

# **Umzimvubu Municipality**

## **Management Report**

For the year ended 30 June 2014

---



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

---

# FINAL MANAGEMENT REPORT

## Umzimvubu Local Municipality

30 June 2014





---

**MANAGEMENT REPORT**  
**Umzimvubu Local Municipality**  
**30 June 2014**  
**CONTENT**

<b>Introduction</b>	<b>3</b>
<b>One page overview</b>	<b>4</b>
<b>Section 1: Interactions with stakeholders responsible for oversight and governance and assurance providers</b>	<b>5</b>
Part A: Interactions with stakeholders	5
Part B: Assessment of assurance providers	5
<b>Section 2: Matters relating to the auditor's report</b>	<b>8</b>
Part A: Misstatements in the financial statements	8
Part B: Matters to be brought to the attention of the users	11
Part C: Conclusions on reported information relating to the performance of the municipality against predetermined objectives	11
Part D: Findings on non-compliance with legislation	15
Part E: Internal control	17
<b>Section 3: Specific focus areas</b>	<b>22</b>
Part A: Procurement and contract management	22
Part B: Service delivery matters	22
Part C: Financial indicators	24
Part D: Consultants	26
Part E: Fraud	27
Part F: Human resource management	28
Part G: Information technology	28
Part H: Irregular unauthorised and fruitless and wasteful expenditure	30
<b>Section 4: Emerging risks</b>	<b>30</b>
<b>Section 5: Ratings of detailed audit findings</b>	<b>31</b>
<b>Section 6: Conclusion</b>	<b>32</b>
<b>Section 7: Summary of detailed audit findings</b>	<b>33</b>
Detailed audit findings contained in annexures A to B	38



## **FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE UMZIMVUBU LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2014**

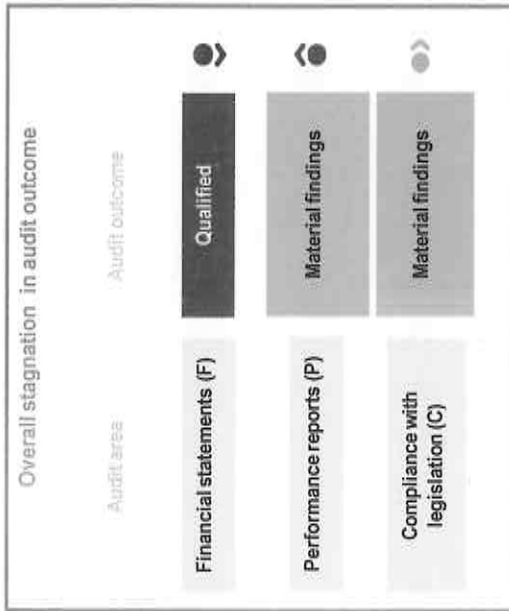
### **INTRODUCTION**

1. Our responsibility is to:

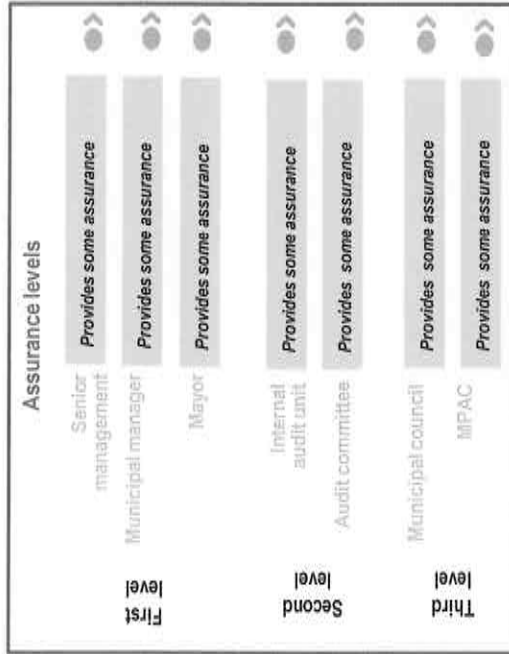
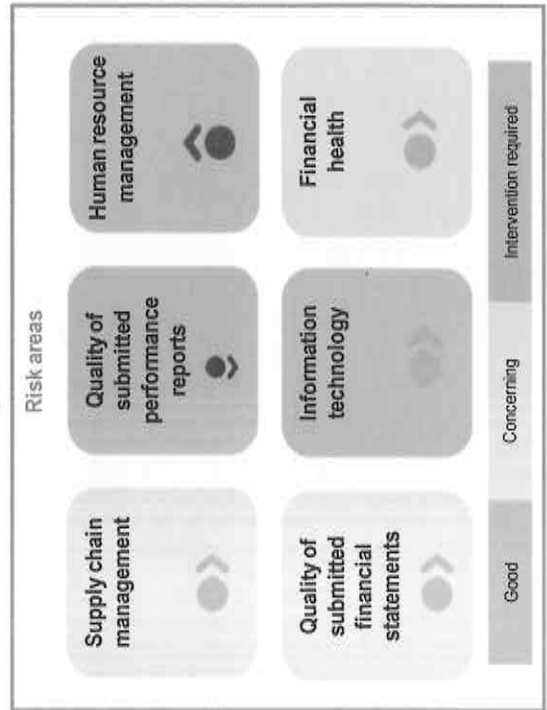
- express an opinion on the financial statements
- express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected programmes and report the material findings in the auditor's report
- report on material findings relating to compliance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

