

Report of the Auditor General 2014/ 2015 Financial Year



Chapter 6

Component A: Report of the Auditor-General 2014/15

Report of the auditor-general to the Free State Legislature and the council on the Nketoana Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Nketoana Local Municipality set out on pages : to , which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not review the residual values and useful lives of infrastructure assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17 *Property, plant and equipment*. As a result, infrastructure assets with a gross carrying amount of R133 168 716 (2014: R133 168 716) were valued at a zero net carrying amount while still being in use. I was not able to determine the impact on the net carrying amount of infrastructure assets as it was impracticable to do so. Furthermore all assets were not recorded in the asset register and certain assets that were recorded in the asset register could not be found. Consequently, property, plant and equipment were understated by R92 302 691. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

Aggregation of immaterial uncorrected misstatements

7. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position, the statement of financial performance and the notes to the financial statements:
 - Current assets reflected as R62 274 427 were understated by R3 684 957.
 - Non-current assets reflected as R588 233 577 were overstated by R149 500.
 - Current liabilities reflected as R135 065 773 were overstated by R530 182.
 - Revenue reflected as R287 905 149 was understated by R2 864 788.
 - Expenditure reflected as R328 411 769 was understated by R2 166 818.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs the financial statements present fairly, in all material respects, the financial position of the Nketoana Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

10. As disclosed in note 51 to the financial statements, the municipality incurred unauthorised expenditure of R5 361 768 (2014: R13 227 353). The unauthorised expenditure was incurred as a result of an improper budgeting process.

Irregular expenditure

11. As disclosed in note 53 to the financial statements, the municipality incurred irregular expenditure of R26 178 926 (2014: R34 014 272). The irregular expenditure was as a result of contravention of the supply chain management regulations.

Material losses

12. As disclosed in note 36 to the financial statements, material losses to the amount of R50 745 983 (2014: R41 712 998) were incurred as a result of a write-off of irrecoverable trade debtors without council approval.
13. As disclosed in note 54 to the financial statements, the municipality incurred material losses to the value of R5 463 500 (2014: R4 318 449) as a result of electricity distribution losses.

Material impairments

14. As disclosed in note 7 to the financial statements, a provision for impairment of R225 045 597 (2014: R208 898 712) has been made with regard to consumer receivables from exchange transactions of R257 808 213 (2014: 239 109 888).

Going concern

15. Note 50 to the financial statements indicates that the Nketoana Local Municipality incurred a net loss of R40 312 334 (2014: R75 463 937) during the year ended 30 June 2015 and, as of that date, the municipality's current liabilities exceeded its current assets by R72 791 346. These conditions, along with other matters as set out in note 50, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to meet its financial obligations as they fall due and achievement of service delivery as outlined in the annual performance plan..

Restatement of corresponding figures

16. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2014 were restated as a result of errors discovered during 2014-2015 in the financial statements of the Nketoana Local Municipality at, and for the year ended, 30 June 2014.

Additional matters

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure note

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

Report on other legal and regulatory requirements

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas (KPA) presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2015:

- KPA1: Basic service delivery on pages x to x

21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned KPA. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. I did not raise material findings on the usefulness and reliability of the reported performance information for the following key performance area:

- KPA1: Basic service delivery

Additional matters

25. I draw attention to the following matters:

Achievement of planned targets

26. Refer to the annual performance report on page x to x for information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

27. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

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

Financial statements, performance and annual report

29. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, non-current liabilities, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records were provided, but the uncorrected material misstatements that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit committee

30. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

31. The internal audit unit did not function as required by section 165(2) of the MFMA in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices and risk and risk management.

Procurement and contract management

32. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
33. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
34. Contracts were awarded to and quotations were accepted from bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
35. Persons in the service of the municipality who had a private business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act (MSA) and the code of conduct for staff members issued in terms of the MSA.
36. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Human resource management and compensation

37. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulations 14(2)(b) and 14(3) of the *Municipal regulations on minimum competency levels*..
38. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the MSA.

Expenditure management

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

Revenue management

41. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
42. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

Conditional grants received

43. The municipality did not evaluate its performance in respect of programmes or functions funded by the municipal infrastructure grant, the local government financial management grant and the municipal systems improvement grant allocation, as required by section 12(5) of DoRA.

Asset management

44. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA .
45. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

46. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

47. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported

below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

48. The leadership did not always take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to fruitless and wasteful and irregular expenditure. Integrity and ethical values were not adequate to prevent material irregular expenditure and to set the standard of sound corporate governance.
49. Deviations from the expected standards of conduct were not followed up to ensure that remedial or disciplinary action was taken in a timely and consistent manner. Overriding of internal controls occurred, which resulted in irregular expenditure. Value for money was not always obtained, which resulted in potential cases of fraud to be investigated by management.
50. Consequence management was not effective as the council did not investigate instances of unauthorised, irregular, fruitless and wasteful expenditure to determine whether any person was liable for the expenditure as the council neglected to appoint a committee to investigate the expenditure.
51. Key management positions were vacant during the year under review. Management did not implement effective human resource management to ensure that competent and sufficiently skilled officials are appointed and performance is monitored.
52. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident in the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in a recurrence of prior year audit findings.
53. Leadership did not evaluate the implementation of effective internal controls by ensuring proper records management, maintenance of an asset register and preparation of the annual financial statements.

Financial and performance management

54. There was a material breakdown of the internal controls at the municipality. The weak control environment led to monthly and daily controls not being implemented and monitored.
55. Compliance with laws and regulations is not monitored on a regular basis and non-compliance is not addressed in a timely manner as management did not implement the action plan on the prior year findings.
56. The financial statements were subject to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality, mainly due to vacancies in key positions.

Governance

57. Management's failure to perform a risk assessment for the year under review and the appointment of the internal auditor as acting chief financial officer hampered the productivity and reliability of the work of the internal audit section.

Other reports

Investigations

58. An investigation was conducted by independent forensic auditors at the request of the bank regarding alleged fraudulent transactions which occurred between 22 and 25 October 2010 on two of the municipality's bank accounts. The bank indicated in a letter Ref. 2030906 dated 2 August 2013 that they are not liable for the loss. Management did not take any action and no evidence could be provided of efforts by the municipality to recover the money or to follow up on the investigation since August 2013. The amount that was not recovered is R1 780 000.

59. An investigation was being conducted by the South African Police Service (SAPS) into alleged fraudulent procurement transactions between the 2009 and 2012 financial years. Supporting documentation has been seized by the SAPS. The investigation commenced towards the end of the 2013 financial year. The investigation was still ongoing at the reporting date.

