



AUDITOR - GENERAL  
SOUTH AFRICA

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# FINAL MANAGEMENT REPORT

## Mkhambathini Municipality

30 June 2013





## MANAGEMENT REPORT

**Mkhambathini Local Municipality**

**30 June 2013**

### CONTENT

<b>Introduction</b>	<b>Page no. 3</b>
<b>Section 1: Meetings with oversight bodies and those charged with governance</b>	<b>Page no. 4</b>
<b>Section 2: Matters relating to the auditor's report</b>	<b>Page no. 5</b>
Part A: Misstatements in the financial statements	<b>Page no. 5</b>
Part B: Matters to be brought to the attention of the users	<b>Page no.8</b>
Part C: Conclusion on the annual performance report	<b>Page no.09</b>
Part D: Findings on compliance with laws and regulations	<b>Page no.13</b>
Part E: Internal control	<b>Page no.14</b>
Part F: Status of implementation of commitments and recommendations	<b>Page no.16</b>
<b>Section 3: Specific focus areas</b>	<b>Page no.18</b>
Part B: Financial indicators	<b>Page no.19</b>
Part C: Consultants	<b>Page no.23</b>
Part D: Fraud	<b>Page no.23</b>
<b>Section 4: Emerging risks</b>	<b>Page no.24</b>
<b>Section 5: Ratings of detailed audit findings</b>	<b>Page no.24</b>
<b>Section 6: Conclusion</b>	<b>Page no.24</b>
<b>Section 7: Summary of detailed audit findings</b>	<b>Page no.26</b>
<b>Detailed audit findings contained in Annexures A – C</b>	<b>Page no.31</b>
<b>Financial indicators contained in annexure D</b>	<b>Page no.115</b>



## **FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE MKHAMBATHINI LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2013**

### **INTRODUCTION**

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No.25 of 2004). Our engagement letter sets out our responsibilities and the responsibilities 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 laws and regulations for the year ended 30 June 2013 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
  3. The management report consists of an executive summary and detailed audit finding which are contained in annexure A, B and C.
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**EXECUTIVE SUMMARY**
**SECTION 1: Meetings with oversight bodies and those charged with governance**

1. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the entity and emerging risks. Insight was provided on the drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
2. Meetings were conducted as follows:

Stakeholder	Date of interaction
Executive authority	02/10/2012
	25/01/2013
	26/03/2013
	24/06/2013

3. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving a clean audit outcome. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.
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**SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT****PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

4. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the entity's system of internal control. These material misstatements also constitute non-compliance with the section 122 of the MFMA.

<b>Material misstatements</b>			<b>Impact</b>	<b>Impact</b>
<b>Financial statement item</b>	<b>Finding</b> (Include a brief description of misstatements as per findings and audit report. Include reasons for not correcting when applicable.)	<b>Occurred in prior year</b> (“Yes/ “No”)	<b>R</b> current year	<b>R</b> prior year
<b>Material misstatements corrected</b>				
Cash & cash equivalents	Bank balance per financial statements does not agree with year end bank reconciliation balance	Yes	27,925	
Property, plant and equipment	Closing balances of fixed assets per financial statements do not agree to closing balances per fixed assets register.	No	1,449,168	
Property, plant and equipment	Depreciation amounting to R2 613 902 not disclosed in the note to property, plant and equipment	No	2,613,902	
Property, plant and equipment	Unexplained difference for the total of additions to PPE amounting to (R2 927 619) between the financial statements and the general ledger.	No	2,927,619	
Property, plant and	PPE: Unexplained difference of	No	658,236	



equipment	R658 236 between the financial statements and trial balance			
Property, plant and equipment	Unexplained difference for the total of additions to PPE amounting to R1 578 756 between the financial statements and the fixed assets register.	No	1,578,746	
Commitments	Commitments per financial statements does not agree to commitments per commitments register	No	3,444,777	
Revenue	Grant income recognised: Unexplained differences between financial statements and grant reconciliations	No	479, 627	
Operating expenditure	SCM: Non compliance with section 12(1)(c) of SCM Regulation for quotes between R10 000 and R200 000		217026	
Operating expenditure	Payments to suppliers not made within 30 days as required by sec 65 of the MFMA	No	2,279,426	
Operating expenditure	SCM: Non compliance with section 12(1)(b) & 16(a) of the SCM Regulation for quotes between R2000 and R10000	No	1,390,249	
Property, plant and equipment	Unexplained difference of R625,808 in depreciation between statement of financial performance and note 4 of financial statement.	No	625,808	
Account receivable	Unexplained difference in the	No	712,398	



	financial statements of R712,398			
Account payable	Unexplained difference in the financial statements of R1,318,202	No	1,318,202	
Operating expenditure	Unauthorised and irregular expenditure not disclosed: Payments to various contracts exceeded original contract prices	Yes	2,394,550	
Operating expenditure	SCM: No evidence of competitive bidding for range greater than R200,000	No	230,000	
Property, plant and equipment	Unexplained differences of R1,081,290 between the Fixed asset register and the Financial Statements	No	1,081,290	
Grants and subsidies paid	Unexplained difference in the financial statements of R1,263,867	No	1,263,867	

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

### **EMPHASIS OF MATTER PARAGRAPHS**

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**

As disclosed in note 24 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the Mkhambathini Municipality at, and for the year ended 30 June 2012.

#### **Significant uncertainties**

With reference to note 51 to the financial statements, the municipality is a defendant in various lawsuits and there are also uncertainties arising from the fact that SALGA has appealed the recent court order regarding the wage curve agreement. If the outcome is unfavourable, the municipality will have to embark on a job evaluation process before implementing the wage curve. Therefore, the ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

### **ADDITIONAL MATTER PARAGRAPHS**

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:

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## PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT

Included below is our conclusion on the annual performance report. All matters reported under the basis for conclusion and additional matter will be included in the auditor's report.

### Introduction

1. I have audited the annual performance report of the Mkhambathini Local Municipality for the year ended 30 June 2013.

### The accounting officer's responsibilities

2. 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 *General Notice*, regarding the planning, management, monitoring and reporting of performance against predetermined objectives and for such internal control as management determines necessary to enable the preparation of annual performance report that is useful and reliable.

### The Auditor-General's responsibilities

3. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report.
4. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.

I will report on whether I have received all the information and explanations required to conduct the engagement or if I became aware of additional information, the omission of which may result in the [name of annual performance report] being materially misstated or misleading.

5. I provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

I further provide reasonable assurance with respect to the reliability of the following selected material objectives set out in the annual performance report:

- Basic service delivery and infrastructure; and
- Local economic development

6. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability as required by the identified performance management and reporting framework.

7. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the requirements of the relevant reporting frameworks and whether the reported performance is consistent with the planned [objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required.
8. The reliability of the information in respect of the selected [programmes/ objectives/ development priorities or objectives<sup>1</sup>] is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
9. The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the selected [programmes or objectives or development priorities/objectives] as set out in the [name of annual performance report]. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the [name of annual performance report]. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:
  - Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information;
  - Evaluating and testing the processes, systems, controls and review of documentation maintained at the audited institution to support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets;
  - Evaluating, testing and confirmation of the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework;
  - Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability (validity, accuracy and completeness) of reported performance information.
10. I believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions expressed below.

## Usefulness of annual performance report

### Basis for qualified conclusions

#### Measurability

#### Performance targets not time bound

11. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that the time period or deadline for delivery be specified. A total of 37% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles

#### Performance Indicators not well defined

<sup>1</sup> Programme is relevant to departments, objectives are relevant to public entities and development objectives/priorities are relevant to municipalities and municipal entities.

12. The National Treasury *Framework for managing programme performance information (FMPP)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 21% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPP* but did not receive the necessary training to enable application of the principles.

#### **Conclusion**

13. In my opinion, except for the effects of the matters described in the basis for qualified conclusion paragraphs, the annual performance report presents performance information that is useful, in all material respects, in accordance with the identified performance management and reporting framework.

#### **Reliability of selected objectives in the annual performance report**

##### **Conclusion**

14. In my opinion, except for the effects of the matters described in the basis for qualified conclusion paragraphs, the performance information of objective as set out in the annual performance report is reliable, in all material respects, in accordance with the identified performance management and reporting framework.

#### **Additional matters**

15. I draw attention to the matter below. My conclusion is not modified in respect of this matter:

##### **Achievement of planned targets**

16. Of the total number of 112 targets planned for the year, 37 of targets were not achieved during the year under review. This represents 33% of total planned targets that were not achieved during the year under review.

This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

#### **Audit findings in auditor's report**

17. All audit findings included under the "Basis for conclusion" and "Additional matter" sections of this report will be reported in the auditor's report.
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**PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS**

18. Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations

**Annual financial statements**

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving an unqualified opinion.

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## **PART E – INTERNAL CONTROL**

### **IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL**

20. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance. Objectives are derived from the regulatory environment and fall into the following categories:
- Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
  - Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
  - Compliance – Pertaining to compliance with laws and regulations.
21. Objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite to internal control and a key part of strategic planning.
22. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.
23. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are the drivers of internal control.
24. The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted. The availability of accurate and complete information and the communication of information, another component of internal control, are required to carry out the day-to-day internal control activities. Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.
25. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.
26. 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 / insert name of performance report] and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the annual [performance report / insert name of report] to be materially misstated and material non-compliance with laws and regulations to occur.

When the required preventative or detective controls are in place, it is assessed with a 😊, when progress on the implementation of such controls were made but improvement is still required or where the actions taken are not or have not been 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 assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a ↑ (improved), ↔ (unchanged) or a ↓ (regressed). The status of the commitments made by management is reported in part F.

No.	DRIVERS	↑ Improved ↔ Unchanged ↓ Regressed	Required controls that are able to prevent, or detect and correct misstatements / control deviations / instances of non-compliance in a timely manner, are currently in place; care is required to maintain the situation for changes in conditions  Progress in the implementation of controls that are able to prevent, or detect and correct, misstatements / control deviations / instances of non-compliance in a timely manner is noted, but improvement is still required  Required controls that are able to prevent, or detect and correct, misstatements / control deviations/ instances of non-compliance in a timely manner, are not in place; intervention is required to design and implement appropriate controls	Good 😊  In progress 😐  Intervention required 😞	ASSESSMENT		
					Financial	Performance	Compliance

**LEADERSHIP**

	Movement from previous assessment:	Financial	Performance	Compliance
		↔	↔	↔
1.a	Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity	😞	😞	😞
1.b	Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	😞	😞	😞
1.c	Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	😞	😞	😞
1.d	Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities	😊	😊	😐
1.e	Develop and monitor the implementation of action plans to address internal control deficiencies	😞	😞	😞
1.f	Establish an IT governance framework that supports and enables the business, delivers value and improves performance	😐	😊	😐

**FINANCIAL AND PERFORMANCE MANAGEMENT**

	Movement from previous assessment:	Financial	Performance	Compliance
		↓	↓	↓
2.a	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	😐	😐	😐
2.b	Implement controls over daily and monthly processing and reconciling of transactions	😞	😞	😞
2.c	Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	😞	😞	😞
2.d	Review and monitor compliance with applicable laws and regulations	😊	😊	😊
2.e	Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information	😊	😊	😊

**GOVERNANCE**

	Movement from previous assessment:	Financial	Performance	Compliance
		↓	↓	↓
3.a	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	😞	😞	😞



No.	DRIVERS	<p>↑ Improved</p> <p>↔ Unchanged</p> <p>↓ Regressed</p>	<p>Required controls that are able to prevent, or detect and correct misstatements / control deviations / instances of non-compliance in a timely manner, are currently in place; care is required to maintain the situation for changes in conditions</p> <p>Progress in the implementation of controls that are able to prevent, or detect and correct, misstatements / control deviations / instances of non-compliance in a timely manner is noted, but improvement is still required</p> <p>Required controls that are able to prevent, or detect and correct, misstatements / control deviations/ instances of non-compliance in a timely manner, are not in place; intervention is required to design and implement appropriate controls</p>	<p>Good </p> <p>In progress </p> <p>Intervention required </p>	ASSESSMENT		
					Financial	Performance	Compliance
			to address the risks is developed and monitored				
3.b			Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively				
3.c			Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations				

## LEADERSHIP

### Effective leadership.

#### Oversight responsibility

27. Intervention required: Council oversight regarding the monitoring of the implementation of action plans to address prior year audit findings is required. This will ensure that audit findings do not re-occur and the municipality is expected to achieve improved audit outcomes resulting from monitoring of the implementation of internal and external audit findings and monitoring of the management of appropriate risks identified by management.

#### Human resource management

28. Intervention is required to ensure that key vacancies are filled

#### Policies and procedures

29. Policies and procedures are in place; however, the emphasis is on implementation.

#### Action plans to address internal control deficiencies

30. Intervention required: The municipality has developed an action plan to address prior year audit findings from external audit. However, the monitoring of the implementation of an action plan requires intervention as findings has not been resolved to date.

#### IT governance framework

- IT policies are in place. We emphasise continuous development.
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## FINANCIAL AND PERFORMANCE MANAGEMENT

### Record management

31. Records are kept; however, they are not made available in a timely manner.

### Daily and monthly processing and reconciling of transactions

32. Monthly reconciliation of various transactions not performed at the moment, intervention is required to ensure that fixed assets and other accounts are reconciled to the general ledger on a monthly basis.

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

33. Financial statements are not prepared regularly by the municipality. Intervention is required to ensure that financial statements are prepared on a regular basis, to ensure that financial statements submitted for audit are not subjected to material corrections resulting from external auditing.
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## GOVERNANCE

### Risk management activities and risk strategy

34. The municipality has developed and approved a risk management strategy document. Intervention is required to ensure that appropriate risks for the municipality are identified. The monitoring of the identified risks requires intervention as the municipality has not addressed and corrected audit findings from the prior year management report.

**SUMMARY**

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

**Leadership**

36. The accounting officer did not implement an effective HR system that ensures that the municipality has skilled staff. In this regard, the accounting officer did not regularly assess whether staff members had essential skills and knowledge to support the achievement of credible reporting and comply with designed policies and procedures, as well as legislative requirements.

**Financial and performance management**

1. The accounting office implement proper processes to communicate timely and relevant information to those charged with governance, in that monthly reporting and reconciliation processes were not at desired levels. In addition records management and review processes were not designed and implemented in a manner to improve accountability and credibility in financial and compliance reporting.

**PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS**

37. [No specific commitments are recorded as no significant deficiencies in internal control were reported. OR [Below is our assessment of the progress on commitments made by senior management, the accounting officer and audit committee to address audit outcomes in the prior and current years.

