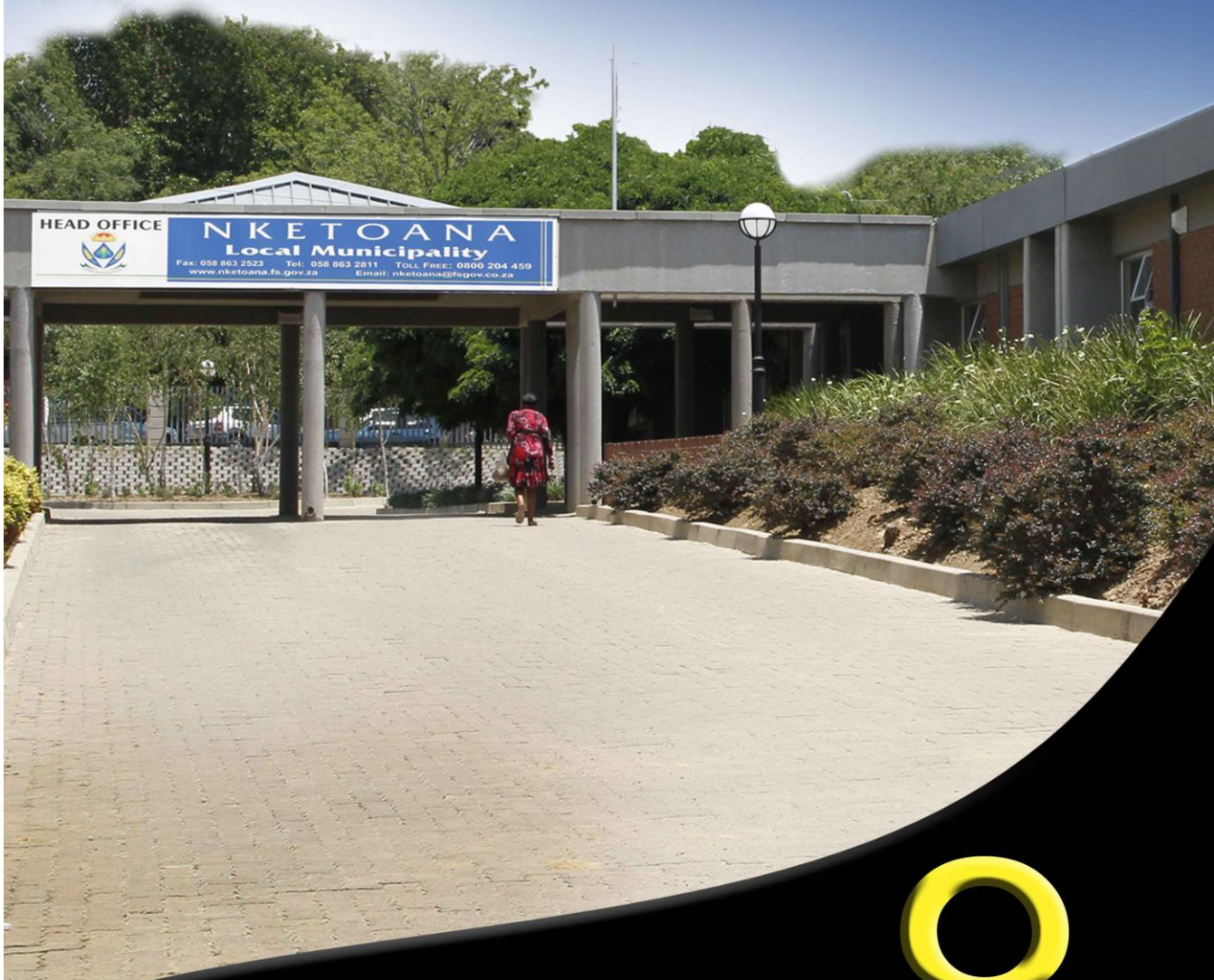


Report of the Auditor General 2015/ 2016 Financial Year



Chapter 8

Component A: Report of the Auditor-General 2015/16

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 315 to 417, which comprise statement of financial position as at 30 June 2016, 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 the South African Standards of Generally Recognised Accounting Practice (SA Standards of Grap), the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act, 2015 (Act No. 1 of 2015) (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 the 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 entity'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 entity'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

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade payables, due to the status of the accounting records. I was unable to confirm trade payables by alternative means. Consequently, I was unable to determine whether any further adjustment to trade payables stated at R155 737 055 in the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the effect of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Nketoana Local Municipality as at 30 June 2016 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

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

Unauthorised expenditure

9. As disclosed in note 56 to the financial statements, the municipality incurred unauthorised expenditure of R62 703 108 (2015: R5 361 768). The unauthorised expenditure was the result of an improper budgeting process.