Bloemfontein

30 November 2015



Component B: Action plan: 2014/15

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
1. EX.104 - Fruitless and wasteful expenditure: PAYE, UIF and SDL (EX.104)	Contrary to the above, the declarations of PAYE, SDL & UIF was not submitted before the 7th of the following month for the following periods:(refer to ML) The payments of PAYE, SDL & UIF were not made before the 7th of the following month for the following periods (refer to ML) The following penalties and interest was levied due to the late submission and payment of PAYE, SDL & UIF and was not included in the disclosure of fruitless and wasteful expenditure in the annual financial statements: (refer to ML)	Financial and performance management: Management did not implement controls over the identification and recording of fruitless and wasteful expenditure .	Management should ensure that PAYE, UIF & SDL are submitted and paid over to SARS within 7 days after the end of the month during which the amount was deducted Management should inspect the statement of accounts received from SARS to determine if there are penalties and interest that needs to be disclosed and accounted for..	All matters related to PAYE,SDL and UIF for the year 2015/16 have been paid on 7 th of each and every month.	Implemented	Chief Financial Officer

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
1. EX.166 - Irregular expenditure - Insufficient documentation and incorrect accounting of VAT (EX.166)	Contrary to the above, the following was noted during the testing performed on the irregular expenditure;1. The following irregular expenditure adjustments were not supported with documentation and were not included in the disclosure of irregular expenditure at financial year end:(refer to ML) 2. The following transactions, considered by management to be irregular expenditure, were not supported with documentation and were not included accurately in the calculation of total irregular expenditure during the current financial year.(refer to ML)3. The following transactions were incorrectly accounted for in the calculation of the total irregular expenditure during the year.(refer to ML)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should inspect the irregular expenditure ledger on a regular basis and reconcile the transactions with supporting documentation. Management should inspect the transactions accounted for as irregular expenditure and ensure that the VAT thereof was accounted for accurately.	All irregular expenditure transactions will be investigated and all irregular expenditure will be included on the irregular expenditure register.	In Progress	Chief Financial Officer
EX.167 - Irregular expenditure - Adjusting journal incorrectly calculated (EX.167)	Contrary to the above, it was identified that the irregular expenditure adjusting journal was incorrectly calculated as follows:(refer to ML)	Leadership: Management did not exercise their oversight responsibility regarding financial and performance reporting, compliance and related	Management should review adjusting journals on a regular basis to ensure that the adjustments are accounted for accurately.	Investigation will be done and calculation will be done accordingly.	In Progress	Chief Financial Officer

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		internal controls				
101. EX.177 - Unauthorized, fruitless, wasteful and irregular expenditure: Disclosure & presentation deficiencies (EX.177)	Contrary to the above it was noted that the disclosure and presentation of unauthorised, fruitless, wasteful and irregular expenditure in notes 49 to 51 in the financial statements was not in accordance with the requirements of section 125(2)(d) of the MFMA.	Leadership: Management did not exercise their oversight responsibility regarding financial and performance reporting, compliance and related internal controls.	Management should review the financial statements and disclose and present the unauthorised, fruitless, wasteful and irregular expenditure according to the reporting requirements of section 125(2)(d) of the MFMA.	Any unauthorized and fruitless expenditure will be investigated and proper procedures be followed.	In Progress	SCM
1. EX.106 - Land not recorded in the asset register (EX.106)	Assets not included on the asset register	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should reconcile the land per valuation roll to the asset register.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters		ASSET