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

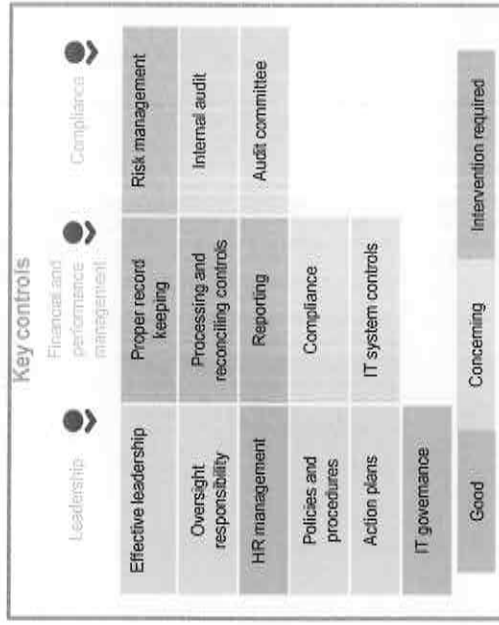
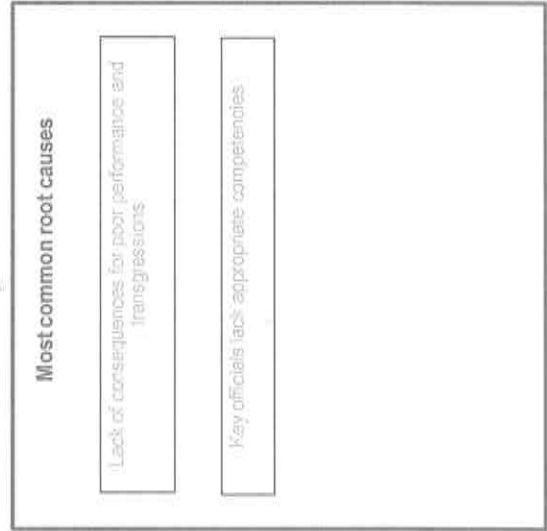
2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2014. These findings were communicated to management, and the report also details management's response to these findings. The report furthermore includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. The management report consists of an executive summary and annexures containing the detailed audit findings.
-



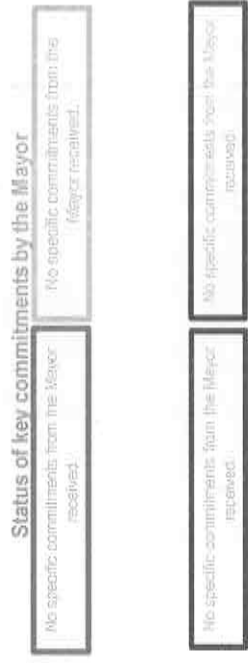
1 To improve/maintain the audit outcomes ...  
... the risk areas and ...



2 ... the key role players need to assure that ...  
... the root causes are addressed ...



3 ... attention is given to the key controls and ...  
... and the commitments are honoured.

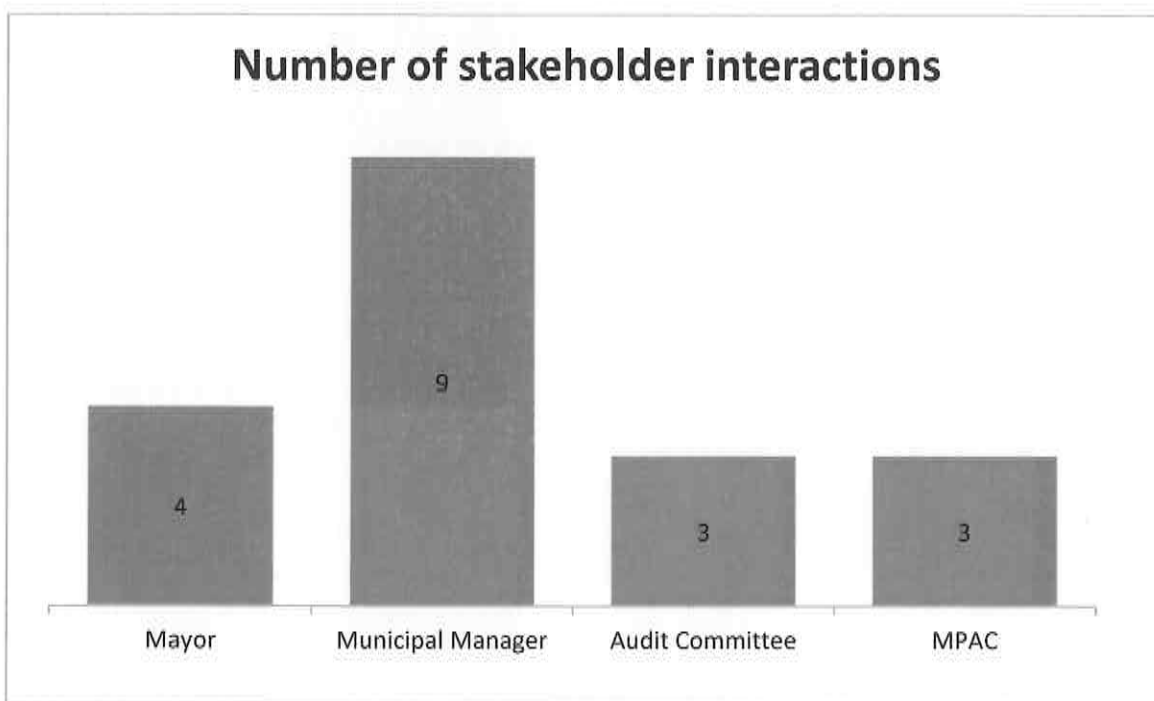


Not implemented    In progress    Implemented    Now

**SECTION 1: Interactions with stakeholders responsible for oversight and governance and assurance providers**

**PART A – INTERACTIONS WITH STAKEHOLDERS**

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



The effectiveness of the meetings above has been assessed as follows:

**Effective**

5. At these interactions, efforts and progress by the municipality to resolve issues identified in the prior year audit in relation to fixed assets, receivables from non-exchange transactions and levying of property rates were discussed. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome.

**PART B – ASSESSMENT OF ASSURANCE PROVIDERS**

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



governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

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

**Assurance levels**

<b>First level</b>	Senior management	<i>Provides some assurance</i>	●>
	Municipal manager	<i>Provides some assurance</i>	●>
	Mayor	<i>Provides some assurance</i>	●>
<b>Second level</b>	Internal audit unit	<i>Provides some assurance</i>	●>
	Audit committee	<i>Provides some assurance</i>	●>
<b>Third level</b>	Municipal council	<i>Provides some assurance</i>	●>
	MPAC	<i>Provides some assurance</i>	●>

**Senior management**

- Management identified instances of internal control deficiencies around the payroll during the financial year and corrective action was taken timely.

**Municipal Manager**

- Misstatements including internal control deficiencies were identified during the audit of fixed assets, provisions, revenue and inventory.

**Mayor/Municipal Council/MPAC**

- No evidence of political influences over the administration and operations of the municipality were identified by the auditors.

**Internal Audit**

- Control deficiencies for the fixed asset register were identified by internal audit and communicated to management for action. However, management did not adequately respond to internal audit findings resulting in the same misstatements recurring during the external audit.