No	Commitment	Made by	Date	Status
	<b>Leadership</b>			
<b>1b</b>	<ul style="list-style-type: none"> <li>To ensure that the municipality comply with section 122 as well as sections 123, 124 and 125 of the MFMA. The fair presentation of AFS, the disclosure on intergovernmental and other allocations, disclosure concerning councillors, head of departments and officials and other compulsory disclosures.</li> <li>To ensure that annual financial statements are prepared in accordance with general recognised accounting practice (GRAP)</li> <li>To ensure that the AFS are reviewed prior to the submission to Auditor General, on the 10<sup>th</sup> of August 2013 will be submitted to the Internal Auditors and on the 15<sup>th</sup> of August they will be submitted to the Audit Committee in order to enhance the completeness, accuracy and compliance with Grip.</li> </ul>	Accounting Officer	15 August 2013	Achieved  Not achieved  Achieved
<b>1c</b>	All key positions will be filled by the end of September 2013.	Accounting officer	15 August 2013	Not achieved
	<b>Governance</b>			
	The mayor and AO to ensure that: <ul style="list-style-type: none"> <li>Internal audit in place is adequately resourced in order to address the municipality's needs on</li> </ul>	Mayor and accounting officer	15 August 2013	Achieved

	<p>an ongoing basis.</p> <ul style="list-style-type: none"> <li>• internal audit make use of an effective methodology which adheres to Internal Audits standards and performed with due professional care.</li> <li>• the internal audit plan include the assessment of information systems and management.</li> <li>• the internal audit plan includes the audit of performance measurements on a continuous basis and/or submit quarterly reports on their audits to the accounting officer and the performance audit committee</li> </ul>			
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### SECTION 3: SPECIFIC FOCUS AREAS

#### PART B – FINANCIAL INDICATORS

38. Management is responsible for the sound and sustainable management of the affairs of the entity and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.
39. 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 remedial action where financial health and service delivery may be at risk. The information should be used to complement rather than be a substitute for management's own financial assessment.
40. The entity's financial indicators have been assessed according to the following areas and are set out in the table below:
- budgets
  - expenditure management
  - revenue management
  - asset and liability management
  - conditional grants
41. The analyses on which the information in the table is based are contained in annexure D. The table is followed by overall high-level comments on the risks posed by the assessment of the financial indicators.

FINANCIAL INDICATORS							
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012		
<b>BUDGET MANAGEMENT</b>							
1.1	Percentage over-spending of the final approved operating expenditure budget	<b>Not over-spent</b>	<b>% over-spent</b>	<b>Limitation</b>	<b>Not over-spent</b>	<b>% over-spent</b>	<b>Limitation</b>
						<b>6.8</b>	
1.2	Percentage under-spending of the final approved capital budget	<b>Not under-spent</b>	<b>% under-spent</b>	<b>Limitation</b>	<b>Not under-spent</b>	<b>% under-spent</b>	<b>Limitation</b>
			<b>53.5</b>				
<b>GRANT MANAGEMENT</b>							
2.1	Percentage under-spending of conditional grants received	<b>Not under-spent</b>	<b>% under-spent</b>	<b>Limitation</b>	<b>Not under-spent</b>	<b>% under-spent</b>	<b>Limitation</b>
			<b>55.2</b>			<b>17</b>	
<b>EXPENDITURE MANAGEMENT</b>							
3.1	Creditor-payment period <sup>2</sup>	<b>Days</b>	<b>Limitation</b>	<b>Days</b>	<b>Limitation</b>		
		<b>79.5</b>		<b>31</b>			
<b>REVENUE MANAGEMENT</b>							
4.1	Debtor-collection period (before impairment)	<b>Days</b>	<b>Limitation</b>	<b>Days</b>	<b>Limitation</b>		
		<b>204.3</b>		<b>130</b>			
4.2	Debtor-collection period (after impairment)	<b>Days</b>	<b>Limitation</b>	<b>Days</b>	<b>Limitation</b>		
		<b>189.9</b>		<b>83</b>			
4.3	Debtors impairment provision as a percentage of accounts receivable	<b>7.1% debtors impaired to accounts receivable</b>	<b>Limitation</b>	<b>35% debtors impaired to accounts receivable</b>	<b>Limitation</b>		

<sup>2</sup> Consideration should be given to consistency between the assessment of this indicator and the need for a compliance finding on this matter. However, it should be kept in mind that the financial indicator assessment is done "as at year-end" and therefore only reflects year-end results.



FINANCIAL INDICATORS						
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012	
4.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	<b>3.9% debtors impaired to revenue from goods and services</b>	<b>Limitation</b>	<b>% debtors impaired to revenue from goods and services</b>	<b>Limitation</b>	
4.5	Percentage water losses incurred	<b>0% water losses</b>	<b>Limitation</b>	<b>0% water losses</b>	<b>Limitation</b>	
4.6	Percentage electricity losses incurred	<b>0% electricity losses</b>	<b>Limitation</b>	<b>0% electricity losses</b>	<b>Limitation</b>	
ASSET AND LIABILITY MANAGEMENT						
5.1	A deficit for the year was realised (total expenditure exceeded total revenue)	<b>No</b> ✓	<b>Yes</b>	<b>Limitation</b>	<b>No</b> ✓	<b>Yes</b> <b>Limitation</b>
5.2	A net current liability position was realised (total current liabilities exceeded total current assets)	<b>No</b> ✓	<b>Yes</b>	<b>Limitation</b>	<b>No</b> ✓	<b>Yes</b> <b>Limitation</b>
5.3	A net liability position was realised (total liabilities exceeded total assets)	<b>No</b> ✓	<b>Yes</b>	<b>Limitation</b>	<b>No</b> ✓	<b>Yes</b> <b>Limitation</b>
5.4	Percentage of PPE and/or intangible assets impaired	<b>0% PPE and intangible assets impaired</b>	<b>Limitation</b>	<b>3% PPE and intangible assets impaired</b>	<b>Limitation</b>	
5.5	Percentage of loan receivables (loans awarded) and/or investments impaired	<b>0% loans and investments impaired</b>	<b>Limitation</b>	<b>0% loans and investments impaired</b>	<b>Limitation</b>	



FINANCIAL INDICATORS									
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012				
CASH MANAGEMENT									
6.1	The year-end bank balance was in overdraft	No	Yes	Limitation	No	Yes	Limitation		
6.2	Net cash flows for the year from operating activities were negative	✓							
6.3	Cash and cash equivalents as a percentage of operating expenditure	Bank in overdraft	% cash to operating expenditure	Limitation	Bank in overdraft	% cash to operating expenditure	Limitation		
			52.5						
6.4	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	% creditors to cash	Limitation	Bank in overdraft	% creditors to cash	Limitation		
			15.8						
6.5	Percentage by which unspent conditional grants received exceeds cash available at year-end	Bank in overdraft	Not exceeded	% exceeded	Limitation	Bank in overdraft	Not exceeded	% exceeded	Limitation
			✓						
6.6	Current liabilities as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% current liabilities to cash inflows	Limitation	Negative/no cash flows	% current liabilities to cash inflows	Limitation		
			-75.6						
6.7	Long-term debt as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% long-term debt to cash inflows	Limitation	Negative/no cash flows	% long-term debt to cash inflows	Limitation		
			0			0			
6.8	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% employee benefit obligation to cash flows	Limitation	Negative/no cash flows	% employee benefit obligation to cash flows	Limitation		
			0			0.03			



FINANCIAL INDICATORS		
(Limitation = unable to obtain sufficient appropriate information)	AS AT 30 JUNE 2013	AS AT 30 JUNE 2012
The above assessment is based on financial statement amounts.8		



**PART C – CONSULTANTS**

42. During the 2012/13 financial year, the municipality procured the services of the following consultants:

Name of consultant	Type of service	Date of appointment	Value of award	Audit findings area				
				Planning & appointment process	Performance management & monitoring	Transfer of skills	Closing & finalisation	Internal controls
Med Govies	Preparation of asset register	01/07/2013	180 405					
Max Prof	VAT administration	1/07/2012	380000					
OMA	Preparation of financial statements	25/08/2013	150 000.					
Impande Engineers	Consulting and advisory services	3/03/2012	1190262					
			<u>1900667</u>					

A summary of the findings from the audit is as follows:

**Planning and appointment processes**

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

**Transfer of skills**

- No evaluation was performed at the end of the consultancy project to determine whether skills and knowledge were transferred as per the Terms of reference and the contract.

**PART D – FRAUD**

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 occurrence of fraud.

43. None detected



## SECTION 4: EMERGING RISKS

### Accounting and compliance matters

#### New pronouncements/ requirements

44. The Accounting Standards Board (ASB) has issued the following 2 additional Standards of GRAP

- GRAP 20 *Related-party disclosures*
- GRAP 25 *Employee benefits*

#### IT governance

The Department of Public Service and Administration (DPSA), in cooperation with the Government Information Technology Officer Council (GITO), developed the corporate governance of information and communication technology policy framework (CGICTPF), which is applicable to all spheres of government, organs of state and public enterprises. Parliament approved the CGICTPF for implementation on 21 November 2012.

The CGICTPF provides political and executive leadership with a set of principles and practices that have to be complied with, together with a phased implementation approach to be followed for corporate governance of information and communication technology (ICT).

A task team was established by the Minister of Cooperative Governance and Traditional Affairs (CoGTA) to guide the implementation of the CGICTPF at municipalities, amongst others. A process is still underway to define implementation requirements that would be suitable for municipalities. The implementation guide and dates for the phases defined for municipalities will be communicated by CoGTA, in collaboration with their provincial departments

## SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

45. 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 the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
- Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

## SECTION 6: CONCLUSION

46. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices



to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

30 November 2013

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**Distribution:**

CEO  
CFO  
Audit committee  
Head of internal audit

SECTION 7: SUMMARY OF DETAILED AUDIT FINDINGS											
Page. no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
<b>Cash and cash equivalents</b>											
	Bank balance per financial statements does not agree to balance per year end bank reconciliation	✓						✓		-	Addressed
<b>Commitments</b>											
	Commitments per financial statements does not agree to commitments per commitments register	✓						✓		-	Addressed
<b>Employee costs</b>											
	HR: Skills retention policy not approved			✓					✓	-	Not addressed
	No supporting documentation for acting positions				✓			✓		1	Not addressed
	Effective human resource management			✓				✓		-	Not addressed
	Acting for more than 3 months			✓			✓				
	Information on compliance with prescribed minimum competencies not reflected on the draft annual report			✓			✓			1	Not addressed
	Overtime exceeded 10 hours per week			✓				✓		1	
<b>Account receivable</b>											
	Unexplained difference in the financial statements of R712,398	✓						✓		-	Addressed
<b>Account payable</b>											
	Unexplained difference in the financial statements of R1,318,202	✓						✓		-	Addressed



Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
<b>General IT controls</b>											
	Evidence of review not maintained for user access				✓			✓		-	Addressed
<b>Use of consultants</b>											
	Appointing consultants				✓			✓		-	Not addressed
	Assessment on appointing consultants				✓			✓		-	Not addressed
	Transfer of skills from consultants to employees				✓			✓		-	Not addressed
<b>Road infrastructure</b>											
	Non compliance with roads infrastructure					✓		✓		-	Not addressed
<b>Fixed assets</b>											
	Closing balances of fixed assets per financial statements do not agree to closing balances per fixed assets register.	✓						✓		-	Addressed
	Scope limitation: We were unable to select transactions from the general ledger for additions to fixed assets	✓						✓		-	Addressed
	PPE: Unexplained difference of R R2 613 902 between the financial statements and trial balance.	✓						✓		-	Addressed
	Scope limitation: GRAP compliant fixed assets register not submitted for audit.	✓						✓		1	Addressed
	Unexplained difference for the total of additions to PPE amounting to (R2 927 619) between the financial statements and the general ledger.	✓						✓		-	Addressed



Page. no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	PPE: Unexplained difference of R658 236 between the financial statements and trial balance	✓						✓		-	Addressed
	Unexplained difference for the total of additions to PPE amounting to R1 578 756 between the financial statements and the fixed assets register.	✓						✓		-	Addressed
	Unexplained difference of R625 808 in depreciation between statement of financial performance and note 4 of financial statement.	✓						✓		-	Addressed
	No evidence that an assessment of indications of impairment of fixed assets was performed for the reporting period.	✓						✓		-	Addressed
<b>Operating expenditure</b>											
	SCM roles are not delegated in terms of SCM sec 17 and 18 of the Supply Chain Management Regulations			✓				✓		-	Not addressed
	SCM: Weaknesses identified over supplier master file amendments				✓			✓		-	Not addressed
	Payments to suppliers not made within 30 days as required by sec 65 of the MFMA			✓				✓		-	Not addressed
	Scope limitation: Management explanations for major variances identified in the statement of financial performance have not been provided for auditing.	✓						✓		-	Not addressed



Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	SCM: Non compliance with section 12(1)(b) & 16(a) of the SCM Regulation for quotes between R2000 and R10000				✓			✓		-	Addressed
	Unauthorised and irregular expenditure not disclosed: Payments to various contracts exceeded original contract prices.				✓			✓		1	Addressed
	SCM: Non compliance with section 12(1)(c) of SCM Regulation for quotes between R10 000 and R200 000				✓			✓		-	Addressed
	SCM: No evidence of competitive bidding for range greater than R200,000				✓			✓		-	Addressed
<b>Predetermined objectives</b>											
	AOPO: Non-compliance with performance management framework and policy monitoring		✓					✓		-	Not addressed
	AOPO: Individual performance assessment for S57 Managers not conducted			✓				✓		-	Not addressed
	AOPO: Individual performance agreements for senior managers not submitted to the MEC for local government within 14 days			✓				✓		-	Not addressed
	AOPO: Certain key objectives from the municipality's IDP were not budgeted for during the year.		✓					✓		1	Addressed
	AOPO: General key performance indicators not included in the municipality's planning and monitoring documents.		✓				✓			-	Not addressed



Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	AOPO: Certain key performance indicators were not well defined.		✓				✓			1	Not addressed
	AOPO: Certain targets were not time bound.		✓				✓			1	Not addressed
<b>Revenue</b>											
	Grant income recognised: Unexplained differences between financial statements and grant reconciliations.	✓						✓		-	Not addressed
<b>Budget Disclosure: GRAP 24</b>											
	Explanation of changes between approved and final budget.	✓						✓		1	Not addressed

**DETAILED AUDIT FINDINGS**

**ANNEXURE A: OTHER IMPORTANT MATTERS**

No matters reported

**ANNEXURE B: OTHER IMPORTANT MATTERS****Employee costs****1. Information on compliance with prescribed minimum competencies not reflected on the draft annual report****Audit finding**

Municipal regulations on minimum competency levels, regulation 14(2)(b) & (3) requires the annual report of the municipality to reflect the information on compliance with prescribed minimum competency as at the end of the financial year to which it relates.

Upon inspection of the draft annual report it was noted that it did not reflect the information on compliance with prescribed minimum competencies as at the end of the financial year under audit.

**Internal control deficiency**

Lack of oversight over compliance with laws and regulations.

**Recommendation**

The draft annual report should be updated to include the required information.

**Management response**

I am not in agreement with the finding for the following reasons: The minimum competencies were done under Umgungundlovu District Municipality. In this case the officials from Mkhambathini were combined with Umgungundlovu District Municipality and were not the champions for the whole process. In the Mkhambathini part there has been nothing much to report. However, Mkhambathini will now report in its Annual report.

**Auditor's conclusion**

Management response is accepted and will be monitored in the next audit.