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
1. EX.107 - Components not depreciated separately (EX.107)	Contrary to the above the following project were completed but components are not depreciated separately:(refer to ML)	Projected completed, but not depreciated	The asset management should be updated and the municipality should unbundle (separate) the assets into the various components for separate recognition without changing the total value of the asset including components as originally recognised.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management Unit
ex.112	<p>Contrary to the above the following were identified during the review of completed and transferred projects:</p> <p>1. Amount of R13 759 735,35 relating to Mamafubedu road paving project was transferred from work in progress to fixed asset register despite being completed and transferred to fixed asset in a prior year, the amount of R4000 000 had already transferred out and capitalised relating to this project. The assets are overstated by R4 000 000.</p> <p>2. The amount of R456 140,35 excluding VAT was spent on Ntha road paving in current year however this amount has not been transferred into fixed asset register as part of completed project. The assets will</p>	Financial performance management	Monthly reconciliation should be performed between the asset register and general ledger for projects under construction in collaboration with Project Management Unit.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	ASSETS Management Unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	therefore be understated by R456 240,35.					
1. EX.116 - Immovable assets: Invoices incorrectly capitalised in work in progress assets (EX.116)	Contrary to the above, management has incorrectly capitalised the operating cost (maintenance services) to the work in progress assets (WIP). The details are as follows:(refer to MR)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO
1. EX.122 - Difference between PMU expenditure schedule and general ledger (EX.122)	Contrary to the above, differences were identified between the expenditure incurred on the project per Project Management Unit schedule and amount added to work in progress per the general ledger.(refer to MR) Furthermore the	Leadership : The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and	Management should appropriately review the annual financial statements before submission for audit purposes to ensure that all the contents thereto are accurately reported and disclosed and ensure that	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	ASSETS CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	differences between the amount added into work in progress asset in a current year and grant amount transferred to revenue per financial statement were identified. The details are as follows:(refer to MR)	compliance and related internal controls	all supporting schedules corroborate the amounts disclosed as per the annual financial statements.			
EX.128 - Prior year follow-up Non-current assets held for sale (EX.128)	Contrary to the above whilst auditing non-current assets held for sale it was noted that some buyers have occupied the stands and have built houses/structures on the premises. Upon inspection of the financial statements, it was noted that the municipality has recognised a carrying amount R1 595 264 relating to land that has already been sold to individuals.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure that the land that has been transferred to the beneficiary but title has not been transferred should be derecognised and should no longer be disclosed in the financial statements and the assets should also be derecognised from the asset register.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management/CFO
1. EX.33 - Inappropriate useful life of the assets (EX.33)	Contrary to the above, while reviewing the accumulated depreciation it was noted that management have not been reviewing useful life of the assets, i.e. the total future depreciation based on remaining useful life is higher than the current year carrying amount of the assets. The following serve as examples:(refer to MR)	Contrary to the above, while reviewing the accumulated depreciation it was noted that management have not been reviewing useful life of the assets, i.e. the total future depreciation based on	Management should review the useful life, residual value and accumulated depreciation of all classes of assets and make appropriate adjustments supported by sufficient documentation of the process undertaken. Furthermore management should review useful life of all other assets as per	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	ASSETS Management Unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		remaining useful life is higher than the current year carrying amount of the asset	GRAP 17, even though the above circumstance is not evident on the assets.			
18. EX.39 - Differences in accumulated depreciation opening balance (EX.39)	Contrary to the above the following differences were noted during the recalculation of opening accumulated depreciation for 2014/2015 financial year: (refer to MR)	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should ensure that useful life of the asset is accurately determined and depreciation method correctly applied and calculations apportioned where applicable, furthermore management should review the whole population and correct.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset management /CFO
19. EX.62 - Infrastructure and community assets that could not be physically verified (EX.62)	Contrary to the above the following assets could not be physically verified. (refer to MR)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should implement the following measures: (a) Assets counts are performed annually. (b) Senior official should review the asset register to ensure all the necessary fields are recorded as evidence that asset count has been performed. (c) Senior official should attend the asset counts on an ad hoc basis to ensure that asset count is performed as agreed.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
20. EX.65 - Property plant and equipment : Duplicated assets (EX.65)	Contrary to the above, two different barcodes were identified on same asset during asset verification. Details of the barcodes per asset register are as follows (refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure that an asset count is performed and reconciled to the asset register on a regular basis.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO
21. EX.76 - Property, plant and equipment - Deficiency in asset register (EX.76)	Contrary to the above, upon scrutinising the asset register duplicated barcodes were identified. The following serve only as the examples of duplicated barcodes identified:(refer to MR)	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should review the whole population and investigate all duplicated items and ensure only unique barcodes are recorded in the asset register. Any adjustments to the asset register should be communicated to the auditor.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO
22. EX.90 - PPE: Follow up prior year, Immovable assets that could not be physically verified (EX.90)	Contrary to the above, the following assets could not be physically verified, (refer to MR)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible	Management should ensure that an asset count is performed and reconciled to the asset register on a regular basis.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		and available to support financial and performance reporting				
23. EX.99 - Infrastructure and community assets not recorded (EX.99)	Contrary to the requirement, during the completeness testing of the assets it was noted that the following assets were not included in the register:(refer to MR)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should ensure that asset count is performed and reconciled to the asset register on a regular basis.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
103. EX.20 - Property, plant and equipment : Differences between Appendix B and Asset register (EX.20)	1.Contrary to the above, the following differences were identified between Appendix B and Notes to financial statements (refer to MR)2. The following differences were identified between Appendix B of Financial Statements and asset register	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should implement the necessary controls to ensure that the financial statement and supplementary schedules are consistent, accurate and complete.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO
105. EX.47 - Difference between asset register and financial statements (EX.47)	The following differences were identified between the asset register and the financial statements(refer to MR)	Financial and performance management: Management did not implement controls over daily and monthly processing and reconciliation of monthly transactions.	A reconciliation between the asset register and the financial statement should be regularly performed and reviewed by management.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters	In Progress	Asset Management unit/CFO
107. EX.61 - Property, plant and equipment : Assets not in working	Contrary to the above, it was identified that the following assets were not in a working order, the Arlington railway plant is no longer in	Financial and performance management: Management did not	Management should implement proper and sound asset management to ensure continuous physical assessment of the municipality's	All PPE related matters will be investigated, and updated and consultant	In Progress	Asset Management unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
order (EX.61)	operation and the borehole has not been used for number of years as the borehole is no longer producing water.(refer to MR)	implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.	assets is performed in order to identify assets that have impairment indicators. Furthermore both the impairment indicator assessment and detailed calculation should be reviewed by a senior official.	will be appointed to verify assets related matters		
108. EX.98 - PPE: Monthly reconciliation not performed (EX.98)	Contrary to the above, management does not perform monthly reconciliation between general ledger and fixed asset register relating to asset under construction.	Financial and performance management: Management did not implement controls over monthly processing and reconciling of transactions.	Management should ensure that reconciliations between asset register and the general ledger are performed on a monthly basis to timely identify any discrepancies	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters.	In Progress	Asset Management unit/CFO
149. EX.64 - Property plant and equipment : Deficiencies identified in the asset register (EX.64)	Contrary to the afore-mentioned the following was noted: (a) During the audit of fixed assets, it was identified that the auditee does not maintain adequate fixed asset register as the following fields were not included in the fixed asset register; • Method of financing • Depreciation method	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should ensure that they adequately maintain asset register to ensure completeness and accuracy thereof. Management should ensure that all relevant fields are included in the asset register. As the above serve only as examples, management are urged to do a complete verification and correction.	All PPE related matters will be investigated, and updated and consultant will be appointed to verify assets related matters.	In Progress	Asset Management unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	<ul style="list-style-type: none"> • Depreciation rate • Physical conditions • Asset unique number: Barcode and Serial number (b) In the following instances that serve as examples only it was noted that the locations of assets were not indicated in the assets register. (refer to MR)					
1. EX.137 - Supply chain management: Goods and services are procured by the municipality without authorized processes (EX.137) (EX.137)	Contrary to the above mentioned requirement the following issues were identified:	Leadership: Management did not exercise oversight responsibility regarding financial, performance reporting and compliance .	The Supply Chain manager should ensure that goods and services are procured through an authorized procurement process.	For the financial year 2015/16, all transactions have been authorized on the system.	In Progress	Chief Financial Officer
28. EX.141 - Unauthorized expenditure understated (EX.141)	Contrary to the above the following components of expenditure exceeded the approved budget:(refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.	The management agrees with the finding, however when the municipal budget is prepared it is guided by circular from the National Treasury, but when decision is made by the bargaining, you will find that the percentage offered by the bargaining council is higher than the one that was prescribed National Treasury circular differ.	Investigation will be done and all unauthorized expenditure will be disclosed on the AFS.	Implemented	Supply Chain Management

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
31. EX.156 - SCM: R10 000 to R30 000	The lowest quotation of R28 215 (Lasou Skillware Consulting) was not excepted although marked on the evidence that's part of the payment advice. The second lowest supplier at R29 925 (Ketsweletsi KK Trading) was used, but unexpectedly only R27 360 was paid. Objective criteria were not given to justify that reasonable grounds existed not to select the supplier with the lowest quotation and no deviation was approved or disclosed. Therefore this is regarded as irregular expenditure.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.	Management should investigate the matter and report on it correctly.	Management will ensure that the lowest supplier is being awarded, if not lowest supplier is not awarded the reasons for deviation will be stated on the payment voucher and disclosed on the financial statement	Control implemented	Supply Chain Management
32. EX.157 - SCM: Procurement process and deviation (R30 000 - R200 000) (EX.157)	Contrary to the above, three quotations were not received and/or a deviation process was also not followed for the following payments nor disclosed in the annual financial statements:	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.	Management should investigate and correctly disclose the irregular expenditure in the financial statements.	Management will make sure that processes are followed where there are no three quotation deviations will be attached and seven days notice process will be followed and be evaluated accordingly.	Control implemented	Supply Chain Management

