



AUDITOR-GENERAL  
SOUTH AFRICA

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# FINAL MANAGEMENT REPORT

## THEMBELIHLE LOCAL MUNICIPALITY

30 June 2014





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## **MANAGEMENT REPORT**

### **THEMBELIHLE LOCAL MUNICIPALITY**

**30 June 2014**

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**DRAFT MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THEMBELIHLE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2014**

**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 2014. These findings were communicated to management, and the report also details management's response to these findings. The report furthermore 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**

1. 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 [type of auditee]:

(Add or amend the stakeholders as applicable. The information can be given in a table or as a graphic.)

Stakeholder	Number of interactions
Municipal manager	2
Audit steering committee	4

2. At these interactions, we shared and discussed the progress of the audit.





**SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT**
**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

3. We identified material misstatements in the financial statements during the audit. These misstatements were not detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with

<b>Material misstatement</b>			
<b>Financial statement item</b>	<b>Finding</b> (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.)	<b>Occurred in prior year</b> (Insert Yes / No)	
<b>Material misstatements not corrected</b>			
Assets	EX.48 Assets - Limitation of scope		
	EX.114: Assets - Useful lives in the Accounting policy does not agree with FAR		
	EX.132 - Assets: Classification of Restated amounts (Limitation)		
	EX.155: Assets - Value of land		
	EX.168 - Assets: Limitation of scope ( Disposals)		
	EX.171: Assets - Journals		
	EX.194: Assets - Schedule does not agree to the Infrastructure FAR	No	
	EX.199: Assets - Infrastructure Assets - Electricity		
	EX.201 - Finance lease disclosure		
	Ex.172 Legacy issues> Limitation of scope - Fruitless and wasteful		
Commitments	EX.167: Asset - Projects in Progress (Understatement)	No	
	Ex.32: Legacy Issues 2011/12 - Commitments	Yes	



	(Misstatement)			
	Ex 53: Follow up prior year finding (Ex.86): Misstatement of commitments.			29 656 605.00
	EX.134: Legacy Issues: Commitments: No supporting documentation submitted(Limitation)			15 974 020.71
	EX.134: Legacy Issues: Commitments: No supporting documentation submitted			1 493 342.23
	Ex.136 Legacy Issues: Commitments: Difference in recalculation			-4 034 871.01
Operating expenditure	EX.87 Expenditure- Subsistence and Travelling		-718 767.71	
	EX.88 Expenditure: payments not authorised		-766 664.36	
	EX.102 Expenditure- limitation of scope (Insufficient support)		-614 202.11	
	EX.102 Expenditure- limitation of scope (No support)		-244 291.06	
	EX.114: Assets - Useful lives in the Accounting policy does not agree with FAR (Depreciation)		Limitation	
	EX.121 Bad debts Written off not disclosed		573 616.06	
	EX.122 - Investment property		659 900	
	EX.126: Expenditure: Payments were recorded in the incorrect period (Limitation)		174 438.68	
	EX.170 Limitation of scope (Use of consultants)		4 040 608	
	EX.115: Legacy Issues: Legacy Issues 2009/10 to 2012/2013: Support not received.			827 490.75
Revenue	EX.140 Long term Debtors_Amounts in the age analysis do not agree to the consumer statements		523 713.81	
	EX.97 Revenue_Licences and Permits: Limitation of scope (figure could not be confirmed)	No	Limitation	
	EX.161 Revenue_Fines not recognised in accordance with GRAP 23		Limitation	
	EX.168 - Assets: Limitation of scope ( Disposals)		Limitation	
	EX.68 Legacy: Revenue: Difference between Sebate and Valuation Roll			61 609 298.00



Related parties	EX.162: Related parties - Differences in amounts	Yes	46 977.66
	EX.160: Related parties - Non disclosure	No	20 089 170.35
	EX.182: Related party: Overstatement		-34 072 140
Trade payables	Ex.185: Trade Payables: Payables not included in the correct period		1 163 734.89
	EX.188: Trade Payables: Completeness, Valuation, Obligation could not be confirmed (Limitation)		9 640 089.75
	Ex.204: Journals limitation of scope		796 157.54
Irregular expenditure	EX.87 Expenditure- Subsistence and Travelling		718 767.71
	EX.88 Expenditure: payments not authorised		766 664.36
	Ex. 111 - Irregular expenditure incomplete		603 794.00
	EX.146 Employee Related Cost: Appointment		202 085
	EX.173 Legacy issues> Limitation of scope - irregular expenditure		R 32 694 974.40
	EX.96: Legacy Issues: Irregular Expenditure: Difference between schedule and TB/ Lead Schedule		22 817 218
Contingencies	EX.106: Contingencies- No schedule for contingencies is kept		Limitation
	EX.24 Municipality legal Claims not disclosed		Limitation
Investment Property	EX.112: Investment Property - Carrying amount nil Balance		Limitation
	EX.122 - Investment property		-659 900.00
Employee related cost	EX.32 Employee cost-variances identified		-533 910.00
	EX.55 Employee cost -Wages: Limitation of scope		Limitation
	EX.73: Annual leave - Limitation of scope		Limitation
	EX116 Employee cost - Wages: Limitation of scope		Limitation
	EX.144 Leave - No medical certificate / proof obtained for sick leave, family responsibility leave or special leave taken		Limitation
	EX.143 Leave - No computerised system		Limitation
VAT	EX.64 Vat: Differences identified between the VAT		-430 820.77

