn and Associates	Performance Information	105 600	Lack of Skills	monitoring	Transfer of skills Performance management and monitoring
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154. A summary of the significant findings from the audit are as follows:

Planning and appointment processes

- Consultants were appointed without a proper needs assessment being performed.

Transfer of skills

- Conditions or clauses for transfer of skills were not included in the contract.
- Measures to monitor transfer of skills according to the contract were not implemented.
- There is no evidence that skills transfer or training programmes took place.

Performance management & monitoring

- Measures to monitor contract performance and delivery were not defined and implemented.
- Measures applied to monitor consultancy projects were insufficient and could not ensure effective contract management.
- No evaluation was performed to compare the consultant's services rendered and the deliverable to the initial project objectives and needs.
- Proposals or recommendations that are contained in the consultant's reports were not considered or implemented.
- The contract of the consultant did not stipulate the terms and conditions for the termination of the contract in the case of non- or underperformance.



- Material misstatements or audit findings were identified by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities. Some of the misstatements were subsequently corrected when the financial statements were adjusted with audit findings communicated during the audit.

Internal control deficiencies

- The auditee does not have a policy that defines the main purposes and objective for appointing consultants.
- It was not evident from the action plan that management implemented plans on weaknesses identified on consultants by external audit
- No proof obtained that management reviewed on an annual basis, whether the objectives are better achieved through use of consultants or permanent staff.

3.6 FRAUD

155. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. Below is a summary of matters that indicate a risk of fraud, which should be investigated: **Failure to implement consequences**

156. The table below provides a summary of transgressions from the prior year which were either not investigated or instances where proper disciplinary steps were not taken after investigation.

Unauthorised, irregular and fruitless and wasteful expenditure

Finding	Number of instances	Value
Unauthorised expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.		12 606 468
Irregular expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.		14 967 317
Fruitless and wasteful expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure.		970 502
UIFW expenditure investigation was not properly conducted.		0
Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised expenditure, irregular and fruitless and wasteful expenditure		11 2846 277
Losses resulting from unauthorised expenditure ,irregular and fruitless and wasteful expenditure were not recovered from the person liable.		112 846 277
Unauthorised/ irregular and/or fruitless and wasteful expenditure was written-off as irrecoverable without a council approval		0
Unauthorised expenditure was approved by authorities that did not have the authority to approve such unauthorised expenditure		0



Finding	Number of instances	Value
Irregular expenditure was condoned by authorities that did not have the authority to condone such irregular expenditure.		0

Transgressions identified in the current year

157. Unauthorised, irregular, fruitless and wasteful expenditure disclosed in note 55,56 and 57 to the financial statements must be investigated to determine if any official is liable for losses incurred as a result of the unauthorised, irregular and fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred as a result of the unauthorised, irregular and fruitless and wasteful expenditure must be recovered from the person liable.

3.8 MANAGEMENT OF GRANTS

Utilisation of conditional grants

158. The audit included an assessment of the effectiveness of the utilisation of the following conditional grants received:

- Municipal Systems Improvement Grant
- Local Government Financial Management Grant
- Municipal Infrastructure Grant

159. The table below provides a summary of audit findings identified for each grant:

	Municipal Systems Improvement Grant	Local Government Financial Management Grant	Municipal Infrastructure Grant
Total available to spend	934,000	1,800,100	25,052,624
Total amount utilised/spent in current financial year	934,000	1,800,000	19,545,120
Unspent allocation	0	0	5,507,504
Percentage of under-/(over)spending	0	0	0
Reasons for significant underspending (more than 10%) or any overspending – as provided by management	Not applicable	Not applicable	MIG 1271(Hopetown Upgrading of raw water Abstraction): Retention Amounts still to be paid. MIG



			1300(Steynville upgrading of storm water and water) still in progress. Retention Money for an RBIG project)
Allocation was spent for intended purposes in accordance with the applicable grant framework	Yes	Yes	Yes

160. For each of the infrastructure grants tested as per the table above, we selected a key project and audited the utilisation of the grant on the project. The table below depicts the audit finding identified for each project.