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
33. EX.158 - SCM: Procurement Need and economy (R30 000 - R200 000) (EX.158)	Contrary to the above it could not be established if the following payments made can be seen as economical as three quotations were not received to ensure that the lowest and best price for the service or goods was paid:(refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.	Management should ensure that in all instances the SCM process are complied with throughout the financial year.	Management will make sure that process are followed where there is no three quotations deviations will be attached and seven days notice process will be followed and be evaluated accordingly.	Control implemented	Supply Chain Management
34. EX.159 - SCM: Invitation and receipt of quotations (R30 000 - R200 000) (EX.159)	Contrary to the above evidence could not be submitted that the request for quotations was advertised for at least seven (7) days on the website and official notice board of the municipality for the following:(refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should implement proper controls to ensure that the advertisements for the request for quotations are advertised and the advertisement date is clearly visible so as to ensure compliance with SCM Regulations.	Management will make sure that process are followed where there is no three quotations deviations will be attached and seven days notice process will be followed and be evaluated accordingly.	Control implemented	Supply Chain Management
35. EX.161 - SCM: Evaluation - points and functionality (R30 000 - R200 000) (EX.161)	Contrary to the above it was noted that for the following suppliers no evidence could be supplied that a preference point system was followed with all the necessary information to substantiate the points given: (refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should implement proper controls to ensure that all quotes are evaluated in accordance with the PPPF Act.	Management will make sure that process are followed where there is no three quotations deviations will be attached and seven days notice process will be followed and be evaluated accordingly.	Control implemented	Supply Chain Management

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
36. EX.163 - F&W Expenditure: Fruitless and wasteful expenditure understated (EX.163)	<p>Contrary to the above the following components of expenditure were not disclosed as fruitless and wasteful expenditure:</p> <p>1) Identified by auditee but not disclosed in the financial statements:(refer to MR)</p>	<p>Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.</p>	<p>Management should correct the disclosure note for fruitless and wasteful expenditure.</p>	<p>Investigation will be done and all fruitless expenditure will be disclosed on the AFS</p>	<p>In Progress</p>	<p>Chief Financial Officer</p>
37. SCM: Competitive bidding - Bid adjudication committee (EX.170)	<p>Contrary to the above requirement, it was identified that, for the tenders listed below, the bid adjudication committee did not consist of four senior managers and not in all cases consisting of a senior SCM practitioner and the chief financial officer was also not part of the bid adjudication committee in all instances:(refer to MR)</p>	<p>Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</p>	<p>Management should implement proper controls to ensure that the bid adjudication committee consists of all the required members.</p>	<p>Adjudication committee is now inclusive of four senior management .</p>	<p>Implemented</p>	<p>Municipal Manager</p>

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
39. EX.176 - SCM: Effective internal monitoring (EX.176)	Contrary to the above it was noted that there is not an effective internal monitoring system to determine, on the basis of a retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved that could be supplied to audit. Further based on the exceptions raised for the year under review regarding SCM it seems as SCM is not achieving the desired outcomes.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management must ensure proper compliance with all aspects of the applicable regulations.	System description of each and every section within finance section to address internal control deficiencies.	In Progress	Supply Chain Management
41. EX.182 - Purchases and payables understated (EX.182)	Contrary to the above during the testing of recurring expenses the following were discovered: 1. The Municipality claimed more VAT input on Eskom account payments than what they are supposed to. The details are as follows:	Financial and performance management - Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.	Management should investigate the above transactions and perform the necessary correcting entries. All supporting journals should be provided for auditing.	Discussion will be done with the Maxprof tax consultant regarding the above mentioned matter.	In Progress	Chief Financial Officer