	returns and the recalculated vat output and vat input			
	EX.66: VAT: Differences Identified between the AFS & GL		-451 544.83	
	EX.107 VAT - VAT claimed in the incorrect period		-448 024.14	
	EX.204: Journals - Limitation of scope		251 556.85	
	Ex.46: Legacy issues 2011/12 - VAT (Misstatement)			981 272.96
	EX.65: Legacy Issues VAT: No reconciliations are performed(Limitation			802 386.00
Receivables	EX.39 Receivables - Variances Identified		-8 780 734	
	EX.97 Revenue - Licences and Permits: Limitation of scope (figure could not be confirmed)		Limitation	
	EX.118 Receivables - Journals without adequate support		-1 132 570.52	
	EX.121 Bad debts Written off not disclosed		-573 616.06	
	EX.129 Long term Debtors_ Short term portion not accounted for		Limitation	
	EX.143: Leave - No computerised system		Limitation	
	EX.144: Leave - No medical certificate / proof obtained for sick leave, family responsibility leave or special leave taken		Limitation	
	EX. 99 Legacy Issues: Receivables: Unable to confirm the existence of receivables			19 782 170.41
	EX100. Legacy Issues: Receivables: Existence of debtors			15 418 355.4
	EX.110: Legacy Issues: Receivables: Provision for impairment			6 638 596
Fruitless and wasteful expenditure	Ex.108 - Fruitless and wasteful > Overstatement	Yes	-104 954.09	
	Ex.108 - Fruitless and wasteful > Understatement	Yes	56 098.05	
	Ex. 81 Legacy issues- Fruitless and wasteful >Differences noted(limitation)			R 1 166 329
	Ex.172 Legacy issues> Limitation of scope - Fruitless and wasteful			1 396 078.20



Unauthorised expenditure	EX.53 Legacy Issues: Unauthorised Expenditure			3 396 591.9
Legacy issues 2009/2010	EX.204: Journals - Limitation of scope 1. EX.115: Legacy Issues: Legacy Issues 2009/10 to 2012/2013: Support not received.		-796 157.54	R827 490.75
Inventory	EX.84: Inventory - Valuation of stock not in accordance with accounting policy		Limitation	
Liabilities	EX.181 Consumer deposits_General ledger not agreeing to reconciliation		390 819	
	EX.204: Journals - Limitation of scope		425 118	
	<b>Material misstatements not corrected</b>			
Unauthorised expenditure	EX.53: Legacy Issues: Unauthorised Expenditure			3 396 591.90
	Ex.120. Unauthorised expenditure - variance noted > overstatement		1 004 028.93	
	EX.174: Legacy Issues: Unauthorised Expenditure: Grant Allocation not appropriate			1 535 838.4
Fruitless and wasteful expenditure	Ex.108 - Fruitless and wasteful > Limitation of scope	Yes	778 000.00	



## **PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS**

### **EMPHASIS OF MATTER PARAGRAPHS**

4. 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:

#### **Significant uncertainties**

5. With reference to note 41 to the financial statements, the municipality is the defendant in a case investigated by the Public Protector with regards to traffic fines. The ultimate outcome of the matter cannot presently be determined.
6. The municipality is using unlicensed landfill sites and penalties to this effect were not determinable.

#### **Revision of the previously issued financial statements**

7. Note 43 to the financial statements indicates that the previously issued financial statements for the year ended 30 June 2013, on which I issued an auditor's report dated 29 November, have been revised and reissued.

#### **Restatement of corresponding figures**

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality for the year ended, 30 June 2013.

#### **Material losses**

9. As disclosed in note 53 to the financial statements, material distribution losses incurred by the municipality were more than the acceptable norm being water 52%, electricity 42%. The amounts were R4 102 875 and R8 400 798 respectively.