**Audit Committee**

- Audit Committee was functional and advised council on matters relating to governance, risk management, financial matters and performance management. A risk based internal audit plan was approved focussing on the areas negatively impacting sustainable clean administration of the municipality.

**Status of commitments from stakeholders and assurance providers**

- Below is our assessment of the progress in implementing the commitments made by senior management, the accounting officer and the audit committee to address prior and current year audit findings:



No.	Commitment	Made by	Date	Status
1	Policy Review, Training of SCM staff and Senior managers. (Review of residual values and useful lives)	SCM: assistant Manager	December 2013	Not implemented
2	Rezoning of church sites that are not used as churches, Subdivisions to clarify portions operation as church sites	Assistant Manager: Revenue	December 2013	Implemented
3	Quarterly review of Windeed data to ensure that assets on the asset register belong to the Municipality (Land transferred to individuals recognised in the FAR)	SCM: assistant Manager	December 2013	Implemented
4	Physical verification of all properties in the name of the Municipality, Property transfer and debt write off on own property.	Assistant Manager Revenue and SCM	December 2013	Implemented
5	Amendment of Contracts Register template, Monthly update and monitoring of contracts register.	Assistant Manager SCM	December 2013	Implemented
6	Review and Monitoring of AFS for GRAP compliance (Provisions for long service awards)	CFO/DCFO	December 2013	Not implemented
7	Ensuring that supplementary valuation roll figure are included in the AFS. (Prior year revenue estimates recorded in current year)	CFO/DCFO	December 2013	Implemented
8	Hawkers education, Straight lining of hawker stall rentals (Revenue recognised on cash basis instead of accrual)	Assistant Manager: Revenue	December 2013	Implemented
9	Review of all monthly reconciliations. (Misclassification of revenue)	Assistant Manager Revenue	December 2013	Implemented
10	Development of checklist for statutory website uploads	Assistant Manager: Budget and Reporting	December 2013	In progress
11	Getting a service provider to run our supplier information on CAATS twice a year	Assistant Manager: SCM	December 2013	In progress
12	Monthly monitoring and reconciliation (Control deficiency on inventory)	Assistant Manager: SCM	December 2013	Not implemented
13	GRAP Checklist Implementation (GRAP 24 requirements)	Assistant Mgr: Budget and Reporting	December 2013	Not implemented
14	Review of all files for possible misallocations (Misallocations for R&M)	DCFO	December 2013	Implemented
15	Review of expenditure vouchers to ensure that there is adequate information to ensure payment within 30 days	DCFO	December 2013	Implemented

15. Audit recommendations accepted by management in the prior year regarding matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the findings.





**SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT**

**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

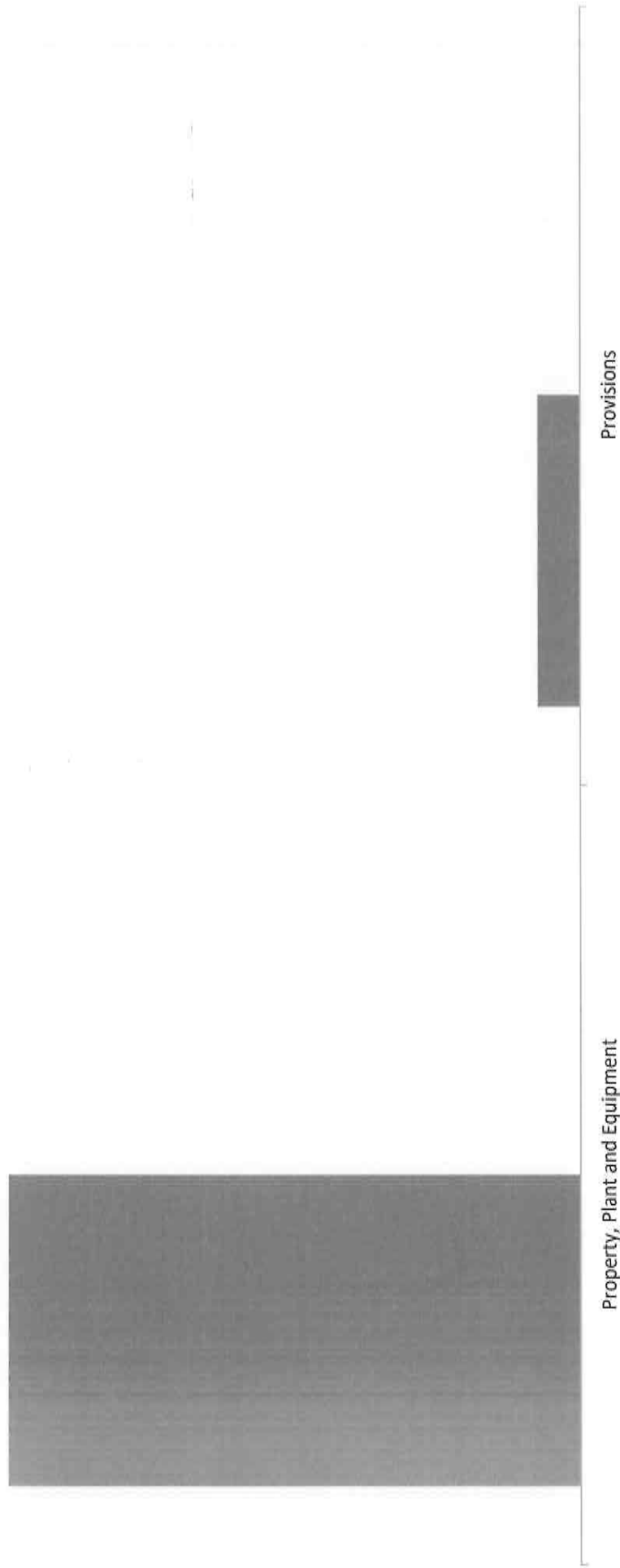
16. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the MFMA.