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
42. EX.80 - Repairs and maintenance: Incorrect classification (EX.80)	Contrary to the above, during the review of repair and maintenance account it was noted that the cost of supply, installing and connecting water meters were incorrectly classified as repairs and maintenance instead of being capitalised as assets:(refer to MR)	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure all the expenditures are captured in the correct vote and proper review processes is implemented.	All transactions that has been included as repairs will be investigated and corrected accordingly.	In Progress	Chief Financial Officer
111. EX.117 - Expenditure: Incorrect classification and limitation of scope (EX.117)	Contrary to the above requirements, the following discrepancies were identified. 1. It was found that the below mentioned expenses were incorrectly classified as operating leases (as per vote numbers 290/291):2. The following contracts were not submitted to the auditors for audit: (refer to MR)	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure that: 1. All expenditure disclosed in the financial statements is correctly classified. 2. All documents requested by the auditors are submitted on time.	Processing of staff to be trained on the classification of transactions	In Progress	Expenditure and Budget Manager
112. EX.118 - Grants expenditure - Expenditure invoices recorded twice (EX.118)	Contrary to the above it was noted that supporting documentation for the following invoices was recorded twice:	Financial and performance management: Management did not prepare regular, accurate and complete financial and performance	Management should perform proper monthly reconciliations between the general ledger and the monthly statement received from the supplier to detect errors.	Investigation will be done to ensure that invoices are not captured twice.	In Progress	Manager budger and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		e reports that are supported and evidenced by reliable information.				
113. EX.121 - Grant expenditure - Insufficient documentation (EX.121)	<p>Contrary to the above mentioned requirement during the testing of grant expenditure it was established that there were insufficient supporting documentation available for the following items:</p> <ol style="list-style-type: none"> 1. The composition of the LG SETA grant expenditure account. 2. The general ledgers for the respective grants - MSIG, Equitable share, MFMG, EPWP, and LG SETA. 	Financial and performance management: Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	Management should ensure that filing of information is properly kept and make information available promptly upon request for audit purposes.	The grant register will be consolidated and reconciled accordingly	In Progress	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
114. EX.127 - Expenditure: Consolidated expenditure management findings (EX.127)	<p>Contrary to the above mentioned requirement the following issues were identified:</p> <ol style="list-style-type: none"> 1. The following invoices does not have the invoice date:(refer to MR) 2. The following suppliers or service providers were paid without a valid invoice: 3. The following suppliers was used without being listed on the approved creditors listing. 4. The following suppliers contact details were not updated in the approved creditors listing. 5. The following suppliers or service providers account number on the approved creditors listing does not agree to the account number on the invoice. (refer to MR) 	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.	<p>. Management should ensure that the invoices issued to them are valid and complete before making the necessary payment.</p> <ol style="list-style-type: none"> 2. Management should ensure that the no payment is made without a valid invoice. 3. ; 4. and 5. Management should updated the approved creditors listing at least quarterly to include any additional prospective providers and only do business with the listed accredited prospective providers of goods and services 	All internal control measures deficiencies identified regarding expenditure will be investigated and addressed.	In Progress	Manager budger and expenditure
115. EX.133 - Expenditure: significant issues that management should consider (EX.133) (EX.133)	<p>Contrary to the above mentioned requirement, various deficiencies on supporting documentation to expenditure vouchers were noted of which the following serve as examples:</p>	Leadership: Management did not exercise oversight responsibility regarding financial, performance reporting and compliance	The management agrees with the finding, the management will investigate the abovementioned issues that are raised, if there is fraudulent activities these matters will be reported to SAPS and the AGSA.	All internal control measures deficiencies identified regarding expenditure will be investigated and addressed.	In Progress	Manager budger and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
116. EX.135 - Expenditure: Control deficiencies on expenditure (EX.135) (EX.135)	<p>The following deficiencies were identified during the review of the controls surrounding expenditure:</p> <p>1. The goods receive note for the following transactions were not signed for goods and services provided.</p> <p>2. The orders for the following transactions are generated after receiving the invoice.</p> <p>3. The goods for the following transactions are received before generating the order and requisition.</p> <p>4. The orders and requisition for the following transactions are generated after receiving the invoice.</p> <p>5. Goods for the following transactions are received before the order, requisition and the invoice.</p>	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.	<p>1. Management should ensure that the all goods received notes are signed when the goods have been received.</p> <p>2 - 5. The municipality should maintain a proper system of internal controls in respect of purchases cycle.</p>	All internal control measures deficiencies identified regarding expenditure will be investigated and addressed.	In Progress	Manager budger and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
119. EX.164 - Unspent conditional grants: Non-compliance with DORA regulations	<p>Contrary to the above legislation we noted the following:</p> <p>(a) There were differences between the amount disclosed as unspent for the Municipal Finance Management Grant and the amount the municipality applied for roll-over. We provide details below:</p> <p>(b) There is an amount disclosed in the annual financial statements as unspent conditional grant of R499 281 for Integrated National Electrification Programme Grant however, we were not provided with evidence that the amount was surrendered to National Treasury or an application for a roll-over of the amount.</p> <p>(refer to MR)</p>	Management should ensure that the grants register and the annual financial statements are reviewed and updated accordingly.	Management agrees with the finding, management will ensure that when there is unspent money letter of rollover will be written to National Treasury to apply for condonement.	Municipality will ensure that rollover letter is done for the grants to be used next financial year.	In Progress	Manager budget and expenditure
121. EX.185 - Expenditure: Cut off (EX.185)	Contrary to the above, the following transactions were recorded in the wrong accounting period(refer to MR)		Management should prepare an accrual list for goods and services that were received prior to year end to avoid transactions been classified in the wrong financial year.	All expenditure will be covered on the current financial year.		Chief Financial Officer

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
122. EX.94 - Expenditure: Operating lease contract expired (EX.94)	<p>Contrary to the above requirements the following was identified:</p> <p>1) Payments were made to Panasonic Business Systems for the lease of Panasonic equipment while the operating lease contracts of 36 months that was signed on the 17th May 2011 had expired on the 16 May 2014.</p> <p>Total operating lease expenditure recognised for Panasonic Business Systems for the 2014/15 financial year amounts to R427 440.</p>	<p>Leadership – Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.</p>	<p>Management should determine if a service was delivered for the payments made to ensure that operating lease payments are in fact valid or if the allocation should be allocated to another vote. A detailed response from management is expected and if payments are found to be irregular, management should indicate the corrective measures taken.</p>	<p>Investigation will be done all amount that is due to the municipality will be recovered.</p>	In Progress	Director Corporate Services
150. EX.143 - SCM: Awards given to suppliers that are in service of state (EX.143)	<p>Contrary to the above requirement, during the testing performed, it was identified that the municipality gave awards to the listed suppliers below in which persons in service of other state institutions have an interest and there was no supporting documentation to determine the position, job title whether the persons were still in service of the state when the award was given:(refer to MR)</p>	<p>Financial and performance management: Management did not implement processes with regards to the review and monitor of compliance with applicable laws and regulations</p>	<p>Management should implement procedures to ensure that the supplier registration form filled in by the provider requires the prospective provider to declare whether the prospective provider or any person connected to the prospective provider is employed by the state.</p>	<p>All employees who who are working for state and are identified were blocked on the system</p>	In Progress	Manger Supply Chain Management