## 2. Acting for more than 3 months

### Audit finding

In terms of section 56(1) (a), (b) and (c) of the Municipal Systems Act of the Republic of South Africa, 2000 (Act No. 32 of 2000) (MSA), " A municipal council, after consultation with the municipal manager, must appoint"-

- (i) manager directly accountable to the municipal manager; or
- (ii) An acting manager directly accountable to the municipal manager under circumstances and for a period as prescribed.

b) A person appointed in terms of paragraph (a) (i) must at least have the skills, expertise,

c) person appointed in terms of paragraph (a) (ii) may not be appointed to act for a period that exceeds three months: Provided that a municipal council may, in special circumstances and on good cause shown, apply in writing to the MEC for local government to extend the period of appointment contemplated in paragraph (a), for a further period that does not exceed three months.

During the audit of employee related cost, it was noted that the following employees has been employed in an acting positions for a period of more than 3 months, as per table below. Hence the municipality did not comply with section 56(1) (a), (b) and (c) of the MSA.

ID	ACTING POSITION	NO OF MONTHS IN POSITION	AMOUNT RECEIVED
6	MUNICIPAL MANAGER	COULD NOT BE QUANTIFIED	
28	CFO	13 MONTHS	60827.44
41	SENIOR COMMUNITY SERVICES OFFICER	22 MONTHS	29977.74

### Internal control deficiency

Adequate processes and procedures were not in place to ensure compliance with the MSA.

### Recommendation

- Management should implement a system of internal control to ensure that adequate processes and procedures are in place to comply with the requirements of the MSA.
- Management should consider the use of checklists to ensure and enforce compliance with laws and regulations.

### Management response

The Auditors Comments are noted however it should be noted that the above mentioned employees have skills required to perform on the acting position. Council within its powers have made a ruling for this incumbent to as assist whilst the recruitment process is underway. The Municipality in terms of Section 56 sat "MAY" apply to the MEC it is not a cutting stone that the municipality MUST apply to the MEC therefore Council Resolution was sufficient in this regard. We take note of the impact this has in terms of Municipal performance but Council is dealing with the issue.

### Auditor's conclusion

Management response is accepted.

## Predetermined Objectives

### 3. AOPO: General Key performance indicators not included in the municipality's performance management system.

#### Audit finding

In accordance with Section 43 of Municipal Systems Act 32 of 2000 and section 10 of the Municipal Planning and Performance Regulations 2001 the following general Key performance indicators are prescribed:

- The percentage of households with access to basic level of water, sanitation, electricity, and solid waste removal;
- The percentage of households earning less than R1100.00 per month with access to free basic services;
- The percentage of the Municipal capital actually spent on capital projects identified for a particular financial year in terms of the Municipal Integrated Development plan;
- The number of jobs created through the Municipality's Local Economic Development initiatives including capital projects;
- The number of people from employment equity target groups employed in the three highest level of Management in compliance with the municipality's approved employment equity plan
- The percentage of the budget actually spent on implementing its' work skills plan

During the audit of predetermined objectives the above general KPI listed above was not included in the IDP, SDBIP, quarterly and annual performance report.

The above could be resulting from:

- Ineffective implementation of Local Government Performance regulations
- Prolonged delay in filling permanent contracts of key management personnel.
- No performance appraisal conducted for section 57 senior managers.
- Lack operational plan and budget

#### Internal control deficiency

Ineffective integration of the strategic goals and objectives to the municipal operational plan; annual budget and key performance indicator assessment.

#### Recommendations

Appointment of Key Management Personnel should be finalised within a reasonable period to enable proper implementation of Local Government Municipal Performance regulations to enhance organisational performance by achieving improvements in key business processes through:

- Ownership and proper delegation of responsibility;
- Regular monitoring and evaluation of targets and key performance indicators reported on;
- Improved understanding of factors required for successful operations;
- Improved efficiency, simplicity and quality;
- Cost effective operations and Enhanced community satisfaction

#### Management response

None

**Auditor's conclusion**

**Finding is not resolved**

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**4. AOPO: Certain key performance indicators are not well defined.**

**Audit finding**

In accordance with Section 41 of Municipal Systems Act 32 of 2000, a Municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed:

- Set appropriate KPI (key performance indicators) as a yardstick for measuring performance including outcomes and impacts for development priorities /objectives set out in the IDP.
- Set measurable performance in relation to IDP objectives/priorities
- The PMS must be devised in such a way as an early indicator of non-performance

Nature:

During the audit of predetermined objectives, twenty six objectives identified and listed in Table A, below were not well defined, not linked to the municipal operational plan, resulting in KPI not being clear and adequately defined. The performance nature; level of progress and overall improvement to date was also not measurable.

Table A



Performance KPI measures not addressed	Measurability	Measurability Targets	Presentation	Relevance
COLUMN C				
The KPI does not address the target number of employees planned for and the actual number of employees who attended and benefited from the even	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C	Target is not specific. Target does not address the nature and level of performance. The Target is not time bound	The KPI should enable measurement of progress/ improvements.	The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans
The KPI does not address the target number of appointments planned for and actual number of appointments filled in 2012/13.	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C	Target is not specific. Target does not address the nature and level of performance. The Target is not time bound	The KPI should enable measurement of progress/ improvements.	The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans
The KPI does not address the target number of Ward Officials to be trained and actual number of Ward Officials trained.	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C	Target is not specific. Target does not address the nature and level of performance. The Target is not time bound	The KPI should enable measurement of progress/ improvements.	The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans



<p>The KPI does not address the target number of Newsletters to be distributed and the actual number distributed.</p>	<p>Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target is not specific. Target does not address the nature and level performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>The KPI is not measurable. KPI does not address the target number of employees to be trained and the actual number trained.</p>	<p>Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target is not specific. Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>Business development: KPI is not clear on the Aggregate hectares of land available for all business development and number of hectares applied for and the actual number of applications processed in hectares. This is significant to measure economic progress; obtain factual evidence for slow growth; and negotiate with relevant authorities based on well defined, measurable; verifiable KPI and SMART targets.</p>	<p>Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target is not specific. Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p><b>Residential development</b> : KPI is not clear on the hectares of land available for business development and number of hectares applied for and the actual number of applications processed in hectares Residential development: The KPI does not address the number of applications received in 2012/13 and number of applications processed for business development and number of applications rejected.</p>	<p>Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column</p>	<p>Target is not specific. Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



	C			
BASIC SERVICES : KPI of the Aggregate demand and Number of Houses developed to date is not linked to enable comparison to the Targets set in 2012/13	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C	Target does not address the nature and level of performance. Target is not time bound	The	The KPI should enable measurement of progress/ improvements. The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans
<b>ADDITIONAL KPI for Integrated Stakeholder Developments</b> The KPI does not address integrated development planned for; and actual number of developments implemented e.g. sanitation and Integrated Cluster developments. This is significant to integrate strategic objectives /goals of the Municipality with Operational Plans of other significant Stakeholders [e.g. DOT, District Municipality] to enable measurement of improvements to date; to ensure basic Infrastructure needs of the Community are addressed, to avoid standalone projects e.g. clinics, bridges, schools being built in remote areas not accessible to the public, and to reduce the environment carbon foot print- e.g. reduced travelling.	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C	Target does not address the nature and level of performance. Target is not time bound	The	The KPI should enable measurement of progress/ improvements. The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans
BASIC SERVICES : KPI of the Aggregate demand for Housing; and Number of Households supplied with Electricity, to date is not linked, to the Operational Plan to enable comparison to the Targets set in 2012/13 , actual achievements and to measure improvements to date.	Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator ,	Target does not address the nature and level of performance. Target is not time bound	The	The KPI should enable measurement of progress/ improvements. The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans



	as indicated in column C			
<p>Storm Water drainage problems: The KPI does not address detailed analysis of the type of Telephone complaints received, the number of calls received pertaining to drainage problems and number of calls that was resolved successfully.</p> <p>This is significant to ensure that the Municipal responds to all types of telephone complaints thereby improving service delivery.</p> <p>OTHER MEASURES: OPERRATIONAL PLAN: KPI does not measure number of projects planned for in 2012/13 and number of projects actually completed.</p>	<p>Target is not measurable.</p> <p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target does not address the nature and level of performance.</p> <p>The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>Provision of a safe environment: CRIME:</p> <p>The KPI does not address the number of criminal Incidents reported /Telephone complaints received and number of incidents calls that was resolved successfully to ensure a safe environment and to measure efficiency of the Police services and identify the need for improved Police services and – building infrastructure. The entire community of Mkhambathini is reliant on the police service of Camperdown only.</p>	<p>Target is not measurable.</p> <p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target does not address the nature and level of performance.</p> <p>The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



<p>ROAD MAINTENANCE: NOT LINKED TO OPERATIONAL PLAN 2012/13:REGRAVELLING: KPI does not address the target number of kilometres of regravelling planned for and the actual number of kilometres of regravelling performed.</p> <p>OTHER MEASURES: NEW GRAVEL ROAD CONSTRUCTION: Number of Km to achieve and actual achieved.</p> <p>REHABILITATION OF OLD ROADS: Target Number of Km and actual achievement in Km.</p> <p>BLACK TOP PATCHING: Target number of square metres planned for and actual achievement.</p>	<p>Target is not measurable. The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target does not address the nature and level of performance. Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>Capital Projects: KPI is not linked to the OPERATIONAL PLAN: KPI is not clear on the type of projects planned for e.g. Halls, crèches, Clinics, library.</p> <p>KPI is not measurable in terms of the target number of projects per building type e.g. Halls planned for and the actual number completed in 2012/13.</p> <p>ADDITIONAL MEASURES: IDP, SDBIP and KPI is not linked/ integrated with Community needs identified in the Annual Report 2011/12 /IDP. Development of Secondary schools, clinics, libraries and telecommunication systems. KPI does not address improvements made to date.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in Column C</p>	<p>Target does not address the nature and level of performance. Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p><b>Community development: KPI is not measurable.</b></p> <p>The KPI is not linked to an OPERATIONAL PLAN: Entrepreneurship programme e.g. number of New BEE businesses planned for and actual number launched.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



<p>KPI IS NOT LINKED TO AN OPERATIONAL PLAN and Employment opportunities created [perm and temp, through LED initiatives.                  OTHER KPI: Target sales planned for may also be reported against the actual sales from events initiated to support the entrepreneur programme.                  OTHER KPI : Target number of employment opportunities planned for and actual Employment opportunities created LED initiatives e.g. School Vegetable gardens, Weaving, beadwork projects.                  OTHER KPI: Number of Trainees planned for and number of Entrepreneurs actually trained</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target does not address the nature and level of performance.                  The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI IS NOT LINKED TO AN OPERATIONAL PLAN: LED initiatives are not linked to Tourism campaigns. E.g. Number of Tourist invitations planned for and number of tourists that actually attended.                  Sales /profit planned for and actual sales/profit generated by the Mun or Community.                  The KPI does not address the type of Tourists site - development planned for e.g. Animal Park , Botanic garden and actual achievement.                  KPI may include monetary values for sponsorships/ Use of Service Providers planned for and actual sponsorships obtained</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator , as indicated in column C</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



<p>Waste Management is not linked to an OPERATIONAL PLAN: KPI is not linked to an Environment Plan. KPI is not measurable. The KPI does not address the type of programmes implemented to protect the environment e.g. Collection of Plastic, Glass bottles, paper for recycling. Targets should be set and compared against the actual quantities collected. Environmental PLANNING: Other programmes may include the planting of trees target number and actual number planted. Programmes may include Clean up operations of polluted land/water planned for and actual square metres of land/water cleaned up.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>WASTE MANAGEMENT: KPI does not address the number of Incidents reported /Telephone complaints received and number of incidents calls that was resolved successfully to measure improvement in service delivery.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI does not address the basic needs of the Community as indicated in the Annual Report 2011/12. The Community needs is not linked to an operational plan of DOE/DOT to build Secondary schools /roads. The KPI does not address the number of secondary schools planned for and actual achievements; as a measure of progress to date.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



<p>The KPI is not address the basic need of the Community identified in the Annual Report 2011/12. The KPI is not linked to an Operational plan. E.g. KPI does not address the Library Infrastructure planned for and actual achievement. KPI not linked to the Aggregate demand and actual number of infrastructures supplied to date as measure of overall progress.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>EDUCATION: KPI is not linked to an operational plan eg LIBRARY SERVICES: Aggregate number of book collections planned for and actual achievement. OTHER KPI: Number of book collection planned for per Ward and actual achievement. The rate of illiteracy is high in Mkhambathini as indicated in the Annual Report 2011/12.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>OTHER KPI: BURSARY INITIATIVES - Monetary amounts/sponsorships planned for and actual achievements. OTHER KPI: Number of graduates in need, Target planned for and actual number of graduates who benefited. KPI may be linked to the District Mun – operational plan to assist the Mkhambathini community.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI is not linked to an Operational plan: KPI is not specific and not measurable. VELD FIRES/FLOODS: Number of incidents reported and number of incidents resolved. Appointment of Standby Officials: Target and actual number appointed Training: Target number trained and actual number trained.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



<p>KPI is not linked to an operational plan. KPI does not address the type of initiatives planned for e.g. . . . Drug Addiction Awareness Campaigns: Target number of students to benefit and actual number of students who attended and benefited.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI is not linked to an operational plan. KPI does not address target % of Women employment planned for and actual number employed to date.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>DISABILITIES: KPI is not linked to an operational plan. KPI does not address % disability employment to achieve and actual achieved.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI is not linked to the operational plan to build sports fields and to ensure that the infrastructure is optimally used for the purpose intended. E.g. KPI is not specific on type of initiatives planned for e.g. Soccer event Target number of planned for and actual number attended and benefited.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI does not address the basic needs of the Community as indicated in the Annual Report 2011/12. KPI is not linked to the operational plan for CLINIC INFRASTRUCTURE: The KPI does not address the overall number of clinics planned for and actual</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator,</p>	<p>Target does not address the nature and level of performance. The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and</p>



achievement to date.	as indicated above.			operational plans
KPI is not linked to DOH operational plan for improved health services in Mkhambathini. KPI is not linked to the Municipal operational plan for improved HEALTH services: e.g. Appointment of Care Givers: Target number required and actual number appointed. KPI is not linked to an operational plan e.g. Training of Care Givers: Target number trained and actual number trained to improve service delivery and ensure the Municipality is not liable for neglect /incorrect treatment administered etc.	The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.	Target does not address the nature and level of performance. The Target is not time bound	The KPI should enable measurement of progress/ improvements.	The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans
KPI is not linked to the HIV/AIDS statistics supplied in the Annual Report 2011/12. Eg Target number of Care givers per 100 patients and actual achievement	The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.	Target does not address the nature and level of performance. The Target is not time bound	The KPI should enable measurement of progress/ improvements.	The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans



<p>KPI is not measurable.                  KPI does not address the target number of people planned for and actual number that attended and benefited from the campaign. The KPI is not specific per location/Ward. The target is not time bound. The KPI does not address the number of infected persons to date and Number of newly infected persons per annum as evidence of reduction in infections.                  DEATH TOLL: KPI does not address number of deceased to date and per annum to enable comparison of decreasing death rate due to AIDS. This KPI is significant as the risk of HIV/AIDS is high in Mkhambathini. EDUCATION PROGRAMMES: KPI does not address target number of people planned for and actual number that attended and benefited from HIV/AIDS programmes. KPI is un clear on the audience type planned for e.g. School children or adults. Separate KPI may be set for Adults and school children.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance.                  The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>
<p>KPI is not linked to an operational plan and is therefore measurable. KPI does not address the target number of Participants planned for and actual number that attended and benefited from the ARTs &amp; CULTURE Campaigns.</p>	<p>The target should be well defined to enable consistent collection of data and verification of the system that produced the indicator, as indicated above.</p>	<p>Target does not address the nature and level of performance.                  The Target is not time bound</p>	<p>The KPI should enable measurement of progress/ improvements.</p>	<p>The KPI should give a clear indication of the achievement of strategic objectives/ goals and operational plans</p>



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**Internal control deficiency**

**Leadership**

Compliance with relevant laws and regulations has not been monitored

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

All PMS responses will be adhered to in terms of Compliance and in terms of all Legislation.