Irregular expenditure

10. As disclosed in note 58 to the financial statements, the municipality incurred irregular expenditure of R8 674 311 (2015: R26 178 926). The irregular expenditure was a result of the contravention of the supply chain management regulations.

Material losses

11. As disclosed in note 40 to the financial statements, material losses of R23 583 076 (2015: R50 796 221) were incurred as a result of a write-off of irrecoverable trade debtors.

Material impairment

12. As disclosed in note 7 to the financial statements, consumer debtors from exchange transactions were impaired by R299 214 761 (2015: R242 648 998) and, as disclosed in note 6 to the financial statements, receivables from non- exchange transactions were impaired by R20 368 866 (2015: R17 127 911).

Going concern

13. Note 55 to the financial statements indicated that the municipality incurred a net loss of R41 264 760 during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R107 117 436. In addition, the municipality owed Eskom R99 407 396 (2015: R58 275 786) as at 30 June 2016, which is long overdue. These conditions, along with other matters set forth in note 55, indicated a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

Restatement of corresponding figures

14. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Significant uncertainties

15. As disclosed in note 50 to the financial statements, the municipality received claims of R17 887 901. The municipality is opposing these claims. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Additional matter

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

Unaudited disclosure notes

17. 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 on it.

Supplementary information

18. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Report on other legal and regulatory requirements

19. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) 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 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 them.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2016
 - Key performance area 1: water on pages xx to xx
 - Key performance area 2: sanitation on pages xx to xx
 - Key performance area 3: roads and storm water management on pages xx to xx
 - Key performance area 7: refuse removal on pages xx to xx
 - Key performance area 8: electricity reticulation on pages xx to xx
21. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance areas. 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).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected key performance areas.

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 3: roads and storm water management. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My 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:

Annual financial statements

26. 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 current assets, non-current assets, and expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

Revenue management

31. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Human resource management

32. Job descriptions were not established for all posts in which appointments were made in 2015-16, in contravention of section 66(1)(b) of the Municipal Systems Act.
33. The municipality's annual report did not reflect information on compliance with prescribed minimum competencies, as required by the municipal regulations on minimum competency levels 14(2)(b).

Asset management

34. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
35. 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.
36. Capital assets were disposed of without the approval of the council, as required by section 14(2)(a) of the MFMA.

Consequence management

37. Unauthorised expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
38. Irregular expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
39. Fruitless and wasteful expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).

Compliance budget

40. Expenditure was in excess of the approved budget, in contravention of section 87(8) of the MFMA.

Procurement and contract management

41. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).

Internal control

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

43. The leadership did not always take prompt 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. Oversight provided by leadership was not adequate to prevent material irregular expenditure and to set the standard of sound corporate governance.
44. 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. Internal controls were overridden, which resulted in high levels of irregular expenditure.
45. Consequence management was not effective as the council neglected to appoint a committee to investigate instances of unauthorised, irregular, fruitless and wasteful expenditure to determine whether any person was liable for the expenditure.
46. Key management positions were vacant during 2015-16. Management did not implement effective human resource management to ensure that competent and sufficiently skilled officials were appointed and that performance was monitored.
47. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident in management's failure 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 the previous year's audit findings recurring in the current year.
48. The leadership did not evaluate whether management had implemented effective internal controls by understanding how senior management met their responsibilities to ensure proper records management, maintain an asset register and prepare the annual financial statements.

Financial and performance management

49. There was a material breakdown of internal controls at the municipality. The monthly and daily controls were not implemented and monitored, which led to a weak control environment.
50. Compliance with legislation was not monitored regularly and non-compliance was not addressed in a timely manner, as management did not implement the action plan based on the previous year's findings.

Governance

51. The appointment of the head of internal audit as the acting chief financial officer hampered the productivity, reliability and independence of the work of the internal audit section.