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
44. EX.108 - Accruals: Valuation and allocation (EX.108)	Contrary to the above during testing of Trade payables it was identified that Accruals from the Previous financial year (2013/14) were not reversed at the beginning of the 2014/15 financial year. An amount of R9 368 990,34 being prior year accrual were incorrectly included in 30 June 2015 Accrual balance. Furthermore, management did not prepare an accrual list as at the end of the 2014/15 financial year.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should review the accrual list at the beginning of each and every financial year and apply correct accounting principles as according to the applicable reporting financial Framework (GRAP).	All accruals will be investigated and will be reversed.	In Progress	Manager budger and expenditure
45. EX.109 - Payables: Completeness and Valuation (EX.109)	Contrary to the above requirement, on audit work performed under Trade payables it was identified that balances between trial balance, creditors age analysis and annual financial statements (30 June 2015) did not agree.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should make sure the information submitted is accurate and agree with supporting information as disclosed in the annual financial statements. This can be achieved by a timeous review of annual financial statement by those charged with governance before they are submitted to the auditors.	Investigation between the trade creditors, trial balance and AFS will be done and reconciliation of creditors, trial balance and AFS will be done.	In Progress	Manager budger and expenditure
47. EX.140 - Trade Payables : Incomplete and incorrectly valued (EX.140)	Contrary to the above it was noted during the testing performed on the reconciliation of the supplier statements to the balance as per the age analysis that the following statements dated before 30 June 2015 were not	Financial and performance management: Management did not implement controls over monthly processing	Management should implement proper controls to ensure that correct monthly reconciliations are performed between the supplier statement and the creditor's age analysis.	Monthly payable accounts will be performed.	In Progress	Manager budger and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	included in the age analysis:(refer to MR)	and reconciling of transactions				
123. EX.147 - Prior Year finding: Payables (EX.147)	<p>Contrary to the above it was noted during the follow up on prior year finding that supporting documentation for the following journal could still not be obtained.</p> <p>1. The supporting evidence for the following transactions listed was not submitted for audit purposes for testing cut off: (refer to MR)</p> <p>2. The supporting document for the difference of R29 846,71 between the age analysis and the general ledger was not obtained</p>	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.	Management should ensure that a proper filing system is in place to ensure that documents are safeguarded and readily available when requested for audit purposes.	Munsoft will be contacted for supporting documents for the system generated transactions	In Progress	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
124. EX.58 - Leave, pay-out and gratuities - Provision for leave pay incorrectly calculated (EX.58)	Contrary to the above legislation it was noted that the provision for leave pay was incorrectly calculated. Details are as follows: The 48 day leave accrual limit was not considered when the provision for leave pay was determined resulting in an overstatement of R46 112,12 as follows: (refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and related internal controls to ensure the provision for leave payout was calculated correctly.	The calculation of leave pay-out provision should be reviewed and recalculated to ensure the accuracy thereof.	VIP to be called to rectify the errors. Monthly reconciliation of all salary accounts	In Progress	Director Corporate Services
50. EX.111 - Debtors with credit balances incorrectly processed when re- classified (EX.111)	Contrary to the above it was noted that the debtors with credit balance were incorrectly processed when it was being reclassified as payable. The details are as follows:(refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure that control accounts are correctly closed off at year-end and that debtors with credit balances are correctly disclosed as payables.	The debit and credit legs of the entries will be corrected.	In Progress	Manager Income
51. EX.130 - Receivables non- exchange transactions: Existence of receivables non- exchange transactions could not be confirmed (EX.130)	(a) Contrary to the above we were unable to confirm the existence of the following property rate balances for farms. Also we could not establish that there was an impairment loss provided for the property rates. (refer to MR)	Financial and performance management: Management did not review and monitor compliance with applicable laws and regulations.	Management should revisit the entire receivables non-exchange transactions population and ensure that there is an impairment loss provision for all receivables that have objective evidence that an impairment loss exists. Also provide an impairment policy that states how the different types of municipal services are impaired.	The impairments were done correctly. An Impairment section must be included in the current Write Off Policy in order to determine the guidelines for impairment. The policy must be submitted to Council for approval	In Progress	Manager Income

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
52. EX.171 - Bad debt written off without council's approval (EX.171)	Contrary to the above the following bad debts were written off without council's prior approval:(refer to MR)		Management should ensure that council approval is obtained before bad debts are being written off.	The list of all bad debts written off will be taken to council for approval.	In Progress	Manager Income
Receivables 135. EX.142 - Suspense accounts not cleared at year-end (EX.142)	<p>Contrary to the above the suspense accounts for the municipality have accumulating balances and are not being cleared at year end.</p> <p>1. Upon further inspection of the transactions in other debtors account 515 600352 we could not trace these transactions to supporting documentation hence we could not verify the validity of these transactions.</p> <p>. The amount of R1 327 492,81 other debtors account No. 515 600353 is a balance from prior year in the suspense account which has also not been subsequently cleared.</p> <p>3.The amount of R1 078 003,85 in account 511 600356 for amount to be recovered from ABSA bank fraud, has no movement since 18 November 2010. Absa bank indicated in a letter Ref. 2030906 date 2 August 2013 that Absa Bank Limited is not liable for the</p>	Financial and performance management: Management did not implement controls over daily and monthly processing and reconciling of transactions.	Management should review the suspense account and ensure that all transactions processed are subsequently cleared to the appropriate accounts. Management should also implement proper control and monitoring measures to ensure suspense account balances are cleared at year-end.	Suspense account transactions to be reviewed for reclassification.	In Progress	Manager Income

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	<p>loss. Management did not take any action and the validity of the balance disclosed is questionable. No evidence could be provided to indicate efforts by the municipality to recover the money or to indicate follow-up on the investigation since August 2013.</p>					