#### **Material underspending of the conditional grant**

10. The municipality materially under spent conditional grants allocated for capital expenditure to the amount of R11 620 201 (2013: R7 269 148). This had a negative impact on service delivery in the municipality and on the construction of capital projects aimed at improving service delivery. The amounts are disclosed in note 18 to the financial statements.

#### **Going concern**

11. Note 46 to the financial statements indicate that the municipality's current liabilities exceeded its current assets by R 28 487 065 (2013: R 23 480 422). There is an annual deterioration in the current ratio indicating a significant deterioration in the working capital position of the municipality. These conditions, along with other matters as set out in this report, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern, if not funded by National treasury.

### **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 municipality provided supplementary information in the financial statements appendix A, B and F do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.



## **PART C – CONCLUSIONS ON REPORTED INFORMATION RELATING TO THE PERFORMANCE OF THE MUNICIPALITY AGAINST PREDETERMINED OBJECTIVES**

14. Included below are our conclusions on the reported performance information for selected objectives presented in the annual performance report.

### **FINDINGS 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 as contained in the strategic planning and performance management documents:
- Objective 2: Provision of a strategy within six months on how to upgrade the N12 and ancillary facilities thereto in order to ensure the safety and well- being of the residents and travellers
  - Objective 3: Provision of 750 formal houses within three years at + 250 houses per year at all levels in order to address the housing backlog and yearly population growth
  - Objective 5: Streamlining of the services delivery process of the local and provincial authorities within the next 3 years in order to ensure upgraded service delivery to the community
  - Objective 6: Facilitation of the approval the IDP to ensure the social Health and well-being of the wider community over a period 3 years
  - Objective 8: Tabling of a 3 year strategy to stimulate local economic growth within the municipal area in order to create jobs and increased wealth to all levels of the society
  - Objective 9: Planning for the provision, maintenance and upgrading of existing and future bulk and link service at all levels for the next 3 years in order to uplift the communities standard of living
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 National Treasury's *Framework for managing programme performance information (FMPP)*.
20. The material findings in respect of the selected objectives are as follows:

**Provision of a strategy within six months on how to upgrade the N12 and ancillary facilities thereto in order to ensure the safety and well- being of the residents and travellers**

**Usefulness of performance information**

**Measurability of indicators and targets**





21. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

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

#### **Relevance of indicators**

23. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

#### **Provision of 750 formal houses within three years at + 250 houses per year at all levels in order to address the housing backlog and yearly population growth**

#### **Usefulness of performance information**

#### **Measurability of indicators and targets**

24. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

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

#### **Relevance of indicators**

26. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators





did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

### **Streamlining of the services delivery process of the local and provincial authorities within the next 3 years in order to ensure upgraded service delivery to the community**

#### **Usefulness of performance information**

#### **Measurability of indicators and targets**

27. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

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

#### **Relevance of indicators**

29. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

### **Facilitation of the approval the IDP to ensure the social Health and well-being of the wider community over a period 3 years**

#### **Usefulness of performance information**

#### **Measurability of indicators and targets**

30. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.



- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

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

#### **Relevance of indicators**

32. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

### **Tabling of a 3 year strategy to stimulate local economic growth within the municipal area in order to create jobs and increased wealth to all levels of the society**

#### **Usefulness of performance information**

#### **Measurability of indicators and targets**

33. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

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

#### **Relevance of indicators**

35. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

### **Planning for the provision, maintenance and upgrading of existing and future bulk and link service at all levels for the next 3 years in order to uplift the communities standard of living**

#### **Usefulness of performance information**

#### **Measurability of indicators and targets**

36. The FMPPI requires the following:



- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable

37. This was because management did not adhere to the requirements of the FMPPPI due to a lack of proper systems and processes.

#### **Relevance of indicators**

38. The FMPPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

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## **PART D – FINDINGS ON NON-COMPLIANCE WITH LEGISLATION**

39. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

#### **Strategic and annual planning process**

40. The local community was not consulted by means of a municipal wide structure for community participation or through a forum that enhances community participation in drafting and implementing the Integrated development plan (IDP), as required by section 28 of the Municipal Systems Act (MSA) and Municipal planning and performance management regulation 15(1)(a)(i).
41. The municipality did not give effect to its integrated development plan or conduct its affairs in a manner which was consistent with its integrated development plan this was due to lack of funding, as required by section 36 of the MSA, section 21(2)(a) of the Municipal Finance Management Act (MFMA) and Municipal planning and performance management regulation 6
42. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA. **[Ex.9]**
43. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act
44. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1



and 9(1)(a).

45. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
46. The performance of the municipality were not assessed during the first half of the financial year this is based on the fact that there was no assessment on performance information, as required by section 72(1)(a)(ii) of the MFMA
47. The annual performance report for the financial year under review [was not prepared and/or was not included in the annual report, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
48. 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 MSA.

#### **Budgets**

49. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.

#### **Financial statements, performance and annual report**

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act (MFMA). Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
51. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

#### **Audit committee**

52. An audit committee was not in place, as required by section 166(1) of the Municipal Finance Management Act

#### **Procurement and Contract management**

53. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
54. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
55. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
56. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions], in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in



accordance with SCM regulation 38(1).

57. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

### **Human resource management**

58. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.
59. Sufficient audit evidence was not obtained to validate if senior managers and municipal manager were appointed without having met the prescribed minimum competency levels as required by section 54A (2) of the Municipal Systems Act
60. A manager directly accountable to municipal managers was appointed without submitting disclosure of financial interests in contravention of regulation 4 of GNR 805.

### **Expenditure management**

61. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act
62. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the Municipal Finance Management Act
63. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act
64. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the Municipal Finance Management Act.

### **Transfer of funds**

65. The municipality did not evaluate its performance in respect of programmes funded by the National Treasury within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
66. The municipality did not submit quarterly performance reports to the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act

### **Revenue management**

67. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act
68. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act
69. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the Municipal Finance and Management Act

### **Asset management**

70. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act
71. Capital assets were sold that were needed to provide the minimum level of basic municipal



service, in contravention of section 14(1) of the Municipal Finance Management Act

72. Capital assets were sold without the approval of the council and the accounting officer, as required by section 14(2)(a) of the Municipal Finance Management Act

**Liability management**

73. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

**Consequence management**

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 Municipal Finance Management Act.

**PART E – INTERNAL CONTROL**

**IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL**

74. 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 report to be materially misstated and material instances of non-compliance with legislation to occur.

75. 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 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
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>	↔		↔		↔	
• 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						
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>						
• 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						
<b>Governance</b>						
<b>Overall movement from previous assessment</b>						
• 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						

	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"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>						
<ul style="list-style-type: none"> <li>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</li> </ul>						

76. The figure below provides the overall status of the drivers of key controls.



**LEADERSHIP**

**Effective leadership**

77. Management 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

**Oversight responsibility**

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

**Human resource management**

79. Effective HR management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

80. There is a lack of dedicated and competent IT professionals charged with responsibility of rectifying deficiencies. Furthermore, management had not adequately engaged with the service provider, Sebata, on the update of the SLA to include the production of IT service reports that would allow management to assess IT enablement for business goals.





**Policies and procedures**

81. Management did not develop policies and procedures for some significant components thus the understanding and execution of internal control objectives, processes and responsibilities was lacking.
82. Management did not communicate approved policies and procedures thus the execution of these was not evident/known by officials.

**Action plans to address internal control deficiencies**

83. Management did not develop a detailed action plan, indicating responsibilities and deadlines thus the implementation of it did not yield any results.

**Information technology governance framework**

84. The yellow faces reflected for the establishment of the IT governance framework and the risk management activities only relates to the adequate design of the framework itself. It specifically refers to the fact that a Corporate Governance of ICT Policy Framework (CGICTPF), applicable to all National and Provincial Departments, Provincial Administrations, Local Government, Organs of State and Public Entities, had been established by the Department of Public Service Administration (DPSA) and approved by Cabinet. The CGICTPF has been reworked into the Municipal Corporate Governance of ICT Policy framework (MCGICTPF) which will be finalised and approved in the 2014-15 financial year. The implementation of the framework will be done in a 3 phased approach and completion of the first phase is only required by the end of the 2015-16 financial year.
85. In addition, the IT strategic plan, risk assessment and IT steering committee had not been developed due to lack of resources (skills and budget). Furthermore, the municipality had not established a performance monitoring framework for IT services provided by third parties due to lack of appropriately skilled and competent resource to manage and monitor the service provider's performance and deliverables

**FINANCIAL AND PERFORMANCE MANAGEMENT****Proper record keeping**

86. 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.
87. Management did not implement a systematic or easy filing method to allow easy retrieval of information

**Daily and monthly processing and reconciling of transactions**

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

**Regular, accurate and complete financial and performance reports**

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

**Compliance monitoring**

90. Non-compliance with laws and regulations could have been prevented had management implemented a compliance plan and ensured that it is properly reviewed and monitored.