**Auditor's conclusion**

**Finding is not resolved**

## 5. AOPO: Certain targets are not time bound

### Audit finding

In accordance with Section 41 of Municipal Systems Act 32 of 2000, a municipality must in terms of its Performance Management system and in accordance with any regulations and guidelines that may be prescribed; the PMS must be devised in such a way as an early indicator of non-performance.

Furthermore, in terms of section 7 of the Municipal Planning and Performance Management Regulations, 2001, in developing its performance Management system, a municipality must ensure that the system determines the frequency of reporting and accountability for performance.

During the audit of predetermined objectives, for thirty six objectives identified and listed in Table A below, specific timeframes and frequency of reporting was omitted.

Table A

Material development priorities/ objectives selected	Based on the discussions held with senior management and information inspected conclude on whether the target is Time bound	Exceptions raised
	Yes/No	
<b>OFFICE OF THE MM</b>		
Individual performance appraisal	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Signed performance agreements	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Aligned Budget, PMS and IDP	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Risk Assessments	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Risk Management Strategy	No	Timeframe is not specified
Implement an effective Anti-Corruption Strategy	No	Timeframe is not specified
<b>CORPORATE SERVICES</b>		
Arrange staff team building session.	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Appointment of Ward Committee Members	No	Timeframe is not specified
Training of ward members	No	Timeframe is not specified
Ensure Functional Ward Committees	No	Timeframe is not specified
Ensure Efficient Council decision	No	Timeframe is not specified
To Develop Municipal News Letter	No	Timeframe is not specified

Implement the workplace skills plan	No	Timeframe is not specified
<b>TECHNICAL SERVICES</b>		
Spatial Analysis & Rationale	No	Timeframe is not specified
One development application submitted to DLR&RD	No	Timeframe is not specified
To provide human settlement.	No	Timeframe is not specified
To provide support to Housing tink tank meetings.	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
To provide basic electricity to the community	No	Timeframe is not specified
To provide storm water drainage	No	Timeframe is not specified
To provide for a safe environment within the community	No	Timeframe is not specified
Capital Projects	No	Timeframe is not specified
<b>COMMUNITY SERVICES</b>		
Develop LED Structures/Committees within each ward	No	Timeframe is not specified
Ensure Functional LED Structures	No	Timeframe is not specified
To submit the Tourism Strategy to Council for Adoption	No	Timeframe is not specified
To Conduct Tourism Awareness campaigns	No	Timeframe is not specified
To develop a disaster management plan	No	Timeframe is not specified
Approval of the Disaster management Forum by Council	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Implement Youth Programmes	No	Timeframe is not specified
Review the HIV and Aids Strategic Plan	No	Timeframe is not specified
Reduction of new infections	No	Timeframe is not specified
Participate in the District Art and Culture Council	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
Participate in the District Environmental Health Forum	No	The timeframes for targets is not specified e.g. monthly, quarterly, annually
recruit 15 Graduates	No	Timeframe is not specified
Promote Tourism	No	Timeframe is not specified

**Internal control deficiency**

**Leadership**

Compliance with relevant laws and regulations has not been monitored

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

All PMS responses will be adhered to in terms of Compliance and in terms of all Legislation

**Auditor's conclusion**

Finding is not resolved

**Cash and cash equivalents**

**6. Bank balance per financial statements does not agree with year end bank reconciliation balance**

**Audit finding**

We noted that the balance per annual financial statements does agree with the amount per bank reconciliation.

Balance per AFS	Balance per bank confirmation	Difference
18 258910.00	18 230 985.45	27 925

**Internal control deficiency**

Financial and performance management

Management did not perform reconciliation of financial statement and bank balance as per bank statement.

**Recommendation**

We recommend a full reconciliation of the financial statement and bank balance as per bank statement to performed and be submitted to auditors.



## Management response

I am in agreement with the finding for the following reasons: The difference between the amount disclosed in the annual financial statements and the balance per the bank reconciliations performed arose due to an error occurring on the June 2013 PASTEL monthly bank reconciliation. The difference has been investigated by the consultant and will be corrected. The bank reconciliation for June 2013 would be adjusted to reconcile with the annual financial statements to the value of R27925.

## Auditor's conclusion

**Necessary adjustments were made and the finding is resolved.**

## 7. Unexplained differences in the financial statements

### Audit finding

There are unexplained differences in the financial statements with regards to the Statement of Financial Position and Statement of Financial Performance. Refer to the table below:

DESCRIPTION	ORIGINAL AFS	CORRECTED AFS	DIFFERENCES	NOTE	DIFFERENCE
RECEIVABLES	647 381.00	556 177.00	<b>91 204.00</b>		
CONSUMER DEBTORS	2 784 283.00	3 496 681.00	<b>-712 398.00</b>		
CASH AND CASH EQUIVALENTS	18 258 910.00	18 263 453.00	<b>-4 543.00</b>		
INVESTMENT PROPERTY	-	1 158 000.00	<b>-1 158 000.00</b>		
PPE	65 719 362.00	65 747 739.00	<b>-28 377.00</b>		
PAYABLES	4 207 996.00	2 889 794.00	<b>1 318 202.00</b>		
PROVISIONS	-	1 797 582.00	<b>-1 797 582.00</b>		
ACCUMULATED SURPLUS	60 122 933.00	61 455 667.00	<b>-1 332 734.00</b>		
OTHER INCOME	135 319.00	251 014.00	<b>-115 695.00</b>		
INTEREST RECEIVED	1 077 532.00	1 079 886.00	<b>-2 354.00</b>		
GOVERNMENT GRANTS AND SUBSIDIES	46 501 429.00	46 451 280.00	<b>50 149.00</b>		
DEPRECIATION AND	2 613 902.00	2 458 781.00	<b>155 121.00</b>	3084589	<b>-625 808.00</b>



AMORTISATION					
FINANCE COSTS	104 990.00	106 983.00	-1 993.00		
DEBT IMPAIRMENT	630 164.00	601 568.00	28 596.00		
GRANTS AND SUBSIDIES PAID	8 180 220.00	6 916 353.00	1 263 867.00		
GENERAL EXPENSES	11 478 305.00	11 251 061.00	227 244.00		
	<u>222 462 726.00</u>	<u>224 482 019.00</u>	<u>-2 019 293.00</u>	<u>3 084 589.00</u>	<u>-625 808.00</u>

### Internal control deficiency

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

### Impact of the differences on financial statements:

The financial statements are materially misstated.

### Cause:

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

### Recommendation

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

### Management response

We will make necessary adjustments on AFS and submit with supporting documents.

### Auditor's conclusion

Management response is accepted.

**8. Scope limitation: Management explanations for major variances identified in the statement of financial performance have not been provided for auditing.**

**Audit finding**

Management explanations for major variances within the general expenses amounting to R11 478 305 as shown in note 15 to the financial statements have not been provided for auditing.

The following major variances were identified:

General expenses	2013	2012
Consultants fees	-	327 038.00
General expenses	574 707.00	-732 407.00
Unallocated expenses	868 382.00	-

**Internal control deficiency**

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

**Impact on financial statements:**

The financial statements are materially misstated

**Cause:**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

1. I am not in agreement with the finding for the following reasons: MEDGOVIS were contracted for services in the 2013/2014 financial period and Izinkakha Consultants were contracted during the 2011/2012 financial period which was paid though the Financial Management Grant. Consultants were not budgeted for under the General expenses in the 2012/2013 financial period. However, consultants used in preparation of the asset register and review of the AFS were budgeted and paid through the Financial Management Grant and had been approved by National Treasury.



2. I am in agreement with the finding for the following reasons: Due to oversight the incorrect comparative for other general expenses were disclosed. The final set of annual financial statements would be updated such that the comparative for other general expenses is disclosed correctly.
3. I am in agreement with the finding for the following reasons: Due to oversight the incorrect descriptions for general expenses were disclosed. The final set of annual financial statements would be updated such that descriptions for general expenses are disclosed correctly.

**Auditor's conclusion**

Necessary adjustments were made with supporting documentation and finding is resolved



**Revenue****9. Grant income recognised: Unexplained differences between financial statements and grant reconciliations register.****Audit finding**

During the audit of grants and subsidies and unspent conditional grants in the financial statements the following differences were identified as detailed in the table below.

<b>Name of Grant</b>	<b>reconciliation</b>	<b>Balance per note 13</b>	<b>Difference</b>
LGSETA		79 212.00	79 212.00
Library		350 949.00	350 949.00
Electrification	2 798 751.00	2 749 655.00	49 106.00
	<u>2 798 751.00</u>	<u>3 179 816.00</u>	<u>479 267.00</u>

<b>Name of Grant</b>	<b>Amount per AFS</b>	<b>Reconciliation</b>	<b>Differences</b>
Library			
	350 948.98	300 800.00	50 148.94
LGSETA	79 212.22	0.00	79 212.22

**Internal control deficiency****Financial and performance management**

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

**Impact on financial statements:**

The financial statements are materially misstated



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**Cause:**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

I am in agreement with the finding. It will be corrected in the final set of annual financial statements. The final set has been submitted to the audit team on 19<sup>th</sup> November 2013

**Auditor's conclusion**

**Corrections were made and resolved**



**10. SCM: Non compliance with section 12(1)(b) & 16(a) for quotes between R2000 and R10000****Audit finding**

In accordance with National Treasury regulations; SCM section SCM reg. 12(1)(b) & 16(a) - written or verbal quotations must be obtained from at least three (3) prospective suppliers and in accordance with SCM reg 17(c) & 36(2) if three written price quotations were not obtained the reasons must be recorded and approved.

During the audit of goods and services, supporting documents were inspected and no evidence of quotations performed was attached to the payment vouchers listed in Table A below.

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
1	16.08.2012	Carlos Miranda Attorney	6961/2010	Legal expenses : excellence at work	3 316	Three quotes not obtained
2	29.10.2012	Zombuso Trading CC	19	Catering 40 guests - arts & Culture event	3 400	Three quotes not obtained
3	26.03.2013	MS Shange		Firearm leased	4 500	Three quotes not obtained
4	26.03.2013	MS Shange		Firearm leased	4 500	Three quotes not obtained
5	01.10.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	5 130	Three quotes not obtained
6	31.07.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	6 750	Three quotes not obtained
7	04.09.2012	S Ndlovu	17	Transport Ward 3 passengers to Nongoma : one bus hired for arts & culture event	8 000	Three quotes not obtained
8	27.05.2013	Richard Evans & Associates	1837	Contempt application : Use agric- land for commercial purpose	8 780	three quotes not obtained
					44 376	

Table A

**Internal control deficiency**

Compliance with Supply Chain Regulations is not strictly enforced and implementation of the Supply Chain policy is not monitored

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

I am not in agreement with the finding for the following reasons as below:

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
1	16.08.2012	Carlos Miranda Attorney	6961/2010	Legal expenses : excellence at work	3 316	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit.
2	29.10.2012	Zombuso Trading CC	19	Catering 40 guests - arts & Culture event	3 400	Three quotes were obtained and will be provided to audit.
3	26.03.2013	MS Shange		Firearm leased	4 500	Service level agreement will be provided to audit.
4	26.03.2013	MS Shange		Firearm leased	4 500	Service level agreement will be provided to audit.
5	01.10.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	5 130	Service level agreement will be provided to audit.
6	31.07.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	6 750	Service level agreement will be provided to audit.
7	04.09.2012	S Ndlovu	17	Transport Ward 3 passengers to Nongoma : one bus hired for arts & culture event	8 000	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
8	27.05.2013	Richard Evans & Associates	1837	Contempt application : Use agric- land for commercial purpose	8 780	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
					44 376	

#### Auditor's conclusion

**Finding is resolved. Inspected the register of irregular expenditure and confirmed that expenses are included there.**

**11. SCM: No evidence of competitive bidding for range greater than R200,000**

**Audit finding**

In terms of section 19(a) of SCM policy - Goods or services above a transaction value of R200 00 (VAT included) and long term contracts may only be procured through a competitive bidding process.

During the audit of expenditure supporting documents of value greater than R200 000 was inspected and no proof of competitive bidding performed. This was evident for the payment voucher listed in Table C below:

Table C

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
16	27.10.2012	Nyaniso Contracting & Trading	40	Park home	230 000	No evidence of Competitive bidding obtained
					230 000	

**Internal control deficiency**

Compliance with Supply Chain Regulations is not strictly enforced and implementation of the Supply Chain policy is not monitored

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.



**Management response**

I am not in agreement with the finding for the following reasons as below:

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
16	27.10.2012	Nyaniso Contracting & Trading	40	Park home	230 000	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
					230 000	

**Auditor's conclusion**

**Supporting documents were inspected and finding is resolved.**



## Commitments

### 12. The balance of commitments per financial statements does not agree to commitments per commitment register

#### Audit finding

During the audit performed on commitments, it was noted that the balance of commitments as disclosed in note 21 to the financial statements does not agree to balance of commitments as per the commitments register.

The following are differences identified:

	Financial statements	Commitment register	Difference
Approved and contracted for:	19 810 474.00	8 828 251.00	10 982 223.00
Approved and not contracted for	-	14 427 000.00	14 427 000.00
	19 810 474.00	23 255 251.00	3 444 777.00

#### Impact of the differences on financial statements:

Financial statements are materially misstated, commitments are understated by R3 444 777 in the financial statements

#### Cause:

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

#### Internal control deficiency:

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

#### Recommendation

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.



**Management response**

I am not in agreement with the finding for the following reasons: The commitment register reflected as above is incorrect. An updated commitment register which includes the roll overs from the 2011/ 2012 financial period will be provided for audit. There is no need to update the financials as the commitment disclosure has no impact on surplus and deficit.

**Auditor's conclusion**

**The finding is resolved based on new register and amended AFS**



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**13. SCM: Non compliance with section 12(1)(c) of SCM Regulation for quotes between R10 000 and R200 000**

**Audit finding**

In accordance with National Treasury regulations: SCM reg. 12(1) (c) & 17(a); written price quotations must be obtained from at least three different prospective suppliers.

If three written price quotations were not obtained, the reasons are recorded and approved.