Other reports

52. I draw attention to the following engagements that could potentially have an impact on the municipality's financial, performance and compliance-related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

53. Independent forensic auditors investigated, at the request of the bank, alleged fraudulent transactions that 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 were 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 of R1 780 000 was not recovered.
54. The South African Police Service (SAPS) investigated alleged fraudulent procurement transactions that occurred between the 2009 and 2012 financial years. Supporting documentation was seized by the SAPS. The investigation commenced towards the end of the 2013 financial year and was still ongoing at the date of this report.

55. Case was opened with Directorate Priority Crime Investigation into alleged fraudulent procurement transactions between the 2014 and 2015 financial years.

Auditor General

Bloemfontein

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Component B: Action plan: 2015/16

| HEADING | FINDING | ROOT CAUSE/INTERNAL CONTROL DEFICIENCY | AUDITORS RECOMMENDATION | MANAGEMENT RESPONSE | PROGRESS OR STATUS | % COMPLETION | RESPONSIBLE PERSON |
|--|---|---|---|---|--------------------|--------------|--------------------|
| ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT | | | | | | | |
| Payable | | | | | | | |
| 1. ISS.32 - CAF: 20: Payables: Age analyses does not agree to supplier statements (CAF 20) | <p>Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that <i>the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards. Contrary to the above requirement, based on audit work performed under trade payable differences were identified between the suppliers' statements and municipality's age analysis. Similar finding was raised in prior year; refer to the prior year management report paragraph 47 exception 140.</i></p> <p><i>Creditors' reconciliation is not performed on all suppliers and differences identified are not followed up between suppliers' statement and creditors listing.</i></p> <p><i>The balance of the trade payable to the financial statement might be overstatement by R22 635 483.62 which could result in a projected error of R24 046 327.29</i></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 ensure that creditors' reconciliation is performed for all suppliers and reviewed by a senior official. They should also ensure that differences identified are followed up and supported by appropriate evidence.</p> | <p>Management agrees with most of the items in the finding. Prior to receiving this communication management had already started investigating differences between the MUNSOFT age-analysis and the actual supplier statements.</p> <ul style="list-style-type: none"> • Management found that there are audit adjustments on the MUNSOFT system (which was processed in the prior years to correct balances and clear findings) which went to the control account and not to the individual supplier accounts. Management has requested assistance from MUNSOFT in this regard. • Management also found that for the two major suppliers/service providers (ESKOM/AG) there were difference other than MUNSOFT's control account and these have been quantified as well. | In progress | | CFO |

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|---|---|--|---|--|--------------------|--------------|--------------------|
| 2. ISS.36 - CAF: 22: Accruals: Amount as per the listing does not agree to the AFS (CAF 22) | Section 122(1) (a) of the MFMA states that Every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. During the testing performed on accruals, it was identified that the total amount as per the accruals listing received from management does not agree to the amount disclosed in the annual financial statements. | Lack of management oversight to ensure that a proper reconciliation is done between the figures disclosed in the annual financial statements and the schedules supporting the figures in the annual financial statements. Financial and performance management: Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. | It is recommended that: • Management implements a process of ensuring that reconciliation is performed between the schedules supporting the annual financial statements and the annual financial statements before the financial statements are finalized. • Management investigates the identified differences and make proper adjustments in the annual financial statements. | Management agrees with the finding. The differences have been investigated and management found that the accrual listing included payables which were not accounted for on the age-analysis (e.g.. AG) and so assisted in clearing communication 21 differences. Management scrutinized the whole payable population to look for additional misstatements and made the necessary corrections. The updated accrual listing total amounts to R 2 027 239.17 Differences between the ledger total and the listing total relate to 2013/2014 accruals which were not removed from the ledger in the correct year. The current accrual balance in the ledger will be reversed and the 2015/2016 accrual listing will be added to the ledger. | In progress | | CFO |
| 3. ISS.42 - CAF: 30: Payables: Suppliers not paid within 30 days (CAF 30) | Section 65(2)(e) of the Municipal Finance Management Act(No. 56 of 2003) states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. | Contrary to the above mentioned requirement, on calculating the number of days from invoice receipt date and invoice payment date it was noted that creditors were not paid within 30 days of receipt of invoice. | This is due to the fact that the municipality has financial constraints. Non-compliance with S 65(2) of the Municipal Finance Management Act. Possible fruitless and wasteful expenditure as the municipality may incur interest or penalties on late payments. Financial and performance management: Management did not review and monitor compliance with applicable laws and regulations. | It is recommended that: • Management implements a process of ensuring that there are funds available to pay the suppliers in a timely manner. | In progress | | MM; CFO |