### Information technology systems

91. The weaknesses within the security management, user account management and IT service continuity were not addressed as previously reported due to the fact that the municipal organisation structure did not make provision for a competent and skilled IT division to maintain and prioritise all IT related matters as the budget was not made available. The main controls weaknesses noted related to the following:
- Inadequate IT Security and use account management policies and procedures.
  - The roles and responsibilities of an Information Security Officer were yet to be delegated to an individual at the municipality.
  - Inadequate monitoring of the service provider.
  - Change Management policy and procedures were not developed and implemented.
  - Inadequate Disaster Recovery Plan and backup management.

## GOVERNANCE

### Risk management activities and risk strategy

92. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored

### Audit committee

93. Management did not ensure that an audit committee is established to assist the municipality in accountability and monitoring and review matters.

## SUMMARY

94. The matters above, as they relate to the basis for the disclaimer 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

95. Key management positions were vacant for most part of the year and in the prior year. This created a leadership vacuum. Monitoring of the internal control environment was therefore not done and resulted in the municipality not prioritising compliance to laws and regulations, financial reporting and performance reporting.
96. Senior management of the entity did not set the correct tone at the top. Senior management did not adhere to internal controls, which resulted in various instances of unauthorised, irregular as well as fruitless and wasteful expenditure being incurred and other material misstatements in the financial statements not being detected by management.
97. The municipality did not employ sufficient resources to ensure municipal functions related to financial and performance reporting and compliance to laws and regulations can be executed in good quality.
98. The accounting officer did not communicate the commitment to quality in preparing the annual financial statements.
99. Action plans to address prior year audit findings were not detailed enough to isolate responsibility per root cause furthermore it was not monitored by the leadership of the municipality, resulting in the recurrence of material misstatements in the annual financial statements.

100. The leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted



### Financial and performance management

101. Records management and maintenance disciplines should be refined, included in the daily key controls, and reviewed and monitored at the appropriate level of management.
102. Management did not review the financial statement to ensure the achievement of fair presentation, which resulted in the material misstatements and amendments to the financial statements.
103. Management did not implement daily and monthly controls as designed for the entity's business processes
104. Consultants were sought to assist with the preparation of annual financial statement. This did not assist as the accounting records were not properly filed nor maintained
105. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.
106. Management did not document and approve internal policies and procedures to address the process of collecting, recording, processing, monitoring and reporting on predetermined objectives. Consequently, performance systems, processes and procedures had not been designed and implemented.

### Governance

107. The risk of material misstatement due to fraud was not considered. Sufficient controls and segregation of duties to prevent or detect fraudulent data and assets misappropriation were not implemented and maintained.
108. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage the identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
109. The audit committee was not established during the year. Consequently, the committee did not approve the internal audit plan and did not oversee the implementation of the matters reported by the internal audit unit..

### PART F – ASSESSMENT OF ASSURANCE PROVIDERS

110. 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 councils 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.
111. 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.

112. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in part E of section 2) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Assurance levels should be improved	
Senior management	<i>Provides limited assurance</i>
Municipal manager	<i>Provides limited or no assurance</i>
Mayor	<i>Provides limited or no assurance</i>
Internal audit	<i>Provides limited or no assurance</i>
Audit committee	<i>Provides some assurance</i>
Municipal council	<i>Provides limited or no assurance</i>
MPAC	<i>Provides limited or no assurance</i>

The municipality does not have an audit committee in place. The accounting officer is not part of the audit process and financial matters of the municipality. The senior managers are responsible for the audit process however this was delegated to the consultants, who in return were appointed late towards the end of the financial year.

#### STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

113. A limited number of audit recommendations were accepted by management in the prior year regarding matters included in the auditor's report. The municipality restated most of the financial statements values however no supporting documentation was provided again in the current year. The audit action plan was not detailed enough to isolate responsibility thus a number of recommendations are still under progress. Further details on the status of these recommendations are provided in section 8, which summarises the detailed audit findings.

#### PART G – OTHER REPORTS

114. No audits, which relate to the municipality are in progress or have been completed.

#### PERFORMANCE AUDITS

115. No performance audits undertaken during the year under review.

#### INVESTIGATIONS

116. The municipality disclosed that an investigation by the Public Protector is still underway in relation to issuing of traffic fines.