During the audit of expenditure; supporting documents of value between R10, 001 to R200, 000 was inspected and no evidence of quotations performed; was attached to the payment Vouchers listed in table B below:



Table B

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
9	22.08.2012	Kozi FM News reader : Khumalo CT	12	Motivation Speaker - Women's Day	12 000	Three quotes not obtained
10	23.01.2013	National Cold Asphalt	134	asphalt	16 245	three quotes not obtained, Vat charged and no vat registration number on invoice.[ vat was not allocated ]
11	11.01.2013	Richard Evans & Associates	u152/12	Contempt application : Use agric- land for commercial purpose	16 995	three quotes not obtained
12	23.10.2012	Match the one Trading & Project Cc		Matric - Prayer & performance Event	18 000	Three quotes not obtained
13	30.10.2012	Star Supermarket	GRV2509	Social relief packs	19 262	Three quotes not obtained
14	31.08.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	54 524	Three quotes not obtained
15	26.03.2013	NMK Forensics	nmk/mak:12/01/03/12	Internal forensic investigation, liaise with SAPS and reporting	80 000	three quotes not obtained
					217 026	



**Internal control deficiency**

Compliance with Supply Chain Regulations is not strictly enforced and implementation of the Supply Chain policy is not monitored

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

I am not in agreement with the finding for the following reasons as below:

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Comment
9	22.08.2012	Kozi FM News reader : Khumalo CT	12	Motivation Speaker - Women's Day	12 000	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
10	23.01.2013	National Cold Asphalt	134	asphalt	16 245	Three quotes not obtained due to being the sole supplier of asphalt.  VAT registration number and invoice with VAT registration number will be requested from supplier.
11	11.01.2013	Richard Evans & Associates	u152/12	Contempt application : Use agric- land for commercial purpose	16 995	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
12	23.10.2012	Match the one Trading & Project Cc		Matric - Prayer & performance Event	18 000	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
13	30.10.2012	Star Supermarket	GRV2509	Social relief packs	19 262	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
14	31.08.2012	Kowalski & Associates	No formal invoice raised	Building Control : site inspections	54 524	Supplier was reported as a deviation. Deviation report approved by council will be provided to audit
15	26.03.2013	NMK Forensics	nmk/mak:12/01/03/1 2	Internal forensic investigation, liaise with SAPS and reporting	80 000	Supplier was reported as a deviation due to the special nature of the investigation and sensitivity of the case. Deviation report approved by council will be provided to audit
					<b>217 026</b>	

**Auditor's conclusion**

**Expenses are included under irregular expenditure and condoned by council**



## Employee costs

### 14. No supporting documentation for acting positions

#### Audit finding

During the audit of compliance with laws and regulations relating to acting allowance, no supporting documentation was available in the employee's personnel files that related to the acting allowance received by the respective employees as detailed below

Name of Employee	Acting Position
Phumzile Mthiyane	CFO
Nontobeko Ziqubu	Community Services Manager

#### Internal control deficiency

##### Leadership

The accounting officer did not review and monitor compliance with applicable laws and regulations

##### Recommendation

The accounting officer should review and monitor compliance with laws and regulations and should provide the supporting documents for audit purposes

##### Management response

I am not in agreement with the finding for the following reason: Although the post for the HR Officer is vacant for the proper maintenance of the staff files, the acting appointment documents and councillors resolutions were made available to the audit team.

##### Auditor's conclusion

The supporting documents that were obtained were incomplete as there was no MEC approval letters for these employees who were in acting positions for more than 3 months. This matter was discussed with the CFO. The finding is not resolved.

**Fixed assets**

**15. Closing balances of fixed assets per the financial statements do not agree to closing balances per the fixed assets register (carrying amounts)**

**Audit finding**

The following differences between the closing balances of fixed assets per the financial statements as disclosed in note 3 to the financial statements and the closing balances of fixed assets per the fixed assets register were identified:

<b>Asset Description</b>	<b>As per AFS</b>	<b>Fixed asset register</b>	<b>Over/ (under)</b>
Building	6 842 251.00	6 949 452.00	-107 201.00
Other Assets	2 906 987.00	2 939 282.00	-32 295.00
Office equipment	20 617.00	262 235.00	-241 618.00
Work in progress	260 203.00		260203.00
Community assets	26 359 013.00	27 687 270.00	-1 328 257.00
	<b>65 719 362.00</b>	<b>67 168 530.00</b>	<b>-1 449 168.00</b>

**Impact of the differences on financial statements:**

Financial statements are materially misstated, fixed assets are understated by R1 449 168 in the financial statements.

**Cause:**

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

**Internal control deficiency**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

I am in agreement with the finding for the following reasons: The difference between the asset register and the annual financial statements arose due to prior period errors in the annual financial statements. An updated asset register was provided for audit. The final set of annual financial statements would be updated such that the asset register agrees with the annual financial statements and differences are resolved for all categories. Monthly asset counts were performed by municipal asset management champion, however due to the vacancies in the finance department, the asset management function had been outsourced. In which a full reconciliation was performed at the end of June 2013.

**Auditor's conclusion**

AFS agrees to FAR. The finding is resolved.



**16. Scope limitation: We were unable to select transactions from the general ledger for additions to fixed assets.****Audit finding**

We were unable to select samples from the general ledger to trace to invoices for occurrence, accuracy and classification to proper accounts. The general ledger submitted for audit did not have detailed transactions showing invoice number, date asset purchased, vendor, supplier etc. Alternative procedures would have been performed had management directed us to general ledger accounts where the detailed recording showing the date individual asset was purchased, purchase cost and etc where the transactions were originally processed and subsequently reversed to the fixed assets take on account as detailed below. This would have assisted us to select transactions from the general ledger to test directional testing required for occurrence, accuracy and completeness of transactions. The GL submitted had three entries processed by way of journals as follows:

Date	Details	Reference	Amount
30/06/2013	Buildings Cost	67 A	230 000.00
30/06/2013	Cost - Roads & Paving	66 A	4 422 512.41
30/06/2013	Community Assets - Cost	66 A	5 893 761.85
			<u>10 546274.26</u>

**Impact of the differences on financial statements:**

Financial statements are materially misstated, material scope limitation to perform audit procedures. Management could not assist us to perform alternative procedures, had they explained where the detailed transactions are processed in the general ledger, samples would have been selected from those accounts.

**Cause:**

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

**Internal control deficiency**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

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### Management response

I am in not in agreement with the finding for the following reasons: The additions identified were for the capital projects completed at the end of June 2013. Capital expenditure for the projects were expensed to the Municipal Infrastructure Grant account during the financial period as the capital expenditure occurred and was transferred to the Roads & Paving and Community asset account at the end of the financial year when the projects had been completed. A detailed reconciliation of asset additions and payments for additions were provided to audit. These additions can be traced from the Municipal Infrastructure Grant expenditure account on the general ledger which was later transferred to the relevant asset account once the project was completed and was recognised as an asset, thereby forming part of the additions for the financial period.

### Auditor's conclusion

Finding is resolved. General ledger which highlights the required information has been provided.



**17. Depreciation amounting to R2 613 902 not disclosed in the note to property, plant and equipment.****Audit finding**

Depreciation amounting to R2 613 902 shown in the statement of financial performance is not disclosed in the reconciliation of property, plant and equipment note number 3 to the financial statements. Refer to the table below:

Details	Statement of financial performance	Financial statement note 3	Difference
Depreciation	2 613 902.00	-	2 613 902.00

**Impact of the differences on financial statements:**

The financial statements submitted for audit are not accurate without disclosing the depreciation of R2 613 902 on the fixed assets reconciliation note to the financial statements.

**Cause:**

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

**Internal control deficiency**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

I am in agreement with the finding for the following reasons: The asset disclosure did not include reconciliation for the current financial period which includes depreciation. The final set of annual financial statements would be updated such that the asset disclosure note is updated to include depreciation.

**Auditor's conclusion**

The finding is not resolved. The new AFS has a difference of R625, 808 between statement of financial performance and note 4 of financial statement



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**18. Unauthorised and irregular expenditure not disclosed: Payments to various contracts exceeded original contract prices.**

**Audit Finding**

Section 32 of the Municipal Finance and Management act 56 of 2003 bears reference in this regard; without limiting liability in terms of the common law or other legislation—

- A Political office-bearer of a municipality is liable for unauthorised expenditure if that office bearer knowingly or after having been advised by the Accounting Officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure;
- The Accounting Officer is liable for unauthorised expenditure deliberately or incurred by the accounting officer, subject to subsection (3);
- Any Political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or
- Any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.

During the audit of Infrastructure projects we noted that the payments towards the following projects exceeded contract prices and no supporting documents submitted to approve overspending.

Table A

No	Projects 2012/13		Total rand-value of award [VAT inclusive]	Expenditure (Payments) - From inception up to date	Exp not yet paid	Total Cost	Difference between Tender Award and Total Cost	Total cost exceed Total Award Value
			1	2	3	4	4-1	4-1 %
1	INDUMENI TRADING	Sezkakahle Hall	1 873 901	2 363 398	187 398	2 550 796	676 895	36%
2	SAKCON TRADING & CONSTRUCTION	MBUNGWENI COMM HALL	1 870 203	2 636 244	187 020	2 823 265	953 062	51%
3	JJM CONSTRUCTION	MATYIGULU GRAVEL ROAD	1 782 236	1 853 526	178 224	2 031 750	249 514	14%
4	FAKUDE BUILDING CONSTRUCTORS	MGWENYA CRECHE	878 353	1 273 467	-	1 273 467	395 114	45%
6	MLOMOKKAZI MAINT & CONSTRUCTION	EMANGWENI CRECHE	856 892	704 554	272 303	976 857	119 965	14%
			7 261 585	8 831 189	824 945	9 656 135	2 394 550	total cost exceed Total Award Value by R 2 394550 [33%]

**Internal control deficiency**

**Leadership**

Compliance with Supply Chain Regulations is not strictly enforced and implementation of the Supply Chain policy is not monitored



**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

I am not in agreement with the finding for the following reasons as below:

No	Projects 2012/13		Total rand-value of award [VAT inclusive]	Expenditure (Payments) - From inception up to date	Exp not yet paid	Total Cost	Difference between Tender Award and Total Cost	Total cost exceed Total Award Value	Management Comments
			1	2	3	4	4-1	4-1 %	
1	INDUMENI TRADING	Sezakahle Hall	1 873 901	2 363 398	187 398	2 550 796	676 895	36%	The difference between the value of award and payments was due to a variation order for additions to the building construction. Supporting documentation for variation will be provided to audit.
2	SAKCON TRADING & CONSTRUCTION	MBUNGWENI COMM HALL	1 870 203	2 636 244	187 020	2 823 265	953 062	51%	The difference between the value of award and payments was due to a variation order for additions to the building construction. Supporting documentation for variation will be provided to audit.
3	JJM CONSTRUCTION	MATYIGULU GRAVEL ROAD	1 782 236	1 853 526	178 224	2 031 750	249 514	14%	In terms of National Treasury's good practice on construction contracts a variation of 15% of award value is acceptable.
4	FAKUDE BUILDING CONSTRUCTORS	MGWENYA CRECHE	878 353	1 273 467	-	1 273 467	395 114	45%	This contractor had started 2 months later as contracted, therefore contract with contractor was cancelled and the 2 <sup>nd</sup> best from SCM proceeding was selected which was Mak & Max Construction. The contract award was R944 911.57 and payments made were R434 679.87. The contract also had a variation order for additions. Supporting documentation for variation will be provided to audit.
6	MLOMOKKAZI MAINT & CONSTRUCTION	EMANGWENI CRECHE	856 892	704 554	272 303	976 857	119 965	14%	In terms of National Treasury's good practice on construction contracts a variation of 15% of award value is acceptable.
			<b>7 261 585</b>	<b>8 831 189</b>	<b>824 945</b>	<b>9 656 135</b>	<b>2 394 550</b>		<b>total cost exceed Total Award Value by R 2 394 550 [33%]</b>

**Auditor's conclusion**

Management comment is acknowledged, further audit work will be performed to validate management explanations



## 19. Unexplained differences of R1,081,290 between the Fixed asset register and the Financial Statements

### Audit finding

There are unexplained differences between the Financial Statements and the Fixed Asset Register. Refer to the table below:

DESCRIPTION	FINANCIAL STATEMENTS	FIXED ASSET REGISTER	DIFFERENCES
BUILDINGS @ COST	9 415 368.00	9 415 368.00	-
OTHER ASSETS @ COST	4 822 026.00	4 822 035.00	-9
ROADS & PAVING @ COST	30 146 878.00	31 228 159.00	-1 081 281.00
COMMUNITY ASSETS @ COST	30 095 160.00	30 095 160.00	-
<b>TOTAL</b>	<b>74 479 432.00</b>	<b>75 560 722.00</b>	<b>-1 081 290.00</b>
BUILDINGS @ ACCUMULATED DEPRECIATION	1 307 917.00	1 307 917.00	-
OTHER ASSETS @ ACCUMULATED DEPRECIATION	1 882 753.00	1 882 753.00	-
ROADS & PAVING @ ACCUMULATED DEPRECIATION	1 974 587.00	3 055 868.00	-1 081 281.00
COMMUNITY ASSETS @ ACCUMULATED DEPRECIATION	3 566 436.00	3 566 435.00	1
<b>TOTAL</b>	<b>8 731 693.00</b>	<b>9 812 973.00</b>	<b>-1 081 280.00</b>
<b>TOTAL</b>	<b>65 747 739.00</b>	<b>65 747 749.00</b>	<b>-2 162 570.00</b>

### Internal control deficiency

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



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**Impact of the differences on financial statements:**

The financial statements are materially misstated.

**Cause:**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

Financial statements will be adjusted and supporting documents will be submitted

**Auditor's conclusion**

Management response is accepted

**20. Unexplained difference on the total additions to PPE amounting to (R2 927 619) between the financial statements and the general ledger.****Audit finding**

There is an unexplained difference of (R2 927 619) between the total additions s disclosed in note 3 to the financial statements and the additions per the general ledger. The differences are as follows:

Additions per financial statements	Additions per general ledger	Difference
7 618 655.00	10 546 274	-2 927 619

**Internal control deficiency**

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

**Impact of the differences on financial statements:**

The financial statements are understated by R2 927 619.

**Cause:**

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

**Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

**Management response**

I am in agreement with the finding for the following reasons: The difference between the annual financial statements, the general ledger and fixed asset register for additions arose due to the asset consultant completing the fixed asset register in September 2013. The differences will be corrected in the final set of annual financial statements to reflect the total additions of R11 933 671 as disclosed in the general ledger and asset register which includes capital projects to the value of R5 893 762 and other assets to the value of R6 039 909.