| HEADING | FINDING | ROOT CAUSE/INTERNAL CONTROL DEFICIENCY | AUDITORS RECOMMENDATION | MANAGEMENT RESPONSE | PROGRESS OR STATUS | % COMPLETION | RESPONSIBLE PERSON |
|---|---|---|---|--|--------------------|--------------|--------------------|
| 4. ISS.43 - CAF: 27: Accruals: Amounts tested do not agree to the supporting documentation (CAF 27) | Section 62(1)(b) of MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards. Contrary to the above it was noted during the testing performed on the accruals that the supplier statements or invoices do not agree to the balance as per the accrual listing. Accruals are misstated with an amount of R1 338 660.75 The projected overstatement amount to R3 838 234.78 | Management does not perform reconciliations on a regular basis and follow up on reconciling items. Financial and Performance Management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. | It is recommended that: <ul style="list-style-type: none"> • Management implements a proper process of ensuring that reconciliations are performed on a regular basis and differences identified are followed up in a timely manner. • Management should investigate the issues identified and adjust the annual financial statements accordingly. | Management agrees with the finding. The differences have been investigated and management found that the accrual listing included payables which were not accounted for on the age-analysis (e.g. AG) and so assisted in clearing communication 21 differences. Management scrutinized the whole payable population to look for additional misstatements and made the necessary corrections. Differences between the ledger total and the listing total relate to 2013/2014 accruals which were not removed from the ledger in the correct year. The current accrual balance in the ledger will be reversed and the 2015/2016 accrual listing will be added to the ledger. | In progress | | CFO |

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|--|---|---|---|--|--------------------|--------------|--------------------|
| 5. ISS.44 - CAF: 31: Accruals: Amounts included in the accruals balance relate to the period after year end (CAF 31) | <p>Section 122(1) (a) of the MFMA states that Every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.</p> <p>During the testing performed on accrual, it was identified that suppliers balance reflected on the list of accruals relate to the period after year end and there is no evidence to prove that goods and services were delivered before year end.</p> <p>The amount of accruals is misstated by R718 071.48 in the annual financial statements. The projected misstatement amount is R2 058 868.86</p> | <p>Creditors' reconciliation is not performed on all suppliers and differences identified are not followed up between supplier statements and creditors listing.</p> <p>Financial and performance management: Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p> | <p>It is recommended that:</p> <ul style="list-style-type: none"> • Management implements a proper process of ensuring that reconciliations are performed on a regular basis and differences identified are followed up in a timely manner. • Management should investigate the issues identified and the entire population of accruals and adjust the annual financial statements accordingly. | <p>Management agrees with the finding. The differences have been investigated and management found that the accrual listing included payables which were not accounted for on the age-analysis (e.g. AG) and so assisted in clearing communication 21 differences.</p> <p>Management scrutinized the whole payable population to look for additional misstatements and made the necessary corrections.</p> <p>The updated accrual listing total amounts to R 2027239.17</p> <p>Differences between the ledger total and the listing total relate to 2013/2014 accruals which were not removed from the ledger in the correct year. The current accrual balance in the ledger will be reversed and the 2015/2016 accrual listing will be added to the ledger.</p> | In progress | | CFO |
| Procurement and Contract Management | | | | | | | |