#### AUDIT-RELATED SERVICES AND SPECIAL AUDITS

117. Not applicable - no special audits in progress or have been completed.





### SECTION 3: SPECIFIC FOCUS AREAS

#### PART A – PROCUREMENT AND CONTRACT MANAGEMENT

##### SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

118. 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

119. R795 071,02 (72%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 72% of this irregular expenditure was identified during the audit process and not detected by monitoring processes of Thembelihle local municipality. The root cause of the lack of effective prevention and detection are that the municipality did not implement policies, procedures and processes to ensure that Irregular awards are detected and prevented.

##### Awards to persons in the service of the state

120. SCM Regulation 44 prohibits awards to persons or to entities owned, managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

121. The findings were as follows:

Finding	Number and value of awards made	Number of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not-declare interest (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
Awards to officials of other state institutions	1= (39 524,14 )	1	Vodacom	Yes	No		0

##### Procurement processes

122. The following findings on procurement processes result from the testing of 8 contracts with a total value of R11 289 824 and 72 of price quotations with a total value of R3 020 310,78.



## Contract management

### Internal control deficiencies

123. The following internal control deficiencies were identified
- The municipality did not have code of ethical conduct signed the municipality staff.
  - There are no processes in place to ensure that appropriate action is taken against any official or role player who commits a breach of the code of ethical conduct standards.
  - The municipality did not develop and implemented a code of conduct for SCM officials and all SCM officials have formally signed the code.
  - There is no clearly developed document that outlines the roles and responsibilities (job description) of the personnel in the SCM unit that are acknowledged and signed by the personnel involved in the SCM unit.
  - The municipality does not have a process in place that is developed and can be implemented to address disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality/ municipal entity who has allegedly committed an act of financial misconduct.
  - The municipality does not have process in place that is developed and can be implemented to ensure in cases where the municipality had to report an incident of irregular expenditure that constitute a criminal offence to the SAPS a proper process is in place for the municipality to do so.
  - There are no processes in place to ensure that the municipality's data base for suppliers is updated with the credible suppliers and the list is scrutinised regularly to ensure that it is updated regularly as per the Treasury's list of prohibited.
  - There are no measures in place to ensure that staff members declare their benefits to council where a staff member or his/her spouse, partner business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality.
  - There is lack of consequence with regards to the implementation of the action plans developed to address internal and external audit findings on SCM.
  - There is no approved delegation of power by council for the 2013/2014 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

## PART B – SERVICE DELIVERY MATTERS

### Water and sanitation

124. The audit included an assessment of specific service delivery aspects relevant to water and sanitation. For the financial year under review, we focused on the following:
125. The municipality did not set this as an indicator in the IDP and SDBIP

### Roads infrastructure

126. The audit included an assessment of specific service delivery aspects relevant to roads infrastructure. For the financial year under review, we focused on the following:
127. The municipality does not have an approved policy in place for road infrastructure
128. The municipality set key performance indicators and targets in it's IDP only about the N12 road and not about all other roads in its jurisdiction, it was noted that this was not SMART verifiable and well defined. The municipality did not submit an annual report on AOPO.



129. The audit included an assessment of the effectiveness of the municipality's utilisation of conditional grants received. For the financial year under review, we focused on the following grants:

- Municipal Infrastructure Grant (MIG)\*
- Municipal Systems Improvement Grant (MSIG)\*
- Local Government Financial Management Grant (FMG)\*

\* Only include grants which were tested in the province

130. Summary of allocations and spending

	MIG	MSIG	FMG
<b>Total available to spend</b>	11 570 000.00	1 650 000.00	890 000.00
Total amount utilised/ spent in current financial year	4 681 683.40	1 650 000.00	889 940 .64
<b>Unspent allocation</b>	<b>6 888 316.60</b>	<b>0</b>	<b>59.36</b>
<b>Percentage of under/(over)spending</b>	<b>40%</b>	<b>100%</b>	<b>100%</b>

- Underspending on MIG was due to the municipality not having adequate capacity.

131. **Municipal Infrastructure Grant**

Key project(s) selected	1. Support interventions for municipal viability, management and improvement of municipal audit outcomes 2. Strengthening administrative systems for effective implementation of ward participation systems 3. Development and implementation of municipal turnaround strategies 4. Implementation of information systems that supports effective service delivery
MIG outputs linked to selected key project	Water purification and bulk infrastructure
Total project budget (from initiation to completion)	R11 570 000
Actual amount spent on the project - current year	R4 681 683.40
Total amount spent from initiation to date	
Planned completion date	No planned completion date submitted
Planned project target /key milestone for the current year	The municipality does not have a system in place to evaluate, monitor and report progress throughout the financial year.
Project status as at year end	The municipality does not have a system in place to evaluate,

monitor and report progress throughout the financial year.
--

No significant findings were identified.