**Auditor's conclusion**

**Additions per General ledger agrees with AFS and the finding is resolved.**

**21. PPE: Unexplained difference of R 658 236 between the financial statements and the trial balance****Audit finding**

There is an unexplained difference of R658 236 in the carrying amount of property, plant and equipment between the financial statements and the trial balance. The differences are as follows:

ACC. NO.	DETAILS	PER TRIAL BALANCE	AMOUNT AS PER AFS	DIFFERENCE
20.20.10.001	PROPERTY PLANT AND EQUIPMENT	66 377 597.59	65 719 362.00	658 235.59
8105/02/0201	Land	1 158 000.00		
8151/02/0201	Buildings Cost	8 151 500.83		
8154/02/0201	Building Accumulated Depreciation	-1125756.28		
8211/02/0201	Cost - Roads & Paving	31 228 159.10		
8213/02/0201	Accumulated Depreciation Roads & Paving	-1974587.28		
8321/02/0201	Community Assets - Cost	30 095 160.31		
8324/02/0201	Acc Depn - Community Assets	-2204977.18		
8631/02/0201	Cost- Office Equipment	20 616.98		
8641/02/0201	Cost - Other Assets	4 926 890.42		
8644/02/0201	Accumulated Dep. Other Assets	-1543710.55		
8670/02/0201	Assets Under Construction	260 202.97		
3700/02/0201	Depreciation & Asset Impairment	-2 613 901.73		

### **Internal control deficiency**

#### **Financial and performance management**

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

#### **Impact of the differences on financial statements:**

The financial statements are understated by R658 236.

#### **Cause:**

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

#### **Recommendation**

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

#### **Management response**

I am in agreement with the finding for the following reasons: The difference between the amount disclosed and the amount in the trial balance arose due to prior period errors in the annual financial statements. An updated asset register was provided for audit. The final set of annual financial statements would be updated such that the trial balance agrees with the annual financial statements and differences are resolved.

#### **Auditor's conclusion**

**Trial balance has been audited and it agrees to AFS.**

## 22. Unexplained difference on total additions to PPE amounting to R1 578 756 between the financial statements and the fixed assets register.

### Audit finding

There is an unexplained difference between the additions as shown in note 3 to the financial statements and additions per the fixed assets register. The differences are as follows:

Additions per financial statements	Additions per fixed register	Difference
7 618 655.00	6 039 909.	1 578 746

### Internal control deficiency

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

### Impact on financial statements:

The financial statements are overstated by R1 578 746

### Cause:

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

### Recommendation

Management should prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

### Management response

I am in agreement with the finding for the following reasons: The difference between the annual financial statements, the general ledger and fixed asset register for additions arose due to the asset consultant completing the fixed asset register in September 2013. The differences will be corrected in the final set of annual financial statements to reflect the total additions of R11 933 671 as disclosed in the asset register which includes capital projects to the value of R5 893 762 and other assets to the value of R6 039 909.

### Auditor's conclusion

**Inspected and agreed additions per AFS and asset register. Finding is resolved.**

## Operating expenditure

### 23. Payments to suppliers not made within 30 days as required by section 65 of the MFMA

#### Audit finding

Section 65 of the Municipal Finance and Management Act 56 of 2003, bears reference in this regard.

The municipality must maintain a management, accounting and information system which recognises expenditure when it is incurred and ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

During the audit of general expenditure, a sample of payment vouchers was inspected to confirm that payment was processed within 30 days. The expenses in table A show payments after 30 days.

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Days o/s	Comment
1	15.12.2011	Camperdown Spar	po1854/32	Civic Hospitality	310	576	Prior year 2011/12 exp paid in 2012/13
2	15.12.2011	Camperdown Spar	po2079	Civic Hospitality	896	529	Prior year 2011/12 exp paid in 2012/13
3	13.12.2011	Camperdown Spar	29	Civic Hospitality	72	578	Prior year 2011/12 exp paid in 2012/13
4	23.02.2011	Camperdown Spar	29	Civic Hospitality- Ngilanyoni Sports Meeting	158	529	Prior year 2011/12 exp paid in 2012/13
5	19.05.2010	Camperdown Spar	39	Cleaning Materials, tea	3 638	1 151	Prior year 2010/11 exp paid in 2012/13
6	23.02.2011	Camperdown Spar	37	Civic Hospitality	158	899	Prior year 2011/12 exp paid in 2012/13
7	28.02.2012	Camperdown Spar		Civic Hospitality	804	529	Prior year 2011/12 exp paid in 2012/13
8	24.04.2011	Noba Trading CC	5	Retention fees - Mokhweni Hall construction	66 722	190	Prior year 2011/12 exp paid in 2012/13
					72 758		



**Internal control deficiency**

Internal controls to ensure compliance with legislation has not been implemented.

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

I am not in agreement with the finding for Noba Trading CC as payments for capital projects are paid once certified by the engineers and after the retention period for the project has expired.

Payment vouchers as below will be followed up by management and commented once investigation is complete:

No	Date	Supplier	Invoice Reference	Description of goods /service	Audited Rand-value	Days o/s	Comment
1	15.12.2011	Camperdown Spar	po1854/32	Civic Hospitality	310	576	Prior year 2011/12 exp paid in 2012/13
2	15.12.2011	Camperdown Spar	po2079	Civic Hospitality	896	529	Prior year 2011/12 exp paid in 2012/13
3	13.12.2011	Camperdown Spar	29	Civic Hospitality	72	578	Prior year 2011/12 exp paid in 2012/13
4	23.02.2011	Camperdown Spar	29	Civic Hospitality-Ngilanyoni Sports Meeting	158	529	Prior year 2011/12 exp paid in 2012/13
5	19.05.2010	Camperdown Spar	39	Cleaning Materials, tea	3 638	1 151	Prior year 2010/11 exp paid in 2012/13
6	23.02.2011	Camperdown Spar	37	Civic Hospitality	158	899	Prior year 2011/12 exp paid in 2012/13
7	28.02.2012	Camperdown Spar		Civic Hospitality	804	529	Prior year 2011/12 exp paid in 2012/13

**Auditor's conclusion**

Supporting documents have been received. Finding is resolved.

## Budget disclosure: GRAP 24

### 24. Explanation of changes between approved and final budget.

#### Audit finding

In terms of paragraph .27 of GRAP 24 - *Presentation of Budget Information in Financial Statements*, An entity shall present an explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget, or of other factors:

1. by way of note disclosure in the financial statements; or
2. In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

However upon inspection of the annual financial statements, it was noted that the explanations to adjustments to the budget were not disclosed.

#### Internal control deficiency

Management did not implement adequate controls to ensure that annual financial statements are prepared in terms of GRAP.

#### Recommendation

Management need to amend the financial statements and disclose explanations of adjustments to the budget.

#### Management response

I am not in agreement with the finding as the municipality had not made any adjustments to the budget during the financial period.

#### Auditor's conclusion

**Finding is not resolved. No explanation in AFS**

## 25. Overtime exceeded 10 hours per week

### Audit Finding

In terms of section 10 of the Basic Conditions of Employment Act ; Overtime.

(1) Subject to this Chapter, an employer may not require or permit an employee to work

(a) overtime except in accordance with an agreement;

(b) more than ten hours overtime a week.

(1A) An agreement in terms of subsection (1) may not require or permit an employee to work more than 12 hours on any day.

(2) An employer must pay an employee at least one and one-half times the employees wage for overtime worked.

(3) Despite subsection (2), an agreement may provide for an employer to (a) pay an employee not less than the employees ordinary wage for overtime worked and grant the employee at least 30 minutes time off on full pay for every hour of overtime worked; or

(b) grant an employee at least 90 minutes paid time off for each hour of overtime worked.

(4) (a) An employer must grant paid time off in terms of subsection (3) within one month of the employee becoming entitled to it.

(b) An agreement in writing may increase the period contemplated by paragraph (a) to 12 months.

(5) An agreement concluded in terms of subsection (1) with an employee when the employee commences employment, or during the first three months of employment, lapses after one year.

(6) (a) A collective agreement may increase the maximum permitted overtime to 15 hours a week.

(b) A collective agreement contemplated in paragraph (a) may not apply for more than two months in any period of 12 months.

Based on audit work performed it has been confirmed that :

1. Employees have exceeded 10 hours per week.
2. Employees are working abnormal hours.
3. No pre-approval/authorisation exists for the employees **before** the overtime is worked.
4. The employees have exceed the 30% of the monthly salary for overtime payments.
5. Heads of Departments do not review exception reports on overtime, on a monthly basis, for validity and accuracy because the exception reports are not prepared on a monthly basis.

NO	EMPLOYEE NO	NAME	BASIC SALARY	BASIC SALARY P/M	OVERTIME RECEIVED	% OF SALARY
1	2	NO KHUMALO	190 568.58	15 880.72	5278.56	33.24
5	18	P DLADLA	85 087.24	7 090.60	2740.91	38.66
6	28	PR MTHIYANE	190568.58	15 880.72	5308.75	33.43
7	38	SS BRITZ	155224.79	12 935.40	2144.94	16.58
8	41	NC ZIQUBU	155224.79	12 935.40	5623.29	43.47
9	66	BE MKHIZE	155224.79	12 935.40	5797.93	44.82
10	67	KM MSOMI	155224.79	12 935.40	5113.49	39.53
11	68	ME MOTSOENENG	155224.79	12 935.40	5155.45	39.86
12	300	MG MAKHANYA	155224.79	12 935.40	6031.85	46.63
13	301	SCZ STRYDOM	129 157.23	11 741.57	4246.51	36.17
14	303	DZ MKHIZE	190568.58	15880.715	6129.46	38.60
15	311	NR BOPHELA	62 715.80	15 678.95	5805.78	37.03
16	313	EM DONALDSON	339 742.57	28 311.88	7613.33	26.89
17	316	AM MOLEFE	135161.34	11 263.45	7966.43	70.73
18	316	AM MOLEFE	135161.34	11 263.45	4330.8	38.45
19	321	AN LEMBETHE	155224.79	12 935.40	4767.15	36.85
20	326	NE NZIMANDE	155224.79	12 935.40	6887.2	53.24
21	326	NE NZIMANDE	155224.79	12 935.40	4840.3	37.42
22	327	NW NTOMBELA	181352.6	15 112.72	6586	43.58
23	328	PS SHANDU	155224.79	12 935.40	5487.11	42.42
24	330	K HARILALL	94559.58	15 759.93	6688.6	42.44
25	331	XA NGCONGO	155224.79	12 935.40	5059.03	39.11
26	331	XA NGCONGO	155224.79	12 935.40	5895.67	45.58
27	335	S HLONGWANE	190568.58	15 880.72	7214.11	45.43
28	335	S HLONGWANE	190568.58	15 880.72	7022.99	44.22
29	336	MS SHANGE	119060.12	9 921.68	7017.8	70.73
30	336	MS SHANGE	119060.12	9 921.68	3815.1	38.45
31	343	MP MKHIZE	87238.96	14 539.83	4130.7	28.41
32	343	MP MKHIZE	87238.96	14 539.83	6736.56	46.33
33	343	MP MKHIZE	87238.96	14 539.83	5456	37.52
34	344	N NENE	181352.6	15 112.72	5200.85	34.41
35	344	N NENE	181352.6	15 112.72	4993.34	33.04
36	344	N NENE	181352.6	15 112.72	5165.53	34.18

Lack of internal control and non-compliance with laws and regulations.

### Internal control deficiency

Management does not ensure that there is ongoing monitoring of adherence to laws and regulations related to HR management and the review of overtime claims.

### Recommendation

All overtime policies and procedures that are set out in the Policy on Remunerated Overtime should be followed as they are extracted from the Basic Conditions of Employment Act 75 of 1997.

Each department should prepare a schedule of overtime worked for every month. This schedule should be produced from approved overtime claim forms. The head of the department should sign the overtime schedule as proof of review.

**Management response**

None

**Auditor's conclusion**

Finding is not resolved

## 26. Effective human resource management

### Audit finding

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 local municipality was not in place

Management of Vacancies

- The overall vacancy rate increased from 13% in the previous year to 34% in the current year
- The CFO position has been vacant for more than 12 months

Acting Positions

- Employees acted in positions for more than 12 months as the position of CFO has been vacant for more than 12 months

### Recommendation

Management should enforce internal controls for Human resource management

### Management response

I am in agreement with the finding for the following reasons: Although the municipality was rated as medium capacity, the budget that we are receiving is for a low capacity municipality which is R47m. In this case the municipality cannot afford to pay employees high salaries resulting in the staff resigning for better salaries elsewhere. This is also evident since the CFO that was appointed changed her mind and accepted a better offer with the Auditor General's office in the Free State.

### Auditor's conclusion

**Finding is not resolved.**

## Use of Consultants

### 27. Appointing consultants

#### Audit finding

Through enquiry with management it was noted that the municipality did not have a policy or a strategy in place that:

Defines the main purposes and objective for the appointing of consultants.

Includes measures to address over reliance on consultants.

There is no evidence that management has reviewed, at least on an annual basis, whether the objectives of the institution are better achieved through use of consultants or own permanent staff.

#### Internal control deficiency

There are no policies and procedures in place to ensure the evaluation on the performance on the consultants.

#### Recommendation

Management should implement a policy and strategy that defines the main purposes and objective for appointing consultants and includes measures to address over reliance on consultants.

#### Management response

I am in agreement with the finding, management plans to develop procedures and policies for the appointment of consultants. Currently, implementation has been a challenge due to vacancies , staff turnover and limited resources. The budget is limited to provide for the cost of good attractive salaries.

#### Auditor's conclusion

**Management response is accepted.**

## 28. Assessment on appointing of consultants

### Audit finding

In terms of SCM: A guide for accounting officers of Municipalities and Municipal Chapter 3.1 and 3.2 and SCM regulation (section10)-Demand management is the first phase of SCM. The objective is to ensure that the resources required to fulfil the needs identified in the Integrated Development Plan (IDP) of the municipality or municipal entity are delivered at the correct time, price and place and that the quantity and quality will satisfy those needs. As part of this element of SCM, a total needs assessment should be undertaken.

Demand Considerations:-

3.2.1 Accounting officers should ensure that:

Future as well as current needs are understood;

Requirements are linked to the budget;

Specifications are determined;

The need forms part of the strategic plan and Integrated Development Plan (IDP) of the municipality / municipal entity;

An analysis of the past expenditure and current usage of the commodity may assist in determining the manner in which the municipality / municipal entity will fulfil this need in the future;

The optimum method to satisfy the need is considered;

The frequency of the requirement is specified;

The economic order quantity is calculated;

When operating a store, minimum and maximum levels are determined for inventories and that lead and delivery dates are accurately identified; and

An industry and commodity analysis is conducted.

Through testing consultants we noted that the municipality did not perform formal needs assessment prior to appointing the consultant which includes the following:

The type and extent of services to be outsourced;

Whether the services are of a temporary or continuous nature (to determine if permanent capacity is required);

The cost of making use of external capacity versus the cost of training/ up skilling current capacity;

Expected deliverables over the period which the services would be required;

Whether there was an opportunity for skills transfer; how skills transfer will be effected; whether sufficient funding is available for the project and implementation of project deliverables.

Processes or procedures were not in place to ensure that the municipality does a formal assessment prior to appointing consultants.

### **Internal control deficiency**

There are no appropriate means (e.g. checklists) to review and monitor compliance with laws and regulation on a regular basis.