| HEADING | FINDING | ROOT CAUSE/INTERNAL CONTROL DEFICIENCY | AUDITORS RECOMMENDATION | MANAGEMENT RESPONSE | PROGRESS OR STATUS | % COMPLETION | RESPONSIBLE PERSON |
|---|--|--|--|--|--------------------|--------------|--------------------|
| 6. ISS.34 - CAF: 26: Procurement and contract management - Competitive bids advertised (CAF 26) | <p>Section 22(1) of the SCM regulations (Public invitation for competitive bids) stipulates.</p> <p>The procedure for the invitation of competitive bids, are as follows:</p> <p>(d) (l) the information contained in a public advertisement, must include- the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy; Furthermore section 23(2) of the supply chain management policy states that: The Municipal Manager may determine a closure date for the submission of bids which is less than 30 or 14 days requirements, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process. Contrary to the above mentioned requirement, on inspection of the advert date and closing date of submitting the tender documents as stipulated on the advert it was identified that the bid No. 140/2016 was not advertised for at least 30 days.</p> | <p>Management did not review and monitor compliance with applicable legislation.</p> | <p>Management should ensure adherence to the applicable legislation.</p> | <p>Management agrees with the findings, management will make sure that all the transactions above R10 million are advertised for 30 days to avoid irregular expenditure.</p> | <p>In progress</p> | | <p>CFO</p> |
| ANNEXURE B: OTHER IMPORTANT MATTERS | | | | | | | |

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|--|--|---|--|--|--------------------|--------------|--------------------|
| 7. ISS.121 - ISA Findings: INFORMATION TECHNOLOGY GOVERNANCE | <p>Key audit findings with regard to design and implementation of controls:</p> <ul style="list-style-type: none"> • Although the municipality has established an Information & Communication Technology (ICT) steering committee and Terms of Reference for the committee, the meetings scheduled to take place every quarter have not taken place during the period under review. Furthermore, the formal appointment letters for the ICT steering committee members could not be provided for audit purpose. • Service level agreements (SLAs) for key Information Technology (IT) service providers namely; Soft line, Munsoft, ITNA, Tshukudu and Contour Technologies were inadequately documented as they did not address performance monitoring. This resulted in the municipality failing to monitor the performance of service providers to ensure that services were delivered in line with agreed upon service levels. In addition, the SLA for Contour Technologies which provides application support for the prepaid electricity vending system was still in draft format. • Responsibilities of an Information Security Officer (ISO) have not been defined and delegated to a specific person. • Although the municipality had developed and implemented the Integrated Development Plan (IDP) that gives an overall framework for development and co-ordinate the work of local and other spheres of government in coherent plan to improve the service delivery for the people in the community, during the review it was noted that the IT projects and budgets were not identified within the municipality's IDP. | <p>Leadership – Information Technology Governance</p> <ul style="list-style-type: none"> • Lack of commitment from committee members as meetings are not prioritised • Since the resignation of the former legal service manager; the municipality has not had the financial resources to attract a suitable candidate. The municipality is in the process of finalising the appointment of the legal services manager who will assist in the management and updating the municipality's SLA's. • Slow responses by management to address audit findings due to the IT department projects are not prioritised. • Financial constraints as the municipality are unable to appoint an ISO. • Lack of communication between IT | <p>Management should ensure that scheduled meetings are taking place as per the Terms of Reference for the committee. Attendance should also be strictly monitored to ensure that the ICT steering committee is functioning as intended at the municipality. Members of the ICT steering committee must sign formal appointment letters to confirm they assume formal responsibility and accountability.</p> <p>The municipality's Human Resources (HR) should finalise the process of appointing the legal services manager. As soon as the official has been appointed, he/she should develop addendums for the identified inadequate SLAs and ensure that they are agreed with the service providers and approved. Vendors should submit performance reports monthly and they should be reviewed by the IT officer and any deviations from agreed upon standards should be followed up on.</p> <p>The CFO and Director: Corporate Services should define the roles and responsibilities of the ISO. An official appointment letter that clearly defines these roles and responsibilities should be signed by the official to formally assume these duties.</p> <p>Management should define all IT department projects plans and allocate budget that should be included within Integrated Development Plans and submit to IDP development department. Once the plans are defined within the approved IDP by council, IT department should therefore take responsibility to achieve the projects as defined in the plan.</p> | <p>Agree with the finding, management that the IT steering committee is functional and schedule of the IT steering committee is circulated to managers, service provider will be appointed to address all IT service level agreement, when the municipal funds improve the municipality will hire the IT security officer and that projects were not populated on the IDP due to the fact that there were cash flow problems</p> | In progress | | MM; CFO |