Material misstatements Financial statement item	Finding (Include a brief description of misstatements as per findings and audit report. Include reasons for not correcting when applicable.)	Occurred in prior year ("Yes"/"No")	Impact R current year	Impact R prior year
<b>Material misstatements corrected</b>				
Property, Plant and Equipment	No review of useful lives, items of infrastructure assets fully depreciated (Ex.79)	No	R51 435 910,31	-
Property, plant and equipment	NBV overstated. (Ex.105)	No	R6 637 431,94	-
Provisions	Material difference noted between landfill sites provision disclosed and amount recalculated (Ex.106)	No	R3 814 496,1	-

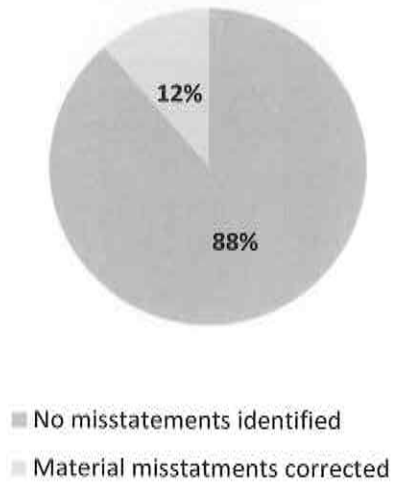


## Material misstatements corrected

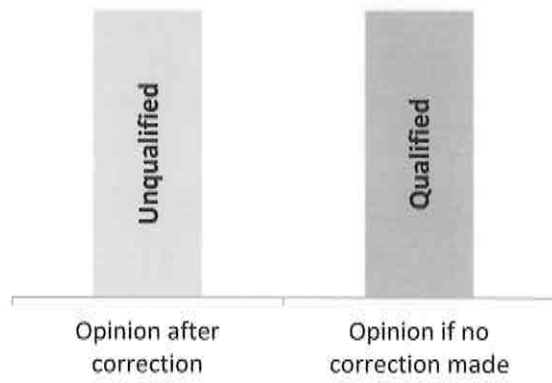
■ Current year ■ Prior year



## Status of financial statements submitted



## Impact of correction of misstatements



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

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

**Restatement of corresponding figures**

18. As disclosed in note 44 to the financial statements, the corresponding figures for 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

**Material impairments**

19. As disclosed in note 4 and 5 to the financial statements, material impairments of R30.8 million were incurred as a result of inadequate implementation of the debt collection policy.

**ADDITIONAL MATTERS**

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

**Unaudited supplementary schedules**

21. The supplementary annexures set out on pages xx to xx do not form part of the financial statements and are presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

**Unaudited disclosure notes**

22. 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.

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

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

24. The table below is a comparison of the conclusions the performance of the municipality between the current and prior years:

Programme	Audit criteria			
	Usefulness		Reliability	
	Current year (per programme)	Prior year (overall)	Current year	Prior year
Citizens & community services	Unqualified	Unqualified	Unqualified	Unqualified
Infrastructure & planning	Qualified		Unqualified	Unqualified



## REPORT ON PREDETERMINED OBJECTIVES

### Introduction

25. We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Infrastructure and planning on pages x to x
- Citizens and community services on pages x to x

### The accounting officer's responsibilities

26. The accounting officer is responsible for the preparation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the general notice issued in terms of the PAA. This framework deals with the planning, management, monitoring and reporting of performance against predetermined objectives. The accounting officer is also responsible for internal controls determined by management as necessary to enable the preparation of an annual performance report that is useful and reliable.

### The Auditor-General's responsibilities

27. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, our responsibility is to express reasonable assurance conclusions on the reported performance information for selected programmes presented in the annual performance report.
28. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.
29. We will report on whether we have received all the information and explanations required to conduct the engagement or if we became aware of additional information, the omission of which may result in the reported performance information being materially misstated or misleading.
30. We evaluated the reported performance information against the overall criteria of usefulness and reliability.
31. We 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 programmes. We 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)*.
32. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
33. During the audit, we performed procedures to obtain audit evidence about the usefulness and reliability of the reported performance information. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that we may not detect some misstatements, even material ones, even though we properly planned and performed the audit in accordance with ISAE 3000. The procedures performed include the following:



- Understanding and testing the internal policies, procedures and controls relating to the management of, and reporting on, performance information.
- Evaluating and testing the processes, systems and controls and reviewing the documentation maintained at the auditee that support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
- Evaluating, testing and confirming the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework.
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability of the reported performance information in terms of its validity, accuracy and completeness.

34. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

#### **Summary of audit conclusions**

35. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

<b>Selected programme</b>	<b>Usefulness</b>	<b>Reliability</b>
Citizens and Community Services	Unqualified	Unqualified
Infrastructure and Planning	Qualified	Unqualified

## **Infrastructure and Planning**

### **Basis for qualified conclusion on usefulness**

#### **Basis 1 – Consistency of objectives and indicators and targets**

36. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 25% of the reported objectives, 41% of the reported indicators and 33% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of proper reviews of the documents prepared..

#### **Basis 2 – Measurability of indicators and targets**

37. The FMPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 20% of the indicators were not well defined.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 38% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 24% of the targets were not specific.
- Performance targets must be measurable. We could not measure the required performance for 33% of the targets.

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

## **Conclusion**

### **Citizens and Community Services**

#### **Conclusion on usefulness and reliability**

39. In our opinion, the reported performance information of Citizens and Community Services is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

### **Infrastructure and Planning**

#### **Qualified conclusion on usefulness**

40. In our opinion, except for the effects of the matters described in the basis for qualified conclusion paragraphs, the reported performance information of Infrastructure and Planning is useful, in all material respects, in accordance with the identified performance management and reporting framework.

#### **Conclusion on reliability**

41. In our opinion, the reported performance information of Infrastructure and Planning is reliable, in all material respects, in accordance with the identified performance management and reporting framework.



**Additional matters**

42. We draw attention to the following matters. Our conclusion is not modified in respect of these matters:

**Achievement of planned targets**

43. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected development priorities reported in paragraphs 19 to 20 of this report.

**Unaudited supplementary schedules**

44. 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.

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

45. We will report all the audit findings included under the basis for conclusion and additional matter sections of this report in the auditor's report.

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

46. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

**Annual report and annual financial statements**

47. 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 and provisions identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

**Asset management**

48. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
49. 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.