### 132. Municipal Systems Improvement Grant

Key MSIG priorities output selected	<ol style="list-style-type: none"> <li>1. Support interventions for municipal viability, management and improvement of municipal audit outcomes</li> <li>2. Strengthening administrative systems for effective implementation of ward participation systems</li> <li>3. Development and implementation of municipal turnaround strategies</li> </ol>
Amount allocated per selected priority output	R890 000.00
Actual amount spent per selected priority output	R889 940.64
Key planned target for the current year	Not linked to AOPO

No significant findings were identified.

### 133. Financial Management Grant

Key FMG priorities output selected	1. To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.
Amount allocated per selected priority output	R1 650 000.00
Actual amount spent per selected priority output	R1 650 000.00
Key planned target for the current year	Not linked to AOPO

No significant findings were identified.

## PART C – FINANCIAL INDICATORS

134. 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.

135. Our audit included a high-level assessment of selected financial 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 health and service delivery may be at risk. The information should be used to complement, rather than substitute, management's own financial assessment.



136. We assessed the municipality's financial indicators according to the following areas:

- Budget management
- Expenditure management
- Revenue management
- Asset and liability management
- Cash management
- Grant management

<b>FINANCIAL INDICATORS</b>			
<b>(Limitation = unable to obtain sufficient appropriate information)</b>		<b>AS AT 30 JUNE 2014</b>	<b>AS AT 30 JUNE 2013</b>
<b>BUDGET MANAGEMENT</b>			
1.1	Percentage over-spending of the final approved operating expenditure budget	<b>1.8%</b>	<b>1.6 %</b>
1.2	Percentage under-spending of the final approved capital budget	<b>2.5%</b>	<b>0.6 %</b>
<b>EXPENDITURE MANAGEMENT</b>			
2.1	Creditor-payment period	<b>309 Days</b>	<b>209 Days</b>
<b>REVENUE MANAGEMENT</b>			
3.1	Debtor-collection period (before impairment)	<b>923 Days</b>	<b>720.Days</b>
3.2	Debtor-collection period (after impairment)	<b>31 Days</b>	<b>23 Days</b>
3.3	Debtors impairment provision as a percentage of accounts receivable	<b>96.7 %</b>	<b>96.8%</b>
3.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	<b>245 %</b>	<b>191 %</b>
3.5	Percentage water losses incurred	<b>52 %</b>	<b>0 %</b>
3.6	Percentage electricity losses incurred	<b>42 %</b>	<b>37%</b>
<b>ASSET AND LIABILITY MANAGEMENT</b>			
4.1	A deficit for the year was realised (total expenditure exceeded total revenue)	<b>Yes</b>	<b>No</b>
4.2	A net current liability position was realised (total current liabilities exceeded total current assets)	<b>Yes</b>	<b>Yes</b>
4.3	A net liability position was realised (total liabilities exceeded total assets)	<b>No</b>	<b>No</b>
4.4	Percentage of PPE and/or intangible assets impaired	<b>%</b>	<b>0.15%</b>
4.5	Percentage of loan receivables (loans awarded) and/or investments impaired	<b>0 %</b>	<b>0 %</b>
<b>CASH MANAGEMENT</b>			
5.1	The year-end bank balance was in overdraft	<b>No</b>	<b>No</b>
5.2	Net cash flows for the year from operating activities were negative	<b>Yes</b>	<b>No</b>

FINANCIAL INDICATORS			
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2014	AS AT 30 JUNE 2013
5.3	Cash and cash equivalents as a percentage of operating expenditure	15 %	12.4 %
5.4	Creditors as a percentage of cash and cash equivalents	216.9%	179.5%
5.5	Current liabilities as a percentage of net cash inflows for the year from operating activities	290.9%	-91.7 %
5.6	Non-current liabilities (long-term debt) as a percentage of net cash inflows for the year from operating activities	75%	-61.2 %
5.7	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	25.7%	17.4 %
GRANT MANAGEMENT			
6.1	Percentage under-spending of conditional grants received for the year	51.4 %	21.4 %
6.2	Percentage by which unspent conditional grants received exceeded cash available at year-end	38.2 %	6.5 %
OVERALL ASSESSMENT			
Overall the results of the above financial indicator evaluation is assessed as:		Red Material unfavourable indicators)	Red Material unfavourable indicators)
<i>The above assessment is based on financial statement amounts, adjusted for uncorrected misstatements that resulted in the modification of the audit opinion.</i>			

137. Insert high-level comments on the risks posed by the assessment of the financial indicators.

#### PART D – USE OF CONSULTANTS

138. The audit included an assessment of the use of consultants. In the public sector 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.