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|---------|---------|---|-------------------------|---------------------|--------------------|--------------|--------------------|
| | | <p>department and IDP development team to ensure that IT projects plans are submitted to be included within the municipality's IDP.</p> | | | | | |

| HEADING | FINDING | ROOT CAUSE/INTERNAL CONTROL DEFICIENCY | AUDITORS RECOMMENDATION | MANAGEMENT RESPONSE | PROGRESS OR STATUS | % COMPLETE | RESPONSIBLE PERSON |
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| <p>8. ISS.122 - ISA Finding: SECURITY MANAGEMENT</p> | <p>1) Although the municipality has approved the IT related policies that are in place at the municipality, a number of weaknesses surrounding security were identified that were not addressed by the policies in place.</p> <ul style="list-style-type: none"> • In addition the following deficiencies were noted: • Although a patch management policy was in place to provide guidance on patch management, patches were not being performed on the municipality's operating system. • Antivirus logs are not periodically monitored. • Inadequate managed of firewall • Lack for formal user access controls. Firewall logs were not reviewed and signed off during the period under review. • The Munsoft password settings were not configured to enforce password complexity. • The VIP Payroll password settings were configured to enable password complexity, this function was overridden since the "allow password to be the same as the user name" setting was enabled. • Windows audit configuration settings were not defined in the municipality's IT security policies and procedures and this resulted in the audit trail settings on Active Directory (AD) not being adequately configured. In addition there were no evidence showing that IT security violations or failed attempted access on the network perimeter were being monitored or reviewed on a regular basis | <p>Internal control deficiency Financial and Performance Management – Information Technology Systems</p> <ul style="list-style-type: none"> • Slow responses by management to address audit findings due to the IT department projects are not prioritised. • Due to understaffing, the IT officer was not able to prioritise resolving weaknesses identified in the previous audit. <p>Non adherence to guidance provided. The IT officer provided guidance to the VIP Payroll and Munsoft system administrators on how to rectify the weaknesses identified on the password settings for these systems; however the system controllers did not update these settings.</p> | <p>Management should update the existing policies and procedures to ensure that they address the following essential security elements at a minimum:</p> <ul style="list-style-type: none"> • Firewall procedures • Antivirus policy and procedures • Operating system baselines for the Windows systems • Security training and awareness; and • Security monitoring <p>The policies and procedures should be finalised, approved and implemented. The policies should be widely communicated throughout the municipality in order to create the necessary awareness within the municipality.</p> <p>Management should update the IT policies to include a process for the review of security and logon violations. The process should entail developing a checklist whereby the IT officer pulls out reports from the firewall on a periodic basis to check if there were any attempted intrusions and follow up on any exceptions identified. Once all follow ups are done the report must be submitted to the CFO for final sign off.</p> <p>Management should ensure that the VIP Payroll and Munsoft system administrators adhere to the guidance provided by the IT officer in rectifying the weaknesses in password settings on these systems. The password complexity should be enabled on Munsoft and the "allow password to be the same as the user name" setting on VIP Payroll should be disabled</p> | <p>Management agrees with the finding, will ensure that the IT security officer posts is filled to address the IT related policies and procedures, will procure active directory auditing software to monitor all IT related audits/Trails, will delegate three officials to be system administrators in-house.</p> | <p>In progress</p> | | <p>MM; IT Officer</p> |