**Predetermined objectives**

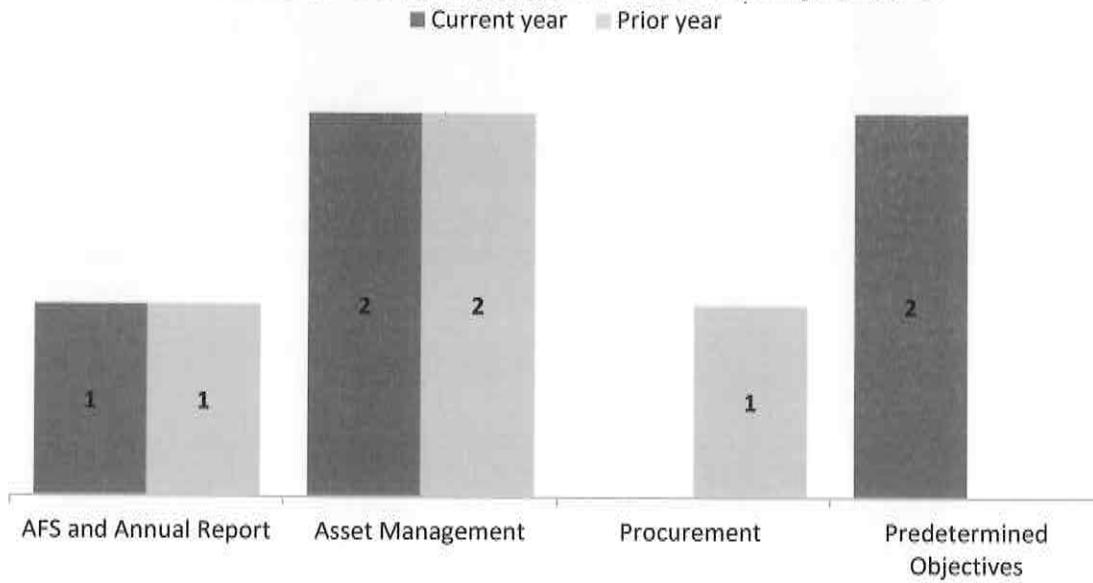
50. Measurable performance targets for the financial year with regard to each of the objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the Municipal planning and performance management regulations, 2001 (Government Gazette 22605 of 2001) (MPPMR) 12(1) and 12(2)(e).





51. The performance management system and its related controls were inadequate as it did not describe and represent the processes of performance (planning, monitoring, measurement, review, reporting and improvement) and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

### Number of findings of non-compliance



**PART E – INTERNAL CONTROL****IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL**

52. Below is our assessment of the implementation of the drivers of internal control, based on significant deficiencies identified during our audit of the financial statements, the [annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements or the annual performance report to be materially misstated and material instances of non-compliance with legislation to occur.
53. When the required preventative or detective controls are in place, it is assessed with a 😊; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a 😐; while 🙄 indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions (namely financial statements, performance reporting, and compliance with legislation) under the three fundamentals of internal control (namely leadership, financial and performance management, and governance), with ↑ (improved), ↔ (unchanged) or ↓ (regressed).

Fundamentals of internal control	The audit dimensions		Performance objectives		Compliance with laws and regulations	
	Financial					
<b>Leadership</b>	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Overall movement from previous year	↑		↓		↓	
Effective leadership	☹	☹	☹	☹	☹	☹
Oversight responsibility	☹	☹	☹	☹	☹	☹
Human resource management	☹	☹	☹	☹	☹	☹
Policies and procedures	☹	☹	☹	☹	☹	☹
Action plans to address internal control deficiencies	☹	☹	☹	☹	☹	☹
IT governance framework	☹	☹	☹	☹	☹	☹
<b>Financial and performance management</b>	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Overall movement from previous year	↓		↓		↓	
Record management	☹	☹	☹	☹	☹	☹
Daily and monthly processing and reconciling of transactions	☹	☹	☹	☹	☹	☹
Regular, accurate and complete financial and performance reports	☹	☹	☹	☹	☹	☹
Compliance monitoring	☹	☹	☹	☹	☹	☹
IT systems	☹	☹	☹	☹	☹	☹
<b>Governance</b>	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Overall movement from previous year	↔		↔		↔	
Risk management activities and risk strategy	☹	☹	☹	☹	☹	☹
Internal audit	☹	☹	☹	☹	☹	☹
Audit committee	☹	☹	☹	☹	☹	☹

## **LEADERSHIP**

### **Effective leadership**

54. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, and the code was communicated to all staff during the induction of new employees.

### **Oversight responsibility**

55. As the accounting officer did not review the financial statements and the annual performance report before submitting them for auditing, the matters identified in Part A of this report were not corrected.

56. Non-compliance matters were identified as reported in Part D of this report.

57. Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls, and thus the following matters were not identified and corrected:

- Material misstatements occurred in the financial statements and annual performance report submitted for audit;
- Various non-compliance matters were identified as disclosed under Part D of this report;
- Non-compliance matters were identified related to performance information

### **Human resource management**

58. There were no vacant positions for key positions within the municipality. However, the position of the SCM manager was vacant for three months of the financial year and management should fill this vacancy to address some of the issues identified in Section 3, Part A of this report.

### **Policies and procedures**

59. The municipality did not have sufficient monitoring controls to ensure the proper implementation of internal policies and procedures of predetermined objectives at a programme/objective level to ensure the accuracy of information reported

### **Action plans to address internal control deficiencies**

60. Municipality developed an audit turnaround strategy to address prior year external audit findings. Although there was no re-occurrence of prior year errors in relation to fixed assets, misstatements of fixed assets were identified in the current year due to inadequate reviews of the fixed asset register as detailed in Part A of this report.

### **Information technology governance framework**

61. No significant IT governance framework deficiencies were identified.



## FINANCIAL AND PERFORMANCE MANAGEMENT

### Proper record keeping

62. Most information requested from management during the audit was submitted within the agreed timeframes as per the engagement letter. No limitation was placed on our audit due to non submission of information.
63. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.

### Daily and monthly processing and reconciling of transactions

64. Inadequate monthly reconciliations of the fixed asset register resulted material findings identified during the audit of fixed assets.
65. No reconciliations were performed between inventories on hand and inventory as recorded on the accounting system.