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
136. EX.172 - Follow up of prior year issues: Traffic fines receivables amount disclosed not complete. (EX.172)	Contrary to the above we noted that the traffic fines register for 2013/2014 had an amount of R230 500 that were issued out. Of that amount, R94 073 was received as actual payment. However, the municipality disclosed an amount of R34 750 which was the prior year opening balance. This resulted in a difference of R136 427 refer to the table below for details:(refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management agrees with the fact that this 2013/2014 has not been cleared. In 2014/2015 the municipality applied the GRAP 23 principles and the guideline thereto when accounting for the income and receivables relating to fines. Management will apply the same principles in recognizing the 2013/2014 receivable amount and will then provide a working paper to support the prior period adjustment.	Investigation on traffic fines will be done and reconciliation will be done on monthly basis.	In Progress	Director Community Services
53. EX.126 - Grants: The amounts transferred to revenue differ with the amount recognised as grants revenue (EX.126)	In contrary to the above mentioned, through inspection of the financial statements (note 26) it was established that the amounts that was transferred to revenue that complied with the grant conditions differs from the grant revenue amounts disclosed. Please refer to the following(refer to MR)	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.	Reconciliations should be performed between the amounts transferred to revenue and the amounts recognised as grants revenue in the annual financial statements. Management should correct the financial statements accordingly.	Monthly reconciliation of PMU schedules/registers to the general ledger.	In progress	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
55. EX.92 - Sewerage units incorrectly billed (EX.92)	Contrary to the above we note in the following instances where premises were physically inspected that sewerage was incorrectly billed: (refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should test the full population to ensure the capturing of billing information on the system is accurate.	Revenue enhancement strategy to be taken to council and total population to be done so that correct billing can be performed.	In Progress	Manager Inome
56. EX.124 - Grant expenditure - Total EPWP expenditure amount on AFS differs from Section 71 Reports and Payroll (EX.124)	Contrary to the above mentioned, the following differences were established:	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.	Management should investigate the above and provide the auditor with a proper reconciliation together with supporting evidence of the total amount spent during 2014/15 financial year.	Monthly reconciliation of PMU schedules/register to the general ledger.	In Progress	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
57. EX.187 - No supporting documentation for reconciling items (EX.187)	<p>Contrary to the abovementioned requirement, reconciling items have not been agreed to the relevant supporting documentation. The following was identified:</p> <p>No supporting documentation could be provided for the following reconciling items recorded in the cashbook:(refer to MR)</p>	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should investigate reconciling items on the bank reconciliation and agree them to supporting documentation before signing them off as reviewed. Management should also review AFS before they submit them for audit so as to ensure that the information provided is accurate.	Reconciliation to be performed on monthly basis	In Progress	Manager budget and expenditure
58. EX.24 - Reconciliations on short terms deposits were lacking (EX.24)	Contrary to the aforementioned it was noted that management did not prepare monthly reconciliations for all the short term deposits.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should prepare monthly short term deposits reconciliations and these reconciliations should be reviewed	Munsoft to be contacted for the system to update to ensure VAT is only charged on the applicable services and not on taxes	In Progress	Chief Financial Officer
63. EX.146 - Employee cost: Overpayment to councillors (EX.146)	Contrary to the above it was identified that there was an overpayment to the councillor who was demoted from being an executive committee member to a part time member, the following was as follows:(refer to MR)	Leadership: Management did not exercise their oversight responsibility regarding financial and performance reporting, compliance and related internal controls.	Management should ensure that money that was overpaid is recovered from the councillors and a receivable of the same amount should be raised at year-end.	Monthly reconciliation and reviews by senior official to be implemented.	In Progress	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
64. EX.165 - Employee cost - Payments to third parties (EX.165)	<p>Contrary to the above the following was noted with regards to payments made to third parties:</p> <p>1. The 3rd party payments for the following periods did not occur in a timely manner, whereas, the payment to the third party was only approved more than 7days after the EFT payment was loaded.</p> <p>2. Twelve (12) monthly payments to SAMWU Provident fund did not occur during the 2014/2015 financial year as there were only eleven (11) payments included in the total expenditure of the specific third party.(refer to MR)</p>	<p>Financial and performance management: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.</p>	<p>Management should perform monthly reconciliations on the payments to third parties and the general ledgers of the third parties to ensure that third party payments are accounted for. Management should inspect the third party ledgers on an annual basis to ensure that the payments to third parties are complete.</p>	<p>All payments to the third party is being done on or before 7th of each and every month</p>	In Progress	Manager budget and expenditure
74. EX.59 - Employee cost: Overpayment at termination (EX.59)	<p>Contrary to the aforementioned it was noted that a former employee was subsequently paid a salary of R6 225, 68 after the termination of the employment contract.</p> <p>A deduction of R3 528,13 was made from his final leave pay-out instead of the full amount paid out of R6 225,68, rendering the difference of R2 697,55. The details of the employee are as follows:(refer to MR)</p>	<p>Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to</p>	<p>The management agrees with finding, after the resignation of manager Human Resource there was miscommunication between Payroll Officer and HR section, the matter will be investigated and internal control measures will be strengthened.</p>	<p>All termination of payable will be reviewed by senior official before payment is authorized.</p>	In Progress	Expenditure Manager

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		support financial and performance reporting.				
75. EX.72 - Leave, pay-outs & gratuities - Long service bonus not timely paid (EX.72)	Contrary to the aforementioned, the following employees appointment date was 1 June 1990 and he qualified for a long service bonus at 30 June 2015. The long service bonus was only paid out in August 2015 resulting in personnel expenditure being understated with R5 518,34.	Financial: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should review and recalculate the long service bonus pay-outs and reconcile the payroll data with the calculations on a monthly basis.	Management will implement control pertaining to a long service award payout.	In Progress	Director Corporate Services
78. EX.82 - Leave, pay-outs and gratuities - Incorrect calculation of unpaid leave deductions (EX.82)	Contrary to the aforementioned requirements the following internal control shortcoming was noted pertaining to the unpaid leave:	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should review and recalculate the unpaid leave deductions and reconcile the payroll data with the calculations on a monthly basis.	Management will ensure that all leave calculation are reviewed on monthly basis by senior official	Implemented	Manager budget and expenditure
109. EX.29 - Incomplete investment register (EX.29)	Contrary to the aforementioned it was noted that an investment amounting to R491 185, general ledger account No. 505/600473 is disclosed in the financial statements but not included in the investment register.	Financial and performance management: Management did not implement controls over daily and monthly processing and reconciling	Management should review the investment register on a monthly basis and must ensure that the balance per the investment register agrees to the balance per general ledger and annual financial statements.	Investment register will be reconciled on monthly basis and reviewed by the senior official.	Implemented	Manager budget and expenditure

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		of transactions.				
24. EX.52 - PPE: Prior error: Property incorrectly classified as investment property (EX.52)	Contrary to the above it was noted that investment property was incorrectly classified as the property was not held for rentals or capital appreciation.	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should investigate whether the property is owned by Nketoana local municipality and obtain confirmation from the lessee confirming that the property is leased from Nketoana Local municipality.	The matter will be investigated and will be corrected accordingly.	In Progress	Manager budget and expenditure
110. EX.77 - Assets that were purchased during the current year are not barcoded (EX.77)	Contrary to the above, the following assets purchased during the current year did not consist of any barcodes up to the date that the verification was performed:(refer to MR)	Leadership: The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Management should implement controls over assets to ensure that: (a) Proper sound asset management be implemented. (b) Assets should be regularly reviewed and verified by management to confirm the existence and working condition of the additions.	Investigation will be done on assets that were not tagged and all assets that are purchased will be tagged before they delivered to the different offices.	In Progress	Asset Management Unit/CFO
1. EX.75 - Property, plant and equipment - Movable assets not recorded in the asset register (EX.75)	Contrary to the above, during the verification it was noted that the following movable assets could not be verified from the floor to the asset register:	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that	Management should ensure that asset count is performed and reconciled to the asset register on a regular basis.	Investigation of the whole population of assets will be done,and procedure step will be performed to trace assets from the floor to the ground,from the ground the floor.	In Progress	Asset Management Unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
		complete, relevant and accurate information is accessible and available to support financial and performance reporting.				
1. EX.132 - Asset - Assets included in asset register that could not be verified (EX.132)	Contrary to the above, during the existence testing of the movable assets it was noted that the following assets could not be verified:	Financial and performance management: Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management should ensure that asset count is performed and reconciled to the asset register on a regular basis.	Investigation of the whole population of assets will be done, and procedure step will be performed to trace assets from the floor to the ground, from the ground to the floor.	In Progress	Asset Management Unit/CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
141. EX.136 - Revenue: Service charges - Rateable valuation reconciliation not prepared and reviewed (EX.136)	Contrary to the above a rateable valuation reconciliation was not prepared and reviewed by management.	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.	1. Management should prepare a rateable reconciliation which reconciles the valuation role and Munsoft in order to provide assurance that all properties (according to value) as per valuation roll are billed correctly. 2. The reconciliation should be prepared and reviewed on a monthly basis.	The Revenue Section is currently well understaff and approval needs to be granted to appoint officials 1 Management must be prepared on a monthly basis between the valuation roll and Munsoft system 2 The monthly reconciliation must be reviewed and signed by a senior official on a monthly basis	In Progress	Manager Income
1. EX.21 - Service revenue accounting policy not consistent with prior year's policy. (EX.21)	Contrary to the aforementioned it was noted that the accounting policy for revenue disclosed in the note 1.15 Revenue from exchange transactions is not consistent with the disclosure in note 1.13 in prior year's annual financial statements (refer to MR)	Financial and performance management: Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	The accounting policy for service revenue should be consistent with prior year in the absence of a change in standards of GRAP.	The policy will be updated to include the 2013/2014 tailored sections	In progress	Manager Income