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| 9. ISS.123 - ISA Finding: USER ACCESS CONTROLS | <p>The user account management policy was inadequately documented as it did not include the important user account management aspects. Periodic monitoring and review of administrator/super user accounts (accounts with user administrator privileges)</p> <ul style="list-style-type: none"> • User access rights on the Munsoft and VIP Payroll systems were not reviewed periodically to ensure that they are still commensurate with users' job responsibilities. • Periodic monitoring of system controller activities on the application systems regarding user account management was not being performed. • There was no standard naming convention for the creation of users on the municipality's application systems. As a result; we identified user accounts that could not be linked to specific users on the AD (six users) and Munsoft system (Five users). • There is an approved dormant account policy that requires accounts to be investigated and disabled if they have not been accessed in more than two (2) months. In addition; fifteen (15) accounts had not been accessed in more than 90 days some dating as far back as 2011 on Munsoft and one. Furthermore; twenty two (22) administrator accounts were found on Munsoft. These administrators were supporting eighty two (82) • During the review the evidence below was not provided to the auditors to verify the user access management on VIP, MUNSOFT and AD:• Termination list on AD, VIP and Munsoft. • Access profile reports for all users on Munsoft and VIP application systems. • Password configurations screenshot AD, VIP and Munsoft. • Activity user list AD and VIP | <p>Financial and performance management - Information Technology Systems</p> <ul style="list-style-type: none"> • Slow responses by management to address audit findings due to the IT department projects are not prioritised. • Lack of a standard naming convention policy to guide system administrators • The CFO did not prioritise addressing the weaknesses identified in the previous audit • Noncompliance to the Dormant account policy in place | <p>Management should amend the IT policy to include adequate user account management policy procedures that indicate the following:</p> <ul style="list-style-type: none"> • Unique user ID and standard naming convention, • Dormant/inactive accounts, • Periodic checks to ensure employees' access is commensurate with their job responsibilities • Periodic monitoring and review of administrator/super user accounts(accounts with user administrator privileges) and • Termination of user access. <p>Management should ensure that a review is performed on the Active Directory and Munsoft systems to identify all the accounts that are not linked to specific users. These accounts should be renamed to indicate the users that are using them.</p> <p>In addition; the IT policy which includes the user account management policy should be amended to indicate the standard naming convention to be adhered to at the municipality.</p> <p>The CFO should ensure that system controllers adhere to the approved dormant account policy in place which provides guidance on how dormant accounts should be handled at the municipality.</p> <p>Management should ensure that the number of administrators on VIP Payroll should be reduced to at least two, whereby only one account will be the main administrator and the other one is a backup in case the main one is not available given the number of users supported. Munsoft consultant user accounts should be disabled and consultants given temporary access on a need basis.</p> | <p>Management agrees with the finding, management will ensure that it addresses the general controls , proper IT controls will be implemented, management will ensure all dormant account are being disabled, that there is segregation of duties on the both the munsoft and VIP and that the municipality will ensure that all information is made available for audit purpose.</p> | In progress | | MM; IT Officer; CFO |

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| 10. ISS.124 - ISA Finding: IT SERVICE CONTINUITY | <p>Key audit findings identified:</p> <ul style="list-style-type: none"> The municipality did not have a Disaster Recovery Plan (DRP) to provide assurance that data processing operations can be regained effectively and in a timely manner, should a disaster render municipal systems non-operational. In addition there was no Disaster Recovery (DR) site. <p>The municipality did not have backup procedures that give guidelines on the process around the performance and management of backups. If the municipality's DRP is not comprehensively documented, approved and implemented and a disaster recovery site is not in place it might not be possible to recover critical business operations in a timely in the event of a disaster or a disruption.</p> <p>If backup procedures are not comprehensively documented or some critical functions not performed e.g. backups are not run, there is an increased risk that in the event of a disaster or disruption, data may not be recovered successfully and business operations resumed timely.</p> | <p>Financial and Performance Management – Information Technology Systems</p> <ul style="list-style-type: none"> Financial constraints resulting in delays for the development of a BCP that should provide guidance and direction for an adequate DRP Lack of a DRP to provide guidance for performing backups | <p>Management should raise awareness to the municipality's management on how the lack of the BCP impacts the development of a proper DRP so that funds can be made available for the development of the BCP. Once the BCP is in place, a DRP that is aligned to the BCP should be developed.</p> <ul style="list-style-type: none"> The municipality should perform a Business Impact Analysis (BIA) to formally identify and priorities all critical data and operations on its networks and the resources needed to recover them should there is a major interruption or disaster. The roles and responsibilities should be defined which include the contact list pertaining to critical staff members, contact information, suppliers and key business processes. <p>Furthermore, focus should be given on items specified as most critical in the IT continuity plan to build in resilience and prioritise the recovery solutions. Response and recovery should be in line with prioritised business needs, and complying with regulatory and contractual requirements. Resilience, response and recovery requirements for different tiers, for example, one to four hours, four to 24 hours, more than 24 hours and critical business operational periods should also be included in the BCP.</p> <p>Regular training sessions regarding the procedures and roles and responsibilities in case of an incident or disaster should be conducted.</p> <p>Actions should be planned to ensure IT recovery and resumption of services. DRP should form part of the enterprise-wide BCP and should be approved by management and should be tested and/or updated on an annual basis.</p> | <p>Management agrees with the finding, management will ensure that IT related recovery and business continuity is developed, that IT related recovery and business continuity is developed.</p> | <p>In progress</p> | | <p>MM</p> |