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

66. Inadequate reviews of the fixed asset register and inappropriate application of the GRAP standards on Property, Plant and Equipment resulted in following the control deficiencies identified in the fixed asset register:
- No review of useful lives and residual values of assets;
  - Asset descriptions not adequately documented on the fixed asset register;
  - Assets with no bar codes, acquisition date and acquisition costs;
  - Work in progress not correctly classified as additions; and
  - Assets acquired in the prior period included as additions in the current year.
67. Municipality managed to finalise the prior year audit findings in relation to unknown debtors created due to properties subdivided without following the proper municipal processes. This has resulted in non-recurrence of misstatements in receivables identified in the prior year.
68. The municipality has updated the asset register with property transfers that had not been accounted for. This has resulted in the improvement of revenue billings as debtors master file has been updated with the new property owners liable for property rates.
69. As indicated in section 2, part C of this report, the annual performance report contained numerous misstatements. This was mainly due to staff members not fully understanding the performance information requirements.
70. Management did not in all instances review the financial statements and the annual performance report prior to their submission for audit resulting in material findings. Management did not prepare credible quarterly financial statements to ensure that material misstatements are not only identified at year end.

### Compliance monitoring

71. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.



## Information technology systems

72. No significant weaknesses were identified from the IT audit on the general controls of the Payday and the Munsoft systems of municipality in relation to the following focus areas:

- user access management.
- security management.
- information technology service continuity.
- service level agreement management.

---

## GOVERNANCE

### Risk management activities and risk strategy

73. A risk assessment as required by the MFMA was conducted by the municipality.

### Internal audit

74. Internal audit conducted an asset review during the financial year. The following control deficiencies identified by internal audit were not adequately addressed by management resulting in the same being identified during the external audit:

- Assets with no bar codes;
- No monthly reconciliation between the fixed asset register and the general ledger; and
- Assets that could not be verified.

### Audit committee

75. The audit committee met prior to the submission of the financial statements to review the adequacy, reliability and accuracy of the financial statements. However, the review on the financial statements and compliance with laws and regulations was not adequate as evidenced by material misstatements identified.

### Leadership

74. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls. This resulted in various misstatements in the submitted financial statements and non-compliance matters as raised in this report. Senior management did not adequately respond to our recommendations as they only focused on the findings relating to the prior year and not the entire control environment and as a result internal controls relating to other areas regressed.

### Financial and performance management

75. Management did not in all instances review the financial statements and annual performance report prior to their submission for auditing, resulting in material findings. Management did not prepare credible quarterly financial statements to ensure that material misstatements were not identified only at year-end.

### Governance

76. The audit committee and internal audit reviewed the financial statements for adequacy, reliability and accuracy. However, the review on the financial statements and compliance with



laws and regulations was not adequate as evidenced by material findings and instances of non-compliance identified.

### SECTION 3: SPECIFIC FOCUS AREAS

#### PART A – PROCUREMENT AND CONTRACT MANAGEMENT

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

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

78. There were no significant procurement findings identified during the audit.

#### PART B – SERVICE DELIVER MATTERS

##### Roads infrastructure

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

- Surfacing of internal streets
- Construction of bridges
- Construction of gravel access roads
- Maintenance of gravel access roads

80. The following findings were noted.

- The municipality has not achieved its target for the maintenance of roads.
- Maintenance and backlog functions are not included in the road asset management system

##### Conditional grants

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

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

82. Summary of allocations and spending

	MIG	MSIG	FMG
<b>Total available to spend</b>	60 372 936	894 825	1 550 000
Total amount utilised/ spent in current financial year	60 372 936	890 102	1 550 000
<b>Unspent allocation</b>	<b>0.00</b>	<b>4 723</b>	<b>0.00</b>



<b>Percentage of under/(over)spending</b>	<b>0%</b>	<b>0.005%</b>	<b>0%</b>
---	-----------	---------------	-----------

### 83. Municipal Infrastructure Grant

Key project(s) selected	Construction of Mount Ayliff streets phase 4 was selected.
MIG outputs linked to selected key project	Additional kilometres of municipal roads developed
Total project budget (from initiation to completion)	10 964 445
Actual amount spent on the project - current year	10 964 445
Total amount spent from initiation to date	10 964 445
Planned completion date	21 January 2014
Planned project target /key milestone for the current year	Surfacing of Mount Ayliff streets
Project status as at year end	Completed

- No significant findings were identified from the key projects selected

### 84. Municipal Systems Improvement Grant

Key MSIG priorities output selected	Strengthened administrative systems enabling effective implementation of the ward participation system
Amount allocated per selected priority output	150 000
Actual amount spent per selected priority output	148 691
Key planned target for the current year	Training of Ward committees

- No significant findings were identified from the key priorities output selected

### 85. Financial Management Grant

Key FMG priorities output selected	Financial management interns
Amount allocated per selected priority output	866 590
Actual amount spent per selected priority output	866 590
Key planned target for the current year	Improved and sustained skills in the BTO

- No significant findings were identified from the key priorities output selected





**PART C – FINANCIAL INDICATORS**

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

87. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely corrective action where financial health and service delivery may be at risk. The information should be used to complement, rather than substitute, management's own financial assessment.

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

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

<b>FINANCIAL INDICATORS</b>			
<b>(Limitation = unable to obtain sufficient appropriate information)</b>		<b>AS AT 30 JUNE 2014</b>	<b>AS AT 30 JUNE 2013</b>
<b>BUDGET MANAGEMENT</b>			
1.1	Percentage over-spending of the final approved operating expenditure budget	<b>Not over-spent</b>	<b>Not over-spent</b>
1.2	Percentage under-spending of the final approved capital budget	<b>Not over-spent</b>	<b>Not over-spent</b>
<b>EXPENDITURE MANAGEMENT</b>			
2.1	Creditor-payment period	<b>25.8 Days</b>	<b>28.7 Days</b>
<b>REVENUE MANAGEMENT</b>			
3.1	Debtor-collection period (before impairment)	<b>127.5 Days</b>	<b>208 Days</b>
3.2	Debtor-collection period (after impairment)	<b>36.8 Days</b>	<b>8.1 Days</b>
3.3	Debtors impairment provision as a percentage of accounts receivable	<b>71.2%</b>	<b>96.1%</b>
3.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	<b>24.9%</b>	<b>54.9%</b>
3.5	Percentage water losses incurred	<b>0%</b>	<b>0%</b>
3.6	Percentage electricity losses incurred	<b>0%</b>	<b>0%</b>
<b>ASSET AND LIABILITY MANAGEMENT</b>			
4.1	A deficit for the year was realised (total expenditure exceeded total revenue)	<b>No</b>	<b>No</b>
4.2	A net current liability position was realised (total current liabilities	<b>No</b>	<b>No</b>