Detail	MIG	MIG	MIG
Key projects tested	Upgrading of Roads & Storm water in Steynville	Upgrading of Roads and storm water in Deetlesville	Upgrading of existing raw water abstraction from Orange River (Hopetown)
Outputs linked to selected key project	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Planned completion date	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Expected/actual completion date	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Reasons for exceeding planned completion date	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Approved (original) budgeted project cost	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Revised (latest) estimate of project cost (approved)	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Actual amount spent on the project - current year	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Total amount spent from initiation to date	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Project status as at year end	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
The municipality evaluates its performance in respect of the project	No	No	No
Key planned target/ project milestone for the current year.	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66

Detail	MIG	MIG	MIG
Planned targets (key milestone) for the selected project were achieved	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Reported performance/ achievement of targets is correct (Yes/ No)	No Information Provided Ex.66	No Information Provided Ex.66	No Information Provided Ex.66
Project tested under SCM?	Not tested	Not tested	Not tested
SCM findings raised	Overall limitation of scope	Overall limitation of scope	Overall limitation of scope
Project tested under assets?	Not tested	Not tested	Not tested
Receipt of goods/ services tested?	Not tested	Not tested	Not tested
Other findings identified	Not applicable as no testing done.	Not applicable as no testing done.	Not applicable as no testing done.

3.10 PUBLIC PARTICIPATION

161. Sub-outcome 2 as per MTSF chapter 9 aims at addressing poor communication with communities and weak and ineffective platforms for public participation. The anticipated impact through this sub-outcome is to strengthen the capacity of municipalities, especially at ward level, for deliberate public participation through improved consultation, communication and feedback mechanisms to citizens to participate in decision-making and be kept informed of key issues and developments.

162. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act (MSA) relevant to community participation. The following findings were identified:

- Ward Committees was not established as required by MSA 73(1) and 74.

SECTION 4: EMERGING RISKS

New pronouncements

Standards of GRAP

163. In July 2014, the minister of Finance prescribed the application of the following Standards of GRAP for financial years beginning on or after 1 April 2015:

- GRAP 105 *Transfers of functions between entities under common control*
- GRAP 106 *Transfers of functions between entities not under common control*
- GRAP 107 *Mergers*

The intention of this effective date means that these standards will only become effective for financial years commencing on or after this date, i.e. on 1 July 2015.



164. The ASB has issued the following additional standards of GRAP for which effective dates have not yet been gazetted by the minister of Finance:

- GRAP 18 *Segment reporting*
- GRAP 20 *Related party disclosures*
- GRAP 32 *Service concession arrangements: Grantor*
- GRAP 108 *Statutory receivables*
- GRAP 109 *Accounting by principals and agents*
- IGRAP 17 *Service concession arrangements where a grantor controls a significant residual interest in an asset*

Municipalities and municipal entities may use these standards to develop an accounting policy or to disclose information in its financial statements, except for GRAP 18 Segment reporting. GRAP 18 may not be applied by municipalities and municipal entities as it is anticipated that the effective date of this standard will be linked to the implementation of the Standard Chart of Accounts project initiated by the National Treasury.

Municipal SCOA

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) for local government

165. The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. The mSCOA will take effect on 1 July 2017, thus impacting the 2017-18 financial statements and audits of all local government auditees. The piloting of mSCOA has already commenced in 19 local, two district and eight metropolitan municipalities, phased over the 2015-16 and 2016-17 financial years. Piloting is done in close cooperation with the National Treasury's mSCOA project team and the provincial treasuries.

166. mSCOA is a significant project which, by its very nature and purpose, poses various risks to local government, the more important being:
- Inability of some of the current system vendors to accommodate the technical specifications set in mSCOA, which could result in significant changes having to be effected to current systems and/or the implementation of new systems
 - Municipalities constrained by a scarcity of capacity and skills to manage the changes required by the mSCOA classification framework
 - Funding constraints related to the implementation of the mSCOA

The National Treasury is closely involved in ensuring that municipalities and their entities will comply with the mSCOA requirements as contained in the government gazette of 22 April 2014. For most of the municipalities this will, however, mean having to adopt another financial system, or to re-implement a current IT system, or to subject it to major upgrades. These changes expose the municipalities to a variety of risks, which should be closely managed to ensure the completeness, accuracy and validity of the information captured, processed and transmitted through the IT systems.

167. Each municipality is ultimately accountable for ensuring that it has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA).



SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

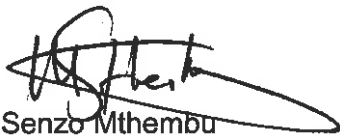
168. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- **Matters to be included in the auditor's report:** These matters should be addressed as a matter of urgency.
- **Other important matters:** These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation in future.
- **Administrative matters:** These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation.

SECTION 7: CONCLUSION

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

Yours faithfully



Senzo Mthembu
Senior Manager: Northern Cape Business Unit

30 November 2015

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