139. The table below shows the extent and nature of the municipality's use of consultants:

Type of consultancy services	Number of consultants	Actual expenditure		
		Current year – incurred before year-end	Incurred after year end on [financial reporting and/ or preparation of performance information] for current year	Prior year
Financial reporting services	1	708 836	0	327 129



Preparation of performance information	0	0	0	0
IT related services	0	0		0
Other consultancy services		3 331 792		0

140. The table below shows the consultancy contracts assessed the reasons for the appointment of the consultant and whether the audit identified any uncorrected misstatements or material findings on performance information in the areas the consultant was responsible for. We also provide our assessment of the reason for such misstatements or findings. If our audit identified any findings on the contract, the area of finding is indicated.

Name of consultant	Description of service	Value of contract	Reason for appointing consultant	Recurring appointment?	Uncorrected misstatements or material findings identified in areas of consultant's responsibilities?	Reasons for findings/ misstatements not prevented by use of consultant	Areas of finding
Pandell Consulting	preparation of financial statements	R 708 836	Lack of skills and vacancies	Yes	Yes	Consultant was appointed too late and <i>Supporting documents were not made available to the consultant</i>	

The following findings on use of consultants result from the testing the contracts listed in the table above.

#### Planning and appointment processes

- The terms of references used in the appointment consultants was not provided for audit purposes thus objectives goals and responsibilities could not be assessed.
- Contract was not obtain thus the rates and charge out fees could not be assessed.

In the absence of contracts the following could not be determined:

- Duration of contract
- Amount contracted
- Clause on transfer of skills
- Clause of regulations and monitoring
- Contract price is not above the tender price
- Responsibilities of the consultants and that of the municipality
- Monitoring measures
- Process to follow in case of breach of contract/under-performance
- Penalty clause
- Payments made to date if they exceed contract value

The terms of reference were not provided as well thus the following could not be ascertained:

- requirements of qualifications and experience of service provider were included





- objectives, goals and scope of work
- transfer of skills and training programme
- monitoring and evaluation programme
- similarity between contract and terms of reference in terms of deliverables

#### **PART E – FRAUD**

141. 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.
142. Owing to management not implementing sufficient controls as well as the extent of differences and uncertainties identified during the audit, material irregularities might exist at the municipality that will not be prevented or identified by the system of internal control and that would not have been identified during the audit due to the material limitations placed on the scope of the audit.
-

## PART F – HUMAN RESOURCE MANAGEMENT

### Effective human resource management

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
- The human resource plan did not adequately determine the gap between the existing and required human resources and the actions necessary to address the gap.
- The recruitment, retention, deployment and development actions in the human resource plan were substantially not implemented.
- The organisational structure was not aligned to the strategic plan of the municipality.
- Job descriptions did not exist for each post or group of posts

#### Appointment processes

- Appointments were made in posts that had not been advertised
- 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 always take place

#### Competencies of key personnel

- Limitation of scope on the competencies of Senior Managers

#### Acting positions

- Employees acted in positions for more than 12 months
- Senior managers acted in positions for more than 6 months

#### Overtime

- Employees worked more than the maximum hours of overtime allowed
- Written authorisation was not provided in advance for the overtime to be worked.

#### Performance management

- Senior managers and other employees did not signed performance agreements for the current performance period

#### Leave administration

- Employees received more sick leave and/or incapacity leave than they were entitled to
- Employees received more annual and, or family responsibility and or other special leave than they were entitled to.

## SECTION 4: EMERGING RISKS

### Accounting, performance management / reporting and compliance matters <sup>[E33]</sup>

Through a directive from the minister of Cooperative Governance and Traditional Affairs (CoGTA), the national ICT coordination and monitoring structure for local government was established to develop the implementation requirements and guideline specific to local government. Key stakeholders in the local government sector form part of this ICT coordination and monitoring structure.

In 2014-15, this structure reworked the CGICTPF and drafted the municipal ICT governance policy framework. Different forums such as councils, Min-MEC and municipal managers are currently consulting on the draft municipal ICT governance policy. It is envisaged that the municipal ICT



governance policy framework will be finalised and approved during the 2014-15 financial year and implemented from the 2015-16 financial year.

### Subsequent events

143. Council wrote-off irregular, fruitless and wasteful and unauthorised expenditure relating to 13/14 and prior years.

## SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

144. For the purposes of this report, the detailed audit findings included in communication of audit findings 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 6: CONCLUSION

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

Yours faithfully



Louis Els

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