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
143. EX.32 - Revenue: New meters replaced not updated on the system (EX.32)	Contrary to the aforementioned it was noted that the following meter reading per the meter book does not agree to reading captured and billed on Munsoft: (refer to MR)	Management did not implement controls over daily and monthly processing and reconciling of transactions.	Management should perform random reviews of meters to ensure that new replacement meters are updated on the system accordingly.	As the related examples are all in the Petrus Steyn/Mamafubedu area and as a result of incompetent temporary people appointed to do meter readings it is of utmost importance that a meter reading audit is performed in that area by a capable person with experience that do not stay in that area. Corrections will be done as soon as the results of the audit readings become available.	In progress	Manager Income
144. EX.68 - Meter readings per meter reading books differs to readings captured on Munsoft (EX.68)	Contrary to the aforementioned it was noted during the testing of meter readings from the meter reading books differs with the reading recorded on Munsoft and subsequently billed to the consumer.(refer to MR)	Management did not implement controls over daily and monthly processing and reconciling of transactions.	Management should perform random reviews of meter readings captured on the billing system and ensure that it is accurately captured. Furthermore, management should implement system controls which create exception reports.	As the related examples are all in the Petrus Steyn/Mamafubedu area and as a result of incompetent temporary people appointed to do meter readings it is of utmost importance that a meter reading audit is performed in that area	In progress	Manager Income

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
				by a capable person with experience that do not stay in that area. Corrections will be done as soon as the results of the audit readings become available.		
152. Revenue: Revenue is accounted for inclusive of VAT	Contrary to the above requirement the following was identified during the testing of Other income: Revenue received from the following receipts of building plans is accounted for inclusive of VAT in the general ledger: (refer to MR)	Leadership: Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	Management should ensure that review processes are in place to ensure that: 1. Revenue received is recorded exclusive of VAT 2. Revenue votes created on the Munsoft system are created as taxable supply.	We acknowledge and agree to the findings, and would like to provide assurance that the VAT coding on revenue votes will be corrected before end of November 2015. However the municipality has made sure that their VAT 201's submissions as from January 2015 are free of any discrepancies.	Implemented	Manager Income

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
145. EX.138 - VAT: No VAT procedure manual available (EX.138)	Contrary to the above no VAT procedure manual, as required by section 55(1)(b) of the VAT Act could be presented to the auditors. This manual should clearly identify in detail all the VAT processes and VAT codes to be used on the accounting software (Munsoft). This will ensure that VAT is treated correctly, consistently and with continuity.	Leadership: Management did not establish policies and procedures to enable and support understanding and execution of internal control objectives processes and responsibilities.	A VAT procedure manual should be maintained as required by section 55(1)(b) of the VAT Act. The VAT manual should further be updated on a regular basis according to changes in legislation, systems and related policies and procedures.	Maxprof tax consulting firm will be called to help the municipality on tax related matters.	In progress	CFO
146. EX.44 - VAT: VAT on Zero Rated supplies (EX.44)	Contrary to the aforementioned legislation Nketoana local municipality is currently submitting VAT returns with overstated Output VAT figures. Output VAT was incorrectly calculated at 14% on property rates which is considered to be a zero-rated (0%) supply in terms of section 11. (2)(w) of the Value added tax Act No. 89 of 1991	Leadership: Management did not develop and monitor the implementation of action plans to address internal control deficiencies	Output VAT on municipal property rates imposed on immovable property should be charged at zero-rate. The applicable VAT vote numbers should be corrected. Output VAT returns should be reviewed on a monthly basis and where applicable ensure that no Zero-rated supplies are included in the rated supplies.	Maxprof tax consulting firm will be called to help the municipality on tax related matters.	In progress	CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
147. EX.46 - Value Added Tax: Reasonability Test (EX.46)	<p>Contrary to the aforementioned we used the VAT returns for the year and performed reasonability tests with the breakdown of income accounts from the financial statements.</p> <p>Reasonability testing on taxable supplies indicated that Output VAT might be overstated:</p>	<p>Leadership: Management did not develop and monitor the implementation of action plans to address internal control deficiencies</p>	<p>Management should identify and resolve the differences. Monthly turnover reconciliations should be performed to ensure that VAT is declared on all income.</p>	<p>Maxprof tax consulting firm will be called to help the municipality on tax related matters.</p>	In progress	CFO
148. EX.70 - Value added tax - Supporting documentation (EX.70)	<p>Contrary to the above mentioned requirement during the testing of value added tax it was confirmed that there were no supporting documentation available for the following items:</p> <ol style="list-style-type: none"> 1. Documentation whereby the VAT category and VAT accounting basis of Nketoana Local Municipality could be confirmed. 2. VAT General ledgers documentation for the processing of the grants received during the financial year and the VAT accounting thereof. 3. Supporting documentation for the VAT reconciliation differences identified during the 2014/2015 financial year. <p>The above-mentioned information was requested per request for</p>	<p>Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</p>	<p>Management should ensure that filing of information is properly kept and make information available promptly upon request for audit purposes. Management should implement measures to ensure the completeness and accuracy of sewerage charges.</p>	<p>Maxprof tax consulting firm will be called to help the municipality on tax related matters.</p>	In progress	CFO

HEADING	FINDING	ROOT CAUSE/INTERNAL CONTROL DEFICIENCY	AUDITORS RECOMMENDATION	PROGRESS OR STATUS	Status	RESPONSIBLE PERSON
	information No. 32 dated 2 October 2015					