### **Recommendations**

Management should ensure that prior to appointing consultant they perform an formal assessment which include:

The type and extent of services to be outsourced;

Whether the services are of a temporary or continuous nature (to determine if permanent capacity is required);

The cost of making use of external capacity versus the cost of training/ up skilling current capacity; Expected deliverables over the period which the services would be required;

Whether there was an opportunity for skills transfer; how skills transfer will be effected; whether sufficient funding is available for the project and implementation of project deliverables.

### **Management response**

I am in agreement with the finding, management plans to develop procedures and policies for the transfer of skills for the consultants. Currently, implementation has been a challenge due to vacancies and limited resources for the training and retaining of staff.

### **Auditor's conclusion**

**Management response is acceptable**

## 29. Transfer of skills from consultants to employees

### Audit finding

In terms of SCM: A Guide for Accounting Officers of Municipalities and Municipal Entities Chapter 5.7 SCM regulation 35(1) Training or Transfer of Knowledge and Skills

5.7.1 If the assignment includes an important component for training or transfer of knowledge and skills, the Terms of Reference (TOR) should indicate the objectives, nature, scope and goals of the training programme, including details of trainers and trainees, included in the consultant's contract and in the budget for the assignment. skills to be transferred, time frames and monitoring and evaluation arrangements. The cost for the training programme should be assignment.

Processes and procedures were not in place to ensure that the municipality complied with requirement of SCM: A Guide for Accounting Officers of Municipalities and Municipal Entities Chapter 5.7 SCM regulation 35(1)

### Internal control deficiency

There are no appropriate means (e.g. checklists) to review and monitor compliance with laws and regulation on a regular basis.

### Recommendation

Management should ensure that at all time there is evident that skills is actually transferred and include:

Skills / knowledge to be transferred;

Time frames for skills transfer;

Monitoring and evaluation arrangements for skills transfer;

The cost of the training programme.

Measures to monitor the transfer of skills in the project are implemented;

Employees to be trained have been identified and are available to attend the training programme.

It is evident that skills were actually transferred.

### Management response

I am in agreement with the finding, management plans to develop procedures and policies for the transfer of skills for the consultants. Currently, implementation has been a challenge due to vacancies and limited resources for the training and retaining of staff.

### Auditor's conclusion

**Management response is accepted**

## Road infrastructure

### 30. Non compliance with roads infrastructure

#### Audit finding

During the audit of compliance with roads infrastructure, it was identified that the municipality does not comply with the following policies and procedures as detailed below

- The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
- The maintenance plan does not address the maintenance expenditure for the planning period.
- The municipality does not have a plan to address the backlogs relating to roads infrastructure.
- The municipality does not have a road asset management system.

In addition, the road maintenance plan together with a list of all maintenance work done was not submitted for audit

#### Internal control deficiency

Leadership

The accounting officer did not monitor compliance with roads infrastructure

#### Recommendation

The accounting officer should implement these policies and procedures in order to ensure better service delivery to the public. The documentation should be submitted for audit

#### Management response

None

#### Auditor's conclusion

**Management comment is outstanding**

## **Fixed assets**

**31. No evidence that an assessment of indications of impairment of fixed assets was performed for the reporting period.**

### **Audit finding**

In terms of paragraph 9 of International Accounting Standard (IAS) 36 (Impairment of assets), "An entity shall assess at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

Through discussions with management and inspection of accounting records, we could not confirm that an assessment for impairment of assets was undertaken in compliance with applicable accounting standards.

### **Internal control deficiency**

Financial and performance management

Financial statements will be subject to material corrections resulting from the audit

### **Recommendation**

Management should implement a system of internal control to ensure that financial statements are prepared according to legislation.

### **Management response**

I am in agreement with the finding as a detailed conditional assessment was performed by the engineers on infrastructure assets and an assessment of movable assets had been performed by the asset champion which had been included in the asset register.

### **Auditor's conclusion**

**Supporting document has been provided and finding is resolved.**

## Operating expenditure

### 32. SCM roles are not delegated in terms of SCM sec 17 and 18

#### Audit finding

In accordance with Supply Chain Management Regulations: section 17 (2); instituted by the National Treasury-"An official must be delegated by the CFO to approve less than three quotations obtained for awards between R2 000 and R10 000, such approvals must be reported to the CFO within 3 days of the end of each month.

Furthermore in terms of SCM section 18 (d), "The accounting officer or the CFO must be notified in writing, on a monthly basis of all written and verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation."

Per inspection of Supply Chain Management Policy and, by enquiry of the Financial Manager it was established that;

- a) The municipality's SCM Policy (Paragraph 17) makes provision only for formal written quotations to be obtained by a designated official however section 17(2) has not been implemented.
- b) No specific official has been delegated by the CFO to approve less than three quotations obtained for awards between R2 000 and R10 000, and
- c) No reports of such approvals are submitted to the CFO within 3 days of the end of each month.

#### Internal control deficiency

Financial and performance management

Management did not exercise adequate oversight over the development, review and implementation of proper policies and procedures to ensure compliance with all the requirements of the MFMA.

#### Recommendation

Management should implement internal controls to ensure compliance with SCM Regulations

#### Management response

I am in agreement with the finding for the following reason: The Budget and Reporting officer at finance is sub delegated for these duties since we have only one permanent staff member at SCM and an intern. The appointment letter will be made available to the audit team.

#### Auditor's conclusion

**Finding is not resolved**

### 33. SCM: Weaknesses identified over supplier master file amendments

#### Audit finding

In terms of section 115(1) (b) of the MFMA, the accounting officer must take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favoritism and unfair and irregular practices.

As per enquiry and observation it was established that changes to the supplier database are not delegated to an independent SCM official. Furthermore, there are no specific procedures implemented over vendor master file controls for adding, deleting or changing the master file resulting in duplication of certain supplier accounts, the lack of VAT and physical addresses.

#### Internal control deficiency

Financial and performance management

Reviews and internal checks over the database of suppliers were not performed routinely to ensure that the supplier information was complete and accurate.

#### Recommendation

It is recommended that management design and implement adequate, formal controls over IT systems to ensure the reliability of the information systems and master file amendments; to promote the accuracy, completeness, availability and protection of supplier records.

#### Management response

I am in agreement with the finding: The reason is that there is only a Supply Chain Officer who has been appointed in October 2013 and the intern. The former Supply Chain Officer resigned in January 2013. This makes it difficult to segregate duties. We just bought an SCM module, currently there is a Pastel Evolution consultant who comes in for three days every month as per the SLA agreement to correct our vendor masterfile.

#### Auditor's conclusion

**Finding is not resolved**

### 34. SCM Lack of Risk assessment

#### Audit finding

In terms of the Section 62 (1)(c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. This MFMA requirement is read in conjunction with SCM regulation 41(2).

In this regard, it was noted that the municipality did not conduct risk assessment for SCM as part of its risk management process for the period under review.

#### Internal control deficiency

Financial and performance management

Management did not ensure that appropriate risk management activities were implemented in SCM to ensure that regular risk assessments are conducted and that a risk strategy to address the risks is developed and monitored.

#### Recommendation

Management should ensure that all processes are implemented to ensure effective financial, risk management and internal control within the municipality in compliance with the requirements of the MFMA and SCM Regulations.

Risk assessments should be conducted at least annually prior to the start of the financial year in order to identify and timely address emerging SCM risks of the municipality.

#### Management response

The SCM risks are contained in the Risk Register as provided to the AG officials

#### Auditor's conclusion

**Risks were inspected and finding is noted.**

## Predetermined objectives

### 35. Non Compliance with Performance Management Framework & Policy Monitoring

#### Audit finding

In accordance with the Performance Management Framework of Mkhambathini Municipality, the roles and responsibilities of the main role players in the different phases of the performance management cycle is set out as follows:

Review:

Quarterly review the performance of departments to improve the economy, efficiency and effectiveness of the municipality;

Reporting:

Receive quarterly performance reports from the Internal Audit Activity;

Receive performance reports twice a year from the Performance Audit Committee;

Receive monthly departmental performance reports;

Report quarterly to Council on the performance of departments;

Report on the implementation of improvement measures adopted by Council;

Annually report on the performance of section 57 managers;

Submit the municipal annual report to the Mayor.

Submit monthly departmental performance reports;

Report on the implementation of improvement measures adopted by Council;

Annually report on the performance of each department of the Municipality

Furthermore; in terms of the Performance Management Policy of Mkhambathini Municipality;

Monitoring tasks involve;

Compilation of Quarterly Performance Reports at Department level.

Responsibility:

The Municipal Manager and Managers accountable to the Municipal Manager;

are responsible for Quarterly Performance Reports at Departmental level.

These Reports are submitted to the Officials responsible for the Municipal Performance Management system.

Quarterly Performance Reports have not been received for the audit of Performance Management systems.

The position of Performance Official; who is responsible for receiving Quarterly Performance Reports has been vacant since November 2012.

Annual programmes implemented may not be achieved according to the targets set and timeframes agreed to

Fruitless Wasteful Expenditure may arise if the overall IDP strategy and Department Scorecard is not implemented efficiently, effectively and economically

Performance Improvement measures may not be implemented; due to ineffective Monitoring and Evaluation of Quarterly Performance Reports.

The position of Performance Official; who is responsible for receiving Quarterly Performance Reports has been vacant since May 2012.

### **Internal control deficiency**

Noncompliance with the Municipal Performance Management Framework and Performance Management Policy result in ineffective implementation of Key Performance strategies to achieve improved efficiency and effective; economical operations.

### **Recommendation**

Management should implement internal controls to ensure compliance with applicable legislation.

### **Management response**

Management does not understand the finding as articulated above can we request that the finding be toned down or discussed with management

### **Auditor's conclusion**

**Audit finding is not resolved.**

### 36. Individual Performance Assessment for S57 Managers not conducted

#### Audit finding

Section 23 of the Municipal Performance Regulations, bears reference in this regard the accounting officer must ensure that the Municipality adopts Performance Agreements for Municipal Managers and all managers who report directly to the Municipal Manager.

Furthermore; section 24 to 28 of the Municipal Performance Regulations sets out- the standards and procedures for evaluating individual employee performance and the intervals for review of the employee's performance in relation to his Agreement as follows:

First quarter: July – September	<i>Verbal /Written review</i>
Second quarter: October – December	<i>Written review</i>
Third quarter: January –March	<i>Verbal /Written review</i>
Fourth quarter: April – June	<i>Written review</i>

During the audit of Predetermined Objectives; through inquiry of Management and close inspection; Performance Agreements was not signed within the following departments:

- Finance Management
- Community Services
- Corporate Services

Furthermore Performance evaluation was not conducted within the five departments:

- Office of the Municipal Manager
- Finance Management
- Community Services
- Corporate Services
- Technical Services

Cause:

Vacancies within key Management not filled timeously, with permanent contracts within the office of the Municipal Manager, Department of Finance; Department of Community Services; Department of Human Resource and Performance Management.

Impact:

- Loss of Ownership of responsibility for Section 57 Managers.
- Loss of accountability for Violations of policies; possible financial misconduct and nonperformance in service delivery.
- Inconsistent application of processes within the department thus causing a breakdown of controls.
- The non-compliance with crucial Municipal Performance Regulations; as detailed above could have a negative impact on staff morale.

#### Control deficiency

#### Leadership

Inadequate administration of vacancies of Key Management Personnel.

## **Recommendation**

The Municipality as an Employer must create an environment to facilitate effective performance by the employee;

Provide skills development and capacity building opportunities

Work collaboratively with the employee to solve problems and generate solutions to common problems that impact on the performance of the employee

On request of the employee; delegate such powers that enable the employee to meet performance objectives and targets established in terms of the Agreement

Make available such resources to assist the employee to meet performance objectives and targets; established in terms of the Agreement.

Evaluate performance as a basis for rewarding outstanding performance and correcting unacceptable performance.

## **Management response**

The positions of Community Services Manager, Corporate Services Manager, Chief Financial Officer were vacant from June 2012. An acting CFO was appointed to act from June 2012 and the performance agreement was signed with her (Finance Department). The Corporate Services Manager was appointed in November 2012 and signed the Performance agreement for a period starting from November 2012. The performance evaluation was done for the Municipal Manager and the Technical Services Manager. The CFO, Corporate Services Manager and Community Services Manager were not done as their services were terminated by June 2012.

## **Auditor's conclusion**

**Finding is not resolved.**

**37. Individual performance Agreements not submitted to the MEC within 14 days****Audit finding**

Noncompliance with section 4 of Municipal Performance Regulations, Act 2006

Section 4 of the Municipal Performance Regulations Act 2006, bears reference in this regard:

The Employment Contract and Performance Agreements for Municipal Managers and section 57 Managers who report directly to the Municipal Manager; must be submitted within 14 days after concluding the Employment contract and Performance Agreement; to the MEC responsible for local governance in the relevant province and National Minister responsible for local governance.

During the audit of Predetermined Objectives; through inquiry of Management and close inspection we observed the following noncompliance:

Department	Date agreement concluded	Date submitted to COGTA
Office of Municipal Manager	27 July 2012	18 September 2012
Technical Manager	07 July 2012	18 September 2012
Corporate Services	Supporting documents not obtained	No submissions
Community Services	Supporting documents not obtained	No submissions
Finance Management	Supporting documents not obtained	No submissions

**Cause:**

Vacancies within key Management not filled timeously, with permanent contracts within the office of the Municipal Manager, Department of Finance; Department of Community Services; Department of Human Resource and Performance Management.

**Impact:**

- Loss of Ownership of responsibility for Section 57 Managers.
- Loss of accountability for Violations of policies; possible financial misconduct and nonperformance in service delivery.
- Inconsistent application of Municipal Performance regulations within the Municipality; thus causing a breakdown of controls.

**Control deficiency****Leadership**

Inadequate administration of vacancies of Key Management Personnel.

**Recommendation**

Management should implement a system of internal control to ensure compliance with applicable legislation.

**Management response**

A Compliance Register has been developed and is reviewed by Internal Audit most of 2013/2014 Quarter one compliance issues has been implemented.

However it should be noted that there will be no loss of accountability for violation of policies, possible financial misconduct and non performance in service delivery as these documents are approved by council. Management does not understand the impact of financial misconduct in terms of this finding.

**Auditor's conclusion**

**Finding is not resolved**

**38. AOPO: Certain key objectives from the municipality's IDP were not budgeted for.****Audit finding**

Section 21 (2) of the Municipal Finance Management Act 56 of 2003, bears reference in this regard, when preparing the Annual Budget, the Mayor of the Municipality must take into account the Municipality's Integrated development Plan;

Taking reasonable steps to ensure the Integrated Development Plan is revised in terms of MSA section 34; taking into account all realistic revenue and expenditure projections for the Future year.

Furthermore in accordance with section 40 of the Local Government Municipal Planning and Performance Regulations 2001, a Municipality must establish mechanisms to monitor and review the Performance Management system.