<b>FINANCIAL INDICATORS</b>		
(Limitation = unable to obtain sufficient appropriate information)	<b>AS AT 30 JUNE 2014</b>	<b>AS AT 30 JUNE 2013</b>
	exceeded total current assets)	
4.3	A net liability position was realised (total liabilities exceeded total assets)	No
4.4	Percentage of PPE and/or intangible assets impaired	0%
4.5	Percentage of loan receivables (loans awarded) and/or investments impaired	0%
<b>CASH MANAGEMENT</b>		
5.1	The year-end bank balance was in overdraft	No
5.2	Net cash flows for the year from operating activities were negative	NO
5.3	Cash and cash equivalents as a percentage of operating expenditure	43.1%
5.4	Creditors as a percentage of cash and cash equivalents	16.4%
5.5	Current liabilities as a percentage of net cash inflows for the year from operating activities	0.0%
5.6	Non-current liabilities (long-term debt) as a percentage of net cash inflows for the year from operating activities	0.0%
5.7	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	0.0%
<b>GRANT MANAGEMENT</b>		
6.1	Percentage under-spending of conditional grants received for the year	Not under-spent
6.2	Percentage by which unspent conditional grants received exceeded cash available at year-end	No unspent conditional grants at year end.
<b>OVERALL ASSESSMENT</b>		
Overall the results of the above financial indicator evaluation is assessed as:	<b>Yellow (Material Unfavourable indicators)</b>	<b>Yellow (Material unfavourable indicators)</b>
<i>The above assessment is based on financial statement amounts, adjusted for uncorrected misstatements that resulted in the modification of the audit opinion.</i>		

89. Municipality should improve debt collection as debt collection days are significantly longer than creditors' payment period. Although the percentage of debts impaired has decreased from the prior period, it is still significantly high. In particular, receivables from non-exchange transactions have been significantly impaired and management should consider investigating ways of collecting debts from this class of debtors.



**PART D – CONSULTANTS**

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

91. The table below shows the extent and nature of the municipal entity's use of consultants:

Type of consultancy services	Number of consultants	Actual expenditure		
		Current year – incurred before year-end	Incurred after year end on financial reporting for current year	Prior year
Financial reporting services	1	R436 772.86	R779 257.77	R1 144 054.13
Internal Audit	2	R819 717.83	R65 506.00	R728 220.90

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

Name of consultant	Description of service	Value of contract	Reason for appointing consultant	Recurring appointment?	Uncorrected misstatements or material findings identified in areas of consultant's responsibilities?	Reasons for findings/ misstatements not prevented by use of consultant	Areas of finding
Ducharme Consulting	Preparation of financial statements	R1 191 120	Lack of skills	Yes	<ul style="list-style-type: none"> <li>• Compilation of the fixed assets register</li> <li>• Provisions have been incorrectly calculated</li> <li>• Various GRAP disclosure matters noted</li> </ul>	An error was made by the consultant during the preparation of the annual asset register, landfill rehabilitation calculation and AFS and was not identified by the municipality.	Assets register, Provisions, Disclosures
PwC (Pty) Ltd - Internal Audit Services	Internal Audit Services	R913 311	No internal audit department	Yes	None identified during the audit	N/A	N/A



93. The following finding on use of consultants results from the testing the contracts listed in the table above.

Performance management & monitoring

- Consultancy services were provided and payment made to the consultants without a signed contract to regulate the work of the consultant.
- Uncorrected material misstatements or audit findings were identified by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.

---

**PART E – FRAUD**

94. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. We did not identify matters that indicate a risk of fraud.



## PART F – HUMAN RESOURCE MANAGEMENT

### Analysis of specific positions

Position	No. of months in position	Does the official have the minimum competencies?	Part of the management development programme?
Municipal Manager	63	Yes	(In progress)
Chief Financial Officer	12	Yes	Yes
Head of Supply Chain Management Unit	Vacant at year end	Vacant at year end	Vacant at year end

95. Performance agreements are in place for the Municipal Manager and the Chief Financial Officer. Performance agreements include consequences for sub-standard work.

### General vacancies

Area	Vacancy rate	Resourcing	Capacity
Finance department	5%	21	22
Other senior managers	0%	7	7
Overall	1%	274	276

96. Key positions are not vacant and this will ensure improved service delivery within the municipality. However, the position of the SCM manager should be filled to improve on the monitoring of compliance of laws and regulations in the procurement of goods and services.

## PART G – INFORMATION TECHNOLOGY

97. Information technology (IT) is an important tool that is used to enhance delivery of the strategic priorities of municipalities and their municipal entities. IT controls ensure the confidentiality, integrity and availability of state information. It also enables service delivery and promotes national security. It is thus essential to have good IT governance, effective IT management and a secure IT infrastructure in place.

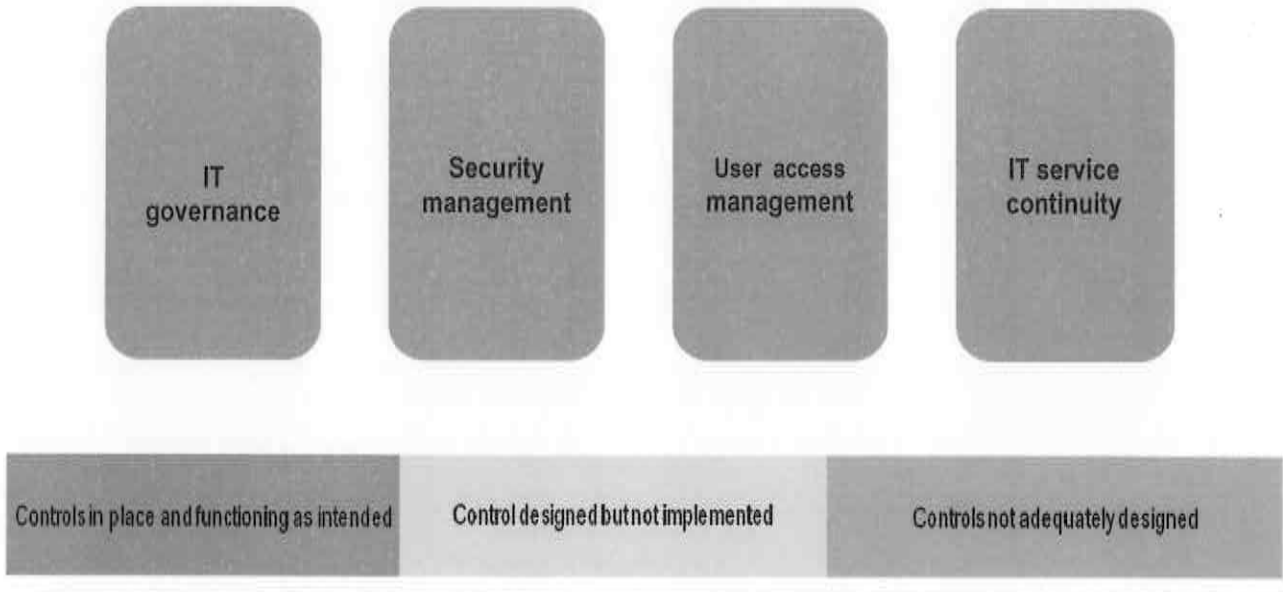
98. The status of IT controls are reflected in the figure below. This assessment was performed based on the stage of development, which can be grouped into one of the following three categories:

- Where IT controls are being designed, management should ensure that the controls will lessen the risks and threats to the IT systems. Red in the figure below indicates that the IT controls have not been adequately designed.
- Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT systems and processes. Particular attention should be paid to ensuring that staff members are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard. Orange in the figure below indicates that the designed controls have not been implemented properly.
- Where IT controls have been embedded and function appropriately, management should monitor adherence to these controls. Management should sustain these controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.



Green in the figure below indicates that IT controls have been adequately designed and are functioning as intended.

IT audit outcomes per focus area

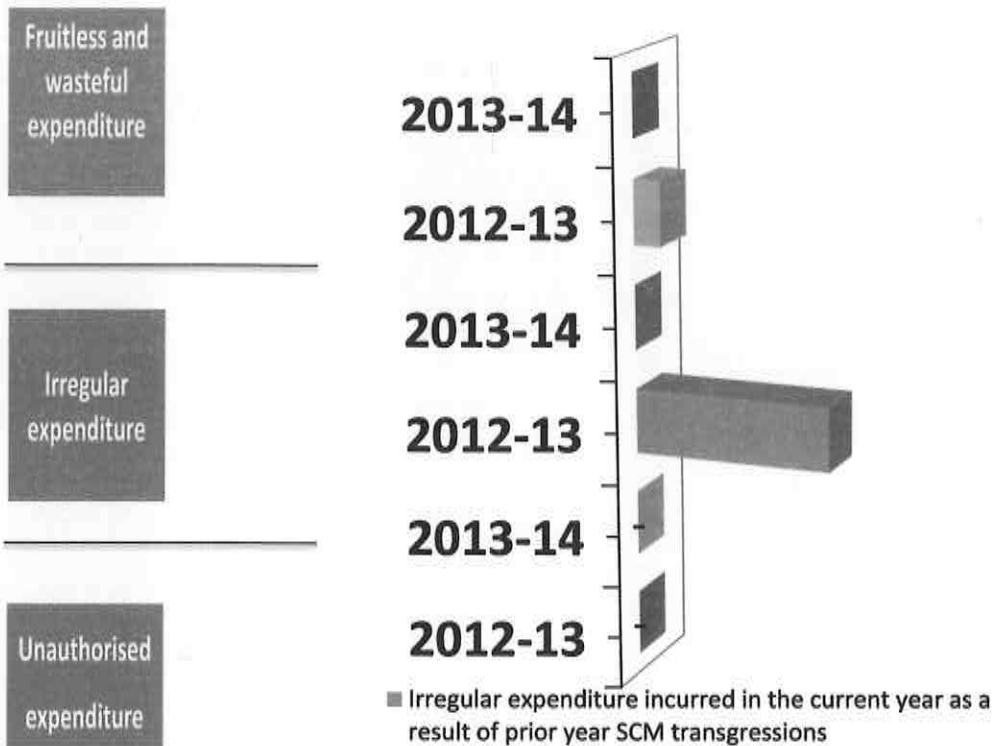


The IT audits focused on the following four areas:

- IT governance
- Security management
- User Access management
- IT service continuity

There were no findings identified as the system is sound:

**PART H – IRREGULAR, UNAUTHORISED AND FRUITLESS AND WASTEFUL EXPENDITURE**



**SECTION 4: EMERGING RISKS**

99. New pronouncements/requirements

The Minister of Finance has, in Government Gazette Notice No 37820 dated 10 July 2014, prescribed the effective date for the following standards of GRAP:

- GRAP 18 Segment Reporting
- GRAP 105 Transfer of Functions Between Entities Under Common Control
- GRAP 106 Transfer of Functions Between Entities Not Under Common Control
- GRAP 107 Mergers

100. These Standards of GRAP will be effective for financial years commencing on or after 1 April 2015. A further communication is likely to be issued by the Office of the Accounting General to clarify the effective date of GRAP 105, 106 and 107 to municipalities and entities under the ownership control of a municipality.

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

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



103. Through a directive from the minister of Cooperative Governance and Traditional Affairs (CoGTA), the national ICT coordination and monitoring structure for local government was established to develop the implementation requirements and guideline specific to local government. Key stakeholders in the local government sector form part of this ICT coordination and monitoring structure.
104. In 2014-15, this structure reworked the CGICTPF and drafted the municipal ICT governance policy framework. Different forums such as councils, MinMEC and municipal managers are currently consulting on the draft municipal ICT governance policy. It is envisaged that the municipal ICT governance policy framework will be finalised and approved during the 2014-15 financial year and implemented from the 2015-16 financial year.
- 

#### **SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS**

105. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
  - Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation in future.
  - Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation.
-



## SECTION 6: CONCLUSION

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

Yours faithfully



Thembela Mseleni  
Senior Manager: ECBU

29 November 2014

Enquiries: Thembela Mseleni  
Telephone: 043 709 7231  
Fax: 043 709 7300  
Email: [thembelam@agsa.co.za](mailto:thembelam@agsa.co.za)

**Distribution:**

CEO  
CFO  
Audit committee  
Head of internal audit unit