**Nature:**

During the audit of predetermined objectives, we observed, the budget was not provided for and not allocated to twenty eight objectives; listed below

	Planned development priorities/objectives as per IDP	Is there a link between the SDBIP OR service delivery agreement or service level agreement and relevant budget templates to ensure that key objectives and priorities are budgeted for?	
		Yes/No	Exceptions raised
<b>OFFICE OF THE MM</b>			
1	Develop Draft Annual Report	No	Budget not provided and allocated to PDO  Management Comment  The Draft Budget is done inhouse therefore there is no need for budgeting.
2	Final Annual Report	No	Budget not provided and allocated to PDO  Management Comments  This is done in house the money for printing is on the Departmental Scorecard
3	Develop Oversight Report	No	Budget not provided and allocated to PDO  Management Comments  This is done in house
<b>CORPORATE SERVICES</b>			
4	Arrange staff team building session.	No	Budget not provided and allocated to PDO

5	Ensure Efficient Council decision	No	Budget not provided and allocated to PDO  Management Comments  This is dealt with inhouse council resolution register is utilised to monitor the implementation of this KPI.
6	To Develop Municipal News Letter	No	Budget not provided and allocated to PDO  Management Comment  If you look at the reasons of deviation this was postponed due to savings in finances.
7	Budget Spent on workplace skills plan	No	Budget not provided and allocated to PDO  This will be corrected.
<b>TECHNICAL SERVICES</b>			
<b>SPATIAL FRAMEWORK</b>			
8	One development application submitted to DLR&RD	No	Budget not provided and allocated to PDO  Management Comments  This is dependant on application received the municipality does not spend when this is undertaken. However it has to be on the SDBIP as it is part of service delivery.
<b>ELECTRICITY &amp; ROAD MAINTENANCE</b>			
9	To provide storm water drainage	No	Budget not provided and allocated to PDO  Managment Response.  This will be corrected
10	Capital Projects	No	Budget not provided and allocated to PDO  Management Response  This will be provided.
<b>COMMUNITY SERVICES</b>			
11	Review LED Strategy	No	Budget not provided and allocated to PDO

			<p>Managements Comment:</p> <p>This was going to be done in consultation with DoT there was not funding that was going to be provide by the Municipality Department of Tourism was going to fund that project. Reasons for deviation provides for this</p>
12	Ensure Functional LED Structures	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comment:</p> <p>This is an inhouse function.</p>
13	To source the service provider who will develop the Tourism strategy	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comment:</p> <p>See comment under 11 above</p>
14	To submit the Tourism Strategy to Council for Adoption	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comment:</p> <p>There is no need for budget for Council Resolutions</p>
15	To Conduct Tourism Awareness campaigns	No	<p>Budget not provided and allocated to PDO</p> <p>Managment Comment</p> <p>This was going to be done in house.</p>
16	To Appoint the Service Povider to develop a marketing broucher	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comments</p> <p>This was postponed due to financial constraints the reason is given under reasons for variance.</p>
17	To fill in the LED and Tourism Officer Post	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comments:</p> <p>The post was frozen as part of financial analysis!</p>
<b>EDUCATION</b>			
18	To develop a disaster management plan	No	<p>Budget not provided and allocated to PDO</p> <p>Management Comment This is</p>

			done in consultation with UMDM, UMDM fund the project.
19	Establish Disaster Management Forum	No	Budget not provided and allocated to PDO  Management Comment This is an inhouse function.
<b>HEALTH</b>			
20	Ensure Functional Care Givers Programme	No	Budget not provided and allocated to PDO  Management Comment The municipality is coordinators on behalf of DoH. This is an in house function
21	To host fun day for Children		Budget not provided and allocated to PDO  Management Comment This is an inhouse function donations are sources for this function.
22	Review the HIV and Aids Strategic Plan	No	Budget not provided and allocated to PDO  Management Comment This was done in consultation with Department of Health and this is coordinated Inhouse.
23	Reduced socio-economic burden caused by HIV and Aids	No	Budget not provided and allocated to PDO  Management Comment This is an in house function done in consultation with DoH and Care Givers
24	HIV/AIDS forum meeting held	No	Budget not provided and allocated to PDO  Management Comment: Budget not necessary this is an inhouse function
25	Reduction of new infections	No	Budget not provided and allocated to PDO  Management Comment: This This is an in house function done in consultation with DoH and Care Givers
<b>ARTS &amp; CULTURE</b>			
26	Participate in the District Art and Culture Council	No	Budget not provided and allocated to PDO  This is an in house function.
27	Participate in the District Environmental Health Forum	No	Budget not provided and

			allocated to PDO This is an in house function no budget required
	<b>TOURISM MANAGEMENT</b>		
28	Promote Tourist activities	No	Budget not provided and allocated to PDO This is an inhouse function no budget required.

**Cause:**

Inadequate review of the integrated development Plan; Service Delivery Implementation plan and Annual Budget to ensure that all relevant predetermined projected expenditure is provided for and allocated in the budget preparation and budget revision process.

**Impact:**

- Non achievement of the Municipal's Strategic, operational and tactical plans.
- Ineffective delivery of Service Delivery Budget Implementation Plans to the local communities.
- Inadequate Control of Funds

**Internal control deficiency**

Ineffective integration of the Service Delivery Implementation plans to the Budget.

**Recommendation**

The Mayor of a Municipality must co-ordinate the process for preparing the Annual Budget and for reviewing the Municipality's Integrated Development Plan and Budget related polices to ensure to that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;

At least 10 months before the start of the budget year; the Municipal Mayor must table a Time Schedule in Council, outlining key timelines for-

- The preparation, tabling and approval of the annual budget;
- The annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- The budget-related policies;
- The tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
- any consultative processes forming part of the processes listed here-in.

**Management response**

The mayor does facilitate the coordination of the Annual Budget and IDP process through the office of the Municipal Manager. The budget and IDP timetables are available to monitor the processes stipulated under recommendation above. Furthermore the IDP is reviewed by the Department of Cooperative and Traditional Affairs for compliance and completeness.

**Auditor's conclusion**

**Finding is accepted**



## General IT controls

### 39. Evidence of review not maintained for user access

#### Audit finding

In terms of user access management, users' access and privileges on all financial systems should be periodically reviewed and there should be evidence of review.

Evidence of reviews done on users' access and privileges on all financial systems were not maintained. User activities were not adequately managed to serve the best interests of the municipality, thus increasing the risk of data loss.

Evidence of review not kept by management on user access and privileges on all financial systems.

Unauthorised users can have access to financial systems.

#### Internal control deficiency

Policies and procedures were not designed in a manner to ensure that documentary evidence of reviews was maintained for financial systems of the municipality.

#### Recommendation

- Evidence of reviews of access and privileges to financial systems should be retained to improve internal controls over the IT environment.
- Policies and procedures should be revised to include the review of user access and privileges and evidence of these reviews should be monitored by the internal audit unit

#### Management response

We are not in agreement with the finding for the following reason: The user's access is done on a quarterly basis. There is evidence to prove this.

#### Auditor's conclusion

**Reviews of User access files has been submitted and audited.**

**ANNEXURE C: ADMINISTRATIVE MATTERS****Employee costs****40. HR: Skills Retention Policy not approved****Audit finding**

Section 67 of the Municipal Systems Act 32 of 2000, bears reference in this regard -"The accounting officer must ensure that the Municipality, adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration including—

1. the recruitment, selection and appointment of persons as staff members;
2. service conditions of staff;
3. the supervision and management of staff;
4. the monitoring, measuring and evaluating of performance of staff;
5. the promotion or demotion of staff;
6. the transfer of staff;
7. any other matter prescribed by regulation in terms of section 72.

**Nature:**

The Skills Retention Policy is in draft stage and not yet approved.

**Cause:**

Inadequate review by management to ensure that all relevant policies have been reviewed, updated, approved and implemented.

**Impact:**

- Financial and risk management and internal controls cannot be evaluated for effectiveness and efficiency.
- Violations of policies and financial misconduct will not be detected.
- Inconsistent application of processes within the department thus causing a breakdown of controls.
- The non-approval of certain crucial policies as detailed above could have a negative impact on staff morale.

**Control deficiency**

Inadequate Human Resource framework implemented, for local public administration and personnel development

**Recommendation**

Management must ensure that the present Human Resource Framework is continuously improved to progressively build Local Government into an efficient; frontline development Management response

**Management response**

I am in agreement with the finding for the following reason: The Skills Retention policy is still in a draft stage. However we have to indicate that we may have challenges in implementing it because we operate on a meager budget. As the municipality we are working hard to ensure that we

maintain the correct percentage for salaries and if this policy is in place we will be obliged to retain the employees who will need higher salaries to compete with the newly offered positions elsewhere.

**Auditor's conclusion**

**The finding is not resolved**

## FINANCIAL INDICATORS

## ANNEXURE D

## FINANCIAL INDICATOR ANALYSES: MFMA 2012-13



Auditee: Mkhambathini Municipality

Period-end: 30 June 2013

Date: 25 November 2013

W/P reference:

Indicates formulas.

Indicates information on which the assessment of the financial indicators in the management report is based.

## BUDGET MANAGEMENT

Final approved operating expenditure budget  
Under/(over) spending of the final approved operating expenditure budget

Final approved capital budget  
Under/(over) spending of the final approved capital budget

Indicator reference

Financial statement amounts

R'000

56 968 000

19 489 264

14 871 000

7 954 647

Adjustments for material uncorrected misstatements

R'000

Financial statement amounts after adjustments for material uncorrected misstatements

R'000

56 968 000

19 489 264

14 871 000

7 954 647

			%
Percentage over spending of the final approved operating expenditure budget	1.1		Not over-spent
Percentage under spending of the final approved capital budget	1.2		53.5%

GRANT MANAGEMENT	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000	Financial statement amounts after adjustments for material uncorrected misstatements R'000
Conditional grants received		22 192 800		22 192 800
Under/(over) spending of conditional grants received		12 246 223		12 246 223

			%
Percentage under-spending of conditional grants received	2.1		55.2%

EXPENDITURE MANAGEMENT	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000	Financial statement amounts after adjustments for material uncorrected misstatements R'000
Accounts payable from goods and services purchased on credit		2 889 794		2 889 794
Total purchases from goods and services purchased on credit for the year		13 261 706		13 261 706

			Days
<b>Creditor-payment period</b> (Accounts payable ÷ Total purchases x 365)	3.1		79.5

REVENUE MANAGEMENT	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
		R'000	R'000	R'000
Accounts receivable from goods and services rendered on credit (before impairment)		3 762 192		3 762 192
Debtors impairment provision at year-end (In respect of accounts receivable from goods and services rendered on credit)		265 511		265 511
Total revenue from goods and services rendered on credit for the year		6 722 465		6 722 465
				<b>Days</b>
<b>Debtor-collection period - before impairment (Days)</b> (Accounts receivable [before impairment] ÷ Total revenue x 365)	4.1			<b>204.3</b>
<b>Debtor-collection period - after impairment (Days)</b> (Accounts receivable [after impairment] ÷ Total revenue x 365)	4.2			<b>189.9</b>
				<b>%</b>
<b>Debtors impairment provision at year-end as a percentage of accounts receivable from goods and services rendered on credit</b>	4.3			<b>7.1%</b>
<b>Debtors impairment provision at year-end as a percentage of revenue from goods and services rendered on credit</b>	4.4			<b>3.9%</b>
				<b>%</b>
<b>Material water losses</b> - (As per financial statement disclosure) - (Total of technical/real/physical losses plus non-technical/apparent/commercial losses; i.e. portion of total input into system/volume available not able to be billed)	4.5			

**Material electricity losses**

- (As per financial statement disclosure)
- (Total of technical losses plus non-technical losses; i.e. portion of total input into system/kWh available not able to be billed)

4.6

**ASSET AND LIABILITY MANAGEMENT**

	Indicator reference	Financial statement amounts R'000	Adjustments for material uncorrected misstatements R'000	Financial statement amounts after adjustments for material uncorrected misstatements R'000
Total revenue for the year		57 730 324		57 730 324
Less: Total expenditure for the year		44 228 525		44 228 525
<b>Surplus / (deficit) for the year</b>	<b>5.1</b>	<b>13 501 799</b>	<b>0</b>	<b>13 501 799</b>
Total current assets		23 513 788		23 513 788
Less: Total current liabilities		14 633 593		14 633 593
<b>Net current assets / (liabilities)</b>	<b>5.2</b>	<b>8 880 195</b>	<b>0</b>	<b>8 880 195</b>
Total non-current assets		66 905 739		66 905 739
Less: Total non-current liabilities		0		0
Net non-current assets / (liabilities)		66 905 739	0	66 905 739
Total assets		90 419 527	0	90 419 527
Less: Total liabilities		14 633 593	0	14 633 593
<b>Net assets / (liabilities)</b>	<b>5.3</b>	<b>75 785 934</b>	<b>0</b>	<b>75 785 934</b>
Year-end carrying amount of the category(ies) of PPE that were subject to impairment		65 747 739		65 747 739
Plus: Year-end carrying amount of the category(ies) intangible assets that were subject to impairment		0		0
		65 747 739	0	65 747 739

Year-end carrying amount of investments, if subject to impairment		1 158 000		1 158 000
Plus: Year-end carrying amount of loan receivables (loans awarded), if subject to impairment		0		0
		<b>1 158 000</b>	<b>0</b>	<b>1 158 000</b>
PPE impairment provision at year-end		31 093		31 093
Plus: Intangible assets impairment provision at year-end		0		0
		<b>31 093</b>	<b>0</b>	<b>31 093</b>
Investments impairment provision at year-end		0		0
Plus: Loan receivables (loans awarded) impairment provision at year-end		0		0
		<b>0</b>	<b>0</b>	<b>0</b>
<b>PPE and intangible assets impairment provisions at year-end as a percentage of the carrying amount of the category(ies) of PPE and intangible assets subject to impairment</b>	<b>5.4</b>			<b>0.0%</b>
<b>Loan receivables (loans awarded) and investments impairment provisions at year-end as a percentage of the carrying amount of investments and loans subject to impairment</b>	<b>5.5</b>			<b>0.0%</b>
<b>CASH MANAGEMENT</b>		<b>Financial statement amounts</b>	<b>Adjustments for material uncorrected misstatements</b>	<b>Financial statement amounts after adjustments for material uncorrected misstatements</b>
		<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Cash and cash equivalents / (bank overdraft) at year-end	6.1	18 263 453		18 263 453
Net cash flows for the year from operating activities	6.2	19 355 184		19 355 184

Operating expenditure			
	<b>34 759 753</b>		34 759 753
Unspent conditional grants received at year-end	12 246 223	0	12 246 223
Long term employee benefit obligations			0
			%
<b>Cash and cash equivalents as a percentage of operating expenditure</b>	<b>6.3</b>		<b>52.5%</b>
<b>Creditors as a percentage of cash and cash equivalents</b>	<b>6.4</b>		<b>15.8%</b>
<b>Percentage by which unspent conditional grants received exceeds cash available at year-end</b>	<b>6.5</b>		<b>Not exceeded</b>
<b>Current liabilities as a percentage of net cash inflows for the year from operating activities</b>	<b>6.6</b>		<b>-75.6%</b>
<b>Long-term debt as a percentage of net cash inflows for the year from operating activities</b>	<b>6.7</b>		<b>0.0%</b>
<b>Employee benefit obligation as a percentage of net cash inflows for the year from operating activities</b>	<b>6.8</b>		<b>0.0%</b>